

---

---

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

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended September 29, 2017

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

---

**DELTA TUCKER HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

---

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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).

---

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, 2017, the registrant had 100 shares of its Class A common stock outstanding.

---

---

---

**Delta Tucker Holdings, Inc.**  
**Table of Contents**

	<b>Page</b>
<a href="#">Disclosure Regarding Forward-Looking Information</a>	<a href="#">3</a>
<a href="#">Calendar Year</a>	<a href="#">4</a>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1.</u></b> <a href="#">Financial Statements</a>	<a href="#">5</a>
<a href="#">Unaudited Condensed Consolidated Statements of Operations - Three and Nine Months Ended September 29, 2017 and September 30, 2016</a>	<a href="#">5</a>
<a href="#">Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) - Three and Nine Months Ended September 29, 2017 and September 30, 2016</a>	<a href="#">6</a>
<a href="#">Unaudited Condensed Consolidated Balance Sheets as of September 29, 2017 and December 31, 2016</a>	<a href="#">7</a>
<a href="#">Unaudited Condensed Consolidated Statements of Cash Flows - Nine Months Ended September 29, 2017 and September 30, 2016</a>	<a href="#">8</a>
<a href="#">Unaudited Condensed Consolidated Statements of Deficit - Nine Months Ended September 29, 2017 and September 30, 2016</a>	<a href="#">9</a>
<a href="#">Notes to Unaudited Condensed Consolidated Financial Statements</a>	<a href="#">10</a>
<b><u>Item 2.</u></b> <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">44</a>
<b><u>Item 3.</u></b> <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">63</a>
<b><u>Item 4.</u></b> <a href="#">Controls and Procedures</a>	<a href="#">64</a>
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>Item 1.</u></b> <a href="#">Legal Proceedings</a>	<a href="#">65</a>
<b><u>Item 1A.</u></b> <a href="#">Risk Factors</a>	<a href="#">65</a>
<b><u>Item 2.</u></b> <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">65</a>
<b><u>Item 3.</u></b> <a href="#">Defaults Upon Senior Securities</a>	<a href="#">65</a>
<b><u>Item 4.</u></b> <a href="#">Mine Safety Disclosures</a>	<a href="#">65</a>
<b><u>Item 5.</u></b> <a href="#">Other Information</a>	<a href="#">65</a>
<b><u>Item 6.</u></b> <a href="#">Exhibits</a>	<a href="#">66</a>

## 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 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 Bureau for International Narcotics and Law Enforcement Affairs, Office of Aviation ("INL Air Wing") and Logistics Civil Augmentation Program IV ("LOGCAP IV") contracts;
- the outcome of future extensions on awarded contracts and the outcomes of recompetes on existing programs, including but not limited to the ultimate outcome of the recompetes process on the INL Air Wing program;
- 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;
- 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;
- 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, 2016 filed with the Securities and Exchange Commission ("SEC") on March 29, 2017 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. We assume no obligation to update the forward-looking statements.

**Calendar Year**

We report the results of our operations using a basis where each quarterly period ends on the last Friday of the calendar quarter, except for the fourth quarter of the fiscal year, which ends on December 31. Included in this Quarterly Report are our unaudited condensed consolidated statements of operations and comprehensive income (loss) for the three and nine months ended September 29, 2017 and September 30, 2016, the related statements of deficit and cash flows for the nine months ended September 29, 2017 and September 30, 2016 and the unaudited condensed consolidated balance sheets as of September 29, 2017 and December 31, 2016.

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 29, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Revenue	\$ 502,974	\$ 503,434	\$ 1,437,133	\$ 1,374,392
Cost of services	(447,796)	(445,090)	(1,256,924)	(1,227,948)
Selling, general and administrative expenses	(21,243)	(38,357)	(80,129)	(109,405)
Depreciation and amortization expense	(8,792)	(8,875)	(25,936)	(26,078)
Earnings from equity method investees	53	60	105	761
Impairment of goodwill, intangibles and long lived assets	—	(1,782)	—	(1,782)
Operating income	25,196	9,390	74,249	9,940
Interest expense	(17,149)	(20,230)	(53,628)	(53,657)
Loss on early extinguishment of debt	—	—	(24)	(328)
Interest income	15	117	39	199
Other (expense) income, net	(43)	216	1,474	5,179
Income (loss) before income taxes	8,019	(10,507)	22,110	(38,667)
(Provision) benefit for income taxes	(3,338)	3,543	(11,677)	(7,681)
Net income (loss)	4,681	(6,964)	10,433	(46,348)
Noncontrolling interests	(295)	(307)	(858)	(803)
Net income (loss) attributable to Delta Tucker Holdings, Inc.	\$ 4,386	\$ (7,271)	\$ 9,575	\$ (47,151)

See notes to unaudited condensed consolidated financial statements

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

<i>(Amounts in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 29, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Net income (loss)	\$ 4,681	\$ (6,964)	\$ 10,433	\$ (46,348)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	247	(216)	263	(215)
Other comprehensive income (loss), before tax	247	(216)	263	(215)
Income tax (expense) benefit related to items of other comprehensive income (loss)	(88)	78	(94)	77
Other comprehensive income (loss)	159	(138)	169	(138)
Comprehensive income (loss)	4,840	(7,102)	10,602	(46,486)
Comprehensive loss attributable to noncontrolling interests	(295)	(307)	(858)	(803)
Comprehensive income (loss) attributable to Delta Tucker Holdings, Inc.	\$ 4,545	\$ (7,409)	\$ 9,744	\$ (47,289)

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 29, 2017	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 110,657	\$ 118,218
Restricted cash	—	7,664
Accounts receivable, net of allowances of \$10,350 and \$17,189 respectively	331,387	300,255
Prepaid expenses and other current assets	61,655	65,694
Total current assets	503,699	491,831
Property and equipment, net	19,058	16,636
Goodwill	42,093	42,093
Tradenames, net	28,536	28,536
Other intangibles, net	60,292	84,069
Other assets, net	11,154	13,372
Total assets	\$ 664,832	\$ 676,537
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt, net	\$ 21,078	\$ 62,843
Accounts payable	91,860	69,742
Accrued payroll and employee costs	83,183	95,580
Accrued liabilities	82,511	104,078
Income taxes payable	14,222	9,303
Total current liabilities	292,854	341,546
Long-term debt, net	557,825	569,613
Long-term deferred taxes	14,071	14,825
Other long-term liabilities	11,319	12,490
Total liabilities	876,069	938,474
<b>DEFICIT</b>		
Common stock, \$0.01 par value – 1,000 shares authorized and 100 shares issued and outstanding at September 29, 2017 and December 31, 2016, respectively	—	—
Additional paid-in capital	596,093	555,163
Accumulated deficit	(812,470)	(822,045)
Accumulated other comprehensive loss	(341)	(510)
Total deficit attributable to Delta Tucker Holdings, Inc.	(216,718)	(267,392)
Noncontrolling interests	5,481	5,455
Total deficit	(211,237)	(261,937)
Total liabilities and deficit	\$ 664,832	\$ 676,537

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 29, 2017	September 30, 2016
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 10,433	\$ (46,348)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	27,245	26,799
Loss on early extinguishment of debt	24	328
Amortization of deferred loan costs and original issue discount	4,049	4,570
Allowance for losses on accounts receivable and other noncash gains or losses	2,724	2,528
Impairment of goodwill, intangibles and long-lived assets	—	1,782
Earnings from equity method investees	(105)	(783)
Distributions from equity method investees	222	—
Deferred income taxes	(755)	132
Other and paid in kind interest	6,226	416
Changes in assets and liabilities:		
Accounts receivable	(25,731)	60,005
Prepaid expenses and other current assets	(4,260)	5,422
Accounts payable and accrued liabilities	(14,168)	(30,139)
Income taxes payable	4,840	(35)
Net cash provided by operating activities	10,744	24,677
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(3,931)	(2,762)
Proceeds from sale of property and equipment	537	832
Purchase of software	(646)	(1,775)
Cash restricted from Cerberus 3L Notes	7,057	(12,744)
Return of capital from equity method investees	6,017	1,557
Contributions to equity method investees	(3,250)	(4,956)
Net cash provided by (used in) investing activities	5,784	(19,848)
<b>Cash flows from financing activities</b>		
Borrowings on revolving credit facilities	—	18,000
Payments on revolving credit facilities	—	(18,000)
Payments on senior secured credit facility	(25,114)	(187,272)
Borrowing under new senior credit facility	—	192,882
Borrowing under Cerberus 3L notes	—	30,000
Payment to bondholders of senior unsecured notes	(39,319)	(45,000)
Payment of deferred financing costs	—	(4,998)
Equity contribution from affiliates of Cerberus	40,899	450
Payment of dividends to noncontrolling interests	(555)	(734)
Net cash used in financing activities	(24,089)	(14,672)
Net decrease in cash and cash equivalents	(7,561)	(9,843)
Cash and cash equivalents, beginning of period	118,218	108,782
Cash and cash equivalents, end of period	\$ 110,657	\$ 98,939
Income taxes paid, net of receipts	\$ 7,692	\$ 7,447
Interest paid	\$ 55,786	\$ 56,319

See notes to unaudited condensed consolidated financial statements

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

*(Amounts in thousands)*

	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, 2015</b>	—	\$ —	\$ 554,379	\$ (767,981)	\$ (360)	\$ (213,962)	\$ 5,792	\$ (208,170)
Share based compensation, net	—	—	59	—	—	59	—	59
Comprehensive loss attributable to Delta Tucker Holdings, Inc.	—	—	—	(47,151)	(138)	(47,289)	803	(46,486)
Capital contribution	—	—	450	—	—	450	—	450
DIFZ financing, net of tax	—	—	40	—	—	40	—	40
Dividends declared to noncontrolling interests	—	—	—	—	—	—	(1,101)	(1,101)
<b>Balance at September 30, 2016</b>	<u>—</u>	<u>\$ —</u>	<u>\$ 554,928</u>	<u>\$ (815,132)</u>	<u>\$ (498)</u>	<u>\$ (260,702)</u>	<u>\$ 5,494</u>	<u>\$ (255,208)</u>

*(Amounts in thousands)*

	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 29, 2017</b>	<u>—</u>	<u>\$ —</u>	<u>\$ 596,093</u>	<u>\$ (812,470)</u>	<u>\$ (341)</u>	<u>\$ (216,718)</u>	<u>\$ 5,481</u>	<u>\$ (211,237)</u>

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, 2016.

In the opinion of management, normal recurring adjustments necessary to fairly present our financial position as of September 29, 2017 and December 31, 2016, the results of operations and statements of comprehensive income (loss) for the three and nine months ended September 29, 2017 and September 30, 2016 and the statements of deficit and cash flows for the nine months ended September 29, 2017 and September 30, 2016 have been included. The results of operations and statements of comprehensive income (loss) for the three and nine months ended September 29, 2017 and September 30, 2016 and the statements of deficit and cash flows for the nine months ended September 29, 2017 and September 30, 2016 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.

***Principles of Consolidation***

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. The Company has investments in joint ventures that are variable interest entities ("VIEs"). The VIE investments are accounted for in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810 — *Consolidation*. In cases where the Company has (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, the Company consolidates the entity. Alternatively, in cases where all of the aforementioned criteria are not met, the investment is accounted for under the equity method.

We classify our equity method investees in two distinct groups based on management's day-to-day involvement in the operations of each entity and the nature of each joint venture's business. If the joint venture is deemed to be an extension of one of our segments and operationally integral to the business, our share of the joint venture's earnings is reported within operating income in Earnings from equity method investees in the consolidated statement of operations. If the Company considers our involvement less significant, the share of the joint venture's net earnings is reported in Other (expense) income, net in the consolidated statement of operations.

***Noncontrolling Interests***

We record the impact of our partners' interests in less than wholly owned consolidated joint ventures as noncontrolling interests. Currently, DynCorp International FZ-LLC ("DIFZ") is our only consolidated joint venture for which we do not own 100% of the entity. We hold a 25% ownership interest in DIFZ. We continue to consolidate DIFZ as we still exercise power over activities that significantly impact DIFZ's economic performance and have the obligation to absorb losses or receive benefits of DIFZ that could potentially be significant to DIFZ. Noncontrolling interests is presented on the face of the statements of operations as an increase

or reduction in arriving at "Net income (loss) attributable to Delta Tucker Holdings, Inc." Noncontrolling interests is located in the equity section on the consolidated balance sheets. See Note 10 for further discussion regarding DIFZ.

