

Booz Allen Hamilton Holding Corp
Form 10-Q
October 31, 2012

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 September 30, 2012

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 22102
(Address of principal executive offices) (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.)

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

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

Indicate by check mark 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 Accelerated filer

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

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

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| | as of October 29, 2012 |
|-------------------------------------|------------------------|
| Class A Common Stock | 132,045,531 |
| Class B Non-Voting Common Stock | 2,350,854 |
| Class C Restricted Common Stock | 1,372,336 |
| Class E Special Voting Common Stock | 8,942,319 |

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BOOZ ALLEN HAMILTON HOLDING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

| | September 30, 2012 | March 31, 2012 |
|--|--|-------------------|
| | (Unaudited) | |
| | (Amounts in thousands, except share and per share data) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$488,979 | \$484,368 |
| Accounts receivable, net of allowance | 839,647 | 1,077,315 |
| Prepaid expenses and other current assets | 114,036 | 95,980 |
| Total current assets | 1,442,662 | 1,657,663 |
| Property and equipment, net of accumulated depreciation | 174,640 | 191,079 |
| Intangible assets, net of accumulated amortization | 217,576 | 223,834 |
| Goodwill | 1,187,715 | 1,188,004 |
| Other long-term assets | 67,485 | 54,211 |
| Total assets | \$3,090,078 | \$3,314,791 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$46,500 | \$42,500 |
| Accounts payable and other accrued expenses | 449,199 | 443,951 |
| Accrued compensation and benefits | 396,407 | 357,872 |
| Other current liabilities | 76,948 | 70,123 |
| Total current liabilities | 969,054 | 914,446 |
| Long-term debt, net of current portion | 1,691,088 | 922,925 |
| Other long-term liabilities | 310,402 | 292,235 |
| Total liabilities | 2,970,544 | 2,129,606 |
| Commitments and contingencies (Note 13) | | |
| Stockholders' equity: | | |
| Common stock, Class A — \$0.01 par value — authorized, 600,000,000 shares; issued, 132,209,076 shares at September 30, 2012 and 128,726,324 shares at March 31, 2012; outstanding, 131,819,755 shares at September 30, 2012 and 128,392,549 shares at March 31, 2012 | 1,322 | 1,287 |
| Non-voting common stock, Class B — \$0.01 par value — authorized, 16,000,000 shares; issued and outstanding, 2,401,854 shares at September 30, 2012 and 2,487,125 shares at March 31, 2012 | | 25 |
| Restricted common stock, Class C — \$0.01 par value — authorized, 5,000,000 shares; issued and outstanding, 1,401,803 shares at September 30, 2012 and 1,533,020 shares at March 31, 2012 | | 15 |
| Special voting common stock, Class E — \$0.003 par value — authorized, 25,000,000 shares; issued and outstanding, 8,942,319 shares at September 30, 2012 and 10,140,067 shares at March 31, 2012 | 27 | 30 |
| Treasury stock, at cost — 389,321 shares at September 30, 2012 and 333,775 shares at March 31, 2012 | (6,226) | (5,377) |
| Additional paid-in capital | 94,135 | 898,541 |
| Retained earnings | 38,473 | 299,379 |

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| | | | |
|--|-------------|-------------|---|
| Accumulated other comprehensive loss | (8,235 |) (8,715 |) |
| Total stockholders' equity | 119,534 | 1,185,185 | |
| Total liabilities and stockholders' equity | \$3,090,078 | \$3,314,791 | |

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

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

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|-------------------------------------|--|-------------|--|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (Amounts in thousands, except per share data) | | (Amounts in thousands, except per share data) | |
| Revenue | \$1,387,650 | \$1,429,044 | \$2,820,074 | \$2,875,880 |
| Operating costs and expenses: | | | | |
| Cost of revenue | 702,066 | 715,642 | 1,429,436 | 1,442,473 |
| Billable expenses | 353,444 | 380,911 | 731,904 | 773,101 |
| General and administrative expenses | 212,498 | 220,290 | 405,853 | 432,125 |
| Depreciation and amortization | 17,613 | 18,536 | 36,116 | 36,394 |
| Total operating costs and expenses | 1,285,621 | 1,335,379 | 2,603,309 | 2,684,093 |
| Operating income | 102,029 | 93,665 | 216,765 | 191,787 |
| Interest expense | (17,811) |) (12,194 |) (29,057 |) (24,488 |
| Other, net | (7,343 |) 4,051 | (7,826 |) 3,609 |
| Income before income taxes | 76,875 | 85,522 | 179,882 | 170,908 |
| Income tax expense | 30,759 | 10,190 | 71,821 | 44,440 |
| Net income | \$46,116 | \$75,332 | \$108,061 | \$126,468 |
| Earnings per common share (Note 3): | | | | |
| Basic | \$0.29 | \$0.58 | \$0.75 | \$0.98 |
| Diluted | \$0.27 | \$0.53 | \$0.69 | \$0.90 |
| Dividends declared per share | \$6.59 | \$— | \$8.18 | \$— |

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 | | Six Months Ended | |
|---|------------------------|----------|------------------------|-----------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| | (Amounts in thousands) | | (Amounts in thousands) | |
| Net income | \$46,116 | \$75,332 | \$108,061 | \$126,468 |
| Change in postretirement plan costs, net of tax | 381 | 108 | 480 | 215 |
| Comprehensive income | \$46,497 | \$75,440 | \$108,541 | \$126,683 |

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)

| | Six Months Ended September 30, | |
|---|-----------------------------------|-----------|
| | 2012 | 2011 |
| | (Amounts in thousands) | |
| Cash flows from operating activities | | |
| Net income | \$108,061 | \$126,468 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gain on sale of state and local transportation business | — | (4,082) |
| Transaction costs on sale of state and local transportation business | — | (5,432) |
| Depreciation and amortization | 36,116 | 36,394 |
| Amortization of debt issuance costs | 2,672 | 2,400 |
| Amortization of original issuance discount on debt | 646 | 550 |
| Loss on extinguishment | 9,879 | — |
| Excess tax benefits from the exercise of stock options | (16,305) | (15,960) |
| Stock-based compensation expense | 14,367 | 18,448 |
| Loss on disposition of property and equipment | 956 | 10 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 237,668 | 71,045 |
| Prepaid expenses and other current assets | (2,066) | (6,674) |
| Other long-term assets | 5,549 | 11,847 |
| Accrued compensation and benefits | (21,616) | (49,198) |
| Accounts payable and other accrued expenses | 1,144 | 21,135 |
| Accrued interest | 4,075 | 4,694 |
| Other current liabilities | 6,488 | (6,412) |
| Other long-term liabilities | 2,114 | (28,116) |
| Net cash provided by operating activities | 389,748 | 177,117 |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (14,375) | (43,640) |
| Proceeds from sale of state and local transportation business | — | 23,332 |
| Net cash used in investing activities | (14,375) | (20,308) |
| Cash flows from financing activities | | |
| Net proceeds from issuance of common stock | 3,359 | 4,695 |
| Cash dividends paid | (1,097,773) | — |
| Dividend equivalents to option holders | (37,731) | — |
| Repayment of debt | (970,000) | (15,000) |
| Net proceeds from debt | 1,710,143 | — |
| Excess tax benefits from the exercise of stock options | 16,305 | 15,960 |
| Stock option exercises | 5,784 | 6,502 |
| Repurchases of common stock | (849) | (5,377) |
| Net cash (used in) / provided by financing activities | (370,762) | 6,780 |
| Net increase (decrease) in cash and cash equivalents | 4,611 | 163,589 |
| Cash and cash equivalents—beginning of period | 484,368 | 192,631 |
| Cash and cash equivalents—end of period | \$488,979 | \$356,220 |
| Supplemental disclosures of cash flow information | | |
| Cash paid during the period for: | | |
| Interest | \$17,622 | \$17,085 |
| Income taxes | \$65,732 | \$50,072 |

