

Booz | Allen | Hamilton

Fiscal Year 2014 Annual Report



Booz | Allen | Hamilton

# Reaching Forward

**Inventing the Future**

2014

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PRINCIPAL LOCATIONS



- *Principal offices*
- *Locations where Booz Allen is serving clients on long-term engagements*

- |                            |                              |                              |                            |                           |
|----------------------------|------------------------------|------------------------------|----------------------------|---------------------------|
| Huntsville, Alabama        | Atlanta, Georgia             | Patuxent River, Maryland     | Cleveland, Ohio            | Charlottesville, Virginia |
| Sierra Vista, Arizona      | Augusta, Georgia             | Rockville, Maryland          | Dayton, Ohio               | Falls Church, Virginia    |
| El Segundo, California     | Honolulu, Hawaii             | Boston, Massachusetts        | Philadelphia, Pennsylvania | Herndon, Virginia         |
| Los Angeles, California    | O’Fallon, Illinois           | Troy, Michigan               | Pittsburgh, Pennsylvania   | Lorton, Virginia          |
| San Diego, California      | Leavenworth, Kansas          | Kansas City, Missouri        | Doha, Qatar                | McLean, Virginia          |
| San Francisco, California  | Louisville, Kentucky         | Omaha, Nebraska              | Charleston, South Carolina | Norfolk, Virginia         |
| Colorado Springs, Colorado | Radcliff, Kentucky           | Red Bank, New Jersey         | Houston, Texas             | Stafford, Virginia        |
| Denver, Colorado           | Aberdeen, Maryland           | New York, New York           | San Antonio, Texas         | Seattle, Washington       |
| District of Columbia       | Annapolis Junction, Maryland | Rome, New York               | Abu Dhabi, UAE             |                           |
| Panama City, Florida       | College Park, Maryland       | Durham, North Carolina       | Clearfield, Utah           |                           |
| Pensacola, Florida         | Lexington Park, Maryland     | Fayetteville, North Carolina | Arlington, Virginia        |                           |
| Tampa, Florida             | Linthicum, Maryland          | Oklahoma City, Oklahoma      | Chantilly, Virginia        |                           |



“Booz Allen’s capabilities and focus on our clients’ core missions, and our effective business management, have enabled us to succeed despite a challenging market.”

— Dr. Ralph W. Shrader



## Dear Colleagues and Shareholders:

One hundred years ago, Edwin G. Booz had an original idea that business leaders could benefit from rigorous analysis of markets and operations and from objective advice. In 2014, the company he founded stands strong as the premier consultancy helping government and commercial clients achieve their most important missions. As technology evolves, missions expand, and budgetary pressures persist, Booz Allen Hamilton responds with innovative solutions that help organizations solve their most complex problems. We engage with many of the most important issues of our time—national security, healthcare and financial reform, immigration, energy and the environment, and much more. And our nearly 23,000 people create value by pioneering new products and technologies, by deriving actionable insights from data, by preemptively defeating cyber threats, and by applying multidimensional thinking to generate unique solutions.

Equally important, we approach everything we do with a deep commitment of service to our clients, to our communities, and to the veterans who have served us. We're able to bring the best of the best together to pursue missions in cross-functional, highly collaborative ways that others cannot. Our professionals bring their brains, hearts, and values to everything they do. It is a great

accomplishment that 100 years later, our people who follow in Ed Booz's footsteps make a tremendous difference.

### **The Power of Innovation**

In Fiscal 2014, Booz Allen marked its centennial anniversary by investing in the future. On January 2, 2014, we rang the opening bell at the New York Stock Exchange, signaling our commitment to investors and to the broader financial community. We're sponsoring the Degas/Cassatt exhibition at the National Gallery of Art, which explores the themes of collaboration and innovation. We're also sponsoring three flagship events at the USS Midway Museum in San Diego to commemorate veterans and the US military community. And to honor our legacy of community engagement, we established a Centennial Community Challenge program to encourage Booz Allen employees to collectively volunteer 100,000 hours in 2014.

To drive sustainable growth during our second century, we moved forward with our Vision 2020 strategy on two parallel tracks: a set of growth platforms tied to specific market opportunities and an evolving client base; and enabling initiatives to further strengthen our business processes. We're actively designing and building profitable, scalable businesses of the future—programs and

technologies focused on solving the big problems that many of our government, commercial, and international clients confront. Our Strategic Innovation Group is helping us nurture a culture of innovation that inspires and empowers our people to identify and deconstruct client problems and develop solutions that create value for our clients and the firm. We're already seeing adjacent and transformational innovation in the areas of cloud computing, advanced analytics, predictive intelligence, and engineering of rapid prototypes.

Technology and engineering have emerged as an especially strong growth platform. With the successful integration of the Defense Systems Engineering and Support Division of ARINC Incorporated, which we renamed Booz Allen Hamilton Engineering Services, our expanded capabilities now include deployment of advanced technological solutions and techniques, scientific exploration, rapid prototyping, full-spectrum engineering, program development, and integration. Additionally, advancements in analytics and predictive intelligence helped us expand our position in the commercial and international markets.

We also began to build the strategic infrastructure to support these platforms. We are deploying multiple business models within Booz Allen that take us beyond traditional consulting. In FY14, we expanded our *Cyber4Sight*<sup>™</sup> managed services offering to include new Global4Sight and Insider4Sight capabilities, developed specialized prototypes for defense and law enforcement clients, and introduced our groundbreaking *Polaris*<sup>™</sup> real-time project analysis software. And the new People Model we rolled out will truly support the diverse needs and skills of our employees and our business. To respond to an increasingly technical market, we created new career paths that include separate tracks for traditional management consulting and for engineering and technology. This model also includes an innovative “functional community” concept that promotes collaboration while enhancing opportunities to develop and deploy valuable intellectual capital. By increasing engagement and retention, we can ensure we have the elite workforce necessary to compete—and excel—as the market evolves.

### A Resilient Enterprise

These investments—combined with disciplined financial management and continued success in such key growth areas as C4ISR, cybersecurity, and healthcare analytics—enabled us to overcome challenging market conditions and reward our investors with solid financial performance.

- Full-year revenue declined 4.9%, to \$5.48 billion, due primarily to fewer billable hours and the impact of the government shutdown.
- Free cash flow was \$311.8 million, compared with \$431.5 million in the prior year.
- Adjusted net income increased to \$241.9 million, from \$239.5 million in the prior year.
- Total backlog stood at \$9.84 billion at March 31, 2014, compared with \$11.54 billion in the prior year.
- Adjusted EBITDA increased by 1% to \$534.0 million.
- We delivered \$2.40 in dividends during FY14, which together with our share price appreciation represented a total return to shareholders of more than 86% over the 12 months ended March 31, 2014.

Our financial discipline served us especially well as we confronted continued sequestration and the government shutdown that occurred in October 2013. By planning ahead and managing resources tightly during the first half of our fiscal year, we fulfilled our commitment to employees in a way that few if any peer institutions could. We believe the funds we expended to continue to employ affected staff through the 16-day shutdown was money very well spent. We also repriced our debt to reduce our interest rates for the remaining term of our credit agreement and completed a secondary stock offering that was

## FINANCIAL HIGHLIGHTS

(In thousands, except per share amounts)

Fiscal year ended March 31:	2014	2013	2012
Revenue	\$ 5,478,693	\$ 5,758,059	\$ 5,859,218
Operating Income	460,611	446,234	387,432
Adjusted Operating Income <sup>(1)</sup>	470,155	467,337	429,219
EBITDA <sup>(1)</sup>	532,938	520,243	462,637
Adjusted EBITDA <sup>(1)</sup>	534,032	528,836	488,060
Net Income	232,188	219,058	239,955
Adjusted Net Income <sup>(1)</sup>	241,946	239,530	227,194
Per Diluted Common Share			
Earnings	\$ 1.54	\$ 1.45	\$ 1.70
Adjusted Earnings <sup>(1)</sup>	\$ 1.63	\$ 1.65	\$ 1.61
At March 31:	2014	2013	2012
Cash Provided by Operating Activities	\$ 332,718	\$ 464,654	\$ 360,046
Free Cash Flow <sup>(1)</sup>	311,813	431,541	283,121
Total Debt	1,658,919	1,715,173	965,425
Total Backlog	9,838,000	11,535,000	10,804,000

(1) These measures are non-GAAP financial measures. Please see page 51 of this report for a reconciliation of these measures to GAAP and a discussion of why the Company is presenting this information.

oversubscribed. We will continue to look for ways to leverage all our firm's resources to grow top-line revenue and generate the bottom-line results our shareholders expect.

### Creating New Opportunity

With Vision 2020, Booz Allen has a solid platform in place to accelerate growth when market conditions improve. Our diverse and energized executive leadership team is working together effectively to evolve our business. Together, we coalesced around the firm's Vision 2020 strategy and are successfully executing it.

We will miss the valuable contributions of several senior executives who announced their retirement earlier this year after distinguished careers at Booz Allen. Among them are Sam Strickland, who has worked by my side to provide valuable counsel and outstanding financial leadership for the last 18 years. He led our IPO and applied his talent, dedication, and core values to help us achieve the financial strength and stability we have today. Also retiring is Mike McConnell, the former Director of National Intelligence, who contributed the deep insights and strong external voice that helped Booz Allen build our market-leading cybersecurity business.

Generations of Booz Allen leaders have committed themselves to passing on a strengthened heritage for our successors, and we are fortunate to have many talented and experienced people who will be able to lead us for a long time to come. These include the Client Service Officers who remain the heart and soul of our business.

### Engineering Second-century Growth

While the 2014 federal budget resolution creates some stability and clarity around how the government will spend its available funds, I'm always mindful of the potential for discontinuity. This is especially true during election cycles, and we are managing our cost posture and spending profile accordingly.

Our relentless focus on client success and our disciplined approach to running our business help us manage this uncertainty with greater confidence. We understand what our business is, what our market is, and what kind of organization we are. Booz Allen is fortunate to have built a strong reputation for being the best at what we do. This track record is especially attractive during challenging times, when clients look to the premier firm to keep its promises and help them meet today's mission and anticipate the future.

The key themes of this letter define the essence of what it takes to secure the future of our firm: investing in innovation and our employees, pursuing the commercial and international markets as we



On January 1, 2014, Chief Operating Officer **Horacio D. Rozanski** (above left) assumed the additional position of President. During his 20-year consulting career at Booz Allen, he has played a key role in major strategic initiatives that have redefined the firm as a Fortune 500 public company. As a key architect of Vision 2020, he is charting the firm's future by leading efforts to renew Booz Allen's culture of innovation; define new business models; and improve productivity, profitability, and service delivery.

**Sam Strickland** (above right), Booz Allen's Chief Financial and Administrative Officer, announced that he will retire from Booz Allen on June 30, 2014, after 18 years of senior leadership. He led the major investment in the firm by The Carlyle Group in 2008, was the officer-in-charge of Booz Allen's successful initial public offering in November 2010, and most recently led the acquisition and integration of what is now Booz Allen Hamilton Engineering Services. His expertise in financial and business operations, information services, and infrastructure helped Booz Allen grow into the \$5 billion-plus enterprise it is today.

remain an essential partner to the US government, developing new capabilities, ensuring leadership continuity, and managing our financial resources prudently. In FY15, we will begin our second century of growth by focusing on three operational priorities. We will continue to implement—and refine our thinking about—both the growth and the infrastructure dimensions of Vision 2020. We will continue to manage the day-to-day business prudently in the face of market turbulence. And we will work to ensure that people across our organization understand where we're going, and feel inspired by the journey we're on. Over the near term, we expect to gain market share in areas where we have identified strategic opportunity, and scale back in other areas that the government is de-emphasizing. By adhering to our clear strategy, we will continue to make a difference for clients around the world and help maintain our financial stability and generate the attractive returns to extend our legacy of success into our second century.

**Ralph W. Shrader, Ph.D.**  
Chairman and Chief Executive Officer  
June 20, 2014

# Performance Highlights



## Opening Bell at NYSE

Booz Allen marked 100 years of character, service, and forward thinking by ringing the opening bell at the New York Stock Exchange. The event kicks off a yearlong celebration that includes sponsorship of exhibits at the National Gallery of Art and the USS Midway Museum.

## US Navy/Naval Air Systems Command (NAVAIR)

Won a five-year, \$52 million order from US Navy/Naval Air Systems Command (NAVAIR) to provide advanced research and development, engineering and technology, and quality and technology management support to the Integrated Communications & Information Systems (ICIS) Division.



## Best Company Awards

Inducted into *Working Mother* magazine's Hall of Fame after 15 consecutive years on the publication's "Working Mother 100 Best Companies" list. Booz Allen was also named to various "best" lists by *Consulting*, *G.I. Jobs*, *DiversityINC*, and *LATINA Style* magazines, among others.

## New People Model

As part of Vision 2020, launched a new People Model that creates new career paths and a continuous feedback mechanism, establishes a Career Center that connects staff to job and training opportunities throughout the firm, and creates an innovative functional communities construct that encourages staff to build relationships across the firm and grow and deepen their functional skills.



## A Passion for Data Science

Published *The Field Guide to Data Science*, an e-book that explores the *what*, the *why*, the *who*, and the *how* of data science. By understanding its complex DNA, senior leaders and practitioners can expand their expertise and learn new tradecraft—the process, tools, and technologies for humans and computers to work together to transform data into insights.



## Honoring America's Veterans

Honored the veteran community throughout the month of November 2013 with a series of events around the country that included a workshop to help veterans translate military experience to civilian employment, a Thanksgiving food drive for military families, and a training session for the Wounded Warrior Mentor Program.

## Reimagining Government Reform

Developed an innovative approach to help clients manage the complexity and uncertainty of large-scale reform. Produced the Reform Playbook, which gives agencies the structure, technical expertise, and inspiration they need to seize the opportunity to reform, and developed the Reform Lifecycle, which deconstructs and reframes reform to identify a repeatable path to success.

## Enhancing Our "Innovation Ecosystem"

The Strategic Innovation Group introduced components of a new ecosystem designed to propel the best ideas generated within the firm into reality. This collection of tools and events creates an environment for staff to habitually generate, capture, prototype, and deploy fresh processes, products, technologies, and services for clients and the firm. One such tool, the Garage, is a virtual platform that uses the concepts of ideation and challenge-based innovation to help staff develop actionable solutions to critical problems. In addition, the annual Ideas Festival celebrated and highlighted the untapped insight and expertise of Booz Allen employees with an event themed "The Next Century of Innovation."



## Cyber University Award

Booz Allen's Cyber University Program was named Outstanding Training Initiative of 2013 by *Training* magazine. The program provides both industry-recognized and internally created proprietary training and development opportunities for Booz Allen employees. It offers an innovative approach to training delivery, including a focus on virtual and informal training, in order to support staff working with cyber clients.

# Fiscal 2014



## Nine Years at Aspen

Sponsored the 2013 Aspen Ideas Festival, during which Booz Allen thought leaders contributed to dialog on such important societal issues as immigration reform, investment of defense dollars, cyber threats, economic opportunity in the Middle East, and the link between health and the affordability of healthcare.

## National Science Foundation Contract

Won a \$159.8 million single-award contract from the Office of Information & Resource Management to provide support for transition and transformation, program and project management services, enterprise services, solution engineering and integration services, and solution operations and maintenance.

## Polaris™ Analysis Software

Booz Allen released *Polaris*, a groundbreaking tool to support a new generation of program analysis by integrating cost, schedule, and risk. Built using Booz Allen's RealTime Analytics Technology, *Polaris* is designed to dramatically reduce the time and resources required to perform sophisticated predictive analysis.

## Smart Command Series

Hosted nearly 100 defense leaders at a panel discussion in which Booz Allen experts discussed how a system-of-systems approach can help the Department of Defense address budget shortages and rapidly put new technologies into the hands of warfighters. The series of four town hall sessions explored the benefits of adopting an enterprise mindset to acquire, develop, and manage technology that is integrated from the start.



## Centennial Community Challenge

Building on the spirit of service that is a cornerstone of the Booz Allen culture, the firm initiated the 2014 Centennial Community Challenge, urging employees to perform 100 hours of service to needy organizations, and setting a firmwide goal of 100,000 hours of service to the communities where we live and work. As of mid-June, employees had recorded more than 48,000 total hours.

## Industry Partnerships

Established a Strategic Alliance program to foster relationships with technology vendors such as Microsoft and Amazon to build lasting value for clients. The firm also began collaborating with Washington, DC-based incubator 1776 to help government and commercial organizations build cultures of innovation and entrepreneurship, create new and distinctive products and services, and provide market access to enable high-promise startups to scale.

## Senior Executive Promoted to President

Effective January 1, 2014, Booz Allen Chief Operating Officer Horacio D. Rozanski assumed the additional position of President. His new responsibilities reflect his success as COO, and his ongoing leadership of the firm's next-generation business strategy.