### ***Use of Estimates***

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. Changes in contract estimates related to certain types of contracts accounted for using the percentage of completion method of accounting are recognized in the period in which such changes are made for the inception-to-date effect of the changes. 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. The gross favorable and unfavorable adjustments below reflect these changes in contract estimates during each reporting period, excluding new or completed contracts where no comparative estimates exist between reporting periods.

The following table presents the aggregate gross favorable and unfavorable adjustments to income (loss) before income taxes resulting from changes in contract estimates, for the three and nine months ended September 29, 2017 and September 30, 2016.

<i>(Amounts in millions)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 29, 2017</b>	<b>September 30, 2016</b>	<b>September 29, 2017</b>	<b>September 30, 2016</b>
Gross favorable adjustments	\$ 8.0	\$ 11.2	\$ 22.1	\$ 16.5
Gross unfavorable adjustments	(1.0)	(13.1)	(2.0)	(24.2)
Net adjustments	\$ 7.0	\$ (1.9)	\$ 20.1	\$ (7.7)

### ***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, 2016, except as described below.

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

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. ASU 2015-11 requires an entity who measures inventory using FIFO or average cost to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs. The update is effective for fiscal years beginning after December 15, 2016 and interim periods within fiscal years beginning after December 15, 2016 and applied prospectively. Early adoption is permitted, including adoption in an interim period. The Company adopted ASU 2015-11 on a prospective basis during the first quarter of calendar year 2017. The adoption of this guidance did not have a material impact on our consolidated financial statements or disclosures.

In March 2016, the FASB issued ASU No. 2016-07, *Investments - Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting*. ASU 2016-07 simplifies the equity method by eliminating the requirement to apply it retrospectively to an investment that subsequently qualifies for such accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments are effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016 and applied prospectively. Early adoption is permitted. The Company adopted ASU 2016-17 during the first quarter of calendar year 2017. The adoption of this guidance did not have a material impact on our consolidated financial statements or disclosures.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. ASU 2017-01 is effective for annual and interim periods beginning after December 15, 2017, and early adoption is permitted. The Company elected to early adopt ASU 2017-01 during the first quarter of calendar year 2017. The adoption of this guidance did not have a material impact on our consolidated financial statements or disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates Step 2 from the goodwill impairment test. ASU 2017-04 modifies the concept of goodwill impairment to represent the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for goodwill impairment testing for interim and annual periods beginning after December 15, 2019, and requires a prospective transition. Early adoption is permitted for interim

and annual goodwill impairment tests performed after January 1, 2017. The Company elected to early adopt ASU 2017-04 on a prospective basis during the first quarter of calendar year 2017. The adoption of this guidance did not have a material impact on our consolidated financial statements.

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single set of comprehensive principles for recognizing revenue under GAAP. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 by one year for all entities and permits early adoption on a limited basis. In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. ASU 2016-10 clarifies the implementation guidance on identifying performance obligations. In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. ASU 2016-12 clarifies the revenue recognition guidance regarding collectability, noncash consideration, presentation of sales tax and transition. In December 2016, the FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. ASU 2016-20 provides clarifying guidance on a number of narrow technical aspects of Topic 606. ASU 2016-20 clarifications include, but are not limited to, technical aspects of disclosures, contract losses, and contract costs. These ASUs apply to all entities that enter into contracts with customers to transfer goods or services. These ASUs are effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, but not before interim and annual reporting periods beginning after December 15, 2016. Entities have the choice to apply these ASUs either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying these standards at the date of initial application and not adjusting comparative information. We will adopt the requirements of the standard as of January 1, 2018 under 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.

As the new standard will impact our business processes, systems and controls, we have commenced our assessment of the standard and have developed a comprehensive project plan and are designing additional internal controls, including internal controls around the adoption of ASU 2014-09 and its related disclosures, to guide the assessment, training and implementation. Our project plan evaluates our contracts across our multiple business segments, including the development of processes and tools to dual report financial results under both current GAAP and under ASU 2014-09. We have periodically briefed our Audit Committee on our progress made towards adoption. Based on our evaluation to date, we anticipate being able to estimate the impacts of adopting ASU 2014-09 in our upcoming Form 10-K.

We anticipate the impacts of the adoption of ASU 2014-09 will primarily relate to the units of account and methods used to measure of progress toward satisfaction of a performance obligation. Certain of our U.S. federal government contracts or contract elements were combined or segmented based on profit center and the requisite revenue was recognized by profit center using primarily the percentage-of-completion method. However, we will be precluded from combining and segmenting deliverables in accordance with the existing standard. As a result, the number of our performance obligations identified under the new standard may differ. We are in process of performing contract reviews on our active contracts to make this determination. We anticipate that the adoption of ASU 2014-09 will not change the total revenue or operating earnings recognized under these contracts, only the timing of when those amounts are recognized.

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 assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. 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. We are currently evaluating the potential effects of the adoption of ASU 2016-02 on our consolidated financial statements.

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 August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and payments are presented and classified in the statement of cash flows. The standard is intended to reduce current diversity in practice. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017 and will require a retrospective approach. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the potential effects of the adoption of ASU 2016-15 on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Accounting for Income Taxes: Intra-entity Asset Transfers of Assets Other than Inventory*, which requires that an entity recognize the tax expense from the sale of intra-entity sales of assets, other than inventory, in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. ASU 2016-16 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017 and should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We are currently evaluating the potential effects of the adoption of ASU 2016-16 on our consolidated financial statements.

In November 2016, the 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. Therefore, amounts generally described as restricted cash or restricted cash equivalents should be 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. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017 and will be applied using a retrospective transition method to each period presented. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the potential effects of the adoption of ASU 2016-18 on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*. ASU 2017-09 clarifies when a change to the terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance requires modification accounting if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change to the terms and conditions of the award. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017, including interim periods therein, and should be applied prospectively to an award modified on or after the adoption date. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the potential effects of the adoption of ASU 2017-09 on our consolidated financial statements.

Other accounting standards updates effective after September 29, 2017 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 29, 2017.

## Note 2 — 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 29, 2017	December 31, 2016
Prepaid expenses	\$ 37,870	\$ 39,895
Inventories, net	15,624	18,451
Work-in-process inventory	555	164
Joint venture receivables	32	84
Other current assets	7,574	7,100
Total prepaid expenses and other current assets	<u>\$ 61,655</u>	<u>\$ 65,694</u>

Prepaid expenses include prepaid insurance, prepaid vendor deposits, and prepaid rent, none of which individually exceed 5% of current assets. The decrease in prepaid expenses is primarily due to the timing of payments and an \$8.2 million charge, presented in Cost of services on our Statement of Operations, for the termination of a subcontractor agreement.

Inventory is valued at the lower of cost or net realizable value. The reduction to Inventories, net is due to the winding down of an AELS contract with a period of performance ending in calendar year 2018.

### Property and equipment, net

<i>(Amounts in thousands)</i>	As Of	
	September 29, 2017	December 31, 2016
Aircraft	\$ 3,868	\$ 2,997
Computers and related equipment	7,926	7,161
Leasehold improvements	18,991	20,934
Office furniture and fixtures	4,233	5,499
Vehicles	6,181	3,430
Gross property and equipment	41,199	40,021
Less accumulated depreciation	(22,141)	(23,385)
Total property and equipment, net	<u>\$ 19,058</u>	<u>\$ 16,636</u>

As of September 29, 2017 and December 31, 2016, Property and equipment, net, included the accrual for property additions of \$2.2 million and \$0.3 million, 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 29, 2017, respectively. Depreciation expense, including certain depreciation amounts classified as Cost of services, was \$1.0 million and \$3.2 million during the three and nine months ended September 30, 2016, respectively.

### Other assets, net

<i>(Amounts in thousands)</i>	As Of	
	September 29, 2017	December 31, 2016
Investment in affiliates	\$ 5,184	\$ 7,825
Palm promissory note, long-term portion	1,912	2,034
Other	4,058	3,513
Total other assets, net	<u>\$ 11,154</u>	<u>\$ 13,372</u>

*Accrued payroll and employee costs*

<i>(Amounts in thousands)</i>	As Of	
	September 29, 2017	December 31, 2016
Wages, compensation and other benefits	\$ 66,522	\$ 82,062
Accrued vacation	15,703	12,462
Accrued contributions to employee benefit plans	958	1,056
Total accrued payroll and employee costs	<u>\$ 83,183</u>	<u>\$ 95,580</u>

*Accrued liabilities*

<i>(Amounts in thousands)</i>	As Of	
	September 29, 2017	December 31, 2016
Customer liabilities	\$ 19,413	\$ 20,762
Accrued insurance	27,950	26,201
Accrued interest	12,684	25,807
Contract losses	3,058	10,912
Legal reserves	8,507	4,597
Subcontractor retention	—	250
Other	10,899	15,549
Total accrued liabilities	<u>\$ 82,511</u>	<u>\$ 104,078</u>

Customer liabilities represent amounts received from customers in excess of revenue recognized or for amounts due back to a customer. 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 8 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 29, 2017 and December 31, 2016, Other long-term liabilities were \$11.3 million and \$12.5 million, respectively. Other long-term liabilities are primarily due to our long-term incentive bonus plan and nonqualified unfunded deferred compensation plan of \$3.0 million and \$4.3 million as of September 29, 2017 and December 31, 2016, respectively, and a long-term leasehold obligation related to our Tysons Corner facility in McLean, Virginia, of \$3.0 million and \$3.3 million as of September 29, 2017 and December 31, 2016, respectively. Other long-term liabilities also include an uncertain tax benefit of \$3.3 million as of September 29, 2017 and December 31, 2016. See Note 4 for further discussion.



### Note 3 — Goodwill and Other Intangible Assets

We have three operating and reporting segments, which provide services domestically and in foreign countries primarily under contracts with the U.S. government: Aviation Engineering, Logistics, and Sustainment ("AELS"), Aviation Operations and Life Cycle Management ("AOLC") and DynLogistics. Each operating and reportable segment is its own reporting unit. Of our three reporting units, only the DynLogistics reporting unit had a goodwill balance as of September 29, 2017, which we assess for potential goodwill impairment. The carrying amount of goodwill for DynLogistics was \$42.1 million as of both September 29, 2017 and December 31, 2016.

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 2017, 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 29, 2017, we did not have a triggering event in any of our reporting units.

The following tables provide information about changes relating to certain intangible assets:

	As of September 29, 2017			
<i>(Amounts in thousands, except years)</i>	Weighted Average Remaining Useful Life (Years)	Gross Carrying Value	Accumulated Amortization	Net
<b>Other intangible assets:</b>				
Customer-related intangible assets	2.3	\$ 252,615	\$ (195,213)	\$ 57,402
<b>Other</b>				
Finite-lived	1.0	14,183	(11,293)	2,890
<b>Total other intangibles</b>		<u>\$ 266,798</u>	<u>\$ (206,506)</u>	<u>\$ 60,292</u>
<b>Tradenames:</b>				
Finite-lived	0.0	\$ 869	\$ (869)	\$ —
Indefinite-lived		28,536	—	28,536
<b>Total tradenames</b>		<u>\$ 29,405</u>	<u>\$ (869)</u>	<u>\$ 28,536</u>

As of December 31, 2016

<i>(Amounts in thousands, except years)</i>	Weighted Average Remaining Useful Life (Years)	Gross Carrying Value	Accumulated Amortization	Net
<b>Other intangible assets:</b>				
Customer-related intangible assets	3.0	\$ 252,615	\$ (172,242)	\$ 80,373
<b>Other</b>				
Finite-lived	1.0	14,238	(10,542)	3,696
<b>Total other intangibles</b>		<u>\$ 266,853</u>	<u>\$ (182,784)</u>	<u>\$ 84,069</u>
<b>Tradenames:</b>				
Finite-lived	0.0	\$ 869	\$ (869)	\$ —
Indefinite-lived		28,536	—	28,536
<b>Total tradenames</b>		<u>\$ 29,405</u>	<u>\$ (869)</u>	<u>\$ 28,536</u>

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 29, 2017, respectively. Amortization expense for customer-related intangibles, other intangibles and finite-lived tradenames was \$8.1 million and \$23.6 million for the three and nine months ended September 30, 2016, respectively.

Other intangibles are primarily representative of our capitalized software which had a net carrying value of \$2.9 million and \$3.7 million as of September 29, 2017 and December 31, 2016, respectively.

Estimated aggregate future amortization expense for finite lived assets subject to amortization are \$5.6 million for the three months ending December 31, 2017, \$21.8 million in 2018, \$21.6 million in 2019, \$11.2 million in 2020, \$0.1 million in 2021 and \$0.0 million thereafter.

