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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 333-173746

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**DELTA TUCKER HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

27-2525959  
(I.R.S. Employer  
Identification No.)

1700 Old Meadow Road, McLean, Virginia 22102

(571) 722-0210

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Exchange Act (§240.12b-2 of this chapter).

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Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 13, 2018, the registrant had 100 shares of its Class A common stock outstanding.

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**Delta Tucker Holdings, Inc.**  
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## Disclosure Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q contains various forward-looking statements regarding future events and our future results that are subject to the safe harbors created by the Private Securities Litigation Reform Act of 1995 under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act"). Without limiting the foregoing, the words "believes," "thinks," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements. Forward-looking statements involve risks and uncertainties. Statements regarding the amount of our backlog and estimated total contract values are other examples of forward-looking statements. We caution that these statements are further qualified by important economic, competitive, governmental, international and technological factors that could cause our business, strategy, projections or actual results or events to differ materially, or otherwise, from those in the forward-looking statements. These factors, risks and uncertainties include, among others, the following:

- our substantial level of indebtedness, our ability to refinance or amend the terms of that indebtedness, and changes in availability of capital and cost of capital;
- the ability to refinance, amend or generate sufficient cash to repay our New Senior Credit Facility, consisting of our Revolver (as defined herein) and Term Loan (as defined herein) maturing on July 7, 2019 and July 7, 2020, respectively, or to refinance, amend or repay our other indebtedness, including any future indebtedness, which may force us to take other actions to satisfy our obligations under our indebtedness, which may not be successful;
- the future impact of mergers, acquisitions, divestitures, joint ventures or teaming agreements;
- the outcome of any material litigation, government investigation, audit or other regulatory matters;
- restatement of our financial statements causing credit ratings to be downgraded or covenant violations under our debt agreements;
- policy and/or spending changes implemented by the Trump Administration, any subsequent administration or Congress, including any further changes to the sequestration that the United States ("U.S.") Department of Defense ("DoD") is currently operating under;
- termination or modification of key U.S. government or commercial contracts, including subcontracts;
- changes in the demand for services that we provide or work awarded under our contracts, including without limitation, the Logistics Civil Augmentation Program IV ("LOGCAP IV") and Afghanistan Life Support Services ("ALiSS") contract;
- the outcome of future extensions on awarded contracts and the outcomes of recompetes on existing programs;
- changes in the demand for services provided by our joint venture partners;
- changes due to pursuit of new commercial business in the U.S. and abroad;
- activities of competitors and the outcome of bid protests;
- changes in significant operating expenses;
- impact of lower than expected win rates for new business;
- general political, economic, regulatory and business conditions in the U.S. or in other countries in which we operate;
- acts of war or terrorist activities, including cyber security threats;
- variations in performance of financial markets;
- the inherent difficulties of estimating future contract revenue and changes in anticipated revenue from indefinite delivery, indefinite quantity ("IDIQ") contracts and indefinite quantity contracts ("IQC");
- the timing or magnitude of any award, performance or incentive fee granted under our government contracts;
- changes in expected percentages of future revenue represented by fixed-price and time-and-materials contracts, including increased competition with respect to task orders subject to such contracts;
- decline in the estimated fair value of a reporting unit resulting in a goodwill impairment and a related non-cash impairment charged against earnings;
- changes in underlying assumptions, circumstances or estimates that may have a material adverse effect upon the profitability of one or more contracts and our performance;
- implementation of the tax reform legislation known colloquially as the Tax Cuts and Jobs Act (the "Tax Act") or other tax reform implemented by the Trump Administration, and any subsequent administration or Congress;
- changes in our tax provisions or exposure to additional income tax liabilities that could affect our profitability and cash flows;
- uncertainty created by management turnover or other restructuring activities;
- termination or modification of key subcontractor performance or delivery;
- the ability to receive timely payments from prime contractors where we act as a subcontractor; and
- statements covering our business strategy, including those described in "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission ("SEC") on March 21, 2018 and other risks detailed from time to time in our reports filed with SEC.

Accordingly, such forward-looking statements do not purport to be predictions of future events or circumstances and therefore, there can be no assurance that any forward-looking statements contained herein will prove to be accurate. Other important assumptions and factors that could cause actual results to differ materially from those in the forward-looking statements are

specified elsewhere in this report and in the Company's other SEC reports, which are accessible on the SEC's website at [www.sec.gov](http://www.sec.gov) and the Company's website at [www.dyn-intl.com](http://www.dyn-intl.com). Information on the Company's website is not part of this quarterly report on Form 10-Q. We assume no obligation to update the forward-looking statements.

**Calendar Year**

Included in this Quarterly Report are our unaudited condensed consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2018 and September 30, 2017, the related statements of deficit and cash flows for the nine months ended September 30, 2018 and September 30, 2017 and the unaudited condensed consolidated balance sheets as of September 30, 2018 and December 31, 2017.

**PART I. FINANCIAL INFORMATION.**

**ITEM 1. FINANCIAL STATEMENTS.**

**Delta Tucker Holdings, Inc.**  
**Unaudited Condensed Consolidated Statements of Operations**

<i>(Amounts in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue	\$ 525,022	\$ 502,974	\$ 1,609,676	\$ 1,437,133
Cost of services	(454,270)	(447,796)	(1,396,291)	(1,256,924)
Selling, general and administrative expenses	(21,163)	(21,243)	(71,192)	(80,129)
Depreciation and amortization expense	(6,022)	(8,792)	(18,053)	(25,936)
(Loss) earnings from equity method investees	(60)	53	209	105
Operating income	43,507	25,196	124,349	74,249
Interest expense	(16,197)	(17,149)	(49,268)	(53,628)
Loss on early extinguishment of debt	—	—	(239)	(24)
Interest income	863	15	1,796	39
Other income (expense), net	790	(43)	1,931	1,474
Income before income taxes	28,963	8,019	78,569	22,110
Provision for income taxes	(2,040)	(3,338)	(9,924)	(11,677)
Net income	26,923	4,681	68,645	10,433
Noncontrolling interests	(278)	(295)	(783)	(858)
Net income attributable to Delta Tucker Holdings, Inc.	\$ 26,645	\$ 4,386	\$ 67,862	\$ 9,575

See notes to unaudited condensed consolidated financial statements

**Delta Tucker Holdings, Inc.**  
**Unaudited Condensed Consolidated Statements of Comprehensive Income**

<i>(Amounts in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income	\$ 26,923	\$ 4,681	\$ 68,645	\$ 10,433
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustment	(22)	247	(50)	263
Other comprehensive (loss) income, before tax	(22)	247	(50)	263
Income tax benefit (expense) related to items of other comprehensive income (loss)	5	(88)	11	(94)
Other comprehensive (loss) income	(17)	159	(39)	169
Comprehensive income	26,906	4,840	68,606	10,602
Comprehensive loss attributable to noncontrolling interests	(278)	(295)	(783)	(858)
Comprehensive income attributable to Delta Tucker Holdings, Inc.	\$ 26,628	\$ 4,545	\$ 67,823	\$ 9,744

See notes to unaudited condensed consolidated financial statements



**Delta Tucker Holdings, Inc.**  
**Unaudited Condensed Consolidated Balance Sheets**

<i>(Amounts in thousands, except share data)</i>	As Of	
	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 239,145	\$ 168,250
Accounts receivable, net of allowances of \$5,076 and \$10,142 respectively	119,567	352,550
Contract assets	163,876	—
Prepaid expenses and other current assets	49,826	52,542
Total current assets	572,414	573,342
Property and equipment, net	22,985	23,568
Goodwill	42,093	42,093
Tradenames, net	28,536	28,536
Other intangibles, net	38,074	55,302
Long-term deferred taxes	874	369
Other assets, net	11,234	12,507
Total assets	\$ 716,210	\$ 735,717
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt, net	\$ —	\$ 53,652
Accounts payable	100,078	109,396
Accrued payroll and employee costs	79,739	105,391
Contract liabilities	39,842	—
Accrued liabilities	56,416	98,684
Income taxes payable	14,854	18,401
Total current liabilities	290,929	385,524
Long-term debt, net	536,945	527,039
Other long-term liabilities	11,437	13,081
Total liabilities	839,311	925,644
<b>DEFICIT</b>		
Common stock, \$0.01 par value – 1,000 shares authorized and 100 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	—	—
Additional paid-in capital	596,816	596,393
Accumulated deficit	(724,923)	(791,445)
Accumulated other comprehensive loss	(443)	(404)
Total deficit attributable to Delta Tucker Holdings, Inc.	(128,550)	(195,456)
Noncontrolling interests	5,449	5,529
Total deficit	(123,101)	(189,927)
Total liabilities and deficit	\$ 716,210	\$ 735,717

See notes to unaudited condensed consolidated financial statements

**Delta Tucker Holdings, Inc.**  
**Unaudited Condensed Consolidated Statements of Cash Flows**

<i>(Amounts in thousands)</i>	Nine Months Ended	
	September 30, 2018	September 30, 2017
<b>Cash flows from operating activities</b>		
Net income	\$ 68,645	\$ 10,433
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,635	27,245
Loss on early extinguishment of debt	239	24
Amortization of deferred loan costs and original issue discount	4,008	4,049
Allowance on accounts receivable and other noncash gains or losses	(24,659)	2,724
Earnings from equity method investees	(209)	(105)
Distributions from equity method investees	—	222
Deferred income taxes	(505)	(755)
Other, including paid in kind interest	6,082	6,226
Changes in assets and liabilities:		
Accounts receivable and contract assets	74,680	(25,731)
Prepaid expenses and other current assets	576	(4,867)
Accounts payable, accrued liabilities and contract liabilities	(14,757)	(14,168)
Income taxes payable	(3,632)	4,840
Net cash provided by operating activities	131,103	10,137
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(8,377)	(3,931)
Proceeds from sale of property and equipment	13	537
Purchase of software	(274)	(646)
Return of capital from equity method investees	8,278	6,017
Contributions to equity method investees	(4,433)	(3,250)
Net cash used in investing activities	(4,793)	(1,273)
<b>Cash flows from financing activities</b>		
Payments on senior secured credit facility	(54,943)	(25,114)
Payment to bondholders of senior unsecured notes	—	(39,319)
Equity contribution from affiliates of Cerberus	300	40,899
Payment of dividends to noncontrolling interests	(772)	(555)
Net cash used in financing activities	(55,415)	(24,089)
Net increase (decrease) in cash, cash equivalents and restricted cash	70,895	(15,225)
Cash, cash equivalents and restricted cash, beginning of period	168,250	125,882
Cash, cash equivalents and restricted cash, end of period	\$ 239,145	\$ 110,657
Income taxes paid, net of receipts	\$ 14,107	\$ 7,692
Interest paid	\$ 49,200	\$ 55,786

See notes to unaudited condensed consolidated financial statements

**Delta Tucker Holdings, Inc.**  
**Unaudited Condensed Consolidated Statements of Deficit**

<i>(Amounts in thousands)</i>	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Deficit Attributable to Delta Tucker Holdings, Inc.	Noncontrolling Interest	Total Deficit
<b>Balance at December 31, 2016</b>	—	\$ —	\$ 555,163	\$ (822,045)	\$ (510)	\$ (267,392)	\$ 5,455	\$ (261,937)
Share based compensation, net	—	—	27	—	—	27	—	27
Comprehensive income attributable to Delta Tucker Holdings, Inc.	—	—	—	9,575	169	9,744	858	10,602
Capital contribution	—	—	40,899	—	—	40,899	—	40,899
DIFZ financing, net of tax	—	—	4	—	—	4	—	4
Dividends declared to noncontrolling interests	—	—	—	—	—	—	(832)	(832)
<b>Balance at September 30, 2017</b>	—	\$ —	\$ 596,093	\$ (812,470)	\$ (341)	\$ (216,718)	\$ 5,481	\$ (211,237)

<i>(Amounts in thousands)</i>	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Deficit Attributable to Delta Tucker Holdings, Inc.	Noncontrolling Interest	Total Deficit
<b>Balance at December 31, 2017</b>	—	\$ —	\$ 596,393	\$ (791,445)	\$ (404)	\$ (195,456)	\$ 5,529	\$ (189,927)
Adjustment due to adoption of ASC 606	—	—	—	(1,340)	—	(1,340)	—	(1,340)
Share based compensation, net	—	—	54	—	—	54	—	54
Comprehensive income attributable to Delta Tucker Holdings, Inc.	—	—	—	67,862	(39)	67,823	783	68,606
Capital contribution	—	—	300	—	—	300	—	300
DIFZ financing, net of tax	—	—	69	—	—	69	—	69
Dividends declared to noncontrolling interests	—	—	—	—	—	—	(863)	(863)
<b>Balance at September 30, 2018</b>	—	\$ —	\$ 596,816	\$ (724,923)	\$ (443)	\$ (128,550)	\$ 5,449	\$ (123,101)

See notes to unaudited condensed consolidated financial statements

**Delta Tucker Holdings, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**Note 1 — Basis of Presentation and Accounting Policies**

***Basis of Presentation***

Delta Tucker Holdings, Inc. ("Holdings"), the parent of DynCorp International Inc. ("DynCorp International"), through its subsidiaries (together, "the Company"), provides defense and technical services and government outsourced solutions primarily to U.S. government agencies domestically and internationally. The Company was incorporated in the state of Delaware on April 1, 2010. Our customers include the DoD, the U.S. Department of State ("DoS"), the U.S. Agency for International Development ("USAID"), foreign governments, commercial customers and certain other U.S. federal, state and local government departments and agencies. Unless the context otherwise indicates, references herein to "we," "our," "us," or "the Company" refer to Delta Tucker Holdings, Inc. and our consolidated subsidiaries.

The unaudited condensed consolidated financial statements include the accounts of the Company and our domestic and foreign subsidiaries. These unaudited condensed consolidated financial statements have been prepared pursuant to accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, we believe that all disclosures are adequate and do not make the information presented misleading. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and the related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

In the opinion of management, normal recurring adjustments necessary to fairly present our financial position as of September 30, 2018 and December 31, 2017, the results of operations and statements of comprehensive income for the three and nine months ended September 30, 2018 and September 30, 2017 and the statements of deficit and cash flows for the nine months ended September 30, 2018 and September 30, 2017 have been included. The results of operations and statements of comprehensive income for the three and nine months ended September 30, 2018 and September 30, 2017 and the statements of deficit and cash flows for the nine months ended September 30, 2018 and September 30, 2017 are not necessarily indicative of the results to be expected for the full calendar year or for any future periods. We use estimates and assumptions required for preparation of the financial statements. The estimates are primarily based on historical experience and business knowledge and are revised as circumstances change. Our actual results may differ from these estimates. The unaudited condensed consolidated financial statements include the accounts of both our domestic and foreign subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

***Use of Estimates***

*General* - We are predominantly a services provider and only include products or systems when necessary for the execution of the service arrangement. As such, systems, equipment or materials are not generally separable from the services we provide. Revenue is recognized for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability is probable. Our contracts are primarily with U.S. government customers and are generally structured under the following contract types: (i) fixed-price; (ii) time-and-materials; and (iii) cost-reimbursement contracts. In a fixed-price contract, the price is generally not subject to adjustment based on costs incurred and may include firm fixed-price, fixed-price with economic adjustment, and fixed-price incentive elements. Time-and-materials contracts provide for acquiring supplies or services on the basis of direct labor hours at fixed hourly/daily rates plus materials at cost. Cost-reimbursement contracts provide for payment for allowable incurred costs, to the extent prescribed in the contract, plus a fixed-fee, award-fee, incentive-fee or a combination thereof.

Our contracts contain promises to provide distinct goods or services to the customer which represent performance obligations and is the unit of account under ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASC 606"). To determine the proper revenue recognition method, consideration is given as to whether a single contract should be accounted for as more than one performance obligation or whether two or more contracts should be combined and accounted for as one single contract. For most of our contracts, the customer contracts with us to provide a significant service of integrating a complex set of tasks and deliverables into a single service solution. Hence, the entire contract is accounted for as one performance obligation. Less commonly, however, we may promise to provide distinct goods or services within a contract in which case we separate the contract into more than one performance obligation. If a contract has multiple performance obligations, the contract's transaction price is allocated based on the estimated relative standalone selling prices of the promised goods or services underlying each performance. The primary method used to estimate standalone selling price is the expected cost plus a margin approach. In instances where a

performance obligation does not have an observable standalone selling price, we select an estimation method that maximizes the use of observable inputs.

Major factors we consider in determining total estimated revenue and cost include the base contract price, contract options, change orders (modifications of the original contract), back charges and claims, and contract provisions for penalties, award fees and performance incentives. All of these factors and other less significant contract provisions are evaluated throughout the life of our contracts when estimating transaction price. We inherently have risks related to our estimates with long-term contracts. Actual amounts could materially differ from these estimates. We believe the following are the risks associated with our estimation process: (i) assumptions are uncertain and inherently judgmental at the time of the estimate; (ii) use of reasonably different assumptions could have changed our estimates, particularly with respect to estimates of contract revenues, costs and recoverability of assets; and (iii) changes in estimates could have material effects on our financial condition or results of operations. The impact of any one of these factors could contribute to a material cumulative adjustment.

Our revenues are primarily derived from long-term contracts and programs with a base period and multiple option periods for services provided to the U.S. federal government. We recognize revenue over time and our contracts typically have one year base periods and multiple one year option periods. The option periods are considered separate purchase obligations from the base period. Generally, the terms and conditions of the contracts result in a continuous transfer of control over the relevant goods and services. As a result of control transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. We generally use a cost-to-cost measure of progress for our contracts because it best depicts the transfer of assets to the customer which occurs as we incur costs on our contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Costs to fulfill include labor, materials and subcontractors' costs, other direct costs and an allocation of indirect costs. In certain instances, we may recognize revenue at the point in time at which control is transferred to the customer using an output method based on units produced or delivered.

We consider the unfunded portions of a contract and award and incentive fees to be variable consideration. Some of our long-term contracts with the U.S. government are only partially funded at inception as a result of the U.S. government's annual budget and appropriations process. The unfunded portion of a contract is included in the estimated transaction price to the extent it is probable that the unfunded portion of the contract will become funded. We consider the following factors in determining the likelihood that the unfunded portion of the contract would not result in a significant revenue reversal: (i) period of time before contract funding is expected; (ii) history of receiving funding in similar situations; and (iii) communication from the customer that funding will be obtained. Award and incentive fees are generally awarded upon achievement of specified performance objectives, milestones, or cost targets and are considered variable consideration. We do not consider the mere existence of potential award or incentive fees as presumptive evidence that award or incentive fees are to be included in determining total transaction price. We include award or incentive fees in the estimated transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. These estimates are based largely on an assessment of our anticipated performance, historical award experience, and information that is reasonably available to us.

Pre-contract costs are costs incurred to fulfill a contract in anticipation of a contract award. Pre-contract costs such as those specifically chargeable to a customer and probable of recovery under a specific anticipated contract would be capitalized. All other pre-contract costs, including start-up costs, would be expensed as incurred.

Management regularly reviews project profitability and underlying estimates, including total cost to complete a project. For each project, estimates for total project costs are based on such factors as a project's contractual requirements and management's assessment of current and future pricing, economic conditions, political conditions and site conditions. Estimates can be impacted by such factors as additional requirements from our customers, a change in labor markets impacting the availability or cost of a skilled workforce, regulatory changes both domestically and internationally, political unrest or security issues at project locations. Revisions to estimates are reflected in our consolidated results of operations as changes in accounting estimates in the periods in which the facts that give rise to the revisions become known by management. We believe long-term contracts, contracts in a loss position, contracts with material award fees, and contract modifications drive the significant changes in estimates in our contracts.

The preparation of the financial statements requires us to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. Our estimates and assumptions are reviewed periodically, and the effects of changes, if any, are reflected in the consolidated statements of operations in the period that they are determined. The majority of our contracts are accounted for under series guidance, as the performance obligation represents a series of distinct goods and services where each day of the promised service is a distinct obligation, and the effects of changes in contract estimates related to certain types of contracts accounted for using an input method measure of progress, such as cost-to-cost, are recognized prospectively. Changes in these estimates can occur over the life of a contract for a variety of reasons, including changes in scope, estimated incentive or award fees, cost estimates, level of effort and/or other assumptions impacting

revenue or cost to perform a contract. Changes in contract estimates related to past performance are recognized in the period in which such changes are made for the inception to date effect of the changes.

The gross favorable and unfavorable adjustments to income before income taxes below reflect changes in contract estimates during each reporting period, excluding new or completed contracts where no comparative estimates exist between reporting periods. The following amounts during the three and nine months ended September 30, 2018 and September 30, 2017 are presented under ASC 605, due to the adoption of ASC 606 on January 1, 2018 using the modified retrospective method.

<i>(Amounts in millions)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Gross favorable adjustments	\$ 7.9	\$ 8.0	\$ 18.2	\$ 22.1
Gross unfavorable adjustments	(7.5)	(1.0)	(1.5)	(2.0)
Net adjustments	\$ 0.4	\$ 7.0	\$ 16.7	\$ 20.1

#### **Contract Assets**

Contract assets primarily consist of unbilled receivables which represent rights to consideration for work completed but not billed as of the reporting date. Due to the adoption of ASC 606, amounts previously presented as unbilled receivables in Accounts receivable, net of allowances, for the year ended December 31, 2017 of \$191.8 million, have prospectively been presented as Contract assets within the Company's consolidated balance sheets.

#### **Contract Liabilities**

Contract liabilities represent advanced payments, billings in excess of costs and earnings, and deferred revenue amounts. These amounts are recognized as revenue once the performance progress has occurred. Contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. Advance payments and billings in excess of revenue as current, and deferred revenue as current or noncurrent based on the timing of when revenue is expected to be recognized. Due to the adoption of ASC 606, amounts received from customers in excess of revenue recognized previously presented within customer liabilities in Total accrued liabilities, for the year ended December 31, 2017 of \$9.2 million, have prospectively been presented as Contract liabilities within the Company's consolidated balance sheets.

#### **Accounting Policies**

There have been no material changes to our significant accounting policies from those described in our Annual Report on Form 10-K for the year ended December 31, 2017, except as described below.

