Engility Holdings, Inc.
Form 10-K/A
November 06, 2015

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

FORM 10-K/A
(Amendment No. 1)

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x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
OR
o 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: 001-35487

ENGILITY HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	45-3854852 (I.R.S. Employer Identification No.)
3750 Centerview Drive Chantilly, VA	20151
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (703) 708-1400
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value per share	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x
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 x No o
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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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.

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

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

The aggregate market value of Engility Holdings, Inc. common stock held by non-affiliates of the registrant as of June 30, 2014 was approximately $662,190,776.

As of November 2, 2015, there were issued and outstanding 36,734,601 shares of common stock, par value $0.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K (this “Amended Form 10-K”) of Engility Holdings, Inc. (the “Company”) for the fiscal year ended December 31, 2014 (Commission File Number 001-35487) is being filed to amend and restate in their entirety the following items of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 that was filed on March 4, 2015 (the “Original Filing”): (i) Item 8 of Part II, “Financial Statements and Supplementary Data,” (ii) Item 9A of Part II, “Controls and Procedures” and (iii) Item 15 of Part IV, “Exhibits, Financial Statement Schedules”.

Except as described above, this Amended Form 10-K does not amend, update or change any other items or disclosures in the Original Filing and does not purport to reflect any information or events subsequent to the filing date of the Original Filing. As such, this Amended Form 10-K speaks only as of the date of the Original Filing, and the Registrant has not undertaken to amend, supplement or update any information contained in the Original Filing to give effect to any subsequent events. Accordingly, this Amended Form 10-K should be read in conjunction with the Registrant’s filings made with the Securities and Exchange Commission subsequent to the filing of the Original Filing, including any amendment to those filings.

Restatement of Conclusion Regarding Disclosure Controls and Procedures and Internal Control over Financial Reporting

At the time of the Original Filing, our chief executive officer (“CEO”) (principal executive officer) and the chief financial officer (“CFO”) (principal financial officer), concluded that our disclosure controls and procedures were effective as of December 31, 2014. Additionally, at the time of the Original Filing, our management concluded that our internal control over financial reporting was effective as of December 31, 2014. Subsequent to that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures and internal controls over financial reporting were not effective as of December 31, 2014 because of the material weaknesses in our internal control over financial reporting as described in Item 9A of Part II "Controls and Procedures." As a result, we have restated Item 9A of Part II “Controls and Procedures” to include disclosure of the material weaknesses. Notwithstanding the material weaknesses in internal control over financial reporting, these control deficiencies did not result in a misstatement in the finite-lived intangible assets or related financial disclosures. Accordingly, our management, including our CEO and CFO, has concluded that the consolidated financial statements included in the Original Filing present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Engility Holdings, Inc.:
In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, changes in stockholders’ equity and cash flows present fairly, in all material respects, the financial position of Engility Holdings, Inc. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Management and we previously concluded that the Company maintained effective internal control over financial reporting as of December 31, 2014. However, management has subsequently determined that material weaknesses in internal control over financial reporting existed as of that date related to (i) the evaluation of the identifiable finite-lived intangible assets for impairment at the asset group level and the appropriateness of the remaining useful lives in accordance with ASC 350-30-35-9 and (ii) the evaluation of the retention rate assumption used to value acquired contractual customer relationship intangible assets. Accordingly, management’s report has been restated and our opinion on internal control over financial reporting, as presented herein, is different from that expressed in our previous report. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because material weaknesses in internal control over financial reporting existed as of that date related to (i) the evaluation of the carrying value of identifiable finite-lived intangible assets and (ii) the evaluation of the retention rate assumption used to value acquired contractual customer relationship intangible assets. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses referred to above are described in Management’s Report on Internal Control Over Financial Reporting appearing under Item 9A. We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the 2014 consolidated financial statements, and our opinion regarding the effectiveness of the Company’s internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2014 and 2013). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that

transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded Dynamics Research Corporation from its assessment of internal control over financial reporting as of December 31, 2014 because it was

acquired by the Company in a purchase business combination during 2014. We have also excluded Dynamics Research Corporation from our audit of internal control over financial reporting. Dynamics Research Corporation is a wholly-owned subsidiary whose total assets and total revenues represent 22% and 17%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2014.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
March 3, 2015, except with respect to our opinion on internal control over financial reporting insofar as it relates to the matter described in the penultimate paragraph of Management's Report on Internal Control Over Financial Reporting, as to which the date is November 6, 2015

ENGILITY HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31, 2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	$7,123	$29,003
Receivables, net	286,403	286,272
Other current assets	27,784	25,892
Total current assets	321,310	341,167
Property, plant and equipment, net	19,839	11,895
Goodwill	644,554	477,604
Identifiable intangible assets, net	123,549	92,205
Other assets	13,384	7,183
Total assets	$1,122,636	$930,054
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$13,750	$10,000
Accounts payable, trade	49,121	28,286
Accrued employment costs	47,824	49,582
Accrued expenses	71,582	63,843
Advance payments and billings in excess of costs incurred	22,300	19,087
Deferred income taxes, current and income taxes payable	9,810	10,693
Other current liabilities	21,098	17,928
Total current liabilities	235,485	199,419
Long-term debt	279,500	187,500
Income tax payable	79,713	77,494
Other liabilities	51,185	22,487
Total liabilities	645,883	486,900
Commitments and contingencies (see Note 10)		
Equity:		
Preferred stock, par value $0.01 per share, 25,000 shares authorized, none issued or outstanding as of December 31, 2014 or December 31, 2013	—	—
Common stock, par value $0.01 per share, 175,000 shares authorized, 17,592 and 17,238 shares issued and outstanding as of December 31, 2014 and 2013, respectively	176	172
Additional paid in capital	770,764	761,119
Accumulated deficit	(295,543)	(330,911)
Accumulated other comprehensive loss	(9,018)	—
Non-controlling interest	10,374	12,774
Total equity	476,753	443,154
Total liabilities and equity	$1,122,636	$930,054

See notes to Consolidated and Combined Financial Statements

ENGILITY HOLDINGS, INC.
CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31, 2014	2013	2012

Revenue	$1,367,091	$1,407,372	$1,555,310
Revenue from affiliated entities	—	—	100,034
Total revenue	1,367,091	1,407,372	1,655,344
Costs and expenses			
Cost of revenue	1,169,281	1,214,581	1,315,352
Cost of revenue from affiliated entities	—	—	100,034
Total cost of revenue	1,169,281	1,214,581	1,415,386
Selling, general and administrative expenses	114,890	84,635	142,440
Goodwill impairment charge	—	—	426,436
Total costs and expenses	1,284,171	1,299,216	1,984,262
Operating income (loss)	82,920	108,156	(328,918)
Interest expense, net	12,799	21,648	10,857
Other income, net	526	793	136
Income (loss) from continuing operations before income taxes	70,647	87,301	(339,639)
Provision for income taxes	30,637	32,584	5,156
Income (loss) from continuing operations	40,010	54,717	(344,795)
Loss from discontinued operations before income taxes	—	—	(1,017)
Benefit for income taxes	—	—	(391)
Loss from discontinued operations, net of tax	—	—	(626)
Net income (loss)	$40,010	$54,717	$(345,421)
Less: Net income attributable to non-controlling interest	4,587	5,190	4,952
Net income (loss) attributable to Engility	$35,423	$49,527	$(350,373)
Net Income (loss) per share allocable to Engility Holdings, Inc. common shareholders - basic			
Net income (loss) per share from continuing operations less non-controlling interest	$2.07	$2.94	$(21.48)
Net loss per share from discontinued operations	$—	$—	$(0.04)
Net income (loss) per share attributable to Engility	$2.07	$2.94	$(21.52)
Net Income (loss) per share allocable to Engility Holdings, Inc. common shareholders - diluted			
Net income (loss) per share from continuing operations less non-controlling interest	$1.97	$2.81	$(21.48)
Net loss per share from discontinued operations	$—	$—	$(0.04)
Net income (loss) per share attributable to Engility	$1.97	$2.81	$(21.52)
Weighted average number of shares outstanding			
- Basic	17,100	16,873	16,281
- Diluted	18,018	17,653	16,281

See notes to Consolidated and Combined Financial Statements

ENGILITY HOLDINGS, INC.
CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31,		
	2014	2013	2012
Net income (loss)	$40,010	$54,717	$(345,421)
Pension liability adjustment, net of tax benefit of $5,782	(9,018)	—	—
Comprehensive income (loss)	30,992	54,717	(345,421)
Less: Net income attributable to non-controlling interest	4,587	5,190	4,952
Comprehensive income (loss) available to Engility	$26,405	$49,527	$(350,373)

See notes to Consolidated and Combined Financial Statements

ENGILITY HOLDINGS, INC.
CONSOLIDATED AND COMBINED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2014, 2013 and 2012
(in thousands)

	Common Stock		Prior Parent Company Investment	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Non-Controlling Interest	Total Stockholders' Equity
	Shares	Amount						
Balance at January 1, 2012	—	$—	$1,083,237	$—	$—	$—	$ 10,366	$1,093,603
Issuance of common stock in connection with Spin-Off	16,118	161	—	(161)	—	—	—	—
Conversion of prior parent company investment to additional paid-in capital	—	—	(748,335)	750,113	—	—	—	1,778
Share-based compensation	501	6	—	6,239	—	—	—	6,245
Proceeds from share-based payment arrangements	84	1	—	1,225	—	—	—	1,226
Payment of employee withholding taxes on restricted stock units	—	—	—	(1,778)	—	—	—	(1,778)
Net transfer to prior parent company, including discontinued operations	—	—	(364,967)	—	—	—	—	(364,967)
Net income from January 1, 2012 to July 17, 2012	—	—	30,065		—	—	—	30,065
Net loss from July 18, 2012 to December 31, 2012	—	—	—	—	(380,438)	—	—	(380,438)
Net income attributable to non-controlling member	—	—	—	—	—	—	4,952	4,952
Distribution to non-controlling interest member	—	—	—	—	—	—	(2,375)	(2,375)
Balance at December 31, 2012	16,703	$168	$—	$755,638	$(380,438)	$—	$ 12,943	$388,311
Conversion of prior parent company	—	—	—	(2,934)	—	—	—	(2,934)

investment to additional paid-in capital								
Share-based compensation	479	3	—	8,691	—	—	—	8,694
Proceeds from share-based payment arrangements	56	1	—	936	—	—	—	937
Payment of employee withholding taxes on restricted stock units	—	—	—	(1,106)	—	—	—	(1,106)
Net income	—	—	—	—	49,527	—	—	49,527
Net income attributable to non-controlling member	—	—	—	—	—	—	5,190	5,190
Distribution to non-controlling interest member	—	—	—	—	—	—	(5,359)	(5,359)
Other	—	$—	$—	$(106)	$—	$ —	$ —	$ (106)
Balance at December 31, 2013	17,238	$172	$—	$761,119	$(330,911)	$ —	$ 12,774	$443,154
Share-based compensation	272	3	—	8,830	—	—	—	8,833
Proceeds from share-based payment arrangements	82	1	—	1,479	—	—	—	1,480
Payment of employee withholding taxes on restricted stock units	—	—	—	(2,371)	—	—	—	(2,371)
Excess tax deduction from share-based payment arrangements	—	—	—	1,707	—	—	—	1,707
Net income	—	—	—	—	35,423	—	—	35,423
Net income attributable to non-controlling member	—	—	—	—	—	—	4,587	4,587
Distribution to non-controlling interest member	—	—	—	—	—	—	(6,987)	(6,987)
Other comprehensive loss	—	—	—	—	—	(9,018)	—	(9,018)
Other	—	—	—	—	(55)	—	—	(55)
Balance at December 31, 2014	17,592	$176	$—	$770,764	$(295,543)	$ (9,018)	$ 10,374	$476,753

