Paycom Software, Inc.
Form S-1/A
January 12, 2015
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As filed with the Securities and Exchange Commission on January 12, 2014.

Registration No. 333-201248

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1 TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Paycom Software, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**7372**	**80-0957485**
(State or other jurisdiction of	**(Primary Standard Industrial**	**(I.R.S. Employer**

incorporation or organization)	**Classification Code Number)**	**Identification Number)**

7501 W. Memorial Road

Oklahoma City, Oklahoma 73142

(405) 722-6900

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

Craig E. Boelte

Chief Financial Officer

Paycom Software, Inc.

7501 W. Memorial Road

Oklahoma City, Oklahoma 73142

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement is declared effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered(1)	Proposed Maximum Aggregate Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee(3)
Common Stock, $0.01 par value per share	6,422,750	$24.93	160,119,157.50	$18,605.85

(1) Includes additional shares subject to the underwriters option.
(2) Estimated solely for the purpose of calculating the amount of the registration fee based on the average of the high and low prices for the registrant s common stock on the New York Stock Exchange on January 6, 2015, pursuant

Rule 457(c) under the Securities Act of 1933, as amended.

(3) The registration fee was previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 12, 2015

Preliminary Prospectus

5,585,000 Shares

Paycom Software, Inc.

Common Stock

The shares of common stock are being sold by the selling stockholders. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.

Our common stock is listed on the New York Stock Exchange under the symbol PAYC. On January 9, 2015, the last reported sale price of our common stock on the New York Stock Exchange was $25.43 per share.

The selling stockholders have granted the underwriters an option to purchase up to an additional 837,750 shares of common stock from the selling stockholders at the public offering price less underwriting discounts and commissions.

We are an emerging growth company as defined under the federal securities laws and, as such, may elect to comply with certain reduced public company reporting requirements for this prospectus and future filings.

Investing in our common stock involves risks. See Risk Factors beginning on page 11.

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Selling Stockholders
Per share	$	$	$
Total	$	$	$

(1) See Underwriting for a description of the compensation payable to the underwriters.

Delivery of the shares of common stock will be made on or about , 2015.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse **Barclays** **J.P. Morgan**

Jefferies **Stifel**

Pacific Crest Securities **Canaccord Genuity**

Prospectus dated , 2015

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You should rely only on the information contained in this prospectus or in any free writing prospectus we have prepared. We, the selling stockholders and the underwriters (and any of our or their affiliates) have not authorized anyone to provide any information other than the information contained in this prospectus or in any free writing prospectus we have prepared. We, the selling stockholders and the underwriters (and any of our or their affiliates), take no responsibility for and can provide no assurance as to the reliability of any other information that others may give you. The selling stockholders are offering to sell and seeking offers to buy shares of our common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

For investors outside the United States: We, the selling stockholders and the underwriters (and any of our or their affiliates) have not done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about and observe any restrictions relating to the offering of the shares of our common stock and the distribution of this prospectus outside of the United States.

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PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus, but it does not contain all of the information that you should consider before deciding to invest in our common stock. You should read the entire prospectus carefully before making an investment in our common stock, including Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes thereto, which are included elsewhere in this prospectus. Some of the statements in this prospectus constitute forward-looking statements. For more information, see Special Note Regarding Forward-Looking Statements.

Unless we state otherwise or the context otherwise requires, the terms Paycom, we, us, our and the Company refer, prior to the 2014 Reorganization discussed in The 2014 Reorganization, to Paycom Payroll Holdings, LLC, or Holdings, Holdings consolidated subsidiaries and solely with respect to the financial statements and related notes thereto, WCAS Paycom Holdings, Inc., or WCAS Holdings, and, as of and after the 2014 Reorganization, to Paycom Software, Inc., or Software, a Delaware corporation formed in anticipation of our initial public offering, and Software s consolidated subsidiaries, including Holdings. Accordingly, all financial and other information herein relating to periods prior to the 2014 Reorganization is that of, or derived from, Holdings. See The 2014 Reorganization.

Overview

We are a leading provider of a comprehensive, cloud-based human capital management, or HCM, software solution delivered as Software-as-a-Service, or SaaS. We provide functionality and data analytics that businesses need to manage the complete employment life cycle from recruitment to retirement. Our solution requires virtually no customization and is based on a core system of record maintained in a single database for all HCM functions, including talent acquisition, time and labor management, payroll, talent management and human resources, or HR, management applications. Our user-friendly software allows for easy adoption of our solution by employees, enabling self-management of their HCM activities in the cloud, which reduces the administrative burden on employers and increases employee productivity.

Organizations need sophisticated, flexible and intuitive applications that can quickly adapt to their evolving HCM requirements, streamline their HR processes and systems and enable them to control costs. We believe that the HCM needs of most organizations are currently served either by legacy providers offering outdated on-premise products or multiple providers that partner together in an attempt to replicate a comprehensive product. These approaches often result in large up-front capital requirements, extended delivery times, high costs, low scalability and challenges with system integration. According to the International Data Corporation, or IDC, the U.S. markets for payroll services and HCM applications is estimated to collectively total approximately $23.7 billion in 2015, and we believe there is a substantial opportunity for our solution to address these HCM needs.

Because our solution was developed in-house and is based on a single platform, there is no need to integrate, update or access multiple databases, which are common issues with competitor offerings that use multiple third-party systems in order to link together their HCM offerings. Additionally, our solution maintains data integrity for accurate, actionable and real-time analytics and business intelligence and helps clients minimize the risk of compliance errors due to inaccurate or missing information. We deliver feature-rich applications while maintaining excellence in information security and quality management standards as evidenced by our International Organization for Standardization, or ISO, certifications. As a part of our client retention effort, a specialist within a dedicated team is assigned to each client to provide industry-leading, personalized service.

The key benefits of our differentiated solution as compared to competing products are:

Comprehensive HCM solution;

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Core system of record enabling data analytics maintained on a single database;

Personalized support provided by trained personnel;

Software-as-a-Service delivery model;

Cloud-based architecture; and

Scalability to grow with our clients.

We sell our solution directly through our internally trained, client-focused and highly skilled sales force based in offices across the United States. We have over 11,000 clients, none of which constituted more than one-half of one percent of our revenues for the nine months ended September 30, 2014. We believe that as a result of our focus on client retention, we enjoy high client satisfaction as evidenced by an average annual revenue retention rate of 91% from existing clients for the three years ended December 31, 2013. We believe our revenue retention rate understates our client loyalty because this rate also includes former clients that were acquired or otherwise ceased operations.

Since our founding in Oklahoma City in 1998, we have focused on providing an innovative SaaS HCM solution. As of September 30, 2014, we had 961 employees across the United States. For the years ended December 31, 2013, 2012 and 2011, our revenues were $107.6 million, $76.8 million, and $57.2 million, respectively, representing year-over-year growth in revenues of 40% and 34%, respectively. For the nine months ended September 30, 2014 and 2013, our revenues were $106.9 million and $77.3 million, respectively, representing comparable prior period growth of 38%. We currently derive most of our revenues from our payroll and tax management application, which we refer to as payroll processing. We realized net income (loss) of $0.6 million, ($0.4) million and $0.9 million for the years ended December 31, 2013, 2012 and 2011, respectively. We realized net income of $3.2 million and $2.6 million for the nine months ended September 30, 2014 and 2013, respectively.

Industry Background

Large Market Opportunity for HCM Technologies

According to IDC, the U.S. market for HCM applications is comprised of software that automates business processes covering the entire span of an employee s relationship with his or her employer. IDC estimates that the U.S. market, excluding learning and payroll services, will total $6.4 billion in 2015. According to IDC, the U.S. market for payroll services will be an estimated $16.8 billion in 2015. IDC estimates that the international market for HCM applications (excluding the United States and learning and payroll services) will be $4.8 billion in 2015.

Economic and Technological Trends Are Driving Demand for HCM Solutions

Organizations operating in today s global economy are continually under pressure to reduce operating costs in order to maintain or improve their competitive positions. As a result, businesses are increasingly making the strategic decision to leverage HCM technologies in order to improve the effectiveness and efficiency of their internal HR and accounting functions and capture opportunities for cost savings. We believe that businesses increasingly view data concerning their human capital as a critical strategic resource that can result in more informed decision-making.

Organizations are also managing internal costs and administrative burdens by transitioning technological assets from on-premise to the cloud. The rise of cloud computing has supported the SaaS delivery model. According to IDC, the global SaaS market is projected to grow from $39 billion in 2013 to $103 billion in 2018, at a compounded annual growth rate, or CAGR, of 21%.

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Incumbent HCM Products Struggle To Meet the Needs of Businesses

We believe that a majority of businesses and organizations in the United States are using multiple HCM systems from more than one vendor, thereby impeding their ability to share data across these systems. Several incumbent payroll and HCM vendors offer product sets that are comprised of separate systems that require integration. In certain cases, this disparate product offering across several vendors is the result of several acquisitions which often leads to a loosely coupled product set that is marked by significant architectural differences and weak data integration. We believe that this type of offering increases the risk of user or system error and reduces overall effectiveness.

Finally, we believe that vendors who pursue market segmentation strategies based on organization size or industry create difficulties for clients who grow, either in size or industry scope, beyond the confines of those vendors offerings. A scalable HCM solution based on a core system of record allows for an organization to grow in size and scope without transitioning to a new user interface or back-end database.

The Paycom Solution

We offer an end-to-end SaaS HCM solution that provides our clients and their employees with immediate access to accurate and secure information and analytics 24 hours a day, seven days a week from any location. We believe that our solution delivers the following benefits:

Comprehensive HCM Solution. Our solution offers functionality that manages the entire employment life cycle for employers and employees, from recruitment to retirement. Our user-friendly applications streamline client processes and provide clients and their employees with the ability to directly access and manage administrative processes, including applications that identify candidates, onboard employees, manage time and labor, administer payroll deductions and benefits, manage performance, offboard employees and administer post-termination health benefits such as COBRA.

Core System of Record. Our solution is based on a core system of record that contains payroll and HR information in one convenient database, thereby reducing costs and eliminating the need for multiple software products and vendors and the maintenance of employee data in numerous databases. In addition, our core system of record helps clients minimize the risk of compliance errors due to inaccurate or missing information that results from maintaining multiple databases.

Data Analytics. Our solution allows clients to analyze accurate employee information to make business decisions based upon actionable, real-time, point-and-click analytics provided through our client dashboard. This functionality helps our clients operate with a more complete and accurate picture of their organization as our solution s embedded analytics capture the content and context of everyday business events, facilitating fast and informed decision-making from any location.

Personalized Support Provided by Trained Personnel. Our applications are supported by one-on-one personal assistance from trained specialists. We strive to provide our clients with high levels of service and support to ensure their continued use of our solution for all of their HCM needs. We have maintained high client satisfaction, as evidenced by an average annual revenue retention rate of 91% from existing clients for the three years ended December 31, 2013.

Software-as-a-Service Delivery Model. Our SaaS delivery model allows clients with a geographically dispersed and mobile workforce to operate more efficiently, and allows these clients to implement, access and use our client-oriented Internet solution on demand and remotely through standard web browsers, smart phones, tablets and other web-enabled devices.

Secure Cloud-Based Architecture. Our cloud-based architecture allows our solution to be implemented remotely with minimal client interaction, allowing our clients to make a smaller investment in hardware, personnel, implementation time and consulting.

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Scalability to Grow with our Clients. Our solution is highly scalable. We have served a diversified client base ranging in size from one to more than 8,000 employees. Our clients are able to use the same solution while their businesses grow by deploying applications as-needed in real-time.

Efficient and Productive Research and Development. We believe that we benefit from a competitive advantage with our research and development investments, people and processes. Early investments in our proprietary, cloud-based architecture enables us to develop and deploy applications in a timely and cost-efficient manner, as demonstrated by our introduction of five new applications announced since our initial public offering in April 2014.

Our Strategy for Growth

Our strategy is to continue to establish our solution as the HCM industry standard. To accomplish this, we intend to:

Increase Our Presence in Existing Markets. Although we have clients in all 50 states, we believe a significant opportunity exists to expand our presence within markets where we currently have a sales office. We have a sales office in 25 of the 50 largest Metropolitan Statistical Areas, or MSAs, in the United States based on 2010 U.S. census data, only one of which is served by multiple sales teams. We believe that the 50 largest MSAs in the United States could collectively support at least 100 additional sales teams. Each sales office is typically staffed with one sales team, with each team comprised of a sales manager and approximately six to nine other sales professionals. We plan to increase our presence in our existing markets by adding sales offices and increasing the number of our sales teams to further penetrate and effectively capture these markets.

Expand Into Additional Markets. We plan to continue expanding our sales capability by opening sales offices in certain metropolitan areas where we currently have no sales teams. We have identified 50 untapped metropolitan areas where we can potentially open a new sales office staffed with at least one sales team. Since September 2012, we have opened sales offices in Baltimore, Detroit, Indianapolis, Minneapolis, New York, Philadelphia, Portland, San Francisco, Seattle and Silicon Valley. We intend to open eight to twelve additional offices over the next two years, as well as potentially expand over the longer term into international markets.

Enlarge our Existing Client Relationships. We believe a significant growth opportunity exists in selling additional applications to our current clients. As we extend and enhance the functionality of our solution, we will continue to invest in initiatives to increase the adoption of our solution and maintain our high levels of client satisfaction.

Target Larger Clients. We believe larger employers represent a substantial opportunity to increase the number of clients and to increase our revenue per client, with limited incremental cost to us. To further capitalize on this opportunity, we intend to target larger businesses opportunistically.

Maintain Our Leadership in Innovation by Strengthening and Extending our Solution. We intend to continue to use our in-house development efforts, which are heavily based upon proactive research and client input, to extend the functionality and range of our solution in the future.

Selected Risks Associated with Our Business

Our business is subject to a number of risks and uncertainties, including those highlighted in Risk Factors immediately following this prospectus summary. Some of these risks include:

Our business depends substantially on our clients continued use of our applications, their purchases of additional applications from us and our ability to add new clients.

The market in which we participate is highly competitive, and if we do not compete effectively, our business, operating results or financial condition could be adversely affected.

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We have historically derived a majority of our revenue from payroll processing and our efforts to increase the use of our other HCM applications may not be successful and may reduce our revenue growth rate.

If our security measures are breached or unauthorized access to data of our clients or their employees is otherwise obtained, our solution may not be perceived as being secure, clients may reduce, limit or stop using our solution and we may incur significant liabilities.

If the SaaS market develops more slowly than we expect or declines, our growth may slow or stall, and our business could be adversely affected.

If we are not able to develop enhancements or new applications, keep pace with technological developments or respond to future disruptive technologies, our business could be adversely affected.

Our business and operations are experiencing rapid growth and organizational change and if we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of satisfaction or adequately address competitive challenges.

Our financial results may fluctuate due to many factors, some of which may be beyond our control.

Our Principal Stockholders

Following the completion of this offering, Welsh, Carson, Anderson & Stowe X, L.P., or WCAS X, WCAS Capital Partners IV, L.P., or WCAS Capital IV, and WCAS Management Corporation, together with WCAS X, WCAS Capital IV and certain of their affiliated funds, the WCAS Funds, or Welsh, Carson, Anderson & Stowe, will own approximately 42.9% of our outstanding common stock, or 41.4% if the underwriters exercise in full their option to purchase additional shares. In addition, following the completion of this offering, the WCAS Funds and the other parties to the Amended and Restated Stockholders Agreement, or the Stockholders Agreement, will own approximately 76.4% of our outstanding shares of common stock, or 74.9% of our outstanding shares of common stock if the underwriters exercise in full their option to purchase additional shares. As a result of this ownership and the provisions of the Stockholders Agreement, the WCAS Funds will have control over votes on fundamental and significant corporate matters and transactions.

So long as the parties to the Stockholders Agreement own a majority of our outstanding shares of common stock, we will be a controlled company under the New York Stock Exchange Listed Company Manual. Under these standards, a company of which more than 50% of the voting power for the election of directors is held by another company or group is a controlled company that is not required to comply with certain corporate governance requirements. We have relied, and intend to continue to rely on certain exemptions, and may rely on any of these exemptions for so long as we are a controlled company. See Risk Factors Risks Related to This Offering and Ownership of Our Common Stock and Certain Relationships and Related Party Transactions Stockholders Agreement.

Welsh, Carson, Anderson & Stowe is a leading U.S. private equity investor focused on information/business services and healthcare. Welsh, Carson, Anderson & Stowe has raised and managed $20 billion in capital and has a current portfolio of approximately 25 companies.

Corporate Information

We were founded in 1998. Software is a Delaware corporation that was formed in October 2013 in anticipation of our initial public offering. See The 2014 Reorganization for additional information regarding our corporate structure. Our principal executive offices are located at 7501 W. Memorial Road, Oklahoma City, Oklahoma 73142 and our telephone number is (405) 722-6900. Our website is www.paycom.com. Information contained on our website or that can be accessed through our website is not incorporated by reference in this prospectus.

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Paycom, the Paycom logo and other trademarks or service marks of Paycom appearing in this prospectus are the property of Paycom. Trade names, trademarks and service marks of other companies appearing in this prospectus are the property of their respective holders.

Recent Developments

New Offices

We have deployed our sales team setup group to explore opportunities to open new sales offices in the first quarter of 2015. Our ability to open new sales offices and launch new sales teams is contingent upon the availability of existing sales managers that are prepared to open and manage a new sales office.

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THE OFFERING

Common stock offered by the selling stockholders	5,585,000 shares
Option to purchase additional shares of common stock	The selling stockholders have granted the underwriters an option, exercisable for 30 days after the date of this prospectus, to purchase up to an additional 837,750 shares of common stock.
Shares of common stock outstanding after the offering	53,835,333 shares
Use of proceeds	We will not receive any proceeds from the sale of shares offered by the selling stockholders. See Use of Proceeds.
Dividend policy	We do not currently plan to pay a regular dividend on our common stock following this offering. See Dividend Policy.
Risk factors	See Risk Factors beginning on page 11 and the other information included elsewhere in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.
New York Stock Exchange trading symbol	PAYC

In this prospectus, unless otherwise indicated, the number of shares of common stock outstanding and the other information based thereon:

excludes 4,537,352 outstanding shares of restricted common stock that were subject to time-based or performance-based vesting conditions as of January 7, 2015;

excludes 3,293,651 shares of our common stock that are reserved for future issuance under the Paycom Software, Inc. 2014 Long-Term Incentive Plan, or the 2014 Plan, that we adopted in connection with the 2014 Reorganization; and does not reflect any exercise by the underwriters of their option to purchase 837,750 additional shares of our common stock from certain selling stockholders.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following table summarizes our consolidated financial data as of the dates and for the periods indicated. We have derived the unaudited summary consolidated statements of income data for the nine months ended September 30, 2014 and 2013, and the unaudited summary consolidated balance sheet data as of September 30, 2014 from our unaudited consolidated financial statements that are included elsewhere in this prospectus. We have derived the summary consolidated statements of income data for the years ended December 31, 2013, 2012 and 2011 and the summary consolidated balance sheet data as of December 31, 2013 from our audited consolidated financial statements that are included elsewhere in this prospectus. Our unaudited consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and, in the opinion of management, reflect all adjustments necessary for the fair statement of those unaudited consolidated financial statements. Historical results are not necessarily indicative of results for any future period.

The summary consolidated financial data set forth below should be read together with Capitalization, Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes thereto, which are included elsewhere in this prospectus.

	Nine Months Ended September 30,		Year Ended December 31,		
	2014	2013	2013	2012	2011
	(amounts in thousands, except per share data)				
Consolidated statement of income data:					
Revenues					
Recurring	$ 105,030	$ 75,808	$ 105,560	$ 75,420	$ 56,382
Implementation and other	1,859	1,513	2,041	1,390	824
Total revenues	106,889	77,321	107,601	76,810	57,206
Cost of revenues[1]					
Operating expenses	17,847	13,633	19,070	14,895	12,287
Depreciation	1,876	1,320	1,821	1,431	987
Total cost of revenues	19,723	14,953	20,891	16,326	13,274
Administrative expenses[1]					
Sales and marketing	44,237	28,913	42,681	29,255	22,244
Research and development	2,878	1,317	2,146	1,632	1,225
General and administrative	25,816	18,851	28,729	19,372	14,650
Depreciation and amortization	3,322	2,716	3,682	4,092	4,300
Total administrative expenses	76,253	51,797	77,238	54,351	42,419
Total operating expenses	95,976	66,750	98,129	70,677	55,693
Operating income	10,913	10,571	9,472	6,133	1,513

Interest expense	(3,079)	(6,929)	(9,272)	(6,977)	(134)
Net loss on early repayment of debt	(4,044)				
Other income (expense), net	1,395	140	1,199	354	108
Income (loss) before income taxes	5,185	3,782	1,399	(490)	1,487
Provision (benefit) for income taxes	2,028	1,211	792	(84)	601
Net income (loss)	3,157	2,571	607	(406)	886
Net income (loss) attributable to noncontrolling interest		19	6	(3)	
Net income (loss) attributable to the Company	$ 3,157	$ 2,552	$ 601	$ (403)	$ 886
Pro forma additional income tax expense (benefit)		563	(137)	(14)	35
Pro forma net income (loss)	$ 3,157	$ 1,989	$ 738	$ (389)	$ 851
Net income (loss) per share, basic	0.06	0.06	0.01	(0.01)	0.02
Net income (loss) per share, diluted	0.06	0.05	0.01	(0.01)	0.02
Pro forma net income (loss) per share, basic	0.06	0.04	0.02	(0.01)	0.02
Pro forma net income (loss) per share, diluted	0.06	0.04	0.02	(0.01)	0.02
Weighted average shares outstanding:					
Basic	49,040,344	45,398,933	45,476,895	44,771,559	44,560,053
Diluted	51,223,048	47,975,548	48,062,075	44,771,559	45,411,371
Pro forma weighted average shares outstanding:					
Basic	49,040,344	45,398,933	45,476,895	44,771,559	44,560,053
Diluted	51,223,048	47,975,548	48,062,075	44,771,559	45,411,371
Other financial data:					
EBITDA(2)	$ 13,462	$ 14,747	$ 16,174	$ 12,010	$ 6,908
Adjusted EBITDA(2)	$ 19,231	$ 16,335	$ 19,855	$ 12,829	$ 7,073
Non-GAAP net income(2)	$ 6,521	$ 2,832	$ 2,689	$ 266	$ 945

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	As of September 30, 2014	As of December 31, 2013
	(in thousands)	
Consolidated balance sheet data:		
Cash and cash equivalents	$ 18,473	$ 13,362
Restricted cash	370	369
Working capital (deficit)(3)	12,255	(4,022)
Property, plant and equipment, net	46,642	38,671
Deferred revenue	17,234	12,572
Long-term debt, less current portion	26,341	11,545
Long-term debt to related party		60,875
Additional paid in capital	66,949	33,978
Retained earnings (accumulated deficit)	3,157	(29,349)
Total stockholders equity	70,616	5,083

(1) Stock-based compensation expense included in the consolidated statements of income data for the years ended December 31, 2013, 2012 and 2011 as follows:

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Operating expenses	$ 222	$ 87	$ 36
Sales and marketing	114	83	57
Research and development	345	100	25
General and administrative	253	233	47
	$ 934	$ 503	$ 165

(2) We use EBITDA, Adjusted EBITDA and non-GAAP net income, as supplemental measures to review and assess our performance and for planning purposes. We define: (i) EBITDA as net income (loss), plus interest expense, taxes and depreciation and amortization, (ii) Adjusted EBITDA as net income (loss), plus interest expense, taxes, depreciation and amortization, stock-based compensation expense, net loss on early extinguishment of debt and certain transaction expenses that are not core to our operations and (iii) non-GAAP net income as pro forma net income (loss), plus tax adjusted stock-based compensation expense, tax adjusted net loss on early extinguishment of debt and certain tax adjusted transaction expenses that are not core to our operations. EBITDA, Adjusted EBITDA and non-GAAP net income are metrics that we believe are useful to investors in evaluating our performance and facilitating comparison with other peer companies, many of which use similar non-GAAP financial measures to supplement results under accounting principles generally accepted in the United States of America, or U.S. GAAP.