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

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BOOZ ALLEN HAMILTON HOLDING CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data or unless otherwise noted)

September 30, 2012

1. BUSINESS OVERVIEW

Organization

Booz Allen Hamilton Holding Corporation, including its wholly owned subsidiaries, or Holding or the Company, is an affiliate of The Carlyle Group, or Carlyle, and was incorporated in Delaware in May 2008. The Company provides management and technology consulting services primarily to the U.S. government and its agencies in the defense, intelligence, and civil markets. The Company offers clients functional knowledge spanning strategy and organization, analytics, technology, and operations, which it combines with specialized expertise in clients' mission and domain areas to help solve critical problems. The Company reports operating results and financial data in one operating segment. The Company is headquartered in McLean, Virginia, with approximately 24,000 employees as of September 30, 2012.

2. BASIS OF PRESENTATION

The Company prepared the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q, or Quarterly Report, in accordance with accounting principles generally accepted in the United States, or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. As a result, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The Company followed the accounting policies used and disclosed in the consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended March 31, 2012 filed with the Securities and Exchange Commission on May 30, 2012, or Annual Report. 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 interim financial information in this Quarterly Report reflects all adjustments, consisting of normal recurring adjustments except as otherwise disclosed, necessary for a fair presentation of the Company's results of operations for the interim periods. The results of operations for the six months ended September 30, 2012 are not necessarily indicative of results to be expected for the full fiscal year.

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 allowance for doubtful accounts, contractual and regulatory reserves, lives of tangible and intangible assets, impairment of long-lived assets, accrued liabilities, revenue recognition, bonus and other incentive compensation, stock-based compensation, realization of deferred tax assets, provisions for income taxes, and postretirement obligations. Actual results experienced by the Company may differ materially from management's estimates.

Recent Accounting Pronouncements

Recent accounting pronouncements issued by the FASB during the three months ended September 30, 2012 and through the filing date did not or are not believed by management to have a material impact on the Company's present or historical condensed consolidated financial statements.

3. EARNINGS PER SHARE

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

The Company currently has outstanding shares of Class A Common Stock, Class B Non-Voting Common Stock, Class C Restricted Common Stock, and Class E Special Voting Common Stock. Class E Special Voting Common Stock shares are not included in the calculation of EPS as these shares represent voting rights only and are not entitled to participate in dividends or other distributions. Unvested Class A Restricted Common Stock and unvested Class C

Restricted Common Stock holders are entitled to participate in dividends or other distributions. These unvested shares participated in the Company's dividends declared and paid in the first and second quarters of fiscal 2013, and as such, EPS is calculated using the two-class method,

whereby earnings are reduced by the dividends declared and paid to the restricted shareholders. No such dividends were paid in the first and second quarters of fiscal 2012, as such EPS is calculated using the treasury stock method. A reconciliation of the income used to compute basic and diluted EPS for the periods presented are as follows:

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------|------------------|-------------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Earnings for basic computations (a) | \$38,511 | \$75,332 | \$99,205 | \$126,468 |
| Weighted-average Class A Common Stock outstanding | 129,686,292 | 125,883,669 | 128,809,548 | 124,432,403 |
| Weighted-average Class B Non-Voting Common Stock outstanding | 2,431,003 | 2,833,324 | 2,452,728 | 2,929,808 |
| Weighted-average Class C Restricted Common Stock outstanding | 1,319,600 | 1,739,986 | 1,358,210 | 1,863,790 |
| Total weighted-average common shares outstanding for basic computations | 133,436,895 | 130,456,979 | 132,620,486 | 129,226,001 |
| Earnings for diluted computations (a) | \$38,511 | \$75,332 | \$99,205 | \$126,468 |
| Dilutive stock options and restricted stock | 10,812,267 | 10,802,985 | 11,027,991 | 11,374,985 |
| Average number of common shares outstanding for diluted computations | 144,249,162 | 141,259,964 | 143,648,477 | 140,600,986 |
| Earnings per common share | | | | |
| Basic | \$0.29 | \$0.58 | \$0.75 | \$0.98 |
| Diluted | \$0.27 | \$0.53 | \$0.69 | \$0.90 |

(a) During the three and six months ended September 30, 2012 approximately 1.2 million participating securities were paid dividends totaling \$7.6 million and \$8.9 million, respectively, that comprises the difference from net income presented on the condensed consolidated statements of operations.

In the EPS calculation for the three and six months ended September 30, 2012, 219,000 and 13,000 options, respectively, were not included in the EPS calculation as their impact was anti-dilutive. For the three and six months ended September 30, 2011, 2.2 million options were not included in the EPS calculation as their impact was anti-dilutive.

4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

| | September 30, 2012 | March 31, 2012 |
|---|-----------------------|-------------------|
| Current | | |
| Accounts receivable–billed | \$331,169 | \$436,314 |
| Accounts receivable–unbilled | 509,240 | 641,800 |
| Allowance for doubtful accounts | (762 |) (799 |
| Accounts receivable, net | 839,647 | 1,077,315 |
| Long-term | | |
| Unbilled receivables related to retainage and holdbacks | 19,527 | 24,163 |
| Total accounts receivable, net | \$859,174 | \$1,101,478 |

The Company recognized a provision for doubtful accounts of \$150,000 and \$2.3 million for the three months ended September 30, 2012 and 2011, respectively, and \$890,000 and \$2.9 million for the six months ended September 30, 2012 and 2011, respectively. Long-term unbilled receivables related to retainage, holdbacks, and long-term rate settlements to be billed at contract closeout are included in other long-term assets as accounts receivable in the accompanying condensed consolidated balance sheets.

