ADDVANTAGE TECHNOLOGIES GROUP INC
Form 8-K
November 04, 2003

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

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): November 3, 2003

ADDvantage Technologies Group, Inc.
(Exact name of Registrant as specified in its charter)

Oklahoma	1-10799	73-1351610
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1605 E. Iola
Broken Arrow, Oklahoma
(Address of principal executive offices)

74012
(Zip code)

(918) 251-9121
(Registrant's telephone number, including area code)

Item 7. Financial Statements And Exhibites

(c) Exhibits

99.1 Press Release Announcing ADDvantage Technologies Group, Inc. Broadens Market Support with Scientific-Atlanta

Item 9. Regulation FD Disclosure

On November 3, ADDvantage Technologies Group, Inc. issued a press release announcing that the it broadens market support with Scientific-Atlanta. A copy of the press release is filed as an exhibit to this report and is incorporated by reference herein.

SIGNATURES

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

ADDvantage Technologies Group, Inc.

Dated: November 3, 2003 By: /s/ Kenneth A. Chymiak

Kenneth A. Chymiak, President

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Weighted-average number of diluted shares outstanding
148,835,283

145,063,515

148,165,190

144,116,057

Adjusted Net Income Per Diluted Share (e)
$
0.33

$
0.41

$
1.30

$
1.26

Free Cash Flow

Net cash provided by operating activities	$ 152,725	$ 9,186	$ 292,334	$ 398,934
Less: Purchases of property and equipment	(5,626)	(6,282)	(12,344)	(20,657)
Free Cash Flow	$ 147,099	$ 2,904	$ 279,990	$ 378,277

(a) Reflects stock-based compensation expense for options for Class A Common Stock and restricted shares, in each case, issued in connection with the Acquisition of our Company by The Carlyle Group (the Acquisition) under the Officers' Rollover Stock Plan. Also reflects stock-based compensation expense for Equity Incentive Plan Class A Common Stock options issued in connection with the Acquisition under the Equity Incentive Plan.

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

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

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

(e) Excludes an adjustment of approximately $1.5 million and $1.7 million of net earnings for the three and nine months ended December 31, 2013, respectively, and excludes an adjustment of approximately $450,000 and $9.0 million of

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net earnings for the three and nine months ended December 31, 2012, respectively, associated with the application of the two-class method for computing diluted earnings per share.

Recent Developments

The following recent development occurred after December 31, 2013, which may cause our future results of operations to differ from our historical results of operations discussed under "— Results of Operations."

On January 31, 2013, we announced a regular quarterly cash dividend in the amount of $0.10 per share and a special cash dividend of $1.00 per share, each payable on February 28, 2014 to shareholders of record on February 10, 2014. The Board of Directors, acting as the Administrator of the Officers' Rollover Stock Plan and the EIP made a determination to adjust the outstanding Rollover and EIP options for the special dividend to prevent the dilution 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 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.

Factors and Trends Affecting Our Results of Operations

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

Business Environment and Key Trends in Our Markets

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

- budget deficits and the growing U.S. national debt increasing pressure on the U.S. government to reduce federal spending across all federal agencies together with associated uncertainty about the size and timing of those reductions;
- changes in the relative mix of overall U.S. government spending and areas of spending growth, with lower spending on homeland security, intelligence and defense-related programs as overseas operations end, and continued increased spending on cyber-security, advanced analytics, technology integration and healthcare;
- cost cutting and efficiency initiatives, current and future budget reductions, continued implementation of Congressionally mandated automatic spending cuts, and other efforts to reduce U.S. government spending, which could cause clients to reduce or delay funding for orders for services or invest appropriated funds on a less consistent or rapid basis or not at all, particularly when considering long-term initiatives and in light of uncertainty around Congressional efforts to craft a long-term agreement on the U.S. government's ability to incur indebtedness in excess of its current limits and generally in the current political environment, not issue task orders in sufficient volume to reach current contract ceilings, alter historical patterns of contract awards, including the typical increase in the award of task orders or completion of other contract actions by the U.S. government in the period before the end of the U.S. government's fiscal year on September 30, delay requests for new proposals and contract awards, rely on short-term extensions and funding of current contracts, or reduce staffing levels and hours of operation;
- current and continued uncertainty around the timing, extent, nature and effect of Congressional and other U.S. government action to address budgetary constraints, the outcome of Congressional efforts to craft a long-term agreement on the U.S. government's ability to incur indebtedness in excess of its current limits prior to February 7, 2014, the date on which legislation relating to the U.S. government's debt limit expires and the U.S. deficit, including, the required reductions under the Budget Control Act of 2011 (as amended by the American Taxpayer Relief Act of 2012 and the Consolidated Appropriations Act, 2014), which provides for automatic spending cuts totaling approximately $1.2 trillion between 2013 and 2021;
- delays in the completion of future U.S. government's budget processes, which have in the past and could in the future delay procurement of the products, services, and solutions we provide;

- increased audit, review, investigation and general scrutiny by U.S. government agencies of government contractors' performance under U.S. government contracts and compliance with the terms of those contracts and applicable laws;
- the implementation by U.S. government agencies of approximately $64 billion in mandated 2014 sequestration spending cuts, including an estimated $30 billion in cuts to the Department of Defense;
- the federal focus on refining the definition of “inherently governmental” work, including proposals to limit contractor access to sensitive or classified information and work assignments, which will continue to drive pockets of insourcing in various agencies, particularly in the intelligence market;
- negative publicity and increased scrutiny of government contractors in general, including us, relating to U.S. government expenditures for contractor services and incidents involving the mishandling of sensitive or classified information;
- cost cutting and efficiency and effectiveness efforts by U.S. civilian agencies with a focus on increased use of performance measurement, “program integrity” efforts to reduce waste, fraud and abuse in entitlement programs, and renewed focus on improving procurement practices for and interagency use of IT services, including through the use of cloud based options and data center consolidation;
- U.S. government agencies awarding contracts on a technically acceptable/lowest cost basis, which could have a negative impact on our ability to win certain contracts;
- as a result of the U.S. government's efforts to reduce outlays for contractor costs, we may see a continuing shift toward placement of our consulting staff at client site locations instead of our facilities, which generally results in lower billing rates and could have a negative impact on our revenue;
- restrictions by the U.S. government on the ability of federal agencies to use lead system integrators, in response to cost, schedule and performance problems with large defense acquisition programs where contractors were performing the lead system integrator role;
- increasingly complex requirements of the Department of Defense and the U.S. Intelligence Community, including cyber-security, managing federal health care cost growth and focus on reforming existing government regulation of various sectors of the economy, such as financial regulation and healthcare;
- increased competition from other government contractors and market entrants seeking to take advantage of certain of the trends identified above;
- legislative and regulatory changes to limitations on the amount of allowable executive compensation permitted under flexibly priced contracts following implementation of relevant rules expected in or after June 2014, which substantially further reduce the amount of allowable executive compensation under these contracts and extend these limitations to a larger segment of our executive corps and our entire contract base; and
- efforts by the U.S. government to address organizational conflicts of interest and related issues and the impact of those efforts on us and our competitors.