EBITDA, Adjusted EBITDA and non-GAAP net income are not measures of financial performance under U.S. GAAP, and should not be considered a substitute for net income (loss) or pro forma net income (loss), which we consider to be the most directly comparable U.S. GAAP measures. EBITDA, Adjusted EBITDA and non-GAAP net income have limitations as analytical tools, and when assessing our operating performance, you should not consider

EBITDA, Adjusted EBITDA (loss) or non-GAAP net income in isolation, or as a substitute for net income (loss), pro forma net income (loss) or other condensed consolidated statements of income data prepared in accordance with U.S. GAAP. EBITDA, Adjusted EBITDA and non-GAAP net income may not be comparable to similar titled measures of other companies and other companies may not calculate such measures in the same manner as we do.

The following tables reconcile net income (loss) to EBITDA and Adjusted EBITDA and pro forma net income (loss) to non-GAAP net income:

	Nine Months Ended September 30,		Year Ended December 31,		
	2014	2013	2013	2012	2011
			(in thousands)		
Consolidated statement of income data:					
Net income (loss)	$ 3,157	$ 2,571	$ 607	$ (406)	$ 886
Interest expense	3,079	6,929	9,272	6,977	134
Taxes	2,028	1,211	792	(84)	601
Depreciation and amortization	5,198	4,036	5,503	5,523	5,287
EBITDA	13,462	14,747	16,174	12,010	6,908
Stock-based compensation expense[(a)]	362	925	934	503	165
Transaction expenses[(b)]	1,363	663	2,747	316	
Net loss on early extinguishment of debt	4,044				
Adjusted EBITDA	$ 19,231	$ 16,335	$ 19,855	$ 12,829	$ 7,073

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(a) Represents stock-based compensation expense reflected in Note (1) above.

(b) Represents one-time transaction expenses associated with the April 2012 Corporate Reorganization (as defined herein) and indirect incremental legal and accounting costs included in general and administrative expenses associated with our initial public offering.

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011
			(in thousands)		
Consolidated statement of income data:					
Pro forma net income (loss)	$ 3,157	$ 1,989	$ 738	$ (389)	$ 851
Tax adjusted stock-based compensation expense	211	491	495	402	94
Tax adjusted transaction expenses	795	352	1,456	253	
Tax adjusted net loss on early extinguishment of debt	2,358				
Non-GAAP net income	$ 6,521	$ 2,832	$ 2,689	$ 266	$ 945
Non-GAAP net income per share, basic	$ 0.13	$ 0.06	$ 0.06	$ 0.01	$ 0.02
Non-GAAP net income per share, diluted	$ 0.13	$ 0.06	$ 0.06	$ 0.01	$ 0.02
Pro forma weighted average shares outstanding:					
Basic	49,040,344	45,398,933	45,476,895	44,771,559	44,560,053
Diluted	51,223,048	47,975,548	48,062,075	44,771,559	45,411,371

(3) Working capital (deficit) is defined as current assets, excluding restricted cash, less current liabilities, excluding current portion of deferred revenue.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below before making a decision to invest in our common stock. Our business, operating results or financial condition could be adversely affected by any of these risks, as well as other risks not currently known to us or that we currently consider immaterial. The trading price of our common stock could decline due to any of these risks, and, as a result, you may lose all or part of your investment. Before deciding whether to invest in our common stock, you should also refer to the other information contained in this prospectus, including our consolidated financial statements and the related notes.

Risks Related to Our Business and Industry

Our business depends substantially on our clients continued use of our applications, their purchases of additional applications from us and our ability to add new clients. Any decline in our clients continued use of our applications or purchases of additional applications could adversely affect our business, operating results or financial condition.

In order for us to maintain or improve our operating results, it is important that our current clients continue to use our applications and purchase additional applications from us, and that we add new clients. Our clients have no obligation to continue to use our applications, and may choose not to continue to use our applications at the same or higher level of service, if at all. In the past, some of our clients have elected not to continue to use our applications. Moreover, our clients generally have the right to cancel their agreements with us for any or no reason by providing 30 days prior written notice.

Our client retention rates may fluctuate as a result of a number of factors, including the level of client satisfaction with our applications, pricing, the prices of competing products or services, mergers and acquisitions affecting our client base, reduced hiring by our clients or reductions in our clients spending levels. If our clients do not continue to use our applications, renew on less favorable terms, fail to purchase additional applications, or if we fail to add new clients, our revenues may decline, and our business, operating results or financial condition could be adversely affected.

The market in which we participate is highly competitive, and if we do not compete effectively, our business, operating results or financial condition could be adversely affected.

The market for HCM software is highly competitive, rapidly evolving and fragmented. We expect competition to intensify in the future with the introduction of new technologies and market entrants. Many of our current and potential competitors are larger and have greater brand name recognition, longer operating histories, more established relationships in the industry and significantly greater financial, technical and marketing resources than we do. As a result, some of these competitors may be able to:

- adapt more rapidly to new or emerging technologies and changes in client requirements;

- develop superior products or services, gain greater market acceptance and expand their product and service offerings more efficiently or rapidly;

bundle products and services that we may not offer or in a manner that provides our competitors with a price advantage;

take advantage of acquisition and other opportunities for expansion more readily;

maintain a lower cost basis;

adopt more aggressive pricing policies and devote greater resources to the promotion, marketing and sales of their products and services; and

devote greater resources to the research and development of their products and services.

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Some of our principal competitors offer their products or services at a lower price, which may result in pricing pressures. Similarly, some competitors offer different billing terms, which has resulted in pressures on our billing terms. If we are unable to maintain our pricing levels and our billing terms, our operating results would be negatively impacted. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins, losses or the failure of our solution to achieve or maintain widespread market acceptance, any of which could adversely affect our business, operating results or financial condition.

We compete with firms that provide HCM solutions by various means. Many providers continue to deliver legacy enterprise software, but as demand for greater flexibility and access to information grows, we believe there will be increased competition in the delivery of HCM cloud-based solutions by other SaaS providers. Our competitors offer HCM solutions that may overlap with one, several or all categories of applications offered by our solution. Our talent acquisition and talent management applications compete primarily with Cornerstone OnDemand, Inc., Oracle Corporation, SAP AG and Workday, Inc. Our payroll applications, including payroll processing, compete primarily with Automatic Data Processing, Inc., or ADP, Ceridian Corporation, Concur Technologies, Inc., Intuit, Inc., Paychex, Inc., Paylocity Holding Corporation and The Ultimate Software Group, Inc. Our HR management applications compete primarily with ADP, Ceridian Corporation, Oracle Corporation, Paychex, Inc., SAP AG, and Workday, Inc. Our time and labor management applications compete primarily with ADP, Ceridian Corporation, Paylocity Holding Corporation and The Ultimate Software Group, Inc. All of our larger competitors compete with us across multiple application categories. In addition, our HCM solution continues to face competition from in-house payroll and HR systems and departments as well as HR systems and software sold by third-party vendors.

Competition in the HCM solutions market is primarily based on service responsiveness, product quality and reputation, breadth of service and product offering and price. Many of our competitors are able to devote greater resources to the development, promotion and sale of their products and services. In addition, many of our competitors have established marketing relationships, access to larger client bases and major distribution agreements with consultants, software vendors and distributors. In addition, some competitors may offer software that addresses one or a limited number of HCM functions at a lower price point or with greater depth than our solution. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or client requirements. Further, some potential clients, particularly large enterprises, may elect to develop their own internal solutions. If we are unable to compete effectively, our business, operating results or financial condition could be adversely affected.

We have historically derived a majority of our revenues from payroll processing and our efforts to increase the use of our other HCM applications may not be successful and may reduce our revenue growth rate.

To date we have derived a majority of our revenues from payroll processing. For the years ended December 31, 2013, 2012 and 2011, payroll processing represented approximately 58%, 60% and 68% of our total revenues, respectively. Compared to payroll processing, our participation in other HCM applications markets is relatively new, and it is uncertain whether our revenues from other HCM applications will continue to grow. The relatively limited extent to which our other HCM applications have been adopted by our clients, and the uncertainty regarding the adoption of any new applications beyond our existing applications, may make it difficult to evaluate our business because the potential market for such applications remains uncertain. Our HCM solution may not achieve and sustain the high level of market acceptance that is critical for the success of our business. The failure to increase the use of our HCM applications and any new applications that we offer may reduce our revenue growth rate, which could adversely affect our business, operating results or financial condition.

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If our security measures are breached, or unauthorized access to data of our clients or their employees is otherwise obtained, our solution may not be perceived as being secure, clients may reduce the use of or stop using our solution and we may incur significant liabilities.

Our solution involves the collection, storage and transmission of clients and their employees confidential and proprietary information, including personal or identifying information, as well as financial and payroll data. Unauthorized access or security breaches could result in the loss of information, litigation, indemnity obligations or other liability. While we have security measures in place to protect client and employee information and prevent data loss and other security breaches, if these measures are breached as a result of third-party action, employee error, malfeasance or otherwise and someone obtains unauthorized access to our clients data, our reputation could be damaged, our business may suffer and we could incur significant liability. Because the techniques used to obtain unauthorized access or to sabotage systems change frequently, we may not be able to anticipate these techniques and implement adequate preventative or protective measures. Cyber liability insurance may be inadequate or may not be available in the future on acceptable terms, or at all. In addition, our cyber liability insurance policy may not cover all claims made against us, and defending a suit, regardless of its merit, could be costly and divert management s attention.

Any actual or perceived breach of our security could damage our reputation, cause existing clients to discontinue the use of our solution, prevent us from attracting new clients, or subject us to third-party lawsuits, regulatory fines or other actions or liabilities, which could adversely affect our business, operating results or financial condition.

If the SaaS market develops more slowly than we expect or declines, our growth may slow or stall, and our business could be adversely affected.

The SaaS market is not as mature as the market for on-premise enterprise software, and it is uncertain whether SaaS will achieve and sustain high levels of demand and market acceptance. Our success will depend not only on strong demand for HCM services in general, but also to a substantial extent on the widespread adoption of SaaS. Many companies have invested substantial personnel and financial resources to integrate traditional enterprise software into their businesses, and therefore may be reluctant or unwilling to migrate to SaaS. It is difficult to predict client adoption rates and demand for our solution, the future growth rate and size of the SaaS market or the entry of competitive products. The expansion of the SaaS market depends on a number of factors, including the cost, performance and perceived value associated with SaaS, as well as the ability of SaaS providers to address security and privacy concerns. If other SaaS providers experience security incidents, loss of client data, disruptions in delivery or other problems, the market for SaaS applications as a whole, including our solution, may be negatively affected. If SaaS does not achieve widespread adoption, or there is a reduction in demand for SaaS caused by a lack of client acceptance, technological challenges, weakening economic conditions, security or privacy concerns, competing technologies and products, decreases in corporate spending or otherwise, our growth may slow or stall, and our business could be adversely affected.

Any interruption or failure of our data centers could impair our ability to effectively provide our solution and adversely affect our business.

We serve all of our clients from our two data centers located in Oklahoma and Texas. These locations are vulnerable to damage or interruption from severe weather, tornados, terrorist attacks, earthquakes, floods, fires, power loss, telecommunications failures, computer viruses or cyber-attacks. They are also subject to break-ins, sabotage, intentional acts of vandalism and other misconduct. Our solution depends on the continuing operation of our data centers and any damage to or failure of our data centers could result in interruptions in our services. Any interruption in our service could damage our reputation, cause our clients to terminate their use of our solution and prevent us from gaining new or additional business from current clients, which could have an adverse effect on our business, operating results or financial condition.

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Any significant disruption in our SaaS network infrastructure could harm our reputation and expose us to significant costs.

Our SaaS network infrastructure is a critical part of our business operations. Our clients access our solution through standard web browsers, smart phones, tablets and other web-enabled devises, and depend on us for fast and reliable access to our solution. In the future, we may experience disruptions in our computing and communications infrastructure. Factors that may cause such disruptions include:

- human error;
- security breaches;
- telecommunications failures or outages from third-party providers;
- computer viruses or cyber-attacks;
- acts of terrorism, sabotage or other intentional acts of vandalism;
- unforeseen interruption or damages;
- tornados, fires, earthquakes, floods and other natural disasters; and
- power loss.

If our SaaS network infrastructure or our clients ability to access to our solution is interrupted, client and employee data from recent transactions may be permanently lost and we could be exposed to significant claims by clients, particularly if the access interruption is associated with problems in the timely delivery of funds due to employees. Any significant instances of system downtime could negatively affect our reputation and ability to retain clients and sell our solution, which would adversely impact our revenues.

We have also experienced significant growth in the number of clients, transactions and client and employee data that our network infrastructure supports. We seek to maintain sufficient excess capacity in our network infrastructure to meet the needs of all of our clients and their employees and to facilitate the rapid provision of new client deployments and the expansion of existing client deployments. Any changes in the service levels at our data centers or any errors, defects, disruptions or other performance problems with our network infrastructure could adversely affect our reputation and may result in lengthy interruptions in the availability of our solution. Any interruptions in the availability of our solution might reduce our revenues, cause us to issue refunds to clients or adversely affect our retention of existing clients.

If our solution fails to perform properly, our reputation could be adversely affected and our market share could decline.

Our solution is inherently complex and may in the future contain, or develop, undetected defects or errors. Any defects in our applications or solution could adversely affect our reputation, impair our ability to sell our applications or solution in the future and result in significant costs to us. The costs incurred in correcting any defects may be substantial and could adversely affect our business, operating results or financial condition. Any defects in functionality or that cause interruptions in the availability of our applications or solution could result in:

- loss or delayed market acceptance and sales of our applications or solution;
- termination of service agreements or loss of clients;
- credits or refunds to clients;
- breach of contract, breach of warranty or indemnification claims against us, which may result in litigation;
- diversion of development and service resources; and
- injury to our reputation.

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Because of the large amount of data that we collect and manage, it is possible that hardware failures or errors in our systems could result in data loss or corruption, or cause the information that we collect to be incomplete or contain inaccuracies that our clients regard as significant. Furthermore, the availability or performance of our solution could be adversely affected by a number of factors, including the failure of our network system or solution or security breaches. We may be liable to our clients for damages they may incur resulting from certain of these events. In addition to potential liability, if we experience interruptions in the availability of our solution, our reputation could be adversely affected and we could lose clients.

Our clients might assert claims against us in the future alleging that they suffered damages due to a defect, error, or other failure of our solution. Our errors and omissions insurance may be inadequate or may not be available in the future on acceptable terms, or at all. In addition, our policy may not cover all claims made against us, and defending a suit, regardless of its merit, could be costly and divert management s attention.

If we do not effectively expand and train our sales force and our support teams, we may be unable to add new clients and retain existing clients.

We need to continue to expand our sales force and support team members in order to grow our client base and increase our revenues. Identifying and recruiting qualified personnel and training them in the use of our solution requires significant time, expense and attention and it can take a substantial amount of time before our sales representatives and support team members are fully-trained and productive. We may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we currently, or intend in the future to do business, and our recent hires and planned hires may not achieve desired productivity levels in a reasonable period of time or become as productive as we expect. If these expansion efforts are unsuccessful or do not generate a corresponding increase in revenues, our business, operating results or financial condition could be adversely affected.

If we are not able to develop enhancements and new applications, keep pace with technological developments or respond to future disruptive technologies, we might not remain competitive and our business could be adversely affected.

Our future success will depend on our ability to adapt and innovate. To attract new clients and increase revenues from existing clients, we need to enhance, add new features and improve our existing applications and introduce new applications. The success of any enhancements or new features and applications depends on several factors, including timely completion, introduction and market acceptance. We may expend significant time and resources developing and pursuing sales of a particular application that may not result in revenues in the anticipated time frame or at all, or may not result in revenue growth sufficient to offset increased expenses. If we are unable to successfully develop enhancements, new features or new applications to meet client needs, our business and operating results could be adversely affected.

In addition, because our applications are designed to operate on a variety of network, hardware and software platforms using Internet tools and protocols, we will need to continuously modify and enhance our applications to keep pace with changes in Internet-related hardware, software, communication, browser and database technologies. If we are unable to respond in a timely and cost-effective manner to these rapid technological developments, our current and future applications may become less marketable and less competitive or even obsolete.

Our success is subject to the risk of future disruptive technologies. If new technologies emerge that are able to deliver HCM solutions at lower prices, more efficiently or more conveniently, such technologies could adversely impact our ability to compete.

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The market for our solution among large companies may be limited if these companies demand customized features and functions that we do not offer.

Prospective clients, especially larger companies, may require customized features and functions unique to their business processes that we do not offer. In order to meet these requirements, we may devote a significant amount of support and services resources to larger prospective clients, increasing the cost and time required to complete sales with no guarantee that these clients will continue to use our solution. We may not be successful in implementing any customized features or functions. If prospective clients require customized features or functions that we do not offer, or that would be difficult for them to deploy, then the market for our solution will be more limited and our business could be adversely affected.

Our business and operations are experiencing rapid growth and organizational change. If we fail to manage such growth and change effectively, we may be unable to execute our business plan, maintain high levels of service or adequately address competitive challenges.

We have experienced, and may continue to experience, rapid growth in our headcount and operations, which has placed, and may continue to place, significant demands on our management, operational and financial resources. For example, our headcount has grown from 590 employees as of January 1, 2013 to 961 employees as of September 30, 2014 and we have expanded from 18 offices as of December 31, 2011 to 29 offices as of September 30, 2014. We have also experienced significant growth in the number of clients, transactions and client and employee data that our infrastructure supports. Finally, our organizational structure and recording systems and procedures are becoming more complex as we improve our operational, financial and management controls. Our success will depend in part on our ability to manage this growth and organizational change effectively. To manage the expected growth of our headcount and operations, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. Our ability to add additional offices may be constrained by the willingness and availability of qualified personnel to help staff and manage any new offices. The failure to effectively manage growth could result in difficulties or delays in obtaining clients, selling additional applications to our clients, declines in quality or client satisfaction of our applications, increases in costs, and difficulties in introducing new applications or other operational difficulties, any of which could adversely affect our ability to retain and attract clients or sell additional applications to our existing clients.

Our business, operating results or financial condition could be adversely affected if our clients are not satisfied with our deployment or technical support services.

Our business depends on our ability to satisfy our clients, both with respect to our applications and the technical support provided to help clients use the applications that address the needs of their businesses. We use our in-house deployment personnel to implement and configure our solution and provide support to our clients. If a client is not satisfied with the quality of our solution or the applications delivered or the support provided, we could be required to incur additional costs to address the situation, the profitability of our solution might be negatively affected, and the client s dissatisfaction with our deployment service could damage our ability to sell additional applications to that client. In addition, our sales process is highly dependent on the reputation of our solution and applications and on positive recommendations from our existing clients. Any failure to maintain high-quality technical support, or a market perception that we do not maintain high-quality support, could adversely affect our reputation, our ability to sell our applications to existing and prospective clients, and our business, operating results or financial condition.

If we fail to retain key employees and recruit qualified technical and sales personnel, our business could be adversely affected.

We believe that our success depends on the continued services of our senior management and other key employees, including Chad Richison, Craig E. Boelte, Jeffrey D. York and William X. Kerber III. In addition, because our future success is dependent on our ability to continue to enhance and introduce new applications, we are heavily dependent on our ability to attract and retain qualified software developers and IT personnel with the requisite education, background and industry experience. To continue to execute our growth strategy, we must also attract and retain qualified sales, marketing and operational personnel capable of supporting a larger and more diverse client base. The loss of the services of a significant number of our developers or sales professionals could be disruptive to our development efforts or business relationships. In addition, if any of our key employees joins a competitor or decides to otherwise compete with us, we may experience a material disruption of our operations and development plans, which may cause us to lose clients or increase operating expenses or divert management s attention to recruit replacements for the departed key employees.

Our financial results may fluctuate due to many factors, some of which may be beyond our control.

Our results of operations, including the levels of our revenues, costs of revenues, administrative expenses, operating income, cash flow and deferred revenue, may vary significantly in the future and the results of any one period should not be relied upon as an indication of future performance. Our financial results may fluctuate as a result of a variety of factors, many of which are outside of our control, and as a result, may not fully reflect the underlying performance of our business. Fluctuation in our financial results may negatively impact the value of our common stock. Factors that may cause our financial results to fluctuate from period to period include, without limitation:

- our ability to attract new clients or sell additional applications to our existing clients;
- the number of new clients and their employees, as compared to the number of existing clients and their employees in a particular period;
- the mix of clients between small, mid-sized and large organizations;
- the extent to which we retain existing clients and the expansion or contraction of our relationship with them;
- the mix of applications sold during a period;
- changes in our pricing policies or those of our competitors;
- seasonal factors affecting payroll processing, demand for our applications or potential clients purchasing decisions;
- the amount and timing of operating expenses, including those related to the maintenance and expansion of our business, operations and infrastructure;

the timing and success of new applications introduced by us and the timing of expenses related to the development of new applications and technologies;

the timing and success of current and new competitive products and services by our competitors;

economic conditions affecting our clients, including their ability to outsource HCM solutions and hire employees;

other changes in the competitive dynamics of our industry, including consolidation among competitors or clients;

our ability to manage our existing business and future growth, including expenses related to our data centers and the expansion of such data centers and the addition of new offices;

the effects and expenses of acquisition of third-party technologies or businesses and any potential future charges for impairment of goodwill resulting from those acquisitions;

network outages or security breaches; and

general economic, industry and market conditions.

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Certain of our operating results and financial metrics are difficult to predict as a result of seasonality.

We have historically experienced seasonality in our revenues because a significant portion of our recurring revenues relate to the annual processing of payroll forms such as Form W-2 and Form 1099. Because these forms are typically processed in the first quarter of the year, first quarter revenues are generally higher than subsequent quarters. We expect this seasonality to continue in the future, which may cause fluctuations in certain of our operating results and financial metrics, and thus make such results and metrics difficult to predict.

If we fail to adequately protect our proprietary rights, our competitive advantage could be impaired and we may lose valuable assets, generate reduced revenues or incur costly litigation to protect our rights.

Our success is dependent in part upon our intellectual property. We rely on a combination of copyrights, trademarks, service marks, trade secret laws and contractual restrictions to establish and to protect our intellectual property rights. However, the steps we take to protect our intellectual property may be inadequate. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. Despite our precautions, it may be possible for unauthorized third parties to copy our applications and use information that we regard as proprietary to create products or services that compete with ours.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. We have been involved in litigation in the past and litigation may be necessary in the future to protect and enforce our intellectual property rights and to protect our trade secrets and such litigation could be costly, time-consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. We may not be able to secure, protect and enforce our intellectual property rights or control access to, and the distribution of, our solution and proprietary information.

We may be sued by third parties for alleged infringement of their proprietary rights.

There is considerable intellectual property development activity in our industry, and we expect that software developers will increasingly be subject to infringement claims as the number of applications and competitors grows and the functionality of applications in different industry segments overlaps. Our competitors, as well as a number of other entities and individuals, may own or claim to own intellectual property in technology areas relating to our solution or applications. In addition, we may increasingly be subject to trademark infringement claims as our presence grows in the marketplace. From time to time, third parties have asserted and may in the future assert that we are infringing on their intellectual property rights, and we may be found to be infringing upon such rights. A claim of infringement may also be made relating to technology that we acquire or license from third parties. However, we may be unaware of the intellectual property rights of others that may cover, or may be alleged to cover, some or all of our solution, applications or brands.

For example, on September 23, 2014, in anticipation of an alleged trademark infringement claim, we filed a complaint against National Financial Partners Corp. in the United States District Court for the Western District of Oklahoma (Civil Action No. 5:14-cv-01029-R) seeking a declaratory judgment that we have not engaged in any trademark infringement or unfair competition in connection with the use of our logo. On September 23, 2014, National Financial Partners Corp. filed a complaint against Software in the United States District Court for the Northern District of Illinois (Civil Action No. 1:14-cv-07424). The complaint alleges trademark infringement, unfair competition, deceptive trade practices, consumer fraud and deceptive business practices related to the adoption and use of our logo and seeks preliminary and permanent injunctions prohibiting us from continued infringement as well as money damages, including an accounting for sales and profits, attorneys fees and disgorgement of profits. On October 16, 2014, National Financial Partners Corp. filed a motion to dismiss the action pending in the Western District of Oklahoma. On October 20, 2014, we filed a motion to transfer the action from the Northern District of Illinois to the Western District of Oklahoma, and a memorandum in support of the motion to transfer, in the Northern District of Illinois. On December 12, 2014, the United States District Court for the Western District of Oklahoma granted National Financial Partners Corp. s motion to dismiss. National Financial Partners Corp. has moved for an order preliminarily enjoining us from using our logo in the Northern District of Illinois. On January 5, 2015, we filed an answer, affirmative defenses and counterclaim in the Northern District of Illinois denying the material allegations in National Financial Corp. s complaint and seeking a declaratory judgment that we have not engaged in any trademark infringement with respect to the use of our logo. We intend to vigorously defend this litigation. In the event that a court ultimately determines that we have infringed any of the asserted trademarks or grants National Financial Partners Corp. s motion for a preliminary injunction, we may be subject to damages, which may include treble damages, be enjoined from using our current logo while the parties are litigating the merits of the claims or be required to modify our logo and/or undergo a rebranding of our solution and applications. We cannot predict with any degree of certainty the outcome of the litigation or determine the extent of any potential liability or damages.