#### **Recently Adopted Accounting Standards**

In November 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 clarifies the guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents. The Company elected to adopt ASU 2016-18 during the fourth quarter of calendar year 2017 and therefore, amounts generally described as restricted cash or restricted cash equivalents are now included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flow. The Company recasted its statement of cash flows for the nine months ended September 30, 2017.

Our statement of cash flows explains the change in the total of cash, cash equivalents, and restricted cash. The following table provides a reconciliation of cash and cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of such amounts in the consolidated statements of cash flows:

	Nine Months Ended	
	September 30, 2017	
<i>(Amounts in thousands)</i>		
Beginning of period		
Cash and cash equivalents	\$	118,218
Restricted cash		7,664
Total cash, cash equivalents and restricted cash, beginning of period		125,882
End of period		
Cash and cash equivalents		110,657
Restricted cash		—
Total cash, cash equivalents and restricted cash, end of period		110,657
Net decrease in cash, cash equivalents and restricted cash	\$	(15,225)

The following table illustrates changes in the Company's Condensed Consolidated Statements of Cash Flows as reported and as previously reported prior to the adoption of ASU 2016-18 in the fourth quarter of calendar year 2017:

	Nine Months Ended	
	September 30, 2017	
	As Reported	As Previously Reported
<i>(Amounts in thousands)</i>		
Net cash provided by operating activities	\$ 10,137	\$ 10,744
Net cash (used in) provided by investing activities	(1,273)	5,784
Net cash used in financing activities	(24,089)	(24,089)
Net decrease in cash, cash equivalents and restricted cash <sup>(1)</sup>	(15,225)	(7,561)
Cash, cash equivalents and restricted cash, beginning of period <sup>(1)</sup>	125,882	118,218
Cash, cash equivalents and restricted cash, end of period <sup>(1)</sup>	110,657	110,657

(1) Amounts in the As Reported column include cash, cash equivalents and restricted cash as required upon the adoption of ASU 2016-18. Amounts in the As Previously Reported column reflects only cash and cash equivalents.

In May 2014, the FASB issued ASC 606, which replaces numerous requirements in U.S. GAAP, including industry-specific requirements, and provides companies with a single revenue recognition model for recognizing revenue from contracts with customers. We adopted ASC 606, *Revenue from Contracts with Customers*, as of January 1, 2018 using the modified retrospective approach only on contracts not completed at the date of initial application with the cumulative effect of adoption recorded as an adjustment to the opening balance of equity as of that date without restatement of comparative periods. See this Note and Note 2 for the required disclosures related to the impact of adopting this standard and a discussion of the Company's updated policies related to revenue recognition.

#### **Recently Issued Accounting Developments**

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, *Leases*. ASU 2016-02 requires an entity to recognize right-of-use assets and lease liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. Entities are required to adopt ASU 2016-02 using a modified retrospective approach, subject to certain optional practice expedients, and apply the provisions of ASU 2016-02 to leasing arrangements existing at or entered into after the earliest comparative period presented in the financial statements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The new standard will be effective for the Company in the first quarter of calendar year 2019. The Company has established a cross-functional team of key stakeholders for implementing the new standard. As part of the Company's assessment and implementation plan, the Company performed a completeness assessment over the lease population, analyzing the practical expedients and assessing opportunities to make certain changes to its business policies, processes, systems and internal controls in order to determine the best implementation strategy. All of the Company's material leases are classified as operating leases, which the Company expects will continue to be classified as operating under the new standard. The Company's long-term leases (term in excess of 12 months) will be subject to the new guidance and recognized as right-of-use assets and lease liabilities upon adoption, resulting in a material impact to our total assets and total liabilities on the consolidated balance sheets. The Company

does not expect the adoption of the new standard to impact its results of operations and cash flows. The Company's existing debt agreements exclude the impact of this standard on its debt covenants, accordingly the new standard will have no impact on the Company's debt-covenant compliance under the current debt agreements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the existing incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments are effective for annual reporting periods, and interim periods therein, beginning after December 15, 2019 and applied using a prospective transition approach for debt securities for which an other-than-temporary impairment had been recognized before the effective date. We are currently evaluating the potential effects of the adoption of ASU 2016-13 on our consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Reporting Comprehensive Income - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* to help businesses and other organizations present some effects from the Tax Act's reduction in the corporate tax rate in their income statements. ASU 2018-02 gives the option of reclassifying what are called the "stranded" tax effects within accumulated other comprehensive income (loss) to retained earnings (deficit) during each fiscal year or quarter in which the effect of the lower tax rate is recorded. ASU 2018-02 instructs businesses and other organizations to provide a disclosure in their financial statement footnotes that describes the accounting policy they used to release the income tax effects from accumulated other comprehensive income (loss), whether they are reclassifying the stranded income tax effects from the Tax Act, and information about the other effects on taxes from the reclassification. The update is effective for fiscal years beginning after December 15, 2018, and the interim periods in those years, and early adoption is permitted. We are currently evaluating the potential effects of the adoption of ASU 2018-02 on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* which removes, modifies, and adds certain disclosure requirements related to fair value measurements in ASC 820. This guidance is effective for public companies in fiscal years beginning after December 15, 2019 with early adoption permitted. We are currently evaluating the potential effects of the adoption of ASU 2018-13 on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15 *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* to provide guidance on implementation costs incurred in a cloud computing arrangement that is a service contract. The ASU aligns the accounting for such costs with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Specifically, the ASU amends ASC 350 to include in its scope implementation costs of such arrangements that are service contracts and clarifies that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized. This guidance is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. We are currently evaluating the potential effects of the adoption of ASU 2018-15 on our consolidated financial statements.

In August 2018, the SEC issued *SEC Final Rule Release No. 33-10532, Disclosure Update and Simplification*, which amends certain of its disclosure requirements and is intended to facilitate the disclosure of information to investors and simplify compliance without significantly altering the total mix of information provided to investors. The final rule includes a requirement to provide an analysis of changes in stockholders' deficit for the current and comparative year-to-date interim periods in interim reports. The final rule is effective for all filings submitted on or after November 5, 2018. The Company plans to adopt the guidance on the presentation of changes in the statements of deficit in its Form 10-Q for the quarter ending March 31, 2019.

Other accounting standards updates effective after September 30, 2018 are not expected to have a material effect on our consolidated financial position or results of operations and cash flows for the period ended September 30, 2018.



## Note 2 — Revenue Recognition

In May 2014, the FASB issued ASC 606, *Revenue from Contracts with Customers*, which replaces numerous requirements in U.S. GAAP, including industry-specific requirements, and provides companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We adopted ASC 606, as of January 1, 2018 using the modified retrospective approach with the cumulative effect of adoption recorded as an adjustment to the opening balance of equity as of that date without restatement of comparative periods.

The impacts related to the adoption of ASC 606 on our portfolio of contracts primarily relate to the units of account and methods used to measure of progress toward satisfaction of a performance obligation. Previously, certain of our contracts that included multiple promises related to the transfer of goods or services to the customer were combined or segmented based on profit center and the requisite revenue was recognized by profit center using the percentage-of-completion method or completed-contract method. We now evaluate all promises in an arrangement to determine if they represent one or more distinct performance obligations. The adoption of ASC 606 will not change the total revenue or operating earnings recognized under these contracts, only the timing of when those amounts are recognized.

### *Nature of Goods and Services*

The Company generally derives revenue from long-term, service-based contracts and programs for commercial, government, and military customers. Our contracts typically fall into the following two categories with the first representing substantially all of our revenue: (i) federal government contracts and (ii) other contracts.

*Federal Government Contracts* - Contracts with the U.S. federal government, primarily to the Department of Defense (“DoD”) and the Department of State (“DoS”), contemplate the provision of services related to aviation solutions, construction management, base and logistics operations, intelligence training, and operations and linguistics support. Certain contracts are structured using an IDIQ vehicle awarded to multiple contractors. However, many IDIQ vehicles permit the customer to direct work to a particular contractor. When a customer wishes to order services under an IDIQ contract, the customer issues a task order request for proposal to the contract awardees and task orders are awarded under a best-value approach. The task orders awarded may be fixed-priced, time-and-materials, or cost-reimbursement contracts.

The Company generally performs over a base period with multiple option periods. The U.S. government is not obligated to exercise options under a contract after the base period. At the time of completion of the contract term of a U.S. government contract, the contract may be re-competed to the extent the service is still required. Historically, the Company has received additional revenue through increases in program scope beyond that of the original contract and “over and above” requests derived from changes in customer requests. For most of our contracts, we provide a significant service of integrating equipment, materials, and services into a single project which is accounted for as one performance obligation. In certain instances, we also provide a stand-ready service in the case where the Company responds to the customer’s needs on the basis of its demand.

For contracts with multiple performance obligations, the contract’s transaction price is allocated to each performance obligation using the best estimate of the standalone selling price for each distinct good or service. Where a series of distinct services has been identified, the Company generally allocates variable consideration to distinct time increments of service (e.g. hours, days, etc.). Where the variable consideration is not directly tied to the base pricing structure of the contract (e.g. cost incurrence), the Company allocates variable consideration to a subset of services within a period (e.g. evaluation periods for awards/incentives).

Revenues are recognized over time upon contract specifications. The method utilized to measure performance progress reflects the best depiction of control to the customer. If control is transferred over time, revenue is recognized over time using the cost-to-cost-method to measure performance progress.

Typical payment terms for U.S. federal government contracts are in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., biweekly or monthly) or upon achievement of contractual milestones. In most instances, the customer generally pays the Company for actual costs incurred within a short period of time. In certain cases, the Company receives interim payments as work progresses or an advance payment. The Company recognizes a liability for advance payments in excess of revenue recognized which is included in contract liabilities on the balance sheet. The advance payment typically is not considered a significant financing component because it is used to meet working capital demands that can be higher in the early stages of a contract.

*Other Contracts* - Contracts with non-federal government customers are predominantly service arrangements which may involve various combinations related to the provision of services, delivery of equipment and materials, grant licenses and other rights, or take certain actions. For most of our contracts, we provide a significant service of integrating equipment, materials, or other services into a single project which is accounted for as one performance obligation. In certain instances, we also provide a stand-ready service in the case where the Company responds to the customer’s needs on the basis of its demand.

In determining transaction price, the Company considers the unfunded portions of a contract and award and incentive fees to be variable consideration which is estimated using the best estimate of consideration to which the Company expects to be entitled per the terms and conditions of the contract at inception and reassessed quarterly. For contracts with multiple performance obligations, the contract's transaction price is allocated to each performance obligation using the best estimate of the standalone selling price for each distinct good or service. Where a series of distinct services has been identified, the Company generally allocates variable consideration to distinct time increments of service (e.g. hours, days, etc.). Where the variable consideration is not directly tied to the base pricing structure of the contract (e.g. cost incurrence), the Company allocates variable consideration to a subset of services within a period (e.g. evaluation periods for awards/incentives).

Revenue is recognized over time upon contract specifications. The method utilized to measure performance progress reflects the best depiction of control to the customer. If consideration is considered fixed, revenue is recognized over time using the cost-to-cost-method to measure performance progress. If consideration is considered variable, revenue is recognized as performance occurs. In instances where the contract structure is time-and-materials, the Company may utilize the practical expedient allowing the recognition of revenue in the amount at which the Company invoices as the invoiced amounts correspond directly with the value provided to the customer and to which it is entitled to payment for performance to date. The Company is electing the practical expedient on not disclosing remaining performance obligations as the Company's performance obligations, with one exception, have an original expected duration of one year or less. The contract exception relates to a contract executed during the quarter ended June 30, 2018 which has a 30 month term with a remaining performance obligation of \$208.0 million as of September 30, 2018. We expect to recognize approximately 40% and 88% of our September 30, 2018 backlog as revenue over the next 12 and 24 months, respectively, with the remainder to be recognized thereafter. In addition, during the second quarter of calendar year 2018, we received a \$45.1 million advance payment on this contract which is included in Contract liabilities, net of revenue recognized through September 30, 2018.

Typical payment terms for non-federal government contracts are in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., biweekly or monthly) or upon achievement of contractual milestones. In certain cases, the Company receives interim payments as work progresses or an advance payment. The Company recognizes a liability for advance payments in excess of revenue recognized which is included in contract liabilities on the balance sheet. The advance payment typically is not considered a significant financing component because it is used to meet working capital demands that can be higher in the early stages of a contract.

### Disaggregation of Revenue

The following tables represent revenues disaggregated by customer-type and contract-type and include a reconciliation of the disaggregated revenue with reportable segments for the three and nine months ended September 30, 2018:

<i>(Amounts in thousands)</i>	Under ASC 606			
	Three months ended September 30, 2018			
	DynAviation	DynLogistics	Headquarters / Other	Total
<b>Customer</b>				
DOD	\$ 231,094	\$ 225,729	\$ —	\$ 456,823
DOS	5,282	42,424	—	47,706
Other	14,622	6,740	(869)	20,493
Total revenue	<u>\$ 250,998</u>	<u>\$ 274,893</u>	<u>\$ (869)</u>	<u>\$ 525,022</u>
<b>Contract Type</b>				
Fixed-Price	\$ 105,900	\$ 79,437	\$ (271)	\$ 185,066
Time-and-Materials	25,481	3,234	(36)	28,679
Cost-Reimbursement	119,617	192,222	(562)	311,277
Total revenue	<u>\$ 250,998</u>	<u>\$ 274,893</u>	<u>\$ (869)</u>	<u>\$ 525,022</u>

<i>(Amounts in thousands)</i>	Under ASC 606			
	Nine months ended September 30, 2018			
	DynAviation	DynLogistics	Headquarters / Other	Total
<b>Customer</b>				
DOD	\$ 715,040	\$ 625,649	\$ —	\$ 1,340,689
DOS	105,480	107,547	—	213,027
Other	45,164	10,467	329	55,960
Total revenue	<u>\$ 865,684</u>	<u>\$ 743,663</u>	<u>\$ 329</u>	<u>\$ 1,609,676</u>
<b>Contract Type</b>				
Fixed-Price	\$ 369,698	\$ 234,109	\$ 123	\$ 603,930
Time-and-Materials	67,723	5,755	15	73,493
Cost-Reimbursement	428,263	503,799	191	932,253
Total revenue	<u>\$ 865,684</u>	<u>\$ 743,663</u>	<u>\$ 329</u>	<u>\$ 1,609,676</u>

### Financial Statement Impact of Adopting ASC 606

The Company adopted ASC 606 using the modified retrospective method and we recorded a net increase to opening accumulated deficit of \$1.3 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606. Additionally, amounts previously presented as unbilled receivables in Accounts receivable, net of allowances, for the year ended December 31, 2017, have prospectively been presented as Contract assets and amounts received from customers in excess of revenue recognized previously presented within customer liabilities in Total accrued liabilities for the year ended December 31, 2017, have prospectively been presented as Contract liabilities within the Company's consolidated balance sheets. As a result of applying the modified retrospective method to adopt the new revenue guidance, the following adjustments were made to accounts on the condensed consolidated balance sheet as of January 1, 2018:

<i>(Amounts in thousands)</i>	As reported	Adjustments			Adjusted
	December 31, 2017	Contract Assets	Contract Liabilities	Accumulated Deficit	January 1, 2018
<b>Current assets:</b>					
Cash and cash equivalents	\$ 168,250	\$ —	\$ —	\$ —	\$ 168,250
Accounts receivable, net of allowance of \$10,142	352,550	(191,780)	—	—	160,770
Contract assets	—	191,780	—	(1,340)	190,440
Prepaid expenses and other current assets	52,542	—	—	—	52,542
Total current assets	573,342	—	—	(1,340)	572,002
Property and equipment, net	23,568	—	—	—	23,568
Goodwill	42,093	—	—	—	42,093
Tradenames, net	28,536	—	—	—	28,536
Other intangibles, net	55,302	—	—	—	55,302
Long-term deferred taxes	369	—	—	—	369
Other assets, net	12,507	—	—	—	12,507
Total assets	\$ 735,717	\$ —	\$ —	\$ (1,340)	\$ 734,377
<b>Current liabilities:</b>					
Current portion of long-term debt, net	\$ 53,652	\$ —	\$ —	\$ —	\$ 53,652
Accounts payable	109,396	—	—	—	109,396
Accrued payroll and employee costs	105,391	—	—	—	105,391
Contract liabilities	—	—	9,164	—	9,164
Accrued liabilities	98,684	—	(9,164)	—	89,520
Income taxes payable	18,401	—	—	—	18,401
Total current liabilities	385,524	—	—	—	385,524
Long-term debt, net	527,039	—	—	—	527,039
Other long-term liabilities	13,081	—	—	—	13,081
Total liabilities	925,644	—	—	—	925,644
<b>Common stock, \$0.01 par value – 1,000 shares authorized and 100 shares issued and outstanding at December 31, 2017</b>					
	—	—	—	—	—
Additional paid-in capital	596,393	—	—	—	596,393
Accumulated deficit	(791,445)	—	—	(1,340)	(792,785)
Accumulated other comprehensive loss	(404)	—	—	—	(404)
Total deficit attributable to Delta Tucker Holdings, Inc.	(195,456)	—	—	(1,340)	(196,796)
Noncontrolling interests	5,529	—	—	—	5,529
Total deficit	(189,927)	—	—	(1,340)	(191,267)
Total liabilities and deficit	\$ 735,717	\$ —	\$ —	\$ (1,340)	\$ 734,377

**Impact of New Revenue Guidance on Financial Statement Line Items**

The following tables compare the reported condensed consolidated statement of operations, comprehensive income and cash flows for the three and nine months ended September 30, 2018 and the condensed consolidated balance sheet as of September 30, 2018, to the pro-forma amounts had the previous guidance been in effect.

*Consolidated Statements of Operations*

<i>(Amounts in thousands)</i>	<b>Three months ended September 30, 2018</b>		<b>Nine months ended September 30, 2018</b>	
	<b>As reported</b>	<b>Pro forma as if the previous accounting guidance was in effect</b>	<b>As reported</b>	<b>Pro forma as if the previous accounting guidance was in effect</b>
Revenue	\$ 525,022	\$ 520,133	\$ 1,609,676	\$ 1,609,864
Cost of services	(454,270)	(454,270)	(1,396,291)	(1,396,286)
Selling, general and administrative expenses	(21,163)	(21,163)	(71,192)	(71,192)
Depreciation and amortization expense	(6,022)	(6,022)	(18,053)	(18,053)
(Loss) earnings from equity method investees	(60)	(60)	209	209
Operating income	43,507	38,618	124,349	124,542
Interest expense	(16,197)	(16,197)	(49,268)	(49,268)
Loss on early extinguishment of debt	—	—	(239)	(239)
Interest income	863	863	1,796	1,796
Other income, net	790	790	1,931	1,931
Income before income taxes	28,963	24,074	78,569	78,762
Provision for income taxes	(2,040)	(1,298)	(9,924)	(9,947)
Net income	26,923	22,776	68,645	68,815
Noncontrolling interests	(278)	(278)	(783)	(783)
Net income attributable to Delta Tucker Holdings, Inc.	\$ 26,645	\$ 22,498	\$ 67,862	\$ 68,032

The following summarizes the significant changes on the Company's condensed consolidated statement of operations for the three and nine months ended September 30, 2018 as a result of the adoption of ASC 606 on January 1, 2018 compared to if the Company had continued to recognize revenues under ASC 605. The effect of the change was primarily driven by the change in period of performance of our contracts under ASC 605 as compared to ASC 606 and the impact of timing of recognition on variable consideration on certain contracts. The remaining impacts were not material.

Consolidated Statements of Comprehensive Income

	Three months ended September 30, 2018		Nine months ended September 30, 2018	
	As reported	Pro forma as if the previous accounting guidance was in effect	As reported	Pro forma as if the previous accounting guidance was in effect
<i>(Amounts in thousands)</i>				
Net income	\$ 26,923	\$ 22,776	\$ 68,645	\$ 68,815
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	(22)	(22)	(50)	(50)
Other comprehensive (loss) income, before tax	(22)	(22)	(50)	(50)
Income tax benefit related to items of other comprehensive (loss) income	5	5	11	11
Other comprehensive loss	(17)	(17)	(39)	(39)
Comprehensive income	26,906	22,759	68,606	68,776
Comprehensive income attributable to noncontrolling interests	(278)	(278)	(783)	(783)
Comprehensive income attributable to Delta Tucker Holdings, Inc.	\$ 26,628	\$ 22,481	\$ 67,823	\$ 67,993

The Company's statements of comprehensive income were only impacted by the change in net income due to the adoption of ASC 606.

Consolidated Balance Sheets

(Amounts in thousands)	As of September 30, 2018	
	As reported	Pro forma as if the previous accounting guidance was in effect
<b>Current assets:</b>		
Cash and cash equivalents	\$ 239,145	\$ 239,145
Accounts receivable, net of allowances of \$5,076	119,567	285,519
Contract assets	163,876	—
Prepaid expenses and other current assets	49,826	49,826
Total current assets	572,414	574,490
Property and equipment, net	22,985	22,985
Goodwill	42,093	42,093
Tradenames, net	28,536	28,536
Other intangibles, net	38,074	38,074
Long-term deferred taxes	874	874
Other assets, net	11,234	11,234
Total assets	\$ 716,210	\$ 718,286
<b>Current liabilities:</b>		
Accounts payable	\$ 100,078	\$ 100,078
Accrued payroll and employee costs	79,739	79,739
Contract liabilities	39,842	—
Accrued liabilities	56,416	96,801
Income taxes payable	14,854	14,877
Total current liabilities	290,929	291,495
Long-term debt, net	536,945	536,945
Other long-term liabilities	11,437	11,437
Total liabilities	839,311	839,877
Common stock, \$0.01 par value – 1,000 shares authorized and 100 shares issued and outstanding at September 30, 2018	—	—
Additional paid-in capital	596,816	596,816
Accumulated deficit	(724,923)	(723,413)
Accumulated other comprehensive loss	(443)	(443)
Total deficit attributable to Delta Tucker Holdings, Inc.	(128,550)	(127,040)
Noncontrolling interests	5,449	5,449
Total deficit	(123,101)	(121,591)
Total liabilities and deficit	\$ 716,210	\$ 718,286

Total reported assets were \$2.1 million greater than total assets in the pro-forma balance sheet, which assumes the previous guidance remained in effect as of September 30, 2018. This was largely due to the change in period of performance of our contracts under ASC 605 as compared to ASC 606 and the impact of timing of recognition on variable consideration on certain contracts.