Sources of Revenue

Substantially all of our revenue is derived from services provided under contracts and task orders with the U.S. government, primarily by our consulting staff and, to a lesser extent, our subcontractors. Funding for our contracts and task orders is generally linked to trends in budgets and spending across various U.S. government agencies and departments. We provide services under a large portfolio of contracts and contract vehicles to a broad client base, and we believe that our diversified contract and client base lessens potential volatility in our business; however, a reduction in the amount of services that we are contracted to provide to the U.S. government or any of our significant U.S. government clients could have a material adverse effect on our business and results of operations. In particular, the Department of Defense is one of our significant clients, and the Budget Control Act of 2011 (as amended by the American Taxpayer Relief Act of 2012 and the Consolidated Appropriations Act, 2014), which provides for automatic spending cuts totaling approximately $1.2 trillion between 2013 and 2021, requires an estimated $500 billion in federal defense spending cuts over this time period. Under the Budget Control Act, as amended, approximately $64 billion in spending cuts are mandated for fiscal 2014, and the Department of Defense has estimated that its share of these cuts at $30 billion. A reduction in the amount of services that we are contracted to provide to the Department of Defense could have a material adverse effect on our business and results of operations, and given the

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uncertainty of when and how these automatic reductions may be applied, we are unable to predict the nature or magnitude of the potential adverse effect.

Contract Types

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

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

The amount of risk and potential reward varies under each type of contract. Under cost-reimbursable contracts, there is limited financial risk, because we are reimbursed for all allowable costs up to a ceiling. However, profit margins on this type of contract tend to be lower than on time-and-materials and fixed-price contracts. Under time-and-materials contracts, we are reimbursed for the hours worked using the predetermined hourly rates for each labor category. In addition, we are typically reimbursed for other contract direct costs and expenses at cost. We assume financial risk on time-and-materials contracts because our labor costs may exceed the negotiated billing rates. Profit margins on well-managed time-and-materials contracts tend to be higher than profit margins on cost-reimbursable contracts as long as we are able to staff those contracts with people who have an appropriate skill set. Under fixed-price contracts, we are required to deliver the objectives under the contract for a pre-determined price. Compared to time-and-materials and cost-reimbursable contracts, fixed-price contracts generally offer higher profit margin opportunities because we receive the full benefit of any cost savings but generally involve greater financial risk because we bear the impact of any cost overruns. In the aggregate, the contract type mix in our revenue for any given period will affect that period's profitability. Over the last twelve months we have experienced a relatively stable contract mix, with a shift from from time-and-materials contracts and cost-reimbursable contracts to fixed-price contracts during the three months ended December 31, 2013.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
Cost-reimbursable (1)	55%	58%	55%	57%
Time-and-materials	26%	27%	28%	28%
Fixed-price (2)	19%	15%	17%	15%

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

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

Contract Diversity and Revenue Mix

We provide services to our clients through a large number of single award contracts and contract vehicles and multiple award contract vehicles. Most of our revenue is generated under indefinite delivery/indefinite quantity, or ID/IQ, contract vehicles, which include multiple award government wide acquisition contract vehicles, or GWACs, and General Services Administration Multiple Award Schedule Contracts, or GSA schedules, and certain single award contracts. GWACs and GSA schedules are available to all U.S. government agencies. Any number of contractors typically compete under multiple award ID/IQ contract vehicles for task orders to provide particular services, and we earn revenue under these contract vehicles only to the extent that we are successful in the bidding process for task orders.

We generate revenue under our contracts and task orders through our provision of services as both a prime contractor and subcontractor, as well as from the provision of services by subcontractors under contracts and task orders for which we act as the prime contractor. The mix of these types of revenue affects our operating margin. Substantially all of our operating margin is derived from direct consulting staff labor, as the portion of our operating margin derived from fees we earn on services provided by our subcontractors is not significant. We view growth in direct consulting staff labor as the primary driver of earnings growth. Direct consulting staff labor growth is driven by consulting staff headcount growth, after attrition, and total backlog growth.

Our People

Revenue from our contracts is derived from services delivered by consulting staff and, to a lesser extent, from our subcontractors. Our ability to hire, retain, and deploy talent with skills appropriately aligned with client needs is critical to our ability to grow our revenue. We continuously evaluate whether our talent base is properly sized and appropriately compensated, and contains an optimal mix of skills to be cost competitive and meet the rapidly evolving needs of our clients.We seek to achieve that result through recruitment and management of capacity and compensation. As of December 31, 2013 and 2012, we employed approximately 22,700 and 24,800 people, respectively, of which approximately 20,600 and 22,400, respectively, were consulting staff.

Contract Backlog

We define backlog to include the following three components:

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

Backlog does not include any task orders under ID/IQ contracts, including GWACs and GSA schedules, except to the extent that task orders have been awarded to us under those contracts.

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

	As of December 31,	
	2013	2012
	(In millions)	
Backlog: (1)		
Funded	$2,498	$3,152
Unfunded (2)	2,636	3,367
Priced options (3)	5,233	6,157
Total backlog	$10,367	$12,676

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(1) Backlog presented in the above table includes backlog acquired from the Company's acquisition of ARINC's Defense Systems Engineering and Support (DSES) division on November 30, 2012. Total backlog acquired from DSES is approximately $662 million as of December 31, 2013.

(2) Reflects a reduction by management to the revenue value of orders for services under two existing single award ID/IQ contracts the Company has had for several years, based on an established pattern of funding under these contracts by the U.S. government.

(3) Amounts shown reflect 100% of the undiscounted revenue value of all priced options.