The outcome of the foregoing litigation matter is inherently unpredictable, and therefore as a result of this litigation or any future claim of infringement, this litigation or any such claim could (i) cause us to enter into an unfavorable royalty or license agreement, pay ongoing royalties or require that we comply with other unfavorable terms, (ii) require us to change or modify our existing trademarks or discontinue the sale of our solution or applications, (iii) require us to indemnify our clients or third-party service providers or (iv) require us to expend additional development or marketing resources to redesign our solution, applications or brand. Any of these outcomes could harm our business. Even if we were to prevail, any litigation regarding our intellectual property could be costly and time consuming and divert the attention of our management and key personnel from our business and operations.

We employ third-party licensed software for use in our applications, and the inability to maintain these licenses or errors in the software we license could result in increased costs or reduced service levels, which could adversely affect our business.

Our applications incorporate certain third-party software obtained under licenses from other companies. We anticipate that we will continue to rely on such third-party software and development tools from third parties in the future. Although we believe that there are commercially reasonable alternatives to the third-party software we currently license, this may not always be the case, or it may be difficult or costly to replace. In addition, integration of the software used in our applications with new third-party software may require significant work and substantial investment of our time and resources. Also, to the extent that our applications depend upon the successful operation of third-party software in conjunction with our software, any undetected errors or defects in this third-party software could prevent the deployment or impair the functionality of our applications, delay new application introductions, result in a failure of our applications and harm our reputation.

The use of open source software in our applications may expose us to additional risks and harm our intellectual property rights.

Some of our applications use software covered by open source licenses. From time to time, there have been claims challenging the ownership of open source software against companies that incorporate such software into their products or applications. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition or require us to devote additional development resources to change our applications. In addition, if we were to combine our applications with open source software in a certain manner, we could, under certain of the open source licenses, be required to release the source code of our applications. If we inappropriately use open source software, we may be required to redesign our applications, discontinue the sale of our applications or take other remedial actions.

The failure to develop our brand cost-effectively could have an adverse effect on our business.

We believe that developing and maintaining widespread awareness of our brand in a cost-effective manner is critical to achieving the widespread acceptance of our solution and is an important element in attracting new clients and retaining existing clients. Successful promotion of our brand will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable and useful applications at competitive prices. Brand promotion activities may not yield increased revenues, and even if they do, any increased revenues may not offset the expenses incurred in building our brand. If we fail to successfully promote and maintain our brand, or incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, we may fail to attract enough new clients or retain our existing clients to the extent necessary to realize a sufficient return on our brand-building efforts, which could have an adverse effect on our business.

We might require additional capital to support business growth, and this capital might not be available on acceptable terms, if at all.

We have funded our operations since inception through cash flows generated from operations, cash from the sale of debt and equity securities and borrowings under consolidated loans. In the future, we may require additional capital to support our growth and respond to operational challenges, including the need to develop new features and applications or enhance our existing applications, improve our infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our growth and respond to challenges could be significantly limited.

We may acquire other businesses, applications or technologies, which could divert our management s attention, result in additional dilution to our stockholders or require additional debt and otherwise disrupt our operations and harm our operating results.

In the future, we may seek to acquire or invest in businesses, applications or technologies that we believe complement or expand our applications, enhance our technical capabilities or otherwise offer growth opportunities. The pursuit of potential acquisitions may divert the attention of management and cause us to incur expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are ultimately consummated.

We do not have any experience in acquiring other businesses. If we acquire additional businesses, we may not be able to integrate the acquired personnel, operations and technologies successfully or to effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including:

- the inability to integrate or benefit from acquired applications or services in a profitable manner;
- unanticipated costs or liabilities associated with the acquisition;
- the incurrence of acquisition-related costs;

difficulty integrating the accounting systems, operations and personnel of the acquired business;

difficulty and additional expenses associated with supporting legacy products and hosting infrastructure of the acquired business;

difficulty converting the clients of the acquired business onto our solution, including disparities in the revenues, licensing, support or services of the acquired company;

diversion of management s attention from other business concerns;

harm to our existing relationships with clients as a result of the acquisition;

- the potential loss of key employees;
- the use of resources that are needed in other parts of our business; and
- the use of substantial portions of our available cash to consummate the acquisition.

In addition, a significant portion of the purchase price of any companies we acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could harm our results of operations. Acquisitions could also result in issuances of equity securities or the incurrence of debt, which would result in dilution to our stockholders.

Our growth depends in part on the success of our relationships with third parties.

We rely on third-party financial and accounting processing systems, as well as various financial institutions, to perform financial services in connection with our applications, such as providing ACH and wire transfers as part of our payroll and expense reimbursement services and to provide technology and content support, manufacture time clocks and process background checks. We anticipate that we will continue to depend on various third-party relationships in order to grow our business, provide technology and content support, manufacture time clocks and process background checks. Identifying, negotiating and documenting relationships with these third parties and integrating third-party content and technology requires significant time and resources. Our agreements with third parties are typically non-exclusive and typically do not prohibit them from working with our competitors. In addition, these third parties may not perform as expected under our agreements, and we may have disagreements or disputes with such third parties, which could negatively affect our brand and reputation. A global economic slowdown could also adversely affect the businesses of our third party providers, particularly those financial institutions that process transactions through the ACH network, and it is possible that they may not be able to devote the resources we expect to our relationship.

If we are unsuccessful in establishing or maintaining our relationships with these third parties, our ability to compete in the marketplace or to grow our revenues could be impaired and our business, operating results or financial condition could be adversely affected. Even if we are successful, these relationships may not result in improved operating results.

Adverse economic conditions could adversely affect our business, operating results or financial condition.

Our business depends on the overall demand for HCM applications and on the economic health of our current and prospective clients. If economic conditions in the United States remain uncertain or deteriorate, clients may cease their operations or delay or reduce their HCM spending or the number of their employees. This could result in reductions in sales of our applications, longer sales cycles, slower adoption of new technologies and increased price competition, any of which could adversely affect our business, operating results or financial condition. In addition, HCM spending levels may not increase following any recovery.

If our goodwill or other intangible assets become impaired, we may be required to record a significant charge to earnings.

We are required to test goodwill for impairment at least annually or earlier if events or changes in circumstances indicate the carrying value may not be recoverable. As of September 30, 2014, we had recorded a total of $51.9

million of goodwill and $5.5 million of other intangible assets. An adverse change in market conditions, particularly if such change has the effect of changing one of our critical assumptions or estimates made in connection with the impairment testing of goodwill or intangible assets, could result in a change to the estimation of fair value that could result in an impairment charge to our goodwill or other intangible assets. Any such material charges may negatively impact our operating results.

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We typically pay employees and may pay taxing authorities amounts due for a payroll period before a client s electronic funds transfers are finally settled to our account. If client payments are rejected by banking institutions or otherwise fail to clear into our accounts, we may require additional sources of short-term liquidity and our operating results could be adversely affected.

Our payroll processing application moves significant funds from the account of a client to employees and relevant taxing authorities. For larger funding amounts, we require clients to transfer the funds to us via fed wire. For smaller funding amounts, we debit a client s account prior to any disbursement on its behalf, and due to Automated Clearing House, or ACH, banking regulations, funds previously credited could be reversed under certain circumstances and time frames after our payment of amounts due to employees and taxing and other regulatory authorities. There is therefore a risk that the employer s funds will be insufficient to cover the amounts we have already paid on its behalf. While such shortage and accompanying financial exposure has only occurred in very limited circumstances in the past, should clients default on their payment obligations in the future, we might be required to advance substantial funds to cover such obligations. In such an event, we may be required to seek additional sources of short-term liquidity, which may not be available on reasonable terms, if at all, and our operating results and our liquidity could be adversely affected and our banking relationships could be harmed.

Because our long term success depends, in part, on our ability to expand the sales of our solution to clients located outside of the United States, our business will be subject to risks associated with international operations.

An element of our growth strategy is to expand our operations and client base. To date, we have not engaged in any operations outside of the United States. If we decide to expand our operations into international markets, it will require significant resources and management attention and will subject us to regulatory, economic and political risks that are different from those in the United States. Because of our lack of experience with international operations, we cannot assure you that our international expansion efforts will be successful.

Risks Related to Legislation or Regulation

Privacy concerns and laws or other domestic regulations may reduce the effectiveness of our applications.

Our applications require the storage and transmission of the proprietary and confidential information of our clients and their employees, including personal or identifying information, as well as their financial and payroll data. Our applications are subject to varying complex government laws and regulations on the federal, state and local levels, including those governing personal privacy, which has become a significant issue in the United States. The regulatory framework for privacy issues is rapidly evolving and is likely to remain uncertain for the foreseeable future. Many federal, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information. In the United States, examples of these include rules and regulations promulgated under the authority of the Federal Trade Commission, the Health Insurance Portability and Accountability Act of 1996, the Family Medical Leave Act of 1993, the Patient Protection and Affordable Care Act, federal and state labor and employment laws and state data breach notification laws.

In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards. Because the interpretation and application of privacy and data protection laws are still uncertain, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our solution. Furthermore, privacy concerns may cause our clients employees to resist providing the personal data necessary to allow our clients or their employees to use our applications effectively. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our applications in certain industries. All of these legislative and regulatory initiatives may adversely affect the ability of our clients to process, handle, store, use and transmit demographic and personal information from their employees, which could reduce demand for our applications.

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Any failure to comply with government regulations that apply to our applications, including privacy and data protection laws, could subject us to liability, the possibility of fines, lawsuits and other claims, we could be required to fundamentally change our business activities and practices or modify our solution, which could have an adverse effect on our business, operating results or financial condition. Any inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy or data protection laws, regulations and policies, could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely affect our business, operating results or financial condition.

Changes in laws and regulations related to the Internet or changes in the Internet infrastructure itself may diminish the demand for our applications, and could have a negative impact on our business.

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communication and business. Federal, state and foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the Internet as a commercial medium. Changes in these laws or regulations could require us to modify our applications in order to comply with these changes. In addition, government agencies or private organizations may impose taxes, fees or other charges for accessing the Internet or commerce conducted via the Internet. These laws or charges could limit the growth of Internet-related commerce or communications generally, or result in reductions in the demand for Internet-based applications such as ours.

In addition, the use of the Internet as a means of conducting business could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of Internet activity, security, reliability, cost, ease of use, accessibility, and quality of service. The performance of the Internet has been adversely affected by viruses, worms and similar malicious programs and the Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If the use of the Internet is adversely affected by these issues, demand for our applications could suffer.

If we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected.

We will be required pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for the fiscal year ending on December 31, 2015 and in each year thereafter. Our auditors will also need to attest to the effectiveness of our internal control over financial reporting in the future to the extent we are no longer an emerging growth company, as defined by the Jumpstart Our Business Startups Act, or the JOBS Act, and are not a smaller reporting company.

If we have a material weakness in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. We are in the process of designing and implementing internal control over financial reporting to comply with this obligation, which process will be time consuming, costly and complicated. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner, if we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports we could become subject to investigations by the New York Stock Exchange, the Securities and Exchange Commission, or the SEC, or other regulatory authorities and the market price of our common stock could be negatively affected.

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We have incurred and will continue to incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies.

As a new public company, we have incurred and expect to continue to incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting and corporate governance requirements. For example, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are required to comply with the applicable requirements of the Sarbanes-Oxley Act, as well as rules and regulations subsequently implemented by the Securities and Exchange Commission, or the SEC, and the New York Stock Exchange, including the establishment and maintenance of effective disclosure controls and procedures and internal control over financial reporting and changes in corporate governance practices.

Compliance with these rules and regulations will increase our legal and financial compliance costs and make some activities more time-consuming and costly. In particular, we have incurred and expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act, which will increase to the extent we are no longer an emerging growth company, as defined by the JOBS Act, and are not a smaller reporting company. We cannot fully predict or estimate the amount or timing of future costs associated with being a public company, which could adversely affect our operating results.

The increased costs associated with operating as a public company may decrease our net income or result in a net loss and may require us to reduce costs in other areas of our business or increase the prices of our solution. Additionally, if these requirements divert management s attention from other business concerns, they could have an adverse effect on our business, operating results or financial condition.

As a public company, we may be required to accept reduced policy limits and coverage for director and officer liability insurance or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers.

We are an emerging growth company and the reduced disclosure requirements applicable to emerging growth companies may make our common stock less attractive to investors.

We are an emerging growth company. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we are subject to the same new or revised accounting standards as other public companies that are not emerging growth companies. Pursuant to Section 102 of the JOBS Act, we have reduced executive compensation disclosure and have omitted a Compensation Discussion and Analysis from this prospectus.

For as long as we continue to be an emerging growth company, we intend to take advantage of certain other exemptions from various reporting requirements that are applicable to other public companies including reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding a nonbinding advisory vote on executive compensation, the frequency of the nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved and the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. Investors may find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We will remain an emerging growth company until the earliest of (i) the end of the fiscal year in which the market value of our common stock that is held by non-affiliates exceeds $700 million as of June 30th, (ii) the end of the fiscal year in which we have total annual gross revenues of $1 billion or more during such fiscal year, (iii) the date on which we issue more than $1 billion in non-convertible debt in a three-year period and (iv) December 31, 2019.

Adverse tax laws or regulations could be enacted or existing laws could be applied to us or our clients, which could increase the costs of our solution and applications and could adversely affect our business, operating results or financial condition.

The application of federal, state and local tax laws to services provided electronically is evolving. New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time (possibly with retroactive effect), and could be applied solely or disproportionately to services and applications provided over the Internet. These enactments could adversely affect our sales activity, due to the inherent cost increase the taxes would represent and ultimately could adversely affect our business, operating results or financial condition.

In addition, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us (possibly with retroactive effect), which could require us or our clients to pay additional tax amounts, as well as require us or our clients to pay fines or penalties and interest for past amounts. If we are unsuccessful in collecting such taxes from our clients, we could be held liable for such costs, thereby adversely affecting our business, operating results or financial condition.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board, or FASB, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

Risks Related to this Offering and Ownership of our Common Stock

Our actual operating results may differ significantly from our guidance.

From time to time, we have released, and may continue to release, guidance in our quarterly earnings conference calls, quarterly earnings releases, or otherwise, regarding our future performance that represents our estimates as of the date of release. This guidance, which includes forward-looking statements, has been and will be based on projections prepared by our management. These projections are not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our registered public accountants nor any other independent expert or outside party compiles or examines the projections. Accordingly, no such person expresses any opinion or any other form of assurance with respect to the projections.

Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic, and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. The principal reason that we release guidance is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such third parties.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the guidance furnished by us will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results may vary from our guidance and the variations may be material. In light of the foregoing, investors are urged not to rely upon our guidance in making an investment decision regarding our common stock.

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Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this Risk Factors section in this prospectus could result in the actual operating results being different from our guidance, and the differences may be adverse and material.

The price of our common stock has been and may continue to be volatile or may decline regardless of our operating performance, and you may not be able to resell your shares at or above the current market price.

The market price of our common stock has been, and is likely to continue to be, volatile for the foreseeable future. If an active trading market for our common stock is not sustained, you may have difficulty selling any shares of our common stock that you purchased, and the value of such shares may be materially impaired. The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- our operating performance and the performance of other similar companies;
- the overall performance of the equity markets;
- announcements by us or our competitors of new applications or enhancements, acquisitions, applications, services, strategic alliances, commercial relationships, joint ventures or capital commitments;
- disruptions in our services due to hardware, software or network problems;
- recruitment or departure of key personnel;
- publication of unfavorable research reports about us or our industry or withdrawal of research coverage by securities analysts;
- trading activity by a limited number of stockholders who together beneficially own a majority of our outstanding common stock;
- the size of our public float;
- the economy as a whole, market conditions in our industry and the industries of our clients; and
- economic, legal and regulatory factors unrelated to our performance.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have filed securities class actions following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business, operating results or financial condition.

Substantial blocks of our total outstanding shares may be sold into the market when the lock-up period ends. If there are substantial sales of shares of our common stock, the price of our common stock could decline.

The price of our common stock could decline if there are substantial sales of our common stock, particularly sales by our directors, executive officers and significant stockholders. Upon the completion of this offering, we expect to have 53,835,333 shares of our common stock outstanding. All of the shares of common stock sold in this offering will be eligible for sale in the public market, unless they are held by our affiliates. Shares held by directors, executive officers and other affiliates will be subject to volume limitations under Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, and restrictions under the terms of various restricted stock award agreements.

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After this offering, our officers, directors, greater than 5% stockholders and selling stockholders will be subject to lock-up agreements with the underwriters or us that restrict their ability to sell shares of common stock until 91 days after the date of this prospectus. After the lock-up agreements expire, an additional 38,667,296 shares of common stock will be eligible for sale in the public market, subject in many cases to the limitations of either Rule 144 or Rule 701 under the Securities Act. Upon completion of this offering, stockholders owning an aggregate of up to 32,828,586 shares of common stock are entitled, under a registration rights agreement, to require us to register shares of our common stock owned by them for public sale in the United States. We also intend to register shares of common stock that we have issued and may issue in the future under our employee equity incentive plans. Once we register these shares, they will be able to be sold freely in the public market upon issuance, subject to existing lock-up agreements.

Credit Suisse Securities (USA) LLC on behalf of the underwriters in their discretion may permit our stockholders to sell shares prior to the expiration of the restrictive provisions contained in those lock-up agreements. The market price of the shares of our common stock could decline as a result of the sale of a substantial number of our shares of common stock in the public market, the availability of shares for sale or the perception in the market that the holders of a large number of shares intend to sell their shares. In addition, the sale of these shares by stockholders could impair our ability to raise capital through the sale of additional stock.

If securities or industry analysts do not publish research or publish misleading or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If no or few securities or industry analysts cover our company, the trading price for our common stock would be negatively impacted. If one or more of the analysts who covers us downgrades our stock or publishes incorrect or unfavorable research about our business, our common stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our common stock could decrease, which could cause our common stock price or trading volume to decline.

Our principal stockholders will hold a controlling interest after this offering and may make business decisions with which you disagree and which may adversely affect the value of your investment.

After this offering, the parties to the Stockholders Agreement, which includes Chad Richison, Shannon Rowe, William X. Kerber, III, Jeffrey D. York, Robert J. Levenson and the Estate of Richard Aiello and certain of their affiliates or related entities, and the WCAS Funds, or collectively, the Stockholders Agreement Parties, will beneficially own or control, directly or indirectly, 41,144,354 shares of our common stock in the aggregate, or approximately 76.4% of our outstanding shares, or, if the underwriters option to purchase additional shares is exercised in full, 40,306,604 shares of common stock in the aggregate equal to approximately 74.9% of our outstanding shares. As a result of this ownership and the provisions of the Stockholders Agreement, the WCAS Funds will have the ability to control matters submitted to our stockholders for approval, including the election and removal of directors, amendments to our certificate of incorporation and bylaws and the approval of any business combination. These actions may be taken even if they are opposed by other stockholders. This concentration of ownership may also have the effect of delaying or preventing a change of control of our company or discouraging others from making tender offers for our shares, which could prevent our stockholders from receiving a premium for their shares.

Some of these persons or entities may have interests different than yours. For example, because many of these stockholders purchased their shares at prices substantially below the price at which shares are being sold in this offering and have held their shares for a longer period, they may be more interested in selling our company to an acquiror than other investors or may want us to pursue strategies that deviate from the interests of other stockholders.

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We will be deemed a controlled company and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements.

After this offering, the Stockholders Agreement Parties will continue to own common stock representing a majority of our outstanding shares of common stock. So long as such persons collectively own a majority of our outstanding shares of common stock, we will be a controlled company within the meaning of corporate governance standards of the New York Stock Exchange. Under those standards, a company of which more than 50% of the voting power for the election of directors is held by another company or group is a controlled company and need not comply with certain requirements, including (1) the requirement that a majority of the board of directors consist of independent directors, (2) the requirement that there be a nominating and corporate governance committee composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities, (3) the requirement that there be a compensation committee composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities and (4) the requirement of an annual performance evaluation of the nominating/corporate governance and compensation committees. We intend to rely on certain of these exemptions following the offering, and may rely on any of these exemptions for so long as we are a controlled company. As a result, we will not have a majority of independent directors on our board of directors, and our compensation committee will not consist entirely of independent directors. If we are no longer eligible to rely on the controlled company exception, we intend to comply with all applicable corporate governance requirements, but we will be able to rely on phase-in periods for certain of these requirements in accordance with the New York Stock Exchange s rules. Accordingly, our stockholders may not have the same protections afforded to stockholders of companies that are subject to all New York Stock Exchange corporate governance requirements.

The issuance of additional stock in connection with acquisitions, our stock incentive plans, warrants or otherwise will dilute all other stockholders.

Our certificate of incorporation authorizes us to issue up to one hundred million shares of common stock and up to ten million shares of preferred stock with such rights and preferences as may be determined by our board of directors. Subject to compliance with applicable rules and regulations, we may issue all of these shares that are not already outstanding without any action or approval by our stockholders. We intend to continue to evaluate strategic acquisitions in the future. We may pay for such acquisitions, partly or in full, through the issuance of additional equity securities.

Any issuance of shares in connection with our acquisitions, the exercise of stock options or warrants, the award of shares of restricted stock or otherwise would dilute the percentage ownership held by the investors who purchase our shares in this offering.

We do not intend to pay dividends for the foreseeable future.

We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. Consequently, stockholders must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

Anti-takeover provisions in our charter documents and Delaware law may delay or prevent an acquisition of our company.

Our certificate of incorporation, bylaws and Delaware law contain provisions that may have the effect of delaying or preventing a change in control of us or changes in our management. These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management. For information regarding these and other provisions, see Description of Capital Stock.

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Any provision of our certificate of incorporation, bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could affect the price that some investors are willing to pay for our common stock.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements and information relating to us that are based on the beliefs of our management as well as assumptions made by, and information currently available to, us. These statements include, but are not limited to, statements about our strategies, plans, objectives, expectations, intentions, expenditures, assumptions and other statements contained in this prospectus that are not historical facts. When used in this document, words such as anticipate, believe, estimate, expect, intend, may, plan and project and similar they relate to us are intended to identify forward-looking statements. These statements reflect our current views with respect to future events, are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Further, certain forward-looking statements are based upon assumptions as to future events that may not prove to be accurate.

These forward-looking statements include, but are not limited to, our business and strategy, possible or assumed future results of operations, cash flows, capital resources and liquidity, trends, opportunities and risks affecting our business, industry and financial results, future expansion or growth plans and potential for future growth, technology, market opportunities and acceptance by new clients of our solution, and the amount, nature and timing of capital expenditures. These statements include, without limitation, that we believe (i) that our growth will generally mirror improvements in the labor market, (ii) that an increasing percentage of our recurring revenues will come from the sale of non-payroll and tax management HCM applications over time and result in an improved gross margin, (iii) that our gross margin also will gradually improve as a result of additional clients, sale of additional applications to existing clients and reduced costs of revenues and administrative expenses, (iv) that our capital expenditures and investment activity will continue to increase, (v) that we will fulfill our obligations under the agreement with the Oklahoma City Economic Development Trust, (vi) that we will be able to affect our plan to open additional sales offices in the future, (vii) that our existing cash and cash equivalents will be sufficient to meet our working capital and capital expenditure needs over the next twelve months, and (viii) that our capital expenditures and investment activity will increase as our business grows.

These forward-looking statements involve known and unknown risks, inherent uncertainties and other factors, which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. Actual results and the timing of certain events may differ materially from those contained in these forward-looking statements.