Total reported liabilities were \$0.6 million less than total liabilities in the pro-forma balance sheet, which assumes the previous guidance remained in effect as of September 30, 2018. This was primarily due to the change in amounts received from customers in excess of revenue recognized. The remaining impacts were not material.

Consolidated Statements of Cash Flows

Nine months ended September 30, 2018

<i>(Amounts in thousands)</i>	<b>Nine months ended September 30, 2018</b>	
	<b>As reported</b>	<b>Pro forma as if the previous accounting guidance was in effect</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 68,645	\$ 68,815
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,635	20,635
Loss on early extinguishment of debt	239	239
Amortization of deferred loan costs and original issue discount	4,008	4,008
Allowance on accounts receivable and other noncash gains or losses	(24,659)	(24,659)
Earnings from equity method investees	(209)	(209)
Deferred income taxes	(505)	(505)
Other, including paid in kind interest	6,082	6,082
Changes in assets and liabilities:		
Accounts receivable and contract assets	74,680	73,945
Prepaid expenses and other current assets	576	576
Accounts payable, accrued liabilities and contract liabilities	(14,757)	(14,215)
Income taxes payable	(3,632)	(3,609)
Net cash provided by operating activities	131,103	131,103
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(8,377)	(8,377)
Proceeds from sale of property and equipment	13	13
Purchase of software	(274)	(274)
Return of capital from equity method investees	8,278	8,278
Contributions to equity method investees	(4,433)	(4,433)
Net cash used in investing activities	(4,793)	(4,793)
<b>Cash flows from financing activities</b>		
Payments on senior secured credit facility	(54,943)	(54,943)
Equity contribution from affiliates of Cerberus	300	300
Payment of dividends to noncontrolling interests	(772)	(772)
Net cash used in financing activities	(55,415)	(55,415)
Net increase in cash, cash equivalents and restricted cash	70,895	70,895
Cash, cash equivalents and restricted cash, beginning of period	168,250	168,250
Cash, cash equivalents and restricted cash, end of period	\$ 239,145	\$ 239,145

The adoption of ASC 606 had no impact on the totals of the Company's cash flows from operating, investing and financing activities.



### Note 3 — Composition of Certain Financial Statement Captions

The following tables present financial information of certain consolidated balance sheet captions.

#### Prepaid expenses and other current assets

<i>(Amounts in thousands)</i>	As Of	
	September 30, 2018	December 31, 2017
Prepaid expenses	\$ 39,556	\$ 38,423
Inventories, net	4,794	8,240
Work-in-process inventory	459	520
Joint venture receivables	37	29
Other current assets	4,980	5,330
Total prepaid expenses and other current assets	\$ 49,826	\$ 52,542

Prepaid expenses include prepaid insurance, prepaid vendor deposits, and prepaid rent, none of which individually exceed 5% of current assets. The change in prepaid expenses is primarily due to the timing of insurance payments. Inventory is valued at the lower of cost or net realizable value.

#### Property and equipment, net

<i>(Amounts in thousands)</i>	As Of	
	September 30, 2018	December 31, 2017
Aircraft	\$ 3,868	\$ 3,868
Computers and related equipment	9,960	7,967
Leasehold improvements	17,401	17,614
Office furniture and fixtures	3,374	4,184
Vehicles	14,533	12,659
Gross property and equipment	49,136	46,292
Less accumulated depreciation	(26,151)	(22,724)
Total property and equipment, net	\$ 22,985	\$ 23,568

As of September 30, 2018 and December 31, 2017, Property and equipment, net, included the accrual for property additions of \$1.4 million and \$4.4 million, respectively. Depreciation expense, including certain depreciation amounts classified as Cost of services, was \$1.5 million and \$4.6 million during the three and nine months ended September 30, 2018, respectively. Depreciation expense, including certain depreciation amounts classified as Cost of services, was \$1.3 million and \$3.3 million during the three and nine months ended September 30, 2017, respectively.

#### Other assets, net

<i>(Amounts in thousands)</i>	As Of	
	September 30, 2018	December 31, 2017
Investment in affiliates	\$ 2,110	\$ 5,746
Palm promissory note, long-term portion	1,751	1,876
Other	7,373	4,885
Total other assets, net	\$ 11,234	\$ 12,507

#### Accrued payroll and employee costs

<i>(Amounts in thousands)</i>	As Of	
	September 30, 2018	December 31, 2017
Wages, compensation and other benefits	\$ 61,615	\$ 90,583
Accrued vacation	17,034	13,625
Accrued contributions to employee benefit plans	1,090	1,183
Total accrued payroll and employee costs	\$ 79,739	\$ 105,391

*Accrued liabilities*

<i>(Amounts in thousands)</i>	As Of	
	September 30, 2018	December 31, 2017
Customer liabilities	\$ 6,803	\$ 23,486
Accrued insurance	19,456	23,793
Accrued interest	12,069	23,194
Contract losses	1,699	2,660
Legal reserves	4,743	9,233
Other	11,646	16,318
Total accrued liabilities	<u>\$ 56,416</u>	<u>\$ 98,684</u>

We adopted ASC 606, *Revenue from Contracts with Customers*, as of January 1, 2018 using the modified retrospective approach. Due to the adoption of ASC 606, amounts received from customers in excess of revenue recognized previously presented within customer liabilities in Total accrued liabilities for the year ended December 31, 2017, have prospectively been presented as Contract liabilities within the Company's consolidated balance sheets without restatement to prior periods. See Note 6 for further discussion.

Customer liabilities represent amounts due back to a customer. The reduction in customer liabilities is partially due to the settlement of certain liabilities in advance of the closeout of the Civilian Police ("CivPol") contract during the third quarter of calendar year 2018. Contract losses represent our best estimate of forward losses using currently available information and could change in future periods as new facts and circumstances emerge. Changes to the provision for contract losses are presented in Cost of services on our Statement of Operations. Legal matters include reserves related to various lawsuits and claims. See Note 9 for further discussion. Other is comprised primarily of accrued rent and workers' compensation related claims and other balances that are not individually material to the consolidated financial statements.

*Other long-term liabilities*

As of September 30, 2018 and December 31, 2017, Other long-term liabilities were \$11.4 million and \$13.1 million, respectively. Other long-term liabilities are primarily due to our long-term incentive bonus plan and nonqualified unfunded deferred compensation plan of \$2.9 million and \$3.3 million as of September 30, 2018 and December 31, 2017, respectively, and a long-term leasehold obligation related to our Tysons Comer facility in McLean, Virginia, of \$2.5 million and \$2.8 million as of September 30, 2018 and December 31, 2017, respectively. Other long-term liabilities also include an uncertain tax benefit of \$3.5 million as of September 30, 2018 and December 31, 2017. See Note 5 for further discussion.

#### Note 4 — Goodwill and Other Intangible Assets

In January 2018, the Company amended its organizational structure to improve efficiencies within existing businesses, capitalize on new opportunities, continue international growth and expand commercial business. The Company's three operating and reporting segments, Aviation Engineering, Logistics and Sustainment ("AELS"), Aviation Operations and Life Cycle Management ("AOLC") and DynLogistics, were re-aligned into two operating and reporting segments by combining AELS and AOLC into DynAviation with DynLogistics continuing to operate as a separate segment. Our two operating and reporting segments provide services domestically and in foreign countries primarily under contracts with the U.S. government. Each operating and reportable segment is its own reporting unit and only the DynLogistics reporting unit had a goodwill balance as of September 30, 2018, which we assess for potential goodwill impairment. The carrying amount of goodwill for DynLogistics was \$42.1 million as of both September 30, 2018 and December 31, 2017.

We assess goodwill and other intangible assets with indefinite lives for impairment annually in October or when an event occurs or circumstances change that would suggest a triggering event. If a triggering event is identified, a goodwill impairment test is performed to identify any possible impairment in the period in which the event is identified.

In connection with our annual assessment of goodwill during the fourth quarter of each year, we update our key assumptions, including our forecasts of revenue and income for each reporting unit. The projections for these reporting units include significant estimates related to new business opportunities. If we are unsuccessful in obtaining these opportunities in 2018, a triggering event could be identified and a goodwill impairment test would be performed to identify any possible goodwill impairment in the period in which the event is identified. There can be no assurance that the estimates and assumptions regarding forecasted earnings and cash flows, the period of strength of the U.S. defense spending, and other inputs used in forecasting the present value of forecasted cash flows will prove to be accurate projections of future performance.

During the nine months ended September 30, 2018, we did not have a triggering event in any of our reporting units.

Amortization expense for customer-related intangibles, other intangibles and finite-lived tradenames was \$5.4 million and \$16.0 million for the three and nine months ended September 30, 2018, respectively. Amortization expense for customer-related intangibles, other intangibles and finite-lived tradenames was \$8.0 million and \$24.0 million for the three and nine months ended September 30, 2017, respectively.

Other intangibles are primarily representative of our capitalized software which had a net carrying value of \$1.5 million and \$3.2 million as of September 30, 2018 and December 31, 2017, respectively.

Estimated aggregate future amortization expense for finite lived assets subject to amortization are \$5.4 million for the three months ending December 31, 2018, \$21.4 million in 2019, \$11.1 million in 2020, \$0.1 million in 2021, \$0.0 million in 2022 and \$0.0 million thereafter.

## Note 5 — Income Taxes

On December 22, 2017, the President of the United States signed into law the Tax Act. The Tax Act amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Tax Act creates limitations on interest expense deductions (if certain conditions apply) and reduces the corporate federal tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. The Company is required to value its deferred tax assets and liabilities applying the rates prescribed by the enacted law for the period in which such deferred tax assets and liabilities are expected to reverse. SEC Staff Accounting Bulletin ("SAB") 118 allows us to provide a provisional estimate of the impacts of the Tax Act due to the complexities involved in accounting for the enactment of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the enactment of the Tax Act to complete the accounting under ASC 740, Income Taxes. Specific impacts of the Tax Act are discussed below.

The domestic and foreign components of Income before income taxes are as follows:

<i>(Amounts in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Domestic	\$ 23,886	\$ 7,683	\$ 72,967	\$ 19,909
Foreign	5,077	336	5,602	2,201
Income before income taxes	\$ 28,963	\$ 8,019	\$ 78,569	\$ 22,110

Non-current deferred tax assets, net, was \$0.9 million and \$0.4 million as of September 30, 2018 and December 31, 2017, respectively.

Our effective tax rate ("ETR") was 7.0% and 12.6% for the three and nine months ended September 30, 2018, respectively. Our ETR was 41.6% and 52.8% for the three and nine months ended September 30, 2017, respectively. For the three and nine months ended September 30, 2018, the ETR was primarily driven by a decrease in the corporate federal tax rate effective January 1, 2018 and a reduction in the valuation allowance partially offset by an increase in foreign taxes and pretax book income.

Management assesses both the available positive and negative evidence to determine whether it is more likely than not that there will be sufficient sources of future taxable income to recognize deferred tax assets. The Company must also assess whether its valuation allowance analyses are affected by the Tax Act. The following items impacted the valuation allowance due to the enacted Tax Act:

- A reduction in deductible interest expense for federal income tax purposes which will create an indefinite lived asset;
- The prevention of deferring revenue with respect to unbilled receivables; and
- The recognition of revenue it had previously deferred as unbilled receivables over a four-year period pursuant to Internal Revenue Code ("IRC") Section 481.

While we anticipate that the Tax Act will result in the Company enhancing its ability to recognize existing deferred tax assets in the future, the Company also anticipates that the Tax Act will create new deferred tax assets that will be subject to future valuation allowance. As such, the Company will remain in a valuation allowance on most domestic deferred tax assets for the period ended September 30, 2018 but will assess the need for valuation allowance each period. As of September 30, 2018 and December 31, 2017, our valuation allowance was \$58.0 million and \$66.6 million, respectively.

As of September 30, 2018, we had \$4.1 million of total unrecognized tax benefits of which \$2.7 million would impact our effective tax rate if recognized. As of December 31, 2017, we had \$2.8 million of total unrecognized tax benefits of which \$2.7 million would impact our effective tax rate if recognized. We do not expect the unrecognized tax benefit and any related interest or penalties to be settled within the next twelve months.

During the nine months ended September 30, 2018, we made no estimated federal income tax payments. All of our income taxes paid or refunds received during the nine months ended September 30, 2018 were related to state or foreign jurisdictions.

During the nine months ended September 30, 2018, a tax assessment from the Saudi Arabia Tax Authority ("GAZT") was received, seeking approximately \$7.7 million in taxes and penalties specific to an existing audit of a branch location for periods between 2002 to 2013. We filed an initial appeal on the assessment with the GAZT and we previously established an accrual for the more likely than not amount of the estimated tax liability. We will continue to monitor and revise the liability accordingly.

## Note 6 — Contract Balances

Our contract balances consist of accounts receivable, contract assets and contract liabilities.

We adopted ASC 606, *Revenue from Contracts with Customers*, as of January 1, 2018 using the modified retrospective approach. Due to the adoption of ASC 606, amounts previously presented as unbilled receivables in Accounts receivable, net of allowances, for the year ended December 31, 2017, have prospectively been presented as Contract assets within the Company's consolidated balance sheets without restatement to prior periods. Contract assets primarily consist of unbilled receivables which represent rights to consideration for work completed but not billed as of the reporting date. The balance of unbilled receivables consists of costs and fees that are: (i) billable immediately; (ii) billable on contract completion; or (iii) billable upon other specified events, such as the resolution of a request for equitable adjustment or formal claim. Contract assets as of September 30, 2018 include \$14.1 million related to costs incurred on projects for which we are awaiting final funding, definitization or other contract actions in order for us to bill our customer. As of December 31, 2017, unbilled accounts receivable included \$12.0 million related to costs incurred on projects for which we are awaiting final funding, definitization or other contract actions in order for us to bill our customer. As of September 30, 2018 and December 31, 2017, we had one contract claim outstanding totaling \$2.8 million and \$2.7 million, respectively, net of reserves. We do not believe we have significant exposure to credit risk as our receivables are primarily with the U.S. government.

Due to the adoption of ASC 606, amounts previously presented as customer liabilities in Total accrued liabilities for the year ended December 31, 2017, have prospectively been presented as Contract liabilities within the Company's consolidated balance sheets without restatement to prior periods. Contract liabilities represent advanced payments, billings in excess of costs and earnings, and deferred revenue amounts. These current and noncurrent contract liabilities are transferred to contract assets once the performance progress has occurred. Contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period.

Our contract balances consisted of the following:

<i>(Amounts in thousands)</i>	September 30, 2018	December 31, 2017	\$ Change
Accounts receivable, net of allowances	\$ 119,567	\$ 160,770	\$ (41,203)
Unbilled accounts receivable	—	191,780	(191,780)
Contract assets	163,876	—	163,876
Contract liabilities	39,842	—	39,842

During the nine months ended September 30, 2018:

- we reclassified \$191.8 million of Unbilled accounts receivable to Contract assets due to the implementation of ASC 606;
- we increased Contract assets by \$1.6 billion due to the recognition of revenue in calendar year 2018, which included adjustments for changes in estimates arising from a change in the measure of progress, a change in an estimate of the transaction price or contract modifications;
- we reclassified \$1.6 billion of Contract assets to Accounts receivable when the right to consideration became unconditional;
- we recognized revenue of \$7.5 million related to our Contract liabilities as of January 1, 2018.

Our allowance for doubtful accounts was \$5.1 million as of September 30, 2018 compared to \$10.1 million as of December 31, 2017, and is primarily due to the collection of a majority of the previously reserved outstanding receivables where we operated under a subcontract for a prime contractor on a U.S. government program that ended December 31, 2014. See Note 9 for further discussion.

## Note 7 — Fair Value of Financial Assets and Liabilities

ASC 820 – *Fair Value Measurements and Disclosures* establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1, defined as observable inputs such as quoted prices in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

### *Fair Value of Financial Instruments*

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, and borrowings. Because of the short-term nature of cash and cash equivalents, accounts receivable, and accounts payable, the fair value of these instruments approximates the carrying value.

Our estimate of the fair value of our 11.875% senior secured second lien notes (the "Second Lien Notes"), and New Senior Credit Facility (as defined in Note 8) is based on Level 1 and Level 2 inputs, as defined above. Our estimate of the fair value of our Cerberus 3L Notes (as defined in Note 8) is based on Level 3 inputs, as defined above. We used the following techniques in determining the fair value disclosed for the Cerberus 3L Notes classified as Level 3. The fair value as of September 30, 2018 has been calculated by discounting the expected cash flows using a discount rate of 6.3%. This discount rate is determined using the Moody's credit rating for the Second Lien Notes and reducing the rating one level lower for the Cerberus 3L Notes as they are subordinated to the Second Lien Notes.

	As Of			
	September 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>(Amounts in thousands)</i>				
11.875% senior secured second lien notes	\$ 384,713	\$ 402,025	\$ 379,006	\$ 401,273
Term loan	127,343	127,343	182,286	182,286
Cerberus 3L notes	33,665	30,404	32,420	30,267
Total indebtedness	545,721	559,772	593,712	613,826
Less current portion of long-term debt	—	—	(54,943)	(54,943)
Total long-term debt	\$ 545,721	\$ 559,772	\$ 538,769	\$ 558,883

## Note 8 — Debt

Debt consisted of the following:

### As of September 30, 2018

<i>(Amounts in thousands)</i>	Carrying Amount	Original Issue Discount on Term Loan	Deferred Financing Costs, Net	Carrying Amount less Original Issue Discount on Term Loan and Deferred Financing Costs, Net
11.875% senior secured second lien notes	\$ 384,713	\$ —	\$ (876)	\$ 383,837
Term loan	127,343	(6,324)	(1,511)	119,508
Cerberus 3L notes	33,665	—	(65)	33,600
Total indebtedness	545,721	(6,324)	(2,452)	536,945
Less current portion of long-term debt, net <sup>(1)</sup>	—	—	—	—
Total long-term debt, net	<u>\$ 545,721</u>	<u>\$ (6,324)</u>	<u>\$ (2,452)</u>	<u>\$ 536,945</u>

(1) The carrying amount of the current portion of long-term debt as of September 30, 2018 includes the Revolver (as defined below). As of September 30, 2018, there were no amounts borrowed under the Revolver.

### As of December 31, 2017

<i>(Amounts in thousands)</i>	Carrying Amount	Original Issue Discount on Term Loan	Deferred Financing Costs, Net	Carrying Amount less Original Issue Discount on Term Loan and Deferred Financing Costs, Net
11.875% senior secured second lien notes	\$ 379,006	\$ —	\$ (1,177)	\$ 377,829
Term loan	182,286	(8,996)	(2,776)	170,514
Cerberus 3L notes	32,420	—	(72)	32,348
Total indebtedness	593,712	(8,996)	(4,025)	580,691
Less current portion of long-term debt, net <sup>(2)</sup>	(54,943)	1,110	181	(53,652)
Total long-term debt, net	<u>\$ 538,769</u>	<u>\$ (7,886)</u>	<u>\$ (3,844)</u>	<u>\$ 527,039</u>

(2) The carrying amount of the current portion of long-term debt as of December 31, 2017 includes our Excess Cash Flow Payment of \$54.9 million, which was paid on March 21, 2018.

The original issue discount on the Term Loan facility under the New Senior Credit Facility (the "Term Loan") and deferred financing costs are amortized through interest expense. Amortization related to the original issue discount was \$0.9 million and \$2.7 million during the three and nine months ended September 30, 2018, respectively, and was \$0.9 million and \$2.7 million during the three and nine months ended September 30, 2017. Amortization related to deferred financing costs was \$0.4 million and \$1.3 million during the three and nine months ended September 30, 2018, respectively, and was \$0.5 million and \$1.4 million during the three and nine months ended September 30, 2017, respectively.

Deferred financing costs for the nine months ended September 30, 2018 were reduced by \$0.2 million related to the pro rata write-off of deferred financing costs to loss on early extinguishment of debt as a result of the \$54.9 million Excess Cash Flow principal payment made on the Term Loan on March 21, 2018, which was the only principal payment made on the Term Loan during the nine months ended September 30, 2018. Deferred financing costs for the nine months ended September 30, 2017 were reduced an immaterial amount related to the pro rata write-off of deferred financing costs to loss on early extinguishment of debt as a result of the \$25.1 million in principal prepayment made on the Term Loan.

### New Senior Credit Facility

On July 7, 2010, we entered into a senior secured credit facility (the "Senior Credit Facility"), with a banking syndicate and Bank of America, N.A. as Administrative Agent (the "Agent"). On April 30, 2016, we entered into Amendment No. 5 ("Amendment No. 5") to the Senior Credit Facility which provided for a new senior secured credit facility (the "New Senior Credit Facility") upon the satisfaction of certain conditions. On June 15, 2016, we satisfied the conditions set forth in Amendment No. 5 and the New Senior Credit Facility became effective. The New Senior Credit Facility is secured by substantially all of our assets and guaranteed by substantially all of our subsidiaries.

As of September 30, 2018, the New Senior Credit Facility provided for the following:

- a \$127.3 million Term Loan;
- a \$85.8 million class B revolving facility (the "Revolver"); and
- up to \$15.0 million in incremental revolving facilities provided by and at the discretion of certain non-debt fund affiliates that are controlled by Cerberus (as defined herein), which shall rank pari passu with, and be on the same terms as, the Revolver.

As of September 30, 2018 and December 31, 2017, the available borrowing capacity under the New Senior Credit Facility was approximately \$66.5 million and \$65.5 million, respectively, and included \$19.3 million and \$20.3 million, respectively, in issued letters of credit. Amounts borrowed under the Revolver are used to fund operations. As of September 30, 2018 and December 31, 2017 there were no amounts borrowed under the Revolver. The Revolver and the Term Loan mature on July 7, 2019 and July 7, 2020, respectively.