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

We view growth in total backlog and consulting staff headcount as the two key measures of our potential business growth. Growing and deploying consulting staff is the primary means by which we are able to achieve profitable revenue growth. To the extent that we are able to hire additional consulting staff and deploy them against funded backlog, we generally recognize increased revenue. Total backlog, including backlog from Booz Allen Hamilton Engineering Services, LLC, or BES, of $662 million, decreased by 18.2% from December 31, 2012 to December 31, 2013. Funded backlog of $2.5 billion, including funded backlog from BES of $241 million, decreased by 20.7% from December 31, 2012 to December 31, 2013. Additions to funded backlog during the twelve months ended December 31, 2013, including backlog from BES, totaled $5.0 billion in comparison to $5.7 billion for the comparable period, with the decrease due to challenging and uncertain market conditions which is contributing to a lower conversion of unfunded backlog to funded backlog, the reduced award of new contracts and task orders under which funding was appropriated, and the decline in exercise and subsequent funding of priced options. With the passing of the $1.1 trillion Consolidated Appropriations Act in January 2014, we expect the pace of contract awards to increase throughout the remainder of the U.S. government’s fiscal year ending September 30, 2014. We report internally on our backlog on a monthly basis and review backlog upon occurrence of certain events to determine if any adjustments are necessary.

We cannot predict with any certainty the portion of our backlog that we expect to recognize as revenue in any future period and we cannot guarantee that we will recognize any revenue from our backlog. The primary risks that could affect our ability to recognize such revenue on a timely basis or at all are: program schedule changes, contract modifications, and our ability to assimilate and deploy new consulting staff against funded backlog; cost cutting initiatives and other efforts to reduce U.S. government spending, which could reduce or delay funding for orders for services; and delayed funding of our contracts due to delays in the completion of the U.S. government's budgeting process and the use of continuing resolutions by the U.S. government to fund its operations. Funded backlog includes orders under contracts for which the period of performance has expired, and we may not recognize revenue on the funded backlog that includes such orders due to, among other reasons, the tardy submission of invoices by our subcontractors and the expiration of the relevant appropriated funding in accordance with a pre-determined expiration date such as the end of the U.S. government's fiscal year. The revenue value of orders included in funded backlog that has not been recognized as revenue due to period of performance expirations has not exceeded approximately 5.9% of funded backlog as of the end of any of the eight fiscal quarters preceding the fiscal quarter ended December 31, 2013. In our recent experience, none of the following additional risks have had a material negative effect on our ability to realize revenue from our funded backlog: the unilateral right of the U.S. government to cancel multi-year contracts and related orders or to terminate existing contracts for convenience or default; in the case of unfunded backlog, the potential that funding will not be made available; and, in the case of priced options, the risk that our clients will not exercise their options.

Operating Costs and Expenses

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

Our most significant operating costs and expenses are described below.

- Cost of Revenue. Cost of revenue includes direct labor, related employee benefits, and overhead. Overhead consists of indirect costs, including indirect labor relating to infrastructure, management and administration, and other expenses.

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

Seasonality

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

Critical Accounting Estimates and Policies

There have been no material changes during the period covered by this Quarterly Report to the information disclosed in the Critical Accounting Estimates and Policies section in Part II, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report.

Results of Operations

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

	Three Months Ended December 31,		Percent	Nine Months Ended December 31,		Percent
	2013	2012	Change	2013	2012	Change
	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)	
	(In thousands)			(In thousands)		
Revenue	$1,273,150	$1,392,695	(8.6)%	$4,078,861	$4,212,769	(3.2)%
Operating costs and expenses:						
Cost of revenue	662,053	692,920	(4.5)%	2,048,663	2,122,356	(3.5)%
Billable expenses	320,370	382,520	(16.2)%	1,083,890	1,114,424	(2.7)%
General and administrative expenses	175,748	182,532	(3.7)%	520,557	588,385	(11.5)%
Depreciation and amortization	17,945	18,127	(1.0)%	54,377	54,243	0.2 %
Total operating costs and expenses	1,176,116	1,276,099	(7.8)%	3,707,487	3,879,408	(4.4)%
Operating income	97,034	116,596	(16.8)%	371,374	333,361	11.4 %
Interest expense	(18,874)	(21,731)	(13.1)%	(59,761)	(50,788)	17.7 %
Other, net	21	134	(84.3)%	(1,619)	(7,692)	(79.0)%
Income before income taxes	78,181	94,999	(17.7)%	309,994	274,881	12.8 %
Income tax expense	31,014	38,815	(20.1)%	124,701	110,636	12.7 %
Net income	$47,167	$56,184	(16.0)%	$185,293	$164,245	12.8 %

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Three Months Ended December 31, 2013 Compared to Three Months Ended December 31, 2012

Revenue

Revenue decreased to $1,273.2 million from $1,392.7 million, or an 8.6% decrease. The decrease was primarily driven by a reduction in billable hours and our management of subcontractors during the government shutdown in October 2013 and the continued uncertain federal budget environment. Lower billable hours combined with capacity and cost management efforts has resulted in reductions in headcount. The decrease in revenue was partially offset by an increase in revenue of $53.7 million from the Company's acquisition of BES. Conversions to funded backlog during the twelve months ended December 31, 2013 totaled $5.0 billion in comparison to $5.7 billion for the twelve months ended December 31, 2012, with the decrease due to challenging and uncertain market conditions, the reduced award of new contracts and task orders under which funding was appropriated, and the decline in exercise and subsequent funding of priced options during the twelve months ended December 31, 2013 due to the October government shutdown and delays in the government’s budgetary decisions. With the passing of the $1.1 trillion Consolidated Appropriations Act in January 2014, we expect the pace of contract awards and funding on our unfunded backlog and priced options to increase throughout the remainder of the U.S. government’s fiscal year ending September 30, 2014.

Cost of Revenue

Cost of revenue decreased to $662.1 million from $692.9 million, or a 4.5% decrease. This decrease was primarily due to a decrease in salaries and salary-related benefits of $28.5 million, and a decrease in employer retirement plan contributions of $12.4 million. The decrease in salaries and salary-related benefits was primarily due to reduced headcount in senior direct consulting staff. The decrease in employer retirement plan contributions was due to a decrease in the Company's expected discretionary employer contribution for fiscal 2014 as well as the reduced headcount noted above. The above decreases were offset by an increase of $9.6 million in incentive compensation. Cost of revenue as a percentage of revenue was 52.0% and 49.8% in the three months ended December 31, 2013 and 2012, respectively.