See notes to Consolidated and Combined Financial Statements

ENGILITY HOLDINGS, INC.
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2014	2013	2012
Operating activities:			
Net income (loss)	$40,010	$54,717	$(345,421)
Less: Loss from discontinued operations, net of tax	—	—	(626)
Income (loss) from continuing operations	40,010	54,717	(344,795)
Goodwill impairment charge	—	—	426,436
Share-based compensation	8,830	8,691	7,487
Depreciation and amortization	20,953	12,106	16,410
Amortization of bank debt fees	1,634	6,264	1,662
Deferred income tax benefit	(1,355)	(1,377)	(63,375)
Changes in operating assets and liabilities, excluding acquired amounts:			
Receivables	43,115	79,964	28,606
Other current assets	4,611	7,590	(122)
Accounts payable, trade	5,399	11,425	(32,574)
Accrued employment costs	(18,603)	(13,696)	(9,263)
Accrued expenses	3,004	(13,614)	3,351
Advance payments and billings in excess of costs incurred	2,904	(8,443)	1,944
Other liabilities	(8,143)	7,213	(1,783)
Net cash provided by operating activities from continuing operations	102,359	150,840	33,984
Investing activities:			
Purchase of business, net of cash acquired	(207,250)	—	—
Capital expenditures	(5,436)	(3,336)	(2,164)
Proceeds from sale of property, plant, and equipment	—	—	680
Net cash used in investing activities from continuing operations	(212,686)	(3,336)	(1,484)
Financing activities:			
Gross borrowings from issuance of long-term debt	75,000	200,000	335,000
Repayments of long-term debt	(13,750)	(337,500)	—
Gross borrowings from revolving credit facility	482,500	196,000	30,690
Repayments of revolving credit facility	(448,000)	(196,000)	(30,690)
Debt issuance costs	(1,131)	(2,493)	(11,005)
Distributions to non-controlling interest member	(6,987)	(5,359)	(2,374)
Proceeds from share-based payment arrangements	1,479	936	1,225
Excess tax deduction on share-based payment arrangements	1,707	—	—
Payment of employee withholding taxes on share-based compensation	(2,371)	(1,106)	(1,778)
Dividend to prior parent company	—	—	(335,000)
Net transfers to prior parent company	—	—	(5,235)
Net cash provided by (used in) financing activities from continuing operations	88,447	(145,522)	(19,167)
Discontinued Operations:			
Net cash provided by operating activities	—	—	25,952
Net cash used in financing activities	—	—	(25,974)
Cash balance of discontinued operations	—	—	22
Net cash provided by discontinued operations	—	—	—

Net increase (decrease) in cash and cash equivalents	(21,880)	1,982	13,333
Cash and cash equivalents, beginning of the year	29,003	27,021	13,688
Cash and cash equivalents, end of the year	$7,123	$29,003	$27,021
Supplemental cash flow disclosure:			
Cash paid for taxes	$20,256	$31,503	$15,972
Cash paid for interest	$11,470	$14,623	$9,167

See notes to Consolidated and Combined Financial Statements

ENGILITY HOLDINGS, INC.
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(amounts in thousands except per share data or where specified)

1. Basis of Presentation

Spin-Off from L-3: On July 17, 2012, L-3 Communications Holdings, Inc. completed the spin-off of Engility Holdings, Inc. from L-3 (the Spin-Off). We retained the systems engineering and technical assistance (SETA), training and operational support services businesses that were previously part of L-3’s Government Services segment. For the periods prior to July 17, 2012, Engility Holdings was a subsidiary of L-3 Communications Holdings, Inc. Unless the context indicates otherwise, (i) references to Engility, the Company, we, us or our refer to Engility Holdings, Inc. and its subsidiaries and (ii) references to L-3 refer to L-3 Communications Holdings and its subsidiaries.

On July 17, 2012, our common stock was distributed, on a pro rata basis, to L-3’s stockholders of record as of the close of business on July 16, 2012. Our common stock began “regular-way” trading on the New York Stock Exchange on July 18, 2012 under the symbol “EGL.”

Description of Business: Engility, through its predecessors, has provided mission-critical services to the U.S. government for over five decades. For the year ended December 31, 2014, our customers include the U.S. Department of Defense (DoD), U.S. Department of Justice (DoJ), U.S. Agency for International Development (USAID), U.S. Department of State (DoS), Federal Aviation Administration (FAA), Department of Homeland Security (DHS), and allied foreign governments. We attribute the strength of our customer relationships to our singular focus on services, our industry-leading capabilities in program planning and management, superior past performance, and the experience of our people and their commitment to our customers’ missions. As of December 31, 2014, we employed approximately 6,600 individuals globally and operated in over 50 countries. We are led by a seasoned executive team, which is composed of industry, U.S. military and government veterans.

We offer a broad range of services, including specialized technical consulting, program and business support, engineering and technology lifecycle support, information technology modernization and sustainment, supply chain services and logistics management and training and education to the U.S. government worldwide.

Summary of Significant Accounting Policies

Principles of Consolidation and Combination and Basis of Presentation: The Consolidated and Combined Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and reflect the financial position, results of operations and cash flows of Engility as a separate stand-alone entity beginning July 18, 2012. For the period presented prior to the Spin-Off, the accompanying combined financial statements of Engility are derived from the accounting records of L-3 as if it operated on a stand-alone basis. All significant intercompany transactions between the combined businesses that comprise Engility were eliminated.

For the period prior to the Spin-Off, the Combined Statements of Operations include expense allocations for the corporate functions provided to the Company by L-3, including, but not limited to, executive management, finance, legal, human resources, employee benefits administration, treasury, tax, internal audit, information technology, communications, ethics and compliance, insurance, and share-based compensation. These expenses were allocated to the Company for such periods on the basis of direct usage when identifiable, with the remainder allocated on the basis of revenue or headcount. We believe these allocations have been made on a consistent basis and are a reasonable reflection of the utilization of the services received by, or benefits provided to Engility by L-3 during the periods presented. Management believes, based on the current and historical organizational and information technology structure, that the costs allocated by L-3 approximate the costs required for Engility to operate as a stand-alone public company. However, actual costs that may have been incurred, had Engility been a stand-alone company prior to the Spin-Off, would have depended on a number of factors, including the stand-alone organizational structure, what functions were outsourced or performed by employees and strategic decisions made in areas such as information technology and infrastructure.

For the period prior to the Spin-Off, transactions between Engility and L-3 have been included in the Combined Financial Statements, were considered to be effectively settled for cash at the time the transaction is recorded, and therefore are included as financing activities in the Combined Statements of Cash Flows.
See Note 7 for a further description of the transactions between Engility and L-3.
Non-controlling Interest: Engility holds a 50.1% majority interest in Forfeiture Support Associates J.V. (FSA). The results of operations of FSA are included in Engility's Consolidated and Combined Statements of Operations. The non-controlling interest reported on the Consolidated Balance Sheets represents the portion of FSA's equity that is attributable to the non-controlling interest.

ENGILITY HOLDINGS, INC.
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(amounts in thousands except per share data or where specified)

Accounting Estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates using assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. The most significant of these estimates include the recoverability, useful lives and valuation of identifiable intangible assets and goodwill, income taxes and contingencies. Actual results experienced by the Company may differ materially from management's estimates.

Revenue Recognition: Substantially all of our revenue is generated from written contractual revenue arrangements. A substantial majority of our contractual (revenue) arrangements have a period of performance of 12 months or less and, given their short duration, generally have few contract modifications. The sales price for our revenue arrangements are either cost-plus fixed fee, cost-plus award fee, time-and-material or fixed-price type. Depending on the contractual scope of work, we utilize either accounting standards for revenue arrangements with commercial customers or contract accounting standards for these contracts.

Revenue and profits on cost-plus type contracts are recognized as allowable costs are incurred on the contract, at an amount equal to the allowable costs plus the earned fees on those costs as the Company becomes contractually entitled to reimbursement of the costs and the applicable fees. The fee on a cost-plus type contract is fixed or variable based on the contractual fee arrangement. Cost-plus type contracts with award fee provisions are our primary variable contract fee arrangement. Award fees provide for a fee based on actual performance relative to contractually specified criteria. Revenue and profit on award fees are recorded when awarded by the customer.

Revenue and profits on time-and-material type contracts are recognized on the basis of direct labor hours expended multiplied by the contractual fixed rate per hour, plus the actual costs of materials and other direct non-labor costs.

Revenue for fixed-price service contracts that do not contain measurable units of work performed are generally recognized on a proportional-performance basis over the contractual service period, unless evidence suggests that the revenue is earned, or obligations are fulfilled, in a different manner. Revenue on fixed-price service contracts that contain measurable units of work performed is generally recognized when the units of work are completed.

Revenue for fixed-price type contracts covered by contract accounting standards are recognized using a ratio of actual cumulative costs incurred to total estimated costs at completion of the contract multiplied by the total estimated contract revenue, less cumulative revenue recognized in prior periods. Contract accounting requires significant judgment relative to assessing risks, estimating contract revenue and costs, and making assumptions for schedule and technical issues. A single estimated total profit margin is used to recognize profit. Losses on contracts are recognized in the period in which they become evident. The impact of revisions of contract estimates, which may result from contract modifications, performance or other reasons, are recognized on a cumulative catch-up basis in the period in which the revisions are made.

Revenue and profit in connection with contracts to provide services to the U.S. government that contain collection risk because the contracts are incrementally funded and subject to the availability of funds appropriated, are deferred until a contract modification is obtained, indicating that adequate funds are available to the contract or task order.

Cost of Revenue: Cost of revenue primarily consists of compensation expenses for program personnel, the fringe benefits associated with this compensation, other direct expenses incurred to complete programs, including cost of materials and subcontract efforts.

Selling, General, and Administrative Expenses: Selling, general and administrative expenses are expensed as incurred.

Share-Based Compensation: Certain key employees of Engility participate in share-based compensation plans. We follow the fair value based method of accounting for share-based employee compensation, which requires us to expense all share-based employee compensation. We issue performance shares, restricted stock units and non-qualified stock options under our existing plans to employees of the Company. Compensation expense is recognized for the entire award, net of estimated forfeitures, on a straight line basis over the requisite service period, which is generally three years, based on the grant date fair value.

Income Taxes: Prior to the Spin-Off, our operations had historically been included in L-3's U.S. Federal and state income tax returns and all income taxes have been paid by L-3. Income taxes are presented in these Consolidated and Combined Financial Statements as if we filed our own tax returns on a standalone basis. Following the Spin-Off, we file our income taxes as a stand-alone entity.

We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between the financial statement carrying amounts of

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assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a tax rate change on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. We record valuation allowances to reduce net deferred tax assets to the amount considered more likely than not to be realized. Changes in estimates of future taxable income can materially change the amount of such valuation allowances. We also recognize liabilities for uncertain tax positions when it is more likely than not that a tax position will not be sustained upon ultimate settlement with a taxing authority. If a tax position does not meet the "more-likely-than-not" recognition threshold, despite our belief that our filing position is supportable, the benefit of that tax position is not recognized. At December 31, 2014, we had deferred tax assets of $96 million and deferred tax liabilities of $98 million. Deferred income taxes are determined separately for each of our tax-paying entities in each tax jurisdiction. In assessing the need for a valuation allowance, we considered all available positive and negative evidence, including the future reversal of existing temporary timing differences (deferred tax liabilities), taxable income in carryback years, the feasibility of tax planning strategies and estimated future taxable income. Based on our deferred tax liabilities and our estimates of the amounts and timing of future taxable income, we believe that it is more likely than not that we will be able to realize our deferred tax assets. A change in the ability of our operations to continue to generate future taxable income could affect our ability to realize the future tax deductions underlying our deferred tax assets, and require us to provide a valuation allowance against our deferred tax assets. The recognition of a valuation allowance would result in a reduction to net income and, if significant, could have a material impact on our effective tax rate, results of operations and financial position in any given period.
Our accounting policy is to record the highest amount of tax benefit for uncertain tax positions that meet the recognition criteria based on the Company's evaluation of the facts, circumstances and information available as of the reporting date. For uncertain tax positions that do not meet the recognition criteria, we record either a current or long term tax liability based on the timing of when the uncertain tax position is expected to be resolved. We include any interest and penalties associated with uncertain tax positions in our income tax provision.
Cash and Cash Equivalents: Cash and cash equivalents represent cash that is directly attributable to the Company. Cash equivalents consist of highly liquid investments with an original maturity of three months or less at the time of purchase.
Property, Plant and Equipment: Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is computed by applying the straight-line method to the estimated useful lives of the related assets. Useful lives for buildings are 30 years. Useful lives for leasehold improvements range from 5 to 23 years and useful lives for machinery, equipment, furniture and fixtures range from 2 to 15 years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvements. When property or equipment is retired or otherwise disposed of, the net book value of the asset is removed from our balance sheet and the net gain or loss is included in the determination of operating income. Maintenance and repairs are charged to expense as incurred.
Goodwill: We record goodwill in connection with the acquisition of businesses when the purchase price exceeds the fair values of the assets acquired and liabilities assumed. Generally, the largest intangible assets from the businesses that we acquire are the assembled workforces, which includes the human capital of the management, administrative, marketing and business development, engineering and technical employees of the acquired businesses. The success of our businesses, including our ability to retain existing business (revenue arrangements) and to compete successfully for and win new business (revenue arrangements), is primarily dependent on the management, marketing and business development, contracting, engineering and technical skills and knowledge of our employees, rather than on productive capital (plant and equipment, and technology and intellectual property). Additionally, for a significant portion of its businesses, our ability to attract and retain employees who have U.S. government security clearances, particularly those of top-secret and above, is critical to our success, and is often a prerequisite for retaining existing revenue

arrangements and pursuing new ones. Therefore, because intangible assets for assembled workforces are part of goodwill in accordance with the accounting standards for business combinations, the substantial majority of the intangible assets for our business acquisitions are recognized as goodwill. Additionally, the value assigned to goodwill for our business acquisitions also includes the value that we expect to realize from cost reduction measures that we implement for our acquired businesses.