#### *Interest Rates on Term Loan & Revolver*

The interest rate per annum applicable to the Term Loan is, at our option, equal to either the Base Rate or the Eurocurrency Rate, in each case, plus (i) 5.00% in the case of Base Rate loans and (ii) 6.00% in the case of Eurocurrency Rate loans. The interest rate per annum applicable to the Revolver is, at our option, equal to either a Base Rate or a Eurocurrency Rate plus (i) a range of 4.50% to 5.00% based on the First Lien Secured Leverage Ratio in the case of Base Rate loans and (ii) a range of 5.50% to 6.00% based on the First Lien Secured Leverage Ratio in the case of Eurocurrency Rate loans. The First Lien Secured Leverage Ratio is the ratio of total first lien secured consolidated debt (net of up to \$75 million of unrestricted cash and cash equivalents) to consolidated earnings before interest, taxes, depreciation and amortization ("Consolidated EBITDA"), as defined in the New Senior Credit Facility. The variable Base Rate has a floor of 2.75% and the variable Eurocurrency Rate has a floor of 1.75%. Interest payments on both the Term Loan and Revolver are payable at the end of the interest period as defined in the New Senior Credit Facility, but not less than quarterly.

As of September 30, 2018 and December 31, 2017, the applicable interest rate on the Term Loan was 8.08% and 7.75%, respectively.

#### *Interest Rates on Letter of Credit Subfacility and Unused Commitment Fees*

All of our letters of credit under the New Senior Credit Facility are subject to a 0.25% fronting fee. The letter of credit subfacility bears interest at an applicable rate that ranges from 5.50% to 6.00% with respect to the Revolver commitments. The unused commitment fee on our Revolver ranges from 0.50% to 0.75% on the undrawn amount of the facility depending on the First Lien Secured Leverage Ratio. Interest payments on both the letter of credit subfacility and unused commitments are payable quarterly in arrears. We will also pay customary letter of credit and agency fees.

The applicable interest rate for our letter of credit subfacility was 5.50% as of September 30, 2018 and December 31, 2017, respectively. The applicable interest rate for our unused commitment fees was 0.50% as of September 30, 2018 and December 31, 2017.

#### *Principal Payments*

The credit agreement governing the New Senior Credit Facility contains an annual requirement to submit a portion of our Excess Cash Flow, as defined in the credit agreement, within five business days of filing annual financial statements, as additional principal payments. Based on our annual financial results for the years ended December 31, 2017 and 2016, we made additional principal payments as required under the Excess Cash Flow provisions of the New Senior Credit Facility of \$54.9 million on March 21, 2018 and \$25.1 million on April 4, 2017. Certain other transactions can trigger mandatory principal payments such as tax refunds, a disposition of a portion of our business or a significant asset sale. We had no such transactions during the nine months ended September 30, 2018 or September 30, 2017.

The New Senior Credit Facility requires us to prepay outstanding term loans, subject to certain exceptions, with:

- 100% of excess cash flow (as defined in Amendment No. 5) less the amount of certain voluntary prepayments as described in Amendment No. 5; and
- 100% of the net cash proceeds of all non-ordinary course asset sales and casualty and condemnation events, if we do not reinvest or commit to reinvest those proceeds in assets to be used in our business or to make certain other permitted investments within nine months (and, if committed to be so reinvested, actually reinvested within twelve months).

We are permitted to voluntarily repay outstanding loans under the New Senior Credit Facility at any time without premium or penalty, other than customary "breakage" costs with respect to Eurocurrency Rate Loans.



### *Maturity and Principal Amortization*

We were required to make principal amortization payments with respect to the Term Loan of \$22.5 million on or prior to June 15, 2017 and \$22.5 million on or prior to June 15, 2018, which amounts were fully satisfied as a result of the additional principal payments of \$54.9 million and \$25.1 million made on March 21, 2018 and April 4, 2017, respectively, under the Excess Cash Flow requirement discussed above. The principal amount of the Term Loan may be reduced as a result of prepayments, with the remaining amount payable on July 7, 2020.

### *Guarantee and Security*

The guarantors of the obligations under the New Senior Credit Facility are identical to those under the Second Lien Notes and the Cerberus 3L Notes. See Note 12. The New Senior Credit Facility is secured on a first lien basis by the same collateral that secures the Second Lien Notes on a second lien basis and the Cerberus 3L Notes on a third lien basis.

### *Covenants and Other Terms*

The New Senior Credit Facility contains a number of financial, as well as non-financial, affirmative and negative covenants that we believe are usual and customary. Among other things, the New Senior Credit Facility requires us to maintain a maximum total leverage ratio and a minimum interest coverage ratio. The total leverage ratio is the ratio of Consolidated Total Debt, as defined in Amendment No. 5 (which definition excludes debt under the Cerberus 3L Notes), less unrestricted cash and cash equivalents (up to \$75.0 million) to Consolidated EBITDA, as defined in Amendment No. 5, for the applicable period. The maximum total leverage ratio was 4.75 to 1.0 for the period ended September 30, 2018. The interest coverage ratio is the ratio of Consolidated EBITDA to Consolidated Interest Expense, as defined in Amendment No. 5 (which provides that interest expense with respect to the Cerberus 3L Notes is excluded). The minimum interest coverage ratio was 1.70 to 1.0 for the period ended September 30, 2018.

The New Senior Credit Facility requires, solely for the benefit of the lenders under the Revolver, for us to maintain minimum liquidity (based on availability of revolving credit commitments plus unrestricted cash and cash equivalents) as of the end of each fiscal quarter ending after December 31, 2017 of not less than \$50 million. The credit agreement governing the New Senior Credit Facility also contains customary representations and warranties and events of default.

As of September 30, 2018 and December 31, 2017, we were in compliance with our financial maintenance covenants under the New Senior Credit Facility. We expect, based on current projections and estimates, to be in compliance with our covenants in the New Senior Credit Facility (including our financial maintenance covenants), and the covenants in the Second Lien Notes and the Cerberus 3L notes, further discussed below, for the next twelve months.

### ***Second Lien Notes***

On June 15, 2016, \$415.7 million principal amount of the 10.375% Senior Notes due 2017 (the "Senior Unsecured Notes") were exchanged for \$45.0 million cash and \$370.6 million aggregate principal amount of newly issued Second Lien Notes due November 30, 2020, which are governed by the terms of the indenture (the "Indenture"), among DynCorp International, Holdings, as parent guarantor, DynCorp International's subsidiaries that currently guarantee the New Senior Credit Facility, as subsidiary guarantors (the "Subsidiary Guarantors"), and Wilmington Trust, National Association, as trustee and collateral agent.

Interest on the Second Lien Notes accrues at the rate of 11.875% per annum, comprised of 10.375% per annum in cash and 1.500% per annum payable in kind ("PIK," and such interest "PIK Interest"). The cash portion of the interest on the Second Lien Notes is payable in cash and the PIK Interest on the Second Lien Notes is payable in kind, each semi-annually in arrears on January 1 and July 1, commencing on July 1, 2016.

During the three and nine months ended September 30, 2018, PIK interest converted into the carrying amount of the Second Lien Notes was \$2.9 million and \$5.7 million, respectively. During the three and nine months ended September 30, 2017, PIK interest converted into the carrying amount of the Second Lien Notes was \$2.8 million and \$5.6 million, respectively. PIK interest accrued on the Second Lien Notes was \$1.4 million and \$2.8 million as of September 30, 2018 and December 31, 2017, respectively.

### *Covenants and Events of Default*

The Indenture contains a number of non-financial affirmative and negative covenants we believe are usual and customary. These covenants are subject to a number of important exceptions and qualifications as set forth in the Indenture. In addition, the Indenture required DynCorp International to make an amortization payment of \$22.5 million principal amount of the Term Loan under the New Senior Credit Facility no later than June 15, 2018, which amount was fully satisfied as a result of the Company's \$54.9 million excess cash flow payment discussed above.

The Indenture contains customary events of default, including for failure to pay other indebtedness in a total amount exceeding \$10.0 million after final maturity of such indebtedness.

### *Optional Redemption*

On and after July 1, 2018, the Second Lien Notes are redeemable at the option of the Company, in whole or in part, at any time and from time to time, upon not less than 30 nor more than 60 days' prior notice, at the following redemption prices (expressed as a percentage of the principal amount), plus accrued and unpaid cash interest, if any, together with an amount of cash equal to all accrued and unpaid PIK Interest to but excluding the redemption date:

<b>Period</b>	<b>Redemption Price</b>
July 1, 2018 through June 30, 2019	103.00%
July 1, 2019 and thereafter	100.00%

### *Cerberus 3L Notes*

On June 15, 2016, DynCorp Funding LLC, a limited liability company managed by Cerberus Capital Management, L.P. ("Cerberus"), entered into a Third Lien Credit Agreement (the "Third Lien Credit Agreement") with us. Under the Third Lien Credit Agreement, DynCorp Funding LLC has made a \$30 million term loan to us (the "Cerberus 3L Notes"). The proceeds of the Cerberus 3L Notes were fully utilized and were restricted to pay fees and expenses (including reimbursement of out-of-pocket expenses) in support of or related to the Company's Global Advisory Group.

### *Interest Rate and Fees*

The interest rate per annum applicable to the Cerberus 3L Notes is 5.00%, payable in kind on a quarterly basis. During the three and nine months ended September 30, 2018, PIK interest converted into the carrying amount of the Cerberus 3L Notes was \$0.4 million and \$1.1 million, respectively. During the three and nine months ended September 30, 2017, PIK interest converted into the carrying amount of the Cerberus 3L Notes was \$0.4 million and \$1.2 million, respectively.

### *Prepayments*

The Cerberus 3L Notes do not require any mandatory prepayments, and, subject to the terms of the Intercreditor Agreement (as defined below), we are permitted to voluntarily repay outstanding loans under the Cerberus 3L Notes without premium or penalty. The New Senior Credit Facility and the Indenture governing the Second Lien Notes restrict us from making any principal payments on the Cerberus 3L Notes.

### *Maturity and Amortization*

The Cerberus 3L Notes do not require any mandatory amortization payments prior to maturity and the outstanding principal amounts shall be payable on June 15, 2026.

### *Covenants and Events of Default*

The Cerberus 3L Notes include non-financial affirmative and negative covenants consistent with the covenants set forth in the Second Lien Notes; provided that each "basket" or "cushion" set forth in the covenants is at least 25% less restrictive than the corresponding provision set forth in the Second Lien Notes. The Third Lien Credit Agreement contains customary events of default, including for failure to pay other debt in a total amount exceeding \$12.5 million after final maturity or acceleration of such indebtedness.

### *Intercreditor Agreement*

The collateral granted to secure the indebtedness under the New Senior Credit Facility, on a first-priority basis, has also been granted to secure (a) the Second Lien Notes and the guarantees under the Indenture on a second-priority basis and (b) the Cerberus 3L Notes and the guarantees under the Third Lien Credit Agreement on a third-priority basis. The relative priority of the liens afforded to the New Senior Credit Facility, Second Lien Notes and Cerberus 3L Notes and the subordination in right of payment of the Cerberus 3L Notes to the New Senior Credit Facility and the Second Lien Notes are set forth in the Intercreditor Agreement (the "Intercreditor Agreement"), dated as of June 15, 2016, by and among the administrative agent under the New Senior Credit Facility, the collateral agent under the Indenture, and the collateral agent under the Third Lien Credit Agreement.

### *Debt Maturity Schedule*

The following table represents our contractual maturity schedule associated with our debt as of September 30, 2018:

Calendar Years<sup>(1)</sup>

<i>(Amounts in thousands)</i>	2018	2019	2020	2021	2022	Thereafter	Total
11.875% senior secured second lien notes	\$ —	\$ —	\$ 384,713	\$ —	\$ —	\$ —	\$ 384,713
Term loan <sup>(2)</sup>	—	—	127,343	—	—	—	127,343
Cerberus 3L notes	—	—	—	—	—	33,665	33,665
Total debt	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 512,056</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 33,665</u>	<u>\$ 545,721</u>

(1) As of September 30, 2018, there were no amounts outstanding under the Revolver.

(2) On October 19, 2018, we made a voluntary principal payment of \$50.0 million on the Term Loan. Excess cash flow principal payments are determined annually. Accordingly, after giving effect to this voluntary prepayment, the required payments in the calendar year 2020 and the Total column will be \$77,343.

## Note 9 — Commitments and Contingencies

### Commitments

We have operating leases for the use of real estate and certain property and equipment which are either non-cancelable, cancelable only by the payment of penalties or cancelable upon one month's notice. All lease payments are based on the lapse of time. There are no purchase options on operating leases at favorable terms, but most leases have one or more renewal options. Certain real estate leases are subject to annual escalations for increases in base rents, utilities and property taxes. Lease rental expense was \$13.0 million and \$34.0 million for the three and nine months ended September 30, 2018, respectively. Lease rental expense was \$10.5 million and \$31.7 million for the three and nine months ended September 30, 2017, respectively. We have no significant long-term purchase agreements with service providers.

### Contingencies

#### General Legal Matters

We are involved in various lawsuits and claims that arise in the normal course of business. We have established reserves for matters in which it is believed that losses are probable and can be reasonably estimated. Reserves related to these matters have been recorded in Other accrued liabilities totaling approximately \$4.7 million and \$9.2 million as of September 30, 2018 and December 31, 2017, respectively. We believe that appropriate accruals have been established for such matters based on information currently available; however, some of the matters may involve compensatory, punitive, or other claims or sanctions that, if granted, could require us to pay damages or make other expenditures in amounts that could not be reasonably estimated at September 30, 2018. These accrued reserves represent the best estimate of amounts believed to be our liability in a range of expected losses. In addition to matters that are considered probable and that can be reasonably estimated, we also have certain matters considered reasonably possible. Other than matters disclosed below, we believe the aggregate range of possible loss related to matters considered reasonably possible was not material as of September 30, 2018. Litigation is inherently unpredictable and unfavorable resolutions could occur. Accordingly, it is possible that an adverse outcome from such proceedings could (i) exceed the amounts accrued for probable matters; or (ii) require a reserve for a matter we did not originally believe to be probable or could be reasonably estimated. Such changes could be material to our financial condition, results of operations and cash flows in any particular reporting period. Our view of the matters not specifically disclosed could possibly change in future periods as events thereto unfold.

#### Pending Litigation and Claims

In October 2007, we entered into a subcontract with Northrop Grumman Technical Services, Inc. ("Northrop") to support Northrop's prime contract with the DoD Counter Narcotics Terrorism Program Office ("CNTPO"). We performed the services requested by Northrop, the government determined that it received "intended quality and skills of personnel," and Northrop paid our invoices until July 2014. Subsequent to July 2014, Northrop stopped paying our periodic invoices. The contract operations ended on December 31, 2014. In March 2015, Northrop filed a civil action against us to obtain documents regarding our invoices and now asserts approximately \$5.0 million in damages. We believe the damages asserted by Northrop represent a loss contingency that is remote. In September 2015, we filed an Answer and Counterclaim seeking approximately \$41.0 million for unpaid invoices. We have collected a majority of these funds and we continue to seek payment on the remaining balance.

On February 24, 2012, we were advised by the Department of Justice Civil Litigation Division (the "Civil Division") that they are conducting an investigation regarding the CivPol and Department of State Advisor Support Mission ("DASM") contracts in Iraq and Corporate Bank, a former subcontractor. The issues include allowable hours worked under a specific task order and invoices to the Department of State for certain hotel leasing, labor rates and overhead within the 2003 to 2008 timeframe. Since 2012, the Company has been in discussions with the Civil Division, and has been cooperating with the Civil Division's requests for information. On July 19, 2016, the Civil Division filed a civil lawsuit asserting violations of underlying contract terms and also the False Claims Act. If our operations are found to be in violation of any laws or government regulations, we may be subject

to penalties, damages or fines, any or all of which could adversely affect our financial results; however, the complaint does not include any specific monetary demand and as such we are unable to estimate a range of loss at this time. We are continuing to evaluate this lawsuit and at this time believe the potential for penalties, damages or fines resulting from this matter do not represent a probable loss contingency.

#### *U.S. Government Investigations*

We primarily sell our services to the U.S. government. These contracts are subject to extensive legal and regulatory requirements, and we are occasionally the subject of investigations by various agencies of the U.S. government who investigate whether our operations are being conducted in accordance with these requirements. Such investigations could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed on us, or could lead to suspension or debarment from future U.S. government contracting. U.S. government investigations often take years to complete and may result in adverse action against us. We believe that any adverse actions arising from such matters could have a material effect on our ability to invoice and receive timely payment on our contracts, perform contracts or compete for contracts with the U.S. government and could have a material effect on our operating performance.

#### *U.S. Government Audits*

Our contracts are regularly audited by the Defense Contract Audit Agency ("DCAA") and other government agencies. These agencies review our contract performance, cost structure and compliance with applicable laws, regulations and standards. The government also reviews the adequacy of, and our compliance with, our internal control systems and policies, including our purchasing, property, estimating, accounting and material management business systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed. The DCAA will in some cases issue a Form 1 representing the non-conformance of such costs or requirements as it relates to our government contracts. If we are unable to provide sufficient evidence of the costs in question, the costs could be suspended or disallowed which could be material to our financial statements. Government contract payments received by us for direct and indirect costs are subject to adjustment after government audit and repayment to the government if the payments exceed allowable costs as defined in the government regulations.

We have received a series of audit reports from the DCAA related to their examination of certain incurred, invoiced and reimbursed costs on the Logistics Civil Augmentation Program IV ("LOGCAP IV") for contract years 2009 to 2016. For contract years 2009 to 2012, through our negotiation efforts with the Contracting Officer the issues have been resolved, resulting in final settlements of all audited costs of approximately \$0.8 million of questioned costs. For contract years 2013 and 2014, we have received DCAA's final audit report, which questions approximately \$3.9 million of costs. We are in discussion with the Contracting Officer and we believe that the settlement of these outstanding amounts will not be material to our financial statements. Additionally, the DCAA has recently completed its audit of contract years 2015 and 2016, and LOGCAP IV had no questioned contract costs.

#### *Foreign Contingencies*

On January 22, 2014, a tax assessment from the Large Tax Office of the Afghanistan Ministry of Finance ("MOF") was received, seeking approximately \$64.2 million in taxes and penalties specific to one of our business licenses in Afghanistan for periods between 2009 to 2012. The majority of this assessment was income tax related; however, \$10.2 million of the assessed amount is non-income tax related and represents loss contingencies that we consider reasonably possible. We filed our initial appeal of the assessment with the MOF on February 19, 2014. In May 2014, the Afghanistan Supreme Court issued an opinion in our favor for the income tax related issue which totaled approximately \$54.0 million. In October 2018, we received a formal release from the MOF for the entire amount.

#### *Credit Risk*

We are subject to concentrations of credit risk primarily by virtue of our accounts receivable. Departments and agencies of the U.S. federal government account for all but minor portions of our customer base, minimizing this credit risk. Furthermore, the significance of any one contract can change as our business expands or contracts. Additionally, as contract modifications, contract extensions or other contract actions occur, the profitability of any one contract can become more or less significant to the Company. As contracts are recompeted, there is the potential for the size, contract type, contract structure or other contract elements to materially change from the original contract resulting in significant changes to the scope, scale, profitability or magnitude of accounts receivable of the new recompeted contract as compared to the original contract. We continuously review all accounts receivable and record provisions for doubtful accounts when necessary.

#### *Risk Management Liabilities and Reserves*

We are insured for domestic workers' compensation liabilities and a significant portion of our employee medical costs. However, we bear risk for a portion of claims pursuant to the terms of the applicable insurance contracts. We account for these programs based on actuarial estimates of the amount of loss inherent in that period's claims, including losses for which claims have not been

reported of \$7.4 million and \$7.7 million as of September 30, 2018 and December 31, 2017, respectively. These loss estimates rely on actuarial observations of ultimate loss experience for similar historical events. We limit our risk by purchasing stop-loss insurance policies for significant claims incurred for both domestic workers' compensation liabilities and medical costs. Our exposure under the stop-loss policies for domestic workers' compensation and medical costs is limited based on fixed dollar amounts. For domestic workers' compensation and employers' liability under state and federal law, the fixed dollar amount of stop-loss coverage is \$1.0 million per occurrence on most policies, but is \$0.25 million per occurrence on a California-based policy. For medical costs, the fixed dollar amount of stop-loss coverage is \$0.4 million for total costs per covered participant per calendar year.

## Note 10 — Segment Information

In January 2018, the Company amended its organizational structure. The Company's previous three operating and reporting segments, AELS, AOLC and DynLogistics, were re-aligned into two operating and reporting segments by combining AELS and AOLC into DynAviation with DynLogistics continuing to operate as a separate segment. The DynAviation and DynLogistics segments operate principally within a regulatory environment subject to governmental contracting and accounting requirements, including Federal Acquisition Regulations, Cost Accounting Standards and audits by various U.S. federal agencies.

The following is a summary of the financial information of the reportable segments reconciled to the amounts reported in the condensed consolidated financial statements:

<i>(Amounts in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>Revenue</b>				
DynAviation	\$ 250,998	\$ 307,864	\$ 865,684	\$ 886,085
DynLogistics	274,893	195,810	743,663	551,791
Headquarters / Other <sup>(1)</sup>	(869)	(700)	329	(743)
Total revenue	\$ 525,022	\$ 502,974	\$ 1,609,676	\$ 1,437,133
<b>Operating income (loss)</b>				
DynAviation	\$ 21,152	\$ 26,415	\$ 72,368	\$ 66,060
DynLogistics	35,788	9,125	83,991	50,424
Headquarters / Other <sup>(2)</sup>	(13,433)	(10,344)	(32,010)	(42,235)
Total operating income (loss)	\$ 43,507	\$ 25,196	\$ 124,349	\$ 74,249
<b>Depreciation and amortization</b>				
DynAviation	\$ 272	\$ 525	\$ 1,057	\$ 1,139
DynLogistics	632	258	1,700	594
Headquarters / Other	6,009	8,537	17,878	25,512
Total depreciation and amortization <sup>(3)</sup>	\$ 6,913	\$ 9,320	\$ 20,635	\$ 27,245

(1) Headquarters revenue primarily represents revenue earned on shared services arrangements for general and administrative services provided to unconsolidated joint ventures and elimination of intercompany items between segments.