5. ACCRUED COMPENSATION AND BENEFITS

Accrued compensation and benefits consisted of the following:

| | September 30, 2012 | March 31, 2012 |
|--|-----------------------|-------------------|
| Bonus | \$41,092 | \$83,464 |
| Retirement | 134,256 | 86,723 |
| Vacation | 134,727 | 143,154 |
| Stock-based compensation liability (Note 10) | 59,388 | 8,936 |
| Other | 26,944 | 35,595 |
| Total accrued compensation and benefits | \$396,407 | \$357,872 |

Total accrued compensation and benefits includes a restructuring liability of \$3.7 million at September 30, 2012 and \$11.1 million at March 31, 2012, respectively.

6. DEBT

Debt consisted of the following:

| | September 30, 2012 | | March 31, 2012 | |
|---|--------------------|------------------------|------------------|------------------------|
| | Interest Rate | Outstanding Balance | Interest Rate | Outstanding Balance |
| Tranche A Loans | 2.97 | % \$724,165 | 2.49 | % \$472,870 |
| Tranche B Loans | 4.50 | % 1,013,423 | 3.75 | % 492,555 |
| Total | | 1,737,588 | | 965,425 |
| Less: Current portion of long-term debt | | (46,500) | | (42,500) |
| Long-term debt, net of current portion | | \$1,691,088 | | \$922,925 |

On July 31, 2012, the Company consummated a recapitalization transaction, or Recapitalization Transaction, which included the refinancing and termination of the Company's existing senior secured credit agreement with the proceeds of the borrowings under the Company's new senior secured credit agreement, or Credit Agreement. The Credit Agreement provided the Company with a \$725.0 million Term Loan A tranche and a \$1,025.0 million Term Loan B tranche, and a \$500.0 million revolving credit facility, with a sublimit for letters of credit of \$100.0 million. The outstanding obligations under the Credit Agreement are secured by a security interest in substantially all of the assets of the Company, subject to certain exceptions set forth in the Credit Agreement and related documentation.

In connection with the Recapitalization Transaction, the Company accelerated the amortization of ratable portions of the Debt Issuance Costs, or DIC, and Original Issuance Discount, or OID, associated with the prior senior secured term loan facilities and portions of the DIC and OID of the Credit Agreement that do not qualify for deferral of \$7.2 million. These amounts are reflected in other expense, net in the three months ended September 30, 2012.

Furthermore, the Company expensed third party debt issuance costs of \$2.7 million that did not qualify for deferral, which are reflected in general and administrative costs in the three months ended September 30, 2012.

The Credit Agreement requires quarterly principal payments of 1.25% of the stated principal amount of Tranche A Loans, with annual incremental increases to 1.875%, 2.50%, 3.125%, and 13.0%, prior to the Tranche A Loans' maturity date of December 31, 2017, and 0.25% of the stated principal amount of Tranche B Loans, with the remaining balance payable on the Tranche B Loans' maturity date of July 31, 2019. The revolving credit facility matures on December 31, 2017, at which time any outstanding principal balance is due in full. As of September 30, 2012 and March 31, 2012, there were no amounts outstanding on the revolving credit facility.

The interest rate on borrowings under Tranche A is LIBOR plus 2.75%, and will range from 2.00% to 2.75% based on the Company's total leverage ratio. The interest rate on borrowings under Tranche B is LIBOR plus 3.5% with a 1% floor. The revolving credit facility margin and commitment fee are subject to the leveraged based pricing grid, as set forth in the Credit Agreement.

Prior to the Recapitalization Transaction, the Company maintained a senior secured credit agreement, as amended, with a syndicate of lenders. The senior secured credit agreement, as amended, provided for \$1.0 billion in term loans (\$500.0 million of Tranche A Loans and \$500.0 million of Tranche B Loans) and a \$275.0 million revolving credit facility. The loans under the senior secured credit agreement, as amended, were secured by substantially all of the Company's assets.

The total outstanding debt balance is recorded in the accompanying condensed consolidated balance sheets, net of unamortized discount of \$12.4 million and \$4.6 million as of September 30, 2012 and March 31, 2012, respectively. Both the Credit Agreement and the senior secured credit agreement, as amended, require the maintenance of certain financial and non-financial covenants. The loans under the Credit Agreement are secured by substantially all of our assets and none of such assets will be available to satisfy the claims of our general creditors. The Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are limited to the following, in each case subject to certain exceptions: a maximum net total leverage ratio; a minimum net interest coverage ratio; limitations on indebtedness and liens; mergers, consolidations or amalgamations, or liquidations, wind-ups or dissolutions; dispositions of property; restricted payments; investments; transactions with affiliates; sale and lease back transactions; change in fiscal periods; negative pledges; restrictive agreements; limitations on line of business; limitations on speculative hedging and limitations on changes of names and jurisdictions. In addition, we are required to meet certain financial covenants at each quarter end, namely Consolidated Net Total Leverage and Consolidated Net Interest Coverage Ratios. As of September 30, 2012 and March 31, 2012, the Company was in compliance with all of its covenants.

7. INCOME TAXES

The Company's effective income tax rate was 40.0% and 11.9% for the three months ended September 30, 2012 and 2011, respectively, and 39.9% and 26.0% for the six months ended September 30, 2012 and 2011, respectively. The three and six month effective tax rates of 40.0% and 39.9%, respectively, differ from the statutory rate of 35.0% due to state and foreign taxes and the effect of permanent rate differences, which primarily relate to meals and entertainment.

The Company is also subject to taxes imposed by various taxing authorities including state and foreign jurisdictions. Tax years related to state and foreign jurisdictions that remain open and subject to examination are not considered to be material, or will be indemnified under the merger agreement as described in the Company's Annual Report.

8. 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. Total expense recognized under ECAP for the three months ended September 30, 2012 and 2011 was \$59.3 million and \$55.5 million, respectively, and \$118.8 million and \$114.7 million for the six months ended September 30, 2012 and 2011, respectively. The Company-paid contributions for the three months ended September 30, 2012 and 2011 were \$30.0 million and \$28.3 million, respectively, and \$71.3 million and \$70.0 million for the six months ended September 30, 2012 and 2011, respectively.

Defined Benefit Plan and Other Postretirement Benefit Plans

The Company maintains and administers a postretirement medical plan and a defined benefit retirement plan for current, retired, and resigned officers.

The components of net postretirement medical expense for the Officer Medical Plan were as follows:

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|--------------------------------------|-------------------------------------|---------|-----------------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Service cost | \$973 | \$1,000 | \$1,946 | \$1,956 |
| Interest cost | 787 | 724 | 1,573 | 1,493 |
| Total postretirement medical expense | \$1,760 | \$1,724 | \$3,519 | \$3,449 |

As of September 30, 2012 and March 31, 2012, the unfunded status of the Officer Medical Plan was \$66.6 million and \$63.6 million, respectively, which is included in other long-term liabilities in the accompanying condensed consolidated balance sheets.