Billable Expenses

Billable expenses decreased to $320.4 million from $382.5 million, or a 16.2% decrease. The overall decrease was primarily due to decreases in subcontractor-related expenses and other billable expenses of $90.6 million incurred to perform on contracts. Direct subcontractor related expenses and other billable expenses decreased period over period due to the Company's continued management of its use of subcontractors and a decline in equipment purchases from the government. The effects of uncertain market conditions and delays in the U.S. government's budgetary process delayed funding on our contracts which directly impacted funding to our subcontractors and other purchases made to perform on contracts. This decrease was partially offset by additional billable expenses from BES of $27.8M due to BES' large percentage of work from subcontractors. Billable expenses as a percentage of revenue were 25.2% and 27.5% in the three months ended December 31, 2013 and 2012, respectively.

General and Administrative Expenses

General and administrative expenses decreased to $175.7 million from $182.5 million, or an 3.7% decrease. This decrease was due to decreases in salaries and salary-related benefits of $12.8 million and a decrease of $3.8 million in employer retirement plan contributions. The decrease in salaries and salary-related expenses was primarily driven by the net reduction in our headcount. The decrease in employer retirement plan contributions was due to a decrease in the Company's expected discretionary employer contribution percentage for fiscal 2014 as well as the reduced headcount noted above. The decrease was offset by an increase in incentive compensation of $3.9 million and an increase in other business related expenses and professional fees of $3.7 million. General and administrative expenses as a percentage of revenue were 13.8% and 13.1% for the three months ended December 31, 2013 and 2012, respectively.

Depreciation and Amortization

Depreciation and amortization decreased to $17.9 million from $18.1 million, or a 1.0% decrease.

Interest Expense

Interest expense decreased to $18.9 million from $21.7 million, or a 13.1% decrease, primarily due to the debt refinancing transaction that took place in August 2013 which resulted in a lower interest rate on the outstanding principal balance.

Income Tax Expense

Income tax expense decreased to $31.0 million from $38.8 million, or a 20.1% decrease, primarily due to a decrease in pre-tax income consistent with the declines in Operating Income, as described above.

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Nine Months Ended December 31, 2013 Compared to Nine Months Ended December 31, 2012

Revenue

Revenue decreased to $4,078.9 million from $4,212.8 million, or a 3.2% decrease. The decrease was primarily driven by a reduction in billable hours due to modestly lower demand in an uncertain federal budget environment. Lower billable hours combined with capacity and cost management efforts has resulted in reductions in headcount. However, a continued high level of productivity of consulting staff minimized the impact on our revenue from headcount declines. The decrease in revenue was partially offset by an increase in revenue of $200.8 million from the Company's acquisition of BES. Conversions to funded backlog during the twelve months ended December 31, 2013 totaled $5.0 billion in comparison to $5.7 billion for the twelve months ended December 31, 2012. The decrease in revenue conversion was due to challenging and uncertain market conditions which contributed to a lower conversion of unfunded backlog to funded backlog, the reduced award of new contracts and task orders under which funding was appropriated, and the decline in exercise and subsequent funding of priced options.

Cost of Revenue

Cost of revenue decreased to $2,048.7 million from $2,122.4 million, or a 3.5% decrease. This decrease was primarily due to a decrease in salaries and salary-related benefits of $47.5 million, a decrease in employer retirement plan contributions of $39.5 million, and a decrease in stock based compensation costs of $2.9 million. The decrease was partially offset by increases in incentive compensation of $9.1 million and other direct consulting staff expenses of $7.2 million. The decrease in salaries and salary-related benefits was primarily due to reduced headcount in senior direct consulting staff. The decrease in employer retirement plan contributions was due to a decrease in the Company's expected discretionary employer contribution for fiscal 2014 as well as the reduced headcount noted above. Cost of revenue as a percentage of revenue was 50.2% and 50.4% in the nine months ended December 31, 2013 and 2012, respectively.

Billable Expenses

Billable expenses decreased to $1,083.9 million from $1,114.4 million, or a 2.7% decrease. The overall decrease was primarily due to decreases in subcontractor-related expenses and other billable expenses of $145.5 million incurred to perform on contracts. Direct subcontractor related expenses decreased due to the Company's continued management of the use of subcontractors and a decline in equipment purchases from the government. However, this decrease was partially offset by additional billable expenses from BES of $107.7 million due to BES' large percentage of work from subcontractors. Billable expenses as a percentage of revenue were 26.6% and 26.5% in the nine months ended December 31, 2013 and 2012, respectively.

General and Administrative Expenses

General and administrative expenses decreased to $520.6 million from $588.4 million, or a 11.5% decrease. This decrease was primarily due to a decrease in salaries and salary-related benefits of $45.1 million and a decrease of $11.5 million in employer retirement plan contributions. The decrease in salaries and salary-related expenses was primarily driven by the net reduction in our headcount. The decrease in employer retirement plan contributions was due to a decrease in the Company's expected discretionary employer contribution percentage for fiscal 2014 as well as the reduced headcount noted above. The remaining decrease was due to decreases in stock based compensation of $2.9 million and decreases in business-related transaction expenses, such as expenses incurred in the nine months ended December 31, 2012 associated with the Company's July 2012 debt recapitalization and acquisitions that occurred during fiscal 2013 and decreases in professional fees and other expenses due to the Company's continued focus on cost management. The decreases were offset by an increase in incentive compensation of $1.6 million. General and administrative expenses as a percentage of revenue were 12.8% and 14.0% for the nine months ended December 31, 2013 and 2012, respectively.

Depreciation and Amortization

Depreciation and amortization increased to $54.4 million from $54.2 million, or a 0.2% increase. This increase was primarily due to increased amortization of intangible assets driven by the Company's acquisition of BES.

Interest Expense

Interest expense increased to $59.8 million from $50.8 million, or an 17.7% increase, primarily due to additional principal incurred in connection with the Company's debt recapitalization consummated on July 31, 2012.

Income Tax Expense
Income tax expense increased to $124.7 million from $110.6 million, or a 12.7% increase, primarily due to an increase in pre-tax income consistent with the increase in Operating Income, as described above.