(2) Headquarters operating expenses primarily relate to amortization of intangible assets and other costs that are not allocated to segments and are not billable to our U.S. government customers, partially offset by equity method investee income.

(3) Includes amounts included in Cost of services of \$0.9 million and \$2.6 million and for the three and nine months ended September 30, 2018, respectively, and \$0.5 million and \$1.3 million for the three and nine months ended September 30, 2017, respectively.

The following is a summary of the assets of the reportable segments reconciled to the amounts reported in the consolidated financial statements:

<i>(Amounts in thousands)</i>	As Of	
	September 30, 2018	December 31, 2017
<b>Assets</b>		
DynAviation	\$ 177,630	\$ 244,231
DynLogistics	239,213	243,281
Headquarters / Other <sup>(1)</sup>	299,367	248,205
Total assets	\$ 716,210	\$ 735,717

(1) Assets primarily include cash, investments in unconsolidated subsidiaries, and intangible assets (excluding goodwill).

## Note 11 — Related Parties, Joint Ventures and Variable Interest Entities

### Consulting Fee

We have a Master Consulting and Advisory Services agreement ("COAC Agreement") with Cerberus Operations and Advisory Company, LLC ("COAC") where, pursuant to the terms of the agreement, they make personnel available to us for the purpose of providing reasonably requested business advisory services. The services are priced on a case by case basis depending on the requirements of the project and agreements in pricing. We incurred \$0.1 million and \$0.2 million of consulting fees on a gross basis before considering the effect of our contract mix which provides for partial recovery in conjunction with the COAC Agreement, during the three and nine months ended September 30, 2018, respectively, and \$1.1 million and \$3.6 million during the three and nine months ended September 30, 2017, respectively.

The New Senior Credit Facility permits payments under the COAC Agreement or any transaction contemplated thereby not to exceed \$6.0 million per fiscal year with respect to executives seconded from COAC and personnel of COAC that provide services to us at cost on a weekly, monthly or pro-rated basis.

Certain members of executive management and board members of the Company and seconded COAC individuals may have agreements and conduct business with Cerberus and its affiliates for which they receive compensation. We recognize such compensation as an administrative expense in the consolidated financial statements.

### Joint Ventures and Variable Interest Entities

We account for our investments in variable interest entities ("VIEs") in accordance with ASC 810 - *Consolidation*. In cases where we have (i) the power to direct the activities of the VIE that most significantly impact its economic performance and (ii) the obligation to absorb losses of the VIE that could potentially be significant or the right to receive benefits from the entity that could potentially be significant to the VIE, we consolidate the entity. We consolidated DynCorp International FZ - LLC ("DIFZ") based on the aforementioned criteria. Alternatively, in cases where all of the aforementioned criteria are not met, the investment is accounted for under the equity method. As of September 30, 2018, we accounted for Partnership for Temporary Housing LLC ("PaTH") and Global Linguist Solutions ("GLS") as equity method investments. We present our share of the PaTH and GLS earnings in (Loss) earnings from equity method investees as these joint ventures are considered operationally integral.

Receivables due from our unconsolidated joint ventures totaled \$0.1 million as of both September 30, 2018 and December 31, 2017. These receivables are a result of items purchased and services rendered by us on behalf of our unconsolidated joint ventures. We have assessed these receivables as having minimal collection risk based on our historic experience with these joint ventures and our inherent influence through our ownership interest.

We did not incur cost or earn revenue from services provided to our unconsolidated joint ventures during the three and nine months ended September 30, 2018. We recognized \$0.2 million and \$0.6 million in cost of services and did not earn revenue from our unconsolidated joint ventures during the three and nine months ended September 30, 2017, respectively. Additionally, we recognized \$0.1 million of losses and \$0.2 million in equity method income (includes operationally integral and non-integral income) during the three and nine months ended September 30, 2018 and \$0.1 million in equity method income during the three and nine months ended September 30, 2017.

GLS' revenue was \$13.4 million and \$39.3 million during the three and nine months ended September 30, 2018, respectively, and \$10.4 million and \$26.3 million during the three and nine months ended September 30, 2017. GLS' operating and net income was \$0.9 million and \$2.9 million during the three and nine months ended September 30, 2018. GLS' operating and net income was \$0.3 million and operating loss was \$2.1 million during the three and nine months ended September 30, 2017, respectively.

We currently hold one promissory note included in Other assets on our consolidated balance sheet from Palm Trading Investment Corp, which had an aggregate initial value of \$9.2 million. The loan balance outstanding was \$1.8 million and \$2.0 million as of September 30, 2018 and December 31, 2017, respectively, reflecting the initial value plus accrued interest, less non-cash dividend payments against the promissory note. The fair value of the note receivable is not materially different from its carrying value.

As discussed above and in accordance with ASC 810 - *Consolidation*, we consolidate DIFZ. The following tables present selected financial information for DIFZ as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and September 30, 2017:

(Amounts in millions)	As Of	
	September 30, 2018	December 31, 2017
Assets	\$ 16.2	\$ 4.5
Liabilities	13.1	0.9

<i>(Amounts in millions)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2018</b>	<b>September 30, 2017</b>	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Revenue	\$ 43.5	\$ 43.4	\$ 128.8	\$ 127.9

The following tables present selected financial information for our equity method investees as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and September 30, 2017:

<i>(Amounts in millions)</i>	<b>As Of</b>	
	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Current assets	\$ 17.6	\$ 28.2
Total assets	17.6	28.2
Current liabilities	6.1	11.6
Total liabilities	6.1	11.6

<i>(Amounts in millions)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2018</b>	<b>September 30, 2017</b>	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Revenue	\$ 13.4	\$ 10.7	\$ 42.7	\$ 27.3
Gross profit (loss)	0.9	0.4	3.6	(2.5)
Net income (loss)	0.7	0.4	3.5	(2.3)

Many of our joint ventures and VIEs only perform on a single contract. The modification or termination of a contract under a joint venture or VIE could trigger an impairment in the fair value of our investment in these entities. In the aggregate, our maximum exposure to losses as a result of our investment consists of our (i) \$2.1 million investment in unconsolidated joint ventures, (ii) \$0.1 million in receivables from our unconsolidated joint ventures, (iii) \$1.8 million note receivable from Palm Trading Investment Corp. and (iv) contingent liabilities that were neither probable nor reasonably estimable as of September 30, 2018.



## Note 12 — Consolidating Financial Statements of Subsidiary Guarantors

The Second Lien Notes issued by DynCorp International Inc. ("Subsidiary Issuer"), the New Senior Credit Facility and the term loan under the Third Lien Credit Agreement are fully and unconditionally guaranteed, jointly and severally, by the Company ("Parent") and the following domestic subsidiaries of Subsidiary Issuer: DynCorp International LLC, DTS Aviation Services LLC, DynCorp Aerospace Operations LLC, DynCorp International Services LLC, DIV Capital Corporation, Dyn Marine Services of Virginia LLC, Services International LLC, Worldwide Management and Consulting Services LLC, Worldwide Recruiting and Staffing Services LLC, Heliworks LLC, Phoenix Consulting Group, LLC, Casals & Associates, Inc., Culpeper National Security Solutions LLC, and Highground Global, Inc. ("Subsidiary Guarantors"). Each of the Subsidiary Issuer and the Subsidiary Guarantors is 100% owned by the Company. Under the Indenture governing the Second Lien Notes, a guarantee of a Subsidiary Guarantor would terminate upon the following customary circumstances: (i) the sale of the capital stock of such Subsidiary Guarantor if such sale complies with the indenture; (ii) the designation of such Subsidiary Guarantor as an unrestricted subsidiary; (iii) if such Subsidiary Guarantor no longer guarantees certain other indebtedness of the Subsidiary Issuer or (iv) the defeasance or discharge of the indenture.

The following condensed consolidating financial statements present (i) unaudited condensed consolidating balance sheets as of September 30, 2018 and December 31, 2017, (ii) unaudited condensed consolidating statements of operations and comprehensive income for the three and nine months ended September 30, 2018 and September 30, 2017, (iii) unaudited condensed consolidating statements of cash flows for the nine months ended September 30, 2018 and September 30, 2017 and (iii) elimination entries necessary to consolidate Parent and its subsidiaries.

The Parent company, the Subsidiary Issuer, the combined Subsidiary Guarantors and the combined subsidiary non-guarantors account for their investments in subsidiaries using the equity method of accounting; therefore, the Parent column reflects the equity income of the subsidiary and its subsidiary guarantors, and subsidiary non-guarantors. Additionally, the Subsidiary Guarantors' column reflects the equity income of its subsidiary non-guarantors.

DynCorp International Inc. is considered the Subsidiary Issuer as it issued the Second Lien Notes.

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Operations Information**  
**For the Three Months Ended September 30, 2018**

<i>(Amounts in thousands)</i>	Parent	Subsidiary Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations	Consolidated
Revenue	\$ —	\$ —	\$ 528,022	\$ 47,099	\$ (50,099)	\$ 525,022
Cost of services	—	—	(457,789)	(46,522)	50,041	(454,270)
Selling, general and administrative expenses	—	—	(21,108)	(111)	56	(21,163)
Depreciation and amortization expense	—	—	(5,963)	(61)	2	(6,022)
Loss from equity method investees	—	—	(60)	—	—	(60)
Operating income	—	—	43,102	405	—	43,507
Interest expense	—	(15,821)	(376)	—	—	(16,197)
Interest income	—	—	863	—	—	863
Equity in income of consolidated subsidiaries	26,645	36,929	76	—	(63,650)	—
Other income (expense), net	—	—	804	(14)	—	790
Income before income taxes	26,645	21,108	44,469	391	(63,650)	28,963
Benefit (provision) for income taxes	—	5,537	(7,540)	(37)	—	(2,040)
Net income	26,645	26,645	36,929	354	(63,650)	26,923
Noncontrolling interests	—	—	—	(278)	—	(278)
Net income attributable to Delta Tucker Holdings, Inc.	\$ 26,645	\$ 26,645	\$ 36,929	\$ 76	\$ (63,650)	\$ 26,645

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Operations Information**  
**For the Three Months Ended September 30, 2017**

<i>(Amounts in thousands)</i>	Parent	Subsidiary Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations	Consolidated
Revenue	\$ —	\$ —	\$ 506,037	\$ 48,103	\$ (51,166)	\$ 502,974
Cost of services	—	—	(451,480)	(47,457)	51,141	(447,796)
Selling, general and administrative expenses	—	—	(21,150)	(114)	21	(21,243)
Depreciation and amortization expense	—	—	(8,621)	(174)	3	(8,792)
Earnings from equity method investees	—	—	53	—	—	53
Operating income	—	—	24,839	358	(1)	25,196
Interest expense	—	(16,454)	(695)	—	—	(17,149)
Interest income	—	—	14	1	—	15
Equity in income of consolidated subsidiaries	4,386	15,081	14	—	(19,481)	—
Other expense, net	—	—	(27)	(16)	—	(43)
Income (loss) before income taxes	4,386	(1,373)	24,145	343	(19,482)	8,019
Benefit (provision) for income taxes	—	5,759	(9,063)	(34)	—	(3,338)
Net income	4,386	4,386	15,082	309	(19,482)	4,681
Noncontrolling interests	—	—	—	(295)	—	(295)
Net income attributable to Delta Tucker Holdings, Inc.	\$ 4,386	\$ 4,386	\$ 15,082	\$ 14	\$ (19,482)	\$ 4,386

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Operations Information**  
**For the Nine Months Ended September 30, 2018**

<i>(Amounts in thousands)</i>	<b>Parent</b>	<b>Subsidiary Issuer</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenue	\$ —	\$ —	\$ 1,619,342	\$ 140,892	\$ (150,558)	\$ 1,609,676
Cost of services	—	—	(1,407,418)	(139,353)	150,480	(1,396,291)
Selling, general and administrative expenses	—	—	(70,946)	(316)	70	(71,192)
Depreciation and amortization expense	—	—	(17,874)	(187)	8	(18,053)
Earnings from equity method investees	—	—	209	—	—	209
Operating income	—	—	123,313	1,036	—	124,349
Interest expense	—	(47,889)	(1,379)	—	—	(49,268)
Loss on early extinguishment of debt	—	(239)	—	—	—	(239)
Interest income	—	—	1,793	3	—	1,796
Equity in income of consolidated subsidiaries	67,862	99,146	131	—	(167,139)	—
Other income (expense), net	—	—	1,955	(24)	—	1,931
Income before income taxes	67,862	51,018	125,813	1,015	(167,139)	78,569
Benefit (provision) for income taxes	—	16,844	(26,667)	(101)	—	(9,924)
Net income	67,862	67,862	99,146	914	(167,139)	68,645
Noncontrolling interests	—	—	—	(783)	—	(783)
Net income attributable to Delta Tucker Holdings, Inc.	\$ 67,862	\$ 67,862	\$ 99,146	\$ 131	\$ (167,139)	\$ 67,862

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Operations Information**  
**For the Nine Months Ended September 30, 2017**

<i>(Amounts in thousands)</i>	<b>Parent</b>	<b>Subsidiary Issuer</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenue	\$ —	\$ —	\$ 1,447,557	\$ 144,725	\$ (155,149)	\$ 1,437,133
Cost of services	—	—	(1,269,058)	(142,973)	155,107	(1,256,924)
Selling, general and administrative expenses	—	—	(79,848)	(314)	33	(80,129)
Depreciation and amortization expense	—	—	(25,423)	(522)	9	(25,936)
Earnings from equity method investees	—	—	105	—	—	105
Operating income	—	—	73,333	916	—	74,249
Interest expense	—	(51,265)	(2,363)	—	—	(53,628)
Loss on early extinguishment of debt	—	(24)	—	—	—	(24)
Interest income	—	—	35	4	—	39
Equity in income of consolidated subsidiaries	9,575	42,914	91	—	(52,580)	—
Other income, net	—	—	1,417	57	—	1,474
Income (loss) before income taxes	9,575	(8,375)	72,513	977	(52,580)	22,110
Benefit (provision) for income taxes	—	17,950	(29,599)	(28)	—	(11,677)
Net income	9,575	9,575	42,914	949	(52,580)	10,433
Noncontrolling interests	—	—	—	(858)	—	(858)
Net income attributable to Delta Tucker Holdings, Inc.	\$ 9,575	\$ 9,575	\$ 42,914	\$ 91	\$ (52,580)	\$ 9,575

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Comprehensive Income Information**  
**For the Three Months Ended September 30, 2018**

<i>(Amounts in thousands)</i>	<b>Parent</b>	<b>Subsidiary Issuer</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net income	\$ 26,645	\$ 26,645	\$ 36,929	\$ 354	\$ (63,650)	\$ 26,923
Other comprehensive loss, net of tax:						
Foreign currency translation adjustment	(22)	(22)	—	(22)	44	(22)
Other comprehensive loss, before tax	(22)	(22)	—	(22)	44	(22)
Income tax benefit related to items of other comprehensive loss	5	5	—	5	(10)	5
Other comprehensive loss	(17)	(17)	—	(17)	34	(17)
Comprehensive income	26,628	26,628	36,929	337	(63,616)	26,906
Noncontrolling interests	—	—	—	(278)	—	(278)
Comprehensive income attributable to Delta Tucker Holdings, Inc.	\$ 26,628	\$ 26,628	\$ 36,929	\$ 59	\$ (63,616)	\$ 26,628

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Comprehensive Income Information**  
**For the Three Months Ended September 30, 2017**

<i>(Amounts in thousands)</i>	<b>Parent</b>	<b>Subsidiary Issuer</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non-Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net income	\$ 4,386	\$ 4,386	\$ 15,082	\$ 309	\$ (19,482)	\$ 4,681
Other comprehensive income, net of tax:						
Foreign currency translation adjustment	247	247	243	4	(494)	247
Other comprehensive income, before tax	247	247	243	4	(494)	247
Income tax expense related to items of other comprehensive income	(88)	(88)	(88)	—	176	(88)
Other comprehensive income	159	159	155	4	(318)	159
Comprehensive income	4,545	4,545	15,237	313	(19,800)	4,840
Noncontrolling interests	—	—	—	(295)	—	(295)
Comprehensive income attributable to Delta Tucker Holdings, Inc.	\$ 4,545	\$ 4,545	\$ 15,237	\$ 18	\$ (19,800)	\$ 4,545

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Comprehensive Income Information**  
**For the Nine Months Ended September 30, 2018**

<i>(Amounts in thousands)</i>	<b>Parent</b>	<b>Subsidiary Issuer</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net income	\$ 67,862	\$ 67,862	\$ 99,146	\$ 914	\$ (167,139)	\$ 68,645
Other comprehensive loss, net of tax:						
Foreign currency translation adjustment	(50)	(50)	—	(50)	100	(50)
Other comprehensive loss, before tax	(50)	(50)	—	(50)	100	(50)
Income tax benefit related to items of other comprehensive loss	11	11	—	11	(22)	11
Other comprehensive loss	(39)	(39)	—	(39)	78	(39)
Comprehensive income	67,823	67,823	99,146	875	(167,061)	68,606
Noncontrolling interests	—	—	—	(783)	—	(783)
Comprehensive income attributable to Delta Tucker Holdings, Inc.	\$ 67,823	\$ 67,823	\$ 99,146	\$ 92	\$ (167,061)	\$ 67,823



**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Comprehensive Income Information**  
**For the Nine Months Ended September 30, 2017**

<i>(Amounts in thousands)</i>	<b>Parent</b>	<b>Subsidiary Issuer</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net income	\$ 9,575	\$ 9,575	\$ 42,914	\$ 949	\$ (52,580)	\$ 10,433
Other comprehensive income, net of tax:						
Foreign currency translation adjustment	263	263	243	20	(526)	263
Other comprehensive income, before tax	263	263	243	20	(526)	263
Income tax expense related to items of other comprehensive income	(94)	(94)	(88)	(6)	188	(94)
Other comprehensive income	169	169	155	14	(338)	169
Comprehensive income	9,744	9,744	43,069	963	(52,918)	10,602
Noncontrolling interests	—	—	—	(858)	—	(858)
Comprehensive income attributable to Delta Tucker Holdings, Inc.	\$ 9,744	\$ 9,744	\$ 43,069	\$ 105	\$ (52,918)	\$ 9,744

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Balance Sheet Information**  
**September 30, 2018**

<i>(Amounts in thousands)</i>	Parent	Subsidiary Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ —	\$ —	\$ 220,702	\$ 18,443	\$ —	\$ 239,145
Accounts receivable, net	—	—	133,662	—	(14,095)	119,567
Contract assets	—	—	163,957	—	(81)	163,876
Intercompany receivables	—	—	208,976	17,956	(226,932)	—
Prepaid expenses and other current assets	—	—	45,686	4,140	—	49,826
Total current assets	—	—	772,983	40,539	(241,108)	572,414
Property and equipment, net	—	—	22,603	382	—	22,985
Goodwill	—	—	9,694	32,399	—	42,093
Tradenames, net	—	—	28,536	—	—	28,536
Other intangibles, net	—	—	38,074	—	—	38,074
Investment in subsidiaries	—	630,411	54,700	—	(685,111)	—
Long-term deferred taxes	—	—	874	—	—	874
Other assets, net	—	—	10,838	396	—	11,234
Total assets	<u>\$ —</u>	<u>\$ 630,411</u>	<u>\$ 938,302</u>	<u>\$ 73,716</u>	<u>\$ (926,219)</u>	<u>\$ 716,210</u>
<b>LIABILITIES &amp; DEFICIT</b>						
Current liabilities:						
Accounts payable	\$ —	\$ —	\$ 99,940	\$ 746	\$ (608)	\$ 100,078
Accrued payroll and employee costs	—	—	78,382	13,426	(12,069)	79,739
Contract liabilities	—	—	39,842	—	—	39,842
Intercompany payables	46,426	162,550	17,956	—	(226,932)	—
Deferred income taxes	—	—	—	27	(27)	—
Accrued liabilities	82,124	13,040	39,632	4,817	(83,197)	56,416
Income taxes payable	—	—	15,253	—	(399)	14,854
Total current liabilities	128,550	175,590	291,005	19,016	(323,232)	290,929
Long-term debt, net	—	536,945	—	—	—	536,945
Other long-term liabilities	—	—	11,437	—	—	11,437
Noncontrolling interests	—	—	5,449	—	—	5,449
(Deficit) equity	(128,550)	(82,124)	630,411	54,700	(602,987)	(128,550)
Total liabilities and deficit	<u>\$ —</u>	<u>\$ 630,411</u>	<u>\$ 938,302</u>	<u>\$ 73,716</u>	<u>\$ (926,219)</u>	<u>\$ 716,210</u>

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Balance Sheet Information**  
**December 31, 2017**

<i>(Amounts in thousands)</i>	Parent	Subsidiary Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ —	\$ —	\$ 153,004	\$ 15,246	\$ —	\$ 168,250
Accounts receivable, net	—	—	361,362	—	(8,812)	352,550
Intercompany receivables	—	—	162,470	9,140	(171,610)	—
Prepaid expenses and other current assets	—	—	48,473	4,321	(252)	52,542
<b>Total current assets</b>	<b>—</b>	<b>—</b>	<b>725,309</b>	<b>28,707</b>	<b>(180,674)</b>	<b>573,342</b>
Property and equipment, net	—	—	22,980	588	—	23,568
Goodwill	—	—	9,694	32,399	—	42,093
Tradenames, net	—	—	28,536	—	—	28,536
Other intangibles, net	—	—	55,302	—	—	55,302
Investment in subsidiaries	—	579,191	54,690	—	(633,881)	—
Long-term deferred taxes	—	—	369	—	—	369
Other assets, net	—	—	8,941	3,566	—	12,507
<b>Total assets</b>	<b>\$ —</b>	<b>\$ 579,191</b>	<b>\$ 905,821</b>	<b>\$ 65,260</b>	<b>\$ (814,555)</b>	<b>\$ 735,717</b>
<b>LIABILITIES &amp; DEFICIT</b>						
Current liabilities:						
Current portion of long-term debt, net	\$ —	\$ 53,652	\$ —	\$ —	\$ —	\$ 53,652
Accounts payable	—	—	106,039	4,170	(813)	109,396
Accrued payroll and employee costs	—	—	102,953	2,438	—	105,391
Intercompany payables	45,085	117,385	9,140	—	(171,610)	—
Deferred income taxes	—	—	—	29	(29)	—
Accrued liabilities	150,371	31,486	71,200	3,933	(158,306)	98,684
Income taxes payable	—	—	18,688	—	(287)	18,401
<b>Total current liabilities</b>	<b>195,456</b>	<b>202,523</b>	<b>308,020</b>	<b>10,570</b>	<b>(331,045)</b>	<b>385,524</b>
Long-term debt, net	—	527,039	—	—	—	527,039
Other long-term liabilities	—	—	13,081	—	—	13,081
Noncontrolling interests	—	—	5,529	—	—	5,529
(Deficit) Equity	(195,456)	(150,371)	579,191	54,690	(483,510)	(195,456)
<b>Total liabilities and deficit</b>	<b>\$ —</b>	<b>\$ 579,191</b>	<b>\$ 905,821</b>	<b>\$ 65,260</b>	<b>\$ (814,555)</b>	<b>\$ 735,717</b>