All forward-looking statements speak only at the date of this prospectus. You should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this prospectus are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. We disclose important factors that could cause our actual results to differ materially from our expectations under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this prospectus. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf. We do not undertake any obligation to update or revise any forward-looking statements except as required by law, including the securities laws of the United States and the rules and regulations of the SEC.

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MARKET, INDUSTRY AND OTHER DATA

This prospectus includes industry data and forecasts that we have prepared based, in part, upon data and forecasts obtained from industry publications, surveys and forecasts and internal studies. Third-party industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable.

Although certain of the companies that compete in our markets are publicly held as of the date of this prospectus, others are not. Accordingly, only limited public information is available with respect to our relative market strength or competitive position. Unless we state otherwise, our statements about our relative market strength and competitive position in this prospectus are based on our management s beliefs, internal studies and our management s knowledge of industry trends. Although we believe that such information is reliable, we have not had this information verified by any independent sources.

THE 2014 REORGANIZATION

On January 1, 2014, we consummated a reorganization in preparation for our initial public offering. Prior to the reorganization, (i) Software was formed as a Delaware corporation and an indirect and wholly owned subsidiary of Holdings, and (ii) we operated our business through Holdings and its subsidiaries, and Holdings had Series A, Series B and Series C Preferred Units and common units outstanding. In connection with the reorganization, (i) affiliates of Welsh, Carson, Anderson & Stowe contributed WCAS Holdings and WCAS CP IV Blocker, Inc., or CP IV Blocker, which collectively owned all of the Series A Preferred Units of Holdings, to Software in exchange for shares of common stock of Software and (ii) the owners of outstanding Series B Preferred Units of Holdings contributed their Series B Preferred Units for shares of common stock of Software. Immediately after these contributions, Paycom Software Merger Sub, LLC, or Merger Sub, a wholly-owned subsidiary of Software, merged with and into Holdings with Holdings surviving the merger. Upon consummation of the merger, the remaining holders of outstanding common and incentive units of Holdings received shares of common stock of Software for their common and incentive units by operation of Delaware law, and Holdings ownership interest in Software was cancelled. Outstanding common units, Series B Preferred Units and WCAS Holdings and CP IV Blocker were contributed to Software in exchange for, or converted into, 45,708,573 shares of common stock and 8,121,101 shares of restricted stock of Software. Following these transactions, all outstanding Series C Preferred Units were eliminated in an intercompany transaction between Holdings and WCAS Holdings, and we assumed a 14% Note due 2017 issued by WCAS Holdings, or the 2017 Note. Following the reorganization, Software became a holding company with its principal asset being the Series A Preferred Units of Holdings. We refer to these transactions collectively as the 2014 Reorganization.

For additional information concerning the 2014 Reorganization, see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Restricted Stock and Incentive Units and Note 1. Consolidation and Basis of Presentation in the notes to the audited condensed consolidated financial statements, which description is incorporated by reference herein.

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USE OF PROCEEDS

We will not receive any proceeds from the sale of shares offered by the selling stockholders, including the sale of any shares by the selling stockholders if the underwriters exercise their option to purchase additional shares of common stock.

Robert J. Levenson purchased 1,000 shares of our common stock on September 9, 2014 in the public market. Any profits realized by Mr. Levenson upon the sale of up to 1,000 shares of common stock prior to March 9, 2015 are recoverable by us under Section 16(b) of the Exchange Act, or Section 16(b). Accordingly, Mr. Levenson agreed that he will pay us the amount of any profit realized as a result of the sale of 1,000 of the shares of common stock he sells in this offering. Mr. Levenson will not realize any profit on the sale of these shares of common stock in this offering unless the offering price is greater than $16.22 per share. Based upon an assumed offering price of $25.43 per share (which was the last reported sale price of our common stock on January 9, 2015), Mr. Levenson would disgorge approximately $9,210 to us.

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DIVIDEND POLICY

We do not currently plan to pay a regular dividend on our common stock. The declaration, amount and payment of any future dividends on shares of common stock will be at the sole discretion of our board of directors and we may reduce or discontinue entirely the payment of such dividends at any time. Our board of directors may take into account general and economic conditions, our financial condition and operating results, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions and implications of the payment of dividends by us to our stockholders or by our subsidiaries to us, and such other factors as our board of directors may deem relevant. While there are no restrictions that currently apply under the 2021 Consolidated Loan due to Kirkpatrick Bank that matures on May 30, 2021, or the 2021 Consolidated Note, it prohibits the payment of dividends if an event of default exists under the 2021 Consolidated Loan. In addition, any future debt agreements that we may enter into the future may prohibit the payment of dividends.

We are a holding company that has no material assets other than our indirect ownership of all of the outstanding Series A Preferred Units of Holdings. In the event that we decide to pay dividends in the future, we intend to cause Holdings to make distributions to us in an amount sufficient to cover cash dividends, if any, declared by us. Any financing arrangements that we enter into in the future may include restrictive covenants that limit our or our subsidiaries ability to pay dividends.

In April 2012 and October 2012, we paid cash distributions of $0.1 million and $2,000, respectively, to our common unit holders for the payment of taxes. We also paid a cash distribution of $18.8 million to our common unit holders in April 2012 as part of the April 2012 Corporate Reorganization (as defined herein). In April 2013 and December 2013, we paid cash distributions of $1.8 million and $4.0 million, respectively, to our common unit holders and Series A Preferred unit holders for the payment of taxes.

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the New York Stock Exchange under the symbol PAYC. Our initial public offering was priced at $15.00 per share on April 14, 2014. The following table sets forth for the periods indicated the high and low intra-day sale prices per share of our common stock as reported on the New York Stock Exchange:

	High	Low
Fiscal Year 2014:		
Second Quarter (from April 15, 2014)	$ 17.92	$ 13.01
Third Quarter	$ 19.24	$ 12.28
Fourth Quarter	$ 29.42	$ 14.32

On January 9, 2015, the last reported sale price of our common stock on the New York Stock Exchange was $25.43 per share. As of January 7, 2015, we had 223 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of September 30, 2014. You should read this table in conjunction with The 2014 Reorganization, Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, Description of Capital Stock and our unaudited consolidated financial statements and related notes as of September 30, 2014 included elsewhere in this prospectus (in thousands, except share and per share data).

	As of September 30, 2014
Cash and cash equivalents	$ 18,473
Current portion of long-term debt	845
Long-term debt, less current portion	26,341
Stockholders equity	
Common stock, $0.01 par value (100,000,000 shares authorized, 51,056,462 shares issued and outstanding at September 30, 2014)	510
Additional paid in capital	66,949
Retained earnings	3,157
Total stockholders equity	70,616
Total capitalization	$ 97,802

In this section, the number of shares of common stock outstanding and the other information based thereon:

- excludes 7,356,295 shares of restricted common stock that were subject to time-based or performance-based vesting conditions as of September 30, 2014;
- excludes 3,269,001 shares of our common stock that were reserved for future issuance under the 2014 Plan as of September 30, 2014; and
- does not reflect any exercise by the underwriters of their option to purchase 837,750 additional shares of our common stock from certain selling stockholders.

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SELECTED CONSOLIDATED FINANCIAL DATA

We have derived the unaudited consolidated statements of income data for the nine months ended September 30, 2014 and 2013, and the unaudited summary consolidated balance sheet data as of September 30, 2014 from our unaudited consolidated financial statements included elsewhere in this prospectus. We have derived the consolidated statements of income data for the years ended December 31, 2013, 2012 and 2011 (audited) and the consolidated balance sheet data as of December 31, 2013 and 2012 (audited) from our audited consolidated financial statements included elsewhere in this prospectus. We have derived the consolidated statements of income data for the years ended December 31, 2010 and 2009 and the consolidated balance sheet data as of December 31, 2011, 2010 and 2009 (unaudited) from our consolidated financial statements not included in this prospectus. Historical results are not necessarily indicative of results for any future period. Our unaudited consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and, in the opinion of management, reflect all adjustments necessary for the fair statement of those unaudited consolidated financial statements.

Our selected consolidated financial data set forth below should be read together with Capitalization, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes thereto, which are included elsewhere in this prospectus.

	Nine Months Ended September 30,		Year Ended December 31,				
	2014	2013	2013	2012	2011	2010	2009
	(amounts in thousands, except per share data)						
Consolidated statement of income data:							
Revenues							
Recurring	$ 105,030	$ 75,808	$ 105,560	$ 75,420	$ 56,382	$ 40,585	$ 29,260
Implementation and other	1,859	1,513	2,041	1,390	824	716	618
Total revenues	106,889	77,321	107,601	76,810	57,206	41,301	29,878
Cost of revenues							
Operating expenses	17,847	13,633	19,070	14,895	12,287	8,927	5,880
Depreciation	1,876	1,320	1,821	1,431	987	675	457
Total cost of revenues	19,723	14,953	20,891	16,326	13,274	9,602	6,337
Administrative expenses							
Sales and marketing	44,237	28,913	42,681	29,255	22,244	15,678	11,212
Research and development	2,878	1,317	2,146	1,632	1,225	977	665
General and administrative	25,816	18,851	28,729	19,372	14,650	11,040	8,327
Depreciation and amortization	3,322	2,716	3,682	4,092	4,300	4,091	4,074
Total administrative expenses	76,253	51,797	77,238	54,351	42,419	31,786	24,278
Total operating expenses	95,976	66,750	98,129	70,677	55,693	41,388	30,615

Operating income	10,913	10,571	9,472	6,133	1,513	(87)	(737)
Interest expense	(3,079)	(6,929)	(9,272)	(6,977)	(134)		(5)
Net loss on early repayment of debt	(4,044)						
Other income (expense), net	1,395	140	1,199	354	108	129	281
Income (loss) before income taxes	5,185	3,782	1,399	(490)	1,487	42	(461)
Provision (benefit) for income taxes	2,028	1,211	792	(84)	601	127	(76)
Net income (loss)	3,157	2,571	607	(406)	886	(85)	(385)
Net income (loss) attributable to the noncontrolling interest		19	6	(3)			
Net income (loss) attributable to the Company	$ 3,157	$ 2,552	$ 601	$ (403)	$ 886	$ (85)	$ (385)
Pro forma additional income tax expense (benefit)		563	(137)	(14)	35		
Pro forma net income (loss)	$ 3,157	$ 1,989	$ 738	$ (389)	$ 851	$ (85)	$ (385)

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	Nine Months Ended September 30, 2014	2013	Year Ended December 31, 2013	2012	2011	2010	2009
	(amounts in thousands, except per share data)						
Net income (loss) per share, basic	0.06	0.06	0.01	(0.01)	0.02	0.00	(0.01)
Net income (loss) per share, diluted	0.06	0.05	0.01	(0.01)	0.02	0.00	(0.01)
Pro forma net income (loss) per share, basic	0.06	0.04	0.02	(0.01)	0.02	0.00	(0.01)
Pro forma net income (loss) per share, diluted	0.06	0.04	0.02	(0.01)	0.02	0.00	(0.01)
Weighted average shares outstanding:							
Basic	49,040,344	45,398,933	45,476,895	44,771,559	44,560,053	44,560,053	44,560,053
Diluted[1]	51,223,048	47,975,548	48,062,075	44,771,559	45,411,371	44,560,053	44,560,053
Pro forma weighted average shares outstanding:							
Basic	49,040,344	45,398,933	45,476,895	44,771,559	44,560,053	44,560,053	44,560,053
Diluted[1]	51,223,048	47,975,548	48,062,075	44,771,559	45,411,371	44,560,053	44,560,053

	As of September 30, 2014	2013	As of December 31, 2013	2012	2011	2010	2009
	(in thousands)						
Consolidated balance sheet data:							
Cash and cash equivalents	$ 18,473	$ 21,138	$ 13,362	$ 13,435	$ 7,252	$ 6,106	$ 5,609
Restricted cash	370	369	369	368	251		90
Working capital (deficit)[2]	12,255	13,536	(4,022)	9,283	7,509	5,739	5,576
Property, plant and equipment, net	46,642	28,796	38,671	25,139	22,305	9,492	2,445
Total assets	522,956	357,700	575,478	430,041	351,436	251,766	228,771
Deferred revenue	17,234	11,180	12,572	8,392	5,340	3,430	2,203

Long-term debt, less current portion	26,341	11,670	11,545	11,959	12,360		
Long-term debt to related party		60,811	60,875	60,633			
Additional paid in capital	66,949	29,743	33,978	23,577	80,796	80,637	79,782
Retained earnings (accumulated deficit)	3,157	(16,610)	(29,349)	(14,249)	(8,877)	(7,333)	(5,557)
Total stockholders equity	70,616	13,597	5,083	9,776	72,361	73,753	74,674

(1) The impact of restricted stock has not been included to determine net income (loss) per share, diluted for the years ended December 31, 2012, 2010 and 2009 as we reported a net loss for those reporting periods and the effect would be anti-dilutive.

(2) Working capital (deficit) is defined as current assets, excluding restricted cash, less current liabilities, excluding current portion of deferred revenue.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the audited and unaudited consolidated financial statements and related notes included elsewhere in this prospectus. The following discussion contains forward-looking statements that are subject to risks and uncertainties. See Special Note Regarding Forward-Looking Statements for a discussion of the uncertainties, risks, and assumptions associated with those statements. Actual results could differ materially from those discussed in or implied by forward-looking statements as a result of various factors, including those discussed below and elsewhere in this prospectus, particularly in Risk Factors.

Overview

We are a leading provider of a comprehensive, cloud-based HCM software solution delivered as SaaS. We provide functionality and data analytics that businesses need to manage the complete employment life cycle from recruitment to retirement. Our solution requires virtually no customization and is based on a core system of record maintained in a single database for all HCM functions, including talent acquisition, time and labor management, payroll, talent management and HR management applications. Our user-friendly software allows for easy adoption of our solution by employees, enabling self-management of their HCM activities in the cloud, which reduces the administrative burden on employers and increases employee productivity.

We serve a diverse client base in terms of size and industry. We have over 11,000 clients, none of which constituted more than one-half of one percent of our revenues for the nine months ended September 30, 2014. We stored data for more than 1.5 million persons employed by our clients during the nine months ended September 30, 2014.

Our revenues are primarily generated through our sales force that solicits new clients and our client relations representatives, or CRRs, who sell new applications to existing clients. We have 31 sales teams located in 21 states and plan to open additional sales offices to further expand our presence in the U.S. market. In recent years, we have opened approximately three to four new sales offices in new cities per year and believe that we can open eight to twelve additional sales offices over the next two years. During the first nine months of 2014, we opened five new sales offices, with one sales office located in each of Baltimore, Indianapolis, Philadelphia, Portland and Silicon Valley.

Our continued growth depends on attracting new clients through geographic expansion, further penetration of our existing markets and the introduction of new applications to our existing client base. We also expect a portion of our growth to generally mirror improvements in the labor market. Our principal marketing programs include telemarketing and email campaigns, search engine marketing methods and national radio advertising.

During the last three years, we have developed several new applications. Our ability to continue to develop new applications and to improve existing applications will enable us to increase revenues in the future, and the number of our new applications adopted by our clients has been a significant factor in our revenue growth over the last three years.

Recent Developments

Initial Public Offering

On April 21, 2014, we closed our initial public offering whereby an aggregate of 7,641,750 shares of our common stock were sold to the public (including 4,606,882 shares of common stock issued and sold by us and 3,034,868 shares of common stock sold by certain selling stockholders) at a public offering price of $15.00 per share. We did not receive any proceeds from the sale of shares by the selling stockholders. The total gross proceeds we received from the offering were $69.1 million. After deducting underwriting discounts and commissions and offering expenses payable by us, the aggregate net proceeds we received totaled approximately $64.3 million. We used all of the net proceeds from the offering, together with approximately $3.3 million from existing cash, for the repayment in full of the 10% Senior Note due 2022, or the 2022 Note, issued by us to WCAS Capital IV and the 2017 Note.

The 2014 Reorganization

As of January 1, 2014, we consummated the 2014 Reorganization. Following the 2014 Reorganization, Software became a holding company with its principal asset being the Series A Preferred Units of Holdings. The following discussion and analysis of our financial condition and results of operations covers various periods, including those prior to the 2014 Reorganization. For additional information concerning the 2014 Reorganization, see The 2014 Reorganization.

Software s acquisition of WCAS Holdings and Holdings under the 2014 Reorganization represented transactions under common control and were required to be retrospectively applied to the financial statements for all prior periods when the financial statements were issued for a period that included the date the transactions occurred. This includes a retrospective presentation for all equity-related disclosures, including share, per share, and restricted stock disclosures, which have been revised to reflect the effects of the 2014 Reorganization. Therefore, our consolidated financial statements are presented as if WCAS Holdings and Holdings were wholly-owned subsidiaries in periods prior to the 2014 Reorganization. The acquisition of CP IV Blocker was not deemed to be a reorganization under common control and our historical consolidated financial statements for periods prior to January 1, 2014 include the ownership of a minority equity interest in CP IV Blocker, which was eliminated upon the acquisition of CP IV Blocker on January 1, 2014.

As a result of the 2014 Reorganization, our net income as reported under Software decreased by $7.1 million, $4.6 million, and $0.5 million for the years ended December 31, 2013, 2012 and 2011, respectively, when compared to our net income as previously reported under Holdings. This change was driven primarily by the assumption of the 2017 Note that was issued by WCAS Holdings. This had been previously recorded as a distribution to Series C Preferred unit holders under Holdings. Our net income also changed as we are now subject to income taxes at the consolidated reporting entity as a result of the 2014 Reorganization. For the year ended December 31, 2013, the change in net income was driven by an increase in interest expense of $6.5 million related to the 2017 Note and an increase in income tax expense of $0.8 million, of which $0.2 million of the increase was related to the reclassification of Texas state franchise taxes from general and administrative expenses to income tax expense. For the year ended December 31, 2012, the change in net income was driven by an increase in interest expense of $4.8 million related to the 2017 Note partially offset by a net decrease in income tax expense of $0.1 million, which was the result of a $0.2 million income tax benefit minus $0.1 million of reclassified Texas state franchise taxes. For the year ended December 31, 2011, the change in net income was due to an increase in income tax expense of $0.6 million, of which $0.1 million was the reclassification of Texas state franchise taxes.

Our consolidated statements of cash flows also reflect the impact of the 2014 Reorganization. During the year ended December 31, 2013, net cash provided by operating activities decreased by $6.7 million and was primarily impacted by a decrease in net income of $7.1 million partially offset by a decrease in deferred tax assets of $0.5 million. Net cash used in investing activities remained unchanged as a result of the 2014 Reorganization. Net cash provided by financing activities increased by $6.8 million and was primarily driven by a decrease in distributions paid to stockholders due to the distribution to Series C Preferred unit holders being recorded as interest expense for the 2017 Note, which was reclassified as an operating activity within net income. Overall, net cash for the year ended December 31, 2013 increased by $0.1 million as a result of the 2014 Reorganization. During the year ended

December 31, 2012, net cash provided by operating activities decreased by $4.8 million and was primarily impacted by a decrease in net income of $4.6 million and a net increase in deferred tax assets and liabilities of $0.2 million. Net cash used in investing activities remained unchanged as a result of the 2014 Reorganization. Net cash provided by financing activities increased by $4.8 million and was primarily impacted by the elimination of $4.8 million of distributions paid to members related to the 2017 Note. Overall, net cash for the year ended December 31, 2012 remained unchanged. During the year ended December 31, 2011, net cash provided by operating activities, investing activities, and financing activities remained unchanged as a result of the 2014 Reorganization.

Trends, Opportunities and Challenges

While we currently derive most of our revenues from payroll processing, we expect an increasing percentage of our recurring revenues to come from our additional HCM applications over time. For example, approximately 58%, 60% and 68% of our revenues for the years ended December 31, 2013, 2012 and 2011, respectively, were derived from payroll processing. Our payroll application is the foundation of our solution and all of our clients are required to utilize this application in order to access our other applications. As a result of our evolving revenue mix, coupled with the unique client benefits that our solution provides (e.g., enabling our clients to scale the number of HCM applications that they use on an as-needed basis), we are presented with a variety of opportunities, challenges and risks.

We generate revenues from (i) fixed amounts charged per billing period plus a fee per employee or transaction processed or (ii) fixed amounts charged per billing period. We do not require clients to enter into long-term contractual commitments with us. Our billing period varies by client based on when they pay their employees, which is either weekly, bi-weekly, semi-monthly or monthly.

We do not have a traditional subscription-based revenue model and do not enter into long-term contractual commitments with our clients. We believe that the traditional subscription model hinders the buying decision by requiring clients to make significant commitments at inception, as well as at the end of each subscription term. By allowing clients to discontinue the use of our solution with 30 days notice, our team of trained specialists must focus on providing the best client service. In contrast, a long-term contract often forces a client to continue using a product that may not entirely fit its needs or, in some cases, incur expensive termination fees. Because of our sales model and personalized service, we have maintained high client satisfaction, as evidenced by an average annual revenue retention rate of 91% from existing clients for the three years ended December 31, 2013.

For the nine months ended September 30, 2014 and 2013, our gross margin was approximately 82% and 81%, respectively. We expect that our gross margin will gradually improve over time as sales of applications other than payroll processing increase as a percentage of revenues because our current gross margin for our other HCM applications is higher than our gross margin for payroll processing. We also expect that our gross margin will gradually improve over time as (i) we add additional clients, (ii) our existing clients deploy additional HCM applications and (iii) we reduce our costs of revenues as a percentage of total revenues.

Growing our business has also resulted in, and will continue to result in, substantial investment in sales professionals, operating expenses, systems development and programming costs and general and administrative expenses, which has and will continue to increase our expenses. We intend to obtain new clients by (i) continuing to expand our presence in metropolitan areas where we currently have an existing sales office through adding sales teams or offices and increasing the number of our sales professionals and (ii) opening sales offices in new metropolitan areas. Our ability to increase revenues and improve operating results depends on our ability to add new clients.

As we have organically grown our operations and increased the number of our applications, the average size of our clients has also grown significantly. Based on our total revenues, we have grown at an approximately 38% CAGR from January 1, 2009 through December 31, 2013. Because we charge our clients on a per employee basis for certain services we provide, any increase or decrease in the number of employees that our clients have will have a positive or negative impact on our results of operations. Our solution requires no adjustment to serve larger clients. We believe larger employers represent a substantial opportunity to increase the number of potential clients and to increase our revenue per client, with limited incremental cost to us. From January 1, 2011 through September 30, 2014, we increased our annualized recurring revenue per average client by 78% in part by targeting larger clients and enlarging our existing client relationships.

Throughout our history, we have built strong relationships with our clients. As the HCM needs of our clients evolve, we believe that we are well-positioned to gain additional share of the HCM spending of our clients, and we believe this opportunity is significant. To be successful, we must continue to demonstrate the operational and economic benefits of our solution, as well as effectively hire, train, motivate and retain qualified personnel and executive officers.

Key Metrics

In addition to the U.S. GAAP metrics that we regularly monitor, we also monitor the following metrics to evaluate our business, measure our performance and identify trends affecting our business (dollars in thousands):

	Nine Months Ended September 30,		Year Ended December 31,		
	2014	2013	2013	2012	2011
	(dollars in thousands)				
Key performance indicators:					
Clients	11,820	10,227	10,792	9,233	7,955
Clients (based on parent company grouping)	7,658	6,472	6,788	5,904	5,130
Sales teams	31	25	26	23	20
Annualized new recurring revenue	$ 39,017	$ 27,734	$ 38,236	$ 27,686	$ 23,011
Revenue retention rate	*	*	91%	91%	92%

* We only provide this metric on an annual basis.

Clients. When we calculate the number of clients at period end, we treat client accounts with separate taxpayer identification numbers as separate clients, which often separates client accounts that are affiliated with the same parent organization. We track the number of our clients as it provides an accurate gauge of the size of our business. Unless we state otherwise or the context otherwise requires, references to clients throughout this prospectus refer to this metric.

Clients (based on parent company grouping). When we calculate the number of clients based on parent company grouping at period end, we combine client accounts that have identified the same person(s) as their decision-maker regardless of whether the client accounts have separate taxpayer identification numbers, which often combines client accounts that are affiliated with the same parent organization. We track the number of our clients based on parent company grouping as it provides an alternate measure of the size of our business and clients.

Sales Teams. We monitor our sales professionals by the number of sales teams at period end. Each team is comprised of a sales manager and approximately six to nine other sales professionals. Certain larger metropolitan areas can support more than one sales team. We believe that the number of sales teams is an indicator of potential revenues for future periods.