The carrying value of goodwill is not amortized, but is tested for impairment annually as of November 30 as well as whenever events or changes in circumstances indicate that the carrying amount may not be recoverable using a two-step process for each reporting unit. A reporting unit is an operating segment, as defined by the segment reporting accounting standards, or a component of an operating segment. A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and is reviewed by operating segment management. As of January 1, 2013, we operate in one reporting unit. The first step in the process is to identify any potential impairment by comparing the carrying value of a reporting unit including goodwill and its fair value. We determine the fair value of our

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reporting unit using a discounted cash flow valuation approach. If a potential impairment is identified, the second step is to measure the impairment loss by comparing the implied fair value of goodwill with the carrying value of goodwill of the reporting unit.

Identifiable Intangible Assets: As part of the accounting for our business acquisitions, identifiable intangible assets are recognized as assets if they arise from contractual or other legal rights, or if they are capable of being separated or divided from the acquired business and sold, transferred, licensed, rented or exchanged. We do not recognize any intangible assets apart from goodwill for the assembled workforces of our business acquisitions.

Identifiable intangible assets include customer contractual relationships, technology and favorable leasehold interests. The initial measurement of these intangible assets is based on their fair values. The most significant identifiable intangible asset that is separately recognized for our business acquisitions is customer contractual relationships. All of our customer relationships are established through written customer contracts (revenue arrangements). The fair value for customer contractual relationships is determined, as of the date of acquisition, based on estimates and judgments regarding expectations for the estimated future after-tax earnings and cash flows (including cash flows for working capital) arising from the follow-on revenue on contract (revenue arrangement) renewals expected from the customer contractual relationships over their estimated lives, including the probability of expected future contract renewals and revenue, less a contributory assets charge, all of which is discounted to present value.

Identifiable intangible assets are: (1) tested for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable and (2) amortized over their estimated useful lives as the economic benefits are consumed, ranging from 4 to 28 years.

Defined Benefit Pension Plan: The Company measures plan assets and benefit obligations as of the date of its fiscal year end. Accounting and reporting for the Company's pension plan requires the use of assumptions, including but not limited to, a discount rate and an expected return on assets. These assumptions are reviewed at least annually based on reviews of current plan information and consultation with the Company's independent actuary and the plan's investment advisor. If these assumptions differ materially from actual results, the Company's obligations under the pension plan could also differ materially, potentially requiring the Company to record an additional pension liability. The Company's pension liability is developed from an actuarial valuation, which is performed each year.

Fair Value Measurements: The Company's financial assets and liabilities are measured at fair value which is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. Valuation techniques are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 — Quoted prices for identical instruments in active markets.
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant value drivers are observable.
- Level 3 — Valuations derived from valuation techniques in which significant value drivers are unobservable.

The carrying values of cash and cash equivalents, contract receivables and accounts payable approximate fair value because of the short-term nature of these instruments. The carrying value of the senior term loan approximates fair value because the interest rate is variable and therefore deemed to reflect a market rate of interest.

Accounts Payable: Accounts payable as of December 31, 2014 and 2013 includes $26 million and $1 million of checks outstanding.

Earnings (loss) per Share: Basic EPS are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS reflect the weighted-average effect of all potentially dilutive securities outstanding during the periods. Diluted EPS include the incremental effect of the employee stock purchase plan, restricted stock units, and stock options calculated using the treasury stock method. For the years ended December 31, 2014, 2013, and 2012, 0 shares, 9,266 shares and 139,728, shares, respectively, were not included in

diluted EPS due to their anti-dilutive effects.

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	Year Ended December 31,		
	2014	2013	2012
Net income (loss) attributable to Engility from continuing operations less non-controlling interest	$35,423	$49,527	$(349,747)
Net loss attributable to Engility from discontinued operations	$—	$—	$(626)
Net income (loss) attributable to Engility	$35,423	$49,527	$(350,373)
Weighted average number of shares outstanding (in thousands)—Basic	17,100	16,873	16,281
Dilutive effect of share-based compensation outstanding after application of the treasury stock method	918	780	—
Weighted average number of shares outstanding (in thousands)—Diluted	18,018	17,653	16,281
Earnings (loss) per share attributable to Engility—basic			
Net income (loss) per share from continuing operations less non-controlling interest	$2.07	$2.94	$(21.48)
Net income (loss) per share from discontinued operations	$—	$—	$(0.04)
Net income (loss) per share attributable to Engility	$2.07	$2.94	$(21.52)
Earnings (loss) per share attributable to Engility—diluted			
Net income (loss) per share from continuing operations less non-controlling interest	$1.97	$2.81	$(21.48)
Net income (loss) per share from discontinued operations	$—	$—	$(0.04)
Net income (loss) per share attributable to Engility	$1.97	$2.81	$(21.52)

2. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 outlines a single comprehensive model for entities to use when accounting for revenue arising from contracts with customers and supersedes all current revenue recognition guidance, including industry-specific guidance. This new guidance is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016; early adoption is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance. This update could impact the timing and amounts of revenue recognized. Currently, we are evaluating the effect that implementation of this update will have on our consolidated financial position and results of operations upon adoption.

In June 2014, the FASB issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718) - Accounting for Share-based Payments when Terms of an award Provide That a Performance Target Could be Achieved after the Requisite Service Period. The Amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. We do not expect this pronouncement to have a material impact on our financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the financial statements are available to be issued when applicable) and to provide related footnote disclosures in certain circumstances. The guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. We do not believe the

adoption of this guidance will have a significant impact on our consolidated financial statements.

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3. Business Acquisition

On January 31, 2014, we completed the acquisition of DRC pursuant to a definitive agreement dated December 20, 2013. We paid $11.50 per share for DRC, for an aggregate purchase price of approximately $207 million in cash (including the retirement of approximately $86 million of debt of DRC). As a result of the acquisition, DRC is now a wholly-owned subsidiary of Engility.

DRC is a leading provider of innovative management consulting, engineering, technical, information technology services and solutions to Federal and state governments. Founded in 1955 and headquartered in Andover, Massachusetts, DRC had approximately 1,100 employees located throughout the United States as of December 31, 2013.

We acquired DRC to create a stronger, more efficient organization to support our customers with a wider range of specialized technology and mission expertise. This acquisition is consistent with our strategy to expand our addressable market, customer base and capabilities. In addition, it increased our access to additional key contract vehicles, added scale to our business and further diversified our revenue base.

The final allocation of purchase price is as follows:

Cash consideration	$207,250
Receivables	$43,246
Other current assets	2,135
Property, plant and equipment	8,604
Other assets	5,985
Accounts payable, trade	(15,436)
Accrued employment costs	(16,845)
Accrued expenses	(4,735)
Advance payments and billings in excess of costs incurred	(309)
Deferred income taxes, current and income taxes payable	1,208
Other current liabilities	(4,041)
Income tax payable	(800)
Other long-term liabilities	(24,912)
Identifiable intangible assets	46,200
Goodwill	166,950
	$207,250

The goodwill arising from the DRC acquisition consists largely of the specialized nature of the workforce as well as the synergies and economies of scale expected from combining the operations of Engility and DRC and its subsidiaries. The goodwill arising from the DRC acquisition is not tax deductible.

The valuation of the identified intangible assets acquired is summarized below:

	Useful Life (years)	
Customer contractual relationships	16	$42,100
Contractual backlog	1	4,100
Total intangible assets		$46,200

From the date of acquisition through December 31, 2014 , DRC generated $218 million of revenue and pre-tax net income of $9.4 million. DRC's pre-tax net income includes the impact of $6.2 million of amortization of customer contracts and customer relationships, as well as $8.0 million in expenses associated with severance and integration-related costs. Engility incurred expenses of approximately $0.9 million and $0.3 million to acquire DRC during the years ended December 31, 2013 and 2014, respectively, which were included in selling, general and administrative expenses. DRC’s pre-tax net income does not include the impact of acquisition-related expenses

incurred by Engility.

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The following pro forma results of operations have been prepared as though the acquisition of DRC had occurred on January 1, 2013. These pro forma results include adjustments for (1) interest expense and amortization of deferred financing costs on the term loan used to finance the transaction, (2) amortization expense for the identifiable intangible asset determined in the preliminary independent appraisal, (3) the removal of historical DRC amortization and interest expense, and (4) the effect of income taxes on these adjustments. This pro forma information does not purport to be indicative of the results of operations that would have been attained had the acquisition been made as of January 1, 2013, or of results of operations that may occur in the future.

	Year Ended December 31,	
	2014	2013
	(Unaudited)	
Revenue	$1,387,966	$1,681,159
Net income attributable to Engility	$36,579	$47,649
Earnings per share attributable to Engility		
Basic	$2.14	$2.82
Diluted	$2.03	$2.70

4. Receivables

Our receivables principally relate to contracts with the U.S. government and prime contractors or subcontractors of the U.S. government. Revenue from the U.S. government under prime contracts and subcontracts, as compared to total revenue, was approximately 98%, 98%, and 99% for the years ended December 31, 2014, 2013 and 2012, respectively. The components of contract receivables are presented in the table below.

	December 31,	
	2014	2013
Billed receivables	$115,500	$126,041
Unbilled receivables	172,385	161,641
Allowance for doubtful accounts	(1,482)	(1,410)
Total receivables, net	$286,403	$286,272

Unbilled receivables principally consist of amounts to be billed within the next month, generally from cost-plus type contracts and time-and-material type contracts due to the timing of preparation of invoices to customers. Revenue recorded in excess of milestone billings on fixed-price type contracts consist of amounts not expected to be billed within the next month. Such amounts are converted to billed receivables when invoiced to customers according to contractual billing terms, which generally occur when performance milestones are completed. We believe that significantly all of the unbilled contract receivables at December 31, 2014 will be billed and collected within one year. We do not believe that we have significant exposure to credit risk as accounts receivable and the related unbilled amounts are due primarily from the U.S. government. The Company has credit risk with respect to non-U.S. Government customers which comprise less than 5% of total receivables. The allowance for doubtful accounts primarily represents our estimate for exposure to compliance, contractual issues and bad debts related to prime contractors and commercial customers.

The following table details the Allowance for Doubtful Accounts for the years ended December 31, 2014, 2013 and 2012:

	Year ended December 31,		
	2014	2013	2012
Balance at beginning of year	$1,410	$4,054	$2,393
Change to due to discontinued operations	—	—	(210)
Charged to expense	441	563	2,573
Deductions	(369)	(3,207)	(702)

Balance at end of year	$1,482	$1,410	$4,054

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5. Goodwill and Identifiable Intangible Assets
Goodwill Impairment Review
We review goodwill for impairment annually as of November 30 and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable using a two-step process for each reporting unit.
The first step in the process is to identify any potential impairment by comparing the carrying value of a reporting unit including goodwill and its fair value. We use a hybrid method valuation approach to determine the fair value of our reporting units which includes (1) the Income Approach (also referred to as a discounted cash flow or DCF), which is dependent upon estimates for future revenue, operating income, depreciation and amortization, income tax payments, working capital changes, and capital expenditures, as well as, expected long-term growth rates for cash flows; (2) the Guideline Public Company Method, which uses valuation metrics from similar publicly traded companies (i.e., small-to-mid-cap providers of services to the U.S. Federal and local governments); and (3) the Guideline Transaction Method which uses valuation multiples from actual transactions in the Aerospace and Defense industry. All of these approaches are affected by economic conditions related to the U.S. defense industry, as well as, conditions in the U.S. capital markets. If a potential impairment is identified, the second step is to measure the impairment loss by comparing the implied fair value of goodwill with the carrying value of goodwill of the reporting unit.
The fair value measurement was calculated using unobservable inputs to the discounted cash flow method, which are classified as Level 3 within the fair value hierarchy under U.S. GAAP. The key assumptions we used to estimate the fair values of our reporting units are:

- Discount rates;
- Compounded annual revenue growth rates;
- Average operating margins; and
- Terminal value capitalization rate (capitalization rate).
- Guideline Company valuations
- Guideline Transactions

Of the key assumptions, the discount rates and the capitalization rate are market-driven. These rates are derived from the use of market data and employment of the capital asset pricing model. The company-dependent key assumptions are the compounded annual revenue growth rates and the average operating margins and are subject to much greater influence from our actions. We used discount rates that are commensurate with the risk and uncertainty inherent in the respective reporting units and in our internally-developed forecasts. Actual results may differ from those assumed in our forecasts and changes in assumptions or estimates could materially affect the determination of the fair value of a reporting unit, and therefore could affect the amount of potential impairment.
We validate our estimate of the fair value of each reporting unit under the income approach by comparing the resulting values to fair value estimates using a market approach.
Inherent in our development of the present value of future cash flow projections are assumptions and estimates derived from a review of our expected revenue growth rates, profit margins, business plans, cost of capital, and tax rates. We also make assumptions about future market conditions, market prices, interest rates, and changes in business strategies. Changes in our assumptions or estimates could materially affect the determination of the fair value of a reporting unit and, therefore, could eliminate the excess of fair value over the carrying value of a reporting unit entirely and, in some cases, could result in impairment. Such changes in assumptions could be caused by a loss of one or more significant contracts, reductions in government and/or private industry spending, or a decline in the demand of our services due to changing economic conditions. Given the contractual nature of our business, if we are unable to win or renew contracts; are unable to estimate and control our contract costs; fail to perform adequately to our clients' expectations; fail to procure third-party subcontractors, or fail to secure adequate funding for our projects, our profits, revenue and growth over the long-term would decline and such a decline could significantly affect the fair value assessment of our reporting units and cause our goodwill to become impaired.