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Liquidity and Capital Resources

We have historically been able to generate sufficient cash to fund our operations, debt payments, capital expenditures, and discretionary funding needs. We had $403.2 million and $350.4 million in cash and cash equivalents as of December 31, 2013 and March 31, 2013, respectively, and our debt totaled $1,674.5 million and $1,715.2 million as of December 31, 2013 and March 31, 2013, respectively. However, due to fluctuations in cash flows and delays in the U.S. government's budgetary process, it may be necessary from time to time in the future to borrow under our senior secured loan facilities to meet cash demands. We anticipate that cash provided by operating activities, existing cash and cash equivalents, and borrowing capacity under our revolving credit facility will be sufficient to meet our anticipated cash requirements for the next twelve months, which primarily include:

- operating expenses, including salaries;
- working capital requirements to fund the growth of our business;
- capital expenditures which primarily relate to the purchase of computers, business systems, furniture and leasehold improvements to support our operations;
- debt service requirements for borrowings under our senior secured loan facilities; and
- cash taxes to be paid.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
Recurring dividends (1)	$14,422	$12,239	$42,612	$36,279
Special dividends (2)	144,218	—	144,218	1,073,733
Dividend equivalents (3)	4,157	12,034	52,065	59,471
Total distributions	$162,797	$24,273	$238,895	$1,169,483

(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 and fiscal 2013, respectively.
(2) Amounts represent special dividends of $1.00 per share and $8.00 per share 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.

For the special cash dividend of $1.00 per share declared during the three months ended December 31, 2013, the Board of Directors, acting as the Administrator of the Officers' Rollover Stock Plan and the EIP made a determination to adjust the outstanding Rollover and EIP options for the special dividend to prevent the dilution of the options. The adjustment was 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 will receive a cash payment equal to the amount of the special dividend paid on November 29, 2013 or the vesting of the EIP option, whichever is later.

The Board of Directors, as the Administrator of the Officers' Rollover Stock Plan and the EIP has discretion in how to effect the required adjustment to keep option holders whole in the event of a distribution of dividends that triggers certain anti-dilution clauses within the respective plans. In the event the Board of Directors elects to grant option holders a cash payment equal to the amount of the special dividend, the Company accrues a stock-based compensation liability as the respective option's stock compensation expense is recorded in the statement 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 as of December 31, 2013 includes all special dividends declared through December 31, 2013. As of December 31, 2013 and March 31, 2013, the Company calculated a total recorded and unrecorded stock-based compensation

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liability of $65.3 million and $106.4 million, respectively, related to the special dividends paid in July 2009, December 2009, June 2012, and August 2012.

On January 31, 2014, we announced a regular quarterly cash dividend in the amount of $0.10 per share and a special cash dividend of $1.00 per share, each payable on February 28, 2014 to shareholders of record on February 10, 2014. The Board of Directors, acting as the Administrator of the Officers' Rollover Stock Plan and the EIP made a determination to adjust the outstanding Rollover and EIP options for the special dividend to prevent the dilution 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 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.

From time to time we evaluate alternative uses for excess cash resources including debt prepayments, payment of recurring and special dividends, funding acquisitions or share repurchases up to the Board of Directors current approved amount of $30.0 million, of which no shares have been repurchased as of December 31, 2013. Any determination to pursue one or more of the above alternative uses for excess cash is subject to the discretion of our Board of Directors, and will depend upon various factors, including our results of operations, financial condition, liquidity requirements, restrictions that may be imposed by applicable law, our contracts, and our senior secured credit agreement, as amended, and other factors deemed relevant by our Board of Directors.

Cash Flows

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

Accounts receivable is the principal component of our working capital and is generally driven by revenue growth with other short-term fluctuations related to the payment practices of our clients. Our accounts receivable reflect amounts billed to our clients as of each balance sheet date. Our clients generally pay our invoices within 30 days of the invoice date. At any month-end, we also include in accounts receivable the revenue that was recognized in the preceding month, which is generally billed early in the following month. Finally, we include in accounts receivable amounts related to revenue accrued in excess of amounts billed, primarily on our fixed-price and cost-plus-award-fee contracts. The total amount of our accounts receivable can vary significantly over time, but is generally sensitive to revenue levels. Total accounts receivable (billed and unbilled combined, net of allowance for doubtful accounts) days sales outstanding or DSO, which we calculate by dividing total accounts receivable by revenue per day during the relevant fiscal quarter, was 66 as of December 31, 2013 and 61 as of March 31, 2013.

The table below sets forth our net cash flows for the periods presented:

	Nine Months Ended December 31,	
	2013	2012
	(Unaudited)	(Unaudited)
	(In thousands)	
Net cash provided by operating activities	$292,334	$398,934
Net cash used in investing activities	(5,499)	(178,027)
Net cash used in financing activities	(234,055)	(387,697)
Total increase / (decrease) in cash and cash equivalents	$52,780	$(166,790)

Net Cash from Operating Activities

Net cash from operations is primarily affected by the overall profitability of our contracts, our ability to invoice and collect from clients in a timely manner, and our ability to manage our vendor payments. Net cash provided by operations was $292.3 million in the nine months ended December 31, 2013 compared to $398.9 million in the same prior year period, or a 26.7% decrease. The decrease in net cash provided by operations was primarily due to lower cash collections resulting from less

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timely payments by our customers than in the comparable prior year period, due in part to the government sequestration and shutdown, and staff furloughs in the government agency payment offices.

Net Cash from Investing Activities

Net cash used in investing activities was $5.5 million in the nine months ended December 31, 2013 compared to $178.0 million in the same prior year period, or a 96.9% decrease. The decrease in net cash used in investing activities was primarily due to the $155.1 million in cash paid to ARINC for the acquisition of DSES during the nine months ended December 31, 2012; there was no similar transaction during the nine months ended December 31, 2013.

Net Cash from Financing Activities

Net cash used in financing activities was $234.1 million in the nine months ended December 31, 2013 compared to $387.7 million in the same prior year period, or a 39.6% decrease. The decrease in net cash used in financing activities was primarily due to special cash dividends paid, partially offset by the proceeds from the July 31, 2012 Recapitalization Transaction. Special dividends paid during the nine months ended December 31, 2013 were $1.00 per share as compared to $8.00 per share for the nine months ended December 31, 2012. On October 15, 2013, we accessed $250 million of our $500 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, we repaid the $250 million borrowed from the revolving credit facility.

Indebtedness

Our debt totaled $1,674.5 million and $1,715.2 million as of December 31, 2013 and March 31, 2013, respectively. The interest rate in effect for Term Loan A was 2.67% and for Term Loan B was 3.75% as of December 31, 2013, and 2.70% for Term Loan A and 4.50% for Term Loan B as of March 31, 2013. As of December 31, 2013 and March 31, 2013, there were no amounts outstanding under our revolving credit facility of $500 million. As of December 31, 2013, the Company was in compliance with all of its financial covenants under its credit facilities.