Annualized New Recurring Revenue. While we do not enter into long-term contractual commitments with our clients, we monitor annualized new recurring revenue as we believe it is an indicator of revenues for future periods. Annualized new recurring revenue is an estimate based on the annualized amount of the first full month of revenues attributable to new clients that were added or existing clients that purchased additional applications during the period presented. Annualized new recurring revenue only includes revenues from these clients who have used our solution for at least one month during the period. Since annualized new recurring revenue is only recorded after a client uses our solution for one month, it includes revenue that has been recognized in historical periods.

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Revenue Retention Rate. Our average annual revenue retention rate tracks the percentage of revenue that we retain from our existing clients. We monitor this metric because it is an indicator of client satisfaction and revenues for future periods.

Components of Results of Operations

Sources of Revenues

Revenues are comprised of recurring revenues, and implementation and other revenues. Recurring revenues are recognized in the period services are rendered. Implementation and other revenues includes implementation revenues that are recorded as deferred revenues and recognized over the life of the client which is estimated to be ten years and other revenues which are recognized upon shipment of time clocks. Implementation and other revenues comprised approximately 1.7% of our total revenues for the nine months ended September 30, 2014. We expect our revenues to increase as we introduce new applications, expand our client base and renew and expand relationships with existing clients. As a percentage of total revenues, we expect our mix of recurring revenues, and implementation and other revenues to remain relatively constant.

Recurring. Recurring revenues include fees for our talent acquisition, time and labor management, payroll, talent management and HR management applications as well as fees charged for delivery of client payroll checks and reports. These revenues are derived from: (i) fixed amounts charged per billing period plus a fee per employee or transaction processed or (ii) fixed amounts charged per billing period. Because recurring revenues are based in part on fees for use of our applications and the delivery of checks and reports that are levied on a per-employee basis, our recurring revenues increase as our clients hire more employees.

Implementation and Other. Implementation and other revenues are comprised of implementation fees for the deployment of our solution and other revenue from sales of time clocks as part of our time and attendance services. Non-refundable implementation fees which are charged to new clients are generated at inception for a new client and upon the addition of certain incremental applications for existing clients. These fees range from approximately 10% to 30% of the annualized value of the transaction.

Expenses

Cost of Revenues. Cost of revenues consists of expenses related to hosting and supporting our applications, hardware costs, systems support and technology and depreciation of certain owned computer equipment. These costs include employee-related expenses for client support personnel, bank charges for processing ACH transactions, certain implementation expenses, along with delivery charges and paper costs. They also include our cost for time clocks sold and ongoing technology and support costs related to our systems. Depreciation of owned computer equipment is allocated based upon an estimate of assets used to host and support our applications. We expect our cost of revenues to increase in absolute dollars as we continue to invest in new applications and expand our client base, although we expect our overall cost of revenues to gradually decrease as a percentage of total revenues over time.

Administrative Expenses. Administrative expenses consist of sales and marketing, research and development, general and administrative and depreciation and amortization. Sales and marketing expenses consist primarily of employee-related expenses for our direct sales and marketing staff, commissions, bonuses, marketing expenses and other related costs. Research and development expenses consist primarily of employee-related expenses for our development staff, net of capitalized software costs for internally developed software. We expect to grow our research and development efforts as we continue to broaden our payroll and HR solution offerings and extend our technological solutions by investing in the development of new applications and introducing them to new and existing clients. General and administrative expenses include employee-related expenses for finance and accounting, legal, human resources and management information systems personnel, legal costs, professional fees and other corporate expenses. Depreciation and amortization expenses include depreciation of owned computer equipment allocated based upon an estimate of assets used to support the

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selling, general and administrative functions, as well as amortization of intangible assets. We expect our administrative expenses to increase in absolute dollars as we continue to enhance and expand our solution and grow our business, as well as incurring additional costs associated with accounting, compliance, investor relations, and other costs associated with being a public company, although our administrative expenses may fluctuate as a percentage of total revenues.

Interest Expense

Interest expense includes interest on our corporate headquarters and related party debt. The decrease in interest expense for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, is primarily due to our use of the net proceeds from our initial public offering and existing cash for the repayment in full of the 2022 Note and the 2017 Note in April 2014.

Other Income (Expense), Net

Other income (expense), net includes interest on funds held for clients that are earned primarily on funds that are collected in advance of either the applicable due date for payroll tax submissions or the applicable disbursement date for employee payment services, the gain or loss on the sale of fixed assets and change in fair value of the derivative liability relating to the related party debt. We typically invest funds held for clients in money market accounts and certificates of deposit until they are paid to the applicable tax or regulatory agencies or to client employees. These collections from clients are typically disbursed from one to 30 days after receipt, with some funds being held for up to 120 days. We expect that interest on funds held for clients in other income will increase as we increase our cash and cash equivalents and increase our funds held from clients as we introduce new applications, expand our client base and renew and expand relationships with existing clients.

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Results of Operations

Nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013

The following tables set forth selected condensed consolidated statements of income data and such data as a percentage of total revenues for the periods presented (dollars in thousands):

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	% Change
Revenues			
Recurring	$ 105,030	$ 75,808	39%
Implementation and other	1,859	1,513	23%
Total revenues	106,889	77,321	38%
Cost of revenues			
Operating expenses	17,847	13,633	31%
Depreciation	1,876	1,320	42%
Total cost of revenues	19,723	14,953	32%
Administrative expenses			
Sales and marketing	44,237	28,913	53%
Research and development	2,878	1,317	119%
General and administrative	25,816	18,851	37%
Depreciation and amortization	3,322	2,716	22%
Total administrative expenses	76,253	51,797	47%
Total operating expenses	95,976	66,750	44%
Operating income	10,913	10,571	3%
Interest expense	(3,079)	(6,929)	(56%)
Net loss on early repayment of debt	(4,044)		n/a
Other income (expense), net	1,395	140	896%
Income (loss) before income taxes	5,185	3,782	37%
Provision (benefit) for income taxes	2,028	1,211	67%
Net income (loss)	$ 3,157	$ 2,571	23%

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	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenues		
Recurring	98%	98%
Implementation and other	2%	2%
Total revenues	100%	100%
Cost of revenues		
Operating expenses	17%	17%
Depreciation	2%	2%
Total cost of revenues	19%	19%
Administrative expenses		
Sales and marketing	41%	37%
Research and development	3%	2%
General and administrative	24%	24%
Depreciation and amortization	3%	4%
Total administrative expenses	71%	67%
Total operating expenses	90%	86%
Operating income	10%	14%
Interest expense	(3%)	(9%)
Net loss on early repayment of debt	(4%)	0%
Other income (expense), net	2%	0%
Income (loss) before income taxes	5%	5%
Provision (benefit) for income taxes	2%	2%
Net income (loss)	3%	3%

Revenues

Total revenues were $106.9 million for the nine months ended September 30, 2014 as compared to $77.3 million for the nine months ended September 30, 2013, an increase of $29.6 million, or 38%. The increase in total revenues was primarily due to the addition of clients in mature sales offices (those offices that have been open for at least 24 months). A combination of other factors also contributed to the increase in revenues, including the addition of new clients in more recently opened sales offices, the introduction and sale of additional applications to our existing clients, sales to larger clients and the growth in the number of employees of our clients.

Cost of Revenues

Cost of revenues was $19.7 million for the nine months ended September 30, 2014 as compared to $15.0 million for the nine months ended September 30, 2013, an increase of $4.7 million, or 32%. The increase in cost of revenues was due primarily to increases of $3.0 million in employee costs related to additional operating personnel and $0.5 million in increased shipping fees related to increased sales. In addition, depreciation expense increased by $0.6 million, an increase of 42%, primarily due to additional technology and other assets purchased.

Administrative Expenses

Total administrative expenses were $76.3 million for the nine months ended September 30, 2014 as compared to $51.8 million for the nine months ended September 30, 2013, an increase of $24.5 million, or 47%. Sales and marketing expense increased by $15.3 million primarily due to a $8.1 million increase in employee-related expenses, resulting from a 31% increase in the number of sales personnel, a $3.7 million increase in

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commission and bonuses resulting from increased sales, a $1.4 million increase in building rent and security related to new offices and additional leased space in existing offices, a $0.7 million increase in travel expense related to additional travel from the new offices, and an increase in marketing expense of $0.8 million primarily due to increased radio and print advertising. Research and development expense increased by $1.6 million, primarily due to an increase in the number of research and development personnel and related bonus expense. General and administrative expense increased by $7.0 million primarily due to a $3.4 million increase in employee-related expenses resulting from an increase in the number of general and administrative personnel, an increase in accounting and compliance expense of $1.3 million related to the initial public offering and costs of operating as a public company, a $0.2 million increase in expense related to the new corporate headquarters building, along with $0.7 million of other increased general and administrative expenses related to the initial public offering. In addition, depreciation and amortization expense increased by $0.6 million, an increase of 22%, primarily due to additional assets purchased.

Expenditures for software developed or obtained for internal use are capitalized and amortized over a three-year period on a straight-line basis. The timing of these capitalized expenditures may affect the amount of research and development expenses in any given period. The table below sets forth the amounts of capitalized and expensed research and development expenses for the nine months ended September 30, 2014 and 2013 (dollars in thousands):

	Nine Months Ended September 30,	
	2014	2013
Capitalized portion of research and development	$ 1,125	$ 713
Expensed portion of research and development	2,878	1,317
Total research and development	$ 4,003	$ 2,030

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Years ended December 31, 2013, 2012 and 2011

The following tables set forth selected consolidated statement of income data and such data as a percentage of total revenues for each of the periods indicated (dollars in thousands):

	Year Ended December 31,		
	2013	2012	2011
Consolidated statement of income data:			
Revenues:			
Recurring	$ 105,560	$ 75,420	$ 56,382
Implementation and other	2,041	1,390	824
Total revenues	107,601	76,810	57,206
Expenses:			
Cost of revenues:			
Operating expenses	19,070	14,895	12,287
Depreciation	1,821	1,431	987
Total cost of revenues	20,891	16,326	13,274
Administrative expenses:			
Sales and marketing	42,681	29,255	22,244
Research and development	2,146	1,632	1,225
General and administrative	28,729	19,372	14,650
Depreciation and amortization	3,682	4,092	4,300
Total administrative expenses	77,238	54,351	42,419
Operating income	9,472	6,133	1,513
Interest expense	(9,272)	(6,977)	(134)
Other income, net	1,199	354	108
Income (loss) before income taxes	1,399	(490)	1,487
Provision (benefit) for income taxes	792	(84)	601
Net income (loss)	$ 607	$ (406)	$ 886

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Consolidated Statement of Income Data as a Percentage of Revenues

	Year Ended December 31,		
	2013	2012	2011
Consolidated statement of income data:			
Revenues:			
Recurring	98%	98%	99%
Implementation and other	2%	2%	1%
Total revenues	100%	100%	100%
Expenses:			
Cost of revenues:			
Operating expenses	18%	19%	21%
Depreciation	1%	2%	2%
Total cost of revenues	19%	21%	23%
Administrative expenses:			
Sales and marketing	40%	38%	39%
Research and development	2%	2%	2%
General and administrative	26%	25%	26%
Depreciation and amortization	3%	6%	7%
Total administrative expenses	71%	71%	74%
Operating income	10%	8%	3%
Interest expense	(9)%	(9)%	0%
Other income, net	1%	0%	0%
Income (loss) before income taxes	2%	(1)%	3%
Provision (benefit) for income taxes	1%	0%	1%
Net income (loss)	1%	(1)%	2%

Year ended December 31, 2013 compared to the year ended December 31, 2012 and the year ended December 31, 2012 compared to the year ended December 31, 2011 (dollars in thousands)

Revenues

	Year Ended December 31,			% Change	
	2013	2012	2011	2013 v 2012	2012 v 2011
Recurring	$ 105,560	$ 75,420	$ 56,382	40%	34%
Implementation and other	2,041	1,390	824	47	69

Total revenues	$ 107,601	$ 76,810	$ 57,206	40%	34%

Total revenues were $107.6 million for the year ended December 31, 2013, compared to $76.8 million for the year ended December 31, 2012, an increase of $30.8 million, or 40%. For the year ended December 31, 2013, our client count increased 17%, as compared to the year ended December 31, 2012. The increase in revenues was due to a combination of factors, including the addition of clients in mature sales offices (those offices that have been open for at least 24 months), the addition of new clients in more recently opened sales offices, the introduction and sale of additional applications to our existing clients, sales to larger clients and the growth in the number of employees of our clients.

Total revenues were $76.8 million for the year ended December 31, 2012, compared to $57.2 million for the year ended December 31, 2011, an increase of $19.6 million, or 34%. For the year ended December 31, 2012, our client count increased 16%, as compared to the year ended December 31, 2011. The increase in revenues was due

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to a combination of factors, including the addition of clients in mature sales offices (those offices that have been open for at least 24 months), the addition of new clients in more recently opened sales offices, the introduction and sale of additional applications to our existing clients, sales to larger clients and the growth in the number of employees of our clients.

Expenses

Cost of Revenues (dollars in thousands)

	Year Ended December 31,			% Change	
	2013	2012	2011	2013 v 2012	2012 v 2011
Operating expenses	$ 19,070	$ 14,895	$ 12,287	28%	21%
Depreciation	1,821	1,431	987	27	45
Total cost of revenues	$ 20,891	$ 16,326	$ 13,274	28%	23%

Cost of revenues was $20.9 million for the year ended December 31, 2013, compared to $16.3 million for the year ended December 31, 2012, an increase of $4.6 million, or 28%. The increase in cost of revenues was due primarily to increases of $2.1 million in employee costs related to additional operating personnel, $0.6 million in bank fees related to increased sales, $0.5 million in shipping and paper costs, $0.5 million in technology expense, $0.2 million related to our background check service and time clock costs of $0.2 million, related to increased sales of time clocks. Depreciation expense increased $0.4 million, primarily due to additional assets purchased.

Cost of revenues was $16.3 million for the year ended December 31, 2012, compared to $13.3 million for the year ended December 31, 2011, an increase of $3.0 million, or 23%. The increase in cost of revenues was due primarily to increases of $1.9 million in employee costs related to additional operating personnel, $0.1 million in paper costs, $0.3 million in bank fees related to increased sales, $0.2 million related to our background check service and $0.1 million in time clock costs, relating to increased sales of time clocks. Depreciation expense increased $0.4 million, primarily due to entire year of depreciation on data center assets purchased in connection with the construction of our data center in Oklahoma, which was completed in July 2011.

Administrative Expenses (dollars in thousands)

	Year Ended December 31,			% Change	
	2013	2012	2011	2013 v 2012	2012 v 2011
Sales and marketing	$ 42,681	$ 29,255	$ 22,244	46%	32%
Research and development	2,146	1,632	1,225	32	33
General and administrative	28,729	19,372	14,650	48	32
Depreciation and amortization	3,682	4,092	4,300	(10)	(5)
Total administrative expenses	$ 77,238	$ 54,351	$ 42,419	42%	28%

Total administrative expenses were $77.2 million for the year ended December 31, 2013, compared to $54.4 million for the year ended December 31, 2012, an increase of $22.8 million, or 42%. Sales and marketing expenses increased primarily due to a $5.5 million increase in employee-related expenses, resulting from a 29% increase in the number of personnel, a $4.6 million increase in commission and bonuses, resulting from increased sales and an increase in marketing expense of $1.1 million primarily due to increased radio and print advertising. Research and development expenses increased primarily due to an increase of 55% in the number of development personnel, along with bonus expense. General and administrative expenses increased primarily due to a $4.1 million increase in employee-related expenses, resulting from a 53% increase in the number of personnel, along with $2.7 million of expenses related to our initial public offering. In addition, depreciation and amortization expense decreased by approximately $0.4 million.

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Total administrative expenses were $54.4 million for the year ended December 31, 2012, compared to $42.4 million for the year ended December 31, 2011, an increase of $12.0 million, or 28%. Sales and marketing expenses increased primarily due to a $3.3 million increase in employee-related expenses, resulting from a 10% increase in the number of personnel, a $1.6 million increase in commission and bonuses, resulting from increased sales and an increase in marketing expense of $0.6 million primarily due to increased radio and print advertising. Research and development expenses increased primarily due to an increase of 29% in the number of development personnel, along with bonus expense. General and administrative expenses increased primarily due to a $3.6 million increase in employee-related expenses, resulting from a 19% increase in the number of personnel, along with increases in administrative expenses related to travel, communication and transportation.

Expenditures for software developed or obtained for internal use are capitalized and amortized over a three-year period on a straight-line basis. The timing of the capitalized expenditures may affect the amount of development costs expensed in any given period. The table below sets forth the amounts of capitalized and expensed research and development expenses for the years ended December 31, 2013, 2012 and 2011 (dollars in thousands).

	Year Ended December 31,			% Change	
	2013	2012	2011	2013 v 2012	2012 v 2011
Capitalized portion of research and development	$ 1,238	$ 613	$ 497	102%	23%
Expensed portion of research and development	2,146	1,632	1,225	31	33
Total research and development	$ 3,384	$ 2,245	$ 1,722	51%	30%

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Quarterly Results of Operations

The following tables set forth selected unaudited quarterly condensed consolidated statements of income data for each of the 12 quarters for the three years ended September 30, 2014. The information for each of these quarters has been prepared on the same basis as the audited annual consolidated financial statements included elsewhere in this prospectus and, in the opinion of management, includes all adjustments, which includes only normal recurring adjustments, necessary for the fair presentation of the results of operations for these periods in accordance with U.S. GAAP. This data should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this prospectus. These quarterly operating results are not necessarily indicative of our operating results for a full year or any future period (dollars in thousands).

	Three Months Ended											
	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012	De 20
lidated ent of e data:												
ues												
ing	$ 35,910	$ 32,666	$ 36,454	$ 29,752	$ 25,210	$ 23,394	$ 27,204	$ 20,836	$ 18,245	$ 16,817	$ 19,522	$ 15
nentation ner	688	640	531	528	620	520	373	471	323	275	321	
evenues	36,598	33,306	36,985	30,280	25,830	23,914	27,577	21,307	18,568	17,092	19,843	15
ses												
f es												
ing e	5,798	5,757	6,292	5,437	4,846	4,353	4,434	3,966	3,746	3,366	3,817	3
iation	638	608	630	501	494	415	411	390	367	342	332	
ost of es	6,436	6,365	6,922	5,938	5,340	4,768	4,845	4,356	4,113	3,708	4,149	3
istrative es												
nd ing	14,856	13,700	15,681	13,768	10,339	8,716	9,858	8,479	6,860	6,650	7,266	6
ch and pment	1,059	937	882	829	538	324	455	349	361	542	380	
l and stration	8,410	8,138	9,268	9,878	6,815	6,040	5,996	5,456	4,778	4,803	4,335	4
iation zation	1,159	1,072	1,091	966	959	873	884	841	837	1,212	1,202	1

strative es	25,484	23,847	26,922	25,441	18,651	15,953	17,193	15,125	12,836	13,207	13,183	12
perating es	31,920	30,212	33,844	31,379	23,991	20,721	22,038	19,481	16,949	16,915	17,332	16
ing e (loss)	4,678	3,094	3,141	(1,099)	1,839	3,193	5,539	1,826	1,619	177	2,511	
t e	(338)	(674)	(2,067)	(2,343)	(2,329)	(2,326)	(2,274)	(2,327)	(2,309)	(2,205)	(136)	
s on nent of		(4,044)										
se) e, net	39	587	769	1,059	(133)	(338)	611	19	257	65	13	
e (loss) income	4,379	(1,037)	1,843	(2,383)	(623)	529	3,876	(482)	(433)	(1,963)	2,388	
e tax e t)	1,689	(444)	783	(419)	(199)	169	1,241	(80)	(151)	(676)	823	
come	$ 2,690	$ (593)	$ 1,060	$ (1,964)	$ (424)	$ 360	$ 2,635	$ (402)	$ (282)	$ (1,287)	$ 1,565	$

Quarterly Revenues Trends

Excluding changes in quarterly revenues due to seasonal factors, our quarterly revenues generally increased sequentially for the periods presented due to a combination of factors, including the addition of clients in mature sales offices (those offices that have been open for at least 24 months), the addition of new clients in more recently opened sales offices, the introduction and sale of additional applications to our existing clients and the growth in the number of employees of our clients. In addition, the annual processing of payroll forms were subject to a one-time price increase in conjunction with increased access and review functionality associated with these forms in 2012, which resulted in an increase of less than 1% of recurring revenues for the nine months ended September 30, 2014 and the years ended December 31, 2013 and 2012.

There are also seasonal factors that affect our revenues. Recurring revenues include revenues relating to the annual processing of payroll forms such as Form W-2 and Form 1099, or payroll form revenues. Because these forms are typically processed in the first quarter of the year, first quarter revenue and margins are generally higher than subsequent quarters. For example, payroll form revenues accounted for 22% of total revenues for the three months ended March 31, 2013 and 6% of total revenues for the year ended December 31, 2013.

Quarterly Expenses Trends

Selling, general and administrative expenses are generally higher in the fourth and first quarters, due to overtime hours related to preparing client rollovers to the new year, and the preparation of annual client filings.

Liquidity and Capital Resources

Our principal sources of liquidity are cash and cash equivalents which totaled $18.5 million and $13.4 million as of September 30, 2014 and December 31, 2013, respectively. Our cash and cash equivalents are comprised primarily of deposit accounts and money market funds. We believe our existing cash and cash equivalents will be sufficient to meet our working capital and capital expenditure needs over at least the next 12 months.

We have historically financed our operations from cash flows generated from operations, cash from the sale of debt and equity securities and borrowings under our consolidated loans. Since inception, we have raised $125.1 million of equity capital, $64.3 million of which was the net proceeds raised in our initial public offering that closed in April 2014. We have also incurred debt to finance the expansion of our corporate headquarters, which was completed in June 2014, as well as other previously constructed facilities, and incurred related party debt as part of a corporate reorganization that occurred in April 2012, or the April 2012 Corporate Reorganization, and the 2014 Reorganization. As of September 30, 2014, our only outstanding indebtedness consisted of the 2021 Consolidated Loan, which is discussed in more detail below.

2021 Consolidated Loan. As of September 30, 2014, we had a term note under the 2021 Consolidated Loan with an outstanding principal amount of $27.2 million due to Kirkpatrick Bank that matures on May 30, 2021. Under the 2021 Consolidated Loan, interest is payable monthly and accrues at a fixed rate of 4.75% per annum. The 2021 Consolidated Loan is secured by a mortgage covering our headquarters buildings and certain personal property relating to our headquarters buildings.

We are required to comply with certain financial and non-financial covenants under the 2021 Consolidated Loan, including maintaining a debt coverage ratio of EBITDA to indebtedness (defined as current maturities of long-term debt, interest expense and distributions) greater than 1.5 to 1.0. As of September 30, 2014, we were in compliance with all of the covenants under the 2021 Consolidated Loan.

Pursuant to the terms of the 2021 Consolidated Loan, we may not, subject to certain exceptions, until amounts under the 2021 Consolidated Loan are repaid: (i) create any mortgages or liens, (ii) make any loans, advances or extensions of credit with any affiliate or enter into any other transaction with any affiliate, (iii) lease any mortgaged property, (iv) make any distributions to members as long as an event of default exists, (v) make any material change in methods of accounting, (vi) enter into any sale and leaseback arrangement, (vii) amend, modify, restate, cancel or terminate our organizational documents, (viii) sell, transfer or convey any mortgaged property or (ix) incur funded outside debt.

An event of default under the 2021 Consolidated Loan includes, among other events, (i) failure to pay principal or interest when due, (ii) breaches of certain covenants, (iii) any failure to meet the required financial covenants and (iv) an institution of a bankruptcy, reorganization, liquidation or receivership.

Cash Flow Analysis

Our cash flows from operating activities have historically been significantly impacted by profitability, implementation revenue received but deferred, and our investment in sales and marketing to drive growth. Our ability to meet future liquidity needs will be driven by our operating performance and the extent of continued

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investment in our operations. Failure to generate sufficient revenue and related cash flows or to raise additional capital could have a material adverse effect on our ability to meet our liquidity needs and achieve our business objectives.

As part of our payroll and payroll tax filing services, we collect funds for federal, state and local employment taxes from our clients which we remit to the appropriate tax agencies. We invest these funds in short-term certificates of deposit and money market funds from which we earn interest income during the period between their receipt and disbursement.