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Cash Flow Information**  
**For the Nine Months Ended September 30, 2018**

<i>(Amounts in thousands)</i>	<b>Parent</b>	<b>Subsidiary Issuer</b>	<b>Subsidiary Guarantors</b>	<b>Subsidiary Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net cash provided by operating activities	\$ —	\$ 8,138	\$ 110,180	\$ 13,557	\$ (772)	\$ 131,103
<b>Cash flows from investing activities:</b>						
Purchase of property and equipment	—	—	(8,377)	—	—	(8,377)
Proceeds from sale of property, plant and equipment	—	—	13	—	—	13
Purchase of software	—	—	(274)	—	—	(274)
Return of capital from equity method investees	—	—	8,278	—	—	8,278
Contributions to equity method investees	—	—	(4,433)	—	—	(4,433)
Transfers to affiliates	—	—	(46,505)	(8,816)	55,321	—
Net cash used in investing activities	—	—	(51,298)	(8,816)	55,321	(4,793)
<b>Cash flows from financing activities:</b>						
Payments on senior secured credit facility	—	(54,943)	—	—	—	(54,943)
Equity contribution from affiliates of Cerberus	—	300	—	—	—	300
Payments of dividends to noncontrolling interests	—	—	—	(1,544)	772	(772)
Net transfers from Parent/subsidiary	—	46,505	8,816	—	(55,321)	—
Net cash (used in ) provided by financing activities	—	(8,138)	8,816	(1,544)	(54,549)	(55,415)
Net increase in cash, cash equivalents and restricted cash	—	—	67,698	3,197	—	70,895
Cash, cash equivalents and restricted cash, beginning of period	—	—	153,004	15,246	—	168,250
Cash, cash equivalents and restricted cash, end of period	\$ —	\$ —	\$ 220,702	\$ 18,443	\$ —	\$ 239,145

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Cash Flow Information**  
**For The Nine Months Ended September 30, 2017**

<i>(Amounts in thousands)</i>	Parent	Subsidiary Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ —	\$ 22,568	\$ (12,013)	\$ 136	\$ (554)	\$ 10,137
<b>Cash flows from investing activities:</b>						
Purchase of property and equipment	—	—	(3,931)	—	—	(3,931)
Proceeds from sale of property, plant and equipment	—	—	537	—	—	537
Purchase of software	—	—	(646)	—	—	(646)
Return of capital from equity method investees	—	—	6,017	—	—	6,017
Contributions to equity method investees	—	—	(3,250)	—	—	(3,250)
Contribution to subsidiary	(40,599)	—	—	—	40,599	—
Transfers from affiliates	—	—	5,978	4,525	(10,503)	—
Net cash (used in) provided by investing activities	(40,599)	—	4,705	4,525	30,096	(1,273)
<b>Cash flows from financing activities:</b>						
Payments on senior secured credit facility	—	(25,114)	—	—	—	(25,114)
Payment to bondholders of senior unsecured notes	—	(39,319)	—	—	—	(39,319)
Equity contribution from Parent	—	40,599	—	—	(40,599)	—
Equity contributions from affiliates of Cerberus	40,599	300	—	—	—	40,899
Payments of dividends to noncontrolling interests	—	—	—	(1,109)	554	(555)
Net transfers to Parent/subsidiary	—	(5,978)	(4,525)	—	10,503	—
Net cash provided by (used in) financing activities	40,599	(29,512)	(4,525)	(1,109)	(29,542)	(24,089)
Net (decrease) increase in cash, cash equivalents and restricted cash	—	(6,944)	(11,833)	3,552	—	(15,225)
Cash, cash equivalents and restricted cash, beginning of period	—	6,944	107,136	11,802	—	125,882
Cash, cash equivalents and restricted cash, end of period	\$ —	\$ —	\$ 95,303	\$ 15,354	\$ —	\$ 110,657

**Note 13 — Subsequent Events**

We evaluated potential subsequent events occurring after the period end date through the date the financial statements were issued and determined no subsequent events merited disclosure for the period ended September 30, 2018, except as disclosed within the Notes to the unaudited condensed consolidated financial statements or as described below.

***Voluntary Term Loan Payment***

On October 19, 2018, we made a voluntary principal payment of \$50.0 million on the Term Loan.

***Sale of Inventory***

In October 2018, we amended a contract, which was executed in July 2018, to sell inventory from our T-6 Contractor Operated and Maintained Base Supply ("T-6 COMBS") contract. As of November 13, 2018, the sale was pending transfer of title and final funding.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

*The following discussion and analysis of our unaudited condensed consolidated financial condition and results of operations should be read in conjunction with the Delta Tucker Holdings, Inc. unaudited condensed consolidated financial statements, and the notes thereto, and other data contained elsewhere in this Quarterly Report on Form 10-Q. The following discussion and analysis should also be read in conjunction with our audited consolidated financial statements, and notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2017. In addition, please see "Disclosure Regarding Forward-Looking Information" for a discussion of the risks, uncertainties and assumptions associated with these statements. References to "Delta Tucker Holdings", the "Company", "we", "our" or "us" refer to Delta Tucker Holdings, Inc. and its subsidiaries unless otherwise stated or indicated by context.*

### **Company Overview**

We are a leading global services provider offering unique, tailored solutions for an ever-changing world. Built on approximately seven decades of experience as a trusted partner to commercial, government and military customers, we provide sophisticated aviation solutions, law enforcement training and support, base and logistics operations, intelligence training, rule of law development, construction management, international development, ground vehicle support, counter-narcotics aviation, platform services and operations and linguist services. Our current customers include the U.S. Department of Defense ("DoD"), the U.S. Department of State ("DoS"), the U.S. Agency for International Development ("USAID"), foreign governments, commercial customers and certain other U.S. federal, state and local government departments and agencies.

### **Reportable Segments**

In January 2018, the Company amended its organizational structure. The Company's previous three operating and reporting segments, AELS, AOLC and DynLogistics, were re-aligned into two operating and reporting segments by combining AELS and AOLC into DynAviation with DynLogistics continuing to operate as a separate segment. Our segments provide services domestically and internationally primarily under contracts with the U.S. government.

#### *DynAviation*

This segment provides aircraft operations and logistics services to include modernization and refurbishments, upgrades and sustainment, and maintenance and support for key military, government and commercial customers worldwide. DynAviation also provides the technical information and expertise to manage large fleets and bases and delivers engineering and maintenance services to help keep operations running effectively. The Theater Aviation Sustainment Manager - OCONUS ("TASM-O") and Contractor Logistics Support: T-34, T-44, T-6 ("CLS T34/44/6") programs are two of the most significant programs in the DynAviation segment. The TASM-O program provides aviation maintenance services under the Army Aviation Field Maintenance ("AFM") program. Our CLS T34/44/6 program provides maintenance and logistics support to the U.S. Navy T-34, T-44, and T-6 aircraft. Our INL Air Wing and T-6 Contractor Operated and Maintained Base Supply ("T-6 COMBS") Bridge contracts, which were both completed during the first three quarters of calendar year 2018, also contributed significantly during the nine months ended September 30, 2018.

The INL Air Wing program supported governments in multiple Latin American countries and provided support and assistance with interdiction services in Afghanistan. This program also provided intra-theater transportation services for DoS personnel throughout Iraq and Afghanistan. On September 1, 2016, we were notified that the DoS had awarded the re-compete of the INL Air Wing contract to another company. On September 11, 2016, we filed a protest with the GAO challenging the DoS agency's award determination. On September 27, 2016, DynAviation finalized negotiations with the DoS Office of Acquisition Management regarding an extension of services on the INL Air Wing program and definitized an agreement for a one-year extension through October 31, 2017. On December 21, 2016, we were notified that the GAO denied our protest of the DoS agency's award determination of the INL Air Wing contract to another company. On September 29, 2017, DynAviation finalized negotiations with the DoS Office of Acquisition Management regarding an extension of services for several locations on the INL Air Wing program and definitized an agreement for a six-month extension through April 30, 2018. On October 31, 2017, the U.S. Court of Federal Claims issued a ruling dismissing our protest on the re-compete of the INL Air Wing contract. On November 14, 2017, we appealed that decision to the U.S. Court of Appeals for the Federal Circuit. In May 2018, DynAviation announced its final extension on the INL Air Wing program and the program was completed on June 30, 2018.

This segment provides best-value mission readiness to its customers through total support solutions including conventional and contingency logistics, operations and maintenance support, platform modification and upgrades, supply chain management and training, security and full spectrum intelligence mission support services. DynLogistics supports U.S. foreign policy and international development priorities by assisting in the development of stable and democratic governments, implementing anti-corruption initiatives and aiding the growth of democratic public and civil institutions. This segment also provides base operations support, engineering, supply and logistics, pre-positioned war reserve materials, facilities, marine maintenance services, program management services primarily for ground vehicles and contingency response on a worldwide basis. These services are provided to U.S. government agencies in both domestic and foreign locations, foreign government entities and commercial customers.

The Logistics Civil Augmentation Program IV ("LOGCAP IV") and Afghanistan Life Support Services ("ALiSS") contracts are the most significant contracts within this segment. Under the LOGCAP IV program, which we perform under a single IDIQ contract, the U.S. Army contracts for us to perform selected services, operations and maintenance, engineering as well as construction and logistics predominately in the Middle East Theater to augment the U.S. Army, the U.S. Marine Corps and North Atlantic Treaty Organization forces and to release military units from combat service support missions or to fill the U.S. military resource shortfalls. Under the ALiSS contract, the Company provides the DoS's Bureau of South and Central Asian Affairs with life support services for the U.S. mission in Afghanistan, the U.S. Embassy in Kabul, and other U.S. government sites within the country.

### ***Current Operating Environment and Outlook***

The following discussion is a supplement to and should be read in conjunction with the accompanying unaudited financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2017.

### ***External Factors***

Our business is primarily derived from U.S. government contracts to support U.S. national security and foreign policy objectives around the globe. Therefore, federal budgets and spending for these activities, as well as the alignment of capabilities with policy priorities, guide our ability to grow the business. The Bipartisan Budget Act of 2018 increased the defense spending caps mandated by the Budget Control Act of 2011 by \$80 billion in fiscal year 2018 and \$85 billion in fiscal year 2019. The new budget agreement provided near-term clarity which sustains the current positive business environment and projected growth for the defense services sector.

In fiscal year 2018, the Congress appropriated \$655 billion for the DoD, which is \$60 billion above fiscal year 2017 and represents the largest increase in DoD spending in fifteen years. Fiscal year 2018 Operations & Maintenance activities are funded at \$238 billion, which is over \$20 billion above fiscal year 2017. On September 28, 2018, the President signed into law a \$675 billion defense appropriations bill for fiscal year 2019, which is \$20 billion higher than fiscal year 2018. Fiscal year 2019 Operations & Maintenance activities are funded at \$244 billion, which is a \$6 billion increase over the previous year. The bill continues to focus on activities that buy-back lost readiness and ensure the future readiness of the force, to include increased purchasing of parts, training, flight hours and other readiness enablers. For fiscal year 2020, unless the Congress enacts new higher budget caps, funding levels will revert to the Budget Control Act mandated sequestration levels. Additional factors that will determine next year's defense spending and potential further increases include: the political environment, the composition of the 116th Congress and the President's stated plans to cut federal spending across the board.

Growth in the defense budget combined with the prioritization of readiness and ongoing operations aligns with our core offerings and favors continued growth. However, U.S. policy and budget decisions do not exist in a vacuum, and global events shape adjustments to policies, as well as the funding levels and mechanisms to support these shifts. External factors influencing the industry continue to include:

- Disruptions to funding caused by a government shutdown or a continuing resolution;
- Increased competition and opportunity caused by IDIQs and other bidding trends;
- Readiness-driven requirements to maintain and sustain equipment;
- Troop levels and tempo of operations in Afghanistan;
- Conflicts in Iraq, Syria and the wider Middle East;
- North Korea's nuclear program and challenging behavior; and
- Russian aggression in Europe and the Middle East.

Legislatively, the industry is encouraged that Congress will be able to agree on final fiscal year appropriations for the expiration of the current continuing resolution allowing government customers to accelerate contracting activity. Internationally, the new strategy in Afghanistan increased the U.S. footprint and related operational tempo, which also requires proportionate contractor

support services. In addition to Afghanistan, the wider geopolitical environment, especially in the Middle East and the Korean peninsula, will likely be marked by continued instability for the foreseeable future which argues for continued robust Overseas Contingency Operations funding.

We believe the following longer-term industry trends demonstrate the continued demand for the types of services we provide:

- Realignment of the military force structure, leading to increased outsourcing of non-combat functions, including life cycle;
- Asset management of equipment ranging from operational, immediate and depot-level maintenance;
- Requirement to maintain, overhaul and upgrade for returning rolling stocks and aging platforms;
- Sustain and support forward-deployed rotational troops and equipment; and
- Growth in outsourcing by foreign allies of maintenance, supply-support, facilities management, infrastructure upgrades, and construction management related services.

#### ***Current Business Environment***

Our contract vehicles typically have a base period with multiple option periods. The majority of these periods are for a term of one year, as the contract duration is the period over which the parties have present enforceable rights. We also have a strong history of being awarded a majority of the contract options. Furthermore, the significance of any one contract can change as our business expands or contracts. Additionally, as contract modifications, contract extensions or other contract actions occur, the profitability of any one contract can become more or less significant to the Company. As contracts are re-competed, there is the potential for the size, contract type, contract structure or other contract elements to materially change from the original contract resulting in significant changes to the scope, scale, profitability or magnitude of accounts receivable of the new re-competed contract as compared to the original contract.

Since our primary customer is the U.S. federal government, we have not historically had significant issues with bad debt. However, given the continued scrutiny by the U.S. government, we could be subjected to regulatory requirements that could require audits at various points within our contracting process. An adverse finding under an audit could result in the disallowance of costs under a U.S. government contract, termination of a U.S. government contract, forfeiture of profits or suspension of payments, which could prove to be impactful to our liquidity, affect our ability to invoice and receive timely payment on our contracts, perform contracts or compete for contracts with the U.S. government. Disapproval of our control systems could result in an adverse outcome.

We cannot be certain that the economic environment or other factors will not adversely impact our business, financial condition or results of operations in the future. We believe that our primary sources of liquidity, such as customer collections and the New Senior Credit Facility, will enable us to continue to perform under our existing contracts and support further growth of our business. However, adverse conditions, such as a long term credit crisis or sequestration, could adversely affect our ability to obtain additional liquidity or refinance existing indebtedness at acceptable terms or at all.



*Notable Events for the nine months ended September 30, 2018 and to date*

- In January 2018, the Company changed its three operating and reporting segments, DynLogistics, AELS and AOLC, to two operating and reporting segments: DynLogistics and DynAviation.
- In February 2018, DynLogistics announced the award of a contract extension from the United States Army Contracting Command to provide advisory, training and mentoring services to the Afghanistan Ministry of Defense. The extension has a one-year base period with a total potential value of \$54.2 million and two two-month options.
- In February 2018, DynLogistics announced the award of a contract extension from the United States Army Contracting Command to provide advisory, training and mentoring services to the Afghanistan Ministry of Interior. The extension has a one-year base period with a total potential value of \$67.2 million and two two-month options.
- In March 2018, DynLogistics announced the award of a contract modification to support the U.S. Army Garrison-Kwajalein Atoll ("USAG-KA") on the U.S. Army Pacific Command ("PACOM") task order under the LOGCAP IV contract. The modification had a period of performance from March 1, 2018 to September 12, 2018 and a total potential value of \$45.6 million. In September 2018, DynLogistics received a contract modification to extend the period of performance from September 13, 2018 to March 12, 2019.
- On March 21, 2018, we made an additional principal payment of \$54.9 million under the Excess Cash Flow requirement which satisfied the June 15, 2018 \$22.5 million principal payment requirement on the Term Loan.
- In March 2018, DynLogistics announced the award of the third option year on the Food Services task order under the ALiSS contract. The task order has a one-year period of performance with a total potential task order value of \$76.5 million.
- In March 2018, DynAviation announced the award of the Contract Field Teams ("CFT") task order re-compete at the Davis-Monthan Air Force Base in Tucson, Arizona to provide maintenance on the 357th Aircraft Maintenance Unit's A-10 Thunderbolt aircraft. The re-compete has a one-year base period and one one-year option and a total potential value of \$46.2 million.
- In March 2018 and April 2018, DynLogistics announced a contract extension and expansion, respectively, to support material management and logistics services for the U.S. Army Corps of Engineers' ("USACE") South Atlantic Division, Task Force Power Restoration in Puerto Rico on the Northcom task order under the LOGCAP IV contract. The extension and expansion has a total potential value of \$24.9 million.
- In March 2018, DynLogistics announced the award of the Camp Eggers Support Services task order under the ALiSS contract. The task order has a one-year base period and two one-year option periods and a total potential task order value of \$13.4 million.
- In April 2018, DynAviation was one of multiple Large Company Awardees on the Worldwide Contractor Logistics Support ("WLSS-C") IDIQ contract from the U.S. Army. The suite of multiple-award IDIQ contracts has a five-year base and one five-year option with a total potential contract value of \$25.5 billion.
- In April 2018, DynAviation announced the award of a contract extension on the T-6 Contractor Operated and Maintained Base Supply Bridge Contract ("T-6 COMBS Bridge") from May 1, 2018 to August 31, 2018 with a total potential value of \$59.6 million. In July 2018, DynAviation announced an extension on the T-6 COMBS Bridge contract from August 31, 2018 to September 30, 2018 with a total potential value of \$14.9 million.
- In April 2018, DynLogistics announced a task order modification for expanded work to continue providing base life support and maintenance services in Afghanistan under the LOGCAP IV contract. The contract modification has a total potential value of \$24.4 million.
- In May 2018, DynAviation announced an extension on the INL Air Wing program through June 30, 2018 with a total potential value of \$14.0 million.
- In June 2018, DynLogistics announced the award of a twelve-month task order contract extension to continue providing base life support and maintenance services in Afghanistan under the LOGCAP IV contract. The contract extension has a total potential value of \$258.3 million.
- In June 2018, DynLogistics announced the award of the Facilities Engineering Support Services task order under the ALiSS contract. The task order has a one-year base period and four one-year option periods and a total potential task order value of \$28.1 million.
- In June 2018, DynLogistics announced the task order award under the Air Force Augmentation Program ("AFCAP IV") to provide dining facility services for the Al Dhafra Air Base in the UAE. The task order has a two-month mobility period, a ten-month base period and two one-year option periods and a total potential task order value of \$11.5 million.

- In July 2018, DynLogistics announced a contract modification to support material management and logistics services for the USACE South Atlantic Division, Task Force Power Restoration in Puerto Rico on the Northcom task order under the LOGCAP IV contract. The contract modification has a total potential value of \$24.6 million.
- In August 2018, DynAviation announced the award of the General Services Administration ("GSA") task order to provide executive airlift aircraft maintenance and back shop support services in support of the 89th Airlift Wing, located at Joint Base Andrews, Maryland. The task order has a one-year base period and four one-year option periods and a total potential task order value of \$203.1 million.
- In August 2018, DynAviation announced the award of the GSA task order to support maintenance and maintenance training for the Royal Saudi Naval Forces at Naval Station Mayport in Jacksonville, Florida. The task order has a one-year base period and four one-year option periods and a total potential task order value of \$21.8 million.
- In September 2018, DynLogistics announced the award of the third and fourth option years on the Camp Eggers Support Services task order under the ALiSS contract. The two one-year option periods have a total potential value of \$17.4 million.
- In September 2018, DynLogistics announced a six-month contract extension on the Fort Irwin National Training Center on the Northcom task order under the LOGCAP IV contract. The extension has a total potential value of \$48.8 million.
- In September 2018, DynLogistics announced a contract extension to support material management and logistics services for the USACE South Atlantic Division, Task Force Power Restoration in Puerto Rico on the Northcom task order under the LOGCAP IV contract. The contract extension has a total potential value of \$19.9 million.
- In September 2018, DynLogistics announced a contract expansion on the Afghanistan South Base Life Support Services ("AFSOR") task order under the LOGCAP IV contract. The expansion has a total potential value of \$21.7 million.
- In October 2018, we amended a contract, which was executed in July 2018, to sell inventory from our T-6 Contractor Operated and Maintained Base Supply ("T-6 COMBS") contract. As of November 13, 2018, the sale was pending transfer of title and final funding.
- In October 2018, DynLogistics was one of multiple awardees on the Responsive Strategic Sources for Services ("RS3") multiple award IDIQ contract from the U.S. Army to provide knowledge-based command, control, communications, computers, intelligence, surveillance, and reconnaissance ("C4ISR") related support services. The suite of multiple-award IDIQ contracts has a total potential contract value of \$37.4 billion.
- In October 2018, DynAviation announced the award of the TH-57 Helicopter Logistics Support IDIQ contract from the U.S. Navy to provide logistics support services and material for the organizational and depot level maintenance of approximately 118 TH-57 Sea Ranger aircraft. The contract has two one-year base periods and two one-year option periods and a total potential task order value of \$302.4 million.
- In October 2018, DynLogistics announced the award of an IDIQ contract for Egypt personnel support services to provide housing, transportation and security services. The contract has a one-year base period and four one-year option periods and a total potential contract value of \$22.5 million.
- On October 19, 2018, we made a voluntary principal payment of \$50.0 million on the Term Loan.