On August 16, 2013, the Company consummated a repricing of its outstanding Term Loan B indebtedness by entering into the First Amendment to its Credit Agreement. As of December 31, 2013, 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 $100.0 million sublimit for letters of credit.

Absent any prepayment accelerations of Debt Issuance Costs, or 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:

	DIC Amortization Expense						
	Total	2014	2015	2016	2017	2018	Thereafter
	(in thousands)						
Term Loan A	$9,056	$731	$2,855	$2,614	$2,181	$675	$—
Term Loan B	9,416	383	1,583	1,636	1,681	1,734	2,399
Revolver	8,857	545	2,213	2,219	2,213	1,667	—
Total	$27,329	$1,659	$6,651	$6,469	$6,075	$4,076	$2,399

The Credit Agreement, as amended, 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%, prior to 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 Term Loan B's maturity date of July 31, 2019. The revolving credit facility matures on December 31, 2017, at which time any outstanding principal balance is due in full.

The interest rate on borrowings under Term Loan A is LIBOR plus a 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 a 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.

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The loans under the Credit Agreement, as amended, are secured by substantially all of our assets and none of such assets will be available to satisfy the claims of our general creditors. The Credit Agreement, as amended, contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are limited to the following, in each case subject to certain exceptions: a maximum net total leverage ratio; a minimum net interest coverage ratio; limitations on indebtedness and liens; mergers, consolidations or amalgamations, or liquidations, wind-ups or dissolutions; dispositions of property; restricted payments; investments; transactions with affiliates; sale and lease back transactions; change in fiscal periods; negative pledges; restrictive agreements; limitations on line of business; limitations on speculative hedging and limitations on changes of names and jurisdictions. In addition, we are required to meet certain financial covenants at each quarter end, namely Consolidated Net Total Leverage and Consolidated Net Interest Coverage Ratios. As of December 31, 2013, we were compliant with these covenants.

On October 15, 2013, we accessed $250 million of our $500 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, we repaid the $250 million borrowed from the revolving credit facility.

Capital Structure and Resources

Our stockholders’ equity amounted to $278.7 million as of December 31, 2013, an increase of $51.9 million compared to stockholders’ equity of $226.8 million as of March 31, 2013, primarily due to net income of $185.3 million in the nine months ended December 31, 2013, stock option exercises, common stock issuances, and stock-based compensation expense of $14.1 million.

Off-Balance Sheet Arrangements

As of December 31, 2013, we did not have any off-balance sheet arrangements.

Capital Expenditures

Since we do not own any of our facilities, our capital expenditure requirements primarily relate to the purchase of computers, business systems, furniture, and leasehold improvements to support our operations. Direct facility and equipment costs billed to clients are not treated as capital expenses. Our capital expenditures for the nine months ended December 31, 2013 and 2012 were $12.3 million and $20.7 million, respectively, and the majority of such capital expenditures related to facilities infrastructure, equipment, and information technology. Expenditures for facilities infrastructure and equipment are generally incurred to support new and existing programs across our business. We also incur capital expenditures for information technology to support programs and general enterprise information technology infrastructure.

Commitments and Contingencies

We are subject to a number of reviews, investigations, claims, lawsuits, and other uncertainties related to our business. For a discussion of these items, refer to Note 16 to our condensed consolidated financial statements.

Special Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q, or Quarterly Report, including information incorporated by reference into this Quarterly Report, contains forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “could,” “should,” “forecasts,” “expects,” “intends,” “plans,” “anticipates,” “projects,” “ou “believes,” “estimates,” “predicts,” “potential,” “continue,” “preliminary,” or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give you no assurance these expectations will prove to have been correct. These forward-looking statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

These risks and other factors include: cost cutting and efficiency initiatives, budget reductions, Congressionally mandated automatic spending cuts, and other efforts to reduce U.S. government spending, including automatic sequestration required by the Budget Control Act of 2011 (as amended by the American Taxpayer Relief Act of 2012 and the Consolidated Appropriations Act, 2014), which have reduced and delayed contract awards and funding for orders for services especially in the current political environment or otherwise negatively affect our ability to generate revenue under contract awards, including