As our business grows, we expect our capital expenditures and our investment activity to continue to increase. Depending on certain growth opportunities, we may choose to accelerate investments in sales and marketing, acquisitions, technology and services. Actual future capital requirements will depend on many factors, including our future revenues, cash from operating activities and the level of expenditures in all areas of our business.

Nine months ended September 30, 2014 compared to nine months ended September 30, 2013

The following table summarizes the consolidated statement of cash flows for the nine months ended September 30, 2014 and 2013 (dollars in thousands):

	Nine Months Ended September 30,		% Change
	2014	2013	2014 v 2013
Net cash provided by (used in):			
Operating activities	$ 13,301	$ 12,096	10%
Investing activities	50,199	76,050	(34)
Financing activities	(58,389)	(80,443)	27
Change in cash and cash equivalents	$ 5,111	$ 7,703	(34)%

Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2014 was $13.3 million. Net cash provided by operating activities consisted primarily of net income of $3.2 million, depreciation and amortization of $5.2 million, an increase in deferred revenues of $4.7 million, a write off of debt issuance costs of $4.1 million and deferred tax assets of $1.3 million, offset by a decrease in accounts payable of $3.0 million, unrealized change in the fair value of our derivative liability of $1.1 million and a decrease in accrued commissions and bonuses of $1.0 million.

Net cash provided by operating activities for the nine months ended September 30, 2013 was $12.1 million. Net cash provided by operating activities consisted primarily of net income of $2.6 million, depreciation and amortization of $4.0 million, an increase in deferred revenue of $2.8 million, an increase in accrued expenses and other liabilities of $2.7 million, a decrease in deferred tax assets of $1.2 million and a decrease in stock-based compensation of $0.9 million, offset by a decrease in accrued commissions and bonuses of $1.2 million and an increase in prepaid expenses of $0.8 million.

Investing Activities

Net cash provided by investing activities for the nine months ended September 30, 2014 was $50.2 million and resulted primarily from a decrease in funds held for clients of $62.1 million offset by additions to property, plant and equipment of $11.9 million.

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Net cash provided by investing activities for the nine months ended September 30, 2013 was $76.1 million and resulted primarily from a decrease in funds held for clients of $82.3 million offset by additions to property, plant and equipment of $6.2 million.

Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2014 was $58.4 million. Net cash used in financing activities primarily resulted from payments on long-term debt of $65.4 million, a decrease in the clients funds obligation of $62.1 million and capital impact of reorganization costs of $0.2 million offset by proceeds from the initial public offering of $62.8 million and proceeds from the issuance of long-term debt of $6.5 million.

Net cash used in financing activities for the nine months ended September 30, 2013 was $80.4 million. Net cash used in financing activities primarily resulted from a decrease in the client funds obligation of $82.3 million and incentive awards redeemed of $1.1 million, offset by payments on long-term debt of $1.8 million and a capital contribution of $1.2 million.

Year ended December 31, 2013 compared to the year ended December 31, 2012 and the year ended December 31, 2012 compared to the year ended December 31, 2011

The following table summarizes the consolidated statement of cash flows for the years ended December 31, 2013, 2012 and 2011 (dollars in thousands):

	Year Ended December 31,			% Change	
	2013	2012	2011	2013 v 2012	2012 v 2011
Net cash provided by (used in):					
Operating activities	$ 16,984	$ 10,974	$ 9,085	55%	21%
Investing activities	(148,432)	(76,983)	(102,299)	(93)	25
Financing activities	131,375	72,192	94,360	82	(24)
Change in cash and cash equivalents	$ (73)	$ 6,183	$ 1,146	(101)%	440%

Operating Activities

For the year ended December 31, 2013, cash flows provided by operating activities was $17.0 million. The cash flows provided by operating activities resulted primarily from net income of $0.6 million, depreciation and amortization of $5.5 million, an increase in deferred revenue of $4.2 million related to increased implementation fees, an increase in accounts payable of $2.7 million, an increase in accrued expenses and other liabilities of $2.4 million, an increase in accrued commissions and bonuses of $1.6 million and an increase in accrued payroll and vacation of $1.2 million, offset by an increase in accounts receivable of $1.1 million.

For the year ended December 31, 2012, cash flows provided by operating activities was $11.0 million. The cash flows provided by operating activities resulted primarily from net loss of $0.4 million, depreciation and amortization of $5.5 million, an increase in deferred revenue of $2.8 million related to increased implementation fees, an increase in accrued commissions and bonuses of $1.5 million, and an increase in accounts payable of $1.2 million.

Investing Activities

For the year ended December 31, 2013, cash used in investing activities was $148.4 million. The cash flows used in investing activities resulted primarily from an increase in funds from clients of $131.5 million related to collection of client taxes and capital expenditures related to investments in real property, software and development and facilities and equipment of $17.2 million offset by proceeds from the sale of property, plant and equipment of $0.3 million.

For the year ended December 31, 2012, cash used in investing activities was $77.0 million. The cash flows used in investing activities resulted primarily from an increase in funds from clients of $71.0 million related to the collection of client taxes and capital expenditures related to investments in real property, software and development and facilities and equipment of $6.0 million.

Financing Activities

For the year ended December 31, 2013, cash flows provided by financing activities was $131.4 million. The cash flows provided by financing activities resulted primarily from an increase in client funds obligations of $131.5 million related to the collection of client taxes and advances received from a consolidated loan of $7.0 million, which were partially offset by distributions paid to stockholders of $5.4 million, incentive shares redeemed of $1.1 million and payments of deferred offering costs of $0.6 million.

For the year ended December 31, 2012, cash flows provided by financing activities was $72.2 million. The cash flows provided by financing activities resulted primarily from an increase in client funds obligations of $71.0 million related to the collection of client taxes, proceeds from the 2022 Note of $16.4 million, proceeds from the issuance of common stock of $2.4 million and proceeds from the issuance of long-term debt of $1.8 million which were partially offset by distributions paid to stockholders as a return of capital of $18.8 million and payments on long-term debt of $0.4 million.

Contractual Obligations

Our principal commitments primarily consist of long-term debt and leases for office space. We disclose our long-term debt to a related party in Note 5 and our commitments and contingencies in Note 11 to our audited condensed consolidated financial statements included elsewhere in this prospectus.

As of September 30, 2014, the future non-cancelable minimum payments under these commitments were as follows (dollars in thousands):

		Payments Due by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations[1]	$ 27,186	$ 845	$ 1,813	$ 2,000	$ 22,528
Interest on the 2021 Consolidated Loan	7,773	1,289	2,456	2,269	1,759
Operating lease obligations:					
Facilities space	15,297	3,554	7,261	4,277	205
Total	$ 50,256	$ 5,688	$ 11,530	$ 8,546	$ 24,492

(1) The amount represents principal of the 2021 Consolidated Loan due at maturity.

We may continue to lease additional office space to support our growth. In addition, many of our existing lease agreements provide us with the option to renew. Our future operating lease obligations include payments due during any renewal period provided for in the lease where the lease imposes a penalty for failure to renew.

The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed minimum or variable price provisions, and the approximate timing of the transaction. Obligations under contracts that we can cancel without a significant penalty are not included in the table above.

Off-Balance Sheet Arrangements

As of September 30, 2014, we did not have any off-balance sheet arrangements.

Quantitative and Qualitative Disclosures about Market Risk

Interest rate sensitivity

We had cash and cash equivalents totaling $18.5 million as of September 30, 2014. We consider all highly liquid debt instruments purchased with a maturity of three months or less and money market mutual funds to be cash equivalents. This amount was invested primarily in deposit accounts and money market funds. The cash and cash equivalents are held for working capital purposes. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes.

Our cash equivalents are subject to market risk due to changes in interest rates. Fixed rate securities may have their market value adversely affected due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectation due to changes in interest rates, or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates.

We do not believe that an increase or decrease in interest rates of 100-basis points would have a material effect on our operating results or financial condition with respect to our cash equivalents.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements and accompanying notes have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an ongoing basis, we continually evaluate our estimates and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results may materially differ from these estimates made by management under different assumptions and conditions.

Certain accounting policies that require significant management estimates, and are deemed critical to our results of operations or financial position, are described below. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

Revenue Recognition

Our total revenues are comprised of recurring revenues, and implementation and other revenues. We recognize revenue in accordance with accounting standards for software and service companies when all of the following criteria have been met:

- There is persuasive evidence of an arrangement;

- The service has been or is being provided to the customer;

Collection of the fees is reasonably assured; and

The amount of fees to be paid by the customer is fixed or determinable.

Recurring revenues are derived primarily from our talent acquisition, time and labor management, payroll, talent management and HR management applications. These services are rendered during each client s payroll period with the agreed-upon fee being charged and collected as part of the client s payroll. Revenues are recognized at time of billing of each client s payroll period. Collectability is reasonably assured as the fees are collected through an ACH as part of the client s payroll cycle or through direct wire transfer, which minimizes

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the default risk. Our implementation and other revenues represent non-refundable conversion fees which are charged to new clients to offset the expense of new client set-up and revenues from sale of time clocks as part of our employee time and attendance services. Because these conversion fees and sale of time clocks relate to our recurring revenues, we have evaluated such arrangements under the accounting guidance that governs multiple element arrangements.

For arrangements with multiple elements, we evaluate whether each element represents a separate unit of accounting. In order to treat deliverables in a multiple element arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. If the deliverables have standalone value upon delivery, we account for each deliverable separately and revenue is recognized for the respective deliverables as they are delivered. If one or more of the deliverables does not have standalone value upon delivery, the deliverables that do not have standalone value are generally combined with the final deliverable within the arrangement and treated as a single unit of accounting.

For the nine months ended September 30, 2014 and the years ended December 31, 2013, 2012 and 2011, we determined that there was no standalone value associated with the upfront conversion fees as they did not have value to our clients on a standalone basis nor were they offered as an individual service; therefore, the conversion fees were deferred and are recognized ratably over the estimated life of our clients, based on our historical client attrition rate, which we estimate to be ten years. Revenues from the sale of time clocks are recognized when they are delivered.

Goodwill and Other Intangible Assets

Goodwill is not amortized, but we are required to test the carrying value of goodwill for impairment at least annually, or earlier if, at the reporting unit level, an indicator of impairment arises. The estimates and assumptions about future results of operations and cash flows made in connection with the impairment testing could differ from future actual results of operations and cash flows. If impairment exists, a write-down to fair value (normally measured by discounting estimated future cash flows) is recorded. Our business is largely homogeneous and, as a result, goodwill is associated with one reporting unit. We have selected June 30 as our annual goodwill impairment testing date and determined there was no impairment as of June 30, 2014. For the nine months ended September 30, 2014 and 2013 and the years ended December 31, 2013, 2012 and 2011, there were no indicators of impairment. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives.

Impairment of Long-Lived Assets

Long-lived assets, including intangible assets with finite lives, are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset. We have determined that there is no impairment of long-lived assets for the nine months ended September 30, 2014 and 2013 and the years ended December 31, 2013, 2012 and 2011.

Restricted Stock and Incentive Units

Given the absence of a public trading market for our common stock and incentive units prior to our initial public offering, and in accordance with the American Institute of Certified Public Accountants (the AICPA), Audit and Accounting Practice Aid Series: Valuation of Privately Held Company Equity Securities Issued as Compensation (the AICPA Practice Guide), our board of directors exercised reasonable judgment and

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considered numerous factors to determine the best estimate of the fair value of our restricted stock and incentive units, including:

- Valuation analyses performed by an unrelated third party specialist (including the application of appropriate valuation techniques and inputs);
- Characteristics and specific terms of the shares as noted in the equity grant agreements;
- Value of the shares as determined by the absence of a liquidation value on the date of grant, the ability to participate in our future profits, growth and appreciation and the lack of an exercise price for the shares;
- Lack of marketability of our common stock;
- Our actual operating and financial performance;
- Our state of development;
- Revenue and expense projection;
- Likelihood of achieving a liquidating event;
- Market performance of comparable publicly traded companies; and
- Overall U.S. and global economic and capital market conditions.

Our simulation model requires various subjective assumptions as inputs, including expected life, volatility, risk-free interest rates, and the expected dividend yield. The assumptions used in the simulation model represent our best estimates, which involve inherent uncertainties and the application of our judgment as follows:

- *Risk-free interest rate* We base the risk-free interest rate used in the Monte Carlo simulation model on the implied yield available on 5 year U.S. Treasury securities with a remaining term equivalent to that of the restricted stock or incentive units as of the valuation date.
- *Volatility* We determine the volatility factor based on the historical volatilities of comparable guideline companies. To determine the comparable guideline companies, we consider cloud-based application

providers and select those that are similar to us in nature of services provided. We intend to continue to consistently apply this process using the same or similar public companies until information regarding the volatility of our own pricing changes, or unless circumstances change such that the identified companies are no longer similar to us, in which case, more suitable companies whose share prices are publicly available would be utilized in the calculation.

Expected term The expected term represents the period that our restricted stock or incentive units are expected to be outstanding. We determined the expected term assumption based on the vesting terms and contractual terms of the restricted stock.

Expected dividend yield We have not paid and do not expect to pay dividends in the future and therefore an expected dividend yield of 0% was applied. Our directors will determine if and when dividends will be declared and paid in the future based on our financial position at the relevant time.

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The following table presents a summary of the grant-date fair values of restricted stock and incentive units granted based on the Monte Carlo simulation model and the related assumptions for the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30,	
	2014	2013
Grant-date fair value		
2012 Management Incentive Units		$4.67 - $19.49
2014 Restricted Stock	$5.76 - $36.03	
Risk-free interest rates	1.02%	0.71% - 0.79%
Estimated Volatility	30%	50%
Expected life (in years)	3.5	5.0

The following table presents a summary of the grant-date fair values of incentive units granted based on the Monte Carlo simulation model and the related assumptions for the years ended December 31, 2013, 2012 and 2011:

	Year Ended December 31,		
	2013	2012	2011
Grant-date fair value			
2009 Incentive Units		$71.78	$51.16
2012 Management Incentive Units	$4.67 - $37.39	$8.03 - $14.29	
2012 CEO Incentive Units		$6.78 - $9.35	
Risk-free interest rate	0.71% - 1.41%	0.72%	1.74%
Volatility factor	50%	60%	60%
Expected life (in years)	5.0	5.0	5.0

In addition to assumptions used in the simulation model, we are required to estimate forfeitures and only record compensation costs for those awards that are expected to vest. Our forfeiture estimate is based on an analysis of our actual forfeitures. We will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover, and other factors.

In connection with the 2014 Reorganization, the incentive units we issued as part of the 2009 Incentive Units Plan, or the 2009 Incentive Units, were converted into shares of restricted stock. Upon the sale of common stock in the initial public offering, approximately 217,378 shares of restricted stock that were granted to replace the 2009 Incentive Units automatically vested.

In connection with the 2014 Reorganization, incentive units in Holdings were converted into shares of common stock and/or restricted stock. Vested incentive units were converted to shares of common stock and restricted stock at various conversion ratios that ranged from approximately 1:0.2 to 1:24. Unvested incentive units were converted to shares of restricted stock at various conversion ratios that ranged from 1:24 to 1:47. The conversion to shares of common stock or restricted stock was determined based on the underlying conditions of the pre-conversion incentive units and reflected any pre-existing vesting conditions. This conversion resulted in the issuance of 1,148,520 and 8,121,101 shares of common stock and restricted stock, respectively, on January 1, 2014. The shares of restricted stock are subject to either time-based or performance-based vesting conditions. The Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Section 718-20-53-3 indicates that if the terms and conditions of an existing equity incentive compensation plan are to be modified, then an entity should record additional compensation cost for any incremental value associated with the modification. The incremental compensation cost is measured as the excess of the fair value of the modified awards over the fair value of the original awards immediately before its terms are modified. Based on the terms of restricted stock, we concluded that there was a modification of the existing equity incentive units. Based upon a valuation by an independent third party, management determined there was no additional compensation cost

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created in the conversion, as the value of the incentive units given up was more than the value of the restricted stock received. As such, there was no additional compensation recorded.

Shares of restricted stock that were issued in connection with the 2014 Reorganization that were subject to time-based vesting conditions retained substantially the same time-based vesting conditions as the respective tranche of incentive units from which they were converted. For additional information concerning these vesting conditions, see Executive Compensation Narrative Discussion Regarding Summary Compensation Table Equity Incentive Units and Restricted Stock Awards. The following table shows the vesting periods for the shares of restricted stock subject to time-based vesting conditions that were issued in connection with the 2014 Reorganization:

Year Ending December 31,	Number of Shares of Restricted Stock to Vest
2014	707,168(1)
2015	653,964
2016	581,131
2017	580,987
2018	102,963
2019	81
Total	2,626,294

(1) Includes 477,320 shares of restricted stock that vested on April 3, 2014.

Shares of restricted stock that were issued in connection with the 2014 Reorganization that were subject to performance-based vesting conditions will vest 50% upon the Company reaching a total enterprise value of $1.4 billion and 50% upon the Company reaching a total enterprise value of $1.8 billion, provided that the person is employed by us on that date. For additional information concerning these vesting conditions, see Executive Compensation Narrative Discussion Regarding Summary Compensation Table Equity Incentive Units and Restricted Stock Awards. The following table shows the shares of restricted stock subject to the applicable performance-based vesting conditions that were issued in connection with the 2014 Reorganization:

Total Enterprise Value	Number of Shares of Restricted Stock to Vest
$1,400,000,000	2,727,642
$1,800,000,000	2,727,511

Derivative Instruments

In April 2012, we entered into the 2022 Note with WCAS Capital IV, a related party. The note contains certain prepayment features related to mandatory redemption upon a liquidation event. As of December 31, 2012, we had identified the prepayment feature of the note as a derivative instrument which is required to be bifurcated and separately accounted for at fair value with changes in fair value recorded in earnings. Refer to Note 7 of our audited annual condensed consolidated financial statements for further discussion. The following are the significant inputs used to value the derivative instrument as of December 31, 2013 and 2012:

	2013	2012
Probability of exit	90%	90%
Remaining term	0.8 year - 8.3 years	3.3 years - 9.3 years
Yield Volatility	21% - 31%	20% - 29%
Credit Spread	9%	12%
Risk-free rate	0.13% - 2.45%	0.36% - 1.78%

There were no derivative instruments outstanding as of December 31, 2011.

Recent Accounting Pronouncements

In July 2013, the FASB issued authoritative guidance which requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. We adopted this new guidance during the nine months ended September 30, 2014, which did not have a material impact on our condensed consolidated financial statements.

In May 2014, the FASB issued authoritative guidance that included a comprehensive new revenue recognition model which requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is not permitted. Accordingly, the standard is effective for us on January 1, 2017. We are currently evaluating the impact that the standard will have on our condensed consolidated financial statements.

In June 2014, the FASB issued authoritative guidance for share-based payments which requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Accordingly, the standard is effective for us on January 1, 2016. We do not anticipate that the adoption of this standard will have a material impact on our condensed consolidated financial statements.

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BUSINESS

Overview

We are a leading provider of a comprehensive, cloud-based HCM software solution delivered as Software-as-a-Service. We provide functionality and data analytics that businesses need to manage the complete employment life cycle from recruitment to retirement. Our solution requires virtually no customization and is based on a core system of record maintained in a single database for all HCM functions, including talent acquisition, time and labor management, payroll, talent management and HR management applications. Our user-friendly software allows for easy adoption of our solution by employees, enabling self-management of their HCM activities in the cloud, which reduces the administrative burden on employers and increases employee productivity.

Organizations need sophisticated, flexible and intuitive applications that can quickly adapt to their evolving HCM requirements, streamline their HR processes and systems and enable them to control costs. We believe that the HCM needs of most organizations are currently served either by legacy providers offering outdated on-premise products or multiple providers that partner together in an attempt to replicate a comprehensive product. These approaches often result in large up-front capital requirements, extended delivery times, high costs, low scalability and challenges with system integration.

Because our solution was developed in-house and is based on a single platform, there is no need to integrate, update or access multiple databases, which are common issues with competitor offerings that use multiple third-party systems in order to link together their HCM offerings. Additionally, our solution maintains data integrity for accurate, actionable and real-time analytics and business intelligence and helps clients minimize the risk of compliance errors due to inaccurate or missing information. We deliver feature-rich applications while maintaining excellence in information security and quality management standards as evidenced by our ISO certifications. As part of our client retention effort, a specialist within a dedicated team is assigned to each client to provide industry-leading personalized service.

The key benefits of our differentiated solution as compared to competing products:

Comprehensive HCM solution. Our solution offers functionality that manages the entire employment life cycle for employers and employees, from recruitment to retirement. Our user-friendly applications help clients identify candidates, onboard employees, manage time and labor, administer payroll deductions and benefits, manage performance, off board employees and administer post-termination health benefits such as COBRA. Our solution also has the advantage of being built in-house by our highly trained and skilled team of software developers;

Core system of record enabling data analytics maintained on a single database. Our solution is based on a core system of record that contains payroll and HR information in one convenient database, thereby reducing costs by eliminating the need for multiple software products and vendors and the maintenance of employee data in numerous databases that have to be merged or synchronized. This core system of record allows our clients the ability to access and analyze accurate employee information to make business decisions based upon actionable, real-time, point-and-click analytics provided on our client dashboard;

Personalized support provided by trained personnel. Our solution is supported by one-on-one personal assistance from trained specialists. Services specialists are assigned to specific clients and are trained across all of our applications, ensuring they provide comprehensive, expert-level service;

Software-as-a-Service delivery model. Our SaaS delivery model allows clients with a geographically dispersed workforce to operate more efficiently and allows these clients to access and use our client-oriented Internet solution on demand and remotely through a standard web browser, smart phones, tablets and other web-enabled devices, which lowers the total cost of ownership as compared to on-premise products;

Cloud-based architecture. Our cloud-based architecture allows our solution to be implemented remotely and software enhancements and newly developed applications to be deployed without client disruption and involvement, which requires smaller investments in hardware, personnel, implementation time and consulting; and

Scalability to grow with our clients. Our solution offers improved scalability as our clients are able to use the same solution as their businesses grow by deploying applications as-needed in real-time, which allows clients to align HCM spending with evolving HCM needs as compared to traditional HCM products that require clients to migrate to new software as they grow, but retain fixed costs even if the client shrinks in size.

We sell our solution directly through our internally trained, client-focused and highly skilled sales force based in offices across the United States. As a part of our client retention effort, a specialist within a dedicated team is assigned to each client to provide industry-leading, personalized service. We have over 11,000 clients none of which constituted more than one-half of one percent of our revenues for the nine months ended September 30, 2014. We believe that as a result of our focus on client retention, we enjoy high client satisfaction as evidenced by an average annual revenue retention rate of 91% from existing clients for the three years ended December 31, 2013. We believe our revenue retention rate understates our client loyalty because this rate also includes former clients that were acquired or otherwise ceased operations.

We were founded in 1998. Since our founding, we have focused on providing an innovative SaaS HCM solution. As of September 30, 2014, we had 961 employees across the United States. For the years ended December 31, 2013, 2012 and 2011, our revenues were $107.6 million $76.8 million and $57.2 million, respectively, representing year-over-year growth in revenues of 40% and 34%, respectively. For the nine months ended September 30, 2014 and 2013, our revenues were $106.9 million and $77.3 million, respectively, representing comparable prior period growth of 38%. We currently derive most of our revenues from payroll processing. We are able to determine revenues from payroll processing because all of our clients are required to utilize our payroll application in order to access our other applications. We do not separately track our revenues across our other applications because we often sell applications in various groupings and configurations for a single price. We realized net income (loss) of $0.6 million, ($0.4) million and $0.9 million for the years ended December 31, 2013, 2012 and 2011, respectively. We realized net income of $3.2 million and $2.6 million for the nine months ended September 30, 2014 and 2013, respectively.

Industry Background

Large Market Opportunity for HCM Technologies

According to IDC, the U.S. market for HCM applications is comprised of software that automates business processes covering the entire span of an employee s relationship with his or her employer. IDC estimates that the U.S. market, excluding learning and payroll services, will total $6.4 billion in 2015. These applications include maintenance of HR records, recruiting applications, performance management, time and labor management tracking, compliance, compensation management and other HR functions. According to IDC, the U.S. market for payroll services will be an estimated $16.8 billion in 2015. The payroll services market includes transactional activities associated with paying employees, maintaining accounting records and administrating payroll taxes while payroll accounting applications offer the functionality to effectively track these various payments and transfers.