Total expense for the Company's Retired Officers' Bonus Plan was \$186,000 and \$217,000 for the three months ended September 30, 2012 and 2011, respectively, and \$371,000 and \$434,000 for the six months ended September 30, 2012 and 2011, respectively. The Retired Officers' Bonus Plan is an unfunded plan and contributions are made as benefits are paid. As of September 30, 2012 and March 31, 2012, the accumulated liability of \$4.8 million and \$4.6 million, respectively, is included in other long-term liabilities in the accompanying condensed consolidated balance sheets is unfunded.

9. STOCKHOLDERS' EQUITY

Common Stock

The common stock shares activity consisted of the following:

| | Class A Common Stock | Class B Non-Voting Common Stock | Class C Restricted Common Stock | Class E Special Voting Common Stock | Treasury Stock |
|--------------------------------|-------------------------|---------------------------------------|---------------------------------------|---|-------------------|
| Balance at March 31, 2011 | 122,784,835 | 3,053,130 | 2,028,270 | 12,348,860 | — |
| Issuance of common stock | 1,080,245 | — | — | — | — |
| Stock options exercised | 3,799,989 | — | — | (2,208,793) | — |
| Share exchange | 1,061,255 | (566,005) | (495,250) | — | — |
| Repurchase of common stock (1) | — | — | — | — | 333,775 |
| Balance at March 31, 2012 | 128,726,324 | 2,487,125 | 1,533,020 | 10,140,067 | 333,775 |
| Issuance of common stock | 950,268 | — | — | — | — |
| Stock options exercised | 2,315,996 | — | — | (1,197,748) | — |
| Share exchange | 216,488 | (85,271) | (131,217) | — | — |
| Repurchase of common stock (2) | — | — | — | — | 55,546 |
| Balance at September 30, 2012 | 132,209,076 | 2,401,854 | 1,401,803 | 8,942,319 | 389,321 |

Reflects shares repurchased during the three months ended September 30, 2011 associated with the share surrender (1) program that was limited to Rollover Options (defined below) that were required to be exercised between June 30, 2011 and September 15, 2011.

(2) Reflects shares repurchased on July 2, 2012 to cover for the withholding taxes on restricted stock awards that vested on June 30, 2012.

In connection with the Company's initial public offering in November 2010, the Company established a tax qualified Employee Stock Purchase Plan, or ESPP, which is designed to enable eligible employees to periodically purchase shares of the Company's Class A Common Stock up to an aggregate of 10,000,000 shares at a five percent discount from the fair market value of the Company's common stock. The ESPP provides for quarterly offering periods, the first of which commenced on April 1, 2011. For the quarterly offering period that closed on September 30, 2012, 122,004 Class A Common Stock shares were purchased by employees under the ESPP. As of the program's inception, 786,805 shares have been purchased by employees.

On July 30, 2012 our Board of Directors authorized and declared a special cash dividend of \$6.50 per share and a regular quarterly cash dividend in the amount of \$0.09 per share. Both the special dividend and quarterly dividends were paid on August 31, 2012. The dividends were accounted for on July 31, 2012, the declaration date, by reducing retained earnings to zero with the remainder being recorded as a reduction to additional paid-in capital. The total payout of the dividend has been presented as a financing activity within the Condensed Consolidated Statement of Cash Flows. Additionally, the Company paid \$9.0 million to holders of Rollover Options (described below in Note 10) and \$28.7 million to holders of Amended and Restated Equity Incentive Plan, or EIP, Options (described below in Note 10.) The \$37.7 million is presented as a financing activity within the Condensed Consolidated Statement of Cash Flows.

10. STOCK-BASED COMPENSATION

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

| | Three Months Ended | | Six Months Ended | |
|-------------------------------------|--------------------|---------|------------------|----------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Cost of revenue | \$2,168 | 2,213 | \$4,095 | \$5,269 |
| General and administrative expenses | 5,437 | 5,558 | 10,272 | 13,179 |
| Total | \$7,605 | \$7,771 | \$14,367 | \$18,448 |

As of September 30, 2012, there was \$30.3 million of total unrecognized compensation cost related to unvested stock-based compensation agreements. The unrecognized compensation cost as of September 30, 2012 is expected to be amortized over 4.75 years.

Officers' Rollover Stock Plan

For the three and six months ended September 30, 2012, 0 and 136,200 shares of Class C Restricted Common Stock, or Class C Restricted Stock, vested. Total compensation expense recorded in conjunction with all Class C Restricted Stock for the three months ended September 30, 2012 and 2011 was \$59,000 and \$148,000, respectively, and \$192,000 and \$740,000 for the six months ended September 30, 2012 and 2011, respectively. Future compensation cost related to non-vested Class C Restricted Stock not yet recognized in the condensed consolidated statements of operations was \$178,000, and is expected to be fully recognized by June 30, 2013.

A portion of the old stock rights held by Booz Allen Hamilton Inc.'s U.S. government consulting partners issued under the stock rights plan that existed for Booz Allen Hamilton Inc.'s officers prior to the merger transaction, as described in the Company's Annual Report, were exchanged for new options, or Rollover Options. As of September 30, 2012, there were 8,239,293 Rollover Options outstanding, of which 1,879,375 were unvested. Total compensation expense recorded in conjunction with all Rollover Options for the three months ended September 30, 2012 and 2011 was \$578,000 and \$2.0 million, respectively, and \$1.8 million and \$7.1 million for the six months ended September 30, 2012 and 2011, respectively. Future compensation cost related to non-vested Rollover Options not yet recognized in the condensed consolidated statements of operations was \$1.7 million, and is expected to be fully recognized by June 30, 2013.

Equity Incentive Plan

On August 2, 2012, 20,000 options were granted under the EIP. The estimated fair value of our Class A Common Stock on August 2, 2012 at the time of the option grant, was \$17.32.

As of September 30, 2012, there were 10,860,741 EIP options outstanding, of which 5,486,402 were unvested. Total compensation expense recorded in conjunction with EIP options for the three months ended September 30, 2012 and 2011 was \$2.2 million and \$3.1 million, respectively, and \$6.4 million and \$8.0 million for the six months ended September 30, 2012 and 2011, respectively. Future compensation cost related to non-vested EIP options not yet recognized in the condensed consolidated statements of operations was \$15.5 million, and is expected to be recognized over 4.75 years.