## Middle East Report

Commissioned an in-depth study with the Economist Intelligence Unit to better understand the challenges posed by the current employment structure and corresponding fiscal realities in Gulf Cooperation Council (GCC) nations. In *Viewpoint on Building a Diversified Economy*, Booz Allen shared recommendations that can start to inform a roadmap by leveraging global best practices adapted for the GCC's unique strengths and opportunities.



## Fortune Magazine Award

For the third consecutive year, Booz Allen was named to *Fortune* magazine's list of "The World's Most Admired Companies." This list reflects industry rankings for nine criteria, from investment value to social responsibility.

# Our Culture of Innovation

Across Booz Allen, we're focusing on our clients' biggest problems, viewing them from diverse perspectives, and applying our unique capabilities to build innovative products and services to address those problems.



*Photo left to right:  
Dr. Chad Haynes, Associate, and  
Dr. Pawel Gradzki, Lead Technologist,  
applied their expertise to support  
ARPA-E investments in new  
energy technologies.*

## New Energy Technologies Redefine America's Energy Future

The US Department of Energy's Advanced Research Projects Agency-Energy (ARPA-E) works exclusively in the "white space" of energy innovation to address our nation's most pressing security, economic, and environmental challenges. Unlike other government-funded research agencies, it focuses on early-stage energy technologies and provides the funding, technical support, and technology-to-market guidance to help energy innovations succeed. Booz Allen has worked with ARPA-E since its inception in 2009. Today, a multidisciplinary team collaborates with ARPA-E's distinguished scientists and engineers to support program development, performance measurement, and creation of intellectual capital.

Booz Allen associates Dr. Chad Haynes and Dr. Pawel Gradzki are supporting portfolios of potentially transformative energy investments at critical make-or-break points in their technology development cycles. Haynes is applying his biofuels expertise to support ARPA-E's investment

in a portfolio of projects that aim to create liquid fuels using microorganism-based approaches. These advanced biofuels would have a smaller carbon footprint to provide a clear environmental advantage over traditional fuels. Currently, Haynes is working with ARPA-E and Booz Allen colleagues to perform techno-economic studies to evaluate the cost effectiveness of this technology.

Gradzki is supporting research to create a smarter, safer, and more reliable electrical power grid. An experienced electrical engineer, he advises research teams working to develop the advanced high-voltage electrical power conversion devices that connect solar panels and wind turbines to the power grid. Wide-band semiconductor devices made with gallium nitride and silicon carbide can switch high voltage faster and more efficiently than traditional silicon devices. Such devices have the potential to lower energy costs, reduce energy consumption, and reduce harmful emissions.



## Next-generation Leaders Help Nonprofit Organizations Excel

Booz Allen people are driven, multidimensional professionals who engage their minds and hearts to serve Booz Allen clients and support the communities where they live and work. In 2012, the firm launched an innovative program that converges leadership development and community service to create a “triple win” for Booz Allen, its next generation of leaders, and select nonprofit organizations. Participants in the Leadership Excellence for Senior Associates Program develop leadership skills through such multifaceted experiences as leadership development residential sessions, leadership diagnostics and assessment tools, network-building activities, and executive coaching. A key component of the program is the Community Leadership Project, which brings together diverse teams of the best and brightest Booz Allen consultants and focuses their talents, expertise, and passion on tackling mission-critical challenges in the nonprofit arena. Each organization reaps the benefit of at least 300 hours of expert consulting services focused on enterprise-level board development or strategic alignment issues.

In 2013, one Leadership Excellence team donated its time and talents to support the Bob Woodruff Foundation. This national nonprofit helps injured veterans and their families navigate more than 40,000 organizations that provide services to them. At a time of tight funding, the foundation needed to capture and articulate the value and impact of its grants in a more systematic and powerful way. The Booz Allen team interviewed grantees, recommended new metrics, and developed an investment evaluation template for all grantees to complete. The team also developed a series of qualitative impact statements the foundation can use with potential donors to highlight its success.



## Functional Communities Unleash Innovative Thinking

Booz Allen’s deep matrix of functional capabilities creates a competitive advantage in addressing client missions. As the firm’s leadership developed the Vision 2020 initiative to drive long-term growth, an enduring priority remained to mature our functional distinction in a way that empowers employees to advance the firm’s collaborative culture. In 2013, Booz Allen launched 16 innovative Functional Communities, each championed by partner sponsors who are experts in their disciplines. By affiliating with one or more of these communities, employees connect with like-minded professionals, grow their professional networks, and develop their functional expertise. Additionally, they look across the firm to discover ideas to apply to their work and develop new intellectual capital (IC) that they can contribute to the culture of innovation critical to the firm’s long-term success.

For example, members of Booz Allen’s Health Functional Community received a \$23,000

investment to show how the Military Health System (MHS) can leverage data science to reduce healthcare costs.

The team built a dataset from simulated MHS and publicly available data, and derived illustrative predictive models of chronic diseases. The models examine stages of disease progression, vulnerable populations, demographic clusters, and epidemiological patterns. The team developed a playbook and data visualization portfolio to demonstrate the power of this capability and has used this new IC in a military health engagement, enabling the client to expand and enhance the analysis it provides on behalf of the military health community.



*Photo left to right: Joel Bales, Lead Associate; Dr. Mike Krentz, Lead Associate; and Dr. Gretchen H. Thompson, Associate, members of a team that showed how data science can reduce healthcare costs.*

## Vision and Innovation

“The firm’s commitment to diversity today unlocks innovation tomorrow and drives market growth in the days ahead.”

— **Rashaad C. Owens**, Consultant

# Integrating Strategy and Technology

In an era of rapid technology changes, we're applying our mission insight to help clients integrate their technologies to connect people, improve decision making, and help drive results.



## Transforming the Vaccine Management Supply Chain

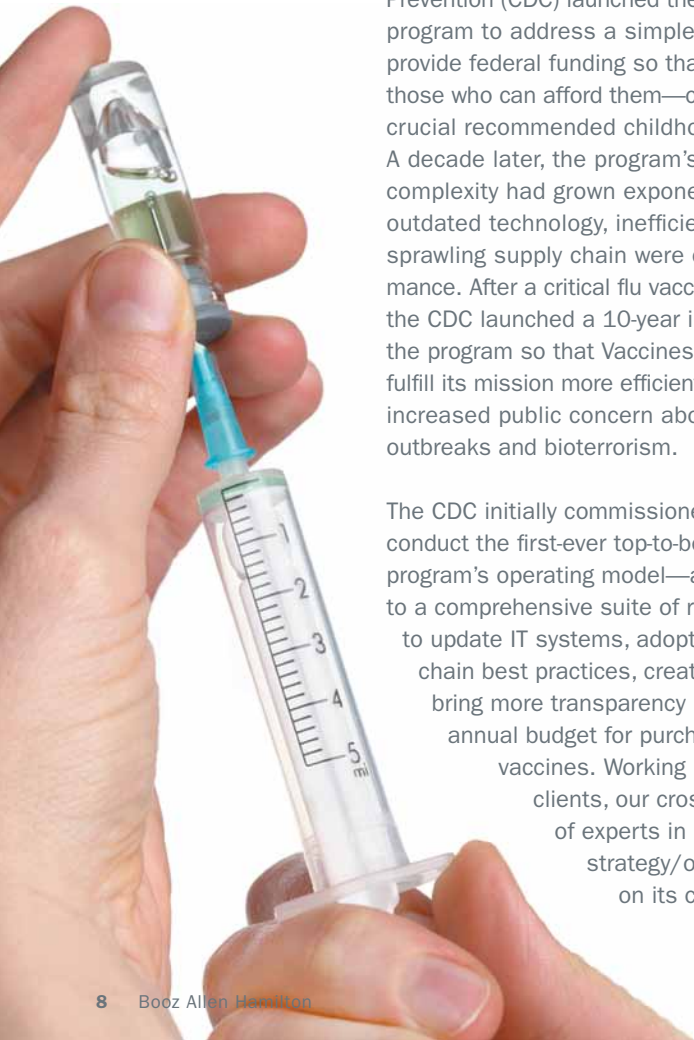
In 1994, the Centers for Disease Control and Prevention (CDC) launched the Vaccines for Children program to address a simple but powerful goal: to provide federal funding so that all children—not just those who can afford them—could have access to crucial recommended childhood immunizations. A decade later, the program's size, cost, and complexity had grown exponentially—and its outdated technology, inefficient processes, and sprawling supply chain were constraining performance. After a critical flu vaccine shortage in 2004, the CDC launched a 10-year initiative to overhaul the program so that Vaccines for Children could fulfill its mission more efficiently and respond to increased public concern about pandemic outbreaks and bioterrorism.

The CDC initially commissioned Booz Allen to conduct the first-ever top-to-bottom review of the program's operating model—a process that led to a comprehensive suite of recommendations to update IT systems, adopt commercial supply chain best practices, create efficiencies, and bring more transparency into the \$3.7 billion annual budget for purchasing and distributing vaccines. Working side by side with our clients, our cross-functional team of experts in IT, analytics, and strategy/organization drew on its collective skills and

experience across health, civil, and defense markets to create and implement the Vaccine Management Business Improvement Project (VMBIP).

As part of this project, Booz Allen supported the CDC with development and deployment of the award-winning Vaccine Tracking System (VTrckS), an innovative, nationwide Web-based IT solution for publicly funded vaccine ordering/forecasting and budget/contract management. As a secure, recoverable system, VTrckS dramatically enhances the CDC's ability to manage the vaccine supply chain in real time, while streamlining manual processes and data entry. With VTrckS deployment, lead time between vaccine orders and shipment to providers was reduced from up to four weeks in 1994 to four business days or less today.

Over the past 10 years, Booz Allen has helped transform the CDC's publicly funded vaccine management model from decentralized inefficiency into a centralized management system that enables better oversight. By catalyzing dramatic improvements in vaccine order tracking, inventory visibility, fiscal/dosage accountability, and safety response capability across the supply chain, VMBIP has driven a dramatic improvement in our nation's ability to prevent, mitigate, and respond to public health crises.





*Photo left to right:  
Heidi Grady, Senior Associate;  
Benjamin Herring, Lead Associate;  
Shannon Wolfe, Associate;  
Linda Wendt, Associate; and  
Donovan Sharkey, Senior Consultant,  
helped the CDC develop the award-  
winning Vaccine Tracking System used  
to manage the vaccine supply chain.*

## Long-term Partnership Enhances Public Health and Safety

Each year, millions of Americans rely on vaccines and other biological products to help heal or prevent a variety of human diseases, conditions, or injuries. But before these products reach physicians and consumers, they must be approved by the Food and Drug Administration's Center for Biologics Evaluation and Research (CBER). As congressional mandates and electronic submission standards evolve, and as clinical genomics-based data expands, the center requires robust IT systems, platforms, and tools to meet its critical regulatory and public health mission.

Over the past 16 years, Booz Allen has partnered with CBER to modernize its IT portfolio and give reviewers the post-market data and advanced analytical capabilities they need to evaluate new biological products and respond quickly to emerging public health threats. Together with CBER, we continue to transform its response capabilities through an updated IT infrastructure and integrated systems. As a result, industry partners can submit applications electronically, reviewers can access industry submissions from an electronic document repository, and analysts can use innovative post-market surveillance tools to monitor product safety.

Our role in supporting the center's shift from paper-based to electronic submissions allows CBER to receive submissions within hours rather than days, making the review cycle more efficient.

In 2014, Booz Allen continues to position CBER as a leader in supporting public safety through regulatory science and IT solutions. These include accepting vaccine adverse event submissions in the HL7 international data standards format, using genomics data to detect adverse events, and designing text mining tools to enhance adverse event surveillance. We've also engaged our Strategic Innovation Group and functional experts to apply a broad range of expertise, including business process improvement, IT modernization, and big data analytics. We look forward to continuing our long-term partnership with CBER to provide innovative and efficient IT solutions to shape the organization's future.





*Photo left to right:  
Terence E. Mandable, Principal;  
Beth Kanter-Leibowitz, Senior Associate;  
Parisa Hashmani, Lead Associate;  
Sean McDonald, Senior Associate;  
Danielle Germain, Senior Associate*

## **“IT Mod” Boosts Workforce Performance and Improves Customer Service**

With 17,000 employees and 26 mission agencies, the US Department of Labor (DOL) faced a daunting challenge when federal mandates and internal initiatives drove the department to consolidate its information technology functions and dramatically improve IT services. When DOL launched its new IT Modernization Program in 2010, it needed a partner to identify evolving needs and motivate the entire organization to embrace large-scale change. DOL also required broader support that included IT strategy, organizational change management, acquisition strategy, and project management. Booz Allen deployed the subject matter experts necessary to build early momentum, keep the program on track, and serve the needs of internal customers.

At the outset, Booz Allen worked with DOL leadership to understand its stakeholders' IT needs, perceptions, and readiness for change. Through a nationwide listening tour reaching 676 and an online survey capturing 5,895 responses, the team identified immediate opportunities to increase e-mail storage, improve remote access and mobility, support online collaboration and information sharing, and adopt innovative tools. These efforts addressed challenges with collaboration across a dispersed workforce. Our teams then worked with the CIO

to design and articulate a vision for DOL's IT infrastructure that promotes a culture of innovation and brings technology innovation to customer service management.

In 2014, Booz Allen supported DOL as it prepared to consolidate IT infrastructure owned and operated by nine mission agencies into a single integrated system. We helped redesign the operating structure of the Office of the Chief Information Officer to effectively serve a customer base that has grown eightfold since 2010. Specifically, we helped establish a new governance structure, a new customer advocacy office, and new cost management processes. We are also removing barriers to collaboration among agencies and supporting the acquisition and implementation of new business productivity tools that include a cloud-based e-mail system, a Salesforce.com customer relationship management platform, a remote access capability, and a shared environment for common data sources. The cloud-based e-mail system using Microsoft Office 365 provides 400 times the storage space and a suite of collaboration tools to boost performance across DOL by transforming the way staff collaborate and communicate.

# Enterprise Integration Increases Mission Effectiveness

The pace and complexity of military threats continue to increase, even in today's fiscally constrained environment. And to fulfill their missions, warfighters require new sensors, networks, and other C4ISR (command, control, communications, computers, intelligence, surveillance, and reconnaissance) capabilities. To reliably deliver accurate, comprehensive, valuable information, these C4ISR solutions need to work together as a synchronized, fully interoperable family of systems across an "enterprise of enterprises."

Booz Allen is working across Joint Command and Control (JC2) and the Distributed Common Ground System (DCGS) enterprise, along with other C4ISR military programs of record, to integrate this family of systems. We are developing an enterprise blueprint that clearly identifies inter-system interfaces and defines standards at these interfaces that encourage organizations to "bake in" interoperability. By following enterprise blueprints, defense agencies can develop, deliver, and integrate their mission architectures more efficiently, effectively, and securely. The result: agile enterprises that reduce operating costs, increase mission capabilities, and



facilitate ongoing mission support. Agencies can reuse existing enterprise services, implement commoditized core components, and incorporate commercially developed information technology and computing advances. We are working with the Department of Defense to adopt digital technologies such as cloud computing, big data analytics, and application stores.

*Warfighters today rely on an integrated family of systems to access the battle-ready information they need to complete increasingly complex missions. Booz Allen is developing enterprise blueprints that help the Department of Defense reduce operating costs, accommodate new technologies, and expand mission capabilities.*

True interoperability enables the next major C4ISR transformation—making data, services, and capabilities ubiquitous. By converging existing systems into an integrated framework that can easily accommodate new technologies, analysts will be able to extract more information from current C4ISR assets and derive more value from the data, so warfighters have instant access to battle-ready information.



## Vision and Innovation

**"Innovation empowers us and enables us as a team to find strong solutions to difficult problems."**

**— Shradha Basnyat, Consultant**

# Enhancing Analytics and Network Security

We're applying next-generation technologies to help clients derive greater value from their data, automate business processes, and navigate cyberspace with trusted and secure networks.



## Cloud-based Solution Saves US and Coalition Lives

Globally deployed conventional and Special Operations forces require advanced analytical methodologies and tools to protect them from increasingly complex improvised explosive device (IED) networks. In 2010, the Joint IED Defeat Organization (JIEDDO) needed to transform its Attack the Network (AtN) line of operation to achieve greater scale, efficiency, and analytic power. This critical mission would require close contact with downrange mission owners, breakthrough analytical tools and capabilities, and a cost-effective new mission architecture that could push the technology envelope while supporting current and future solutions. More than 300 Booz Allen experts developed, facilitated government accreditation of, and integrated an end-to-end IT solution to help the Counter-IED Operations/Intelligence Integration Center (COIC) enable more precise attacks to defeat IED networks across all geographic combatant commands.

