Booz Allen Hamilton Holding Corp
Form 10-Q
January 31, 2014

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2013
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 001-34972

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

Delaware (State or other jurisdiction of incorporation or organization)	26-2634160 (I.R.S. Employer Identification No.)
8283 Greensboro Drive, McLean, Virginia (Address of principal executive offices)	22102 (Zip Code)

(703) 902-5000
Registrant's telephone number, including area code
(Former name, former address, and former fiscal year if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ý
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Shares Outstanding

	as of January 29, 2014
Class A Common Stock	142,644,028
Class B Non-Voting Common Stock	893,265
Class C Restricted Common Stock	955,336
Class E Special Voting Common Stock	4,424,814

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
BOOZ ALLEN HAMILTON HOLDING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2013 (Unaudited)	March 31, 2013
	(Amounts in thousands, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$403,164	$350,384
Accounts receivable, net of allowance	886,260	1,029,586
Prepaid expenses and other current assets	58,668	44,382
Total current assets	1,348,092	1,424,352
Property and equipment, net of accumulated depreciation	134,990	166,570
Intangible assets, net of accumulated amortization	224,628	236,220
Goodwill	1,274,046	1,277,369
Other long-term assets	68,377	73,017
Total assets	$3,050,133	$3,177,528
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$69,156	$55,562
Accounts payable and other accrued expenses	433,506	451,065
Accrued compensation and benefits	374,593	385,433
Other current liabilities	22,388	72,586
Total current liabilities	899,643	964,646
Long-term debt, net of current portion	1,605,341	1,659,611
Other long-term liabilities	266,461	326,478
Total liabilities	2,771,445	2,950,735
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common stock, Class A — $0.01 par value — authorized, 600,000,000 shares; issued, 143,162,505 shares at December 31, 2013 and 136,457,444 shares at March 31, 2013; outstanding, 142,588,058 shares at December 31, 2013 and 136,051,601 shares at March 31, 2013	1,431	1,364
Non-voting common stock, Class B — $0.01 par value — authorized, 16,000,000 shares; issued and outstanding, 943,265 shares at December 31, 2013 and 1,451,600 shares at March 31, 2013	9	15
Restricted common stock, Class C — $0.01 par value — authorized, 5,000,000 shares; issued and outstanding, 955,336 shares at December 31, 2013 and 1,224,319 shares at March 31, 2013	10	12
Special voting common stock, Class E — $0.003 par value — authorized, 25,000,000 shares; issued and outstanding, 4,424,814 shares at December 31, 2013 and 7,478,522 shares at March 31, 2013	13	22
Treasury stock, at cost — 574,447 shares at December 31, 2013 and 405,843 shares at March 31, 2013	(9,379)	(6,444)
Additional paid-in capital	175,199	120,836
Retained earnings	123,240	124,775

Accumulated other comprehensive loss	(11,835)	(13,787)
Total stockholders' equity	278,688	226,793
Total liabilities and stockholders' equity	$3,050,133	$3,177,528

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

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
	(Amounts in thousands, except per share data)		(Amounts in thousands, except per share data)	
Revenue	$1,273,150	$1,392,695	$4,078,861	$4,212,769
Operating costs and expenses:				
Cost of revenue	662,053	692,920	2,048,663	2,122,356
Billable expenses	320,370	382,520	1,083,890	1,114,424
General and administrative expenses	175,748	182,532	520,557	588,385
Depreciation and amortization	17,945	18,127	54,377	54,243
Total operating costs and expenses	1,176,116	1,276,099	3,707,487	3,879,408
Operating income	97,034	116,596	371,374	333,361
Interest expense	(18,874)	(21,731)	(59,761)	(50,788)
Other, net	21	134	(1,619)	(7,692)
Income before income taxes	78,181	94,999	309,994	274,881
Income tax expense	31,014	38,815	124,701	110,636
Net income	$47,167	$56,184	$185,293	$164,245
Earnings per common share (Note 3):				
Basic	$0.32	$0.41	$1.31	$1.16
Diluted	$0.31	$0.38	$1.24	$1.08
Dividends declared per share	$1.10	$0.09	$1.30	$8.27