To determine fair value as of November 30, 2014 and 2013, we used the Income Approach, Guideline Public Company Method and the Guideline Transaction Method weighted 50%, 50%, and 0%, respectively. The three methods returned value indications that were supportive of one another and corroborative of the value conclusion. For the November 30, 2013

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measurement, we determined to eliminate the results of the Guideline Transaction Method result as the companies were less comparable to ours.

In connection with the preparation of our third quarter financial statements, we conducted an interim test of our goodwill as of September 28, 2012. Our decision to conduct this review was a result of multiple events following the spin-off, including the change in our cost of capital as a stand-alone company.

In performing our analysis to determine fair value we applied the same weightings used in our 2012 impairment analysis, which resulted in a higher fair value than those used in our determination of fair value in 2013. To determine fair value as of November 30, 2012 and September 28, 2012, we used the Income Approach, Guideline Public Company Method and the Guideline Transaction Method weighted 75%, 12.5%, and 12.5%, respectively.

Since the completion of the Realignment on January 1, 2013, our chief executive and chief operating decision maker, Mr. Smeraglinolo only receives and evaluates consolidated financial information in order to allocate resources and assess performance. As a result, we determined that we have a single operating and reportable segment and consequently do not aggregate any operating segments. Prior to our strategic realignment, we had five reporting units.

2014 and 2013 Goodwill Measurement

The more significant assumptions used in our DCF valuation to determine the fair value of our reporting unit in connection with the goodwill valuation assessment at November 30, 2014 and 2013 were: (1) detailed three-year cash flow projections for our reporting unit, which are based primarily on our estimates of future revenue, operating income and cash flows, (2) an expected long-term growth rate for our reporting unit, which reflects the expected long-term growth rate for the U.S. economy and respective areas of the U.S. defense industry in which our reporting units operate and (3) risk adjusted discount rates, which represents the estimated weighted-average cost of capital (WACC) for the reporting unit and includes the estimated risk-free rate of return that is used to discount future cash flow projections to their present values.

The reporting unit WACC was comprised of: (1) an estimated required rate of return on equity based on publicly traded companies with business and economic risk characteristics comparable to our reporting unit (Market Participants) and (2) an after-tax rate of return on Market Participants' debt, each weighted by the relative percentages of Market Participants' equity and debt. The WACC is based on a number of market inputs that are outside of our control and are updated annually to reflect changes to such market inputs as of the date of our annual goodwill impairment assessments, including changes to: (1) the estimated required rate of return on equity based on historical returns on common stock securities of Market Participants and the Standard & Poor's 500 Index (referred to as beta), (2) the risk free rate of return based on the prevailing market yield on the 20-year U.S. Treasury bond, (3) the Moody's 20 year Baa rate, and (4) the relative percentages of Market Participants' equity and debt.

We consistently consider several factors to determine expected future annual cash flows for our reporting unit, including historical multi-year average cash flow trends and the expected future cash flow growth rates primarily based on our estimates of future revenue, operating income, and working capital changes. Furthermore, the majority of our reporting unit is primarily dependent upon the DoD budget and spending. We closely monitor changes in these factors and their impact on the expected cash flow of our reporting units.

Our DCF valuation is dependent upon several assumptions and is subject to uncertainties due to uncontrollable events, including future DoD budgets, U.S. government spending priorities for services and general economic conditions. A change in any one or combination of the assumptions used in our DCF valuation could negatively impact the fair value, resulting in additional goodwill impairments.

For the November 30, 2014 and 2013 goodwill impairment tests the long-term growth rate developed by management for purposes of our goodwill impairment analysis was 3% and 4%, respectively, and the weighted average cost of capital (WACC) used was 10% for both periods. The long term growth rate was evaluated considering the discrete projection period and long-term industry and economic factors. For the November 30, 2014 and 2013 goodwill impairment tests, fair value exceeded book value by 107% and 66%, respectively. For the November 30, 2014 and 2013 goodwill impairment tests, a 1% change in the long-term growth rate would change fair value of the reporting

unit by approximately $96 million and $67 million, respectively. For the November 30, 2014 and 2013 goodwill impairment tests, a 1% change in the WACC would change fair value of the reporting unit by approximately $131 million and $95 million, respectively.

2012 Goodwill Measurement

We determined our reporting units based on each division of our operating segments. Each division represented a business, which had discrete financial information available, whose operating results were regularly reviewed by division

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management. In connection with the preparation of our third quarter financial statements, we conducted an interim test of our goodwill as of September 28, 2012. Our decision to conduct this review was a result of multiple events following the spin-off, including the change in our cost of capital as a stand-alone company.

For the November 30, 2012 and September 28, 2012 measurement dates, the aggregate long-term growth rate developed by management for purposes of our goodwill impairment analysis was 2% for both periods and the WACC used was 16% for both periods. The long term growth rate was evaluated considering the discrete projection period and long-term industry and economic factors. Following this review, we recorded a goodwill impairment charge of approximately $426 million for the quarterly period ended September 28, 2012 due to a decline in the estimated fair value of four reporting units. The remaining reporting units, LOTS, had no goodwill recorded in its carrying value. We also performed our annual goodwill impairment review of our reporting units as of November 30, 2012. Following this annual review, we concluded that the carrying amounts of the reporting units' goodwill were not impaired as of November 30, 2012.

The 2012 goodwill impairment charge of $426 million was due to a decline in the estimated fair value of each reporting unit. The decline in fair value was primarily due to a change in the discount rate from the prior year and the elimination of a potential tax structure from our business unit valuation model, which increased the fair value of our reporting units in prior years. The change in the discount rate from 7.1% to 15.0% or 16.5% depending on the reporting unit was due to our increased costs as a stand-alone company compared to L-3. Our prior year assessment of goodwill as of November 30, 2011 included the fair value of a potential tax structure, which assumed that each reporting unit could be sold as a separate asset. There are substantial tax savings available to a purchaser for an asset sale as opposed to the purchaser of an entire entity by stock purchase or merger. As a result of our strategic realignment announced in September 2012 and implemented during the first quarter of 2013, Engility began operating as a single company going and we no longer include the fair value of this potential tax structure. Accordingly, our assessment of goodwill does not use the estimated tax savings from a potential asset sale to increase the fair value of the reporting units.

The changes in the carrying amounts of goodwill during fiscal years 2014, 2013, and 2012 were as follows (in thousands):

Balance as of December 31, 2011	$904,040	
Goodwill impairment charge	(426,436	)
Balance as of December 31, 2012	477,604	
Balance as of December 31, 2013	477,604	
DRC acquisition	166,950	
Balance as of December 31, 2014	$644,554	

Information on our identifiable intangible assets that are subject to amortization is presented in the table below.

		December 31, 2014			2013		
	Weighted Average Amortization Period (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer contractual relationships	28	$220,730	$97,523	$123,207	$178,630	$86,436	$92,194
Favorable leasehold interests	4	1,827	1,827	—	1,827	1,816	11
	1	4,100	3,758	342	—	—	—

Contractual backlog						
Total	$226,657	$103,108	$123,549	$180,457	$88,252	$92,205

Identifiable Intangible Assets

Our recorded amortization expense for our identifiable intangible assets is presented in the table below.

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	Year Ended December 31,		
	2014	2013	2012
Amortization expense	$14,856	$8,723	$13,106

Based on gross carrying amounts at December 31, 2014, our estimate of amortization expense for identifiable intangible assets for the years ending December 31, 2015 through 2019 are presented in the table below.

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Amortization expense	$10,295	$10,295	$10,295	$10,833	$11,550

6. Property, Plant and Equipment

	December 31,	
	2014	2013
Land	$2,200	$2,200
Buildings and improvements	5,652	2,766
Machinery, equipment, furniture and fixtures	27,900	29,512
Leasehold improvements	12,930	10,383
Gross property, plant and equipment	48,682	44,861
Accumulated depreciation and amortization	(28,843)	(32,966)
Property, plant and equipment, net	$19,839	$11,895

	Year Ended December 31,		
	2014	2013	2012
Depreciation expense	$6,097	$3,382	$3,233

7. Related Party Transactions and Prior Parent Company Investment

Allocation of Corporate Expenses: Prior to the Spin-Off, the Combined Statements of Operations include L-3 corporate expense allocations for corporate functions provided to the Company, which are reported within selling, general and administrative expenses, totaling $15 million for the year ended December 31, 2012. The remaining corporate allocations of $22 million for the year ended December 31, 2012 represent direct corporate expenses. Direct corporate expenses include employee benefits, share-based compensation, insurance, and treasury expenses that have been allocated based on direct usage by the Company.

Related Party Revenue and Cost of Revenue: Prior to the Spin-Off, we were a party to transactions to purchase and sell products and services to and from other L-3 subsidiaries and divisions. Revenue earned from these formerly affiliated entities was $100 million for the year ended December 31, 2012.

Prior Parent Company Investment: Net transfers to prior parent company are included within prior parent company investment on the Consolidated and Combined Statements of Changes in Stockholders' Equity. The components of our net transfers to prior parent company are presented in the table below.

	Year Ended December 31, 2012
Intercompany revenue and purchases, net	$(90,915)
Cash pooling and general financing activities	40,624
Corporate allocations	37,748
Income taxes	33,282
Net transfers related to GSS	(25,974)
Total net transfers to prior parent company	$(5,235)

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8. Income Taxes
Prior to the Spin-Off, our operations were historically included in L-3's U.S. Federal and state income tax returns. Income taxes are presented in these Combined Financial Statements as if we filed our own tax returns on a standalone basis. These amounts may not reflect tax positions taken or to be taken by L-3, and have been available for use by L-3 and may remain with L-3 after the separation from L-3. Following the Spin-Off, we file our tax returns as a stand-alone entity.
Income from continuing operations before income taxes is summarized in the table below.

	Year Ended December 31,		
	2014	2013	2012
Domestic	$70,267	$86,892	$(340,613)
Foreign	380	409	974
Income (loss) from continuing operations before income taxes	$70,647	$87,301	$(339,639)

The components of our current and deferred portions of the provision for income taxes from continuing operations are presented in the table below.

	Year Ended December 31,		
	2014	2013	2012
Current income tax provision:			
Federal	$22,111	$30,262	$39,096
State and local	4,462	4,252	6,014
Foreign	(592)	2,156	292
Subtotal	25,981	36,670	45,402
Deferred income tax provision (benefit) :			
Federal	3,785	(3,475)	(34,918)
State and local	871	(611)	(5,328)
Subtotal	4,656	(4,086)	(40,246)
Total provision for income taxes	$30,637	$32,584	$5,156

A reconciliation of the statutory Federal income tax rate to our effective income tax rate from continuing operations is presented in the table below.

	Year Ended December 31,		
	2014	2013	2012
Statutory Federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of Federal income tax benefit	4.9	2.8	3.3
Goodwill impairment	—	—	(38.9)
Minority interest	(2.3)	(2.1)	(0.5)
Non-deductible acquisition costs	3.7	0.2	(0.7)
Uncertain tax positions	2.6	0.2	(0.6)
Other, net	(0.5)	1.2	0.9
Effective income tax rate	43.4%	37.3%	(1.5)%

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The significant components of our deferred tax assets and liabilities are presented in the table below. Our acquisition of DRC on January 31, 2014 resulted in a change in ownership under IRC section 382. Accordingly, the annual utilization of the DRC net operating loss on our consolidated Federal return is limited to $4.2 million annually. These net operating losses were generated during the 2014 pre-acquisition short tax year and will expire in 2034. Due to the large value of the limitation relative to the amount of remaining net operating losses, we anticipate full utilization of these losses.