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as a result of reduced staffing and hours of operation at U.S. government clients; delayed funding of our contracts due to uncertainty relating to and a possible failure of Congressional efforts to craft a long-term agreement on the U.S. government's ability to incur indebtedness in excess of its current limits prior to February 7, 2014, the date on which legislation relating to the U.S. government's debt limit expires, or changes in the pattern or timing of government funding and spending (including those resulting from or related to cuts associated with sequestration or other budgetary cuts made in lieu of sequestration); current and continued uncertainty around the timing, extent, nature, and effect of Congressional and other U.S. government action to address budgetary constraints, including, but not limited to, uncertainty around the outcome of Congressional efforts to craft a long-term agreement on the U.S. government's ability to incur indebtedness in excess of its current limits, and the U.S. deficit; any issue that compromises our relationships with the U.S. government or damages our professional reputation, including negative publicity concerning government contractors in general or us in particular; changes in U.S. government spending, including a continuation of efforts by the U.S. government to decrease spending for management support service contracts, and mission priorities that shift expenditures away from agencies or programs that we support; the size of our addressable markets and the amount of U.S. government spending on private contractors; failure to comply with numerous laws and regulations; our ability to compete effectively in the competitive bidding process and delays or losses of contract awards caused by competitors' protests of major contract awards received by us; the loss of General Services Administration Multiple Award schedule contracts, or GSA schedules, or our position as prime contractor on government-wide acquisition contract vehicles, or GWACs; changes in the mix of our contracts and our ability to accurately estimate or otherwise recover expenses, time, and resources for our contracts; our ability to generate revenue under certain of our contracts; our ability to realize the full value of and replenish our backlog and the timing of our receipt of revenue under contracts included in backlog; changes in estimates used in recognizing revenue; an inability to attract, train, or retain employees with the requisite skills, experience, and security clearances; an inability to hire, assimilate, and deploy enough employees to serve our clients under existing contracts; an inability to timely and effectively utilize our employees; failure by us or our employees to obtain and maintain necessary security clearances; the loss of members of senior management or failure to develop new leaders; misconduct or other improper activities from our employees or subcontractors, including the improper use or release of our clients' sensitive or classified information; increased insourcing by various U.S. government agencies due to changes in the definition of "inherently governmental" work, including proposals to limit contractor access to sensitive or classified information and work assignments; increased competition from other companies in our industry; failure to maintain strong relationships with other contractors; inherent uncertainties and potential adverse developments in legal or regulatory proceedings, including litigation, audits, reviews, and investigations, which may result in materially adverse judgments, settlements, withheld payments, penalties, or other unfavorable outcomes including debarment, as well as disputes over the availability of insurance or indemnification; continued efforts to change how the U.S. government reimburses compensation related and other expenses or otherwise limit such reimbursements, including recent rules that expand the scope of existing reimbursement limitations, such as a reduction in allowable annual employee compensation to certain contractors as a result of the Bipartisan Budget Act of 2013, and an increased risk of compensation being deemed unallowable or payments being withheld as a result of U.S. government audit, review or investigation; internal system or service failures and security breaches, including, but not limited to, those resulting from external cyber attacks on our network and internal systems; risks related to changes to our operating structure, capabilities, or strategy intended to address client needs, grow our business or respond to market developments; risks associated with new relationships, clients, capabilities, and service offerings in our U.S. and international businesses; failure to comply with special U.S. government laws and regulations relating to our international operations; risks related to our indebtedness and credit facilities which contain financial and operating covenants; the adoption by the U.S. government of new laws, rules, and regulations, such as those relating to organizational conflicts of interest issues or limits; risks related to completed and future acquisitions, including our ability to realize the expected benefits from such acquisitions; an inability to utilize existing or future tax benefits, including those related to our stock-based compensation expense, for any reason, including a change in law; variable purchasing patterns under U.S. government GSA schedules, blanket purchase agreements and indefinite delivery, indefinite quantity, or ID/IQ, contracts; and other risks and factors described in Part II, "Item 1A. Risk Factors" and elsewhere in this Quarterly Report.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q to the information disclosed in the Quantitative and Qualitative Disclosures about Market Risk section in Part II, "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended March 31, 2013 filed with the Securities and Exchange Commission on May 23, 2013.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q, or Quarterly Report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings
Our performance under U.S. government contracts and compliance with the terms of those contracts and applicable laws and regulations are subject to continuous audit, review, and investigation by the U.S. government which may include such investigative techniques as subpoenas or civil investigative demands. Given the nature of our business, these audits, reviews, and investigations may focus, among other areas, on various aspects of procurement integrity, labor time reporting, sensitive and/or classified information access and control, executive compensation, and post government employment restrictions. We are not always aware of our status in such matters, but we are currently aware of certain pending audits and investigations involving labor time reporting, procurement integrity, and classified information access. On April 13, 2012, we entered into an Administrative Agreement with the U.S. Air Force, which lifted the proposed debarment of our San Antonio office and removed it from the U.S. government's Excluded Parties List System. See our Form 10-K for the fiscal year ended March 31, 2012 for additional information. In addition, from time to time, we are also involved in legal proceedings and investigations arising in the ordinary course of business, including those relating to employment matters, relationships with clients and contractors, intellectual property disputes, and other business matters. These legal proceedings seek various remedies, including claims for monetary damages in varying amounts that currently range up to $40.0 million or have a reasonably estimated outcome within that range or are unspecified as to amount. Although the outcome of any such matter is inherently uncertain and may be materially adverse, based on current information, we do not expect any of the currently ongoing audits, reviews, investigations, or litigation to have a material adverse effect on our financial condition and results of operations.
Six former officers and stockholders who had departed the firm prior to July 31, 2008, the date on which we became majority owned by The Carlyle Group and certain of its affiliated investment funds, as described in the Company's Annual Report, or 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 us and certain of our current and former directors and officers. Each of the suits arises out of the Acquisition and alleges that the former stockholders are entitled to certain payments that they would have received if they had held their stock at the time of the Acquisition. Some of the suits also allege that the Acquisition price paid to stockholders was insufficient. The various suits assert claims for breach of contract, tortious interference with contract, breach of fiduciary duty, civil Racketeer Influenced and Corrupt Organizations Act, or RICO, violations, violations of the Employee Retirement Income Security Act and/or securities and common law fraud. Two of these suits have been dismissed with all appeals exhausted. Five of the remaining suits are pending in the United States District Court for the Southern District of New York, the sixth is pending in New York state court, and the seventh is pending in the United States District Court for the Southern District of California. The aggregate alleged damages sought in these seven remaining suits is 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.

Item 1A. Risk Factors
There have been no material changes during the period covered by this Quarterly Report on Form 10-Q to the risk factors disclosed in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended March 31, 2013 filed with the Securities and Exchange Commission on May 23, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
None.

Item 3. Defaults Upon Senior Securities
None.

Item 4. Mine Safety Disclosures
Not applicable.

Item 5. Other Information
None.

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Item 6. Exhibits

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of May 15, 2008, by and among Booz Allen Hamilton Inc., Booz Allen Hamilton Holding Corporation (formerly known as Explorer Holding Corporation), Booz Allen Hamilton Investor Corporation (formerly known as Explorer Investor Corporation), Explorer Merger Sub Corporation and Booz & Company Inc. (Incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-1 (File No. 333- 167645))
2.2	Spin Off Agreement, dated as of May 15, 2008, by and among Booz Allen Hamilton Inc., Booz & Company Holdings, LLC, Booz & Company Inc., Booz & Company Intermediate I Inc. and Booz & Company Intermediate II Inc. (Incorporated by reference to Exhibit 2.2 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
2.3	Amendment to the Agreement and Plan of Merger and the Spin Off Agreement, dated as of July 30, 2008, by and among Booz Allen Hamilton Inc., Booz Allen Hamilton Investor Corporation (formerly known as Explorer Investor Corporation), Explorer Merger Sub Corporation, Booz & Company Holdings, LLC, Booz & Company Inc., Booz & Company Intermediate I Inc. and Booz & Company Intermediate II Inc. (Incorporated by reference to Exhibit 2.3 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
3.1	Second Amended and Restated Certificate of Incorporation of Booz Allen Hamilton Holding Corporation (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report for the period ended December 31, 2010 on Form 10-Q (File No. 001-34972))
3.2	Second Amended and Restated Bylaws of Booz Allen Hamilton Holding Corporation (Incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report for the period ended December 31, 2010 on Form 10-Q (File No. 001-34972))
4.1	Amended and Restated Stockholders Agreement of Booz Allen Hamilton Holding Corporation (Incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report for the period ended December 31, 2010 on Form 10-Q (File No. 001-34972))
4.2	Irrevocable Proxy and Tag-Along Agreement (Incorporated by reference to Exhibit 4.4 to the Company's Quarterly Report for the period ended December 31, 2010 on Form 10-Q (File No. 001-34972))
4.3	Form of Stock Certificate (Incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.1	Management Agreement, by and among Booz Allen Hamilton Holding Corporation (formerly known as Explorer Holding Corporation), Booz Allen Hamilton Inc., and TC Group V US, LLC, dated as of July 31, 2008 (Incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.2	Amended and Restated Equity Incentive Plan of Booz Allen Hamilton Holding Corporation (Incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.3	Booz Allen Hamilton Holding Corporation Officers' Rollover Stock Plan (Incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 (File No. 333-167645))