Grants of Class A Restricted Common Stock

On June 29, 2012, the Board of Directors granted 674,456 shares of Class A Restricted Stock in conjunction with the Annual Incentive Plan adopted on October 1, 2010. The amount of the annual incentive payment was determined based on performance targets established by the Compensation Committee and a portion of the bonus was paid in the form of Class A Restricted Stock. Equity awards will vest based on the passage of time, subject to the officer's continued employment by the Company. The portion to be paid in the form of equity will be recognized in the accompanying consolidated statements of operations based on grant date fair value over the vesting period of three years and the aggregate value was estimated at \$10.3 million based on the stock price of \$15.28 on the grant date. On August 2, 2012, the Board of Directors granted 24,251 shares of Class A Restricted Stock to certain members of the Board of Directors.

Total compensation expense recorded in conjunction with Class A Restricted Stock for the three and six months ended September 30, 2012 was \$2.5 million and \$3.8 million, respectively. Future compensation cost related to this award not yet recognized in the condensed consolidated statements of operations was \$11.3 million and is expected to be recognized over

2.75 years.

Dividends

On May 29, 2012, our Board of Directors authorized and declared a regular quarterly cash dividend in the amount of \$0.09 per share. In addition, the Board of Directors declared a special cash dividend of \$1.50 per share. Both the quarterly and special dividend were paid on June 29, 2012 to stockholders of record on June 11, 2012. The Compensation Committee, as the Administrator of the Officers' Rollover Stock Plan and the EIP, made a required adjustment to the outstanding options under each plan by granting holders of the Rollover Options a cash payment equal to the amount of the special dividend on the options' mandatory exercise date and by granting the holders of EIP options a dividend equivalent equal to the special dividend and payable on June 29, 2012 or the vesting of the EIP option, whichever is later.

On July 30, 2012, our Board of Directors authorized and declared a special cash dividend of \$6.50 per share and a regular quarterly cash dividend in the amount of \$0.09 per share. The dividends were paid on August 31, 2012 to stockholders of record on August 13, 2012 for the special cash dividend and August 14, 2012 for the regular quarterly cash dividend. The Board of Directors, as the Administrator of the Officers' Rollover Stock Plan and the EIP, made a determination to adjust the outstanding options under each plan.

Holders of the Rollover Options received a cash payment equal to the amount of the special dividend on the options' mandatory exercise date. On August 31, 2012, Rollover options holders received a dividend equivalent payment of \$9.0 million related to the special dividend. Holders of EIP options with a pre-dividend exercise price less than \$11.00 per share received a dividend equivalent equal to the amount of the special dividend payable on August 31, 2012 or the vesting of the EIP option, whichever is later. On August 31, 2012, vested outstanding EIP options received a dividend equivalent payment of \$28.7 million related to the August 2012 special dividend. All other EIP options were adjusted, based on authorization from the Board of Directors, by reducing the exercise price by \$6.36 which is equal to the difference between the pre-dividend closing fair market value of our Class A Common Stock and the post-dividend opening fair market value of our Class A Common Stock as noted on the New York Stock Exchange. Payment of the dividend equivalents and adjustments to option exercise prices were accounted for as modifications resulting in incremental benefit to the option holders resulting in additional compensation expense of \$3.8 million. Total compensation expense recorded in conjunction with the payment of the dividend equivalent to holders of unvested EIP options for the six months ended September 30, 2012 was \$2.2 million. Future compensation cost related to payment of the dividend equivalents to holders of EIP options not yet recognized in the statement of operations is \$1.6 million and is expected to be recognized over 4.75 years.

As of September 30, 2012 and March 31, 2012, the Company calculated a total recorded and unrecorded stock-based compensation liability of \$119.3 million and \$38.3 million, respectively, related to the special dividends paid in December 2009, June 2012, and August 2012, as follows:

| | September 30, 2012 | | | March 31, 2012 | | |
|---|--------------------|------------------|-----------|----------------|------------------|----------|
| | EIP Options | Rollover Options | Total | EIP Options | Rollover Options | Total |
| Current portion of liability ¹ | \$13,311 | \$46,073 | \$59,384 | \$— | \$8,939 | \$8,939 |
| Long-term portion of liability ² | — | 45,223 | 45,223 | — | 27,724 | 27,724 |
| | \$13,311 | \$91,296 | \$104,607 | \$— | \$36,663 | \$36,663 |

¹ Included in accrued compensation and benefits (Note 5).

² Included in other long-term liabilities.

As of September 30, 2012, \$8.1 million related to Rollover Options and \$6.6 million related to EIP Options will be recorded as liabilities as the related compensation expense is recognized over the next three quarters for Rollover Options and 4.75 years for EIP Options. As of March 31, 2012, there was a similar unrecognized liability of \$1.6 million related to Rollover Options .

11. FINANCIAL INSTRUMENTS

The fair value of the Company's cash and cash equivalents, trade accounts receivable, and accounts payable approximates its carrying value at September 30, 2012 and March 31, 2012 because of the short-term nature of these

amounts. The fair value of the Company's debt instruments approximates its carrying value at September 30, 2012 and March 31, 2012.

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The fair value of debt is determined based on interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements.

12. RELATED-PARTY TRANSACTIONS

The Company is an affiliate of Carlyle, and from time to time, and in the ordinary course of business: (1) other Carlyle portfolio companies engage the Company as a subcontractor or service provider, and (2) the Company engages other Carlyle portfolio companies as subcontractors or service providers. Revenue and cost associated with these related parties for the three months ended September 30, 2012 were \$195,000 and \$185,000, respectively, and \$345,000 and \$329,000 for the six months ended September 30, 2012, respectively. Revenue and cost associated with these related parties for the three months ended September 30, 2011 were \$343,000 and \$305,000, respectively, and \$946,000 and \$852,000 for the six months ended September 30, 2011, respectively.

On July 31, 2008, the Company entered into a management agreement, or Management Agreement, with TC Group V US, L.L.C., or TC Group, a company affiliated with Carlyle. In accordance with the Management Agreement, TC Group provides the Company with advisory, consulting, and other services and the Company pays TC Group an aggregate annual fee of \$1.0 million, plus expenses. For the three months ended September 30, 2012 and 2011, the Company incurred \$250,000 in advisory fees. For the six months ended September 30, 2012 and 2011, the Company incurred \$500,000 in advisory fees.

13. COMMITMENTS AND CONTINGENCIES

Leases

As a result of the July 2008 merger transaction, as described in the Company's Annual Report, the Company assigned a total of nine leases to Booz & Co. The facilities are located in New York, New York; Troy, Michigan; Florham Park, New Jersey; Parsippany, New Jersey; Houston, Texas; Chicago, Illinois; Cleveland, Ohio; Dallas, Texas; and London, England. Except for the Houston, Cleveland and Dallas leases, which expired, the Company remains liable under the terms of the original leases should Booz & Co. default on its obligations. There were no events of default under these leases as of September 30, 2012 and March 31, 2012. The maximum potential amount of undiscounted future payments is \$30.4 million, and the leases expire at different dates between February 2013 and March 2017. Based on the Company's assessment of the likelihood of future payment, no amounts have been recorded related to the Company's contingent liability on such leases.