	December 31,	
	2014	2013
Deferred tax assets:		
Compensation and benefits	$15,660	$16,102
Unrecognized tax benefits	37,695	36,447
Fixed assets	—	1,225
Deferred revenue	8,759	7,351
Reserves	9,409	9,893
Pension	11,011	—
Net operating losses	4,657	—
Other	8,931	6,261
Gross deferred tax assets	$96,122	$77,279
Deferred tax liabilities:		
Goodwill and other intangible assets	$59,363	$45,835
Income recognition on contracts in process	35,549	37,739
Other	3,332	1,499
Gross deferred tax liabilities	$98,244	$85,073

The following table presents the classification of our net deferred tax liabilities.

	December 31,	
	2014	2013
Current net deferred tax liabilities	$(6,928)	$(9,933)
Non-current net deferred tax liabilities	4,806	2,139
Total net deferred tax liabilities	$(2,122)	$(7,794)

As of December 31, 2014, the total amount of unrecognized tax benefits, including interest and penalty, was $80 million, $20 million which would significantly reduce the effective income tax rate, if recognized. A reconciliation of the change in unrecognized income tax benefits, excluding potential interest and penalties, is presented in the table below.

	Year Ended December 31,		
	2014	2013	2012
Balance at January 1	$67,559	$58,973	$50,417
Additions/reductions for tax positions related to the current year	890	(123)	1,240
Additions/reductions for tax positions related to prior years	51	44,525	7,889
Decrease for settlement with tax authorities	—	(1,033)	—
Lapse of statute of limitations	(573)	(34,783)	(573)
Balance at December 31	$67,927	$67,559	$58,973

We and our subsidiaries filed income tax returns in various state and foreign jurisdictions. The statutes of limitations for our U.S. Federal income tax returns for the years ended December 31, 2012 and December 31, 2013 were open as of December 31, 2014. The statute of limitations for the L-3's U.S. Federal income tax returns for the years ended

December 31, 2010 through 2012 were open as of December 31, 2014. The statute of limitations for our foreign income tax returns were open for

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tax years 2006 to 2013 and for our state income tax returns for years 2009 to 2013. The statute of limitations for DRC's U.S. Federal and state income tax returns for the years ended December 31, 2011 through December 31, 2013 were open as of December 31, 2014. As of December 31, 2014, we anticipate that uncertain tax positions will decrease by approximately $3.7 million over the next 12 months due to potential resolution of uncertain tax positions involving several jurisdictions and closing of tax statutes. The actual amount could vary significantly depending on the ultimate timing and nature of any settlements.

As of December 31, 2014 and 2013, non-current income taxes payable included accrued potential interest of $11.8 million and $9.9 million, respectively. With respect to the interest related items, our income tax expense included an expense of $1.9 million, $0.2 million and $1.9 million for the years ended December 31, 2014, 2013, and 2012, respectively.

9. Share-Based Compensation

Long Term Performance Plan

Following the Spin-Off, certain of our employees participate in our 2012 Long Term Performance Plan (2012 LTPP), which is substantially similar to the L-3 2008 Long Term Performance Plan (2008 LTPP). Immediately prior to the Spin-Off, certain of our employees participated in the following L-3 share-based compensation plans: 2008 LTPP, 1999 Long Term Performance Plan and 1997 Stock Option Plan (collectively, the L-3 Plans). Following our Spin-Off from L-3, we assumed under the 2012 LTPP each outstanding option to purchase L-3 common stock and each L-3 Restricted Stock Unit (RSU) held by our employees.

In connection with the Spin-Off, we adopted a 2012 Directors Stock Incentive Plan (DSIP) that permitted us to make equity grants to the non-executive members of our Board of Directors.

During 2013, we amended and merged the 2012 LTPP and the DSIP into the Amended and Restated 2012 Long Term Performance Plan (the Amended 2012 LTPP).

Stock Options. The exercise price of Engility stock options granted under the Amended 2012 LTPP may not be less than the fair market value of Engility's common stock on the date of grant. Options expire after 10 years from the date of grant and vest ratably over a three years period on the annual anniversary of the date of grant. All unvested options are subject to forfeiture upon termination of employment (subject to customary exceptions for death or disability). All of the stock option awards issued under the Plans are non-qualified stock options for U.S. income tax regulations.

Stock Option Fair Value Estimation Assumptions. The fair value of stock options was estimated at the date of the grant using the Black-Scholes option-pricing valuation model. The valuation model is affected by Engility's stock price as well as weighted average assumptions for a number of subjective variables described below. For periods prior to the Spin-Off, the assumptions used L-3's stock price and related data to value the options granted.

- Expected Holding Period. The expected holding period of stock options granted represents the period of time that stock options granted are expected to be outstanding until they are exercised. The Company uses historical stock option exercise data to estimate the expected holding period.
- Expected Volatility. Expected volatility is based on Engility's historical share price volatility matching the expected holding period.
- Expected Dividend Yield. Expected dividend yield is based on Engility's anticipated dividend payments and historical pattern of dividend increases over the expected holding period.
- Risk-Free Interest Rate. The risk-free interest rates for stock options are based on U.S. Treasuries for a maturity matching the expected holding period.

The table below presents a summary of our stock option activity changes for the year ended December 31, 2014.

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	Number of Options	Weighted-Average Exercise Price per Share	Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2013	125	$17.63	4.7	$4,171
Granted	—	—		
Forfeited	—	—		
Exercised	(82)	18.03		
Outstanding at December 31, 2014	43	$16.86	6.8	$1,109
Vested and expected to vest at December 31, 2014	43	$16.86	6.8	$1,109
Exercisable at December 31, 2014	29	$16.87	6.6	$762

Restricted Stock Units: During the year ended December 31, 2014, we granted 74,086 RSUs to certain of our employees with a grant date fair value of $44.33. 68,633 of these RSUs vest ratably over a term of three years from the grant date, 25% on the first anniversary of the grant date, 25% on the second anniversary of the grant date and 50% on the third anniversary of the grant date. 1,217 of these RSUs cliff vest on the third anniversary of the grant date. 4,236 of these RSUs, which were only provided to non-executive employees, cliff vest on the first anniversary of the grant date. These RSUs automatically convert into shares of Engility common stock upon vesting, and are subject to forfeiture until certain restrictions have lapsed.

During the year ended December 31, 2014, we granted 11,790 RSUs to the non-management members of our Board of Directors with a grant date fair value of $38.16 per share. These RSUs vest after one year from the grant date, but will not be converted to shares of Engility common stock until the earlier of (i) the date on which the person ceases to be a director of the company or (ii) a change of control of the Company.

The table below presents a summary of our nonvested RSU awards under the Amended 2012 LTPP as of December 31, 2014 and changes for the year then ended.

	Number of Units	Weighted-Average Grant Date Fair Value
Nonvested balance at December 31, 2013	736	$18.94
Granted	86	43.21
Forfeited	(49)	26.89
Vested	(167)	20.42
Nonvested balance at December 31, 2014	606	22.11
Director RSUs vested but not issued at December 31, 2014	44	20.47

Performance Shares: Performance shares are grants of restricted stock that generally cliff vest after three years based on our performance at the end of the three-year period calendar year beginning the year of grant. The number of shares of our common stock that are ultimately vested and delivered in respect of these performance shares will range from 0% to 200% of the target amount depending on the Company's performance against a peer group, as approved by the Compensation Committee of the Board of Directors, based on the following two metrics, each of which are weighted equally: relative revenue (based on a compounded annual growth rate) and relative total stockholder return (TSR). TSR is calculated as growth in share price plus accumulated dividends. No shares will vest or be delivered to holders of performance shares, including with respect to relative revenue, if we do not achieve at least the threshold level of performance for TSR.

Compensation expense for performance shares is based on the fair value of the shares at the grant date. Fair value is determined on a binomial valuation technique (the Monte Carlo valuation model) and recognized on a straight-line basis over the requisite service period for both the relative revenue metric and the relative TSR metric. Compensation

expense related to the relative revenue metric is adjusted each reporting period based on management's estimate of probability of achievement.

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	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested balance at December 31, 2013	138	$28.24
Granted	103	56.14
Forfeited	(24)	43.20
Vested	—	—
Nonvested balance at December 31, 2014	217	$39.46

Employee Stock Purchase Plan

Effective July 17, 2012, we adopted the 2012 Employee Stock Purchase Plan (2012 ESPP). Under the 2012 ESPP, eligible employees are offered options to purchase shares of our common stock at the end of each six-month offering period at 95% of fair market value based on the average of the highest and lowest sales prices for our stock on the purchase date. Eligible employees generally include all employees of Engility. Offering periods begin on the first trading day in January and July of each calendar year and end on the last trading day in June and December of each calendar year. Share purchases are funded through payroll deductions of up to 10% of an employee's eligible compensation for each payroll period, or $25,000 each calendar year. There were purchases of stock under the 2012 ESPP for 2014 in the amount of $1 million. During 2014 in conjunction with our acquisition of TASC (see note 16), we terminated the 2012 ESPP.

Share-based compensation expense is summarized in the table below.

	2014	2013	2012
Share-based compensation	$8,470	$7,726	$3,547
Income taxes	(3,453)	(2,963)	(3,684)
Total after income taxes	$5,017	$4,763	$(137)

As of December 31, 2014, there was $8.1 million of total unrecognized compensation cost of unvested stock compensation arrangements. This cost is expected to be fully amortized over the next three years, with $4.9 million, $2.5 million, and $0.7 million, amortized during 2015, 2016 and 2017, respectively. These future costs include an estimated forfeiture rate. Our stock compensation costs may differ based on actual experience. The cost of stock compensation is included in the Consolidated and Combined Statements of Operations before, or in conjunction with, the vesting of options.

10. Commitments and Contingencies

Non-Cancellable Operating Leases

We lease certain facilities and equipment under agreements expiring at various dates through 2020. Certain leases contain renewal options or escalation clauses providing for increased rental payments based upon maintenance, utility and tax increases. No lease agreement imposes a restriction on our ability to pay dividends, engage in debt or equity financing transactions, or enter into further lease agreements.

The following table presents future minimum payments under non-cancellable operating leases with initial or remaining terms in excess of one year at December 31, 2014.

	Real Estate	Equipment	Total
2015	$25,984	$184	$26,168
2016	22,608	64	22,672
2017	17,805	10	17,815
2018	11,136	—	11,136
2019	6,326	—	6,326
Thereafter	7,174	—	7,174
Total minimum payments required	91,033	258	91,291
Less: Sublease rentals under non-cancellable leases	2,683	—	2,683

Net minimum payments required	$88,350	$258	$88,608

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	Year Ended December 31,		
	2014	2013	2012
Rent expense	$23,812	$22,074	$23,005

Letters of Credit

We enter into standby letters of credit with financial institutions covering performance and financial guarantees pursuant to contractual arrangements with certain customers. We had total outstanding letters of credit aggregating $3 million at December 31, 2014. These letters of credit may be drawn upon in the event of our nonperformance. The letters of credit reduce the borrowing capacity of our revolving line of credit dollar-for-dollar.

Procurement Regulations

A substantial majority of our revenue are generated from providing services and products under legally binding agreements or contracts with U.S. government and foreign government customers. U.S. government contracts are subject to extensive legal and regulatory requirements, and from time to time, agencies of the U.S. government investigate whether such contracts were and are being conducted in accordance with these requirements. Currently we are cooperating with the U.S. government on several investigations from which civil or administrative proceedings have or could result and give rise to fines, penalties, compensatory and treble damages, restitution and/or forfeitures. Currently, we do not anticipate that any of these investigations will have a material adverse effect, individually or in the aggregate, on our consolidated financial position, results of operations or cash flows. However, under U.S. government regulations, our indictment by a Federal grand jury, or an administrative finding against us as to our present responsibility to be a U.S. government contractor or subcontractor, could result in our being suspended for a period of time from eligibility for awards of new government contracts or task orders or in a loss of export privileges. A conviction, or an administrative finding against us that satisfies the requisite level of seriousness, could result in debarment from contracting with the U.S. government for a specified term. In addition, all of our U.S. government contracts: (1) are subject to audit and various pricing and cost controls, (2) include standard provisions for termination for the convenience of the U.S. government or for default, and (3) are subject to cancellation if funds for contracts become unavailable. Foreign government contracts generally include comparable provisions relating to terminations for convenience and default, as well as other procurement clauses relevant to the foreign government.

Litigation Matters

We are also subject to litigation, proceedings, claims or assessments and various contingent liabilities incidental to our businesses. Furthermore, in connection with certain business acquisitions, we have assumed some or all claims against, and liabilities of, such acquired businesses, including both asserted and unasserted claims and liabilities.