IDC estimates that the international market for HCM applications (excluding the United States and learning and payroll services) will be $4.8 billion in 2015.

Economic and Technological Trends Are Driving Demand for HCM Solutions

Organizations operating in today s global economy are continually under pressure to reduce operating costs in order to maintain or improve their competitive positions. One tactic used by organizations is to utilize information technology, or IT, provided by external resources in order to automate internal processes, reduce internal administrative burdens and more effectively manage capital expenditures and labor costs. As a result, businesses are increasingly making the strategic decision to leverage HCM technologies in order to improve the effectiveness and efficiency of their internal HR and accounting functions and capture opportunities for cost savings.

Organizations are also managing internal costs and administrative burdens by transitioning technological assets from on-premise to the cloud. By shifting HR systems to the cloud, businesses seek to avoid the difficulties associated with maintaining software and security updates, and storage needs as well as other maintenance issues. The rise of cloud computing has supported the SaaS delivery model. According to IDC, the global SaaS market is projected to grow from $39 billion in 2013 to $103 billion in 2018, at a CAGR of 21%.

We believe that businesses increasingly view data concerning their human capital as a critical strategic resource that can result in more informed decision-making concerning employee recruitment, retention and compensation. This revolution in data analytics and its extension to HR functions has increased the number of employees within an organization that can benefit from, and who regularly interface with, information technologies. As a result, organizations seek intuitive technologies that do not require extensive training or advanced technological credentials to be effectively utilized. The user experience of business applications is changing to emulate the consumer experience as HR buyers increasingly seek applications that are intuitive and available anywhere on any web-enabled device.

Incumbent HCM Products Struggle To Meet the Needs of Businesses

We believe that a majority of businesses and organizations in the United States are using multiple HCM systems from more than one vendor, thereby impeding their ability to share data across these systems. Several incumbent payroll and HCM vendors offer product sets that are comprised of separate systems that require integration. In certain cases, this disparate product offering across several vendors is the result of several acquisitions which often leads to a loosely coupled product set that is marked by significant architectural differences and weak data integration. We believe that this type of offering increases the risk of user or system error and reduces overall effectiveness.

A comprehensive HCM solution leverages the same data, process and workflow management, security model, reporting and analytics tools, and user portals to provide a uniform user experience. We believe that significant analytical power remains trapped within the data that organizations are accessing across multiple applications and databases but are unable to analyze in a unified context.

We believe that vendors who pursue market segmentation strategies based on organization size or industry create difficulties for clients who grow, either in size or industry scope, beyond the confines of those vendors offerings. A scalable HCM solution based on a core system of record allows for an organization to grow in size and scope without transitioning to a new user interface or back-end database.

The Paycom Solution

We offer an end-to-end SaaS HCM solution that provides our clients and their employees with immediate access to accurate and secure information and analytics 24 hours a day, seven days a week from any location. We believe that our solution delivers the following benefits:

Comprehensive HCM Solution

Our solution offers functionality that manages the entire employment life cycle for employers and employees, from recruitment to retirement. Our user-friendly applications streamline client processes and provide clients and their employees with the ability to directly access and manage administrative processes, including applications that identify candidates, onboard employees, manage time and labor, administer payroll deductions and benefits, manage performance, off board employees and administer post-termination health benefits such as

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COBRA. The widespread employee usage of our applications helps further integrate our solution into the administrative processes of our clients. Our solution also has the advantage of being built in-house by our highly trained and skilled team of software developers, thereby minimizing data integrity issues across applications.

Core System of Record

Our solution is based on a core system of record that contains payroll and HR information in one convenient database, thereby reducing costs and eliminating the need for multiple software products and vendors and the maintenance of employee data in numerous databases. This core system of record enables our clients to input employee data one time and enjoy seamless functionality across our applications. When a revision is made to the file of an employee, all appropriate personnel have access to the change in real time. In addition, our core system of record helps clients minimize the risk of compliance errors due to inaccurate or missing information that results from maintaining multiple databases. Through accurate tracking and management of employee payroll and other HR data, such information can be compiled for comprehensive and consistent reporting for our clients.

Data Analytics

Our solution allows clients to analyze accurate employee information to make business decisions based upon actionable, real-time, point-and-click analytics provided through our client dashboard. This functionality helps our clients operate with a more complete and accurate picture of their organization as our solution s embedded analytics capture the content and context of everyday business events, facilitating fast and informed decision-making from any location. The employees of our clients also benefit from our analytics platform as they are able to model in real-time the impact of their HCM decisions on their compensation, benefits and rewards.

Personalized Support Provided by Trained Personnel

Our applications are supported by one-on-one personal assistance from trained specialists. Services specialists are assigned to specific clients and are trained across all of our applications, ensuring they provide comprehensive, expert-level service. Our client service is ISO 9001:2008 certified on the basis of its quality and consistency. We strive to provide our clients with high levels of service and support to ensure their continued use of our solution for all of their HCM needs. We have maintained high client satisfaction, as evidenced by an average annual revenue retention rate of 91% from existing clients for the three years ended December 31, 2013.

Software-as-a-Service Delivery Model

Our SaaS delivery model allows clients with a geographically dispersed and mobile workforce to operate more efficiently, and allows these clients to implement, access and use our client-oriented Internet solution on demand and remotely through standard web browsers, smart phones, tablets and other web-enabled devices. Our SaaS solution reduces the time, risk, headcount and costs associated with installing and maintaining applications for on-premise products within the information technology infrastructure of our clients.

Secure Cloud-Based Architecture

Our cloud-based architecture allows our solution to be implemented remotely with minimal client interaction. Updates such as software enhancements and newly developed applications can be deployed without client interaction, disruption or involvement, allowing our clients to make a smaller investment in hardware, personnel, implementation time and consulting. Additionally, we own and maintain all of the infrastructure technology to host our solutions and to maximize system availability for clients. Our focus and investment in technology and data security has been recognized with ISO/IEC 27001:2005 certified security standards that provide our clients with a best-in-class level of data security.

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Scalability to Grow with our Clients

Our solution is highly scalable. We have served a diversified client base ranging in size from one to more than 8,000 employees. We calculate the number of employees using clients based on parent company grouping. Our clients are able to use the same solution while their businesses grow by deploying applications as-needed in real-time. Pricing is determined by employee headcount and the number of applications utilized, enabling our clients to align HCM spending with their evolving HCM needs as compared to traditional HCM products that require clients to migrate to new software as they grow but retain fixed costs even if the client shrinks in size.

Efficient and Productive Research and Development

We believe that we benefit from a competitive advantage with our research and development investments, people and processes. Early investments in our proprietary, cloud-based architecture enables us to develop and deploy applications in a timely and cost-efficient manner, as demonstrated by our introduction of five new applications announced since our initial public offering in April 2014. We have also chosen to base our research and development team in Oklahoma and Texas, which we believe provides us with high-quality talent at a lower cost compared to other locations in the United States with a need for technology talent. These strategic decisions have enabled us to have a highly productive research and development function while keeping our research and development expenses at 2% of revenues for 2013, 2012 and 2011. Our research and development expenses grew 31%, 33% and 25% year-over-year, for 2013, 2012 and 2011, respectively. We have increased our research and development expenses by over 119% for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013.

Our Strategy for Growth

Our strategy is to continue to establish our solution as the HCM industry standard. To accomplish this, we intend to:

Increase Our Presence in Existing Markets

Although we have clients in all 50 states, we believe a significant opportunity exists to expand our presence within markets where we currently have a sales office. We have a sales office in 25 of the 50 largest MSAs in the United States based on 2010 U.S. census data, only one of which is served by multiple sales teams. We believe that the 50 largest MSAs in the United States could collectively support at least 100 additional sales teams. Each sales office is typically staffed with one sales team, with each team comprised of a sales manager and approximately six to nine other sales professionals. We plan to increase our presence in existing markets by adding sales offices and increasing the number of our sales teams to further penetrate and effectively capture these markets.

Expand Into Additional Markets

We plan to continue expanding our sales capability by opening sales offices in certain metropolitan areas where we currently have no sales teams. We have identified 50 untapped metropolitan areas where we could potentially open a new sales office staffed with at least one sales team. Since September 2012, we have opened sales offices in Baltimore, Detroit, Indianapolis, Minneapolis, New York, Philadelphia, Portland, San Francisco, Seattle and Silicon Valley. We intend to open eight to twelve additional offices over the next two years, as well as potentially expand over the longer term into international markets.

Enlarge our Existing Client Relationships

We dedicate our resources to helping our clients facilitate their goals, whether through helping them execute better hiring decisions, manage compensation more effectively or simply operate more efficiently. We believe a significant growth opportunity exists in selling additional applications to our current clients. Many clients have subsequently deployed additional applications as they recognize the benefits of our comprehensive solution. As we extend and enhance the functionality of our solution, we will continue to invest in initiatives to increase the adoption of our solution and maintain our high levels of client satisfaction.

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Target Larger Clients

As we have organically grown our operations and increased the number of our applications, the average size of our clients has also grown significantly. Based on our total revenues, we have grown at an approximately 38% CAGR from January 1, 2009 through December 31, 2013. Our solution requires no adjustment to serve larger clients. We believe larger employers represent a substantial opportunity to increase the number of clients and to increase our revenue per client, with limited incremental cost to us. From January 1, 2011 through September 30, 2014, we increased our annualized recurring revenue per average client by 78%, in part by targeting larger clients and enlarging our existing client relationships. To further capitalize on this opportunity, we intend to target larger businesses opportunistically where our current sales model is effective.

Maintain Our Leadership in Innovation by Strengthening and Extending our Solution

Our ability to develop and deploy new applications and updates rapidly and cost-effectively has been integral to the results that we have achieved to date. We intend to continue extending the functionality and range of our solution in the future, and recently launched five new applications. Our development efforts are performed exclusively in-house and are heavily based upon proactive research and client input. In the near-term, we intend to focus our investments on further developing applications within our higher margin HR and talent management applications. Over the long term, we intend to increase our investment in the development of new applications that are responsive to the needs of our clients, which are garnered through ongoing client interaction and collaboration.

Our Applications

Our HCM solution offers a full suite of applications that generally fall within the following categories: talent acquisition, time and labor management, payroll, talent management and HR management.

Talent Acquisition

Applicant Tracking. Our applicant tracking application simplifies the recruiting processes needed to hire the most qualified employees. By using our all-in-one system, our clients can move candidates from the application process through new employee on-boarding without re-keying data.

Candidate Tracker. Our candidate tracker application enables recruiters to track and stay connected to potential talent through an online database of top candidates. This application helps clients fill future positions faster without the cost of professional recruiting firms.

Background Checks. Our background check application helps to ensure that prospective new hires are qualified candidates. We provide clients with the tools for authorizing background checks, creating pre-adverse and adverse action letters and securely storing results as required by the Fair Credit Reporting Act.

On-Boarding. Our on-boarding application streamlines the hiring and termination processes for employees of our clients by creating online checklists of tasks to be assigned to an employee or group of employees.

E-Verify®. Our E-Verify® application automates employment verification and reduces our clients exposure to audits and penalties that could result from I-9 violations.

Tax Credit Services. Our tax credit services application helps employers process and calculate the available federal tax credits associated with hiring employees who meet various qualifications.

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Time and Labor Management

Time and Attendance. Our time and attendance application allows our clients to accurately and efficiently manage when, where and how employees report their hours worked. Clients can apply customized rules, use batch editing and use timecard management tools to manage complex time and attendance needs. Our web time clocks feature allows employees to clock in and out online, which automatically updates the payroll application when approved, eliminating the need to manually calculate timesheets and rekey information into payroll systems. We also offer several different types of hardware terminals that are ideal for single or multi-clock environments.

Scheduling/Schedule Exchange. Our scheduling application helps managers with employee scheduling through automated functionality that provides for a seamless workflow with the payroll and time and attendance applications. Our schedule exchange application allows employees and managers access to their schedules at any time and employees can approve, decline or swap their schedules and see what shifts are available for pickup.

Time-Off Requests. Our time-off requests application automates and standardizes the time off request procedure and helps employers remain effectively staffed. Managers can view an online time-off calendar to easily monitor and approve or deny time-off requests. Our employee self-service tool allows employees to view the time-off they have available, submit requests and view blackout dates, the status of requests and any manager comments.

Labor Allocation. Our labor allocation application simplifies the process of setting up and tracking employee hours based on the job the employee is working.

Labor Management Reports/Push Reporting. Our labor management reports application helps clients get up-to-the-minute reports on the information they need to better manage their labor force, such as overtime and labor distribution. Our push reporting application also gives clients the ability to set up recurring reports and to schedule them to be run automatically and sent to users on either a daily, weekly, monthly, quarterly or yearly basis.

Payroll

Payroll and Tax Management. Our payroll application is the foundation of our solution and all of our clients are required to utilize this application in order to access our other applications. Our payroll application is automatically updated with changes in employee information and offers other time saving functionality such as batch editing and effective dating. The application can be accessed at any time to make changes, run payroll and generate custom reports. We also help our clients by handling their payroll taxes and deposits, regulatory correspondence, amendments, and penalty and interest disputes.

Paycom Pay. Our Paycom Pay application eliminates the tedious job of check reconciliation by issuing checks to our clients   employees that clear from a Paycom bank account, which helps clients eliminate potential liability and simplifies the reconciliation process.

Expense Management. Our expense management application eliminates the manual, paper-based processes associated with employee expense reimbursement and allows employers to control and monitor expenses by setting clearly defined rules and parameters for employee reimbursement. Employees can upload receipts when submitting their expenses and access an expense dashboard where they can view the status of their submitted expenses.

Garnishment Management. Our garnishment management application allows us to handle communications with garnishment payees and agencies and to calculate and track garnishment payments.

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Talent Management

Employee Self-Service. Our employee self-service application improves employee engagement by empowering our clients employees to self-manage certain transactions, obtain quick answers to frequent payroll and HR questions, access their pay history and view performance goals and reviews and total compensation reports to review their compensation and benefits package. Benefits information and paid time off accruals also give employees the ability to make informed decisions regarding their benefit selections and time-off requests.

Compensation Budgeting. Our compensation budgeting application provides compensation and performance information in one system, giving clients with valuable workforce insight to help manage and formulate salary budgets and helping establish merit-based compensation increases.

Performance Management. Our performance management application allows for standardized positions across a company with set pay grades and performance goals. It also helps streamline the performance review process with online facilitation of the review process.

Executive Dashboard. Our executive dashboard offers powerful workforce insight for executives to access information on demand in a variety of report formats. Because we offer an all-in-one solution in a single database, the comprehensive report data provides the workforce intelligence needed to drive human capital decisions at an executive level.

HR Management

Document and Task Management. Our document and task management application manages employee files, including the ability to have employees digitally sign and view company documents. We securely store client records to meet retention requirements and protect documents from unauthorized access and other disasters that can threaten businesses. In addition, clients can assign checklists to employees for the completion of certain tasks associated with processes such as on-boarding and off-boarding.

Government and Compliance. Our government and compliance application helps clients reduce exposure to violations, audits and penalties with respect to the employment laws impacting their business, such as the Family Medical Leave Act, Equal Employment Opportunity Commission and other state and federal regulations. A single database keeps our clients employee data consistent and enhances reporting capabilities by providing better accuracy and real-time insight.

Benefits Administration. Our benefits administration application allows clients to customize benefit plan setup, deduction amounts, enrollment dates and new-hire waiting periods. Employers are provided census and reconciliation reports to ensure they do not overpay for benefits and can update deduction amounts for all employees or groups of employees at once. This application also provides employees with online enrollment and helps educate them and drive informed enrollment decisions for greater employee satisfaction.

COBRA Administration. Our COBRA administration application protects employers from COBRA violations and their associated fines and penalties by automatically initiating compliance measures with the entry of qualifying events into the application. This application also tracks important dates, collects and remits premiums and reports on all COBRA activity.

Personnel Action Forms. Our personnel action forms application helps our clients reduce the amount of time and paperwork required with employee changes such as pay rate, position and title changes by allowing managers to complete and approve online personnel action forms.

Surveys. Our surveys application allows clients to create employee surveys to help identify and resolve workplace matters that otherwise may remain undisclosed. Clients can analyze results by the demographics of the workforce and compare how results change over time.

ACA Dashboard. Our Affordable Care Act, or ACA, dashboard application tracks employee count, employee status, health care plan affordability and ACA periods all in one convenient location and enables Paycom to file Forms 1094 and 1095 on behalf of clients. For those with Paycom s full ACA application suite that includes payroll, time and attendance, benefits administration and document and task management, the dashboard populates automatically.

Our Clients

We serve a diverse client base in terms of size and industry. We have over 11,000 clients, or over 7,000 clients based on parent company groupings, none of which constituted more than one-half of one percent of our revenues for the nine months ended September 30, 2014. We stored data for more than 1.5 million persons employed by our clients during the nine months ended September 30, 2014.

Based on parent company grouping, companies with fewer than 50 employees comprised approximately 9% of total revenues for the nine months ended September 30, 2014. Revenues for clients based on parent company grouping, with 50-2,000 employees and more than 2,000 employees represented approximately 86% and 5%, respectively, of total revenues for the nine months ended September 30, 2014. Many of our clients that are small to mid-sized companies can typically make the decision to adopt our solution more quickly than larger companies, which we believe results in a shorter sales cycle, which more closely corresponds to our target sales cycle of 30 to 90 days. As a result of the nature and size of our clientele, we maintain a diversified client base and very low revenue concentration among our clients. We believe, however, that larger employers represent a substantial opportunity to increase the number of clients and to increase our revenue per client with limited incremental cost.

Competition

The market for HCM solutions is rapidly evolving, highly competitive and subject to changing technology, shifting client needs and frequent introduction of new products and services. Our competitors range from small, regional firms to large, well-established international firms with multiple product offerings.

We compete with firms that provide HCM solutions by various means. Many providers continue to deliver legacy enterprise software, but as demand for greater flexibility and access to information grows, we believe there will be increased competition in the delivery of HCM cloud-based solutions by other SaaS providers. Our competitors offer HCM solutions that may overlap with one, several or all categories of applications offered by our solution. Our talent acquisition and talent management applications compete primarily with Cornerstone OnDemand, Inc., Oracle Corporation, SAP AG and Workday, Inc. Our payroll applications, including payroll processing, compete primarily with ADP, Ceridian Corporation, Concur Technologies, Inc., Intuit, Inc., Paychex, Inc., Paylocity Holding Corporation and The Ultimate Software Group, Inc. Our HR management applications compete primarily with ADP, Ceridian Corporation, Oracle Corporation, Paychex, Inc., SAP AG, and Workday, Inc. Our time and labor management applications compete primarily with ADP, Ceridian Corporation, Paylocity Holding Corporation and The Ultimate Software Group, Inc. Our larger competitors compete with us across multiple segments. In addition, our HCM solution continues to face competition from in-house payroll and HR systems and departments as well as HR systems and software sold by third-party vendors.

Competition in the HCM solutions market is primarily based on service responsiveness, product quality and reputation, breadth of service and application offering and price. The importance of these factors depends on the size of the business. Price tends to be the most important factor of competition for smaller businesses with fewer employees while the scope of features and customization is more important to larger businesses. We believe that our SaaS delivery model allows us to be most competitive in the HCM solutions market across this spectrum.

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Sales and Marketing

We sell our solution exclusively through our sales force that included 260 sales professionals as of September 30, 2014, substantially all of whom have a four-year college degree. Our sales force is comprised of inside sales and field sales personnel who are organized geographically and CRRs, who sell additional applications to existing clients. We have 31 sales teams located in 21 states and plan to open additional sales offices to further expand our presence in the U.S. market. As of September 30, 2014, 26% of our sales force had achieved executive sales representative status by generating in excess of $0.3 million of annualized new recurring revenue.

We provide our sales force with an intensive four-week training course that includes at least one week of training at our headquarters in Oklahoma City. Our unique training program includes instruction in accounting, business metrics, product features and tax matters relevant to our target market. Our training continues for our sales force through weekly in-office strategy sessions and leadership development training. Executive sales representatives are also required to attend in-person quarterly conferences to share best practices and receive legal and business updates.

When a new client processes with us for an entire month, our sales representative receives a commission based upon annualized new recurring revenue. This commission is only paid once per new customer. Executive sales representatives receive a higher commission rate and base salary based upon both current year and life-to-date realized sales, respectively.

We generate client leads, accelerate sales opportunities and build brand awareness through our marketing programs that target finance and HR executives, technology professionals and senior business leaders of companies that perform HCM functions in-house or outsource these functions to one of our competitors. Our principal marketing programs include:

- Direct mail campaigns, email campaigns, personalized URLs, industry-specific print advertising and tradeshow exhibiting;
- Search engine marketing methods that include site optimization and pay-per-click searches; and
- National radio advertising on Sirius/XM Radio and specifically on the Fox News, Fox Talk, Bloomberg and MSNBC stations.

Our CRRs are focused on expanding the number of applications our clients purchase from us by introducing them to additional applications. Our CRRs call upon select clients periodically and are paid a non-recurring commission on any additional sales they generate.

Technology, Operations and Security

Technology

Our multi-tenant architecture enables us to deliver our solution across our client base with a single instance of our solution, while securely partitioning access to our clients respective application data. Because a single version of our solution is developed, supported and deployed across all of our clients, updates are delivered to all of our clients at the same time, making it easier to scale our solution as the number of our clients and their employee headcount increases.

We maintain diverse load-balanced Internet lines serviced by multiple networks to provide our clients continuous access to our solution and their stored data. We back up our client data at regular intervals utilizing live replication, snapshots and cold archive methods of backup and manually monitor backup success and failure regularly. Our server cluster and database servers have redundant hot swappable disks to ensure continuous service in the event of a disk failure.

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Operations

We physically host our solution for our clients in two secure data center facilities located in Oklahoma and Texas. All of our critical systems are fully redundant and backed-up in real-time to these facilities. Physical security includes ID-oriented access control, alarm systems and manned 24 hour a day camera monitoring by our security guards. Server facilities also have environmental monitoring and extensive environmental controls such as heat and fire protection, moisture, temperature, and humidity sensors, backup power supply and exterior reinforced concrete walls.

Security

We maintain a formal and comprehensive security program designed to ensure the confidentiality, integrity and availability of our clients data. During the regular course of business, we receive client data through our online system that we in turn process, record and store following ISO/IEC 270001:2005 certified controls and procedures. All communications with our servers that might contain sensitive information are encrypted before they leave the network and our servers are configured to only allow high-grade encryption algorithms.

We strictly regulate and limit all access to servers and networks at each of our facilities. Local network access is restricted by our authenticated server, using access control lists and remote network access is restricted by a firewall, which provides no accessible route from external networks to systems within our local network. We also employ network and host intrusion detection and prevention sensors throughout our infrastructure, systems that monitor and alert on insecure installations of third-party applications, a full system for managing and installing patches for those applications and highly restricted access to the Internet for anyone who has access to client data. We retain a third-party penetration testing company to conduct penetration tests and periodic audits to identify and remediate any issues.

Our applications are secured using multiple libraries and secure coding practices. We engage in regular penetration testing performed by both our information security department as well as by a third party testing companies. Our information technology infrastructure is secured and monitored using a number of best practices and tools at multiple layers of the physical and logical network. This security is also continually monitored by our information security department.

Software Development

As of September 30, 2014, we had 88 employees dedicated to our application development process. This team works closely with our clients to improve and enhance our application offerings and develop new applications. Our application development process consists of a focused innovation and development timeframe in order to deliver well-developed applications and enhancements desired by our clients. A key element of our development process is the one-on-one personal interaction between clients and our client relations representatives, through which our clients suggest new applications and features.

We develop our solution from the ground up with our internal development and engineering teams. Our development and engineering teams and our employees conceive of new applications and enhancements, review requests, schedule development in order of priority and subsequently develop the applications or enhancements. Our new applications and enhancements are independently reviewed by the quality assurance team, in accordance with our software development process, before being fully implemented. Any enhancements to our applications are released on a monthly scheduled release date to coordinate the communication and release to our clients.

Capitalized development expenses, which include compensation for employees directly associated with development projects, were $1.2 million, $0.6 million and $0.5 million for the years ended December 31, 2013, 2012 and 2011, respectively, and $1.1 million and $0.7 million for the nine months ended September 30, 2014 and 2013, respectively.