Government Contracting Matters

For the three and six months ended September 30, 2012, approximately 99% of the Company's revenue was generated from contracts with U.S. government agencies or other U.S. government contractors, and approximately 98% for the three and six months ended September 30, 2011. Contracts with the U.S. government are subject to extensive legal and regulatory requirements and, from time to time and in the ordinary course of business, agencies of the U.S. government investigate whether the Company's operations are conducted in accordance with these requirements and the terms of the relevant contracts by using investigative techniques as subpoenas or civil investigative demands. U.S. government investigations of the Company, whether related to the Company's U.S. government contracts or conducted for other reasons, could result in administrative, civil, or criminal liabilities, including 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 adequately reserved for any losses that may be experienced from any investigation of which it is aware. The Defense Contract Management Agency Administrative Contracting Officer has negotiated annual final indirect cost rates through fiscal year 2006. Audits of subsequent years may result in cost reductions and/or penalties. Management believes it has adequately reserved for any losses that may be experienced from any such reductions and/or penalties. As of September 30, 2012 and March 31, 2012, the Company has recorded a liability of approximately \$143.7 million and \$127.2 million, respectively, for its current best estimate of amounts to be refunded to customers for potential adjustments from such audits or reviews of contract costs incurred subsequent to fiscal year 2006.

Litigation

The Company is involved in legal proceedings and investigations arising in the ordinary course of business, including those relating to employment matters, relationships with clients and contractors, intellectual property disputes, and

other business matters. These legal proceedings seek various remedies, including claims for monetary damages in varying amounts that currently range up to \$40 million or have a reasonably estimated outcome within that range, or are unspecified as to amount. Although the outcome of any such matter is inherently uncertain and may be materially adverse, based on current information, management does not expect any of the currently ongoing audits, reviews, investigations, or litigation to have a material adverse effect on the Company's financial condition and results of operations.

Six former officers and stockholders who had departed the firm prior to the acquisition, as described in the Company's

Annual Report, have filed a total of nine suits in various jurisdictions, with original filing dates ranging from July 3, 2008 through December 15, 2009 (three of which were amended on July 2, 2010 and then further amended into one consolidated complaint on September 7, 2010) against the Company and certain of the Company's current and former directors and officers. Each of the suits arises out of the acquisition and alleges that the former stockholders are entitled to certain payments that they would have received if they had held their stock at the time of the acquisition. Some of the suits also allege that the acquisition price paid to stockholders was insufficient. The various suits assert claims for breach of contract, tortious interference with contract, breach of fiduciary duty, civil Racketeer Influenced and Corrupt Organizations Act, or RICO, violations, violations of the Employee Retirement Income Security Act, and/or securities and common law fraud. Two of these suits have been dismissed with all appeals exhausted. Five of the remaining suits are pending in the United States District Court for the Southern District of New York, the sixth is pending in New York state court and the seventh is pending in the United States District Court for the Southern District of California. As of September 30, 2012 and March 31, 2012, the aggregate alleged damages sought in the seven remaining suits was approximately \$348.7 million (\$291.5 million of which is sought to be trebled pursuant to RICO) plus punitive damages, costs, and fees. Although the outcome of any of these cases is inherently uncertain and may be materially adverse, based on current information, we do not expect them to have a material adverse effect on our financial condition and results of operations.

14. SUBSEQUENT EVENTS

On October 16, 2012, the Company announced that it had entered into a definitive agreement to acquire the Defense Systems Engineering and Support, or DSES, division of ARINC Incorporated. The Company expects to complete the acquisition of 100% of the membership interests of the entity that owns DSES in the third quarter of fiscal 2013. Pursuant to the terms of the definitive agreement, the Company will pay approximately \$154 million in cash to ARINC Incorporated. The acquisition of DSES will be accounted for under the purchase method of accounting which requires the total purchase consideration to be allocated to the assets acquired and liabilities assumed based on estimates of fair value. The excess of the purchase consideration over the amounts assigned to tangible and intangible assets acquired and liabilities assumed will be recognized as goodwill. Of the total transaction costs of \$3.5 million to \$4.0 million expected to be incurred during fiscal 2013, \$2.6 million has been accrued and recognized as a component of general and administrative expenses as of September 30, 2012.

On October 29, 2012, our Board of Directors authorized and declared a regular quarterly cash dividend in the amount of \$0.09 per share. The quarterly dividend is payable on November 30, 2012 to shareholders of record on November 13, 2012.

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, 2012 filed with the Securities and Exchange Commission on May 30, 2012, 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 services to the U.S. government in the defense, intelligence, and civil markets. Additionally, we provide management and technology consulting services to major corporations, institutions, and not for profit organizations. As the needs of our clients have grown more complex, we have developed deep expertise in technology, engineering, and analytics. Leveraging our 98-year consulting heritage and a talent base of approximately 24,000 people, we deploy our deep domain knowledge, functional expertise, and experience to help our clients achieve their objectives. We serve substantially all of the cabinet-level departments of the U.S. government. Our major clients include the Department of Defense, all branches of the U.S. military, the U.S. Intelligence Community, and civil agencies such as the Department of Homeland Security, the Department of Energy, the Department of Health and Human Services, the Department of the Treasury, and the Environmental Protection Agency. We support these clients in addressing complex and pressing challenges such as combating global terrorism, improving cyber capabilities, transforming the healthcare system, improving efficiency and managing change within the government, and protecting the environment.

We have a collaborative culture, supported by our operating model, which helps our professionals identify and respond to emerging trends across the markets we serve and deliver enduring results for our clients.

Financial and Other Highlights

Revenue decreased 2.9% from the three months ended September 30, 2011 to the three months ended September 30, 2012 and decreased 1.9% from the six months ended September 30, 2011 to the six months ended September 30, 2012, primarily due to a reduction in billable expenses and a lower rate of indirect costs to direct labor. Reductions in billable expenses and indirect costs have a direct correlation to the amount of revenue recognized on cost reimbursable contracts. The lower rate of indirect expenses is primarily attributable to the cost reduction actions the Company implemented in late fiscal 2012. The negative impact on revenue attributable to these two factors was partially offset by continued modest growth in direct consulting staff labor sold. Direct consulting staff labor represents our consulting staff's labor under contracts for which we act as a prime contractor or subcontractor. Substantially all of our revenue and backlog is derived from services and solutions provided to client organizations across the U.S. government, primarily by our consulting staff and, to a lesser extent, our subcontractors. The mix of revenue generated by consulting staff and subcontractors affects our operating margin, substantially all of which is derived from direct consulting staff labor, as the portion of our revenue derived from fees we earn on services provided by our subcontractors is not significant.