To understand evolving enemy tactics, techniques, and procedures, a team of skilled Booz Allen analysts, technologists, and domain experts identified the exposed elements of enemy terrorist networks (e.g., enemy actors, potential operating areas/locations). They defined new analytic methods, developed innovative software solutions,

and delivered IT infrastructure enhancements that would provide decision advantage and arm deployed forces with timely access to the information needed to effectively target enemy actors. A second team turned these recommendations into new AtN capabilities that could support the COIC's global user base. The team created 12 new mission applications that provide analysts with unparalleled access to intelligence data feeds and advanced data-mining and analysis techniques, so they can make better recommendations and more quickly inform battlefield commanders and their forces of imminent threats.

To support this critical mission on a global scale, Booz Allen upgraded the existing mission architecture to a new cloud-based solution. Leveraging internal Booz Allen investments in developing cloud-based services for the US government, the team designed, developed, tested, accredited, and successfully fielded Catapult, a state-of-the-art cloud architecture. Catapult handles all data storage, processing, and advanced analytics while also reducing annual costs by \$1.65 million. The team continues to provide global, 24/7 on-site support for the JIEDDO's mission architecture across 23 partner sites.

Photo left to right:  
Sherri Romero Farrell, Senior Associate;  
David Marshalonis, Senior Lead Technologist;  
Gilbert Cortez, Senior Consultant;  
Amita Russell, Associate; and  
Seth Watson, Lead Technologist, helped  
the Joint IED Defeat Organization transform  
its Attack the Network line of operation.



## Threat Intelligence Blueprints Keep Corporations Ahead of Cyber Adversaries

In 2013, well-publicized data breaches cost corporations and financial services organizations hundreds of millions in aggregate losses and fines—along with reputational damage that threatened to erode market value overnight. These breaches sent executives and IT teams scrambling to diagnose the incident; find the right technology to mitigate enterprise risks; and navigate the complex web of legal, business process, internal policy, and strategic communications issues that required urgent attention. As the frequency and complexity of cyber attacks continue to increase, corporate boards are embracing threat intelligence and incident response services to proactively defend their enterprises from cyber threats—and respond quickly and effectively to control the damage when breaches occur.

To address this market need, Booz Allen has developed detailed cyber capability blueprints that help organizations identify, protect, and control their most sensitive information assets. Drawing on its in-depth knowledge of business processes, advanced analytics, and cyber technologies, Booz Allen offers corporate boards and C-level executives comprehensive roadmaps for building

high-grade cybersecurity programs tailored to each organization's real-world needs.

For example, the Data-Centric Protection Services blueprint offers a framework of proven practices that boost capabilities and reduce development time and expense. Booz Allen can identify and articulate all people, process, and technology requirements; implement dynamic data masking or data modification technologies to enhance data security and system performance; assess data loss risks; and rapidly deploy teams and technologies to eradicate a malicious presence and maintain the integrity of business operations.



Even the best risk management strategy may not protect information assets from cyber breaches. But in today's environment, a proactive data-centric protection program combined with a deliberate, organized response capability can help protect valuable assets and personal information—and help maintain public trust.



## Cloud-based Technology Brings Social Collaboration to the Workplace

Photo left to right:  
Ben Marglin, Principal;  
Juli Dixon, Lead Associate;  
Ryan Bolchoz, Senior Associate;  
Charles Carriker, Lead Associate;  
Katherine Kravchonok, Lead Associate;  
David Rubens, Lead Associate

As the federal agency responsible for government acquisitions and real estate, the General Services Administration (GSA) operates as a distributed workforce spread across 11 regions. When its Office of the Chief Information Officer (OCIO) launched a groundbreaking initiative to migrate its technology platforms to the cloud in 2011, the GSA took on the federal government's largest implementation of a cloud-based social collaboration and business applications platform to date. While the GSA understood the importance of the technology infrastructure itself, it quickly realized that only disciplined management of the migration process would engender the wide acceptance and adoption necessary to meet key business transformation and cost savings targets.

A cross-functional Booz Allen team has provided the comprehensive support required to modernize the GSA's technology portfolio to sustain a contemporary workplace. For example, the team managed the successful deployment of a hybrid enterprise-wide cloud conferencing solution in 2011 before migrating the GSA to a fully cloud-based solution in 2014 that offers next-generation collaboration through virtual screen sharing and whiteboard technology.

Booz Allen also helped the agency's workforce adopt its new Salesforce.com Chatter collaboration platform, increasing business process efficiency

and improving virtual collaboration on projects and cross-agency initiatives. Employees have started using Chatter to locate experts within the agency, identify colleagues working on similar projects, and employ lessons learned from across the agency. The Booz Allen team helped manage and moderate the Great Ideas Hunt ideation campaign, which enabled the GSA to harness the intelligence of its greatest resource—its people—to crowdsource solutions to GSA-specific business problems. Implementation of five of the ideas generated \$5.5 million in savings.

Today, the agency leverages its shared cloud architecture and data sets to lower operating costs. This best-of-breed software-as-a-service approach improved customer satisfaction while empowering the agency to deploy new capabilities in days or weeks. The success of this innovative effort has been broadly acknowledged outside of the agency. Based on the multiyear "Drive to the Cloud" initiative, *InformationWeek* selected the GSA as one of the Top-10 government innovators of 2013. The initiative also received the 2013 "Excellence in Innovation: Digital Government" award at the 12th annual ACT-IAC Excellence.gov Awards. Most recently, the GSA was ranked 12th among the 2014 *InformationWeek* Elite 100 for its multiyear strategy to move the agency to the cloud.





## Security Framework Keeps Oil Flowing in the Middle East

Oil represents a large majority of Abu Dhabi's gross domestic product, and protecting this natural resource is critical to the sustained well-being and prosperity of the United Arab Emirates. In a recent survey conducted by Gulf Business Machines, 45 percent of all Gulf Cooperation Council IT professionals admitted that IT security incidents had in some way impacted their operations in the 12 months before September 2013; however, the extent of these impacts was never fully publicized. When several Gulf Cooperation Council (GCC) oil and gas producers were subjected to a series of highly publicized cyber attacks, the Abu Dhabi Company for Onshore Oil Operations (ADCO) took a proactive position in managing its risk exposure to cyber threats. Needing an understanding of risk exposure within the critical production environment, and a roadmap to drive a strategic cybersecurity agenda, ADCO engaged Booz Allen to perform this analysis and to create a blueprint to consolidate security across its field production environment and create an innovative enterprise security program, with the goal of achieving compliance with the ISO 27001 standard.

Reaching across its US and international resources, Booz Allen assembled a cross-functional team of

subject matter experts in cybersecurity, forensic analysis, mission assurance, and strategy. To establish a security baseline, the team reviewed security documentation and completed in-depth assessments of governance/risk management structures, organization and people, operations and technical controls, and the key processes that connect them. The team then created the framework for a single information security management system that creates risk transparency across the organization and establishes a shared security agenda. It also recommended specific changes to network architecture to enable enterprise-wide cyber risk management, and deployed a dynamic proprietary tool that manages risk across multiple field sites and tracks implementation of the cybersecurity roadmap and all associated action plans.

ADCO's new system is generating significant business value. The new framework helps identify and prioritize security requirements so executives can make good business decisions and maximize business investments. Achieving ISO 27001 certification will cultivate the trust and confidence of stakeholders. And the company's new management system combined with increased training and awareness has measurably reduced ADCO's risk exposure in today's highly dynamic cyber threat environment.

*Oil and gas companies in the Middle East need proactive strategies to protect themselves from cyber attacks. "ADCO always looks for partners, not just vendors," says Reimer Brouwer, head of IT security for ADCO. "Booz Allen truly understood our core operations and the specific role of cybersecurity within the oil and gas industry. Through excellent knowledge transfer, they helped us empower our security team and prepared us for future cyber challenges."*



## Vision and Innovation

**"Excellence is achieved through a commitment to innovation, empowered by diversity in thought and the strength to take action."**

— **Jeni Fan**, Lead Associate

# Engineering Products and Solutions

From rapid prototyping to acquisitions and program management, we extend our enhanced engineering and operations capabilities across entire program life cycles to help deliver mission-critical programs on time and on budget.



## Mesh Technology Sets New Performance Standard for Wireless Communications

For more than a decade, US Army Logistics relied on Radio Frequency Identification (RFID) tracking technology to collect location data on vehicles, containers, and other assets. But this technology presented critical limitations in global scalability, wireless coverage range, battery power, performance data collection, and network security. The US Army Logistics Innovation Agency needed a new paradigm that could deliver near-real-time global tracking, in-transit asset visibility, and the ability to extend tracking below the distribution platform level and into the business process.

To support this mission, a Booz Allen team evaluated wireless mesh network solutions available in the marketplace and determined that only a custom wireless mesh network protocol could satisfy the unique challenges of military logistics. The team developed the protocol based on a current industry standard and built in significant advances in power reduction, security, and scalability. It then developed and demonstrated multiple applications and devices and tested them in real-world operational environments.

Today, US Army Logistics is achieving greater efficiency through the Next Generation Wireless

Communications (NGWC) mesh network. This significant breakthrough in low-power mesh networking greatly improves the richness and timeliness of data used to locate and maintain assets. This cost-effective solution increases tracking range by enabling devices not in range of a transponder to communicate by relaying messages through other mesh devices. The mesh technology can also transport data collected from remote sensor applications, so logistics personnel can monitor transporting vehicle status and read diagnostics such as mileage, engine hours, fault codes, fuel level, and position. Other sensor applications include physical security (intrusion), bridge stress, power distribution/generation, and personnel monitoring. A key benefit is the security of the mesh and the low probability of interception, because data is encrypted in transport and at rest, and radio transmissions are spread across the spectrum and hop among channels.

The NGWC mesh technology is transforming multiple aspects of the logistics environment and paving the way for ubiquitous applications across many aspects of life. Mesh technology promises to make many applications currently performed by human operators less costly and more accurate.



Photo left to right:  
Todd Hayward, Senior Principal Engineer;  
Kevin Cybert, Chief Engineer;  
Susan Lewis, Senior Consultant;  
Dan Caughran, Staff Engineer; and  
Jim Potter, Chief Engineer,  
developed the mesh technology  
used to collect and transmit  
data on military vehicles.

## Engineering Solutions Deliver Mission Insight and Technical Expertise

To stay ahead of adversaries and mission challenges, security, defense, and civil clients require highly sophisticated engineered solutions that span the entire product life cycle—from computer-aided design and prototype development to production, training, and implementation support. At a time when the pace of emerging threats continues to accelerate, clients must act quickly to give users and operators the immediate solutions they need to keep their missions on track.

With the 2012 formation of Booz Allen Hamilton Engineering Services, Booz Allen now offers a distinctive blend of consulting and mission support backed by enhanced engineering capabilities. Today, thousands of professionals with expertise in rapid prototyping, systems engineering and integration, C4ISR (command, control, communications, computers, intelligence, surveillance, and reconnaissance), and applied sciences are working at the intersection of science and innovation to address a broad range of engineering challenges. Many work on-site in more than 35 Department of Defense secure facilities around the country. Others work in Booz Allen's five laboratory facilities that support research, development, prototyping, testing, and manufacturing in such areas as biometric and forensic development and engineering; signal

processing; rapid technology development and fielding; and systems engineering and integration, fabrication, and assembly.

Booz Allen engineers draw on expertise gained from working closely with government clients in virtually every department and agency. They also follow proven, efficient, standard processes; use professional tools and infrastructure; and execute under disciplined governance. In the defense arena, engineers are focused on C4ISR systems, developing and integrating sensors, radios, and networks that help identify and counter emerging threats that include radio-controlled improvised explosive devices and weapons of mass destruction. In the rapid prototyping area, Booz Allen activities include the reverse engineering, design modification, and limited production of improved capabilities for aircraft, ground vehicles, and deployable facilities. And in the biometrics arena, Booz Allen has introduced *OBSERVE™*—or Obfuscated Search Retrieval and Verification for face recognition—a remote facial recognition tool that specializes in identifying subjects in disguise, in poor lighting, or with partially obstructed faces.



*Booz Allen Hamilton Engineering Services provides support to the Prototype Integration Facility at Redstone Arsenal in Huntsville, Alabama, delivering engineering and manufacturing solutions that keep aircraft current and operationally ready.*

## Tactical Systems Support Intelligence Mission in Afghanistan

The US Air Force MC-12 serves as eyes and ears in the skies over Afghanistan, creating tactical advantage by giving ground combat forces real-time decision-making capability. Operators of this specially equipped high-performance intelligence, surveillance, and reconnaissance (ISR) aircraft require highly technical tactical training to achieve precise effectiveness. Faced with funding, manpower, and resource constraints, the Air Force ISR Agency required a system to simulate aircraft flight operations and sophisticated on-board tactical systems operator (TSO) intelligence systems, and to emulate a realistic signal environment for mission training and rehearsal operations. In April 2013, the agency turned to Booz Allen to design and develop a tactical systems emulator prototype to create a dynamic and realistic training environment that can be readily adapted to new adversary communication technologies and worldwide mission requirements.

To drive the emulator, Booz Allen rapidly engineered a prototype of the Mobile Network Optimization in Discrete-Time Environment (MobiNODE) tool in just six months. This real-time radio frequency simulation engine accurately predicts the performance of signal parameters at multiple layers relative to specific

technology networks. It also employs radio frequency refraction and reflection models to emulate signal loss with terrain, and incorporates antenna directional gain calculations. The team also developed a hybrid integration and visualization engine (HIVE) and the BlueMax flight simulator, and tied these components with MobiNODE to emulate the MC-12's TSO operating system, adversary technologies, and physical environment. With the success of this prototype, Booz Allen is now engaged in full development of the emulator, which includes integrating the newest radio frequency modeling and networks.

In partnership with the Air Force ISR Agency, Booz Allen operational and training experts have also completed multiple in-flight instruction missions focused on MC-12 TSO crewmembers deploying for combat operations since 2009. More than 900 personnel across all Department of Defense services from 30 units and nine different commands have completed certification with a pass rate of 99 percent. These operators have flown more than 60,000 combat sorties leading to the kill or capture of multiple terrorists across all Combatant Command regions.



*Photo left to right:  
Hosame Abu-Amara, Lead Engineer;  
Paul Cummings, Lead Associate;  
Matthew Carrell, Staff Technologist;  
Kevin Legett, Senior Associate;  
Karen Huntsberger, Associate*

# Directed Energy Technology Supports Peacekeeping Missions



*With Booz Allen's engineering support, the Naval Surface Warfare Center is developing prototypes of directed energy weapon systems like the Navy's Laser Weapon System.*

In peacekeeping missions and urban conflicts, restrictive rules of engagement limit the use of traditional kinetic weapons. To give warfighters the unique capabilities they need, the US Navy's chief of operations is investing in new research projects that explore the potential of directed energy weapon systems. This technology uses light or electromagnetic energy to engage and defeat targets without touching them—and often without physically destroying them.

The Naval Surface Warfare Center, Dahlgren Division (NSWCDD) has positioned itself at the forefront of electronic attack, leading the way in cutting-edge directed energy research, development, testing, and evaluation. Booz Allen is collaborating with NSWCDD scientists and engineers to develop prototype systems in a number of areas. One such system is the Navy's Laser Weapon System, which will incorporate currently available industrial laser technology into a future naval weapon system. Starting with the project's inception in 2007, Booz Allen has contributed to research, development, systems engineering, testing, evaluation, project planning, and stakeholder engagement.

*A demonstration of the Pre-emplaced Electric Vehicle Stopper, which uses electrical impulses to disable a vehicle's engine without harming passengers. Booz Allen provided technology development and testing support.*

The emergence of nontraditional warfare has also increased demand for research in support of high-power microwave weapons for electronic attacks. Booz Allen is also supporting the NSWCDD in research to develop new non-kinetic devices and weapon systems that radiate electromagnetic energy in the radio frequency or microwave spectrums. These nonlethal weapons are explicitly designed to disrupt personnel or materiel while minimizing undesired damage. High-power electromagnetic waves move through the air, penetrate exterior structures of small vessels and motorized vehicles, and stop them by interfering with critical electronic components, software, and processes.



## Vision and Innovation

“Innovation is not easy—it takes a focused, concerted effort to develop new insights and products. But it is essential for success in an increasingly complex and competitive world.”