In accordance with the accounting standard for contingencies, we record a liability when management believes that it is both probable that a liability has been incurred and we can reasonably estimate the amount of the loss. Generally, the loss is recorded at the amount we expect to resolve the liability. The estimated amounts of liabilities recorded for pending and threatened litigation are recorded in other current liabilities in the Consolidated Balance Sheets. Amounts recoverable from insurance contracts or third parties are recorded as assets when deemed probable. At December 31, 2014, we did not record any amounts for recoveries from insurance contracts or third parties in connection with the amount of liabilities recorded for pending and threatened litigation. Legal defense costs are expensed as incurred. We believe that we have recorded adequate provisions for our litigation matters. We review these provisions quarterly and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. Although we believe that we have valid defenses with respect to legal matters and investigations pending against us, the results of litigation can be difficult to predict, particularly those involving jury trials. Accordingly, our current judgment as to the likelihood of our loss (or our current estimate as to the potential range of loss, if applicable) with respect to any particular litigation matter may turn out to be wrong. Therefore, it is possible that our financial position, results of operations or cash flows could be materially adversely affected in any particular period by the unfavorable resolution of one or more of these or other contingencies.

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11. Employee Benefits

L-3 Employee Savings Plan. Prior to the Spin-Off, under the L-3 Communications Master Savings Plan (the L-3 Savings Plan), the Company's participating employees were eligible to receive Company matching or other contributions, in the form of L-3 common stock or cash, up to designated levels. The extent and form of the Company contributions and the applicable vesting terms varied among the businesses that comprise Engility. Company contributions were paid to the plan in cash, and for those employees who receive contributions in the form of L-3 common stock, the plan purchased shares from L-3 at fair market value. The Company's contributions under the L-3 Savings Plan were $8 million for the years ended December 31, 2012.

Engility Employee Savings Plan. In connection with the Spin-Off, we adopted the Engility Master Savings Plan (the Engility Savings Plan), which replaced and is substantially similar to the L-3 Savings Plan. As a result, following the Spin-Off, our employees were no longer eligible to participate in the L-3 Savings Plan. The Company contributions under the Engility Savings Plan were $0, $1 million and $5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Dynamics Research Corporation Deferred Savings Plan. DRC maintained a deferred savings plan (DRC Plan). All DRC employees were eligible to elect to defer a portion of their salary and contribute the deferred portion to the DRC Plan. The DRC Plan provides for a Company matching contribution for 100% of the first 2% of the employee contribution and an additional 50% of the next 4% of the employee contribution. The Company's contributions are subject to forfeitures of any non-vested portion if termination occurs. The Company's total 401(k) contributions were $3 million for the period January 31, 2014, the date of the DRC acquisition, to December 31, 2014. Effective January 1, 2015, the DRC plan was merged into the Engility Employee Savings Plan.

Defined Benefit Pension Plan. Upon the acquisition of DRC, we assumed DRC's Defined Benefit Pension Plan (the Pension Plan), which is non-contributory, covering substantially all employees of DRC who had completed a year of service prior to July 1, 2002. The balance of the Pension Plan liability was $17 million as of the acquisition. Membership in the Pension Plan was frozen effective July 1, 2002 and participants' calculated pension benefit was frozen effective December 31, 2006.

Our funding policy is to contribute at least the minimum amount required by the Employee Retirement Income Security Act of 1974. Additional amounts are contributed to assure that plan assets will be adequate to provide retirement benefits. We expect to make contributions of $1 million during 2015 to fund the pension plan.

Net Periodic Pension Cost

	For the period from January 31, 2014 to December 31, 2014
Interest cost	$3,589
Expected return on plan assets	(5,339)
Recognized actuarial loss	—
Net periodic pension benefit	$(1,750)

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Obligations and Funded Status

Change in benefit obligation:	
Benefit obligation on January 31, 2014	$89,519
Interest cost	3,589
Benefits paid	(4,637)
Actuarial loss	14,557
Benefit obligation at December 31, 2014	103,028
Change in plan assets:	
Fair value of plan assets at January 31, 2014	72,704
Actual return on plan assets	5,097
Employer contributions	1,883
Benefits paid	(4,637)
Fair value of plan assets at December 31, 2014	75,047
Unfunded status	$(27,981)

Amounts recognized in the consolidated balance sheets consist of:

	December 31, 2014
Accrued compensation and employee benefits	$1,415
Other long-term liabilities	26,566
Net amount recognized	$27,981

The projected benefit obligation for the Pension Plan was $103 million at December 31, 2014.

The reconciliation of the other comprehensive loss was as follows:

	Beginning Balance	Amortization	Experience Loss	Ending Balance
2014	$—	$—	$14,800	$14,800

The amounts recognized in other comprehensive loss are reflected, net of related tax effects, as a component of accumulated other comprehensive loss as part of stockholders' equity in the accompanying consolidated Balance Sheets. The Company expects to recognize amortization expense related to the net actuarial loss of approximately $0.2 million in 2015.

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Assumptions

The discount rate represents the estimated rate at which we could effectively settle our pension benefit obligations. In order to estimate this rate, future expected cash flows of the plan were matched against the Towers Watson RATE:Link yield curve to produce a single discount rate.

The assumed long-term rate of return on plan assets, which is the average return expected on the funds invested or to be invested to provide future benefits to pension plan participants, is determined by an annual review of historical plan assets returns and consultation with outside investment advisors. In selecting the expected long-term rate of return on assets, the Company considered its investment return goals stated in the Pension Plan's investment policy. The Company, with input from the Pension Plan's professional investment managers, also considered the average rate of earnings expected on the funds invested or to be invested to provide Pension Plan benefits. This process included determining expected returns for the various asset classes that comprise the Pension Plan's target asset allocation.

The following assumptions were used to determine the benefit obligations and net periodic benefit costs:

	December 31, 2014	
Used to determine benefit obligations:		
Discount rate	3.94	%
Rate of compensation increase	N/A	

	Period Ended December 31, 2014	
Used to determine net periodic benefit costs:		
Discount rate	4.49	%
Expected rate of return on assets	8.15	%
Rate of compensation increase	N/A	

Plan Assets

During 2014, the Company's overall investment strategy for plan assets was to achieve a long-term rate of return of 8.15%, with a wide diversification of asset types, fund strategies and fund managers. The target allocation for the plan assets are 55% in equity securities, 38% in fixed income securities, 5% in other types of investments and 2% in cash and cash equivalents. The risk management practices include regular evaluations of fund managers to ensure the risk assumed is commensurate with the given investment style and objectives. Prohibited investments include, but are not limited to margin transactions. The Pension Plan's assets did not include any of the Company's common stock at December 31, 2014.

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The Company’s investment policy includes a periodic review of the Pension Plan’s investment in the various asset classes. The fair value measurement of the Company’s plan assets by asset category are as follows:

Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At December 31, 2014:				
Cash	$272	$272	$—	$—
Money market funds	2,190	—	2,190	—
Equity securities:				
Common equity securities	10,059	10,059	—	—
Preferred equity securities	163	163	—	—
Equity mutual funds	29,623	29,623	—	—
Real estate investment trusts	2,671	2,671	—	—
Corporate and foreign bonds	21,743	—	21,743	—
Other type of investments:				
Managed futures	1,884	—	—	1,884
Hedge funds	6,442	—	—	6,442
Total	$75,047	$42,788	$23,933	$8,326

A reconciliation of the beginning and ending balances of Level 3 assets is as follows:

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)		
	Managed Futures	Hedge Fund(s)	Total
Balance at January 31, 2014	$1,655	$6,141	$7,796
Actual returns on plan assets related to assets still held at the reporting date	229	130	359
Purchases	—	171	171
Sales	—	—	—
Balance at December 31, 2014	$1,884	$6,442	$8,326

The managed futures consist of units of limited partnership interests through the allocation of assets of multiple commodity trading advisors. These commodity trading advisors engage in speculative trading in U.S. and international markets for currencies, interest rates, stock indices, agricultural and energy products, and precious base metals. The fair value of managed futures is estimated based on the investments net asset value at the reporting period as the fair value is not readily determinable and the investment fund meets the criteria of an investment company. Redemptions can only be made monthly and require ten days prior notice to the general partner of the fund.

The Company’s plan assets consist of interests in two hedge funds. One of the hedge funds is a fund of funds that combines diversified multi-strategy methods to achieve investment objectives during a three to five year investment cycle. Strategy methods may consist of conventional long-term equity and fixed income investments or derivative investments, including, total return swaps, options and forwards. The second hedge fund is a multi-strategy equity hedge fund with a focus on investment strategies that exploit market inefficiencies to produce absolute returns with low correlation to global capital markets. For both, the fair value of the hedge funds are estimated based on the investments net asset value at the reporting period as the fair value is not readily determinable and the investment fund

meets the criteria of an investment company. Redemptions of the interests in both funds can be made quarterly based on the discretion of the investment company's Board of Directors.

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Estimated Future Benefit Payments
The following table sets forth the expected timing of benefit payments:

Year ending December 31:	
2015	$4,802
2016	$4,934
2017	$5,115
2018	$5,343
2019	$5,565
Five subsequent fiscal years	$30,035

Supplemental Executive Retirement Plan
Upon the acquisition of DRC, we assumed DRC's Supplemental Executive Retirement Plan (SERP) for certain former key employees providing for annual benefits commencing on the sixth anniversary of the executive's retirement. The cost of these benefits is being charged to expense and accrued using a projected unit credit method. Expenses related to this plan were approximately $0.1 million for the period from the date of acquisition, January 31, 2014, to December 31, 2014. The liability related to the SERP, which is unfunded, was $0.4 million as of December 31, 2014 . These amounts represent the amounts the Company estimates to be the present value of the obligation at each respective date.
12. Debt
2012 Credit Facility
In connection with our Spin-Off from L-3, on July 17, 2012, we entered into the 2012 Credit Facility, which provides for total aggregate borrowings of $400 million under a $335 million senior secured term loan facility and a $65 million senior secured revolving credit facility with Bank of America, N.A., as administrative agent, and the other lenders party thereto. On July 17, 2012, we borrowed $335 million under the 2012 Credit Facility term loan and paid $335 million as a cash dividend to L-3. We incurred $11 million in fees in establishing this credit facility.
Maturity, Interest Rate and Fees. The loans under the 2012 Credit Facility are due and payable on July 17, 2017 and bear interest at a rate per annum equal to an applicable margin, plus, at our option (other than with respect to swingline loans, which must be base rate loans), either (a) a base rate determined by reference to the highest of (1) the prime rate of Bank of America, N.A., (2) the Federal funds effective rate plus 0.5%, (3) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for an interest period of one month adjusted for certain additional costs which shall not be less than 1.25%, plus 1.00% and (4) 2.25% or (b) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs which shall be no less than 1.25%.
Amortization and Final Maturity. Beginning April 1, 2013, we were required to make scheduled quarterly payments equal to 3.75% of the original principal amount of the term loan, or approximately $12.6 million per quarter, with the balance to be due and payable on the fifth anniversary of the closing date, July 17, 2017. The 2012 Credit Facility was terminated and repaid in full upon entering the 2013 Credit Facility (as described below).
2013 Credit Facility
On August 9, 2013, we, through our wholly owned subsidiary, Engility Corporation, entered into a credit facility among the Company, Engility Corporation, Bank of America, N.A. (as administrative agent, swing line lender and letter of credit issuer) and each of the several lenders from time to time party thereto (the 2013 Credit Facility). The 2013 Credit Facility, which replaced the 2012 Credit Facility, provides for (1) a $200 million term loan facility maturing on August 9, 2018, and (2) a $250 million revolving credit facility that terminates on August 9, 2018, with a $50 million letter of credit sublimit and a $25 million swing line loan sublimit. The 2013 Credit Facility also contains an accordion feature that permits us to arrange with the lenders for the provision of up to $150 million in additional commitments. In conjunction with replacing our 2012 Credit Facility, we expensed $4 million in previously capitalized bank fees relating to the 2012 Credit Facility.

On January 31, 2014, we acquired DRC for total consideration of approximately $207 million (including the retirement of approximately $86 million of debt of DRC) as described in Note 3 to the accompanying Consolidated and Combined Financial Statements. We financed the DRC acquisition in part by drawing down on the $150 million Accordion under the 2013 Credit Facility, utilizing an incremental term loan of $75 million and an incremental revolving facility of $75 million. We amended the

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2013 Credit Facility on this same date to (i) provide for the incremental term loan and incremental revolving credit facility and (ii) replenish the $150 million availability under the Accordion. Pursuant to the amendment, the incremental term loan facility matures on August 9, 2018 and the incremental revolving credit facility terminates on August 9, 2018. The amendment did not change the interest rate under the 2013 Credit Facility.