Operating income grew 8.9% to \$102.0 million in the three months ended September 30, 2012 from \$93.7 million in the three months ended September 30, 2011, which reflects a 80 basis point increase in operating margin to 7.4% from 6.6% in the comparable periods. Operating income grew 13.0% to \$216.8 million in the six months ended September 30, 2012 from \$191.8 million in the six months ended September 30, 2011, which reflects a 100 basis point increase in operating margin to 7.7% from 6.7% in the comparable period. The improvement in operating margin was due to increased contract profitability due to disciplined cost management of indirect spending, as well as decreases in stock-based compensation costs and lower amortization of our intangible assets. The factors contributing to the

increased operating margin were partially offset by increases in depreciation expense due to facility expansion in previous years, causing a higher increase in depreciation for fiscal 2013.

Cash provided by operations increased \$212.6 million to \$389.7 million from \$177.1 million. The increase in cash provided by operations was a result of overall profitability of our contracts, our ability to invoice and collect from clients in a more timely

manner, and our effective management of vendor payments. We experienced a higher than normal cash collection during the U.S. government's fiscal 2012 year end as U.S. government agencies were more aggressive in completing payment actions before the end of its fiscal year. This behavior was in part due to the U.S. Government's Office of Management and Budget's July 2012 temporary requirement to pay Department of Defense prime contractors within 15 days, which allows small business contractors and subcontractors to receive payments earlier. As a result, we experienced earlier receipt of monies than in the comparable prior year period.

Non-GAAP Measures

We publicly disclose certain non-GAAP financial measurements, including Adjusted Operating Income, Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted Earnings Per Share, or 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 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. 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 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. Adjusted Operating Income, Adjusted EBITDA, 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 operating and net income to Adjusted Operating Income, Adjusted EBITDA and Adjusted Net Income, and net cash provided by operating activities to Free Cash Flows, and the explanatory footnotes regarding those adjustments, each as defined under GAAP, (ii) use Adjusted Operating Income, Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted EPS in addition to, and not as an alternative to, operating income, net income or diluted EPS, as a measure of operating results, and (iii) use Free Cash Flows 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:

"Adjusted Operating Income" represents operating income before (i) certain stock option-based and other equity-based compensation expenses, (ii) adjustments related to the amortization of intangible assets, and (iii) any extraordinary, unusual, or non-recurring items. 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 and before certain other items, including: (i) certain stock option-based and other equity-based compensation expenses, (ii) transaction costs, fees, losses, and expenses, including fees associated with debt prepayments, and (iii) any extraordinary, unusual, or non-recurring items. We prepare Adjusted EBITDA 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 Net Income" represents net income before: (i) certain stock option-based and other equity-based compensation expenses, (ii) transaction costs, fees, losses, and expenses, including fees associated with debt prepayments, (iii) adjustments related to the amortization of intangible assets, (iv) amortization or write-off of debt issuance costs and write-off of original issue discount, and (v) any extraordinary, unusual, or non-recurring items, in each case net of the tax effect 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.

"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 financial statements.

"Free Cash Flow" represents the net cash generated from operating activities less the impact of purchases of property and equipment.

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

| (Amounts in thousands, except share and per share data) | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|-------------------------------------|-------------|-----------------------------------|-------------|
| | 2012 (Unaudited) | 2011 | 2012 (Unaudited) | 2011 |
| Adjusted Operating Income | | | | |
| Operating Income | \$102,029 | \$93,665 | \$216,765 | \$191,787 |
| Certain stock-based compensation expense (a) | 1,465 | 2,274 | 3,858 | 9,171 |
| Amortization of intangible assets (b) | 3,126 | 4,091 | 6,259 | 8,182 |
| Transaction expenses (c) | 2,725 | — | 2,725 | — |
| Adjusted Operating Income | \$109,345 | \$100,030 | \$229,607 | \$209,140 |
| EBITDA & Adjusted EBITDA | | | | |
| Net income | \$46,116 | \$75,332 | \$108,061 | \$126,468 |
| Income tax expense | 30,759 | 10,190 | 71,821 | 44,440 |
| Interest and other, net | 25,154 | 8,143 | 36,883 | 20,879 |
| Depreciation and amortization | 17,613 | 18,536 | 36,116 | 36,394 |
| EBITDA | 119,642 | 112,201 | 252,881 | 228,181 |
| Certain stock-based compensation expense (a) | 1,465 | 2,274 | 3,858 | 9,171 |
| Transaction expenses (c) | 2,725 | — | 2,725 | — |
| Adjusted EBITDA | \$123,832 | \$114,475 | \$259,464 | \$237,352 |
| Adjusted Net Income | | | | |
| Net income | \$46,116 | \$75,332 | \$108,061 | \$126,468 |
| Certain stock-based compensation expense (a) | 1,465 | 2,274 | 3,858 | 9,171 |
| Transaction expenses (c) | 2,725 | — | 2,725 | — |
| Amortization of intangible assets (b) | 3,126 | 4,091 | 6,259 | 8,182 |
| Amortization or write-off of debt issuance costs and write-off of original issue discount | 8,628 | 1,206 | 9,826 | 2,400 |
| Net gain on sale of state and local transportation business (d) | — | (5,681) |) — | (5,681) |
| Release of income tax reserves (e) | — | (23,584) |) — | (24,048) |
| Adjustments for tax effect (f) | (6,378) |) (3,028) |) (9,068) |) (7,901) |
| Adjusted Net Income | \$55,682 | \$50,610 | \$121,661 | \$108,591 |
| Adjusted Diluted Earnings Per Share | | | | |
| Weighted-average number of diluted shares outstanding | 144,249,162 | 141,259,964 | 143,648,477 | 140,600,986 |
| Adjusted Net Income Per Diluted Share (g) | \$0.39 | \$0.36 | \$0.85 | \$0.77 |
| Free Cash Flow | | | | |
| Net cash provided by operating activities | \$315,705 | \$123,273 | \$389,748 | \$177,117 |
| Less: Purchases of property and equipment | (10,406) |) (26,039) |) (14,375) |) (43,640) |
| Free Cash Flow | \$305,299 | \$97,234 | \$375,373 | \$133,477 |

(a) Reflects stock-based compensation expense for options for Class A Common Stock and restricted shares, in each case, issued in connection with the Acquisition of our Company by The Carlyle Group (the Acquisition) under the

Officers' Rollover Stock Plan. Also reflects stock-based compensation expense for Equity Incentive Plan Class A Common Stock options issued in connection with the Acquisition under the Equity Incentive Plan.
(b) Reflects amortization of intangible assets resulting from the Acquisition.

- (c) Reflects debt refinancing costs incurred in connection with the Recapitalization Transaction consummated on July 31, 2012.
- (d) Three and six months ended September 30, 2011 reflects the gain on sale of our state and local transportation business, net of the associated tax benefit of \$1.6 million.
- (e) Reflects the release of income tax reserves.
- (f) Reflects tax effect of adjustments at an assumed marginal tax rate of 40%.
Excludes an adjustment of approximately \$7.6 million and \$8.9 million of net earnings for the three and six months
- (g) ended September 30, 2012, respectively, associated with the application of the two-class method for computing diluted earnings per share.