— **Mark B. Alter**, Senior Associate

# Booz Allen Hamilton Leadership



*From left to right:*

**Ralph W. Shrader**  
Chairman and  
Chief Executive Officer

**Horacio D. Rozanski**  
President and  
Chief Operating Officer

**Samuel R. Strickland**  
Chief Financial Officer and  
Chief Administrative Officer

## Board of Directors

**Ralph W. Shrader**  
Chairman and Chief Executive Officer  
Booz Allen Hamilton

**Joan Lordi C. Amble**

**Peter Clare**  
The Carlyle Group

**Ian Fujiyama**  
The Carlyle Group

**Mark Gaumont**

**Allan M. Holt**  
The Carlyle Group

**Arthur E. Johnson**

**Philip A. Odeen**

**Charles O. Rossotti**

**Samuel R. Strickland**  
Booz Allen Hamilton

## Executive Management Committee

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**Karen M. Dahut**

**Lloyd W. Howell, Jr.**

**Nancy Laben**

**Joseph Logue**

**John D. Mayer**

**John M. (Mike) McConnell**

**Horacio D. Rozanski**

**Samuel R. Strickland**

**Elizabeth Thompson**

**Richard J. Wilhelm**

## Report of Independent Registered Public Accounting Firm

### **The Board of Directors and Shareholders of Booz Allen Hamilton Holding Corporation**

We have audited the accompanying consolidated balance sheets of Booz Allen Hamilton Holding Corporation as of March 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Booz Allen Hamilton Holding Corporation at March 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Booz Allen Hamilton Holding Corporation's internal control over financial reporting as of March 31, 2014, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated May 22, 2014 expressed an unqualified opinion thereon.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

McLean, Virginia  
May 22, 2014

## Consolidated Balance Sheets

(Amounts in thousands, except share and per share data)

March 31,	2014	2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 259,994	\$ 350,384
Accounts receivable, net of allowance	916,737	1,029,586
Deferred income taxes	29,687	—
Prepaid expenses and other current assets	49,559	44,382
Total current assets	1,255,977	1,424,352
Property and equipment, net of accumulated depreciation	129,427	166,570
Deferred income taxes	—	10,032
Intangible assets, net of accumulated amortization	220,887	236,220
Goodwill	1,273,789	1,277,369
Other long-term assets	60,738	62,985
Total assets	\$2,940,818	\$3,177,528
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Current portion of long-term debt	\$ 73,688	\$ 55,562
Accounts payable and other accrued expenses	488,807	451,065
Accrued compensation and benefits	331,440	385,433
Deferred income taxes	—	10,286
Other current liabilities	23,169	62,300
Total current liabilities	917,104	964,646
Long-term debt, net of current portion	1,585,231	1,659,611
Income tax reserve	57,406	57,018
Deferred income taxes	8,231	—
Other long-term liabilities	201,210	269,460
Total liabilities	2,769,182	2,950,735
Commitments and contingencies (Note 20)		
Stockholders' equity:		
Common stock, Class A – \$0.01 par value – authorized, 600,000,000 shares; issued, 143,962,073 shares at March 31, 2014 and 136,457,444 shares at March 31, 2013; outstanding, 143,352,448 shares at March 31, 2014 and 136,051,601 shares at March 31, 2013	1,440	1,364
Non-voting common stock, Class B – \$0.01 par value – authorized, 16,000,000 shares; issued and outstanding, 582,080 shares at March 31, 2014 and 1,451,600 shares at March 31, 2013	6	15
Restricted common stock, Class C – \$0.01 par value – authorized, 5,000,000 shares; issued and outstanding, 935,871 shares at March 31, 2014 and 1,224,319 shares at March 31, 2013	9	12
Special voting common stock, Class E – \$0.003 par value – authorized, 25,000,000 shares; issued and outstanding, 4,424,814 shares at March 31, 2014 and 7,478,522 shares at March 31, 2013	13	22
Treasury stock, at cost – 609,625 shares at March 31, 2014 and 405,843 shares at March 31, 2013	(10,153)	(6,444)
Additional paid-in capital	144,269	120,836
Retained earnings	42,688	124,775
Accumulated other comprehensive loss	(6,636)	(13,787)
Total stockholders' equity	171,636	226,793
Total liabilities and stockholders' equity	\$2,940,818	\$3,177,528

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



## Consolidated Statements of Operations

(Amounts in thousands, except per share data)

Fiscal Year Ended March 31,	2014	2013	2012
Revenue	<b>\$5,478,693</b>	\$5,758,059	\$5,859,218
Operating costs and expenses:			
Cost of revenue	<b>2,716,113</b>	2,871,240	2,934,378
Billable expenses	<b>1,487,115</b>	1,532,590	1,542,822
General and administrative expenses	<b>742,527</b>	833,986	903,721
Depreciation and amortization	<b>72,327</b>	74,009	75,205
Restructuring charge	<b>—</b>	—	15,660
Total operating costs and expenses	<b>5,018,082</b>	5,311,825	5,471,786
Operating income	<b>460,611</b>	446,234	387,432
Interest expense	<b>(78,030)</b>	(70,284)	(48,078)
Other, net	<b>(1,794)</b>	(7,639)	4,520
Income before income taxes	<b>380,787</b>	368,311	343,874
Income tax expense	<b>148,599</b>	149,253	103,919
Net income	<b>\$ 232,188</b>	\$ 219,058	\$ 239,955
Earnings per common share (Note 3):			
Basic	<b>\$ 1.62</b>	\$ 1.56	\$ 1.83
Diluted	<b>\$ 1.54</b>	\$ 1.45	\$ 1.70

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

## Consolidated Statements of Comprehensive Income

(Amounts in thousands)

Fiscal Year Ended March 31,	2014	2013	2012
Net income	<b>\$232,188</b>	\$219,058	\$239,955
Change in postretirement plan costs, net of tax	<b>7,151</b>	(5,072)	(3,262)
Comprehensive income	<b>\$239,339</b>	\$213,986	\$236,693

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

## Consolidated Statements of Cash Flows

(Amounts in thousands)

Fiscal Year Ended March 31,

	2014	2013	2012
<b>Cash flows from operating activities</b>			
Net income	\$ 232,188	\$ 219,058	\$239,955
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	72,327	74,009	75,205
Stock-based compensation expense	20,065	24,841	31,263
Deferred income taxes	(26,371)	(48,088)	74,785
Excess tax benefits from the exercise of stock options	(38,185)	(26,860)	(16,461)
Amortization of debt issuance costs and loss on extinguishment	11,682	17,224	5,880
Losses on dispositions and impairments	1,024	1,106	376
Gain on sales of businesses	—	(254)	(4,082)
Changes in assets and liabilities:			
Accounts receivable	110,308	125,125	25,275
Income taxes receivable / payable	(1,903)	104,877	(31,832)
Prepaid expenses and other current assets	(5,923)	10,006	7,622
Other long-term assets	(4,773)	2,723	(6,250)
Accrued compensation and benefits	(72,881)	(26,832)	(35,287)
Accounts payable and other accrued expenses	39,178	(23,760)	35,390
Accrued interest	—	(3,563)	(11,801)
Income tax reserves	388	1,736	(35,192)
Other current liabilities	(1,090)	11,367	(2,373)
Other long-term liabilities	(3,316)	1,939	7,573
Net cash provided by operating activities	332,718	464,654	360,046
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	(20,905)	(33,113)	(76,925)
Cash paid for business acquisitions, net of cash acquired	3,563	(157,964)	—
Proceeds from sales of businesses	—	625	23,332
Escrow receipts	3,786	—	—
Net cash used in investing activities	(13,556)	(190,452)	(53,593)
<b>Cash flows from financing activities</b>			
Net proceeds from issuance of common stock	5,078	6,373	8,757
Stock option exercises	14,620	14,977	7,349
Excess tax benefits from the exercise of stock options	38,185	26,860	16,461
Repurchases of common stock	(3,709)	(1,067)	(5,377)
Cash dividends paid	(345,802)	(1,122,457)	(11,906)
Dividend equivalents paid to option holders	(56,138)	(49,765)	—
Debt issuance costs	(6,223)	(29,607)	—
Repayment of debt	(355,563)	(993,250)	(30,000)
Proceeds from debt issuance	300,000	1,739,750	—
Net cash used in financing activities	(409,552)	(408,186)	(14,716)
Net (decrease) increase in cash and cash equivalents	(90,390)	(133,984)	291,737
Cash and cash equivalents—beginning of year	350,384	484,368	192,631
Cash and cash equivalents—end of year	\$ 259,994	\$ 350,384	\$484,368
<b>Supplemental disclosures of cash flow information</b>			
Cash paid during the period for:			
Interest	\$ 61,050	\$ 58,847	\$ 53,993
Income taxes	\$ 178,411	\$ 90,146	\$ 89,314

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

## Consolidated Statements of Stockholders' Equity

(Amounts in thousands, except share data)	Class A Common Stock		Class B Non-Voting Common Stock		Class C Restricted Common Stock		Class E Special Voting Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
<b>Balance at March 31, 2011</b>	122,784,835	\$1,227	3,053,130	\$ 31	2,028,270	\$20	12,348,860	\$37	0	\$ -	\$ 840,058	\$ 71,330	\$ (5,453)	\$ 907,250
Issuance of common stock	1,080,245	11	0	-	0	-	0	-	0	-	8,749	-	-	8,760
Stock options exercised	3,799,989	38	0	-	0	-	(2,208,793)	(7)	0	-	7,315	-	-	7,346
Excess tax benefits from the exercise of stock options	0	-	0	-	0	-	0	-	0	-	16,461	-	-	16,461
Share exchange	1,061,255	11	(566,005)	(6)	(495,250)	(5)	0	-	0	-	-	-	-	-
Repurchase of common stock	0	-	0	-	0	-	0	-	(333,775)	(5,377)	-	-	-	(5,377)
Recognition of liability related to future stock option exercises	0	-	0	-	0	-	0	-	0	-	(5,305)	-	-	(5,305)
Net income	0	-	0	-	0	-	0	-	0	-	-	239,955	-	239,955
Change in postretirement plan costs, net of tax	0	-	0	-	0	-	0	-	0	-	-	-	(3,262)	(3,262)
Comprehensive income														236,693
Dividends paid	0	-	0	-	0	-	0	-	0	-	-	(11,906)	-	(11,906)
Stock-based compensa- tion expense	0	-	0	-	0	-	0	-	0	-	31,263	-	-	31,263
<b>Balance at March 31, 2012</b>	128,726,324	\$1,287	2,487,125	\$ 25	1,533,020	\$15	10,140,067	\$30	(333,775)	\$ (5,377)	\$ 898,541	\$ 299,379	\$ (8,715)	\$ 1,185,185
Issuance of common stock	1,182,004	12	0	-	0	-	0	-	0	-	6,361	-	-	6,373
Stock options exercised	5,204,890	52	0	-	0	-	(2,661,545)	(8)	0	-	14,933	-	-	14,977
Excess tax benefits from the exercise of stock options	0	-	0	-	0	-	0	-	0	-	26,860	-	-	26,860
Share exchange	1,344,226	13	(1,035,525)	(10)	(308,701)	(3)	0	-	0	-	-	-	-	-
Repurchase of common stock	0	-	0	-	0	-	0	-	(72,068)	(1,067)	-	-	-	(1,067)
Recognition of liability related to future stock option exercises (Note 17)	0	-	0	-	0	-	0	-	0	-	(121,905)	-	-	(121,905)
Net income	0	-	0	-	0	-	0	-	0	-	-	219,058	-	219,058
Change in postretirement plan costs, net of tax	0	-	0	-	0	-	0	-	0	-	-	-	(5,072)	(5,072)
Comprehensive income														213,986
Dividends paid (Note 16)	0	-	0	-	0	-	0	-	0	-	(728,795)	(393,662)	-	(1,122,457)
Stock-based compensation expense	0	-	0	-	0	-	0	-	0	-	24,841	-	-	24,841
<b>Balance at March 31, 2013</b>	136,457,444	\$1,364	1,451,600	\$ 15	1,224,319	\$12	7,478,522	\$22	(405,843)	\$ (6,444)	\$ 120,836	\$ 124,775	\$ (13,787)	\$ 226,793
Issuance of common stock	1,047,160	10	0	-	0	-	0	-	0	-	5,068	-	-	5,078
Stock options exercised	5,299,501	54	0	-	0	-	(3,053,708)	(9)	0	-	14,575	-	-	14,620
Excess tax benefits from the exercise of stock options	0	-	0	-	0	-	0	-	0	-	38,185	-	-	38,185
Share exchange	1,157,968	12	(869,520)	(9)	(288,448)	(3)	0	-	0	-	-	-	-	-
Repurchase of common stock	0	-	0	-	0	-	0	-	(203,782)	(3,709)	-	-	-	(3,709)
Recognition of liability related to future stock option exercises (Note 17)	0	-	0	-	0	-	0	-	0	-	(22,933)	-	-	(22,933)
Net income	0	-	0	-	0	-	0	-	0	-	-	232,188	-	232,188
Change in postretirement plan costs, net of tax	0	-	0	-	0	-	0	-	0	-	-	-	7,151	7,151
Comprehensive income														239,339
Dividends paid (Note 16)	0	-	0	-	0	-	0	-	0	-	(31,527)	(314,275)	-	(345,802)
Stock-based compensation expense	0	-	0	-	0	-	0	-	0	-	20,065	-	-	20,065
<b>Balance at March 31, 2014</b>	143,962,073	\$1,440	582,080	\$ 6	935,871	\$ 9	4,424,814	\$13	(609,625)	\$ (10,153)	\$ 144,269	\$ 42,688	\$ (6,636)	\$ 171,636

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

# Notes to Consolidated Financial Statements

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

## 1. Business Overview

### OUR BUSINESS

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 consulting, technology, and engineering services to the U.S. government in the defense, intelligence, and civil markets. Additionally, the Company provides its management and technology consulting services to major corporations, institutions, and not-for-profit organizations. The Company reports operating results and financial data in one operating segment. The Company is headquartered in McLean, Virginia, with approximately 22,700 employees as of March 31, 2014.

## 2. Summary of Significant Accounting Policies

### BASIS OF PRESENTATION

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

The Company's fiscal year ends on March 31 and unless otherwise noted, references to fiscal year or fiscal are for fiscal years ended March 31. The accompanying consolidated financial statements present the financial position of the Company as of March 31, 2014 and 2013 and the Company's results of operations for fiscal 2014, fiscal 2013, and fiscal 2012.

### USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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, valuation and 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.

### REVENUE RECOGNITION

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

Revenue on cost-reimbursable-plus-fee contracts is recognized as services are performed, generally based on the allowable costs incurred during the period plus any recognizable earned fee. The Company considers fixed fees under cost-reimbursable-plus-fee contracts to be earned in proportion to the allowable costs incurred in performance of the contract. For cost-reimbursable-plus-fee contracts that include performance-based fee incentives, which are principally award fee arrangements, the Company recognizes income when such fees are probable and estimable. Estimates of the total fee to be earned are made based on contract provisions, prior experience with similar contracts or clients, and management's evaluation of the performance on such contracts. Contract costs, including indirect expenses, are subject to audit by the Defense Contract Audit Agency, or DCAA, and, accordingly, are subject to possible cost disallowances. We recognize as revenue, net of reserves, executive compensation that we determine, based on management's estimates, to be allowable; management's estimates in this regard are based on a number of factors that may change over time, including executive compensation survey data, our and other government contractors' experiences with the DCAA audit practices in our industry and relevant decisions of courts and boards of contract appeals.

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

Revenue on fixed-price contracts is recognized using percentage-of-completion based on actual costs incurred relative to total estimated costs for the contract. These estimated costs are updated during the term of the contract, and may result in revision by the Company of recognized revenue and estimated costs in the period in which they are identified. Profits on fixed-price contracts result from the difference between incurred costs and revenue earned.

## Notes to Consolidated Financial Statements

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

The Company's contracts may include the delivery of a combination of one or more of the Company's service offerings. In these situations, the Company determines whether such arrangements with multiple service offerings should be treated as separate units of accounting based on how the elements are bid or negotiated, whether the customer can accept separate elements of the arrangement, and the relationship between the pricing on the elements individually and combined.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and highly liquid investments having an original maturity of three months or less. The Company's investments consist primarily of institutional money market funds. The Company maintains its cash and cash equivalents in bank accounts that, at times, exceed the federally insured limits. The Company has not experienced any losses in such accounts.

### VALUATION OF ACCOUNTS RECEIVABLE

The Company maintains allowances for doubtful accounts against certain billed receivables based upon the latest information regarding whether invoices are ultimately collectible. Assessing the collectability of customer receivables requires management judgment. The Company determines its allowance for doubtful accounts by specifically analyzing individual accounts receivable, historical bad debts, customer credit-worthiness, current economic conditions, and accounts receivable aging trends. Valuation reserves are periodically re-evaluated and adjusted as more information about the

ultimate collectability of accounts receivable becomes available. Upon determination that a receivable is uncollectible, the receivable balance and any associated reserve are written off.