#### Note 4 — Income Taxes

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

<i>(Amounts in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 29, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Domestic	\$ 7,683	\$ (11,867)	\$ 19,909	\$ (41,927)
Foreign	336	1,360	2,201	3,260
Income (loss) before income taxes	\$ 8,019	\$ (10,507)	\$ 22,110	\$ (38,667)

Non-current deferred tax liabilities, net, was \$14.1 million and \$14.8 million as of September 29, 2017 and December 31, 2016, respectively.

Our effective tax rate ("ETR") was 41.6% and 52.8% for the three and nine months ended September 29, 2017, respectively. Our ETR was 33.7% and (19.9)% for the three and nine months ended September 30, 2016, respectively.

For the three and nine months ended September 29, 2017, the change in ETR was primarily driven by an increase in the forecasted full year income before taxes and an increase in the valuation allowance related to additional foreign tax credits carrying over to future periods. Our ETR for the three months ended September 30, 2016 was primarily driven by an increase to the forecasted full year loss before income taxes and for the nine months ended September 30, 2016, the ETR was primarily impacted by an increase in the valuation allowance related to a deferred tax asset which was created by cancellation of debt income resulting from the effects of the refinancing transactions we completed on June 15, 2016.

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. We incurred cumulative losses over the three-year period ended December 31, 2016. Cumulative losses in recent years are considered significant objective negative evidence in evaluating deferred tax assets under the more likely than not criteria for recognition of deferred tax assets. As a result of additional taxable losses and the foreign taxes for which we cannot recognize a current tax benefit, we increased our valuation allowance from \$88.8 million as of December 31, 2016 to \$90.3 million as of September 29, 2017.

As of September 29, 2017, we had \$3.3 million of total unrecognized tax benefits of which \$2.8 million would impact our effective tax rate if recognized. As of December 31, 2016, we had \$2.6 million of total unrecognized tax benefits of which \$2.3 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 29, 2017, we made no estimated federal income tax payments. All of our income taxes paid or refunds received during the nine months ended September 29, 2017 were related to state or foreign jurisdictions.

As described further in Note 7 and Note 10, on April 21, 2017, the Company received the Capital Contribution of \$40.6 million from Holdings. Holdings received the proceeds from DefCo Holdings, Inc. ("DefCo"). DefCo is the parent of a consolidated group of companies and files a consolidated U.S. income tax return with the Company. DefCo received the proceeds by way of a loan from its owners, affiliates of Cerberus Capital Management, L.P. We calculate the provision for income taxes by using a "separate return" method consistent with ASC 740. DefCo will treat the transaction as a loan on the consolidated tax return and the Company has treated the transaction as a capital contribution.

**Note 5 — Accounts Receivable**

Accounts receivable, net consisted of the following:

<i>(Amounts in thousands)</i>	As Of	
	September 29, 2017	December 31, 2016
Billed	\$ 138,044	\$ 93,409
Unbilled	193,343	206,846
Total accounts receivable, net	\$ 331,387	\$ 300,255

Unbilled receivables as of September 29, 2017 and December 31, 2016 include \$12.4 million and \$26.7 million, respectively, related to costs incurred on projects for which we have been requested by the customer to begin new work or extend work under an existing contract and for which formal contracts, contract modifications or other contract actions have not been executed as of the end of the respective periods.

As of September 29, 2017 and December 31, 2016, we had two and three contract claims outstanding totaling \$2.7 million and \$2.4 million, net of reserves, respectively. 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. We expect substantially all unbilled receivables to be billed and collected within one year, except items that may result in or that are currently involved in a request for equitable adjustment or formal claim.

We do not believe we have significant exposure to credit risk as our receivables are primarily with the U.S. government. Our allowance for doubtful accounts was \$10.4 million as of September 29, 2017 compared to \$17.2 million as of December 31, 2016, and is primarily due to outstanding receivables where we operated under a subcontract for a prime contractor on a U.S. government program that ended December 31, 2014. During the quarter ended September 29, 2017, we adjusted our allowance for doubtful accounts based on subsequent collections in October 2017 against a portion of these outstanding amounts. See Note 8 for further discussion.

## Note 6 — 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 Senior Unsecured Notes, 11.875% senior secured second lien notes (the "New Notes"), and New Senior Credit Facility (as defined in Note 7) 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 7) 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 29, 2017 has been calculated by discounting the expected cash flows using a discount rate of 10.4%. This discount rate is determined using the Moody's credit rating for the New Notes and reducing the rating one level lower for the Cerberus 3L Notes as they are subordinated to the New Notes.

	As Of			
	September 29, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>(Amounts in thousands)</i>				
10.375% senior unsecured notes	\$ —	\$ —	\$ 39,319	\$ 37,132
11.875% senior secured second lien notes	379,006	403,642	373,385	343,282
Term loan	182,286	182,286	207,400	200,141
Cerberus 3L notes	32,015	19,844	30,831	9,624
Total indebtedness	593,307	605,772	650,935	590,179
Less current portion of long-term debt	(22,500)	(22,500)	(64,433)	(61,367)
Total long-term debt	\$ 570,807	\$ 583,272	\$ 586,502	\$ 528,812

### *Fair Value on a Nonrecurring Basis*

During the third quarter of 2016, the Company performed an assessment of the GLS investment and concluded that the carrying value of the GLS investment had sustained a loss that was other than temporary and recorded an impairment of the investment of \$1.8 million. In calculating the fair value of the GLS investment we used unobservable inputs (Level 3, as defined above) and management judgment to apply a discounted cash flow model under the income approach. We used the following estimates and assumptions in the discounted cash flow analysis:

- nominal growth rate to reflect the reliance on a single major customer and contract;
- compounded annual probability of forecast revenue to reflect the reliance on a single major customer and contract;
- discount rates based on our peer group weighted-average cost of capital; and
- forecasted EBITDA as a percentage of revenue.

## Note 7 — Debt

Debt consisted of the following:

As of September 29, 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	\$ —	\$ (1,280)	\$ 377,726
Term loan	182,286	(9,907)	(3,144)	169,235
Cerberus 3L notes	32,015	—	(73)	31,942
Total indebtedness	593,307	(9,907)	(4,497)	578,903
Less current portion of long-term debt	(22,500)	1,223	199	(21,078)
Total long-term debt	\$ 570,807	\$ (8,684)	\$ (4,298)	\$ 557,825

As of December 31, 2016

<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
10.375% senior unsecured notes	\$ 39,319	\$ —	\$ —	\$ 39,319
11.875% senior secured second lien notes	373,385	—	(1,581)	371,804
Term loan	207,400	(12,570)	(4,248)	190,582
Cerberus 3L notes	30,831	—	(80)	30,751
Total indebtedness	650,935	(12,570)	(5,909)	632,456
Less current portion of long-term debt	(64,433)	1,364	226	(62,843)
Total long-term debt	\$ 586,502	\$ (11,206)	\$ (5,683)	\$ 569,613

The original issue discount on the Term Loan 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 29, 2017, respectively, and was \$1.0 million and \$1.1 million during the three and nine months ended September 30, 2016. Amortization related to deferred financing costs was \$0.5 million and \$1.4 million during the three and nine months ended September 29, 2017, respectively, and was \$0.5 million and \$3.5 million during the three and nine months ended September 30, 2016, respectively.

Deferred financing costs for the nine months ended September 29, 2017 were reduced by 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 Excess Cash Flow principal payment made on the Term Loan under the New Senior Credit Facility on April 4, 2017. Deferred financing costs for the nine months ended September 30, 2016 were reduced \$0.3 million related to the pro rata write-off of deferred financing costs to loss on early extinguishment of debt as a result of the \$4.6 million in principal prepayment made on the term loan facility under the Senior Credit Facility.

### *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 29, 2017, the New Senior Credit Facility provided for the following:

- a \$182.3 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 29, 2017 and December 31, 2016, the available borrowing capacity under the New Senior Credit Facility was approximately \$49.4 million and \$48.0 million, respectively, and included \$36.5 million and \$37.8 million, respectively, in issued letters of credit. Amounts borrowed under the Revolver are used to fund operations. As of September 29, 2017 and December 31, 2016 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, but not less than quarterly.

As of September 29, 2017 and December 31, 2016, the applicable interest rate on the Term Loan was 7.75%.

#### *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% and 5.75% as of September 29, 2017 and December 31, 2016, respectively. The applicable interest rate for our unused commitment fees was 0.50% as of September 29, 2017 and December 31, 2016.

#### *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, as additional principal payments. Based on our annual financial results for the years ended December 31, 2016 and 2015, we made additional principal payments as required under the Excess Cash Flow provisions of the New Senior Credit Facility and the Senior Credit Facility of \$25.1 million on April 4, 2017 and \$4.6 million on April 6, 2016. 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 29, 2017 or September 30, 2016.

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 6 months (and, if committed to be so reinvested, actually reinvested within 12 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 a principal amortization payment with respect to the Term Loan of \$22.5 million on or prior to June 15, 2017, which amount may be reduced as a result of the application of certain prepayments, including our Excess Cash Flow payment. The June 15, 2017 principal amortization payment was fully satisfied as a result of the additional principal payment

of \$25.1 million made under the Excess Cash Flow requirement discussed above. We are required to make a principal amortization payment with respect to the Term Loan of \$22.5 million on or prior to June 15, 2018, which amount may be reduced as a result of the application of certain prepayments, including our Excess Cash Flow payment. The principal amount of the Term Loan may be reduced as a result of prepayments, with the remaining amount payable on July 7, 2020.

The credit agreement governing the New Senior Credit Facility contains a provision that would have resulted in all outstanding principal under the Term Loan and the Revolver maturing on May 8, 2017 if by May 8, 2017, all of the outstanding principal of the 10.375% Senior Notes due 2017 (the "Senior Unsecured Notes") had not been extended to a date that is on or after October 6, 2020, or all of the outstanding principal and accrued and unpaid interest of the Senior Unsecured Notes had not been paid in full with proceeds of new equity, capital contributions or new unsecured debt that is expressly subordinated to the New Senior Credit Facility.

On March 24, 2017, the Company received a support letter from Cerberus (the "Support Letter") committing to fund the redemption of all then-outstanding Senior Unsecured Notes on or before May 5, 2017 with the proceeds of new equity or capital contributions. On April 21, 2017, the Company received the proceeds of a \$40.6 million capital contribution (the "Capital Contribution") from Holdings' direct parent company, DefCo Holdings, Inc. On April 24, 2017, DynCorp International completed the redemption of all of the Senior Unsecured Notes using the proceeds of the Capital Contribution, and therefore, the maturity dates of the Term Loan and the Revolver remain at July 7, 2020 and July 7, 2019, respectively.

#### *Guarantee and Security*

The guarantors of the obligations under the New Senior Credit Facility are identical to those under the New Notes and the Cerberus 3L Notes. See Note 11. The New Senior Credit Facility is secured on a first lien basis by the same collateral that secures the New 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 6.50 to 1.0 for the period ended September 29, 2017. 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 1.30 to 1.0 for the period ended September 29, 2017.

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 of not less than \$60 million through the fiscal quarter ending December 31, 2017, and of not less than \$50 million thereafter. The credit agreement governing the New Senior Credit Facility also contains customary representations and warranties and events of default.

As of September 29, 2017 and December 31, 2016, 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 New Notes and the Cerberus 3L notes, further discussed below, for the next twelve months.

#### *New Notes*

On June 15, 2016, \$415.7 million principal amount of the Senior Unsecured Notes were exchanged for \$45.0 million cash and \$370.6 million aggregate principal amount of newly issued New 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 New 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 New Notes is payable in cash and the PIK Interest on the New Notes is payable in kind, each semi-annually in arrears on January 1 and July 1, commencing on July 1, 2016. PIK interest converted into the carrying amount of the New Notes during the three and nine months ended September 29, 2017 was \$2.8 million and \$5.6 million, respectively, and was \$2.8 million for the three and nine months ended September 30, 2016. PIK interest accrued on the New Notes was \$1.4 million and \$2.8 million as of September 29, 2017 and December 31, 2016, 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 amortization payments of \$22.5 million principal amount of the Term Loan under the New Senior Credit Facility no later than June 15, 2017, which amount was fully satisfied as a result of the Company's \$25.1 million excess cash flow payment discussed above. The Indenture requires an additional \$22.5 million principal amount of the Term Loan no later than June 15, 2018, which amount may be reduced as a result of the application of certain prepayments, including excess cash flow payments.

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, 2017, the New 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, 2017 through June 30, 2018	106.00%
July 1, 2018 through June 30, 2019	103.00%
July 1, 2019 and thereafter	100.00%

### *Senior Unsecured Notes*

On July 7, 2010, DynCorp International completed an offering of \$455.0 million in aggregate principal of the Senior Unsecured Notes. The Senior Unsecured Notes were issued under an indenture dated July 7, 2010, by and among us, the guarantors party thereto, including DynCorp International and Wilmington Trust, National Association (as successor by merger to Wilmington Trust FSB) as Trustee.