Recent Developments

The following recent developments occurred after September 30, 2012, which may cause our future results of operations to differ from our historical results of operations discussed under “— Results of Operations.”

On October 16, 2012, the Company announced that it had entered into a definitive agreement to acquire the Defense Systems Engineering and Support, or DSES, division of ARINC Incorporated. The Company expects to complete the acquisition of 100% of the membership interests of the entity that owns DSES in the third quarter of fiscal 2013.

Pursuant to the terms of the definitive agreement, the Company will pay approximately \$154 million in cash to ARINC Incorporated. The acquisition of DSES will be accounted for under the purchase method of accounting which requires the total purchase consideration to be allocated to the assets acquired and liabilities assumed based on estimates of fair value. The excess of the purchase consideration over the amounts assigned to tangible and intangible assets acquired and liabilities assumed will be recognized as goodwill. Of the total transaction costs of \$3.5 million to \$4.0 million expected to be incurred during fiscal 2013, \$2.6 million has been accrued and recognized as a component of general and administrative expenses as of September 30, 2012.

On October 29, 2012, our Board of Directors authorized and declared a regular quarterly cash dividend in the amount of \$0.09 per share. The quarterly dividend is payable on November 30, 2012 to shareholders of record on November 13, 2012.

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:

- 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;
- changes in the relative mix of overall U.S. government spending and areas of spending growth, with lower spending on homeland security, intelligence and defense-related programs as overseas operations end, and continued increased spending on cyber-security, advanced analytics, technology integration and healthcare;
- cost cutting and efficiency initiatives and other efforts to streamline the U.S. defense and intelligence infrastructure, including the initiatives implemented by the Secretary of Defense or reductions in defense budgets resulting from Congressional action;
- in the absence of Congressional action to the contrary, material reductions in defense budgets resulting from the commencement on January 2, 2013 of automatic sequestration as required under the Budget Control Act of 2011;
- delays in the completion of the U.S. government’s budget process, which has in the past and could in the future delay procurement of the products, services, and solutions we provide;
- existing and proposed fiscal constraints by the U.S. government and uncertainty about the size of future budget reductions may cause clients to invest appropriated funds on a less consistent or rapid basis, or not at all, particularly when considering long-term initiatives, not issue task orders in sufficient volume to reach current contract ceilings, and delay requests for new proposals and contract awards, relying on short-term

extensions of current contracts instead;

the federal focus on refining the definition of “inherently governmental” work will continue to drive pockets of insourcing in various agencies, particularly in the intelligence market;

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;

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;

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 cyber-security, 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;

increased competition from other government contractors and market entrants seeking to take advantage of the trends identified above; and

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.

Sources of Revenue

Substantially all of our revenue is derived from services provided under contracts and task orders with the U.S. government, primarily by our consulting staff and, to a lesser extent, our subcontractors. Funding for our contracts and task orders is generally linked to trends in budgets and spending across various U.S. government agencies and departments. We provide services under a large portfolio of contracts and contract vehicles to a broad client base, and we believe that our diversified contract and client base lessens potential volatility in our business; however, a reduction in the amount of services that we are contracted to provide to the U.S. government or any of our significant U.S. government clients could have a material adverse effect on our business and results of operations. In particular, the Department of Defense is one of our significant clients, and the Budget Control Act of 2011 could impose an estimated \$500 billion to \$600 billion in automatic federal defense spending cuts between 2013 and 2021 to the extent that automatic sequestration required by the act commences on January 2, 2013. A reduction in the amount of services that we are contracted to provide to the Department of Defense could have a material adverse effect on our business and results of operations, and given the uncertainty of how these automatic reductions may be applied, we are unable to predict the nature or magnitude of the potential adverse effect.

Contract Types

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

Cost-Reimbursable Contracts. Cost-reimbursable contracts provide for the payment of allowable costs incurred during performance of the contract, up to a ceiling based on the amount that has been funded, plus a fee. We generate revenue under two general types of cost-reimbursable contracts: cost-plus-fixed-fee and cost-plus-award-fee, both of which reimburse allowable costs and provide for a fee. The fee under each type of cost-reimbursable contract is generally payable upon completion of services in accordance with the terms of the contract. Cost-plus-fixed-fee contracts offer no opportunity for payment beyond the fixed fee. Cost-plus-award-fee contracts also provide for an award fee that varies within specified limits based upon the client’s assessment of our performance against a predetermined set of criteria, such as targets for factors like cost, quality, schedule, and performance.

Time-and-Materials Contracts. Under a time-and-materials contract, we are paid a fixed hourly rate for each direct labor hour expended, and we are reimbursed for allowable material costs and allowable out-of-pocket expenses. To the extent our actual direct labor and associated costs vary in relation to the fixed hourly billing rates provided in the contract, we will generate more or less profit, or could incur a loss.

Fixed-Price Contracts. Under a fixed-price contract, we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit, 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 pre-determined 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. Over time we have experienced a relatively stable contract mix. However, over the last twelve months we have experienced a shift from time-and-materials contracts to cost-reimbursable contracts.

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

| | Three Months Ended September 30, | | Six Months Ended September 30, | | |
|-----------------------|-------------------------------------|------|-----------------------------------|------|---|
| | 2012 | 2011 | 2012 | 2011 | |
| Cost-reimbursable (1) | 57 | % 54 | % 57 | % 54 | % |
| Time-and-materials | 29 | % 31 | % 29 | % 31 | % |
| Fixed-price (2) | 14 | % 15 | % 14 | % 15 | % |

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

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

Contract Diversity and Revenue Mix

We provide services to our clients through a large number of single award contracts and contract vehicles and multiple award contract vehicles. Most of our revenue is generated under indefinite delivery/indefinite quantity, or ID/IQ, 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 ID/IQ 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 and 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 contains an optimal mix of skills to meet the rapidly evolving needs of our clients and we seek to achieve that result through recruitment and capacity management. As of September 30, 2012 and 2011, we employed approximately 24,000 and 25,800 people, respectively, of which approximately 21,600 and 23,300, respectively, were consulting staff.

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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 for services under existing contracts for which funding has not been appropriated or otherwise authorized.

Priced Options. Priced contract options represent 100% of the revenue value of all future contract option periods under existing contracts that may be exercised at our clients' option and for which funding has not been appropriated or otherwise authorized.

Backlog does not include any task orders under ID/IQ contracts, including GWACs and GSA schedules, 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 September 30 | |
|----------|--------------------|------|
| | 2012 | 2011 |
| | (In millions) | |
| Backlog: | | |