### CONCENTRATIONS OF CREDIT RISK

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

### PROPERTY AND EQUIPMENT

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

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

### BUSINESS COMBINATIONS

The Company has engaged in business acquisition activity. The accounting for business combinations requires management to make judgments and estimates of the fair value of assets acquired, including the identification and valuation of intangible assets, as well as liabilities and contingencies assumed. Such judgments and estimates directly impact the amount of goodwill recognized in connection with each acquisition, as goodwill

## Notes to Consolidated Financial Statements

represents the excess of the purchase price of an acquired business over the fair value of its net tangible and identifiable intangible assets.

### GOODWILL

The Company assesses goodwill for impairment on at least an annual basis on January 1 unless interim indicators of impairment exist. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. The Company operates as a single operating segment and as a single reporting unit for the purpose of evaluating goodwill. As of January 1, 2014, the Company performed its annual impairment test of goodwill by comparing the fair value of the Company (primarily based on market capitalization) to the carrying value of equity, and concluded that the fair value of the reporting unit was greater than the carrying amount. During the fiscal years ended March 31, 2014, 2013 and 2012 the Company did not record any goodwill impairment.

### INTANGIBLE ASSETS

Intangible assets consist of trade name and customer relationships. Customer relationships are amortized on an accelerated basis over the expected backlog life based on projected future cash flows of approximately five to nine years. The trade name is not amortized, but is tested on at least an annual basis as of January 1 unless interim indicators of impairment exist. The trade name is considered to be impaired when the net book value exceeds its estimated fair value. As of January 1, 2014 the Company performed its annual impairment test of the trade name, and concluded that the fair value of the trade name was greater than the carrying amount. The Company used the relief from royalty method for valuation. The fair value of the asset is the present value of the license fees avoided by owning the asset, or the royalty savings.

### LONG-LIVED ASSETS

The Company reviews its long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. If the total of the expected undiscounted future net cash flows is less than the carrying amount of the asset, a loss is recognized for any excess of the carrying amount over the fair value of the asset. During the fiscal years ended March 31, 2014, 2013 and 2012 the Company did not record any impairment charges.

### INCOME TAXES

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

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

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

### COMPREHENSIVE INCOME

Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources, and is presented in the consolidated statements of comprehensive income. Accumulated other comprehensive income (loss) as of March 31, 2014 and 2013 consisted of unrealized gains (losses) on the Company’s defined and postretirement benefit plans.

### SHARE-BASED PAYMENTS

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

## Notes to Consolidated Financial Statements

### DEFINED BENEFIT PLAN AND OTHER POSTRETIREMENT BENEFITS

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

### SELF-FUNDED MEDICAL PLANS

The Company maintains self-funded medical insurance. Self-funded plans include a health maintenance organization, preferred provider organization, point of service, qualified point of service, and traditional choice. Further, self-funded plans also include prescription drug and dental benefits. The Company records an incurred but unreported claim liability in the accrued compensation and benefits line of the consolidated balance sheets for self-funded plans based on an actuarial valuation. Data that drives this estimate is primarily based on claims and enrollment data provided by a third party valuation firm for medical and pharmacy related costs.

### DEFERRED COMPENSATION PLAN

The Company accounts for its deferred compensation plan in accordance with the terms of the underlying plan agreement. To the extent the terms of the contract attribute all or a portion of the expected future benefit to an individual year of the employee's service, the cost of the benefits are recognized in that year. Therefore, the Company estimates the cost of future benefits that are expected to be paid and expenses the present value of those costs in the year as services are provided.

### FAIR VALUE MEASUREMENTS

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

The accounting 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).

The fair values of the Company's cash and cash equivalents (including money market funds), trade accounts receivable and accounts payable, approximates their carrying values at March 31, 2014 and 2013 because of the short-term nature of these amounts. The fair values of the Company's debt instruments approximates their carrying value at March 31, 2014 and 2013. 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 (Level 2 inputs).

### RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements issued by the FASB during fiscal 2014 and through the filing date did not and are not believed by management to have a material impact on the Company's present or historical consolidated financial statements.

## 3. Earnings Per Share

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

The Company currently has outstanding shares of Class A Common Stock, 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 holders are entitled to participate in non-forfeitable dividends or other distributions. These unvested shares participated in the Company's dividends declared and paid each quarter in fiscal 2014 and fiscal 2013, and the fourth quarter of fiscal 2012. 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.



## Notes to Consolidated Financial Statements

A reconciliation of the income used to compute basic and diluted EPS for the periods presented are as follows:

Fiscal Year Ended March 31,	2014	2013	2012
Earnings for basic computations <sup>(1)</sup>	\$ 229,082	\$ 209,994	\$ 238,761
Weighted-average Class A Common Stock outstanding	139,275,596	131,068,847	125,894,644
Weighted-average Class B Non-Voting Common Stock outstanding	1,019,051	2,080,050	2,791,917
Weighted-average Class C Restricted Common Stock outstanding	1,019,897	1,253,832	1,459,128
Total weighted-average common shares outstanding for basic computations	141,314,544	134,402,729	130,145,689
Earnings for diluted computations <sup>(1)</sup>	\$ 229,082	\$ 209,994	\$ 238,761
Dilutive stock options and restricted stock	7,366,530	10,451,995	10,666,323
Average number of common shares outstanding for diluted computations	148,681,074	144,854,724	140,812,012
Earnings per common share			
Basic	\$ 1.62	\$ 1.56	\$ 1.83
Diluted	\$ 1.54	\$ 1.45	\$ 1.70

<sup>(1)</sup> During fiscal 2014, 2013, and 2012 approximately 1.3 million, 1.2 million, and 787,000 shares of participating securities were paid dividends totaling \$3.1 million, \$9.1 million, and \$71,000, respectively. Additionally, for fiscal 2012 there were undistributed earnings of \$1.1 million allocated to the participating class of securities in basic and diluted earnings per share. The allocated earnings and the dividends paid for fiscal 2012 comprise the difference from net income presented on the consolidated statements of operations, while only dividends paid for fiscal 2014 and 2013 comprise the difference from net income presented on the consolidated statements of operations, as there were no excess undistributed earnings.

The EPS calculation for fiscal 2014, 2013, and 2012 excludes 1,072,000, 328,000 and 2,529,000 options as their impact was anti-dilutive.

## Notes to Consolidated Financial Statements

### 4. Goodwill and Intangible Assets

#### GOODWILL

As of March 31, 2014 and 2013, goodwill was \$1,273.8 million and \$1,277.4 million, respectively. The decrease in the carrying amount of goodwill is primarily attributable to the settlement of various FIN 48 tax contingencies indemnified by the DPO, as defined and explained in greater detail in Note 9. During the fiscal years ended March 31, 2014, 2013 and 2012, the Company did not record any goodwill impairment. Further, the Company does not consider any of the goodwill at risk of impairment.

#### INTANGIBLE ASSETS

Intangible assets consisted of the following:

	As of March 31, 2014			As of March 31, 2013		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortizable intangible assets						
Customer relationships	\$187,758	\$157,071	\$ 30,687	\$187,758	\$141,738	\$ 46,020
Total	\$187,758	\$157,071	\$ 30,687	\$187,758	\$141,738	\$ 46,020
Unamortizable intangible assets						
Trade name	\$190,200	\$ —	\$190,200	\$190,200	\$ —	\$190,200
Total	\$377,958	\$157,071	\$220,887	\$377,958	\$141,738	\$236,220

Intangible assets are primarily amortized on an accelerated basis over periods ranging from 7 years to 9 years. The weighted-average remaining period of amortization for all customer relationships is 4.6 years.

The Company performed an annual impairment test of the trade name as of January 1, 2014 and 2013, noting no impairment.

Amortization expense for fiscal 2014, 2013, and 2012 was \$14.8 million, \$14.8 million, and \$16.4 million, respectively. The following table summarizes the estimated annual amortization expense for future periods indicated below:

For the Fiscal Year Ended March 31,

2015	\$ 9,617
2016	8,643
2017	7,696
2018	2,523
2019	1,577
Thereafter	631
Total amortization expense	\$30,687

### 5. Accounts Receivable, Net

Accounts receivable, net consisted of the following:

March 31,	2014	2013
Current		
Accounts receivable–billed	\$395,509	\$ 431,770
Accounts receivable–unbilled	522,685	598,004
Allowance for doubtful accounts	(1,457)	(188)
Accounts receivable, net	916,737	1,029,586
Long-term		
Unbilled receivables	22,877	19,779
Total accounts receivable, net	\$939,614	\$1,049,365

Unbilled amounts represent sales for which billings have not been presented to customers at year-end. These amounts are usually billed and collected within one year. Long-term unbilled receivables not anticipated to be billed and collected within one year, which are primarily related to retainage, holdbacks, and long-term rate settlements to be billed at contract closeout, are included in other long-term assets as accounts receivable in the accompanying consolidated balance sheets. The Company recognized a provision for doubtful accounts (including certain unbilled reserves) of \$1.3 million, \$544,000, and \$2.7 million for fiscal 2014, 2013 and 2012, respectively. Because the Company's accounts receivable are primarily with U.S. Government and its agencies, the Company does not have material exposure to accounts receivable credit risk.

### 6. Property and Equipment, Net

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

March 31,	2014	2013
Furniture and equipment	\$ 104,463	\$ 135,281
Computer equipment	49,469	46,872
Software	25,380	36,690
Leasehold improvements	201,166	154,167
Total	380,478	373,010
Less: Accumulated depreciation and amortization	(251,051)	(206,440)
Property and equipment, net	\$ 129,427	\$ 166,570

Property and equipment, net, includes \$6.6 million, and \$9.7 million of internally developed software, net of depreciation as of March 31, 2014 and 2013, respectively.

## Notes to Consolidated Financial Statements

Depreciation and amortization expense relating to property and equipment for fiscal 2014, 2013, and 2012 was \$57.6 million, \$59.5 million, and \$58.8 million, respectively. During fiscal 2014 and 2013, the Company reduced the gross cost and accumulated depreciation and amortization by \$17.3 million and \$22.9 million, respectively, for zero net book value assets deemed no longer in service.

### 7. Accounts Payable and Other Accrued Expenses

Accounts payable and other accrued expenses consisted of the following:

March 31,	2014	2013
Vendor payables	\$265,079	\$248,471
Accrued expenses	223,728	202,594
Total accounts payable and other accrued expenses	\$488,807	\$451,065

Accrued expenses consisted primarily of the Company's reserve related to potential cost disallowance in conjunction with government audits. Refer to Note 20 for further discussion of this reserve.

### 8. Accrued Compensation and Benefits

Accrued compensation and benefits consisted of the following:

March 31,	2014	2013
Bonus	\$ 75,423	\$ 89,389
Retirement	43,405	83,071
Vacation	117,626	136,528
Stock-based compensation liability (Note 17)	39,922	48,468
Deferred Compensation <sup>(1)</sup>	27,547	—
Other	27,517	27,977
Total accrued compensation and benefits	\$331,440	\$385,433

<sup>(1)</sup> The Company maintains a deferred compensation plan, or EPP, established in January 2009, for the benefit of certain employees. The EPP allows eligible participants to defer all or a portion of their annual performance bonus, reduced by amounts withheld for the payment of taxes or other deductions required by law. The Company makes no contributions to the EPP, but maintains participant accounts for deferred amounts and interest earned. The deferred balance generally will be paid within 180 days of the final determination of the interest to be accrued for 2014, upon retirement, or termination. The deferred balance will be paid prior to December 31, 2014, and as such, the entire deferred compensation balance of \$27.5 million as of March 31, 2014 is classified as a component of accrued compensation and benefits.

### 9. 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, less any settled claims. Pursuant to the Merger Agreement, \$78.0 million of the \$158.0 million DPO was required to be paid in full to the selling shareholders. On December 11, 2009, in connection with a recapitalization transaction, \$100.4 million was paid to the selling shareholders, of which \$78.0 million was the repayment of that portion of the DPO, with approximately \$22.4 million representing accrued interest.

The remaining \$80.0 million is available to indemnify the Company for certain pre-acquisition tax contingencies, related interest and penalties, and other matters pursuant to the Merger Agreement. Any amounts remaining after the settlement of claims will be paid out to the selling shareholders. As of March 31, 2014 and 2013, the Company has recorded \$56.8 million and \$55.8 million, respectively, for pre-acquisition uncertain tax positions, of which approximately \$19.6 million and \$18.5 million, respectively, may be indemnified under the remaining available DPO. During fiscal 2014, the Company accrued additional interest for certain pre-acquisition uncertain tax positions, thereby increasing the estimated amount to be indemnified under the remaining available DPO and decreasing the DPO amount to be paid to the selling shareholders. Offsetting this decrease in the DPO amount is interest accrued at a rate of 5% per six-month period on the unpaid DPO balance, net of any settled claims or payments, which was \$80.0 million as of March 31, 2014 and 2013. Accordingly, the \$61.7 million and \$62.8 million DPO balance recorded as of March 31, 2014 and 2013, respectively, within other long-term liabilities, except the current portion of accrued interest expense which is recorded within short-term liabilities, represents the residual balance estimated to be paid to the selling shareholders based on consideration of contingent tax claims, accrued interest and other matters.

## Notes to Consolidated Financial Statements

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

March 31,	2014	2013
Deferred payment obligation	\$ 80,000	\$ 80,000
Indemnified pre-acquisition uncertain tax positions	(19,556)	(18,527)
Accrued interest	1,304	1,304
Amount recorded in the consolidated balance sheets	<b>\$ 61,748</b>	\$ 62,777

During fiscal 2014 and 2013, the Company paid \$8.0 million and \$7.4 million, respectively, of accrued interest to the selling shareholders.

### 10. Debt

Debt consisted of the following:

March 31,	2014		2013	
	Interest Rate	Outstanding Balance	Interest Rate	Outstanding Balance
Term Loan A	2.65%	\$ 660,317	2.70%	\$ 706,134
Term Loan B	3.75%	998,602	4.50%	1,009,039
Total		<b>1,658,919</b>		1,715,173
Less: Current portion of long-term debt		<b>(73,688)</b>		(55,562)
Long-term debt, net of current portion		<b>\$1,585,231</b>		\$1,659,611

On August 16, 2013, the Company consummated a repricing of its outstanding Term Loan B indebtedness, or repricing transaction, by entering into the First Amendment to its senior secured credit agreement, effective July 31, 2012, or Credit Agreement. On July 31, 2012, the Company consummated the 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 Credit Agreement. The Credit Agreement provided the Company with a \$725.0 million Term Loan A and a \$1,025.0 million Term Loan B, 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. With no increase in borrowing, the First Amendment reduced the interest rate applicable to Term Loan B. The rates for Term Loan A loans outstanding under the Company's Credit Agreement, as amended, remain unchanged.

In connection with the August 16, 2013 Repricing Transaction, the Company accelerated the amortization of ratable portions of the DIC and Original Issue Discount, or OID, associated with the prior senior secured term loan facilities of \$1.2 million. These amounts are reflected in other expense, net in the consolidated statements of operations. Furthermore, the Company expensed third party debt issuance costs of \$1.6 million that did not qualify for deferral, which are reflected in general and administrative costs in the consolidated statements of operations.

We occasionally borrow under our revolving credit facility in anticipation of cash demands. On October 15, 2013, the Company's wholly-owned subsidiary Booz Allen Hamilton Inc. accessed \$250.0 million of its \$500.0 million revolving credit facility to safeguard against the possible consequences of a failure by Congress to increase the U.S. government's ability to incur indebtedness in excess of its current limit. On October 18, 2013, following the increase of the debt limit by Congress, the Company repaid the \$250.0 million borrowed from the revolving credit facility. On February 27, 2014, the Company's wholly-owned subsidiary Booz Allen Hamilton Inc. accessed \$50.0 million of its \$500.0 million revolving credit facility to provide sufficient available cash given the timing of certain cash payments. The Company repaid the \$50.0 million borrowed from the revolving credit facility on March 6, 2014.

The Credit Agreement requires quarterly principal payments of 1.25% of the stated principal amount of Term Loan A, with annual incremental increases to 1.875%, 2.50%, 3.125%, and 13.0%, prior to the Term Loan A's maturity date of December 31, 2017, and 0.25% of the stated principal amount of Term Loan B, with the remaining balance payable on the Term Loan B's maturity date of July 31, 2019. Both these stated principal repayment schedules are reflected in the table below. The revolving credit facility matures on December 31, 2017, at which time any outstanding principal balance is due in full.