On June 15, 2016, \$415.7 million principal amount of the Senior Unsecured Notes were exchanged for \$45.0 million cash and \$370.6 million principal amount of newly issued New Notes. The remaining \$39.3 million principal amount of 10.375% Senior Unsecured Notes were redeemed on April 24, 2017 using the proceeds received from the Capital Contribution on April 21, 2017.

### *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 are 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 until June 15, 2018 and, thereafter, for working capital and general corporate purposes. As of the second quarter of calendar year 2017, we have fully utilized these funds for fees and expenses 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. PIK interest converted into the carrying amount of the Cerberus 3L Notes during the three and nine months ended September 29, 2017 was \$0.4 million and \$1.2 million, respectively, and was \$0.4 million for the three and nine months ended September 30, 2016.

### *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 New 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 New 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 New 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 New 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, New 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 New 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.

### **Note 8 — 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 but include, in some cases, payments for insurance, maintenance and property taxes. 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 \$10.5 million and \$31.7 million for the three and nine months ended September 29, 2017, respectively. Lease rental expense was \$10.8 million and \$29.4 million for the three and nine months ended September 30, 2016, 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 \$8.5 million and \$4.6 million as of September 29, 2017 and December 31, 2016, 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 29, 2017. 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 29, 2017. 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*

On December 4, 2006, December 29, 2006, March 14, 2007 and April 24, 2007, four lawsuits were served, seeking unspecified monetary damages against DynCorp International LLC and several of its former affiliates in the U.S. District Court for the Southern District of Florida, concerning the spraying of narcotic plant crops along the Colombian border adjacent to Ecuador. Three of the lawsuits, filed on behalf of the Provinces of Esmeraldas, Sucumbíos, and Carchi in Ecuador, allege violations of Ecuadorian law, international law, and statutory and common law tort violations, including negligence, trespass, and nuisance. The fourth lawsuit, filed on behalf of citizens of the Ecuadorian provinces of Esmeraldas and Sucumbíos, alleges personal injury, various counts of

negligence, trespass, battery, assault, intentional infliction of emotional distress, violations of the Alien Tort Claims Act and various violations of international law. The four lawsuits were consolidated, and based on our motion granted by the court, the case was subsequently transferred to the U.S. District Court for the District of Columbia. On March 26, 2008, a First Amended Consolidated Complaint was filed that identified 3,266 individual plaintiffs. As of January 12, 2010, 1,256 of the plaintiffs have been dismissed by court orders and, on September 15, 2010, the Provinces of Esmeraldas, Sucumbíos, and Carchi were dismissed by court order. We filed multiple motions for summary judgment and, on February 15, 2013, the court granted summary judgment and dismissed all claims. On March 18, 2013, the plaintiffs filed a notice of appeal with the U.S. Court of Appeals for the District of Columbia. On May 30, 2014, the U.S. Court of Appeals for the District of Columbia affirmed the dismissal of the majority of the case, but remanded the case to the trial court concerning a few remaining tort claims. On September 23, 2016, the District Court granted in part renewed motions for summary judgment. On April 3, 2017, the claims for six plaintiffs proceeded to trial. On April 20, 2017, the jury found in our favor on all claims brought by all six plaintiffs involved in that trial. Further proceedings involving other plaintiffs may take place. At this time, we believe the likelihood of an unfavorable outcome in this case is remote.

A lawsuit filed on September 11, 2001, and amended on March 24, 2008, seeking unspecified damages on behalf of 26 residents of the Sucumbíos Province in Ecuador, was brought against our operating company and several of its former affiliates in the U.S. District Court for the District of Columbia. The action alleges violations of the laws of nations and U.S. treaties, negligence, emotional distress, nuisance, battery, trespass, strict liability, and medical monitoring arising from the spraying of herbicides near the Ecuador-Colombia border in connection with the performance of the DoS, International Narcotics and Law Enforcement contract for the eradication of narcotic plant crops in Colombia. As of January 12, 2010, 15 of the plaintiffs have been dismissed by court order. We filed multiple motions for summary judgment and, on February 15, 2013, the court granted summary judgment and dismissed all claims. On March 18, 2013, the plaintiffs filed a notice of appeal with the U.S. Court of Appeals for the District of Columbia. On May 30, 2014, the U.S. Court of Appeals for the District of Columbia affirmed the dismissal of the majority of the case, but remanded the case to the trial court concerning a few remaining tort claims. On September 23, 2016, the District Court granted in part renewed motions for summary judgment. On April 3, 2017, the claims for six plaintiffs proceeded to trial. On April 20, 2017, the jury found in our favor on all claims brought by all six plaintiffs involved in that trial. Further proceedings involving other plaintiffs may take place. At this time, we believe the likelihood of an unfavorable outcome in this case is remote.

The above cases now are fully defended and indemnified by the Company's previous owner, Computer Sciences Corporation and also by its spin-off company, CSRA Inc. The insurance litigation arising out of the above cases that was described in prior filings has now been fully resolved and settled.

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. Subsequent to September 29, 2017, we collected a portion of these funds and we continue to seek payment on the remaining balance. An unfavorable judgment which denies us a substantial amount of the full amount owed to us could have a material effect on our results of operations.

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 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. The DCAA is currently auditing fiscal years 2013 to 2016 and we believe the risk of loss for those years is remote and eventual settlement amounts should be comparable to the previous outcome for fiscal years 2009 to 2012.

#### *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 MOF ruled in our favor for the income tax related issue which totaled approximately \$54.0 million. We are still working with the MOF to remove the assessment on the remaining non-income tax related items. As of September 29, 2017, we are continuing to evaluate this matter and at this time believe it does not represent a probable loss contingency.

#### *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 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. 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 \$9.0 million and \$9.3 million as of September 29, 2017 and December 31, 2016, 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 9 — Segment Information

We have three operating and reporting segments: AELS, AOLC and DynLogistics. The AELS, AOLC 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 29, 2017	September 30, 2016	September 29, 2017	September 30, 2016
<b>Revenue</b>				
AELS	\$ 166,006	\$ 169,140	\$ 438,437	\$ 443,815
AOLC	141,858	157,268	447,648	469,749
DynLogistics	195,810	177,328	551,791	461,187
Headquarters / Other <sup>(1)</sup>	(700)	(302)	(743)	(359)
Total revenue	\$ 502,974	\$ 503,434	\$ 1,437,133	\$ 1,374,392
<b>Operating income (loss)</b>				
AELS	\$ 7,523	\$ (7,137)	\$ 16,793	\$ (15,537)
AOLC	18,892	13,876	49,267	32,743
DynLogistics	9,125	23,920	50,424	49,798
Headquarters / Other <sup>(2)</sup>	(10,344)	(21,269)	(42,235)	(57,064)
Total operating income (loss)	\$ 25,196	\$ 9,390	\$ 74,249	\$ 9,940
<b>Depreciation and amortization</b>				
AELS	\$ 500	\$ 144	\$ 1,066	\$ 431
AOLC	25	115	73	513
DynLogistics	258	138	594	260
Headquarters / Other	8,537	8,725	25,512	25,595
Total depreciation and amortization <sup>(3)</sup>	\$ 9,320	\$ 9,122	\$ 27,245	\$ 26,799

(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 and Global Advisory Group costs, partially offset by equity method investee income.

(3) Includes amounts included in Cost of services of \$0.5 million and \$1.3 million and for the three and nine months ended September 29, 2017, respectively, and \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2016, 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 29, 2017	December 31, 2016
<b>Assets</b>		
AELS	\$ 128,173	\$ 140,320
AOLC	145,923	133,096
DynLogistics	206,445	168,085
Headquarters / Other <sup>(1)</sup>	184,291	235,036
Total assets	\$ 664,832	\$ 676,537

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

## **Note 10 — Related Parties, Joint Ventures and Variable Interest Entities**

### **Cerberus 3L Notes**

DynCorp Funding LLC, a limited liability company managed by Cerberus Capital Management, L.P., entered into a Third Lien Credit Agreement, dated as of June 15, 2016 to fund the Cerberus 3L Notes, a \$30 million term loan to us. 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. See Note 7 for further discussion.

### **Capital Contribution**

As described further in Note 7, on March 24, 2017, the Company received the Support Letter from Cerberus committing to fund the redemption of all outstanding Senior Unsecured Notes on or before May 5, 2017 with the proceeds of new equity or capital contributions. The Company received the \$40.6 million Capital Contribution on April 21, 2017, and completed the redemption of all of the remaining Senior Unsecured Notes using the proceeds of the Capital Contribution on April 24, 2017.

### **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 \$1.1 million and \$3.6 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 29, 2017, respectively, and \$1.3 million and \$4.5 million during the three and nine months ended September 30, 2016, respectively.

We had two executives who were COAC employees and were seconded to us as of September 29, 2017: (i) our current Chief Executive Officer and member of the Company's board of directors (who until July 14, 2017 served as our Senior Vice President and Chief Operating Officer); and (ii) our Senior Vice President, Chief Administrative Officer, Chief Legal Officer and Corporate Secretary. Included in the \$1.1 million and \$3.6 million recognized during the three and nine months ended September 29, 2017 in COAC consulting fees was \$0.8 million and \$2.3 million of administrative expense related to these two COAC individuals for the three months and nine months ended September 29, 2017, respectively. Included in the \$1.3 million and \$4.5 million recognized during the three and nine months ended September 30, 2016 in COAC consulting fees was \$0.6 million and \$1.9 million of administrative expense related to seconded COAC employees for the three and nine months ended September 30, 2016, respectively. Effective November 1, 2017, our two previously seconded executives became full-time employees of the Company.

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 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 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 29, 2017, we accounted for Partnership for Temporary Housing LLC ("PaTH"), Babcock DynCorp Limited ("Babcock") and Global Linguist Solutions ("GLS") as equity method investments. We present our share of the PaTH and GLS earnings in Earnings from equity method investees as these joint ventures are considered operationally integral. Alternatively, we present our share of the Babcock earnings in Other income, net as it is not considered operationally integral.

Receivables due from our unconsolidated joint ventures totaled \$0.1 million as of both September 29, 2017 and December 31, 2016. 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 earn revenue from services provided to our unconsolidated joint ventures during the three and nine months ended September 29, 2017 and September 30, 2016, respectively. The related cost of services was \$0.2 million and \$0.6 million during the three and nine months ended September 29, 2017 and \$0.1 million and \$0.4 million during the three and nine months ended September 30, 2016, respectively. Additionally, we earned \$0.1 million and \$0.1 million in equity method income (includes operationally integral and non-integral income) during the three and nine months ended September 29, 2017 and \$0.1 million and \$0.8 million in equity method income during the three and nine months ended September 30, 2016, respectively.

GLS' revenue was \$10.4 million and \$26.3 million during the three and nine months ended September 29, 2017, respectively, and \$10.2 million and \$31.3 million during the three and nine months ended September 30, 2016. GLS' operating and net income was \$0.3 million and operating loss was \$2.1 million during the three and nine months ended September 29, 2017, and GLS' operating and net loss was \$0.4 million and \$1.9 million during the three and nine months ended September 30, 2016, 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 \$2.1 million and \$2.2 million as of September 29, 2017 and December 31, 2016, 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 29, 2017 and December 31, 2016 and for the three and nine months ended September 29, 2017 and September 30, 2016:

<i>(Amounts in millions)</i>	As Of			
	September 29, 2017		December 31, 2016	
Assets	\$	4.0	\$	4.2
Liabilities		0.8		1.1

  

<i>(Amounts in millions)</i>	Three Months Ended			
	September 29, 2017		September 30, 2016	
Revenue	\$	43.4	\$	48.3
			\$	127.9
			\$	133.9

The following tables present selected financial information for our equity method investees as of September 29, 2017 and December 31, 2016 and for the three and nine months ended September 29, 2017 and September 30, 2016:

<i>(Amounts in millions)</i>	As Of			
	September 29, 2017		December 31, 2016	
Current assets	\$	22.4	\$	27.7
Total assets		22.4		29.3
Current liabilities		6.5		10.1
Total liabilities		6.5		10.1

  

<i>(Amounts in millions)</i>	Three Months Ended			
	September 29, 2017		September 30, 2016	
Revenue	\$	10.7	\$	13.3
Gross profit		0.4		(1.5)
Net income (loss)		0.4		(0.8)
			\$	27.3
			\$	50.7

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) \$5.2 million investment in unconsolidated joint ventures, (ii) \$0.1 million in receivables from our unconsolidated joint ventures, (iii) \$2.1 million note receivable from Palm Trading Investment Corp. and (iv) contingent liabilities that were neither probable nor reasonably estimable as of September 29, 2017.