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

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
	(Amounts in thousands)		(Amounts in thousands)	
Net income	$47,167	$56,184	$185,293	$164,245
Change in postretirement plan costs, net of tax	419	(76)	1,952	404
Comprehensive income	$47,586	$56,108	$187,245	$164,649

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

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

	Nine Months Ended December 31, 2013	2012
	(Amounts in thousands)	
Cash flows from operating activities		
Net income	$185,293	$164,245
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	54,377	54,243
Stock-based compensation expense	14,119	19,863
Excess tax benefits from the exercise of stock options	(36,844)	(26,297)
Amortization of debt issuance costs and loss on extinguishment	9,444	15,296
Losses on dispositions and impairments	911	956
Gain on sales of businesses	—	(254)
Changes in assets and liabilities:		
Accounts receivable	140,785	174,424
Prepaid expenses and other current assets	19,963	26,673
Other long-term assets	(1,679)	8,252
Accrued compensation and benefits	(25,824)	(1,805)
Accounts payable and other accrued expenses	(15,619)	(54,913)
Transaction costs on acquisitions and dispositions	—	(4,417)
Accrued interest	(630)	6,056
Other current liabilities	(48,610)	13,821
Other long-term liabilities	(3,352)	2,791
Net cash provided by operating activities	292,334	398,934
Cash flows from investing activities		
Purchases of property and equipment	(12,344)	(20,657)
Cash paid for business acquisitions, net of cash acquired	3,563	(157,995)
Proceeds from sales of businesses	—	625
Escrow payments	3,282	—
Net cash used in investing activities	(5,499)	(178,027)
Cash flows from financing activities		
Net proceeds from issuance of common stock	3,785	4,928
Stock option exercises	12,773	13,185
Excess tax benefits from the exercise of stock options	36,844	26,297
Repurchases of common stock	(2,935)	(849)
Cash dividends paid	(186,828)	(1,110,011)
Dividend equivalents paid to option holders	(52,065)	(49,765)
Debt issuance costs	(6,223)	(29,607)
Repayment of debt	(289,406)	(981,625)
Proceeds from debt issuance	250,000	1,739,750
Net cash used in financing activities	(234,055)	(387,697)
Net increase in cash and cash equivalents	52,780	(166,790)
Cash and cash equivalents—beginning of period	350,384	484,368
Cash and cash equivalents—end of period	$403,164	$317,578
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$46,927	$35,036

Income taxes	$140,893	$79,352

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

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BOOZ ALLEN HAMILTON HOLDING CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in tables in thousands, except share and per share data or unless otherwise noted)
December 31, 2013

1. BUSINESS OVERVIEW

Organization

Booz Allen Hamilton Holding Corporation, including its wholly owned subsidiaries, or Holding or the Company, is an affiliate of The Carlyle Group, or Carlyle, and was incorporated in Delaware in May 2008. The Company provides management and technology consulting services primarily to the U.S. government in the defense, intelligence, and civil markets. The Company is also further developing the scope and scale of the engineering services capabilities that it provides to its U.S. government clients. The Company has expanded beyond its management consulting foundation to develop deep expertise in technology, engineering, and analytics. 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 December 31, 2013.

2. BASIS OF PRESENTATION

The Company prepared the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q, or Quarterly Report, in accordance with accounting principles generally accepted in the United States, or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. As a result, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The Company followed the accounting policies used and disclosed in the consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended March 31, 2013 filed with the Securities and Exchange Commission on May 23, 2013, or Annual Report, and policies stated within this Quarterly Report. The Company’s fiscal year ends on March 31 and unless otherwise noted, references to fiscal year or fiscal are for fiscal years ended March 31.

The interim financial information in this Quarterly Report reflects all adjustments, consisting of normal recurring adjustments except as otherwise disclosed, necessary for a fair presentation of the Company’s results of operations for the interim periods. The results of operations for the nine months ended December 31, 2013 are not necessarily indicative of results to be expected for the full fiscal year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Areas of the financial statements where estimates may have the most significant effect include allowance for doubtful accounts, contractual and regulatory reserves, 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.

Recent Accounting Pronouncements

Recent accounting pronouncements issued by the Financial Accounting Standards Board, or FASB, during the nine months ended December 31, 2013, and through the filing date did not or are not believed by management to have a material impact on the Company's present or historical condensed consolidated financial statements.