## Notes to Consolidated Financial Statements

The following table summarizes required future debt principal repayments:

Payments Due By March 31,	Total	2015	2016	2017	2018	2019	Thereafter
Term Loan A	\$ 661,563	\$63,438	\$81,563	\$233,812	\$282,750	\$ —	\$ —
Term Loan B	1,009,625	10,250	10,250	10,250	10,250	10,250	958,375
<b>Total</b>	<b>\$1,671,188</b>	<b>\$73,688</b>	<b>\$91,813</b>	<b>\$244,062</b>	<b>\$293,000</b>	<b>\$10,250</b>	<b>\$958,375</b>

The interest rate on borrowings under Term Loan A is LIBOR plus 2.50% spread. The spread ranges from 2.00% to 2.75% based on the Company's total leverage ratio. The interest rate on borrowings under Term Loan B is LIBOR plus 3.0% spread with a 0.75% floor. The spread ranges from 2.00% to 3.00% based upon either an ABR or LIBOR borrowing. The revolving credit facility margin and commitment fee are subject to the leveraged based pricing grid, as set forth in the Credit Agreement, as amended.

During fiscal 2014, interest payments of \$19.0 million and \$41.9 million were made for Term Loan A and Term Loan B, respectively. During fiscal 2013, interest payments of \$18.8 million and \$40.0 million were made for Term Loan A and Term Loan B, respectively. As of March 31, 2014 and 2013, no amounts were outstanding on the revolving credit facility.

The total outstanding debt balance was recorded in the accompanying consolidated balance sheets, net of unamortized discount of \$12.3 million and \$11.6 million as of March 31, 2014 and 2013, respectively. As of March 31, 2014 and 2013, the Company was in compliance with all of the Credit Agreement's debt covenants.

## 11. Deferred Financing Costs

A reconciliation of the beginning and ending amount of Debt Issuance Costs, or DIC, for the periods presented are as follows:

March 31,	2014	2013
Beginning of year	<b>\$31,820</b>	\$16,190
Amortization	<b>(6,719)</b>	(5,865)
Accelerated amortization of DIC related to August 2013 Repricing Transaction and July 2012 Recapitalization Transaction	<b>(610)</b>	(5,386)
Additional DIC related to August 2013 Repricing Transaction and July 2012 Recapitalization Transaction <sup>(1)</sup>	<b>1,179</b>	26,881
<b>End of year</b>	<b>\$25,670</b>	\$31,820

<sup>(1)</sup> Included in "Debt issuance costs" in the consolidated statement of cash flows.

Costs incurred in connection with the August 16, 2013 Repricing Transaction were \$2.8 million, of which \$1.2 million was recorded as other long-term assets and will be amortized and reflected in interest expense in the consolidated statements of operations over the term of the loans. Amortization of these costs will be accelerated to the extent that any prepayment is made on the Credit Agreement. The remaining amount of \$1.6 million, which was not deferred, was recorded as general and administrative expenses in the consolidated statements of operations in fiscal 2014.

Costs incurred in connection with the July 31, 2012 Recapitalization Transaction were \$29.6 million, of which \$26.9 million was recorded as other long-term assets and will be amortized and reflected in interest expense in the consolidated statements of operations over the term of the loans. Amortization of these costs will be accelerated to the extent that any prepayment is made on the Credit Agreement. The remaining amount of \$2.7 million, which was not deferred, was recorded as general and administrative expenses in the consolidated statements of operations in fiscal 2013.

## Notes to Consolidated Financial Statements

Absent any prepayment accelerations of DIC or the effect of changes in interest rates, the following table summarizes the estimated annual amortization expense of DIC using the effective interest rate method, as a component of interest expense, for the future fiscal periods indicated below:

	Total	DIC Amortization Expense					
		2015	2016	2017	2018	2019	Thereafter
Term Loan A	\$ 8,325	\$2,855	\$2,614	\$2,181	\$ 675	\$ —	\$ —
Term Loan B	9,033	1,583	1,636	1,681	1,734	1,789	610
Revolver	8,312	2,213	2,219	2,213	1,667	—	—
Total	\$25,670	\$6,651	\$6,469	\$6,075	\$4,076	\$1,789	\$610

## 12. Income Taxes

The components of income tax expense were as follows:

Fiscal Year Ended March 31,	2014	2013	2012
Current			
U.S. Federal	\$148,908	\$161,838	\$ 11,893
State and local	26,062	35,503	17,241
Total current	174,970	197,341	29,134
Deferred			
U.S. Federal	(22,540)	(40,652)	71,683
State and local	(3,831)	(7,436)	3,102
Total deferred	(26,371)	(48,088)	74,785
Total	\$148,599	\$149,253	\$103,919

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

Fiscal Year Ended March 31,	2014	2013	2012
Income tax expense computed at U.S. federal statutory rate (35%)	\$133,275	\$128,909	\$120,356
Increases (reductions) resulting from:			
Changes in uncertain tax positions	1,838	1,477	(32,528)
State income taxes, net of the federal tax benefit	13,847	17,039	13,431
Meals and entertainment	1,135	1,365	2,177
Release of Valuation Allowance	—	—	(5,211)
Gain on sale of state and local transportation business	—	—	3,772
Other	(1,496)	463	1,922
Income tax expense from operations	\$148,599	\$149,253	\$103,919

Significant components of the Company's net deferred income tax (liability) asset were as follows:

March 31,	2014	2013
Deferred income tax assets:		
Accrued expenses	\$ 96,554	\$ 78,563
Accrued compensation	40,198	45,031
Stock-based compensation	34,532	46,735
Pension and postretirement insurance	31,776	33,009
Property and equipment	7,753	4,086
Net operating loss & Capital loss carryforwards	532	721
Deferred rent and tenant allowance	11,256	15,979
Other	6,974	5,412
Total gross deferred income taxes	229,575	229,536
Less: Valuation allowance	—	—
Total net deferred income tax assets	229,575	229,536
Deferred income tax liabilities:		
Accrued compensation-IRC Section 481(a)	(20,086)	(30,090)
Unbilled receivables	(98,129)	(112,876)
Intangible assets	(80,054)	(83,279)
Debt issuance costs	(6,650)	(1,449)
Other	(3,200)	(2,096)
Total deferred tax liabilities	(208,119)	(229,790)
Net deferred income tax (liability) asset	\$ 21,456	\$ (254)

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

## Notes to Consolidated Financial Statements

As of March 31, 2014, the Company has approximately \$0.4 million of State net operating loss, or NOL, carryforwards. The State NOL carryforwards expires in 2028. The Company believes that it is more likely than not that the Company will generate sufficient taxable income to fully realize the tax benefit of our State NOL carryforwards.

### UNCERTAIN TAX POSITIONS

The Company maintains reserves for uncertain tax positions related to income tax benefits recognized. These reserves involve considerable judgment and estimation and are evaluated by management based on the best information available including changes in tax laws and other information. As of March 31, 2014, 2013 and 2012 the Company has recorded \$57.4 million, \$57.0 million and \$55.3 million respectively, of reserves for uncertain tax positions which includes potential tax benefits of \$55.0 million, \$55.7 million and \$54.9 million respectively, that, if recognized, would impact the effective tax rate. Of the \$57.4 million, \$57.0 million and \$55.3 million of reserves for uncertain tax positions as of March 31, 2014, 2013 and 2012 respectively, approximately \$19.6 million, \$18.5 million and \$17.5 million respectively, may be indemnified under the remaining available DPO.

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

March 31,	2014	2013	2012
Beginning of year	\$55,679	\$54,895	\$ 77,304
Federal benefit from change in reserve	—	—	1,036
Increases in prior year position	364	1,074	—
Settlements with taxing authorities	(1,074)	(11)	(14,399)
Lapse of statute of limitations	(3)	(279)	(9,046)
End of year	\$54,966	\$55,679	\$ 54,895

The Company recognized accrued interest and penalties of approximately \$1.1 million, \$952,000 and \$362,000 for fiscal 2014, 2013, and 2012, respectively, related to the reserves for uncertain tax positions in the income tax provision. Included in the total reserve for uncertain tax positions are accrued penalties and interest of approximately \$2.4 million, \$1.3 million and \$387,000 at March 31, 2014, 2013 and 2012 respectively.

The Company did not have any material settlements or lapse of statute of limitations during fiscal year 2014. The Company is subject to taxation in the United States and various state and foreign jurisdictions. As of March 31, 2014, the Company's tax years ended July 31, 2008 and forward are open and subject to examination by the tax authorities. The jurisdictions currently under examination are not considered to be material. Additionally, no significant increases or decreases for uncertain tax positions are reasonably possible within the next twelve months.

## 13. Employee Benefit Plans

### DEFINED CONTRIBUTION PLAN

The Company sponsors the Employees' Capital Accumulation Plan, or ECAP, which is a qualified defined contribution plan that covers eligible U.S. and international employees. ECAP provides for distributions, subject to certain vesting provisions, to participants by reason of retirement, death, disability, or termination of employment. Effective April 1, 2013 the Company reduced its discretionary contribution percentage for the ECAP. Total expense recognized under ECAP for fiscal 2014, 2013, and 2012 was \$165.6 million, \$237.1 million, and \$235.4 million, respectively, and the Company-paid contributions were \$205.2 million, \$242.6 million, and \$242.5 million, 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 Company 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. The Company also 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.

In addition, 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 recognizes a liability for the defined benefit plans' underfunded status, measures the defined benefit plans' obligations that determine its funded status as of the end of the fiscal year, and recognizes as a component of accumulated other comprehensive income the changes in the defined benefit plans' funded status that are not recognized as components of net periodic benefit cost.

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

Fiscal Year Ended March 31,	2014	2013	2012
Service cost	\$ 4,745	\$3,892	\$3,912
Interest cost	3,660	3,147	2,987
Net actuarial loss	2,728	1,537	818
Total postretirement medical expense	\$11,133	\$8,576	\$7,717

## Notes to Consolidated Financial Statements

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

Fiscal Year Ended March 31,	2014	2013	2012
Officer Medical Plan	4.75%	4.75%	5.00%
Retired Officers' Bonus Plan	4.75%	4.75%	5.00%

Assumed healthcare cost trend rates for the Officer Medical Plan at March 31, 2014 and 2013 were as follows:

Pre-65 Initial Rate	2014	2013
Healthcare cost trend rate assumed for next year	7.25%	7.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2023	2023

Post-65 Initial Rate	2014	2013
Healthcare cost trend rate assumed for next year	7.00%	7.25%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2022	2022

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates calculated as of March 31, 2014 would have the following effects:

	1% Increase	1% Decrease
Effect on total of service and interest cost	\$ 1,676	\$ (1,325)
Effect on postretirement benefit obligation	12,634	(10,202)

Total defined benefit plan expense, consisting of service and interest, associated with the Retired Officers' Bonus Plan was \$768,000, \$743,000, and \$868,000 for fiscal 2014, fiscal 2013, and fiscal 2012, respectively. Benefits paid associated with the Retired Officers' Bonus Plan were \$1.1 million, \$361,000, and \$1.2 million for fiscal 2014, fiscal 2013, and fiscal 2012, respectively. The end-of-period benefit obligation of \$4.7 million and \$5.0 million as of March 31, 2014 and 2013, respectively, is included in postretirement obligations within other long-term liabilities in the accompanying consolidated balance sheets.

Accumulated other comprehensive loss as of March 31, 2014 includes unrecognized actuarial gain of \$6.7 million, net of taxes of \$4.4 million, that has not yet been recognized in net periodic pension cost for the Retired Officers' Bonus Plan and the Officer Medical Plan. Accumulated other comprehensive loss as of March 31, 2013, includes unrecognized net actuarial loss of \$8.1 million, net of taxes of \$3.3 million, that has not yet been recognized in net periodic pension cost for the Retired Officers' Bonus Plan and the Officer Medical Plan.

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic cost in fiscal 2015 are \$582,000 of net actuarial gain (loss), \$0 of net prior service cost (credit), and \$0 of net transition (asset) obligation.

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

Fiscal Year Ended March 31,	2014	2013	2012
Benefit obligation, beginning of the year	\$78,735	\$63,585	\$52,753
Service cost	4,745	3,892	3,912
Interest cost	3,660	3,147	2,987
Net actuarial (gain) loss	(9,436)	9,891	5,666
Benefits paid	(1,802)	(1,780)	(1,733)
Benefit obligation, end of the year	\$75,902	\$78,735	\$63,585
<b>Changes in plan assets</b>			
Fair value of plan assets, beginning of the year	\$ —	\$ —	\$ —
Employer contributions	1,802	1,780	1,733
Benefits paid	(1,802)	(1,780)	(1,733)
Fair value of plan assets, end of the year	\$ —	\$ —	\$ —

As of March 31, 2014 and 2013, the unfunded status of the Officer Medical Plan was \$75.9 million and \$78.7 million, respectively, which is included in other long-term liabilities in the accompanying consolidated balance sheets.

### FUNDED STATUS FOR DEFINED BENEFIT PLANS

Generally, annual contributions are made at such times and in amounts as required by law and may, from time to time, exceed minimum funding requirements. The Retired Officers' Bonus Plan is an unfunded plan and contributions are made as benefits are paid. As of March 31, 2014 and 2013, there were no plan assets for the Retired Officers' Bonus Plan and therefore, the accumulated liability of \$4.7 million and \$5.0 million, respectively, is unfunded. The liability will be distributed in a lump-sum payment as each Officer retires.

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

For the Fiscal Year Ending March 31,	
2015	\$ 2,182
2016	2,378
2017	2,683
2018	2,969
2019	3,656
2020-2024	23,107



## Notes to Consolidated Financial Statements

### 14. Accumulated Other Comprehensive Loss

All amounts recorded in other comprehensive loss are related to the Company's pension plan. The following table represents a rollforward of amounts recognized in accumulated other comprehensive loss, net of tax:

March 31,	2014	2013	2012
Beginning of year	<b>\$(13,787)</b>	\$ (8,715)	\$(5,453)
Other comprehensive income (loss) before reclassifications	<b>5,499</b>	(5,996)	(3,681)
Amounts reclassified from accumulated other comprehensive loss	<b>1,652</b>	924	419
Net current-period other comprehensive income (loss)	<b>7,151</b>	(5,072)	(3,262)
End of year	<b>\$ (6,636)</b>	\$(13,787)	\$(8,715)

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

March 31,	2014	2013	2012
Amortization of net actuarial loss included in net periodic benefit cost (See Note 13)			
Total before tax	<b>\$ 2,728</b>	\$ 1,524	\$ 706
Tax benefit	<b>(1,076)</b>	(600)	(287)
Net of tax	<b>\$ 1,652</b>	\$ 924	\$ 419

### 15. Other Long-Term Liabilities

Other long-term liabilities consisted of the following:

March 31,	2014	2013
Deferred rent	<b>\$ 28,527</b>	\$ 40,548
Deferred compensation <sup>(1)</sup>	<b>—</b>	26,443
Stock-based compensation	<b>25,966</b>	50,625
Deferred payment obligation	<b>60,444</b>	61,473
Postretirement benefit obligation	<b>80,527</b>	83,761
Other	<b>5,746</b>	6,610
Total other long-term liabilities	<b>\$201,210</b>	\$269,460

*(1) As disclosed in Note 8, the Company anticipates paying the entire deferred compensation balance of the EPP prior to December 31, 2014, and as such, the entire deferred compensation balance was reclassified from other long-term liabilities as of March 31, 2013 to accrued compensation and benefits as of March 31, 2014.*

In fiscal 2014 and 2013, the Company recorded a stock-based compensation liability of \$65.9 million and \$99.1 million, respectively, including \$39.9 million and \$48.5 million, respectively, expected to be paid within one year, related to special dividends paid in July and December 2009, June 2012, August 2012, November 2013, and February 2014. Rollover options vested and not yet exercised that would have had an exercise price below zero as a result of the dividend were

reduced to one cent, with the remaining reduction to be paid in cash upon exercise of the options. Payments of the special dividends to EIP option holders is linked to vesting. Refer to Note 17 for further discussion of the special dividends.

### 16. Stockholders' Equity

#### COMMON STOCK

Holders of Class A Common Stock, Class C Restricted Common Stock, and Class E Special Voting Common Stock are entitled to one vote for each share as a holder. The holders of the Voting Common Stock shall vote together as a single class. The holders of Class B Non-Voting Common Stock have no voting rights.

When shares of Class B Non-Voting Common Stock or Class C Restricted Common Stock are sold on the open market, they become Class A Common Stock shares. During fiscal 2014, 869,520 and 288,448 shares of Class B Non-Voting Common Stock and Class C Restricted Common stock, respectively, were sold and converted to Class A Common Stock shares.

Class C Restricted Common Stock is restricted in that a holder's shares vest as set forth in the Rollover Plan. Refer to Note 17 for further discussion of the Rollover Plan.

Class E Special Voting Common Stock represents the voting rights that accompany the Rollover Options. Rollover Options have a fixed vesting and exercise schedule to comply with IRS section 409A. Upon exercise, the option will convert to Class A Common Stock, and the corresponding Class E Special Voting Common Stock will be repurchased by the Company and retired. Refer to Note 17 for further discussion of the Rollover Options.