## **Note 11 — Consolidating Financial Statements of Subsidiary Guarantors**

The New 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 New 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 29, 2017 and December 31, 2016, (ii) unaudited condensed consolidating statements of operations and comprehensive income (loss) for the three and nine months ended September 29, 2017 and September 30, 2016, (iii) unaudited condensed consolidating statements of cash flows for the nine months ended September 29, 2017 and September 30, 2016 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 New Notes.



**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Operations Information**  
**For the Three Months Ended September 29, 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 Three Months Ended September 30, 2016**

<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	\$ —	\$ —	\$ 508,038	\$ 55,080	\$ (59,684)	\$ 503,434
Cost of services	—	—	(450,454)	(54,296)	59,660	(445,090)
Selling, general and administrative expenses	—	—	(38,442)	64	21	(38,357)
Depreciation and amortization expense	—	—	(8,692)	(186)	3	(8,875)
Earnings from equity method investees	—	—	60	—	—	60
Impairment of goodwill, intangibles and long-lived assets	—	—	(1,782)	—	—	(1,782)
<b>Operating income</b>	<b>—</b>	<b>—</b>	<b>8,728</b>	<b>662</b>	<b>—</b>	<b>9,390</b>
Interest expense	—	(19,195)	(1,035)	—	—	(20,230)
Interest income	—	—	115	2	—	117
Equity in (loss) income of consolidated subsidiaries	(7,271)	5,207	315	—	1,749	—
Other income (loss), net	—	—	258	(42)	—	216
(Loss) income before income taxes	(7,271)	(13,988)	8,381	622	1,749	(10,507)
Benefit (provision) for income taxes	—	6,717	(3,174)	—	—	3,543
Net (loss) income	(7,271)	(7,271)	5,207	622	1,749	(6,964)
Noncontrolling interests	—	—	—	(307)	—	(307)
Net (loss) income attributable to Delta Tucker Holdings, Inc.	<u>\$ (7,271)</u>	<u>\$ (7,271)</u>	<u>\$ 5,207</u>	<u>\$ 315</u>	<u>\$ 1,749</u>	<u>\$ (7,271)</u>

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Operations Information**  
**For the Nine Months Ended September 29, 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 Operations Information**  
**For the Nine Months Ended September 30, 2016**

<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	\$ —	\$ —	\$ 1,385,877	\$ 151,878	\$ (163,363)	\$ 1,374,392
Cost of services	—	—	(1,240,567)	(150,692)	163,311	(1,227,948)
Selling, general and administrative expenses	—	—	(109,450)	—	45	(109,405)
Depreciation and amortization expense	—	—	(25,554)	(531)	7	(26,078)
Earnings from equity method investees	—	—	761	—	—	761
Impairment of goodwill, intangibles and long-lived assets	—	—	(1,782)	—	—	(1,782)
Operating income	—	—	9,285	655	—	9,940
Interest expense	—	(51,235)	(2,422)	—	—	(53,657)
Loss on early extinguishment of debt	—	(328)	—	—	—	(328)
Interest income	—	—	194	5	—	199
Equity in loss of consolidated subsidiaries	(47,151)	(13,634)	(328)	—	61,113	—
Other income (expense), net	—	—	5,307	(128)	—	5,179
(Loss) income before income taxes	(47,151)	(65,197)	12,036	532	61,113	(38,667)
Benefit (provision) for income taxes	—	18,046	(25,670)	(57)	—	(7,681)
Net (loss) income	(47,151)	(47,151)	(13,634)	475	61,113	(46,348)
Noncontrolling interests	—	—	—	(803)	—	(803)
Net loss attributable to Delta Tucker Holdings, Inc.	\$ (47,151)	\$ (47,151)	\$ (13,634)	\$ (328)	\$ 61,113	\$ (47,151)

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Comprehensive Income Information**  
**For the Three Months Ended September 29, 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 Loss Information**  
**For the Three Months Ended September 30, 2016**

<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 (loss) income	\$ (7,271)	\$ (7,271)	\$ 5,207	\$ 622	\$ 1,749	\$ (6,964)
Other comprehensive loss, net of tax:						
Foreign currency translation adjustment	(216)	(216)	—	(216)	432	(216)
Other comprehensive loss, before tax	(216)	(216)	—	(216)	432	(216)
Income tax benefit related to items of other comprehensive loss	78	78	—	78	(156)	78
Other comprehensive loss	(138)	(138)	—	(138)	276	(138)
Comprehensive (loss) income	(7,409)	(7,409)	5,207	484	2,025	(7,102)
Noncontrolling interests	—	—	—	(307)	—	(307)
Comprehensive (loss) income attributable to Delta Tucker Holdings, Inc.	\$ (7,409)	\$ (7,409)	\$ 5,207	\$ 177	\$ 2,025	\$ (7,409)

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Comprehensive Income Information**  
**For the Nine Months Ended September 29, 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 Statement of Comprehensive Loss Information**  
**For the Nine Months Ended September 30, 2016**

<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 (loss) income	\$ (47,151)	\$ (47,151)	\$ (13,634)	\$ 475	\$ 61,113	\$ (46,348)
Other comprehensive loss, net of tax:						
Foreign currency translation adjustment	(215)	(215)	—	(215)	430	(215)
Other comprehensive loss, before tax	(215)	(215)	—	(215)	430	(215)
Income tax benefit related to items of other comprehensive loss	77	77	—	77	(154)	77
Other comprehensive loss	(138)	(138)	—	(138)	276	(138)
Comprehensive (loss) income	(47,289)	(47,289)	(13,634)	337	61,389	(46,486)
Noncontrolling interests	—	—	—	(803)	—	(803)
Comprehensive loss attributable to Delta Tucker Holdings, Inc.	\$ (47,289)	\$ (47,289)	\$ (13,634)	\$ (466)	\$ 61,389	\$ (47,289)



**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Balance Sheet Information**  
**September 29, 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	\$ —	\$ —	\$ 95,303	\$ 15,354	\$ —	\$ 110,657
Accounts receivable, net	—	—	343,354	425	(12,392)	331,387
Intercompany receivables	—	—	177,609	5,303	(182,912)	—
Prepaid expenses and other current assets	—	—	56,655	5,447	(447)	61,655
Total current assets	—	—	672,921	26,529	(195,751)	503,699
Property and equipment, net	—	—	18,404	654	—	19,058
Goodwill	—	—	9,694	32,399	—	42,093
Tradenames, net	—	—	28,536	—	—	28,536
Other intangibles, net	—	—	60,292	—	—	60,292
Investment in subsidiaries	—	563,961	54,666	—	(618,627)	—
Other assets, net	—	—	7,477	3,677	—	11,154
Total assets	<u>\$ —</u>	<u>\$ 563,961</u>	<u>\$ 851,990</u>	<u>\$ 63,259</u>	<u>\$ (814,378)</u>	<u>\$ 664,832</u>
<b>LIABILITIES &amp; DEFICIT</b>						
Current liabilities:						
Current portion of long-term debt, net	\$ —	\$ 21,078	\$ —	\$ —	\$ —	\$ 21,078
Accounts payable	—	—	87,988	5,040	(1,168)	91,860
Accrued payroll and employee costs	—	—	80,543	2,640	—	83,183
Intercompany payables	45,085	132,524	5,303	—	(182,912)	—
Deferred income taxes	—	—	—	29	(29)	—
Accrued liabilities	171,633	24,167	68,971	884	(183,144)	82,511
Income taxes payable	—	—	14,353	—	(131)	14,222
Total current liabilities	216,718	177,769	257,158	8,593	(367,384)	292,854
Long-term debt, net	—	557,825	—	—	—	557,825
Long-term deferred taxes	—	—	14,071	—	—	14,071
Other long-term liabilities	—	—	11,319	—	—	11,319
Noncontrolling interests	—	—	5,481	—	—	5,481
(Deficit) equity	(216,718)	(171,633)	563,961	54,666	(446,994)	(216,718)
Total liabilities and deficit	<u>\$ —</u>	<u>\$ 563,961</u>	<u>\$ 851,990</u>	<u>\$ 63,259</u>	<u>\$ (814,378)</u>	<u>\$ 664,832</u>

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Balance Sheet Information**  
**December 31, 2016**

<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>
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ —	\$ —	\$ 106,416	\$ 11,802	\$ —	\$ 118,218
Restricted cash	—	6,944	720	—	—	7,664
Accounts receivable, net	—	—	304,729	2,525	(6,999)	300,255
Intercompany receivables	—	—	183,587	9,827	(193,414)	—
Prepaid expenses and other current assets	—	—	63,776	2,516	(598)	65,694
Total current assets	—	6,944	659,228	26,670	(201,011)	491,831
Property and equipment, net	—	—	15,788	848	—	16,636
Goodwill	—	—	9,694	32,399	—	42,093
Tradenames, net	—	—	28,536	—	—	28,536
Other intangibles, net	—	—	84,069	—	—	84,069
Investment in subsidiaries	—	572,176	54,538	—	(626,714)	—
Other assets, net	—	—	10,575	2,797	—	13,372
Total assets	<u>\$ —</u>	<u>\$ 579,120</u>	<u>\$ 862,428</u>	<u>\$ 62,714</u>	<u>\$ (827,725)</u>	<u>\$ 676,537</u>
<b>LIABILITIES &amp; DEFICIT</b>						
Current liabilities:						
Current portion of long-term debt, net	\$ —	\$ 62,843	\$ —	\$ —	\$ —	\$ 62,843
Accounts payable	—	—	67,287	3,859	(1,404)	69,742
Accrued payroll and employee costs	—	—	92,036	3,544	—	95,580
Intercompany payables	45,086	138,501	9,827	—	(193,414)	—
Deferred income taxes	—	—	—	26	(26)	—
Accrued liabilities	222,306	30,469	78,926	747	(228,370)	104,078
Income taxes payable	—	—	9,406	—	(103)	9,303
Total current liabilities	267,392	231,813	257,482	8,176	(423,317)	341,546
Long-term debt, net	—	569,613	—	—	—	569,613
Long-term deferred taxes	—	—	14,825	—	—	14,825
Other long-term liabilities	—	—	12,490	—	—	12,490
Noncontrolling interests	—	—	5,455	—	—	5,455
(Deficit) Equity	(267,392)	(222,306)	572,176	54,538	(404,408)	(267,392)
Total liabilities and deficit	<u>\$ —</u>	<u>\$ 579,120</u>	<u>\$ 862,428</u>	<u>\$ 62,714</u>	<u>\$ (827,725)</u>	<u>\$ 676,537</u>

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Cash Flow Information**  
**For the Nine Months Ended September 29, 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 cash provided by (used in) operating activities	\$ —	\$ 22,455	\$ (11,293)	\$ 136	\$ (554)	\$ 10,744
<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)
Cash restricted from Cerberus 3L Notes	—	7,057	—	—	—	7,057
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 to affiliates	—	—	5,978	4,525	(10,503)	—
Net cash (used in) provided by investing activities	(40,599)	7,057	4,705	4,525	30,096	5,784
<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 contribution from affiliates of Cerberus	40,599	300	—	—	—	40,899
Payments of dividends to noncontrolling interests	—	—	—	(1,109)	554	(555)
Net transfers from 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 and cash equivalents	—	—	(11,113)	3,552	—	(7,561)
Cash and cash equivalents, beginning of period	—	—	106,416	11,802	—	118,218
Cash and cash equivalents, end of period	\$ —	\$ —	\$ 95,303	\$ 15,354	\$ —	\$ 110,657

**Delta Tucker Holdings, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidating Statement of Cash Flow Information**  
**For The Nine Months Ended September 30, 2016**

<i>(Amounts in thousands)</i>	Parent	Subsidiary Issuer	Subsidiary Guarantors	Subsidiary Non- Guarantors	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ 557	\$ 57,754	\$ (12,489)	\$ (20,409)	\$ (736)	\$ 24,677
<b>Cash flows from investing activities:</b>						
Purchase of property and equipment	—	—	(2,738)	(24)	—	(2,762)
Proceeds from sale of property, plant and equipment	—	—	832	—	—	832
Purchase of software	—	—	(1,775)	—	—	(1,775)
Cash restricted from Cerberus 3L Notes	—	(12,744)	—	—	—	(12,744)
Return of capital from equity method investees	—	—	1,557	—	—	1,557
Contributions to equity method investees	—	—	(4,956)	—	—	(4,956)
Transfers from affiliates	—	—	31,627	23,273	(54,900)	—
Net cash (used in) provided by investing activities	—	(12,744)	24,547	23,249	(54,900)	(19,848)
<b>Cash flows from financing activities:</b>						
Borrowings on revolving credit facilities	—	18,000	—	—	—	18,000
Payments on revolving credit facilities	—	(18,000)	—	—	—	(18,000)
Payments on senior secured credit facility	—	(187,272)	—	—	—	(187,272)
Borrowing under new senior credit facility	—	192,882	—	—	—	192,882
Borrowing under Cerberus 3L notes	—	30,000	—	—	—	30,000
Payment to bondholders for Exchange Offer	—	(45,000)	—	—	—	(45,000)
Payments of deferred financing costs	—	(4,998)	—	—	—	(4,998)
Equity contributions from affiliates of Cerberus	—	450	—	—	—	450
Payments of dividends to noncontrolling interests	—	—	—	(1,468)	734	(734)
Net transfers to Parent/subsidiary	(557)	(31,072)	(23,273)	—	54,902	—
Net cash used in financing activities	(557)	(45,010)	(23,273)	(1,468)	55,636	(14,672)
Net (decrease) increase in cash and cash equivalents	—	—	(11,215)	1,372	—	(9,843)
Cash and cash equivalents, beginning of period	—	—	95,365	13,417	—	108,782
Cash and cash equivalents, end of period	\$ —	\$ —	\$ 84,150	\$ 14,789	\$ —	\$ 98,939

**Note 12 — Subsequent Events**

The Company evaluated potential subsequent events occurring after the period end date through the date the financial statements were issued and concluded that there were no material subsequent events for the quarter ended September 29, 2017, except as disclosed within the Notes to the unaudited condensed consolidated financial statements.