10.4	Form of Booz Allen Hamilton Holding Corporation Rollover Stock Option Agreement (Incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.5	Form of Stock Option Agreement under the Equity Incentive Plan of Booz Allen Hamilton Holding Corporation (Incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.6	Form of Stock Option Agreement under the Equity Incentive Plan of Booz Allen Hamilton Holding Corporation (Incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.7	Form of Subscription Agreement (Incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.8	Form of Restricted Stock Agreement for Directors under the Equity Incentive Plan of Booz Allen Hamilton Holding Corporation (Incorporated by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.9	Form of Restricted Stock Agreement for Employees under the Equity Incentive Plan of Booz Allen Hamilton Holding Corporation (Incorporated by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1 (File No. 333-167645))

10.10	Booz Allen Hamilton Holding Corporation Annual Incentive Plan (Incorporated by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.11	Booz Allen Hamilton Holding Corporation Officers' Retirement Plan (Incorporated by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.12	Officer's Comprehensive Medical and Dental Choice Plans (Incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.13	Retired Officer's Comprehensive Medical and Dental Choice Plans (Incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.14	Excess ECAP Payment Program (Incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.15	Group Variable Universal Life Insurance (Incorporated by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.16	Group Personal Excess Liability Insurance (Incorporated by reference to Exhibit 10.21 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.17	Annual Performance Bonus Program (Incorporated by reference to Exhibit 10.22 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.18	Form of Booz Allen Hamilton Holding Corporation Director and Officer Indemnification Agreement (Incorporated by reference to Exhibit 10.23 to the Company's Registration Statement on Form S-1 (File No. 333-167645))
10.19	Form of Stock Option Agreement under the Equity Incentive Plan of Booz Allen Hamilton Holding Corporation (Incorporated by reference to Exhibit 10.23 to the Company's Annual Report for the year ended March 31, 2011 on Form 10-K (File No. 001-34972))
10.20	Officer Transition Policy (Incorporated by reference to Exhibit 10.24 to the Company's Annual Report for the year ended March 31, 2011 on Form 10-K (File No. 001-34972))
10.21	Form of Stock Option Agreement under the Equity Incentive Plan of Booz Allen Hamilton Holding Corporation (Incorporated by reference to Exhibit 10.25 to the Company's Quarterly Report for the period ended December 31, 2011 on Form 10-Q (File No. 001-34972))
10.22	Administrative Agreement, dated as of April 13, 2012, between Booz Allen Hamilton Inc. and the United States Department of the Air Force (Incorporated by reference to Exhibit 10.1 to the Company's Periodic Report on Form 8-K filed on April 13, 2012 (File No. 001-34972))
10.23	Amendment No. 1 to the Amended and Restated Stockholders Agreement (Incorporated by reference to Exhibit 10.1 to the Company's Periodic Report on Form 8-K filed on June 14, 2012 (File No. 001-34972))
10.24	Credit Agreement, by and among Booz Allen Hamilton Inc., as the Borrower, the several lenders from time to time parties thereto, Bank of America, N.A., as Administrative Agent, Collateral Agent and Issuing Lender, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse Securities (USA) LLC, as

	Joint Lead Arrangers, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC, Barclays Bank PLC, Citigroup Global Markets Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities LLC, Morgan Stanley Senior Funding, Inc. and Sumimoto Mitsui Banking Corporation, as Joint Bookrunners, Credit Suisse Securities (USA) LLC, as Syndication Agent, Barclays Bank PLC, Citigroup Global Markets Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities LLC, Morgan Stanley Senior Funding, Inc., Sumimoto Mitsui Banking Corporation and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Co-Documentation Agents, dated as of July 31, 2012 (Incorporated by reference to Exhibit 10.1 to the Company's Periodic Report on Form 8-K filed on August 1, 2012 (File No. 001-34972))
10.25	Guarantee and Collateral Agreement, among Booz Allen Hamilton Investor Corporation, Booz Allen Hamilton Inc., and the Subsidiary Guarantors party thereto, in favor of Bank of America, N.A., as Collateral Agent, dated as of July 31, 2012 (Incorporated by reference to Exhibit 10.2 to the Company's Periodic Report on Form 8-K filed on August 1, 2012 (File No. 001-34972))
10.26	First Amendment to Credit Agreement, dated as of August 16, 2013, by and among Booz Allen Hamilton Inc., as Borrower, Booz Allen Hamilton Investor Corporation, Booz Allen Hamilton Engineering Holding Co., LLC, Booz Allen Hamilton Engineering Services, LLC, SDI Technology Corporation, ASE, Inc. and , Booz Allen Hamilton International, Inc., as Guarantors, Bank of America, N.A., as Administrative Agent, Collateral Agent and New Refinancing Tranche B Term Lender, and the other Lenders and financial institutions from time to time party thereto (Incorporated by reference to Exhibit 10.1 to the Company's Periodic Report on Form 8-K filed on August 20, 2013 (File No. 001-34972))

31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer*
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer*
32.1	Certification of the Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)*
32.2	Certification of the Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)*
101	The following materials from Booz Allen Hamilton Holding Corporation's Quarterly Report on Form 10-Q for the three and nine months ended December 31, 2013 formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at December 31, 2013 and March 31, 2013; (ii) Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2013 and 2012; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended December 31, 2013 and 2012; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2013 and 2012; and (v) Notes to Condensed Consolidated Financial Statements.**

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* Filed electronically herewith.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections

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SIGNATURES

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

Booz Allen Hamilton Holding Corporation
Registrant

Date: January 31, 2014	By:	/s/ Samuel R. Strickland
		Samuel R. Strickland
		Executive Vice President
		Chief Financial Officer, Chief Administrative Officer and Director
		(Principal Financial and Accounting Officer)