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

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

#### EMPLOYEE STOCK PURCHASE PLAN

In connection with the Company's initial public offering in November 2010, the Company established a tax qualified Employee Stock Purchase Plan, or ESPP, which is designed

## Notes to Consolidated Financial Statements

to enable eligible employees to periodically purchase shares of the Company's Class A Common Stock up to an aggregate of 10,000,000 shares at a five percent discount from the fair market value of the Company's common stock. The ESPP provides for quarterly offering periods, the first of which commenced on April 1, 2011. For the year ended March 31, 2014, 276,529 Class A Common Stock shares were purchased by employees under the ESPP. As of the program's inception, 1,295,070 shares have been purchased by employees.

### SHARE REPURCHASE PROGRAM

On December 12, 2011, the Board of Directors approved a \$30.0 million share repurchase program, to be funded from cash on hand. A special committee of the Board of Directors was appointed to evaluate market conditions and other relevant factors and initiate repurchases under the program from time to time. The share repurchase program may be suspended, modified or discontinued at any time at the Company's discretion without prior notice. As of March 31, 2014 no shares have been repurchased under the program.

### DIVIDENDS

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

Fiscal Year Ended March 31,	2014	2013	2012
Recurring dividends <sup>(1)</sup>	\$ 57,063	\$ 48,736	\$11,906
Special dividends <sup>(2)</sup>	288,739	1,073,733	—
Dividend equivalents <sup>(3)</sup>	56,138	59,471	9,026
Total distributions	\$401,940	\$1,181,940	\$20,932

(1) Amounts represent recurring dividends of \$0.10 per share and \$0.09 per share that were declared and paid for during each quarter of fiscal 2014, fiscal 2013, and fiscal 2012, respectively.

(2) Amounts represent aggregate special dividends of \$2.00 per share (\$1.00 paid November 29, 2013 and \$1.00 paid February 28, 2014) and \$8.00 per share (\$1.50 paid June 29, 2012 and \$6.50 paid August 31, 2012) that were declared and paid for during fiscal 2014 and 2013, respectively.

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

On May 21, 2014, the Company announced a regular quarterly cash dividend in the amount of \$0.11 per share. The quarterly dividend is payable on June 30, 2014 to stockholders of record on June 10, 2014.

For each special dividend declared, the Compensation Committee, as Administrator of the Officers' Rollover Stock Plan and the Equity Incentive Plan, as amended, is required to make a determination under the respective plan's antidilution provision to adjust the outstanding options. For the \$1.50 special dividend announced May 29, 2012, the \$6.50 dividend announced July 30, 2012, and the \$1.00 special dividends announced October 29, 2013 and January 31, 2014, holders

of the Rollover Options received a cash payment equal to the amount of the special dividend on the options' mandatory exercise date. For the \$1.50 special dividend, holders of EIP options were granted a dividend equivalent equal to the special dividend payable on June 29, 2012 or the vesting of the EIP option, whichever is later. For the \$6.50 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. All other EIP options were adjusted 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. For the \$1.00 special dividends, holders of EIP options received a cash payment equal to the amount of the special dividend paid on November 29, 2013 and February 28, 2014, respectively, or the vesting of the EIP option, whichever is later.

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

## 17. Stock-Based Compensation

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

Fiscal Year Ended March 31,	2014	2013	2012
Cost of revenue	\$ 5,672	\$ 7,061	\$ 9,095
General and administrative expenses	14,393	17,780	22,168
Total	\$20,065	\$24,841	\$31,263

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

Fiscal Year Ended March 31,	2014	2013	2012
Equity Incentive Plan Options	\$ 7,257	\$13,148	\$13,068
Class A Restricted Common Stock	12,171	8,412	5,963
Rollover Options	578	2,970	11,176
Class C Restricted Stock	59	311	1,056
Total	\$20,065	\$24,841	\$31,263

## Notes to Consolidated Financial Statements

As of March 31, 2014 and 2013, there was \$16.4 million and \$19.5 million of total unrecognized compensation cost related to unvested stock-based compensation agreements. The unrecognized compensation cost as of March 31, 2014 is expected to be fully amortized over the next 5 years. Absent the effect of accelerating stock compensation cost for any departures of employees who may continue to vest in their equity awards, the following tables summarize the unrecognized compensation cost, the weighted average period the cost is expected to be amortized, and the estimated annual compensation cost for the future periods indicated below (excludes any future awards):

March 31,	Unrecognized Compensation Cost		Weighted Average Remaining Period to be Recognized	
	2014	2013	2014	2013
Equity Incentive Plan Options	\$ 8,249	\$12,161	3.10	2.77
Class A Restricted Common Stock	8,157	6,709	2.02	2.03
Rollover Options	—	578	—	0.25
Class C Restricted Stock	—	59	—	0.25
Total	\$16,406	\$19,507		

	Total	Total Unrecognized Compensation Cost					
		2015	2016	2017	2018	2019	Thereafter
Equity Incentive Plan Options	\$ 8,249	\$ 4,455	\$2,360	\$1,037	\$347	\$50	\$—
Class A Restricted Common Stock	8,157	5,773	2,051	333	—	—	—
Total	\$16,406	\$10,228	\$4,411	\$1,370	\$347	\$50	\$—

### EQUITY INCENTIVE PLAN

The EIP was created in connection with the Merger Transaction for employees and directors of Holding. The Company created a pool of options, or EIP Options, to draw upon for future grants that would be governed by the EIP. All options under the EIP are exercisable, upon vesting, for shares of common stock of Holding.

Stock options are granted at the discretion of the Board of Directors or its Compensation Committee and expire ten years from the grant date. Options generally vest over a five-year period based upon required service and performance conditions. Starting on February 1, 2012, the Board of Directors or its Compensation Committee updated vesting conditions for stock options, whereby stock options only vest upon a required service condition. The Company calculates the pool of additional paid-in capital associated with excess tax benefits using the “simplified method.”

The aggregate grant date fair value of the EIP Options issued during fiscal 2014, fiscal 2013, and fiscal 2012, was \$4.9 million, \$4.2 million, and \$18.5 million, respectively, and is being recorded as expense over the vesting period. The total fair value of EIP Options vested during fiscal 2014 and 2013 was \$17.5 million and \$18.2 million, respectively.

As of March 31, 2014 and 2013, there were 9,197,629 and 10,319,906 options, respectively, available for future grant under the EIP.

### ADOPTION OF ANNUAL INCENTIVE PLAN

On October 1, 2010, the Board of Directors adopted a new compensation plan in connection with the initial public offering to more appropriately align the Company’s compensation programs with those of similarly situated companies. The amount of the annual incentive payment will be determined based on performance targets established by the Board of Directors and a portion of the bonus may be paid in the form of equity (including stock and other awards under the EIP). If the Board of Directors elects to make payments in equity, the value of the overall award will be increased by 20%, related to the portion paid in equity. 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. The portion to be paid in cash is accrued ratably during the fiscal year in which the employees provide service and paid out during the first quarter of the subsequent fiscal year.

## Notes to Consolidated Financial Statements

### GRANTS OF CLASS A RESTRICTED COMMON STOCK

On July 1, 2013, the Board of Directors granted 744,926 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. The aggregate value was estimated at \$13.1 million based on the stock price of \$17.57 on the grant date. On August 21, 2013, the Board of Directors granted 25,705 shares of Class A Restricted Stock to certain members of the Board of Directors.

As permitted under the terms of the Equity Incentive Plan, the Compensation Committee as Administrator of the Plan, authorized the withholding of taxes not to exceed the minimum statutory withholding amount, through the surrender of shares of Class A common stock issuable upon the vesting or accelerated vesting of Restricted Stock. For those holders who elected to participate, the trade dates were as follows for the vesting or accelerated vesting of Restricted Stock. As a result of these transactions, the Company repurchased a total of 203,782 shares and recorded them as treasury shares at a cost of \$3.7 million, detailed as follows:

Trade Date	Total Shares Withheld to Cover Taxes		
	Shares	Cost	Total
April 1, 2013	10,219	\$13.45	\$ 137,446
June 30, 2013	137,111	\$17.38	2,382,989
July 15, 2013	3,959	\$18.40	72,846
July 31, 2013	5,844	\$21.38	124,945
September 13, 2013	7,309	\$19.19	140,260
October 7, 2013	4,162	\$18.59	77,372
March 31, 2014	35,178	\$22.00	773,916
<b>Total</b>	<b>203,782</b>		<b>\$3,709,774</b>

### OFFICERS' ROLLOVER STOCK PLAN

The Rollover Plan was adopted as a mechanism to enable Company Officers to exchange a portion of their previous equity interests in the pre-acquisition Company for equity interests in the Company. Among the equity interests that were eligible for exchange were common stock and stock rights, both vested and unvested.

Unvested stock rights that would have vested in 2008 were exchanged for 2,028,270 shares of new Class C Restricted Stock issued by the Company at an estimated fair value of \$10.00 at August 1, 2008. The aggregate grant date fair value of the Class C Restricted Stock issued of \$20.3 million was recorded as expense over the vesting period. For the fiscal years ended March 31, 2014 and 2013, 136,200 cumulative shares of Class C Restricted Stock vested for each year. At March 31, 2014 and 2013, 3,971,730 shares of Class C Restricted Stock were authorized but unissued under the Plan. Notwithstanding the foregoing, Class C Restricted Stock was intended to be issued only in connection with the exchange process described above.

In addition to the conversion of the stock rights that would have vested in 2008 to Class C Restricted Stock, Options were issued in exchange for old stock rights held by the U.S. government consulting partners of the pre-acquisition Company. The Rollover Options were granted based on the retirement eligibility of the Officer. For the purposes of these options, there were two categories of Officers – retirement eligible and non-retirement eligible. Rollover Options granted to retirement eligible Officers vested in equal annual installments on June 30, 2009, 2010, and 2011.

The following table summarizes the exercise schedule for Officers who were deemed retirement eligible. Exercise schedules are based on original vesting dates applicable to the stock rights surrendered:

As of June 30,	Percentage of Rollover Options to be Exercised					
	2009	2010	2011	2012	2013	2014
<b>Retirement Eligible</b>						
Original vesting date of June 30, 2009	60%	20%	20%	–	–	–
Original vesting date of June 30, 2010	–	50%	20%	20%	10%	–
Original vesting date of June 30, 2011	–	–	20%	20%	30%	30%

Those individuals who were considered retirement eligible also were given the opportunity to make a one-time election to be treated as non-retirement eligible. The determination of retirement eligibility was made as of a set point in time and could not be changed at a future date.

## Notes to Consolidated Financial Statements

Rollover Options granted to Officers who were categorized as non-retirement eligible vested 50% on June 30, 2011, 25% on June 30, 2012, and 25% on June 30, 2013.

The following table summarizes the exercise schedule for Officers who were deemed non-retirement eligible. Exercise schedules are based on original vesting dates applicable to the stock rights surrendered:

As of June 30,	Percentage of Rollover Options to be Exercised				
	2011	2012	2013	2014	2015
Non-Retirement Eligible:					
Original vesting date of June 30, 2011	20%	20%	20%	20%	20%
Original vesting date of June 30, 2012	—	25%	25%	25%	25%
Original vesting date of June 30, 2013	—	—	33%	33%	34%

The aggregate grant date fair value of the Rollover Options issued of \$127.1 million was recorded as compensation expense over the vesting period. The total grant date fair value of Rollover Options vested during fiscal 2014 and 2013 was \$16.2 million for each year.

### METHODOLOGY

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

During fiscal year 2014, the Company's Board of Directors authorized and declared four regular quarterly cash dividends of \$0.10 per share. Therefore, an annualized dividend yield between 1.92% and 2.26% was used in the Black-Scholes option-pricing model for all grants issued during the fiscal year. The Company has excluded any special dividends from the annualized dividend yield because of their classification as special dividends and their non-recurring nature. The Company plans to continue paying recurring dividends in the near term and assessing its excess cash resources to determine the best way to utilize its excess cash flow in order to meet its objectives. One way the Company may utilize excess cash includes the payment of special dividends. The Company does not anticipate or forecast the payment of special dividends

and therefore does not include special dividends in the annual dividend yield which the company uses to calculate the fair value of stock options, as the Company does not pay these special dividends on a regular basis.

Implied volatility is calculated as of each grant date based on our historical volatility along with an assessment of a peer group for future option grants. Other than the expected life of the option, volatility is the most sensitive input to our option grants. To be consistent with all other implied calculations, the same peer group used to calculate other implied metrics is also used to calculate implied volatility.

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

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

Through Fiscal Year Ended March 31,	2014	2013	2012
Dividend yield	2.19%	2.07%	0.28%
Expected volatility	30.97%	33.12%	36.80%
Risk-free interest rate	1.36%	1.44%	2.35%
Expected life (in years)	6.64	7.00	7.00
Weighted-average grant date fair value	\$4.59	\$4.69	\$7.56

### SPECIAL DIVIDENDS

The Board of Directors, as the Administrator of the Officers' Rollover Stock Plan and the Amended and Restated Equity Incentive Plan have discretion in how to effect the required adjustment to keep option holders whole in the event of a distribution of dividends that trigger certain anti-dilution clauses within the respective plans. In the event the Board of Directors elect to grant option holders a cash payment equal to the amount of the special dividend, the Company accrues a stock-based compensation liability as the respective option's stock compensation expense is recorded in the statement

## Notes to Consolidated Financial Statements

of operations. This obligation will be settled on the options' mandatory exercise date for Rollover Options and on the later of the date the dividend is paid or vesting for the EIP options. The stock-based compensation liability includes all special dividends declared.

On May 29, 2012, our Board of Directors declared a special cash dividend of \$1.50 per share that was 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. The dividend was 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 dividend was paid on August 31, 2012 to stockholders of record on August 13, 2012. 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.

On October 29, 2013, our Board of Directors authorized and declared a special cash dividend of \$1.00 per share. The dividend was paid on November 29, 2013 to stockholders of record on November 11, 2013. 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 November 29, 2013 or the vesting of the EIP option, whichever is later.

On January 31, 2014, our Board of Directors authorized and declared a special cash dividend of \$1.00 per share. The dividend was paid on February 28, 2014 to stockholders of record on February 10, 2014. The Board of Directors, acting as the Administrator of the Officers' Rollover Stock Plan and the Amended and Restated Equity Incentive Plan, made a determination to adjust the outstanding Rollover and EIP options for the special dividend to prevent the dilution of the benefit or potential benefit of the options. The adjustment is in the form of a \$1.00 dividend equivalent. Holders of the Rollover Options will receive a cash payment equal to the amount of the special dividend on the exercise of the option during the options' mandatory exercise period. Holders of EIP options received or will receive a cash payment equal to the amount of the special dividend payable on February 28, 2014 or the vesting of the EIP option, whichever is later.

On September 30, 2013, Rollover Options holders received a dividend equivalent payment of \$34.0 million related to special dividends declared in fiscal years 2010 and 2013. On June 28, 2013 vested outstanding EIP option holders received a dividend equivalent payment of \$13.9 million related to the special dividends declared in fiscal year 2013. On November 29, 2013 vested EIP option holders received a payment of \$4.2 million related to the special dividend declared in October 2013. On February 28, 2014 and March 31, 2014 vested EIP option holders received a total payment of \$4.1 million, related to the special dividend declared in January 2014. Payment of the dividend equivalents were accounted for as modifications resulting in incremental benefit to the option holders resulting in additional compensation expense of \$1.6 million. Total compensation expense recorded in conjunction with the payment of all dividend equivalent to holders of unvested EIP options for the fiscal year ended March 31, 2014 was \$2.1 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 \$1.0 million and is expected to be recognized over 3.25 years.

## Notes to Consolidated Financial Statements

As of March 31, 2014 and March 31, 2013, the Company calculated a total recorded and unrecorded stock-based compensation liability of \$73.1 million and \$106.4 million, respectively, related to the special dividends paid in July 2009, December 2009, June 2012, August 2012, November 2013 and February 2014, as follows:

	March 31, 2014			March 31, 2013		
	EIP Options	Rollover Options	Total	EIP Options	Rollover Options	Total
Current portion of liability <sup>(1)</sup>	\$3,675	\$36,247	\$39,922	\$14,429	\$34,039	\$48,468
Long-term portion of liability <sup>(2)</sup>	—	25,966	25,966	—	50,625	50,625
	\$3,675	\$62,213	\$65,888	\$14,429	\$84,664	\$99,093

(1) Included in accrued compensation and benefits (Note 8).

(2) Included in other long-term liabilities.

As of March 31, 2014, \$7.2 million related to EIP Options will be recorded as liabilities as the options vest over the next 5 years. There is no unrecorded liability related to Rollover options as of March 31, 2014, as the Rollover options are fully vested. As of March 31, 2013, there were unrecognized liabilities of \$2.8 million related to Rollover Options and \$4.5 million related to EIP options.