Maturity, Interest Rate and Fees. All borrowings under the 2013 Credit Facility bear interest at a variable rate per annum equal to an applicable margin, plus, at our option (other than for swing line loans), either (1) a base rate determined by reference to the highest of (a) the prime rate of Bank of America, N.A., (b) the Federal funds effective rate plus 0.50% and (c) a LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for the interest period of one month plus 1.00% or (2) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing. All swing line loans bear interest at a variable rate per annum equal to an applicable margin, plus a base rate determined as described in the immediately preceding sentence. The applicable margins for the borrowings under the 2013 Credit Facility depend on the consolidated leverage ratio of Engility Holdings, Inc., Engility Corporation and its subsidiaries. The applicable LIBOR margin varies between 2.25% and 3.25%, and the applicable base rate margin varies between 1.25% and 2.25%.

Amortization and Final Maturity. Beginning March 31, 2014, we were required to make scheduled quarterly payments equal to 1.25% of the original principal amount of the combined term loan facility and incremental term loan facility, or $3.4 million per quarter, with the balance to be due and payable on the fifth anniversary of the closing date, August 9, 2018.

Guarantees and Security. All obligations under the 2013 Credit Facility are unconditionally guaranteed by Engility Holdings, Inc. and certain of our direct or indirect wholly owned domestic subsidiaries. All obligations under the 2013 Credit Facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of the assets of Engility Corporation and the assets of Engility Holdings, Inc. and Engility Corporation’s subsidiary guarantors.

Covenants and Events of Default. The 2013 Credit Facility contains a number of covenants that, among other things and subject to certain exceptions, restrict our ability to incur additional debt; pay dividends on our capital stock or redeem, repurchase or retire our capital stock or other debt; make investments, loans and acquisitions; create restrictions on the payment of dividends or other amounts by Engility Corporation’s subsidiaries to Engility Corporation or to any guarantor; engage in transactions with Engility Corporation’s affiliates; sell assets; materially alter the business Engility Corporation conducts; consolidate, merge, dissolve or wind up our business; incur liens; and prepay or amend subordinated or unsecured debt. Engility Holdings, Inc. is also subject to a passive holding company covenant that limits our ability to engage in certain activities. In addition, the 2013 Credit Facility requires that Engility Corporation maintain a minimum consolidated debt service coverage ratio of no less than 1.25:1.00 as of the end of any fiscal quarter of Engility Corporation, and as a result of the DRC acquisition a maximum consolidated leverage ratio of no greater than 3.75:1.00 as of the end of any fiscal quarter of Engility Corporation, with step-downs to 3.50:1.00 beginning with the fiscal quarter ended December 31, 2014, 3.25:1.00 beginning with the fiscal quarter ending March 31, 2015, and 3.00:1.00 beginning with the fiscal quarter ending December 31, 2015. We believe our most restrictive covenant under the 2013 Credit Facility is the maximum consolidated leverage ratio, which as of December 31, 2014 was 2.24:1.00. The Consolidated Leverage Ratio is the ratio of (a) (i) Consolidated Funded Indebtedness as of such date minus (ii) the Designated Cash Balances as of such date to (b) Consolidated EBITDA (as such terms are defined in the 2013 Credit Facility) for the period of the four fiscal quarters most recently ended. The 2013 Credit Facility also contains customary provisions relating to the events of default. As of December 31, 2014, we were in compliance with the covenants under the 2013 Credit Facility.

The carrying value of the principal amount outstanding under term loan, which approximates fair value, is $259 million. The fair value of the term loan is based on interest rates prevailing on debt with substantially similar risks, terms and maturities and is considered to be a Level 3 input, measured under U.S. GAAP hierarchy. Our availability under the revolving portion of the 2013 Credit Facility was $161 million as of December 31, 2014, with $3 million

outstanding under letters of credit.

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The following table presents our minimum debt payments on our term loan portion of our 2013 Credit Facility.

2015	$13,750
2016	13,750
2017	13,750
2018	252,000
Total minimum payments required	$293,250

13. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present our assets and liabilities that are measured at fair value on a recurring basis:

		Fair Value Measurements At December 31, 2014			
	Balance Sheet Classification	Level 1	Level 2	Level 3	Total
Assets:					
Investments held in Rabbi Trusts	Other non-current assets	$1,985	—	—	$1,985

14. Discontinued Operations

During the year ended December 31, 2012, the Global Security Solutions (GSS) business unit, which had been managed by us historically, was retained by L-3 as part of its National Security Solutions business in connection with the Spin-Off. The GSS results of operations are presented as discontinued operations in the Consolidated and Combined Financial Statements.

15. Realignment and Restructuring Costs

2013 Restructuring Costs

During the fourth quarter of 2013, we classified several leased facilities as abandoned and recorded a charge of $8 million. This expense will be amortized as we make scheduled lease payments or settle the leases with the landlord.

2012 Realignment Costs

On September 12, 2012, we announced a strategic realignment of our organizational structure and a streamlining of our operations, which we completed in the first quarter of 2013. This strategic realignment included a reduction of our total workforce by 4% through a voluntary separation of employment program and additional reductions in force. The activity and balance of the liability accounts for the years ended December 31, 2014, 2013, and 2012 are as follows:

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	Severance and Related Costs	Professional and Other Fees	Total
Balance as of January 1, 2012	$—	$—	$—
Additions	6,708	852	7,560
Adjustments	(297)	960	663
Cash payments	(2,177)	(776)	(2,953)
Balance as of December 31, 2012	$4,234	$1,036	$5,270
Additions	406	7,533	7,939
Adjustments	(544)	—	(544)
Cash payments	(3,759)	(1,036)	(4,795)
Balance as of December 31, 2013	$337	$7,533	$7,870
Additions	1,134	—	1,134
Cash payments	(1,103)	(1,497)	(2,600)
Balance as of December 31, 2014	$368	$6,036	$6,404
Amounts contained in the current liabilities section of our balance sheet as of December 31, 2014	$368	$1,352	$1,720
Amounts contained in the other liabilities section of our balance sheet as of December 31, 2014	$—	$4,684	$4,684

These expenses are contained within the selling, general and administrative expense line in the accompanying Consolidated and Combined Statement of Operations for the years ended December 31, 2014, 2013, and 2012.

16. Subsequent Event – TASC acquisition

On February 26, 2015, we completed the acquisition of TASC, Inc., a leading professional services provider to the national security and public safety markets, in an all-stock transaction valued at approximately $1.3 billion, including the assumption of net debt of $614 million. The business combination was effected through a new holding company named New East Holdings, Inc. (New Engility). As a result of the business combination, New Engility succeeded to and continues to operate, directly or indirectly, the existing business of Engility and, indirectly, acquired the existing business of TASC. The combined companies now operate under a new holding company, New East Holdings, Inc. which was renamed "Engility Holdings, Inc." upon the closing of the acquisition. The New Engility common stock, similar to the predecessor Engility common stock, trades on the New York Stock Exchange (NYSE) under the symbol "EGL."

As a result of the acquisition of TASC, former TASC stockholders now hold approximately 52% of our shares of common stock outstanding as of February 26, 2015. The holders of Engility common stock immediately prior to the business combination with TASC received a special cash dividend of $207 million, or $11.434 per share.

To finance the transaction and special cash dividend, Engility Corporation (n/k/a Engility LLC) entered into an amended and restated bridge financing letter with respect to an unsecured bridge loan facility in the form of a promissory note in the amount of $585 million, which was repaid in full concurrent with the closing through an increase in TASC's existing first lien credit agreement (assumed by us as of closing) consisting of (i) new senior secured first lien incremental term loans in an aggregate amount of $435 million, (ii) additional senior secured first lien revolving commitments in an aggregate amount of $65 million, and (iii) new senior secured second lien incremental term loans in an aggregate amount of $150 million.

As a condition to the merger agreement, we entered into a Stockholders Agreement, dated February 26, 2015, with Birch Partners, LP (Birch), and for the limited purposes set forth therein, certain investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P. (KKR) and certain investment funds affiliated with General Atlantic LLC (GA) (the Stockholders Agreement). The Stockholders Agreement establishes certain rights, restrictions and obligations of Birch, KKR and GA, and sets forth certain governance and other arrangements relating to Engility, including the right

of Birch to designate (i) four directors for nomination to our 11 member board of directors for so long as each of KKR and GA (including their respective affiliates) beneficially own at least 50% of the shares of our common stock it owned as of the date of the Stockholders Agreement and (ii) two directors for nomination to our 11 member board of directors for so long as each of KKR and GA (including their respective affiliates) beneficially own at least 25% of the shares of our common stock it owned as of the date of the Stockholders Agreement.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures
As of December 31, 2014, an evaluation was performed under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). At the time of the Original Filing, our CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2014.
Subsequent to that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of December 31, 2014 because of the material weaknesses in our internal control over financial reporting as described below. Notwithstanding such material weaknesses in internal control over financial reporting, our CEO and CFO have concluded that the consolidated financial statements included in the Original Filing and presented in Item 8 fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America.
Restated Management’s Report on Internal Control Over Financial Reporting
Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
Under the supervision and with the participation of our management, including the CEO and CFO, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013).
A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis.
We identified the following two control deficiencies that each constitute a material weakness: (1) We did not design and maintain effective controls to properly evaluate our identifiable finite-lived intangible assets for impairment at the asset group level and the appropriateness of the remaining useful lives in accordance with ASC 350-30-35-9 and (2) We did not design and maintain effective controls over the evaluation of the retention rate assumption used to value acquired contractual customer relationship intangible assets. Specifically, we did not design and maintain controls to evaluate the reliability of information used to assess the reasonableness of the retention rate assumption. These control deficiencies did not result in a misstatement in the finite-lived intangible assets or related financial disclosures. However, these control deficiencies could result in misstatements of the aforementioned accounts and disclosures that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that these control deficiencies constitute material weaknesses.
Management’s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of DRC which was acquired on January 31, 2014. The financial results of DRC constituted 22% of total assets and 17% of total revenue of the related consolidated financial statement amounts as of and for the year ended December 31, 2014.
In Management’s Report on Internal Control Over Financial Reporting included in the Original Filing, our management, including our CEO and CFO, concluded that we maintained effective internal control over financial reporting as of December 31, 2014. Management has subsequently concluded that the material weaknesses described above existed as of December 31, 2014. As a result, we have concluded that we did not maintain effective internal control over financial reporting as of December 31, 2014, based on the criteria in Internal Control - Integrated Framework (2013) issued by the COSO. Accordingly, management has restated its report on internal control over

financial reporting.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears under Item 8.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) during the fourth quarter of 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Remediation Plan

The Company has initiated a plan to remediate the material weaknesses described above. The implementation of this plan has begun and consists of the following main elements:

- Re-designing, implementing and testing the internal control for evaluating the carrying value of finite-lived intangible assets, including designing the control to operate at the appropriate asset group level, evaluating whether any impairment indicators exist at that level, and evaluating the appropriateness of the remaining useful lives; and
- Re-designing, implementing and testing the internal control to review the reasonableness of the retention rate assumption used in the valuation of contractual customer relationship intangible assets.

We are committed to maintaining an effective internal control environment, and believe that these remediation actions will be improvements in our controls when they are fully implemented and operating. Further, these control deficiencies did not result in a misstatement in the finite-lived intangible assets or related financial disclosures. However, the identified material weaknesses in internal control over financial reporting will not be considered remediated until controls have been designed and controls are in operation for a sufficient period of time for our management to conclude that the material weaknesses have been remediated. Additional remediation measures may be required, which may require additional implementation time. The Company can give no assurance that the measures it takes will remediate the material weakness that it has identified or that additional material weaknesses will not arise in the future. We will continue to assess the effectiveness of our remediation efforts in connection with our evaluations of internal control over financial reporting. The Company will continue to monitor the effectiveness of these and other processes, procedures, and controls and will make any further changes management determines to be appropriate.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report:

1. Financial Statements—See Index to Consolidated and Combined Financial Statements at Item 8 of this Annual Report on Form 10-K.
2. Financial Statement Schedules—Supplemental schedules are not provided because of the absence of conditions under which they are required or because the required information is given in the financial statements or notes thereto.
3. Exhibits—The following exhibits required by Item 601 of Regulation S-K are listed in the Index of Exhibits are incorporated by reference herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ENGILITY HOLDINGS, INC.