## **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, 2016. 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**

The Company's organizational structure includes three operating and reporting segments: Aviation Engineering, Logistics, and Sustainment ("AELS"), Aviation Operations and Life Cycle Management ("AOLC") and DynLogistics. Our segments provide services domestically and internationally primarily under contracts with the U.S. government.

#### **AELS**

The Company's AELS segment, comprised primarily of the Company's U.S. Air Force and U.S. Navy contracts, provides the technical information and expertise to manage large fleets and bases and delivers engineering and maintenance services to help keep operations running effectively. AELS offers a full spectrum of capabilities including training, supply chain management, aircraft modernization, platform sustainment and data optimization. The T-6 Contractor Operated and Maintained Base Supply Bridge Contract ("T-6 COMBS Bridge"), Contractor Logistics Support: T-34, T-44, T-6 ("CLS") and Naval Test Wing Atlantic programs are three of the most significant programs in the AELS segment. Under the T-6 COMBS Bridge contract, the U.S. Air Force contracts the Company to perform support services for the T-6A and T-6B aircraft. Our CLS and Naval Test Wing Atlantic programs provide maintenance and logistics support to the U.S. Navy T-34, T-44, and T-6 aircraft and maintenance and logistic support on Naval Test Wing Atlantic aircraft, respectively.

#### **AOLC**

The Company's AOLC segment, comprised primarily of the Company's Army and the Bureau for International Narcotics and Law Enforcement Affairs, Office of Aviation ("INL Air Wing") contracts, 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. The INL Air Wing and Theater Aviation Sustainment Manager - OCONUS ("TASM-O") programs are two of the most significant programs in the AOLC segment. The TASM-O program provides aviation maintenance services under the Army Aviation Field Maintenance ("AFM") program.

The INL Air Wing program supports governments in multiple Latin American countries and provides support and assistance with interdiction services in Afghanistan. This program also provides 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, AOLC 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, AOLC 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.

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. 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 ("NATO") forces and to release military units from combat service support missions or to fill the U.S. military resource shortfalls. Under the ALiSS contract, which we perform under an IDIQ contract, the DoS contracts the Company to provide life support services in Afghanistan.

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.

### ***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, 2016.

### ***External Factors***

Our business is primarily derived from U.S. government contracts to support U.S. foreign policy and national security objectives around the globe. Therefore, federal budgets and spending allocations for these activities, as well as the alignment of the company's capabilities with policy priorities, guide our ability to grow the business and increase revenues. The services sector continues to be cautiously optimistic about the bipartisan consensus in Washington, D.C. calling for an increase in defense spending to restore training and equipment readiness to levels required to meet a varied array of international threats. While industry expectations for dramatic increases in defense spending have been tempered, the prioritization of readiness and ongoing operations aligns with DynCorp International's core offerings and favors continued growth.

However, the Budget Control Act of 2011 ("BCA") remains law and unless changed any funding for the DoD above the subsection 051 fiscal year 2018 budget cap will be subject to sequestration. In addition, 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:

- Adhering to discretionary spending caps mandated by the BCA;
- Increased competition and opportunity caused by IDIQs and other bidding trends;
- Disruptions to funding caused by a government shutdown or a continuing resolution;
- 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;
- Russian aggression in Europe and the Middle East; and
- Increased instability and challenges to the existing international framework.

Legislatively, Congress is confronted with numerous issues, such as modifying the mandated BCA spending caps, that must be resolved before final fiscal year 2018 budgets for the DoD and DoS can be agreed to and passed into law. We believe it is unlikely that these issues will be resolved before December 2017. Internationally, the environment, especially in the Middle East and the Korean peninsula, will likely be marked by continued instability for the foreseeable future, which also argues for continued robust Overseas Contingency Operations ("OCO") 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 organizational, 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 contracts typically have a term of three to ten years consisting of a base period of one year with multiple one-year options. 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 recompeteted, 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 recompeteted 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 continue to 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 29, 2017 and to date*

- In January 2017, DynLogistics announced the award of a contract extension for the War Reserve Materiel II contract through April 30, 2017. The contract extension has a total potential value of \$22.7 million.
- On January 23, 2017, DynLogistics announced the award of the War Reserve Materiel III contract to manage the U.S. Air Force Central Command Area of Responsibility War Reserve Materiel Pre-positioning program, which includes operations in Oman, Bahrain, Qatar, Kuwait, United Arab Emirates and two locations in the United States. The contract has a three-month transition period, five-month base period and seven one-year options and a total potential contract value of \$412 million.
- On March 16, 2017, DynLogistics was awarded the transition and base period for the Northcom task order to provide vehicle maintenance, inventory warehousing, ammo supply and fuel services at the National Training Center in California under the LOGCAP IV contract. On July 20, 2017 the task order was extended for one twelve-month option year and has a total potential task order value of \$126.5 million.
- On March 24, 2017, we received the Support Letter from Cerberus committing to fund the redemption of all outstanding Senior Unsecured Notes on or before May 5, 2017 with the proceeds of new equity or capital contributions, and we sent a notice of redemption to the holders of the Senior Unsecured Notes for a redemption of all of the remaining Senior Unsecured Notes on April 24, 2017, conditioned on the receipt of the proceeds of equity and/or debt financings and/or capital contributions.
- On April 21, 2017, we received the \$40.6 million Capital Contribution from Holdings' direct parent company, DefCo Holdings, Inc.
- On April 24, 2017, we completed the redemption of all of the remaining Senior Unsecured Notes using the proceeds of the Capital Contribution.
- On April 26, 2017, AELS announced the award of the T-6 Contractor Operated and Maintained Base Supply Bridge Contract ("T-6 COMBS Bridge"). The one year contract has a total potential value of \$202 million.
- On May 30, 2017, DynLogistics was awarded the Emergency Support Services ("ESS") task order providing fire protection and emergency and medical support services 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 \$46.9 million.
- On May 31, 2017, AOLC announced the award of a contract for logistics support services for government-owned fixed-wing fleets performing transport aircraft missions (C-12, C-26 and UC-35 fleets, with limited services for T-6 fleets). The contract has a one-year initial period and five one-year options with the last option including a three month transition period and a total potential contract value of \$795.3 million.
- On June 7, 2017, AOLC announced the award of the Contractor Logistics helicopter subcontract. The subcontract has a one-year base period valued at \$29.6 million and one six-month option.
- On June 27, 2017, the DoS Office of Acquisition Management posted a J&A for other than full and open competition detailing its intent to extend the INL Air Wing contract for a six-month base period, with one six-month option period.
- On June 29, 2017, 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 \$217 million.
- On July 11, 2017, DynLogistics was awarded the Field Level Maintenance ("FLM") task order under the TACOM Strategic Services Solutions, Equipment Related Services contract. The task order has a one month phase-in, a one-year base period and four one-year option periods and a total potential task order value of \$14.6 million.
- On July 14, 2017, the Company named George Krivo as Chief Executive Officer and as a member of the Company's board of directors.
- On July 24, 2017, AELS was awarded the Region 5 FireWatch contract providing pilots, maintenance, geographic information system technicians, and fuel transportation services for two de-militarized Cobra helicopters. The contract has a one-year base period and four one-year option periods and a total potential contract value of \$12.5 million.
- On August 18, 2017, AELS announced the award of the Naval Test Wing Pacific O-Level Maintenance contract by the U.S. Navy to maintain and provide logistics services for aircraft and support for equipment at the Naval Air Systems Command Sea Test Range at Point Mugu, California and Naval Air Weapons Station at China Lake, California. The contract has a one-year base period and four one-year options and a total potential contract value of \$276 million.



- On September 21, 2017, DynLogistics was awarded the Information Resource Management ("IRM") Support Services task order providing internet, broadcasting and transmission of television, and satellite support services 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 \$52.8 million.
- On September 29, 2017, AOLC 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. The extension has a total potential value of \$55.9 million. 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 October 4, 2017, DynLogistics announced the award of a change order to establish and operate base camp support for Department of Defense Title 10 Forces, the National Guard, the Federal Emergency Response Agency ("FEMA") personnel and First Responders supporting Hurricane Maria relief operations in Puerto Rico under the LOGCAP IV contract. The change order has a total potential value of \$69.8 million.

## 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 CFT and LOGCAP IV programs are two 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 29, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Fixed-Price	43%	45%	43%	45%
Time-and-Materials	5%	5%	5%	5%
Cost-Reimbursement	52%	50%	52%	50%
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 2017.

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 29, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Prime Contractor	97%	95%	96%	94%
Subcontractor	3%	5%	4%	6%
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 29, 2017</b>	<b>December 31, 2016</b>
Funded backlog	\$ 1,029	\$ 1,403
Unfunded backlog	3,407	2,313
Total	<u>\$ 4,436</u>	<u>\$ 3,716</u>

The increase in backlog as of September 29, 2017 was primarily due to new contract wins partially offset by revenue recognized on current programs during the nine months ended September 29, 2017.

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 29, 2017 compared to the Three Months Ended September 30, 2016

We report the results of our operations using a basis where each quarterly period ends on the last Friday of the calendar quarter, except for the fourth quarter of the fiscal year, which ends on December 31. The fiscal three month period ended September 30, 2016 included an additional week as compared to the fiscal three month period ended September 29, 2017 due to the timing of the final Friday of the quarter in the prior period as compared to the current period. 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 29, 2017 and September 30, 2016.

(Amounts in thousands)	Three Months Ended			
	September 29, 2017		September 30, 2016	
Revenue	\$ 502,974	100.0 %	\$ 503,434	100.0 %
Cost of services	(447,796)	(89.0)	(445,090)	(88.4)
Selling, general and administrative expenses	(21,243)	(4.2)	(38,357)	(7.6)
Depreciation and amortization expense	(8,792)	(1.7)	(8,875)	(1.8)
Earnings from equity method investees	53	—	60	—
Impairment of goodwill, intangibles and long lived assets	—	—	(1,782)	(0.4)
Operating income	25,196	5.1	9,390	1.8
Interest expense	(17,149)	(3.4)	(20,230)	(4.0)
Interest income	15	—	117	—
Other (expense) income, net	(43)	—	216	0.1
Income (loss) before income taxes	8,019	1.7	(10,507)	(2.1)
(Provision) benefit for income taxes	(3,338)	(0.7)	3,543	0.7
Net income (loss)	4,681	1.0	(6,964)	(1.4)
Noncontrolling interests	(295)	(0.1)	(307)	(0.1)
Net income (loss) attributable to Delta Tucker Holdings, Inc.	\$ 4,386	0.9	\$ (7,271)	(1.5)

*Revenue* — Revenue for the three months ended September 29, 2017 was \$503.0 million, a decrease of \$0.5 million, or 0.1%, compared to \$503.4 million for the three months ended September 30, 2016. In addition to the three months ended September 30, 2016 including an additional week compared to the three months ended September 29, 2017, the decrease was due to lower volume on the INL Air Wing program and the completion of the Sheppard Air Force Base and Flexible Acquisition and Sustainment Tool ("F2AST") contracts. The decrease in revenue was partially offset by the increased scope from the LOGCAP IV program and the new G4 Worldwide Logistics Support 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 29, 2017 was \$447.8 million, an increase of \$2.7 million, or 0.6%, compared to the three months ended September 30, 2016. The increase in Cost of services was primarily due to an \$8.2 million charge for the termination of a subcontractor agreement partially offset by the transition of the T-6 COMBS contract to the New T-6 COMBS Bridge contract with more favorable terms and the replacement of the completed Sheppard Air Force Base contract with new DynLogistics contract wins. As a percentage of revenue, Cost of services increased to 89.0% for the three months ended September 29, 2017 compared to 88.4% for the three months ended September 30, 2016 primarily driven by the increase in cost of services and decrease in revenue, as discussed above. 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 \$17.1 million, or 44.6%, to \$21.2 million during the three months ended September 29, 2017 primarily due to a reduction in legal and consulting costs and our allowance for doubtful accounts, combined with our cost reduction initiatives. SG&A as a percentage of revenue decreased to 4.2% for the three months ended September 29, 2017 compared to 7.6% for the three months ended September 30, 2016 as a result of the decrease in SG&A and increase in revenue discussed above.