3. EARNINGS PER SHARE

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

The Company currently has outstanding shares of Class A Common Stock, Class B Non-Voting Common Stock, Class C Restricted Common Stock, and Class E Special Voting Common Stock. Class E Special Voting Common

Stock shares are not included in the calculation of EPS as these shares represent voting rights only and are not entitled to participate in dividends or other distributions. Unvested Class A Restricted Common Stock and unvested Class C Restricted Common Stock holders are entitled to participate in non-forfeitable dividends or other distributions. These unvested shares participated in the Company's dividends declared and paid in the first, second, and third quarters of fiscal 2014 and 2013. 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 restricted shareholders. A reconciliation of the income used to compute basic and diluted EPS for the periods presented are as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
Earnings for basic computations (1)	$45,689	$55,709	$183,605	$155,285
Weighted-average Class A Common Stock outstanding	140,948,396	132,125,447	138,540,878	129,902,993
Weighted-average Class B Non-Voting Common Stock outstanding	947,259	1,932,004	1,087,755	2,281,000
Weighted-average Class C Restricted Common Stock outstanding	968,405	1,215,102	1,042,537	1,311,015
Total weighted-average common shares outstanding for basic computations	142,864,060	135,272,553	140,671,170	133,495,008
Earnings for diluted computations (1)	$45,689	$55,734	$183,605	$155,285
Dilutive stock options and restricted stock	5,971,223	9,790,962	7,494,020	10,621,049
Average number of common shares outstanding for diluted computations	148,835,283	145,063,515	148,165,190	144,116,057
Earnings per common share				
Basic	$0.32	$0.41	$1.31	$1.16
Diluted	$0.31	$0.38	$1.24	$1.08

(1) During the three months ended December 31, 2013 and 2012, approximately 1.3 million and 1.2 million participating securities were paid dividends totaling $1.5 million and $104,000, respectively. During the nine months ended December 31, 2013 and 2012, approximately 1.3 million and 1.2 million participating securities were paid dividends totaling $1.7 million and $9.0 million, respectively. For the three months ended December 31, 2012 there were undistributed earnings of $371,000 and $346,000 allocated to the participating class of securities in basic and diluted earnings per share, respectively. The undistributed and distributed earnings referenced above comprise the difference from net income presented on the condensed consolidated statements of operations for the three months ended December 31, 2012, while only the dividends paid comprise the difference in net income for the three and nine months ended December 31, 2013 and the nine months ended December 31, 2012, as there were no excess undistributed earnings.

In the EPS calculation for the three and nine months ended December 31, 2013, 101,000 and 104,000 options respectively, were not included in the EPS calculation as their impact was anti-dilutive. For the three and nine months ended December 31, 2012, 782,000 and 328,000 options, respectively, were not included in the EPS calculation as their impact was anti-dilutive.

4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

	December 31, 2013	March 31, 2013
Current		
Accounts receivable–billed	$452,478	$431,770
Accounts receivable–unbilled	435,465	598,004
Allowance for doubtful accounts	(1,683)	(188)
Accounts receivable, net	886,260	1,029,586
Long-term		

Unbilled receivables	21,443	19,779
Total accounts receivable, net	$907,703	$1,049,365

The Company recognized a provision (benefit) for doubtful accounts of $(302,000) and $(497,000) for the three months ended December 31, 2013 and 2012, respectively, and $1.2 million and $349,000 for the nine months ended December 31, 2013 and 2012, respectively. Long-term unbilled receivables related to retainage, holdbacks, and long-term rate settlements to be billed at contract closeout are included in other long-term assets as accounts receivable in the accompanying condensed consolidated balance sheets.

5. ACCOUNTS PAYABLE AND OTHER ACCRUED EXPENSES

Accounts payable and other accrued expenses consisted of the following:

	December 31, 2013	March 31, 2013
Vendor payables	$214,643	$248,471
Accrued expenses	218,863	202,594
Total accounts payable and other accrued expenses	$433,506	$451,065

Accrued expenses consisted primarily of the Company’s reserve related to potential cost disallowance in conjunction with government audits. Refer to Note 16 for further discussion of this reserve.