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

	Number of Options	Weighted Average Exercise Price
<b>Officers' Rollover Stock Plan Options</b>		
Retirement Eligible:		
Options outstanding at March 31, 2013	1,699,939	\$ 0.01*
Granted	—	—
Forfeited	—	—
Expired	—	—
Exercised	971,389	0.01*
Options outstanding at March 31, 2014	728,550	\$ 0.01*
Non-Retirement Eligible:		
Options outstanding at March 31, 2013	5,544,156	\$ 0.01*
Granted	—	—
Forfeited	—	—
Expired	—	—
Exercised	1,848,053	0.01*
Options outstanding at March 31, 2014	3,696,103	\$ 0.01*
<b>Equity Incentive Plan Options</b>		
Options outstanding at March 31, 2013	8,975,830	\$ 7.41
Granted	1,071,738	18.26
Forfeited	514,310	10.21
Expired	2,000	14.21
Exercised	2,480,293	5.90
Options outstanding at March 31, 2014	7,050,965	\$ 9.39**

\* Amount reduced for \$4.642 dividend issued December 11, 2009, \$1.087 dividend issued July 27, 2009, \$1.50 dividend issued May 29, 2012, and the \$6.50 dividend issued July 30, 2012.

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

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

	Number of Options	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value on Grant Date
<b>Officers' Rollover Stock Plan Options</b>			
Non-Retirement Eligible:			
Unvested at March 31, 2013	1,879,375	\$8.62	\$18,775
Granted	—	—	—
Vested	1,879,375	8.62	18,775
Forfeited	—	—	—
Unvested at March 31, 2014	—	—	\$ —
<b>Equity Incentive Plan Options</b>			
Unvested at March 31, 2013	5,486,060	\$5.91	\$ —
Granted	1,071,738	4.59	—
Vested	2,640,429	5.47	—
Forfeited	514,310	6.27	—
Unvested at March 31, 2014	3,403,059	\$5.78	\$ —

## Notes to Consolidated Financial Statements

The following table summarizes stock options outstanding at March 31, 2014:

Range of Exercise Prices	Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In years)	Stock Options Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In years)
<b>Officers' Rollover Stock Plan</b>						
\$0.01	4,424,653	\$0.01*	0.67	4,424,653	\$0.01	0.67
<b>Equity Incentive Plan</b>						
\$4.27–\$20.85	7,050,965	\$9.39**	6.58	3,647,906	\$6.48	5.51

\* Amount reduced for \$4.642 dividend issued December 11, 2009, \$1.087 dividend issued July 27, 2009, \$1.50 dividend issued May 29, 2012 and the \$6.50 dividend issued July 30, 2012.

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

### 18. Financial Instruments

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 following table set forth by levels represents the fair value of the Company's cash and cash equivalents as of March 31, 2014.

Fair Value of Cash and Cash Equivalents as of March 31, 2014	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$37,886	\$ —	\$ —	\$ 37,886
Money market funds <sup>(1)</sup>	—	222,108	—	222,108
Total cash and cash equivalents	\$37,886	\$222,108	\$ —	\$259,994

The following table set forth by levels represents the fair value of the Company's cash and cash equivalents as of March 31, 2013.

Fair Value of Cash and Cash Equivalents as of March 31, 2013	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$111,805	\$ —	\$ —	\$111,805
Money market funds <sup>(1)</sup>	—	238,579	—	238,579
Total cash and cash equivalents	\$111,805	\$238,579	\$ —	\$350,384

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

The fair value of the Company's trade accounts receivable and accounts payable approximates its carrying value at March 31, 2014 and March 31, 2013 because of the short-term nature of these instruments. The fair value of the Company's debt instruments approximates its carrying value at March 31, 2014 and March 31, 2013. 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 (Level 2 inputs).

### 19. Related-Party Transactions

The Carlyle Group is the majority shareholder of the Company. 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 fiscal 2014 were \$444,000 and \$368,000, respectively. Revenue and cost associated with these related parties for fiscal 2013 were \$739,000 and \$657,000, respectively. Revenue and cost associated with these related party transactions for fiscal 2012 were \$1.5 million and \$1.4 million, respectively.

In addition, investment vehicles affiliated with The Carlyle Group participated in a lender syndicate in the Company's outstanding debt in the amounts of \$55.5 million and \$58.3 million at March 31, 2014 and 2013, respectively. The participation by such investment vehicles in the syndication of the Company's debt during fiscal 2014 and fiscal 2013 was done on an arm's length basis.



## Notes to Consolidated Financial Statements

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. In addition, the Company made a one-time payment to TC Group of \$20.0 million for investment banking, financial advisory and other services provided to the Company in connection with the acquisition of Booz Allen Hamilton, Inc. in 2008 by The Carlyle Group, or acquisition. For fiscal 2014, fiscal 2013, and fiscal 2012, the Company incurred \$1.0 million per year in advisory fees.

### 20. Commitments and Contingencies

#### LEASES

The Company leases office space under noncancelable operating leases that expire at various dates through 2022. The terms for the facility leases generally provide for rental payments on a graduated scale, which are recognized on a straight-line basis over the terms of the leases, including reasonably assured renewal periods, from the time the Company controls the leased property. Lease incentives are recorded as a deferred credit and recognized as a reduction to rent expense on a straight-line basis over the lease term. Rent expense was approximately \$103.5 million, net of \$2.5 million of sublease income, \$105.9 million, net of \$5.5 million of sublease income, and \$113.9 million, net of \$5.7 million of sublease income, for fiscal 2014, fiscal 2013, and fiscal 2012, respectively.

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

<i>For the Fiscal Year Ending March 31,</i>	Operating Lease Payments	Operating Sublease Income
2015	\$ 79,586	\$223
2016	61,182	63
2017	32,457	39
2018	19,744	13
2019	16,221	—
Thereafter	28,315	—
	\$237,505	\$338

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

As a result of the Merger Transaction, 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 Florham Park, Parsippany, Troy, 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 March 31, 2014 or March 31, 2013. The maximum potential amount of undiscounted future payments is \$14.9 million, and the leases expire at different dates between April 2014 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 fiscal 2014, fiscal 2013, and fiscal 2012, approximately 98%, 99%, and 98%, respectively, of the Company's revenue was generated from contracts with U.S. government agencies or other U.S. government contractors. 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 such 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

## Notes to Consolidated Financial Statements

Agency Administrative Contracting Officer has negotiated annual final indirect cost rates through fiscal year 2007. 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 March 31, 2014 and 2013, the Company has recorded a liability of approximately \$189.8 million and \$156.2 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 2007.

### 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 are unspecified as to amount. Although the outcome of any such matter is inherently uncertain and may be materially adverse, based on current information, management does not expect any of the currently ongoing audits, reviews, investigations, or litigation to have a material adverse effect on the Company's financial condition and results of operations. As of March 31, 2014 and 2013, there are no material amounts accrued in the consolidated financial statements related to these proceedings.

Six former officers and stockholders who had departed the firm prior to the acquisition 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. Three 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, and the sixth is pending in the United States District Court for the Southern District of California. As of March 31, 2014 and 2013, the aggregate alleged damages sought 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, management does not expect them to have a material adverse effect on our financial condition and results of operations.

### 21. Business Segment Information

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

## Notes to Consolidated Financial Statements

### 22. Unaudited Quarterly Financial Data

	2014 Quarters			
	First	Second	Third	Fourth
Revenue	<b>\$1,427,691</b>	<b>\$1,378,020</b>	<b>\$1,273,150</b>	<b>\$1,399,832</b>
Operating income	<b>138,673</b>	<b>135,667</b>	<b>97,034</b>	<b>89,237</b>
Income before income taxes	<b>118,015</b>	<b>113,798</b>	<b>78,181</b>	<b>70,793</b>
Net income	<b>70,313</b>	<b>67,813</b>	<b>47,167</b>	<b>46,895</b>
Earnings per common share:				
Basic <sup>(1)</sup>	<b>\$ 0.51</b>	<b>\$ 0.48</b>	<b>\$ 0.32</b>	<b>\$ 0.32</b>
Diluted <sup>(1)</sup>	<b>\$ 0.48</b>	<b>\$ 0.45</b>	<b>\$ 0.31</b>	<b>\$ 0.30</b>

	2013 Quarters			
	First	Second	Third	Fourth
Revenue	\$1,432,424	\$1,387,650	\$1,392,695	\$1,545,290
Operating income	114,736	102,029	116,596	112,873
Income before income taxes	103,007	76,875	94,999	93,430
Net income	61,945	46,116	56,184	54,813
Earnings per common share:				
Basic <sup>(1)</sup>	\$ 0.46	\$ 0.29	\$ 0.41	\$ 0.40
Diluted <sup>(1)</sup>	\$ 0.43	\$ 0.27	\$ 0.38	\$ 0.37

Change in estimate adjustment - During the fourth quarter of fiscal 2013, the Company recorded a change in estimate to revenue associated with the recovery of allowable indirect expenses that in the aggregate increased both quarter and year-to-date revenue and operating income by approximately \$29.5 million (\$17.5 million net of taxes). The change in estimate reflects managements' revised best estimate of allowable indirect expenses using new information received in the fourth quarter of fiscal 2013. This change in estimate excludes the effects of an offsetting decrease to operating income associated with a discretionary increase to incentive compensation recorded during the fourth quarter of fiscal 2013.

(1) Earnings per share are computed independently for each of the quarters presented and therefore may not sum to the total for the fiscal year.

## Notes to Consolidated Financial Statements

### 23. Subsequent Event

On May 7, 2014 the Company entered into the Second Amendment to the Credit Agreement, dated as of July 31, 2012 (as previously amended by the First Agreement to the Credit Agreement, dated as of August 16, 2013). Prior to the Second Amendment, approximately \$660 million of Term Loan A and \$1,010 million of Term Loan B was outstanding. Pursuant to the Second Amendment, the Company borrowed additional Term Loan A of approximately \$170 million, the proceeds of which were used to partially prepay outstanding principal on the Term Loan B. Following the Amendment, \$830 million of Term Loan A and approximately \$841 million of Term Loan B were outstanding under the Credit Agreement. The rates for Term Loan A and Term Loan B, as amended, remain unchanged. The amendment also extends the maturity date of Term Loan A and the revolving credit facility to May 31, 2019. The maturity date for Term Loan B remains unchanged. The Company also amended its existing debt covenants to provide for greater operational and financial flexibility.

In connection with the Second Amendment the Company expects to accelerate the amortization of ratable portions of the DIC and OID that do not qualify for deferral of approximately \$1.0 million. These expenses will be reflected in other expense,

net in the three months ended June 30, 2014. Furthermore, the Company expects to expense third party debt issuance costs of approximately \$2.0 million that did not qualify for deferral and will be reflected in general and administrative costs in the three months ended June 30, 2014.

### 24. Supplemental Financial Information

The following schedule summarizes valuation and qualifying accounts for the periods presented:

<i>Fiscal Year Ended March 31,</i>	<b>2014</b>	2013	2012
Allowance for doubtful accounts:			
Beginning balance	<b>\$ 188</b>	\$ 799	\$ 1,348
Provision for doubtful accounts	<b>1,621</b>	397	1,502
Allowance for doubtful accounts from acquisitions	<b>—</b>	32	—
Charges against allowance	<b>(352)</b>	(1,040)	(2,051)
Ending balance	<b>\$1,457</b>	\$ 188	\$799
Tax valuation allowance:			
Beginning balance	<b>\$ —</b>	\$ 36,335	\$42,379
Deductions and other adjustments	<b>—</b>	(36,335)	—
Sale of capital assets	<b>—</b>	—	(6,044)
Ending balance	<b>\$ —</b>	\$ —	\$36,335

## 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 measures 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.

## Non-GAAP Measures

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)

	2014	2013	2012
(Unaudited)			
Fiscal Year Ended March 31,			
<b>Adjusted Operating Income</b>			
Operating Income	<b>\$460,611</b>	\$446,234	\$387,432
Certain stock-based compensation expense <sup>(a)</sup>	<b>1,094</b>	5,868	14,241
Amortization of intangible assets <sup>(b)</sup>	<b>8,450</b>	12,510	16,364
Net restructuring charge <sup>(c)</sup>	–	–	11,182
Transaction expenses <sup>(d)</sup>	–	2,725	–
Adjusted Operating Income	<b>\$470,155</b>	\$467,337	\$429,219
<b>EBITDA &amp; Adjusted EBITDA</b>			
Net income	<b>\$232,188</b>	\$219,058	\$239,955
Income tax expense	<b>148,599</b>	149,253	103,919
Interest and other, net	<b>79,824</b>	77,923	43,558
Depreciation and amortization	<b>72,327</b>	74,009	75,205
EBITDA	<b>532,938</b>	520,243	462,637
Certain stock-based compensation expense <sup>(a)</sup>	<b>1,094</b>	5,868	14,241
Net restructuring charge <sup>(c)</sup>	–	–	11,182
Transaction expenses <sup>(d)</sup>	–	2,725	–
Adjusted EBITDA	<b>\$534,032</b>	\$528,836	\$488,060
<b>Adjusted Net Income</b>			
Net income	<b>\$232,188</b>	\$219,058	\$239,955
Certain stock-based compensation expense <sup>(a)</sup>	<b>1,094</b>	5,868	14,241
Net restructuring charge <sup>(c)</sup>	–	–	11,182
Transaction expenses <sup>(d)</sup>	–	2,725	–
Amortization of intangible assets <sup>(b)</sup>	<b>8,450</b>	12,510	16,364
Amortization or write-off of debt issuance costs and write-off of original issue discount	<b>6,719</b>	13,018	4,783
Net gain on sale of state and local transportation business <sup>(e)</sup>	–	–	(5,681)
Release of income tax reserves <sup>(f)</sup>	–	–	(35,022)
Adjustments for tax effect <sup>(g)</sup>	<b>(6,505)</b>	(13,649)	(18,628)
Adjusted Net Income	<b>\$241,946</b>	\$239,530	\$227,194
<b>Adjusted Diluted Earnings Per Share</b>			
Weighted-average number of diluted shares outstanding	<b>148,681,074</b>	144,854,724	140,812,012
Adjusted Net Income Per Diluted Share <sup>(h)</sup>	<b>\$ 1.63</b>	\$ 1.65	\$ 1.61
<b>Free Cash Flow</b>			
Net cash provided by operating activities	<b>\$332,718</b>	\$464,654	\$360,046
Less: Purchases of property and equipment	<b>(20,905)</b>	(33,113)	(76,925)
Free Cash Flow	<b>\$311,813</b>	\$431,541	\$283,121

(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 restructuring charges of approximately \$15.7 million incurred during the three months ended March 31, 2012, net of approximately \$4.5 million of revenue recognized on recoverable expenses, associated with the cost of a restructuring plan to reduce certain personnel and infrastructure costs.

(d) Reflects debt refinancing costs incurred in connection with the recapitalization transaction consummated on July 31, 2012.

(e) Reflects the gain on sale of our state and local transportation business, net of the associated tax benefit of \$1.6 million.

(f) Reflects the release of income tax reserves.

(g) Reflects tax effect of adjustments at an assumed marginal tax rate of 40%.

(h) Excludes an adjustment of approximately \$3.1 million and \$9.1 million of net earnings for fiscal 2014 and 2013, respectively, associated with the application of the two-class method for computing diluted earnings per share.

## SHAREHOLDER INFORMATION

### Company News

Information about Booz Allen Hamilton Holding Corporation and our operating company Booz Allen Hamilton Inc., including archived news releases and SEC filings, is available from the company's website at [www.boozallen.com](http://www.boozallen.com). Booz Allen's quarterly earnings conference calls and other significant investor events are posted when they occur.

Inquiries from securities analysts, portfolio managers, and other representatives of institutional investors about Booz Allen should be directed to:

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211 Quality Circle, Suite 210  
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Shareholder website:

[www-us.computershare.com/investor](http://www-us.computershare.com/investor)

Shareholder online inquiries:

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### Independent Registered Public Accounting Firm

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McLean, VA

### Share Price Information

Booz Allen Hamilton Holding Corporation common stock is listed on the New York Stock Exchange (NYSE) under ticker symbol BAH. The weighted average number of diluted shares outstanding for the fiscal year ended March 31, 2014, was 148,681,074. Share price information can be found at [boozallen.com/investors](http://boozallen.com/investors).

### Management's Certifications

The certifications of our Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002 have been filed with the Securities and Exchange Commission as exhibits to our Annual Report on Form 10-K.

In addition, our Chief Executive Officer provided to the New York Stock Exchange the annual Section 303A CEO certification regarding our compliance with the New York Stock Exchange's corporate governance listing standards.

## ACKNOWLEDGEMENTS

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