*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 Partnership for Temporary Housing LLC (“PaTH”) and Global Linguist Solutions (“GLS”). 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.

*Impairment of goodwill, intangibles and long lived assets* — Impairment for the three months ended September 29, 2017 and September 30, 2016 was zero and \$1.8 million, respectively. During the three months ended September 30, 2016 we recognized a non-cash impairment charge on our investment in GLS which had a loss in value that was other than temporary.

*Interest expense* — Interest expense for the three months ended September 29, 2017 was \$17.1 million, a decrease of \$3.1 million, or (15.2)%, compared to the three months ended September 30, 2016. The decrease is primarily due to the reduction in debt due to the \$25.1 million Excess Cash Flow principal payment made on the Term Loan and the redemption of the \$39.3 million principal balance of the Senior Unsecured Notes, both in calendar year 2017.

*Other (expense) income, net* — Other (expense) income, net consists primarily of sublease income, gains/losses from foreign currency, asset sales and other items. Other (expense) income, net during the three months ended September 29, 2017 was \$0.0 million, a decrease of \$0.3 million, which primarily relates to losses on foreign currency and assets sales partially offset by sublease income.

*Income taxes* — Our effective tax rate consists of federal and state statutory rates, certain permanent differences and discrete items. The effective tax rate for the three months ended September 29, 2017 was 41.6%, as compared to 33.7% for the three months ended September 30, 2016, a change primarily driven by an increase in the forecasted full year income before taxes and an increase in the valuation allowance related to additional foreign tax credits carrying over to future periods.

#### **Consolidated Nine Months Ended September 29, 2017 compared to the Nine Months Ended September 30, 2016**

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 29, 2017 and September 30, 2016:

<i>(Amounts in thousands)</i>	<b>Nine Months Ended</b>			
	<b>September 29, 2017</b>		<b>September 30, 2016</b>	
Revenue	\$ 1,437,133	100.0 %	\$ 1,374,392	100.0 %
Cost of services	(1,256,924)	(87.5)	(1,227,948)	(89.3)
Selling, general and administrative expenses	(80,129)	(5.6)	(109,405)	(8.0)
Depreciation and amortization expense	(25,936)	(1.8)	(26,078)	(1.9)
Earnings from equity method investees	105	—	761	0.1
Impairment of goodwill, intangibles and long lived assets	—	—	(1,782)	(0.1)
Operating income	74,249	5.1	9,940	0.8
Interest expense	(53,628)	(3.7)	(53,657)	(3.9)
Loss on early extinguishment of debt	(24)	—	(328)	—
Interest income	39	—	199	—
Other income, net	1,474	0.1	5,179	0.4
Income (loss) before income taxes	22,110	1.5	(38,667)	(2.7)
Provision for income taxes	(11,677)	(0.8)	(7,681)	(0.6)
Net income (loss)	10,433	0.7	(46,348)	(3.3)
Noncontrolling interests	(858)	(0.1)	(803)	(0.1)
Net income (loss) attributable to Delta Tucker Holdings, Inc.	\$ 9,575	0.6	\$ (47,151)	(3.4)

*Revenue* — Revenue for the nine months ended September 29, 2017 was \$1,437.1 million, an increase of \$62.7 million, or 4.6%, compared to \$1,374.4 million for the nine months ended September 30, 2016. The increase was primarily as a result of the ALiSS and the TASM-O contracts, the new G4 Worldwide Logistics Support contract and increased scope from the LOGCAP IV program. The increase in revenue was partially offset by decreased volume on the INL Air Wing program and the completion of the Sheppard Air Force Base and F2AST contracts. 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 29, 2017 was \$1,256.9 million, an increase of \$29.0 million, or 2.4%, compared to the nine months ended September 30, 2016. The increase in Cost of services was driven

by the increase in revenue, as discussed above. As a percentage of revenue, Cost of services improved to 87.5% for the nine months ended September 29, 2017 compared to 89.3% for the nine months ended September 30, 2016 primarily due to the transition of the T-6 COMBS contract to the New T-6 COMBS Bridge contract with more favorable terms and the replacement of the completed Sheppard Air Force Base and F2AST contracts with new DynLogistics contract wins and also includes an \$8.2 million charge for the termination of a subcontractor agreement. 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 \$29.3 million, or 26.8%, to \$80.1 million during the nine months ended September 29, 2017 primarily due to a reduction in our allowance for doubtful accounts and our legal and consulting costs, which were impacted by the Refinancing Transactions in the nine months ended September 30, 2016, combined with our cost reduction initiatives. SG&A as a percentage of revenue decreased to 5.6% for the nine months ended September 29, 2017 compared to 8.0% for the nine months ended September 30, 2016 as a result of the decrease in SG&A and increase in revenue discussed above.

*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 and GLS. 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.

*Impairment of goodwill, intangibles and long lived assets* — Impairment for the nine months ended September 29, 2017 and September 30, 2016 was zero and \$1.8 million, respectively. During the nine months ended September 30, 2016 we recognized a non-cash impairment charge on our investment in GLS which had a loss in value that was other than temporary.

*Interest expense* — Interest expense for the nine months ended September 29, 2017 was \$53.6 million, which remained consistent compared to the nine months ended September 30, 2016. Interest expense was impacted by the change in interest rates on our new debt resulting from the Refinancing Transactions completed in the second quarter of calendar year 2016 offset by a reduction in debt due to the \$25.1 million Excess Cash Flow principal payment made on the Term Loan and the redemption of the \$39.3 million principal balance of the Senior Unsecured Notes, both in calendar year 2017.

*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 29, 2017 was \$1.5 million and included a favorable settlement of a legacy customer liability. Other income, net, during the nine months ended September 29, 2017 decreased \$3.7 million, or 71.5%, compared to the nine months ended September 30, 2016 primarily due to a multi-party settlement agreement that resolved underwriters litigation during the nine months ended September 30, 2016.

*Income taxes* — Our effective tax rate consists of federal and state statutory rates, certain permanent differences and discreet items. The effective tax rate for the nine months ended September 29, 2017 was 52.8%, as compared to (19.9)% for the nine months ended September 30, 2016, a change primarily driven by an increase in the forecasted full year income before taxes and an increase in the valuation allowance related to additional foreign tax credits carrying over to future periods.

**Results by Segment – Three Months Ended September 29, 2017 Compared to Three Months Ended September 30, 2016**

We report the results of our operations using a basis where each quarterly period ends on the last Friday of the calendar quarter, except for the fourth quarter of the fiscal year, which ends on December 31. The fiscal three month period ended September 30, 2016 included an additional week as compared to the fiscal three month period ended September 29, 2017 due to the timing of the final Friday of the quarter in the prior period as compared to the current period. 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 29, 2017 and September 30, 2016. See Note 9 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further discussion.

(Amounts in thousands)	Three Months Ended			
	September 29, 2017		September 30, 2016	
	Revenue	% of Total Revenue	Revenue	% of Total Revenue
AELS	\$ 166,006	33.0 %	\$ 169,140	33.6 %
AOLC	141,858	28.2	157,268	31.2
DynLogistics	195,810	38.9	177,328	35.2
Headquarters <sup>(1)</sup>	(700)	(0.1)	(302)	—
Consolidated revenue	\$ 502,974	100.0	\$ 503,434	100.0

	Operating Income (Loss)	Profit Margin <sup>(3)</sup>	Operating (Loss) Income	(Loss) Profit Margin <sup>(3)</sup>
AELS	\$ 7,523	4.5 %	\$ (7,137)	(4.2)%
AOLC	18,892	13.3	13,876	8.8
DynLogistics	9,125	4.7	23,920	13.5
Headquarters <sup>(2)</sup>	(10,344)		(21,269)	
Consolidated operating income	\$ 25,196		\$ 9,390	

- (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 and Global Advisory Group costs, partially offset by equity method investee income.
- (3) Represents segment operating income (loss) as a percentage of segment revenue and does not consider Headquarters operating loss.

**AELS**

Revenue of \$166.0 million decreased \$3.1 million, or (1.9)%, for the three months ended September 29, 2017 compared to the three months ended September 30, 2016 primarily due to the completion of the Sheppard Air Force Base contract. The decrease in revenue was partially offset by increased content from the T-6 COMBS Bridge and Naval Aviation Warfighting Development Center ("NAWDC") contracts and the new Contract Field Teams task orders at the Davis-Monthan and Little Rock Air Force Bases.

Operating income of \$7.5 million for the three months ended September 29, 2017 as compared to operating loss of \$7.1 million for the three months ended September 30, 2016 was primarily due to the transition of the T-6 COMBS contract to the New T-6 COMBS Bridge contract with more favorable terms. Operating loss of \$7.1 million for the three months ended September 30, 2016 was primarily due to additional contract loss charges on the T-6 COMBS contract partially offset by the improved performance and execution of an option year on our T-34/T-44/T-6 contract.

**AOLC**

Revenue of \$141.9 million decreased \$15.4 million, or (9.8)%, for the three months ended September 29, 2017 primarily due to decreased volume on the INL Air Wing program and the completion of the F2AST and the Multi Sensor Aerial Intelligence Surveillance and Reconnaissance ("MAISR") Operations and Sustainment programs. The decrease in revenue was partially offset by increased content from the TASM-O contract and the new Contractor Logistics Support Transport contract.

Operating income of \$18.9 million for the three months ended September 29, 2017 as compared to \$13.9 million for the three months ended September 30, 2016 was primarily due to the performance on our TASM-O contract and MD530 subcontract and a reduction to our allowance for doubtful accounts, partially offset by volume on the INL Air Wing program. Operating income of \$13.9 million for the three months ended September 30, 2016 was primarily due to the addition of higher margin contract option years and the completion of certain restructuring activities.

***DynLogistics***

Revenue of \$195.8 million increased \$18.5 million, or 10.4%, for the three months ended September 29, 2017 compared to the three months ended September 30, 2016 primarily due to increased scope on both the LOGCAP IV program and the ALiSS contract and the new G4 Worldwide Logistics Support contract.

Operating income of \$9.1 million for the three months ended September 29, 2017 as compared to \$23.9 million for the three months ended September 30, 2016 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. Operating income of \$23.9 million for the three months ended September 30, 2016 was primarily due to the definitization of cost and fees on certain legacy programs.



## Results by Segment – Nine Months Ended September 29, 2017 Compared to Nine Months Ended September 30, 2016

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 29, 2017 and September 30, 2016. See Note 9 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further discussion.

(Amounts in thousands)	Nine Months Ended			
	September 29, 2017		September 30, 2016	
	Revenue	% of Total Revenue	Revenue	% of Total Revenue
AELS	\$ 438,437	30.5%	\$ 443,815	32.3 %
AOLC	447,648	31.1	469,749	34.2
DynLogistics	551,791	38.4	461,187	33.5
Headquarters <sup>(1)</sup>	(743)	—	(359)	—
Consolidated revenue	\$ 1,437,133	100.0	\$ 1,374,392	100.0

  

	Operating	Profit Margin <sup>(3)</sup>	Operating	(Loss) Profit Margin <sup>(3)</sup>
	Income (Loss)		(Loss) Income	
AELS	\$ 16,793	3.8%	\$ (15,537)	(3.5)%
AOLC	49,267	11.0	32,743	7.0
DynLogistics	50,424	9.1	49,798	10.8
Headquarters <sup>(2)</sup>	(42,235)		(57,064)	
Consolidated operating income	\$ 74,249		\$ 9,940	

(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, Global Advisory Group costs and costs associated with the Refinancing Transactions, 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.