November 6, 2015

/s/ Anthony Smeraglinolo
Anthony Smeraglinolo
President and Chief Executive Officer

Index to Exhibits

Exhibit No.	Description
2.1	Distribution Agreement, dated as of July 16, 2012, between L-3 Communications Holdings, Inc. and Engility Holdings, Inc. (incorporated herein by reference to Exhibit 2.1 to the Registrant’s Quarterly Report on Form 10-Q, as filed with the Commission on August 13, 2012 (File No. 001-35487)).
++ 2.2	Agreement and Plan of Merger, dated as of December 20, 2013, by and among Dynamics Research Corporation, Engility Corporation and Engility Solutions, Inc. (incorporated herein by reference to Exhibit 2.1 to the Registrant’s Current Report on Form 8-K, as filed with the Commission on December 23, 2013 (File No. 001-35487)).
2.3	Agreement and Plan of Merger, dated as of October 28, 2014, by and among TASC Parent Corporation, Toucan Merger Corporation I, Toucan Merger Corporation II, Engility Holdings, Inc., New East Holdings, Inc. and East Merger Sub, LLC (incorporated herein by reference to Exhibit 2.1 to the Registrant’s Current Report on Form 8-K, as filed with the Commission on October 29, 2014 (File No. 001-35487))
2.4	Voting Agreement, dated as of October 28, 2014, by and among Engility Holdings, Inc. and Birch Partners, L.P. and for the limited purposes set forth therein, KKR Investors and GA Investors (as defined therein) (incorporated herein by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K, as filed with the Commission on October 29, 2014 (File No. 001-35487)).
3.1	Amended and Restated Certificate of Incorporation of Engility Holdings, Inc. dated February 26, 2015 (incorporated herein by reference to Exhibit 3.1 of the Registrant’s Current Report on Form 8-K12B, as filed with the Commission on February 27, 2015 (File No. 001-35487)).
3.2	Amended and Restated Bylaws of Engility Holdings, Inc. (incorporated herein by reference to Exhibit 3.2 of the Registrant’s Current Report on Form 8-K12B, as filed with the Commission on February 27, 2015 (File No. 001-35487)).
4.1	Stockholders Agreement, dated February 26, 2015 by and among Engility Holdings, Inc. and Birch Partners, L.P. and for the limited purposes set forth therein, KKR 2006 Fund L.P. and General Atlantic Partners 85, L.P., KKR Initial Investors and GA Initial Investors (as defined therein) (incorporated herein by reference to Exhibit 4.1 of the Registrant’s Current Report on Form 8-K12B, as filed with the Commission on February 27, 2015 (File No. 001-35487))
+10.1	Master Supply Agreement, dated as of July 16, 2012, between L-3 Communication Corporation (as Seller) and Engility Corporation (as Buyer) (incorporated herein by reference to Exhibit 10.1 of the Registrant’s Quarterly Report on Form 10-Q, as filed with the Commission on November 13, 2012 (File No. 001-35487)).
+10.2	Master Supply Agreement, dated as of July 16, 2012, between L-3 Communication Corporation (as Buyer) and Engility Corporation (as Seller) (incorporated herein by reference to Exhibit 10.1 of the Registrant’s Quarterly Report on Form 10-Q, as filed with the Commission on November 13, 2012 (File No. 001-35487)).
10.3	Employee Matters Agreement, dated as of July 16, 2012, between Engility Corporation and L-3 Communications Corporation (incorporated herein by reference to Exhibit 10.3 of the Registrant’s Annual Report on Form 10-K, as filed with the Commission on March 21, 2013 (File No. 001-35487)).

10.4	Tax Matters Agreement, dated as of July 16, 2012, between Engility Holdings, Inc. and L-3 Communications Holdings, Inc. (incorporated herein by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K, as filed with the Commission on March 21, 2013 (File No. 001-35487)).
10.5	Transition Services Agreement, dated as of July 16, 2012, between Engility Corporation and L-3 Communications Corporation (incorporated herein by reference to Exhibit 10.5 of the Registrant's Annual Report on Form 10-K, as filed with the Commission on March 21, 2013 (File No. 001-35487)).
10.6	Commitment Letter, dated as of December 22, 2013, by and among Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Engility Holdings, Inc. and Engility Corporation (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the Commission on December 23, 2013 (File No. 001-35487)).
10.7	Credit Agreement, dated as of August 9, 2013 among Engility Holdings, Inc., Engility Corporation, each of the several lenders from time to time party thereto and Bank of America, N.A. (as administrative agent, swing line lender and letter of credit issuer) (incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, as filed with the Commission on August 12, 2013 (File No. 001-35487)).

10.8	First Amendment to the Credit Agreement, dated as of January 31, 2014 among Engility Holdings, Inc., the Subsidiary Guarantors party thereto, each of the several lenders from time to time party thereto and Bank of America, N.A. (as administrative agent, swing line lender and letter of credit issuer) (incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, as filed with the Commission on February 3, 2014 (File No. 001-35487))
10.9	First Lien Credit Agreement, dated May 23, 2014. among TASC Parent Corporation, TASC, Inc., the several lenders from time to time parties thereto, Barclays Bank PLC, as Administrative Agent and Collateral Agent, RBC Capital Markets, Deutsch Bank Securities Inc. and Mizuho Bank, LTD. as Co-Syndication Agents, Barclays Bank PLC, as Swingline Lender and Issuing Bank and Barclays Bank PLC, KKR Capital Markets LLC, RBC Capital Markets, Deutsche Bank Securities Inc. and Mizuho Bank, LTD as Joint Lead Arrangers and Joint Bookrunners (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K12B, as filed with the Commission on February 27, 2015 (File No. 001-35487)).
10.10	First Amendment to First Lien Credit Agreement, dated December 18, 2014, by and among TASC, Inc., TASC Parent Corporation, Barclays Bank PLC, as Administrative Agent and the Required Lenders party thereto (incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K12B, as filed with the Commission February 27, 2015 (File No. 001-35487)).
10.11	Second Amendment to First Lien Credit Agreement, dated February 26, 2015, by and among TASC, Inc., each lender from time to time party thereto and Barclays Bank PLC (incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K12B, as filed with the Commission on February 27, 2015 (File No. 001-35487)).
10.12	Second Lien Credit Agreement, dated May 23, 2014, among TASC Parent Corporation, TASC, Inc., the several lenders from time to time parties thereto, Barclays Bank PLC, as Administrative Agent and Collateral Agent, RBC Capital Markets, Deutsch Bank Securities Inc. and Mizuho Bank, LTD. as Co-Syndication Agents, Barclays Bank PLC, as Swingline Lender and Issuing Bank and Barclays Bank PLC, KKR Capital Markets LLC, RBC Capital Markets, Deutsche Bank Securities Inc. and Mizuho Bank, LTD as Joint Lead Arrangers and Joint Bookrunners (incorporated herein by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K12B, as filed with the Commission on February 27, 2015 (File No. 001-35487)).
10.13	First Amendment to Second Lien Credit Agreement, dated as of December 18, 2014, by and among TASC, Inc., TASC Parent Corporation, Barclays Bank PLC, as Administrative Agent and the Required Lenders party thereto (incorporated herein by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K12B, as filed with the Commission on February 27, 2015 (File No. 001-35487)).
10.14	Second Amendment to Second Lien Credit Agreement, dated February 26, 2015, by and among TASC, Inc., each lender from time to time party thereto and Barclays Bank PLC (incorporated herein by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K12B, as filed with the Commission on February 27, 2015 (File No. 001-35487)).
10.15	First Lien Guarantee and Collateral Agreement, dated May 23, 2014, made by TASC Parent Corporation, TASC, Inc. and the Subsidiary Guarantors party thereto in favor of Barclays Bank PLC, as Collateral Agent (incorporated herein by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K12B, as filed with the Commission on February 27, 2015 (File No. 001-35487))

10.16	Second Lien Guarantee and Collateral Agreement, dated May 23, 2014, made by TASC Parent Corporation, TASC, Inc. and the Subsidiary Guarantors party thereto in favor of Barclays Bank PLC, as Collateral Agent (incorporated herein by reference to Exhibit 10.8 to the Registrant's Current Report on Form 8-K12B, as filed with the Commission on February 27, 2015 (File No. 001-35487))
10.17	First Lien Assumption Agreement, dated as of February 26, 2015, by and between Engility Holdings, Inc., East Merger Sub, LLC, Engility LLC, International Resources Group Ltd. and Dynamics Research Corporation in favor of Barclays Bank PLC, as collateral agent for the Lenders (incorporated herein by reference to Exhibit 10.9 to the Registrant's Current Report on Form 8-K12B, as filed with the Commission on February 27, 2015 (File No. 001-35487)).
10.18	Second Lien Assumption Agreement, dated as of February 26, 2015, by and between Engility Holdings, Inc., East Merger Sub, LLC, Engility LLC, International Resources Group Ltd. and Dynamics Research Corporation in favor of Barclays Bank PLC, as collateral agent for the Lenders (incorporated herein by reference to Exhibit 10.10 to the Registrant's Current Report on Form 8-K12B, as filed with the Commission on February 27, 2015 (File No. 001-35487)).

10.19	Second Lien Intercreditor Agreement, dated as of May 23, 2014, among Barclays Bank PLC, as the Initial First Lien Representative and Initial First Lien Collateral Agent for the Initial First Lien Claimholders, Barclays Bank PLC, as the Initial Second Lien Representative and Initial Second Lien Collateral Agent for the Initial First Lien Claimholders and each additional Representative and Collateral Agent from time to time party thereto and acknowledged and agreed to by TASC, Inc. and the other Guarantors referred to therein (incorporated herein by reference to Exhibit 10.11 to the Registrant's Current Report on Form 8-K12B, as filed with the Commission on February 27, 2015 (File No. 001-35487)).
†10.20	Engility Holdings, Inc. Amended and Restated 2012 Long Term Performance Plan (incorporated herein by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K, as filed with the Commission on May 28, 2013 (File No. 001-35487)).
†10.21	Engility Holdings, Inc. Amended and Restated 2012 Cash Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, as filed with the Commission on May 28, 2013 (File No. 001-35487)).
†10.22	Engility Master Savings Plan (incorporated herein by reference to Exhibit 4.7 of the Registrant's registration statement on Form S-8, as filed with the Commission on July 17, 2012 (File No. 333-182720)).
†10.23	Engility Holdings, Inc. 2012 Change in Control Severance Plan (incorporated herein by reference to Exhibit 10.12 of the Registrant's Annual Report on Form 10-K, as filed with the Commission on March 21, 2013 (File No. 001-35487)).
†10.24	Engility Corporation Deferred Compensation Plan I (incorporated herein by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q, as filed with the Commission on August 13, 2012 (File No. 001-35487)).
†10.25	Engility Corporation Deferred Compensation Plan II (incorporated herein by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q, as filed with the Commission on August 13, 2012 (File No. 001-35487)).
†10.26	Form of Engility Holdings, Inc. 2012 Directors Stock Incentive Plan Restricted Stock Unit Agreement (incorporated herein by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q, as filed with the Commission on August 13, 2012 (File No. 001-35487)).
†10.27	Form of Engility Holdings, Inc. 2012 Long Term Performance Plan Nonqualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q, as filed with the Commission on August 13, 2012 (File No. 001-35487)).
†10.28	Form of Engility Holdings, Inc. 2012 Long Term Performance Plan Restricted Stock Unit Agreement (incorporated herein by reference to Exhibit 10.11 to the Registrant's Quarterly Report on Form 10-Q, as filed with the Commission on August 13, 2012 (File No. 001-35487)).
†10.29	Offer Letter in respect of the employment of Anthony Smeraglinolo (incorporated herein by reference to Exhibit 10.13 of the Registrant's Amendment No. 3 to Form 10, as filed with the Commission on June 19, 2012 (File No. 001-35487)).

†10.30	Engility Holdings, Inc. Severance Plan (incorporated herein by reference to Exhibit 10.21 of the Registrant's Annual Report on Form 10-K, as filed with the Commission on March 21, 2013 (File No. 001-35487)).
†10.31	Engility Corporation 2013 Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.22 of the Registrant's Annual Report on Form 10-K, as filed with the Commission on March 21, 2013 (File No. 001-35487)).
†10.32	Form of Engility Holdings, Inc. 2012 Long Term Performance Plan Performance Share Award Agreement (incorporated herein by reference to Exhibit 10.23 of the Registrant's Annual Report on Form 10-K, as filed with the Commission on March 21, 2013 (File No. 001-35487)).
21.1***	Subsidiaries of Engility Holdings, Inc.
23.1*	Consent of Independent Registered Public Accounting Firm
31.1*	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Senior Vice President and Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.

32.1*	Certification of Chief Executive Officer and 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 Document.
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

*	Filed herewith.
**	Filed electronically with the original filing of the Annual Report on Form 10-K.
***	Filed with the original filing of the Annual Report on Form 10-K.
†	Compensatory plan or arrangement.
+	Portions of this exhibit have been redacted and are subject to a confidential treatment request filed with the Secretary of the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.
++	Certain schedules referenced in the Agreement and Plan of Merger have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule will be furnished supplementally to the Securities and Exchange Commission upon request.