## Contract Types

Our business generally is performed under fixed-price, time-and-materials or cost-reimbursement contracts. Each of these is described below.

- **Fixed-Price Type Contracts:** In a fixed-price contract, the price is generally not subject to adjustment based on costs incurred, which can favorably or adversely impact our profitability depending upon our execution in performing the contracted service. Our fixed-price contracts may include firm fixed-price, fixed-price with economic adjustment, and fixed-price incentive elements.
- **Time-and-Materials Type Contracts:** Time-and-materials type contracts provide for acquiring supplies or services on the basis of direct labor hours at fixed hourly/daily rates plus materials at cost.
- **Cost-Reimbursement Type Contracts:** Cost-reimbursement type contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract, plus a fixed-fee, award-fee, incentive-fee or a combination thereof. Award-fees or incentive-fees are generally based upon various objective and subjective criteria, such as aircraft mission capability rates and meeting cost targets. Award and incentive fees are excluded from estimated total contract revenue until a reasonably determinable estimate of award and incentive fees can be made.

A single contract may be performed under one or more of the contracts types discussed above. Any of these three types of contracts may be executed under an IDIQ contract, which are often awarded to multiple contractors. An IDIQ contract does not represent a firm order for services. Our ALiSS and LOGCAP IV programs are examples of IDIQ contracts. When a customer wishes to order services under an IDIQ contract, the customer issues a task order request for proposal to the contractor awardees. The contract awardees then submit proposals to the customer and task orders are typically awarded under a best-value approach. However, many IDIQ contracts permit the customer to direct work to a particular contractor.

Our historical contract mix by type, as a percentage of revenue, is indicated in the table below.

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Fixed-Price	35%	43%	37%	43%
Time-and-Materials	6%	5%	5%	5%
Cost-Reimbursement	59%	52%	58%	52%
Total	100%	100%	100%	100%

Cost-reimbursement type contracts typically perform at lower margins than other contract types but carry lower risk of loss. We anticipate cost-reimbursement and fixed-price type contracts will continue to represent a majority of our business for the remainder of calendar year 2018. The contract type indicated in the table above does not necessarily represent fixed or variable consideration under ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606).

Under many of our contracts, we may rely on subcontractors to perform all or a portion of the services we are obligated to provide to our customers. We use subcontractors primarily for specialized, technical labor and certain functions such as construction and catering. We often enter into subcontract arrangements in order to meet government requirements that certain categories of services be awarded to small businesses.

The following table sets forth our historical role as a prime and subcontractor, as a percentage of revenue.

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Prime Contractor	99%	97%	98%	96%
Subcontractor	1%	3%	2%	4%
Total	100%	100%	100%	100%

## **Backlog**

We track backlog in order to assess our current business development effectiveness and to assist us in forecasting our future business needs and financial performance. Our backlog consists of funded and unfunded amounts under contracts and does not include contracts under protest. Funded backlog is equal to the amounts actually appropriated by a customer for payment of goods and services less actual revenue recognized as of the measurement date under that appropriation. Unfunded backlog is the actual dollar value of unexercised, priced contract options and the unfunded portion of exercised contract options. These priced options may or may not be exercised at the sole discretion of the customer. Unfunded backlog does not include future potential task orders expected to be awarded under IDIQ or other master agreement contract vehicles.

Firm funding for our contracts is usually made for one year at a time, with the remainder of the contract period consisting of a series of one-year options. As is the case with the base period of our U.S. government contracts, option periods are subject to the availability of funding for contract performance. Most of our U.S. government contracts allow the customer the option to extend the period of performance of a contract for a period of one or more years.

The following table sets forth our approximate backlog as of the dates indicated:

<i>(Amounts in millions)</i>	<b>As Of</b>	
	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Funded backlog	\$ 770	\$ 968
Unfunded backlog	3,112	3,201
<b>Total</b>	<b>\$ 3,882</b>	<b>\$ 4,169</b>

The decrease in backlog as of September 30, 2018 was primarily due to revenue outpacing orders during the nine months ended September 30, 2018.

We expect to recognize a substantial portion of our funded backlog as revenues within the next 12 months. However, the U.S. Government may cancel certain contracts through a termination for the convenience of the U.S. Government. Certain commercial or non-U.S. Government contracts may include provisions that allow the customer to cancel prior to the completion of the contract, however, most of our contracts have cancellation terms that would permit us to recover all or a portion of our incurred costs and fees for work performed.

## Results of Operations

### Consolidated Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

The following tables set forth our unaudited consolidated results of operations, both in dollars and as a percentage of revenue, for the three months ended September 30, 2018 and September 30, 2017.

(Amounts in thousands)	Three Months Ended			
	September 30, 2018		September 30, 2017	
Revenue	\$ 525,022	100.0 %	\$ 502,974	100.0 %
Cost of services	(454,270)	(86.5)	(447,796)	(89.0)
Selling, general and administrative expenses	(21,163)	(4.0)	(21,243)	(4.2)
Depreciation and amortization expense	(6,022)	(1.2)	(8,792)	(1.7)
(Loss) earnings from equity method investees	(60)	—	53	—
Operating income	43,507	8.3	25,196	5.1
Interest expense	(16,197)	(3.1)	(17,149)	(3.4)
Interest income	863	0.2	15	—
Other income (expense), net	790	0.1	(43)	—
Income before income taxes	28,963	5.5	8,019	1.7
Provision for income taxes	(2,040)	(0.4)	(3,338)	(0.7)
Net income	26,923	5.1	4,681	1.0
Noncontrolling interests	(278)	(0.1)	(295)	(0.1)
Net income attributable to Delta Tucker Holdings, Inc.	\$ 26,645	5.0	\$ 4,386	0.9

*Revenue* — Revenue for the three months ended September 30, 2018 was \$525.0 million, an increase of \$22.0 million, or 4.4%, compared to \$503.0 million for the three months ended September 30, 2017. The increase was primarily due to increased scope on the LOGCAP IV program and the Contractor Logistics Support: C-12, C-26, UC-35 and T-6 Transport ("CLS Transport"), Naval Test Wing Pacific O-Level Maintenance ("Naval Test Wing Pacific") and the G4 Worldwide Logistics Support contracts. The increase in revenue was partially offset by the completion of the INL Air Wing extension and decreased content on the T-6 COMBS contract. See further discussion of our revenue results in the "Results by Segment" section below.

*Cost of services* — Cost of services are comprised of direct labor, direct material, overhead, subcontractors, travel, supplies and other miscellaneous costs. Cost of services for the three months ended September 30, 2018 was \$454.3 million, an increase of \$6.5 million, or 1.4%, compared to the three months ended September 30, 2017. The increase in Cost of services was driven by the increase in revenue, as discussed above. As a percentage of revenue, Cost of services decreased to 86.5% for the three months ended September 30, 2018 compared to 89.0% for the three months ended September 30, 2017. See further discussion of the impact of program margins in the "Results by Segment" section below.

*Selling, general and administrative expenses ("SG&A")* — SG&A primarily relates to functions such as management, legal, financial accounting, contracts and administration, human resources, management information systems, purchasing, and business development. SG&A decreased by \$0.1 million, or 0.4%, to \$21.2 million during the three months ended September 30, 2018. SG&A as a percentage of revenue decreased to 4.0% for the three months ended September 30, 2018 compared to 4.2% for the three months ended September 30, 2017 as a result of the decrease in SG&A and increase in revenue discussed above.

*Depreciation and amortization* — Depreciation and amortization during the three months ended September 30, 2018 was \$6.0 million, a decrease of \$2.8 million, or 31.5%, primarily due to the full amortization of our DoS customer-related intangible assets during calendar year 2017.

*(Loss) earnings from equity method investees* — (Loss) earnings from equity method investees include our proportionate share of the income of our equity method investees deemed to be operationally integral to our business, such as Partnership for Temporary Housing LLC ("PaTH"). We expect our earnings from equity method investees to remain minimal throughout the remainder of the year unless additional task orders are received by our joint ventures.

*Interest expense* — Interest expense for the three months ended September 30, 2018 was \$16.2 million, a decrease of \$1.0 million, or 5.6%, compared to the three months ended September 30, 2017. The decrease is primarily due to the reduction in debt due to the \$54.9 million Excess Cash Flow principal payment made March 21, 2018 and a reduction in issued letters of credit partially offset by the PIK interest on our Second Lien Notes.

*Interest Income* — Interest income for the three months ended September 30, 2018 was \$0.9 million, an increase of \$0.8 million, compared to the three months ended September 30, 2017. The increase is primarily due to more favorable interest rates combined with our higher cash position during the three months ended September 30, 2018.

*Other income, net* — Other income, net consists primarily of sublease income, gains/losses from foreign currency, asset sales and other items. Other income, net during the three months ended September 30, 2018 was \$0.8 million, an increase of \$0.8 million.

*Provision for income taxes* — Our effective tax rate consists of federal and state statutory rates, certain permanent differences and discrete items. For the three months ended September 30, 2018 and September 30, 2017, we reported a tax provision of \$2.0 million and \$3.3 million, respectively. The effective tax rate for the three months ended September 30, 2018 and September 30, 2017 was 7.0%, and 41.6%, respectively. The effective tax rate for the three months ended September 30, 2018 was driven primarily by a decrease to the valuation allowance and the reduction to the federal corporate income tax rate from 35% to 21% effective January 1, 2018 from the Tax Act. The effective tax rate for the three months ended September 30, 2017 was driven primarily by the increase in income before income taxes.

#### **Consolidated Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017**

The following tables set forth our unaudited consolidated results of operations, both in dollars and as a percentage of revenue, for the nine months ended September 30, 2018 and September 30, 2017:

<i>(Amounts in thousands)</i>	Nine Months Ended			
	September 30, 2018		September 30, 2017	
Revenue	\$ 1,609,676	100.0 %	\$ 1,437,133	100.0 %
Cost of services	(1,396,291)	(86.8)	(1,256,924)	(87.5)
Selling, general and administrative expenses	(71,192)	(4.4)	(80,129)	(5.6)
Depreciation and amortization expense	(18,053)	(1.1)	(25,936)	(1.8)
Earnings from equity method investees	209	—	105	—
Operating income	124,349	7.7	74,249	5.1
Interest expense	(49,268)	(3.1)	(53,628)	(3.7)
Loss on early extinguishment of debt	(239)	—	(24)	—
Interest income	1,796	0.1	39	—
Other income, net	1,931	0.1	1,474	0.1
Income before income taxes	78,569	4.8	22,110	1.5
Provision for income taxes	(9,924)	(0.6)	(11,677)	(0.8)
Net income	68,645	4.2	10,433	0.7
Noncontrolling interests	(783)	—	(858)	(0.1)
Net income attributable to Delta Tucker Holdings, Inc.	\$ 67,862	4.2	\$ 9,575	0.6

*Revenue* — Revenue for the nine months ended September 30, 2018 was \$1,609.7 million, an increase of \$172.6 million, or 12.0%, compared to \$1,437.1 million for the nine months ended September 30, 2017. The increase was primarily due to increased scope on the LOGCAP IV program the G4 Worldwide Logistics Support, CLS Transport and Naval Test Wing Pacific contracts. The increase in revenue was partially offset by lower volume on and the completion of the INL Air Wing extension. See further discussion of our revenue results in the "Results by Segment" section below.

*Cost of services* — Cost of services are comprised of direct labor, direct material, overhead, subcontractors, travel, supplies and other miscellaneous costs. Cost of services for the nine months ended September 30, 2018 was \$1,396.3 million, an increase of \$139.4 million, or 11.1%, compared to the nine months ended September 30, 2017. The increase in Cost of services was driven by the increase in revenue, as discussed above. As a percentage of revenue, Cost of services decreased to 86.8% for the nine months ended September 30, 2018 compared to 87.5% for the nine months ended September 30, 2017. See further discussion of the impact of program margins in the "Results by Segment" section below.

*Selling, general and administrative expenses ("SG&A")* — SG&A primarily relates to functions such as management, legal, financial accounting, contracts and administration, human resources, management information systems, purchasing, and business development. SG&A decreased by \$8.9 million, or 11.2%, to \$71.2 million during the nine months ended September 30, 2018 primarily due to a reduction in consulting costs and our cost reduction initiatives. SG&A as a percentage of revenue decreased to 4.4% for the nine months ended September 30, 2018 compared to 5.6% for the nine months ended September 30, 2017 as a result of the decrease in SG&A and increase in revenue discussed above.

*Depreciation and amortization* — Depreciation and amortization during the nine months ended September 30, 2018 was \$18.1 million, a decrease of \$7.9 million, or (30.4)%, primarily due to the full amortization of our DoS customer-related intangible assets during calendar year 2017.

*Earnings from equity method investees* — Earnings from equity method investees include our proportionate share of the income of our equity method investees deemed to be operationally integral to our business, such as PaTH. We expect our earnings from equity method investees to remain minimal throughout the remainder of the year unless additional task orders are received by our joint ventures.

*Interest expense* — Interest expense for the nine months ended September 30, 2018 was \$49.3 million, a decrease of \$4.4 million, or 8.1%, compared to the nine months ended September 30, 2017. The decrease is primarily due to the reduction in debt due to the \$54.9 million Excess Cash Flow principal payment made March 21, 2018, redemption of the \$39.3 million principal balance of the Senior Unsecured Notes in 2017 and a reduction in issued letters of credit partially offset by the PIK interest on our Second Lien Notes.

*Loss on early extinguishment of debt* — Loss on early extinguishment of debt was \$0.2 million during the nine months ended September 30, 2018 due to the \$54.9 million Excess Cash Flow principal payment made on the Term Loan under the New Senior Credit Facility on March 21, 2018. Loss on early extinguishment of debt was an immaterial amount during the nine months ended September 30, 2017 due to the \$25.1 million Excess Cash Flow principal payment made on the Term Loan under the New Senior Credit Facility on April 4, 2017. Deferred financing costs associated with the additional prepayment were expensed and recorded to Loss on early extinguishment of debt.

*Interest Income* — Interest income for the nine months ended September 30, 2018 was \$1.8 million, an increase of \$1.8 million, compared to the nine months ended September 30, 2017. The increase is primarily due to more favorable interest rates combined with our higher cash position during the nine months ended September 30, 2018.

*Other income, net* — Other income, net consists primarily of sublease income, gains/losses from foreign currency, asset sales and other items. Other income, net during the nine months ended September 30, 2018 was \$1.9 million, an increase of \$0.5 million, or 31.0%, compared to the nine months ended September 30, 2017.

*Provision for income taxes* — Our effective tax rate consists of federal and state statutory rates, certain permanent differences and discrete items. For the nine months ended September 30, 2018 and September 30, 2017, we reported a tax provision of \$9.9 million and \$11.7 million, respectively. The effective tax rate for the nine months ended September 30, 2018 and September 30, 2017 was 12.6%, and 52.8%, respectively. The effective tax rate for the nine months ended September 30, 2018 was driven primarily by a decrease to the valuation allowance and the reduction to the federal corporate income tax rate from 35% to 21% effective January 1, 2018 from the Tax Act. The effective tax rate for the nine months ended September 30, 2017 was driven primarily by the increase in income before income taxes, which impacted the valuation allowance.

**Results by Segment – Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017**

The following tables set forth the revenue, both in dollars and as a percentage of our consolidated revenue, operating income (loss) and operating margin for our operating segments for the three months ended September 30, 2018 and September 30, 2017. See Note 10 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further discussion.

<i>(Amounts in thousands)</i>	<b>Three Months Ended</b>			
	<b>September 30, 2018</b>		<b>September 30, 2017</b>	
	<b>Revenue</b>	<b>% of Total Revenue</b>	<b>Revenue</b>	<b>% of Total Revenue</b>
DynAviation	\$ 250,998	47.8 %	\$ 307,864	61.2 %
DynLogistics	274,893	52.4	195,810	38.9
Headquarters <sup>(1)</sup>	(869)	(0.2)	(700)	(0.1)
Consolidated revenue	<u>\$ 525,022</u>	<u>100.0</u>	<u>\$ 502,974</u>	<u>100.0</u>
	<b>Operating Income (Loss)</b>	<b>Profit Margin <sup>(3)</sup></b>	<b>Operating Income (Loss)</b>	<b>Profit Margin <sup>(3)</sup></b>
DynAviation	\$ 21,152	8.4 %	\$ 26,415	8.6 %
DynLogistics	35,788	13.0	9,125	4.7
Headquarters <sup>(2)</sup>	(13,433)		(10,344)	
Consolidated operating income	<u>\$ 43,507</u>		<u>\$ 25,196</u>	

(1) Represents revenue earned on shared service arrangements for general and administrative services provided to unconsolidated joint ventures and elimination of intercompany items between segments.

(2) Headquarters operating loss primarily relates to amortization of intangible assets and other costs that are not allocated to segments and are not billable to our U.S. government customers, partially offset by equity method investee income.

(3) Represents segment operating income as a percentage of segment revenue and does not consider Headquarters operating loss.

***DynAviation***

Revenue of \$251.0 million decreased \$56.9 million, or 18.5%, for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to decreased content on the T-6 COMBS contract and the completion of INL Air Wing extension and certain other contracts. The decrease in revenue was partially offset by the new CLS Transport and Naval Test Wing Pacific contracts.

Operating income of \$21.2 million for the three months ended September 30, 2018 as compared to \$26.4 million for the three months ended September 30, 2017 was primarily due to the performance of the CLS T34/44/6 contract and the completion of INL Air Wing extension and certain contracts. These decreases were partially offset by the performance of the T-6 COMBS and CLS Transport contracts. Operating income of \$26.4 million for the three months ended September 30, 2017 was primarily due to the transition of the T-6 COMBS contract to the T-6 COMBS Bridge contract with more favorable terms and the performance on our TASM-O contract and MD530 subcontract, partially offset by volume on the INL Air Wing program.

***DynLogistics***

Revenue of \$274.9 million increased \$79.1 million, or 40.4%, for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to increased scope on the LOGCAP IV program, the performance on the G4 Worldwide Logistics Support contract, and the completion of certain contracts.

Operating income of \$35.8 million for the three months ended September 30, 2018 as compared to \$9.1 million for the three months ended September 30, 2017 was primarily due to higher volume as described above, the completion of certain contracts, and productivity and margin expansion across several contracts. Operating income of \$9.1 million for the three months ended September 30, 2017 was primarily impacted by an \$8.2 million charge for the termination of a subcontractor agreement, the award timing of a twelve-month extension on our LOGCAP IV program, and new task orders under the ALiSS contract.



**Results by Segment – Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017**

The following tables set forth the revenue, both in dollars and as a percentage of our consolidated revenue, operating income (loss) and operating margin for our operating segments for the nine months ended September 30, 2018 and September 30, 2017. See Note 10 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further discussion.

	Nine Months Ended			
	September 30, 2018		September 30, 2017	
	Revenue	% of Total Revenue	Revenue	% of Total Revenue
<i>(Amounts in thousands)</i>				
DynAviation	\$ 865,684	53.8%	\$ 886,085	61.6%
DynLogistics	743,663	46.2	551,791	38.4
Headquarters <sup>(1)</sup>	329	—	(743)	—
Consolidated revenue	<u>\$ 1,609,676</u>	<u>100.0</u>	<u>\$ 1,437,133</u>	<u>100.0</u>
	<b>Operating Income (Loss)</b>	<b>Profit Margin <sup>(3)</sup></b>	<b>Operating (Loss) Income</b>	<b>Profit Margin <sup>(3)</sup></b>
DynAviation	\$ 72,368	8.4%	\$ 66,060	7.5%
DynLogistics	83,991	11.3	50,424	9.1
Headquarters <sup>(2)</sup>	(32,010)		(42,235)	
Consolidated operating income	<u>\$ 124,349</u>		<u>\$ 74,249</u>	

(1) Represents revenue earned on shared service arrangements for general and administrative services provided to unconsolidated joint ventures and elimination of intercompany items between segments.

(2) Headquarters operating loss primarily relates to amortization of intangible assets and other costs that are not allocated to segments and are not billable to our U.S. government customers, partially offset by equity method investee income.

(3) Represents segment operating income as a percentage of segment revenue and does not consider Headquarters operating loss.

**DynAviation**

Revenue of \$865.7 million decreased \$20.4 million, or 2.3%, for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to lower volume on and the completion of the INL Air Wing extension and the completion of certain other contracts. The decrease in revenue was partially offset by the CLS Transport and Naval Test Wing Pacific contracts.

Operating income of \$72.4 million for the nine months ended September 30, 2018 as compared to \$66.1 million for the nine months ended September 30, 2017 was primarily due to more favorable terms on the T-6 COMBS contract, productivity on our Naval Test Wing Pacific contract and the resolution of a subcontractor matter. The increase was partially offset by decreased content on and the completion of INL Air Wing extension. Operating income of \$66.1 million for the nine months ended September 30, 2017 was primarily due to more favorable terms on the T-6 COMBS contract, productivity on the MD530 subcontract, the performance on our National Aviation Warfighting Development Center contract and the completion of certain contracts.

**DynLogistics**

Revenue of \$743.7 million increased \$191.9 million, or 34.8%, for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, primarily due to increased scope on the LOGCAP IV, ALiSS and the G4 Worldwide Logistics Support contracts.

Operating income of \$84.0 million for the nine months ended September 30, 2018 as compared to \$50.4 million for the nine months ended September 30, 2017 was primarily due to higher volume as described above, the completion of certain contracts, and productivity and margin expansion across several contracts. Operating income of \$50.4 million for the nine months ended September 30, 2017 was primarily due to strong performance on our LOGCAP IV program and new task orders under the ALiSS contract partially offset by an \$8.2 million charge for the termination of a subcontractor agreement.

## ***Liquidity and Capital Resources***

Cash generated by operations and borrowings available under our New Senior Credit Facility are our primary sources of short-term liquidity. See Note 8 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further discussion of our New Senior Credit Facility.