### AELS

Revenue of \$438.4 million decreased \$5.4 million, or (1.2)%, for the nine months ended September 29, 2017 compared to the nine months ended September 30, 2016 primarily due to the completion of the Sheppard Air Force Base contract. The decrease in revenue was partially offset by increased content from the T-6 COMBS Bridge and NAWDC contracts and the new Contract Field Teams task orders at the Davis-Monthan and Little Rock Air Force Bases.

Operating income of \$16.8 million for the nine months ended September 29, 2017 as compared to operating loss of \$15.5 million for the nine months ended September 30, 2016 was primarily due to the transition of the T-6 COMBS contract to the New T-6 COMBS Bridge contract with more favorable terms, improved performance from the NAWDC contract and the completion of the Sheppard Air Force Base contract. Operating loss of \$15.5 million for the nine months ended September 30, 2016 was primarily due to additional contract loss charges on the T-6 COMBS contract partially offset by continued awards of incentive fees on a U.S. Navy contract.

### AOLC

Revenue of \$447.6 million decreased \$22.1 million, or (4.7)%, for the nine months ended September 29, 2017 primarily due to decreased volume on the INL Air Wing program and the completion of the F2AST contract. The decrease in revenue was partially offset by increased content from the TASM-O contract and the MD530 subcontract.

Operating income of \$49.3 million for the nine months ended September 29, 2017 as compared to \$32.7 million for the nine months ended September 30, 2016 was primarily due to the performance on our Middle East programs, lower legal expenses, a reduction to our allowance for doubtful accounts and the completion of certain restructuring activities and certain contracts. These increases were partially offset by volume on the INL Air Wing program. Operating income of \$32.7 million for the nine months ended September 30, 2016 was primarily a result of the addition of higher margin contract option years and a multi-party settlement agreement that resolved underwriters litigation.

***DynLogistics***

Revenue of \$551.8 million increased \$90.6 million, or 19.6%, for the nine months ended September 29, 2017 primarily due to the increased scope on both the LOGCAP IV program and the ALiSS contract and the new G4 Worldwide Logistics Support contract.

Operating income of \$50.4 million for the nine months ended September 29, 2017 as compared to \$49.8 million for the nine months ended September 30, 2016 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. Operating income of \$49.8 million for the nine months ended September 30, 2016 was primarily due to a favorable settlement on a legacy program and productivity gains on certain fixed-price contracts.

## ***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 7 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.

We believe our cash flow from operations and our available borrowings will be adequate to meet our liquidity 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") is dependent upon our meeting 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 loss of our ability to access our Revolver, 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 a provision that would have resulted in all outstanding principal under the term loan facility (the "Term Loan") and the Revolver maturing on May 8, 2017 if by May 8, 2017, all of the outstanding principal of the 10.375% Senior Notes due 2017 (the "Senior Unsecured Notes") had not been extended to a date that is on or after October 6, 2020, or all of the outstanding principal and accrued and unpaid interest of the Senior Unsecured Notes had not been paid in full with proceeds of new equity, capital contributions or new unsecured debt that is expressly subordinated to the New Senior Credit Facility. On March 24, 2017, the Company received the Support Letter from Cerberus committing to fund the redemption of all then-outstanding Senior Unsecured Notes on or before May 5, 2017 with the proceeds of new equity or capital contributions. On April 21, 2017, the Company received the proceeds of the \$40.6 million Capital Contribution from Holdings' direct parent company, DefCo Holdings, Inc. On April 24, 2017, DynCorp International completed the redemption of all of the Senior Unsecured Notes using the proceeds of the Capital Contribution, and therefore, the maturity dates of the Term Loan and the Revolver remain at July 7, 2020 and July 7, 2019, respectively.

Availability under the Revolver during the two years immediately after June 15, 2016 is subject to a condition that, if, at the time of a request for revolving loans or an issuance of a letter of credit, the aggregate principal amount of revolving loans plus the face amount of outstanding letters of credit exceeds 50% of the aggregate amount of Revolver commitments at such time, the aggregate amount of unrestricted cash and cash equivalents of DynCorp International and its subsidiaries (giving pro forma effect to requested revolving loans and any application of proceeds thereof or other cash on hand) may not exceed \$60 million.

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, net of customer advances, as of the balance sheet date. DSO was 56 days as of both September 29, 2017 and December 31, 2016 as we continued to focus on managing our customer payment cycles. 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 29, 2017	September 30, 2016
Net cash provided by operating activities	\$ 10,744	\$ 24,677
Net cash provided by (used in) investing activities	5,784	(19,848)
Net cash used in financing activities	(24,089)	(14,672)

### Cash Flows

Cash provided by operating activities during the nine months ended September 29, 2017 was \$10.7 million compared to \$24.7 million during the nine months ended September 30, 2016. Cash provided by operating activities during the nine months ended September 29, 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 provided by operating activities during the nine months ended September 30, 2016 was primarily due to our changes in working capital, driven by a reduction in accounts receivable as well as an increase in accounts payable and accrued expenses.

Cash provided by investing activities during the nine months ended September 29, 2017 was \$5.8 million compared to cash used in investing activities of \$19.8 million during the nine months ended September 30, 2016. Cash provided by investing activities during the nine months ended September 29, 2017 was primarily due to restricted cash proceeds received from the Cerberus 3L Notes restricted to pay fees and expenses related to the Company's Global Advisory Group and returns of capital from Babcock and GLS, partially offset by purchases of capital assets and contributions to GLS. Cash used in investing activities during the nine months ended September 30, 2016 was primarily due to restricted cash proceeds received from the Cerberus 3L Notes restricted to pay fees and expenses related to the Company's Global Advisory Group, purchases of capital assets and contributions to GLS.

Cash used in financing activities during the nine months ended September 29, 2017 was \$24.1 million compared to \$14.7 million during the nine months ended September 30, 2016. Cash used in financing activities during the nine months ended September 29, 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. Cash used in financing activities during the nine months ended September 30, 2016 was primarily the result of the completion of the Refinancing Transactions.

### 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 29, 2017, the New Senior Credit Facility provided for the following:

- a \$182.3 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 29, 2017 and December 31, 2016, the available borrowing capacity under the New Senior Credit Facility was approximately \$49.4 million and \$48.0 million, respectively, and included \$36.5 million and \$37.8 million, respectively, in issued letters of credit. Amounts borrowed under the Revolver are used to fund operations. As of September 29, 2017 and December 31, 2016 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 7 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further discussion.

Availability under the Revolver during the two years immediately after June 15, 2016 will be subject to a condition that, if, at the time of a request for revolving loans or an issuance of a letter of credit, the aggregate principal amount of revolving loans plus the face amount of outstanding letters of credit exceeds 50% of the aggregate amount of Revolver commitments at such time, the aggregate amount of unrestricted cash and cash equivalents of DynCorp International and its subsidiaries (giving pro forma effect to requested revolving loans and any application of proceeds thereof or other cash on hand) may not exceed \$60 million.

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 7 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.

On June 15, 2016, \$415.7 million principal amount of the Senior Unsecured Notes were exchanged for \$45.0 million cash and \$370.6 million principal amount of newly issued New Notes. The remaining \$39.3 million principal amount of 10.375% Senior Unsecured Notes were redeemed on April 24, 2017 using the proceeds received from the Capital Contribution on April 21, 2017.

Interest on the New 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 New Notes is payable in cash and the PIK Interest on the New Notes is payable in kind, each semi-annually in arrears on January 1 and July 1, commencing on July 1, 2016. See Note 7 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information related to the New Notes.

The weighted-average interest rate as of September 29, 2017 for our debt, excluding the Cerberus 3L Notes, was 10.5%, excluding the impact of deferred financing fees. There were no interest rate hedges in place during the three and nine months ended September 29, 2017.

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. As of the second quarter of calendar year 2017, the proceeds of the Cerberus 3L notes were fully utilized to pay fees and expenses (including reimbursement of out-of-pocket expenses) in support of or related to the Company's Global Advisory Group.

#### *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 6.50 to 1.0 for the period ended September 29, 2017. 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 1.30 to 1.0 for the period ended September 29, 2017.

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 of not less than \$60 million through the fiscal quarter ending December 31, 2017, and of not less than \$50 million thereafter. 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 New 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 New Notes.

We closely evaluate our expected ability to remain in compliance with our financial maintenance covenants. As of September 29, 2017 and December 31, 2016, 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 New 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 (loss) 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 New 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 (loss) 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 29, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Net income (loss) attributable to Delta Tucker Holdings, Inc.	\$ 4,386	\$ (7,271)	\$ 9,575	\$ (47,151)
Provision (benefit) for income taxes	3,338	(3,543)	11,677	7,681
Interest expense, net of interest income	17,134	20,113	53,589	53,458
Depreciation and amortization <sup>(1)</sup>	9,320	9,122	27,245	26,799
EBITDA	34,178	18,421	102,086	40,787
Certain income/expense or gain/loss adjustments per our credit agreements <sup>(2)</sup>	3,409	(331)	2,171	8,080
Employee share based compensation, severance, relocation and retention expense <sup>(3)</sup>	296	339	1,771	1,000
Cerberus fees <sup>(4)</sup>	479	762	1,755	2,394
Global Advisory Group expenses <sup>(5)</sup>	—	7,499	6,943	17,256
Other <sup>(6)</sup>	(247)	(220)	(817)	(504)
Adjusted EBITDA	\$ 38,115	\$ 26,470	\$ 113,909	\$ 69,013

(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 impairment of investment in affiliates in the third quarter of 2016 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 29, 2017 and September 30, 2016, respectively, which we are 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.

During the nine months ended September 29, 2017, we updated our critical accounting policies to simplify the test for goodwill impairment in accordance with Accounting Standards Update No. 2017-04. 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 will be performed to identify any possible impairment in the period in which the event is identified. Prospectively, in accordance with ASU 2017-04, we will no longer perform Step 2 from the goodwill impairment test.

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, 2016. 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, 2016 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 29, 2017, 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, 2016.

#### **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 29, 2017, we had 69.3% of our debt at a fixed rate and 30.7% at a variable rate. Our 11.875% senior secured second lien notes and Cerberus 3L notes, which had an aggregate principal amount of \$379.0 million and \$32.0 million, respectively, outstanding as of September 29, 2017, represent our fixed rate debt. As of December 31, 2016, our fixed rate debt also included the 10.375% Senior Unsecured Notes, which had an aggregate principal amount of \$39.3 million outstanding as of December 31, 2016. The 10.375% Senior Unsecured Notes were redeemed on April 24, 2017.

Our Term Loan and Revolver represent our variable rate debt. As of September 29, 2017 and December 31, 2016, the balance of our Term Loan was \$182.3 million and \$207.4 million, respectively, and we had no borrowings under the Revolver. Borrowings under our variable rate debt bear interest, based on our option, at a rate per annum equal to LIBOR plus the applicable rate or the Base Rate plus the applicable rate. As of September 29, 2017, both the Term Loan and the Revolver have an interest rate floor of 1.75% for LIBOR borrowings and 2.75% for Base Rate borrowings. The Term Loan bears interest, based on 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 Term Loan interest rate at September 29, 2017 was made up of a 6.00% applicable rate plus a 1.75% floor totaling 7.75%. The Revolver bears interest, based on 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. Under the New



Senior Credit Facility, if LIBOR increases over 1.75% and we continue to have no outstanding Revolver borrowings, each 25 basis point increase would result in \$0.5 million in additional interest expense annually.

As of December 31, 2016, we had 68.1% of our debt at a fixed rate and 31.9% at a variable rate. Our 10.375% Senior Unsecured Notes, which were redeemed on April 24, 2017, our 11.875% senior secured second lien New Notes and Cerberus 3L Notes, which had an aggregate principal amount of \$39.3 million, \$373.4 million and \$30.8 million, respectively, outstanding as of December 31, 2016, represented our fixed rate debt. Our Term Loan and Revolver represented our variable rate debt as of December 31, 2016.

As of December 31, 2016, both the Term Loan and the Revolver had an interest rate floor of 1.75% for LIBOR borrowings and 2.75% for Base Rate borrowings. The Term Loan interest rate at December 31, 2016 was made up of a 6.00% applicable rate plus a 1.75% floor totaling 7.75%.

#### **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 8 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, 2016.

**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, 2017

**DELTA TUCKER HOLDINGS, INC.**

/s/ William T. Kansky

\_\_\_\_\_  
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, 2017

/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, 2017

/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 29, 2017, 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, 2017

/s/ George Krivo

---

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 29, 2017, 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, 2017

/s/ William T. Kansky

\_\_\_\_\_  
William T. Kansky

Senior Vice President and Chief Financial Officer