6. ACCRUED COMPENSATION AND BENEFITS

Accrued compensation and benefits consisted of the following:

	December 31, 2013	March 31, 2013
Bonus	$60,645	$89,389
Retirement	118,079	83,071
Vacation	102,848	136,528
Stock-based compensation liability (Note 13)	36,018	48,468
Deferred compensation (1)	27,433	—
Other	29,570	27,977
Total accrued compensation and benefits	$374,593	$385,433

(1) 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. Employees must leave the money in the EPP until 2014. 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 Company anticipates the deferred balance will be paid during the three months ending December 31, 2014, and as such, the entire deferred compensation balance of $27.4 million as of December 31, 2013 was reclassified from other long-term liabilities to a component of accrued compensation and benefits.

7. DEBT
Debt consisted of the following:

	December 31, 2013		March 31, 2013	
	Interest Rate	Outstanding Balance	Interest Rate	Outstanding Balance
Term Loan A	2.67 %	$673,801	2.70 %	$706,134
Term Loan B	3.75 %	1,000,696	4.50 %	1,009,039
Total		1,674,497		1,715,173
Less: Current portion of long-term debt		(69,156)		(55,562)
Long-term debt, net of current portion		$1,605,341		$1,659,611

On August 16, 2013, the Company consummated the First Amendment to its senior secured credit agreement, effective July 31, 2012, or Credit Agreement. As of December 31, 2013, the Credit Agreement, as amended, 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, as amended, 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, as amended, and related documentation.

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 13.0%, 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. As of December 31, 2013 and March 31, 2013, there were no amounts outstanding on the revolving credit facility.

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.
The total outstanding debt balance is recorded in the accompanying condensed consolidated balance sheets, net of unamortized discount of $12.8 million and $11.6 million as of December 31, 2013 and March 31, 2013, respectively. As of December 31, 2013 and March 31, 2013, the Company was in compliance with all of the debt covenants of the Credit Agreement, as amended.
8. INCOME TAXES
The Company’s effective income tax rate was 39.7% and 40.9% for the three months ended December 31, 2013 and 2012, respectively, and 40.2% for the nine months ended December 31, 2013 and 2012, respectively. The three and nine months effective tax rates of 39.7% and 40.2% differ from the statutory rate of 35.0% due to state income taxes, changes in uncertain tax positions, and the effect of permanent rate differences, which primarily relate to meals and entertainment.

9. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consisted of the following:

	December 31, 2013	March 31, 2013
Income tax reserve	$57,927	$57,018
Deferred rent	29,548	40,548
Deferred compensation (1)	—	26,443
Stock-based compensation	24,118	50,625
Deferred payment obligation	60,701	61,473
Postretirement benefit obligations	88,005	83,761
Other	6,162	6,610
Total other long-term liabilities	$266,461	$326,478

(1) As disclosed in Note 6, the Company anticipates paying the entire deferred compensation balance of the EPP during the three months ending December 31, 2014, and as such, the entire deferred compensation balance was reclassified from other long-term liabilities to accrued compensation and benefits.

10. EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

The Company sponsors the Employees' Capital Accumulation Plan, or ECAP, which is a qualified defined contribution plan that covers eligible U.S. and international employees. ECAP provides for distributions, subject to certain vesting provisions, to participants by reason of retirement, death, disability, or termination of employment. Total expense recognized under ECAP was $36.4 million and $54.9 million for the three months ended December 31, 2013 and 2012, respectively, and $118.7 million and $173.7 million for the nine months ended December 31, 2013 and 2012, respectively. The Company-paid contributions were $19.3 million and $27.8 million for the three months ended December 31, 2013 and 2012, respectively, and $83.7 million and $99.1 million for the nine months ended December 31, 2013 and 2012, respectively.

Defined Benefit Plan and Other Postretirement Benefit Plans

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

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
Service cost	$1,186	$973	$3,559	$2,919
Interest cost	921	787	2,751	2,360
Net actuarial loss	704	384	2,068	1,153
Total postretirement medical expense	$2,811	$2,144	$8,378	$6,432

As of December 31, 2013 and March 31, 2013, the unfunded status of the postretirement medical plan was $83.0 million and $78.7 million, respectively, which is included in other long-term liabilities in the accompanying condensed consolidated balance sheets.

11. 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:

	Three Months Ended December 31,		Nine Months Ended December 31,
	2013	2012	