As of September 30, 2018, we had \$239.1 million of cash and cash equivalents. On October 19, 2018, we made a voluntary principal payment of \$50.0 million on the Term Loan. Excluding this voluntary principal payment, we have no debt retirements scheduled in the upcoming twelve-month period other than the Excess Cash Flow principal payment which might be required (see discussion of Excess Cash Flow annual requirement below). We believe our current cash flow from operations and ability to refinance any upcoming amounts will be sufficient to cover our operating and capital needs for the next twelve months. However, our cash flow from operations is heavily dependent upon billing and collection of our accounts receivable and access to our class B revolving facility (the "Revolver"), which matures on July 7, 2019, or our ability to refinance or obtain a new revolving facility is dependent upon our future financial strength, including our ability to meet financial and non-financial covenants. Significant changes, such as a future government shutdown, further cuts mandated by sequestration or any other limitations in collections, significant future losses on any of our contracts or the inability to refinance or obtain a new revolving facility, could materially impact liquidity and our ability to fund our working capital needs. Failure to meet covenant obligations prior to its scheduled maturity could result in an earlier elimination of access to our New Senior Credit Facility or other remedies by our Agent, such as the acceleration of our debt, which would materially affect our future expansion strategies and our ability to meet our operational obligations. See further discussion of our covenants in the *Financing* section below.

Our primary use of short-term liquidity includes debt service and working capital needs sufficient to pay for materials, labor, services or subcontractors prior to receiving payments from our customers. There can be no assurance that sufficient capital will continue to be available in the future or that it will be available at terms acceptable to us. Although we operate internationally, virtually all of our cash is held by either U.S. entities or by foreign entities which are structured as pass through entities. As a result, we do not have significant risk associated with our ability to repatriate cash.

The credit agreement governing the New Senior Credit Facility contains an annual requirement to submit a portion of our Excess Cash Flow as additional principal payments, which amounts were used to satisfy the \$22.5 million principal payment on the Term Loan due no later than June 15, 2018. Based on our annual financial results for the year ended December 31, 2017 we made an additional principal payment as required under the Excess Cash Flow provisions of the New Senior Credit Facility of \$54.9 million on March 21, 2018, which fully satisfied the June 15, 2018 \$22.5 million principal payment requirement on the Term Loan.

Management believes Days Sales Outstanding ("DSO") is an appropriate way to measure our billing and collections effectiveness. DSO measures the efficiency in collecting our receivables as of the period end date and is calculated based on average daily revenue for the most recent quarter and accounts receivable and contract assets, net of contract liabilities and customer liabilities, as of the balance sheet date. DSO was 41 and 54 days as of September 30, 2018 and December 31, 2017, respectively, as we continued to focus on managing our customer payment cycles and due to the impact of an advanced payment from a customer during the second quarter of calendar year 2018. We expect cash to continue to be impacted by operational working capital needs, potential acquisitions and interest and principal payments on our indebtedness.

## Cash Flow Analysis

(Amounts in thousands)	Nine Months Ended	
	September 30, 2018	September 30, 2017
Net cash provided by operating activities	\$ 131,103	\$ 10,137
Net cash used in investing activities	(4,793)	(1,273)
Net cash used in financing activities	(55,415)	(24,089)

### Cash Flows

Cash provided by operating activities during the nine months ended September 30, 2018 was \$131.1 million compared to \$10.1 million during the nine months ended September 30, 2017. Cash provided by operating activities during the nine months ended September 30, 2018 was primarily due to our net income, non-cash items associated with depreciation and amortization offset by the resolution of a subcontractor matter, settlement of liabilities associated with a contract closeout, and changes in working capital, driven by a reduction in accounts receivable resulting from our continued efficiency in collecting our receivables, partially offset by a reduction to accrued payroll and employee costs due to the timing of payroll payments. The increase in cash provided by operating activities were also partially offset by the resolution of a subcontractor matter and the completion of certain contracts. Cash provided by operating activities during the nine months ended September 30, 2017 was primarily due to our net income and changes in working capital, driven by a reduction in prepaid expenses and accrued expenses as well as an increase in accounts receivable.

Cash used in investing activities during the nine months ended September 30, 2018 was \$4.8 million compared to \$1.3 million during the nine months ended September 30, 2017. Cash used in investing activities during the nine months ended September 30, 2018 and September 30, 2017 was primarily due to purchases of capital assets and contributions to GLS, partially offset by returns of capital from Babcock and GLS.

Cash used in financing activities during the nine months ended September 30, 2018 was \$55.4 million compared to \$24.1 million during the nine months ended September 30, 2017. Cash used in financing activities during the nine months ended September 30, 2018 was primarily the result of our excess cash flow payment. Cash used in financing activities during the nine months ended September 30, 2017 was primarily the result of our excess cash flow payment and redemption of the senior unsecured notes, partially offset by capital contributions from Cerberus.

### Financing

On April 30, 2016, we entered into Amendment No. 5 ("Amendment No. 5") to the Senior Credit Facility which provided for a new senior secured credit facility (the "New Senior Credit Facility") upon the satisfaction of certain conditions. On June 15, 2016, we satisfied the conditions set forth in Amendment No. 5 and the New Senior Credit Facility became effective. The New Senior Credit Facility is secured by substantially all of our assets and guaranteed by substantially all of our subsidiaries.

As of September 30, 2018, the New Senior Credit Facility provided for the following:

- a \$127.3 million Term Loan;
- a \$85.8 million Revolver; and
- up to \$15.0 million in incremental revolving facilities provided by and at the discretion of certain non-debt fund affiliates that are controlled by Cerberus (as defined herein), which shall rank pari passu with, and be on the same terms as, the Revolver.

As of September 30, 2018 and December 31, 2017, the available borrowing capacity under the New Senior Credit Facility was approximately \$66.5 million and \$65.5 million, respectively, and included \$19.3 million and \$20.3 million, respectively, in issued letters of credit. As of September 30, 2018 and December 31, 2017 there were no amounts borrowed under the Revolver. Amounts borrowed under the Revolver are used to fund operations. The Revolver and the Term Loan mature on July 7, 2019 and July 7, 2020, respectively. See Note 8 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further discussion.

We incur quarterly interest payments on both the Term Loan and the Revolver comprised of (i) interest for Term Loan and Revolver borrowings, (ii) letter of credit commitments and (iii) unused commitment fees. See Note 8 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information related to the New Senior Credit Facility.

As of September 30, 2018, the carrying amount of our Second Lien Notes was \$384.7 million. Interest on the Second Lien Notes accrues at the rate of 11.875% per annum, comprised of 10.375% per annum in cash and 1.500% per annum payable in kind ("PIK," and such interest "PIK Interest"). The cash portion of the interest on the Second Lien Notes is payable in cash and the PIK Interest on the Second Lien Notes is payable in kind, each semi-annually in arrears on January 1 and July 1, commencing on

July 1, 2016. See Note 8 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information related to the Second Lien Notes.

The weighted-average interest rate as of September 30, 2018 for our debt, excluding the Cerberus 3L Notes, was 10.9%, excluding the impact of deferred financing fees. There were no interest rate hedges in place during the three and nine months ended September 30, 2018.

On June 15, 2016, DynCorp Funding LLC, a limited liability company managed by Cerberus Capital Management, L.P. ("Cerberus"), entered into a Third Lien Credit Agreement (the "Third Lien Credit Agreement") with us. Under the Third Lien Credit Agreement, DynCorp Funding LLC has made a \$30 million term loan to us (the "Cerberus 3L Notes"). The interest rate per annum applicable to the Cerberus 3L Notes is 5.00%, payable in kind on a quarterly basis. The Cerberus 3L Notes do not require any mandatory amortization payments prior to maturity and the outstanding principal amounts shall be payable on June 15, 2026.

#### *Debt Covenants and Other Matters*

The New Senior Credit Facility contains a number of financial, as well as non-financial, affirmative and negative covenants that we believe are usual and customary. Among other things, the New Senior Credit Facility requires us to maintain a maximum total leverage ratio and a minimum interest coverage ratio. The total leverage ratio is the ratio of Consolidated Total Debt, as defined in Amendment No. 5 (which definition excludes debt under the Cerberus 3L Notes), less unrestricted cash and cash equivalents (up to \$75.0 million) to Consolidated EBITDA, as defined in Amendment No. 5, for the applicable period. The maximum total leverage ratio was 4.75 to 1.0 for the period ended September 30, 2018. The interest coverage ratio is the ratio of Consolidated EBITDA to Consolidated Interest Expense, as defined in Amendment No. 5 (which provides that interest expense with respect to the Cerberus 3L Notes is excluded). The minimum interest coverage ratio was 1.70 to 1.0 for the period ended September 30, 2018.

The New Senior Credit Facility requires, solely for the benefit of the lenders under the Revolver, for us to maintain minimum liquidity (based on availability of revolving credit commitments plus unrestricted cash and cash equivalents) as of the end of each fiscal quarter ending after December 31, 2017 of not less than \$50 million. The credit agreement governing the New Senior Credit Facility also contains customary representations and warranties and events of default.

The Indenture contains a number of non-financial affirmative and negative covenants we believe are usual and customary. These covenants are subject to a number of important exceptions and qualifications as set forth in the Indenture. The Cerberus 3L Notes include non-financial affirmative and negative covenants consistent with the covenants set forth in the Second Lien Notes; provided that each "basket" or "cushion" set forth in the covenants is at least 25% less restrictive than the corresponding provision set forth in the Second Lien Notes.

We closely evaluate our expected ability to remain in compliance with our financial maintenance covenants. As of September 30, 2018 and December 31, 2017, we were in compliance with our financial maintenance covenants under the New Senior Credit Facility. We expect, based on current projections and estimates, to be in compliance with our covenants in the New Senior Credit Facility (including our financial maintenance covenants), and the covenants in the Second Lien Notes and the Cerberus 3L notes, further discussed below, for the next twelve months.

### *Non-GAAP Measures*

We define EBITDA as Generally Accepted Accounting Principles ("GAAP") net income attributable to Delta Tucker Holdings, Inc. adjusted for interest expense, taxes and depreciation and amortization. Adjusted EBITDA is calculated by adjusting EBITDA for the items described in the table below. We use EBITDA and Adjusted EBITDA as supplemental measures in the evaluation of our business and believe that EBITDA and Adjusted EBITDA provide a meaningful measure of operational performance on a consolidated basis because they eliminate the effects of period to period changes in taxes, costs associated with capital investments and interest expense and are consistent with one of the measures we use to evaluate management's performance for incentive compensation. In addition, Adjusted EBITDA as presented in the table below corresponds to the definition of Consolidated EBITDA used in the New Senior Credit Facility and/or the definition of EBITDA used in the Indenture governing the Second Lien Notes to test the permissibility of certain types of transactions, including debt incurrence. Neither EBITDA nor Adjusted EBITDA is a financial measure calculated in accordance with GAAP. Accordingly, they should not be considered in isolation or as substitutes for net income attributable to Delta Tucker Holdings, Inc. or other financial measures prepared in accordance with GAAP.

Management believes these non-GAAP financial measures are useful in evaluating operating performance and are regularly used by security analysts, institutional investors and other interested parties in reviewing the Company. Non-GAAP financial measures are not intended to be a substitute for any GAAP financial measure and, as calculated, may not be comparable to other similarly titled measures of the performance of other companies. When evaluating EBITDA and Adjusted EBITDA, investors should consider, among other factors, (i) increasing or decreasing trends in EBITDA and Adjusted EBITDA, (ii) whether EBITDA and Adjusted EBITDA have remained at positive levels historically, and (iii) how EBITDA and Adjusted EBITDA compare to our debt outstanding. The non-GAAP measures of EBITDA and Adjusted EBITDA do have certain limitations. They do not include interest expense, which is a necessary and ongoing part of our cost structure resulting from the incurrence of debt. EBITDA and Adjusted EBITDA also exclude tax, depreciation and amortization expenses. Because these are material and recurring items, any measure, including EBITDA and Adjusted EBITDA, which excludes them has a material limitation. To mitigate these limitations, we have policies and procedures in place to identify expenses that qualify as interest, taxes, loss on debt extinguishments and depreciation and amortization and to approve and segregate these expenses from other expenses to ensure that EBITDA and Adjusted EBITDA are consistently reflected from period to period. Our calculation of EBITDA and Adjusted EBITDA may vary from that of other companies. Therefore, our EBITDA and Adjusted EBITDA presented may not be comparable to similarly titled measures of other companies. EBITDA and Adjusted EBITDA do not give effect to the cash we must use to service our debt or pay income taxes and thus do not reflect the funds generated from operations or actually available for capital investments.

The following table provides a reconciliation of net income attributable to Delta Tucker Holdings, Inc. and EBITDA and Adjusted EBITDA for the periods included below:

**Delta Tucker Holdings, Inc.**  
**Unaudited Adjusted EBITDA**

<i>(Amounts in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income attributable to Delta Tucker Holdings, Inc.	\$ 26,645	\$ 4,386	\$ 67,862	\$ 9,575
Provision for income taxes	2,040	3,338	9,924	11,677
Interest expense, net of interest income	15,334	17,134	47,472	53,589
Depreciation and amortization <sup>(1)</sup>	6,913	9,320	20,635	27,245
EBITDA	50,932	34,178	145,893	102,086
Certain income/expense or gain/loss adjustments per our credit agreements <sup>(2)</sup>	(5,773)	3,409	(3,063)	2,171
Employee share based compensation, severance, relocation and retention expense <sup>(3)</sup>	377	296	25	1,771
Cerberus fees <sup>(4)</sup>	19	479	105	1,755
Global Advisory Group expenses <sup>(5)</sup>	—	—	—	6,943
Other <sup>(6)</sup>	(342)	(247)	(1,684)	(817)
Adjusted EBITDA	\$ 45,213	\$ 38,115	\$ 141,276	\$ 113,909

(1) Includes certain depreciation and amortization amounts which are classified as Cost of services in our unaudited condensed consolidated statements of operations.

(2) Includes the completion of certain contracts and certain unusual income and expense items, as defined in the Indenture and New Senior Credit Facility.

(3) Includes post-employment benefit expense related to severance in accordance with ASC 712 - *Compensation*, relocation expenses, retention expense and share based compensation expense.

(4) Includes Cerberus Operations and Advisory Company expenses, net of recovery.

(5) Reflects Global Advisory Group cost incurred during the three and nine months ended September 30, 2017, which we were able to add back to Adjusted EBITDA under the Indenture and New Senior Credit Facility in an aggregate amount up to a total of \$30 million, which was fully utilized as of the second quarter of calendar year 2017.

(6) Includes changes due to fluctuations in foreign exchange rates, earnings from affiliates not received in cash, costs incurred pursuant to ASC 805 - *Business Combination* and other immaterial items.

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

The Company did not have any material off-balance sheet arrangements subsequent to the filing of our consolidated financial statements in our Annual Report on Form 10-K as defined under SEC rules.

### ***Critical Accounting Policies and Estimates***

The process of preparing financial statements in conformity with GAAP requires the use of estimates and assumptions to determine reported amounts of certain assets, liabilities, revenues and expenses and the disclosure of related contingent assets and liabilities. These estimates and assumptions are based on information available at the time of the estimates or assumptions, including our historical experience, where relevant. Significant estimates and assumptions are reviewed quarterly by management. The evaluation process includes a thorough review of key estimates and assumptions used in preparing our financial statements. Because of the uncertainty of factors surrounding the estimates, assumptions and judgments used in the preparation of our financial statements, actual results may materially differ from the estimates.

Our critical accounting policies and estimates are those policies and estimates that are both most important to our financial condition and results of operations and require the most difficult, subjective or complex judgments on the part of management in their application, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

On January 1, 2018, we updated our critical accounting policies due to adoption of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASC 606"), using the modified retrospective method. ASC 606 replaces numerous requirements in U.S. GAAP, including industry-specific requirements, and provides companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The impacts related to the adoption of ASC 606 on our portfolio of contracts primarily relate to the units of account and methods used to measure of progress toward satisfaction of a performance obligation. Previously, certain of our contracts that included multiple promises related to the transfer of goods or services to the customer were combined or segmented based on profit center and the requisite revenue was recognized by profit center using the percentage-of-completion method or completed-contract method. We now evaluate all promises in an arrangement to determine if they represent one or more distinct performance obligations. See "Revenue Recognition and Cost Estimation on Long-Term Contracts" in Note 1 to the financial statements for additional information regarding our revenue recognition accounting policies.

For a discussion of our critical accounting policies and estimates please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the notes to the Delta Tucker Holdings, Inc. consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Any material changes to our accounting policies and estimates, from those described in our Annual Report on Form 10-K for the year ended December 31, 2017 are further discussed in Note 1.

### ***Accounting Developments***

The information regarding recent accounting pronouncements is included in Note 1.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

There has been no significant change in our exposure to market risk during the three months ended September 30, 2018, except as described below. For discussion of our exposure to market risk, refer to Item 7A. Quantitative and Qualitative Disclosures about Market Risk contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

#### **Interest Rate Risk**

We have interest rate risk primarily related to changes in interest rates on our variable rate debt. We manage our exposure to movements in interest rates through the use of a combination of fixed and variable rate debt.

As of September 30, 2018, we had 76.7% of our debt at a fixed rate and 23.3% at a variable rate. As of December 31, 2017, we had 69.3% of our debt at a fixed rate and 30.7% at a variable rate. Our Second Lien Notes, which had an aggregate principal amount of \$384.7 million and \$379.0 million, respectively, outstanding as of September 30, 2018 and December 31, 2017 and Cerberus 3L Notes, which had an aggregate principal amount of \$33.7 million and \$32.4 million, respectively, outstanding as of September 30, 2018 and December 31, 2017, represent our fixed rate debt.

Our Term Loan and Revolver represent our variable rate debt. As of September 30, 2018 and December 31, 2017, the balance of our Term Loan was \$127.3 million and \$182.3 million, respectively, and we had no borrowings under the Revolver. The Term Loan bears interest, based on our option, equal to either the Eurocurrency Rate or the Base Rate as described below, in each case,

plus an applicable rate of (i) 6.00% in the case of Eurocurrency Rate loans and (ii) 5.00% in the case of Base Rate loans. The Revolver bears interest, based on our option, equal to either a Eurocurrency Rate or a Base Rate as described below plus (i) a range of 4.50% to 5.00% based on the First Lien Secured Leverage Ratio in the case of Base Rate loans and (ii) a range of 5.50% to 6.00% based on the First Lien Secured Leverage Ratio in the case of Eurocurrency Rate loans. The Eurocurrency Rate is the rate per annum equal to the London Interbank Offered Rate ("LIBOR") as published on the applicable Bloomberg screen page (or other commercially available source provisions quotations of LIBOR as designated by the Agent from time to time) two London Banking Days prior to the commencement of such interest period. The variable Eurocurrency Rate has as floor of 1.75%. The variable Base Rate is equal to the higher of (a) the Federal Funds Rate plus one half of one percent and (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America, N.A. as its prime rate; provided that in no event shall the Base Rate be less than 1.00% plus the Eurocurrency Rate applicable to one-month interest periods on the date of determination of the Base Rate. The variable Base Rate has a floor of 2.75%. The Term Loan interest rate of 8.08% at September 30, 2018 was made up of a 6.00% applicable rate plus a Eurocurrency Rate of 2.08% and the Term Loan interest rate of 7.75% at December 31, 2017 was made up of a 6.00% applicable rate plus the Eurocurrency Rate floor of 1.75%. Under the New Senior Credit Facility, based on the principal amount outstanding under the Term Loan as of September 30, 2018 and no outstanding Revolver borrowings, each 25 basis point increase in LIBOR over 1.75% would result in \$0.3 million in additional interest expense annually. See Note 8 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information.

#### **ITEM 4. CONTROLS AND PROCEDURES.**

*Disclosure Controls and Procedures* - We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered in this Quarterly Report on Form 10-Q. Based on the evaluation performed, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

*Inherent Limitations of Internal Controls* - Our management, including the Company's Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

*Changes in Internal Control Over Financial Reporting.* There have been no 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 fiscal quarter to which this report relates 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.**

Information related to various commitments and contingencies is described in Note 9 included elsewhere in this Quarterly Report on Form 10-Q.

**ITEM 1A. RISK FACTORS.**

There have been no material changes in the risk factors from those described in "Risk Factors" disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

**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.

**ITEM 6. EXHIBITS.**

The following exhibits are filed as part of, or incorporated by reference into, the Quarterly Report on Form 10-Q.

<b>Exhibit No.</b>	<b>Description</b>
<a href="#"><u>31.1*</u></a>	Certification of the Chief Executive Officer of Delta Tucker Holdings, Inc. pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#"><u>31.2*</u></a>	Certification of the Chief Financial Officer of Delta Tucker Holdings, Inc. pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#"><u>32.1*</u></a>	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
<a href="#"><u>32.2*</u></a>	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS XBRL	Instance document
101.SCH XBRL	Taxonomy Extension Schema
101.CAL XBRL	Taxonomy Extension Calculation Linkbase
101.DEF XBRL	Taxonomy Extension Definition Linkbase
101.LAB XBRL	Taxonomy Extension Labels Linkbase
101.PRE XBRL	Taxonomy Extension Presentation Linkbase
*	Filed herewith

**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.

Date: November 13, 2018

**DELTA TUCKER HOLDINGS, INC.**

/s/ William T. Kansky

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William T. Kansky

Senior Vice President and Chief Financial Officer

**CERTIFICATION  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, George Krivo, certify that:

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

Date: November 13, 2018

/s/ George Krivo

George Krivo

Chief Executive Officer

**CERTIFICATION  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William T. Kansky, certify that:

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

Date: November 13, 2018

/s/ William T. Kansky

William T. Kansky

Senior Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, George Krivo, Chief Executive Officer of Delta Tucker Holdings, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2018

/s/ George Krivo

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George Krivo

Chief Executive Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, William T. Kansky, Senior Vice President and Chief Financial Officer of Delta Tucker Holdings, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2018

/s/ William T. Kansky

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William T. Kansky

Senior Vice President and Chief Financial Officer