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Client Service

We are committed to providing industry-leading, client-centered service. For this reason, we assign each client a specialist within a dedicated team. This one-to-one service is a key part of our client service model and helps to ensure that we are delivering an industry-leading solution and maintaining high client satisfaction. The primary elements of our client service model include the following:

Streamlined Setup and Onboarding

After a client elects to deploy our solution, that client goes through our onboarding process with assistance from a team of new client setup specialists and the sales professional responsible for obtaining the client s business. This team works closely with the client until the client is capable of managing our solution independently, in which case it is transferred to our dedicated services specialists.

Dedicated Service Specialists

After completing the onboarding process, each client is assigned to a specialist within a dedicated team that provides primary support for the remainder of the client s time with the Company. Clients can then contact their dedicated services specialist or a team member if any issues or questions arise. These specialists provide personalized service with actual knowledge of the clients business needs. When appropriate, client questions can be elevated to the specialists with the appropriate application, regulatory or tax expertise. In addition, our CRRs proactively contact our clients to ensure satisfaction with our solution and introduce additional applications.

Expert Level Service

Our client specialists are trained across all of our applications to ensure that they can provide comprehensive, expert-level service. Our client service is ISO 9001:2008 certified on the basis of its quality consistency and helps support a high client retention rate.

Regulatory and Certifications

We are subject to varying degrees of regulations in each of the jurisdictions in which we provide services. Local laws and regulations, and their interpretation and enforcement, differ significantly among those jurisdictions. These regulations and laws cover, among others, information disclosure.

Personal privacy has become a significant issue in the United States and in other countries. The regulatory framework for privacy issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. Many federal, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations affecting or regarding the collection, use and disclosure of personal information. In the United States, these include, for example, rules and regulations promulgated under the authority of the Federal Trade Commission, the Health Insurance Portability and Accountability Act of 1996, the Family Medical Leave Act of 1993, the Patient Protection and Affordable Care Act and state breach notification laws.

We voluntarily obtain third party security examinations relating to security and data privacy in accordance with Statement on Standards for Attestation Engagements, or SSAE, No. 16, Reporting on Controls at a Service Organization. Our SSAE examination is conducted every six months by an independent third party auditor, and addresses, among other areas, our physical and environmental safeguards for production data centers, data availability and integrity procedures, change management procedures and logical security procedures.

In January 2014, we renewed a certification based on ISO/IEC 27001:2005 criteria, a security standard for Information Security Management Systems published by ISO covering our production, quality assurance and implementation environments. This independent assessment of our conformity to the ISO 27001 standard

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includes assessing security risks, designing and implementing comprehensive security controls and adopting an information security management process to meet security needs on an ongoing basis. The certification is valid until February 2017, with continuing assessments taking place annually.

In March 2014, we renewed a certification based on ISO/IEC 9001:2008 criteria, a standard for the implementation of quality management processes published by ISO, covering our activities required to create and deliver our solution. This independent assessment of our conformity to the ISO 9001 standard includes assessing the design and implementation of quality objectives to meet delivery standards on an ongoing basis. The certification is valid until April 2017, with continuing assessments taking place annually.

Intellectual Property

We rely on a combination of copyrights, trademarks, service marks, trade secret laws and contractual restrictions to establish and protect our intellectual property rights. We also have a number of registered and unregistered trademarks and will continue to evaluate the registration of additional trademarks as appropriate. We do not have any patents or patent applications pending.

Seasonality

Our revenues are seasonal in nature. Recurring revenues include revenues relating to the annual processing of payroll forms such as Form W-2 and Form 1099. Because these forms are typically processed in the first quarter of the year, first quarter revenue and margins are generally higher than in subsequent quarters. We believe this seasonality is driven by several factors, most notably the number of our clients that use our payroll application, as compared to the other applications that we offer. As our clients use additional applications in the future, we believe that the seasonality in revenues will diminish.

Legal Proceedings

From time to time, we are involved in various legal proceedings arising from the normal course of business activities, including the legal proceeding described below. Defending such proceedings is costly and can impose a significant burden on management and employees; we may receive unfavorable preliminary or interim rulings in the course of litigation, and there can be no assurances that favorable final outcomes will be obtained.

On September 23, 2014, we filed a complaint against National Financial Partners Corp. in the United States District Court for the Western District of Oklahoma (Civil Action No. 5:14-cv-01029-R) seeking a declaratory judgment that we have not engaged in any trademark infringement or unfair competition in connection with the use of our logo. On September 23, 2014, National Financial Partners Corp. filed a complaint against Software in the United States District Court for the Northern District of Illinois (Civil Action No. 1:14-cv-07424). The complaint alleges trademark infringement, unfair competition, deceptive trade practices, consumer fraud and deceptive business practices related to the adoption and use of our logo and seeks preliminary and permanent injunctions prohibiting us from continued infringement as well as money damages, including an accounting for sales and profits, attorneys fees and disgorgement of profits. On October 16, 2014, National Financial Partners Corp. filed a motion to dismiss the action pending in the Western District of Oklahoma. On October 20, 2014, we filed a motion to transfer the action from the Northern District of Illinois to the Western District of Oklahoma, and a memorandum in support of the motion to transfer, in the Northern District of Illinois. On December 12, 2014, the United States District Court for the Western District of Oklahoma granted National Financial Partners Corp. s motion to dismiss. National Financial Partners Corp. has moved for an order preliminarily enjoining us from using our logo in the Northern District of Illinois. On January 5, 2015, we filed an answer, affirmative defenses and counterclaim in the Northern District of Illinois denying the material allegations in National Financial Corp. s complaint and seeking a declaratory judgment that we have not engaged in any trademark infringement with respect to the use of our logo. We intend to vigorously defend this litigation. In the event that a court ultimately determines that we have infringed any of the asserted trademarks or grants National Financial Partners Corp. s motion for a preliminary injunction, we may be subject to damages, which may include treble damages, be enjoined from using our current logo while the parties are litigating the merits of the claims or be required to modify our logo and/or undergo a rebranding of our solution and applications. We

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cannot predict with any degree of certainty the outcome of the litigation or determine the extent of any potential liability or damages and there exists the possibility that the ultimate resolution of this litigation could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Employees

Our ability to recruit and retain qualified employees is critical to our continued success. We invest heavily in our training and leadership development programs to encourage the development and promotion of our employees. As of September 30, 2014, we employed approximately 961 people. None of our employees were covered by collective bargaining agreements. We consider our relationship with our employees to be good.

Facilities

Our corporate headquarters is located in Oklahoma City, Oklahoma on a 170,000 square foot corporate campus that includes a 2,271 square foot disaster recovery site located in Oklahoma City. We own over 30 acres in Oklahoma City upon which our facilities are located. We also own and operate a 1,500 square foot fully redundant data center located at our corporate headquarters in Oklahoma We also lease a 16,870 square foot corporate campus in Dallas, Texas that includes an approximately 300 square foot fully redundant data center.

We also lease offices in Arizona, California, Colorado, Florida, Georgia, Illinois, Indiana, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Jersey, New York, North Carolina, Oklahoma, Oregon, Pennsylvania, Texas, Virginia and Washington. We believe that these facilities are suitable for our current operations and upon the expiration of the terms of the leases we believe we could renew these leases or find suitable space elsewhere on acceptable terms.

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MANAGEMENT

Executive Officers and Directors

The following table provides information regarding our executive officers and directors as of December 15, 2014:

Name	Age	Position(s)
Chad Richison	44	President, Chief Executive Officer and Director
Craig E. Boelte	51	Chief Financial Officer
Jeffrey D. York	47	Chief Sales Officer
William X. Kerber III	39	Chief Information Officer
Jason D. Clark(1)	44	Director
Robert J. Levenson(1)	73	Director
Robert Minicucci(2)(3)	62	Chairman of the Board
Conner Mulvee	32	Director
Frederick C. Peters II(1)	65	Director
Sanjay Swani(2)(3)	48	Director

(1) Member of the Audit Committee.
(2) Member of the Compensation Committee.
(3) Member of the Nominating and Governance Committee.

Chad Richison has served as President and Chief Executive Officer since he founded Paycom in 1998. Mr. Richison has also served as a Director since 1998. He began his career in sales with ADP, and then moved to Payroll 1 prior to founding Paycom. Mr. Richison received his B.A. in Mass Communications Journalism from the University of Central Oklahoma. Mr. Richison was selected to serve on our board of directors because of the leadership skills, strategic guidance and experience he brings as our President and Chief Executive Officer and operational expertise from his prior experience in the industry.

Craig E. Boelte has served as our Chief Financial Officer since February 2006. Before joining Paycom, Mr. Boelte owned an accounting practice serving over 600 clients including Paycom. Prior to that, Mr. Boelte spent nine years at Deloitte & Touche where he served as Senior Tax Manager. Mr. Boelte has over 28 years of experience in the workforce management and HR industry. Mr. Boelte is a member of the Oklahoma Society of CPA s and the American Institute of CPA s. Mr. Boelte received his B.S. in Business Administration and Masters in Science in Accounting from Oklahoma State University.

Jeffrey D. York has served as our Chief Sales Officer since 2007. Mr. York opened our Dallas location in 2002 prior to joining our corporate executive team. Before joining Paycom, Mr. York was employed by ADP from 1990 to 2002 where he held a variety of sales management positions including Vice President of Sales for the Major Accounts Division. Mr. York earned his MBA from Baylor University and his Bachelors of Business Administration from Texas Tech University.

William X. Kerber III has served as our Chief Information Officer since July 2007. Mr. Kerber joined us in 1999 while completing his B.S. in computer science. Mr. Kerber is a founding team member has over 18 years of software development and network design experience. Prior to serving as Chief Information Officer, Mr. Kerber served as a lead software developer and network architect. He attended the Oklahoma School of Science and Math (OSSM) and graduated from the University of Oklahoma s Engineering/Computer Science program where he is currently a member of its board of advisors.

Jason D. Clark has served as a member of our board of directors since August 2014. Mr. Clark has served as President and Chief Executive Officer of CompSource Oklahoma, a statutorily created insurance company that serves the Oklahoma business community and residual market, since March 2009. Mr. Clark oversaw the

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conversion of CompSource Oklahoma into a private mutual insurance company. Mr. Clark is a member of the Board of Directors of the Oklahoma State Chamber of Commerce, a Vice President of the American Association of State Compensation Insurance Funds (AASCIF), an Executive Member of the National Association of Mutual Insurance Carriers, a Member of the Workers Compensation Electronic Interchange Advisory Committee for the State of Oklahoma and has previously served in leadership positions for multiple industry and trade associations. Mr. Clark has over 25 years of experience in the insurance industry specializing in workers compensation insurance. Mr. Clark earned a Bachelor s degree in Business Administration from the University of Central Oklahoma. Mr. Clark was selected to serve on our board of directors because of his industry experience.

Robert J. Levenson has served as a member of our board of directors since July 2007. Mr. Levenson is a founder and Managing Member of LENOX Capital Group, LLC, a private venture capital investment company formed in 2000 which focuses primarily on early stage software technology and service company investments. From 1981 through 1990, Mr. Levenson held executive management positions with ADP, including Group President Employer Services, member of the Corporate Executive Committee and its Board of Directors. In late 1990, Mr. Levenson was named Chief Operating Officer, a member of Office of the President and was elected to the Board of Directors of Medco Containment Services, Inc., which was acquired by Merck & Co., Inc., or Merck, and later spun out to Merck shareholders. From 1992 until 2003, Mr. Levenson served on the Board of Directors of First Data Corporation, or FDC, and from 1993 until his retirement in 2000, he served as Executive Vice President of FDC. Thereafter, he served as a consultant to FDC and some of its joint venture affiliates until 2006. Mr. Levenson has served on boards of directors of public and private companies as well as civic and philanthropic organizations. These include: ADP, FDC, Medco, Central Data Systems, Inc., Comnet, Inc., Polyvision, Broadway & Seymour, Superior TeleCom Inc., Vestcom International, Emisphere Technologies, Inc., Ceridian Corp, and Elite Pharmaceuticals, Inc. He graduated from Kent State University with a B.S. in Business Administration. Mr. Levenson also serves or has served on boards of several private companies. Mr. Levenson was selected to serve on our board of directors because of his industry expertise and experience as a member of the board of directors of other companies.

Robert Minicucci has served as a member of our board of directors since July 2007. He was elected Chairman of the Board in December 2013. Mr. Minicucci joined Welsh, Carson, Anderson & Stowe in August 1993. He has served as a General Partner of Welsh, Carson, Anderson & Stowe and focused on the information/business services industry during his entire tenure with the firm. He continues to serve as a General Partner for certain funds affiliated with Welsh, Carson, Anderson & Stowe. Prior to joining Welsh, Carson, Anderson & Stowe, Mr. Minicucci served as Senior Vice President and Chief Financial Officer of First Data Corporation. Before joining First Data Corporation, he served as Senior Vice President and Treasurer of the American Express Company. He also spent 12 years at Lehman Brothers where he was a Managing Director. Mr. Minicucci currently serves on the board of directors of the following public companies, Alliance Data Systems, Inc. and Amdocs Limited, and previously served on the board of directors of Retalix, Ltd. Over the course of his career Mr. Minicucci has served on the board of directors for 15 publicly and privately held companies. Mr. Minicucci received a B.A. from Amherst College in 1975 and received an M.B.A. from Harvard Business School in 1979. Mr. Minicucci was selected to serve on our board of directors because of his financial and investment expertise and his industry experience with other software technology companies.

Conner Mulvee has served as a member of our board of directors since February 2014. Mr. Mulvee has served as a Vice President at Welsh, Carson, Anderson & Stowe since January 2011. Prior to that, Mr. Mulvee served as an Associate at Welsh, Carson, Anderson & Stowe from August 2008 until January 2011. He focuses on investments in the information/business services and healthcare industries. Prior to joining Welsh, Carson, Anderson & Stowe, he spent two years in the investment banking division of Lehman Brothers. He earned an undergraduate degree from Amherst College in 2005. Mr. Mulvee was selected to serve on our board of directors because of his financial and investment expertise.

Frederick C. Peters II has served as a member of our board of directors since February 2014. He currently serves as the Chairman, President and Chief Executive Officer of Bryn Mawr Bank Corporation, or BMTC, a publicly traded company, and its principal subsidiary, The Bryn Mawr Trust Company. BMTC has approximately $2.1 billion of banking assets and $7.3 billion of wealth assets under management and administration and is listed on the Nasdaq Stock Market. Prior to joining BMTC in 2001, Mr. Peters started two community banks: National Bank of the Main Line in 1985 and First Main Line Bank in 1995. Mr. Peters began his banking career at Philadelphia National Bank in 1976 and held lending and executive positions at Hamilton Bank and Industrial Valley Bank prior to starting his first community bank. Mr. Peters has served on numerous non-profit boards including Main Line Health where he served first as Chairman of the Audit Committee and later as Chairman of the Finance Committee. He currently serves on the board of directors of the National Association of Corporate Directors Philadelphia Chapter and The Bryn Mawr Film Institute. In addition, Mr. Peters has been on the Board of Directors of the Federal Reserve Bank of Philadelphia since 2009 and is currently the Chairman of that bank s Audit Committee. Mr. Peters graduated from Amherst College with a B.S. in Political Science. Mr. Peters was selected to serve on our board of directors because of his financial and investment expertise and his experience as a member of the board of directors of a public company.

Sanjay Swani has served as a member of our board of directors since April 2013. Mr. Swani is a member of the management committee of Welsh, Carson, Anderson & Stowe, having joined Welsh, Carson, Anderson & Stowe in 1999. He focuses on investments in the information/business services industry. Prior to joining Welsh, Carson, Anderson & Stowe, he was a Director with Fox Paine & Company, a San Francisco-based private equity firm. Mr. Swani also spent four years in the Mergers, Acquisitions & Restructuring Department and two years in the Debt Capital Markets Department of Morgan Stanley Dean Witter & Co. He earned an undergraduate degree from Princeton University in 1987 and concurrent degrees from the Harvard Law School and the MIT Sloan School of Management in 1994. Mr. Swani was selected to serve on our board of directors because of his financial and investment expertise.

Board of Directors Composition and Risk Oversight

Our board of directors consists of seven members, of whom only Messrs. Clark, Levenson and Peters qualify as independent according to the New York Stock Exchange Listed Company Manual. Our directors hold office until their successors have been elected and qualified or until the earlier of their resignation or removal.

Our certificate of incorporation and bylaws provide that our board of directors is divided into three classes whose members serve three-year terms expiring in successive years. The terms of office of members of our board of directors are divided into three classes:

- Class I directors, whose term will expire at the annual meeting of the stockholders to be held in 2017;
- Class II directors, whose term will expire at the annual meeting of the stockholders to be held in 2015; and
- Class III directors, whose term will expire at the annual meeting of the stockholders to be held in 2016.

Our Class I directors are Messrs. Minicucci and Mulvee, our Class II directors are Messrs. Levenson and Peters and our Class III directors are Messrs. Clark, Richison and Swani. At each annual meeting of stockholders, the successors to the directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following such election. Any vacancies in our classified board of directors will be filled by the remaining directors and the elected person will serve the remainder of the term of the class to which he or she is appointed. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors.

In connection with the 2014 Reorganization, we and the Stockholders Agreement Parties entered into the Stockholders Agreement. Among other things, the Stockholders Agreement provides that upon the completion of this offering and for so long as the parties thereto continue to collectively hold 40% of our issued and outstanding

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shares of common stock, each party will vote and take all other necessary and desirable action within such party s control to (i) cause the authorized number of directors of our board of directors to be established at seven and (ii) elect to our board of directors:

- three representatives designated by the holders of a majority of the shares of common stock held by WCAS X and any of its affiliates to which shares of common stock are transferred pursuant to the Stockholders Agreement;

- one representative designated by the holders of a majority of the shares of common stock held by WCAS Capital IV and any of its affiliates to which shares of common stock are transferred pursuant to the Stockholders Agreement; and

- subject to certain conditions, one representative designated by the holders of a majority of the shares of common stock held by Chad Richison, Shannon Rowe, William Kerber, Jeffrey York, Robert J. Levenson and the Estate of Richard Aiello and any of their affiliates, or the Minority Holders, who shall be Chad Richison for so long as he is employed by us.

As such, Welsh, Carson, Anderson & Stowe and its affiliates have effectively designated four representatives to our board of directors. Messrs. Levenson, Swani and Minicucci were designated by WCAS X. Mr. Mulvee was designated by WCAS Capital IV.

Our board of directors is responsible for, among other things, overseeing the conduct of our business; reviewing and, where appropriate, approving our long-term strategic, financial and organizational goals and plans; and reviewing the performance of our chief executive officer and other members of senior management. Our board of directors, as a whole and through its committees, has responsibility for the oversight of risk management. Our senior management is responsible for assessing and managing our risks on a day-to-day basis. Our audit committee periodically discusses with management our policies with respect to risk assessment and risk management and our significant financial risk exposures and the actions management has taken to limit, monitor or control such exposures, and our compensation committee oversees risk related to compensation policies. Both our audit and compensation committees report to the full board of directors with respect to these matters, among others.

Because the Stockholders Agreement Parties hold more than 50% of the voting power for the election of our directors, we have elected to be a controlled company under the New York Stock Exchange Listed Company Manual. As a controlled company, exemptions under the New York Stock Exchange Listed Company Manual exempt us from compliance with certain corporate governance requirements, including the requirements:

- that a majority of our board of directors consists of independent directors, as defined under the New York Stock Exchange Listed Company Manual;

- that any compensation committee or nominating and corporate governance committee be composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities; and that any compensation committee or nominating and corporate governance committee have an annual performance evaluation.

These exemptions do not modify the independence requirements for our audit committee, and we intend to comply with the requirements of Rule 10A-3 of the Exchange Act and the New York Stock Exchange Listed Company Manual.

Committees

Our board of directors has established the following committees: an audit committee, a compensation committee and a nominating and corporate governance committee. Each committee has the composition and primary responsibilities described below. Members serve on these committees until their resignation or until otherwise determined by our board of directors.

Audit Committee

Our audit committee oversees the accounting and financial reporting processes of the Company and the audit of the Company s financial statements. In that regard, our audit committee assists board oversight of: (i) the integrity of the Company s financial statements, (ii) the Company s compliance with legal and regulatory requirements, (iii) the independent auditor s qualifications and independence, and (iv) the performance of the Company s internal audit function and independent auditors. Among other matters, the audit committee is responsible for the retention of our independent auditors; evaluating the qualifications, performance and independence of our independent auditors; reviewing the Company s annual and interim financial statements and discussing press releases, financial information and earnings guidance provided to analysts and rating agencies; discussing policies with respect to risk assessment and risk management; overseeing the Company s internal audit function; reviewing and ensuring the adequacy of the Company s internal control systems; reviewing and approving related party transactions; and annually reviewing the audit committee charter and the committee s performance.

The current members of our audit committee are Messrs. Clark, Levenson, and Peters with Mr. Peters serving as the chairman of the committee. All members of our audit committee meet the requirements for financial literacy under the New York Stock Exchange Listed Company Manual and applicable SEC rules and regulations. Our board of directors has determined that Mr. Peters is an audit committee financial expert as defined under the applicable rules of the SEC and has the requisite financial management expertise as defined under the New York Stock Exchange Listed Company Manual. Messrs. Clark, Levenson and Peters are considered independent under applicable SEC rules and regulations and the New York Stock Exchange Listed Company Manual. The audit committee operates under a written charter that satisfies the applicable SEC rules and regulations and the New York Stock Exchange Listed Company Manual.

Compensation Committee

Our compensation committee reviews and approves, or recommends that our board of directors approves, the compensation of our executive officers. Among other matters, the compensation committee reviews and approves corporate goals and objectives relevant to the compensation of our chief executive officer and other executive officers, evaluates the performance of these officers in light of those goals and objectives, and approves all stock option grants and other equity-related awards to our executive officers. The compensation committee also annually reviews the compensation committee charter and the committee s performance.

The current members of our compensation committee are Messrs. Minicucci and Swani, with Mr. Minicucci serving as the chairman of the committee. We qualify as a controlled company under the New York Stock Exchange Listed Company Manual and are not required to have a compensation committee composed of independent directors. Therefore, none of the members of our compensation committee are independent under the applicable SEC rules and regulations and the New York Stock Exchange Listed Company Manual or meet the definition of outside directors under Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee is responsible for identifying and recommending candidates for membership on our board of directors, including nominees recommended by stockholders, reviewing and recommending the composition of our committees, overseeing our code of business conduct and ethics, corporate governance guidelines and reporting and making recommendations to our board of directors concerning governance matters. The nominating and corporate governance committee also annually reviews the nominating and corporate governance committee charter and the committee s performance. The current members of the nominating and corporate governance committee are Messrs. Minicucci and Swani, with Mr. Swani serving as chairman of the committee. We qualify as a controlled company under the New York Stock Exchange Listed

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Company Manual and are not required to have a nominating and corporate governance committee composed of independent directors. Therefore, none of the members of our nominating and corporate governance committee are independent under the New York Stock Exchange Listed Company Manual and applicable SEC rules and regulations.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is or has at any time during the past year been an officer or employee of ours. None of our executive officers currently serves or in the past year has served as a member of the board of directors or compensation or similar committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

Code of Business Conduct and Ethics

We have adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including our chief executive officer, chief financial officer and other principal executive and senior officers responsible for financial reporting. The code of business conduct and ethics is available on our website at www.investors.paycom.com. Our code of business conduct and ethics is a code of ethics, as defined in Item 406(b) of Regulation S-K. The information contained on, or accessible from, our website is not part of this prospectus by reference or otherwise. We will make any legally required disclosures regarding amendments to, or waivers of, provisions of our code of ethics on our website.

Director Compensation

Our non-employee directors receive annual fees for their service in the amount of $75,000 per year, payable one-third in shares of common stock and two-thirds in cash. The chairman of our board of directors receives an additional annual cash fee of $25,000. Audit committee members (other than the chairman) receive an additional annual cash fee $5,000 and the chairman of the audit committee receives an additional annual cash fee of $10,000. All directors are entitled to reimbursement for their reasonable out-of-pocket expenditures incurred in connection with their board or committee service.

The following table provides information regarding director compensation during 2014. Mr. Richison served as our president and chief executive officer and did not receive additional compensation for his service as a director in 2014. See Executive Compensation Summary Compensation Table for Fiscal Years Ended December 31, 2014, 2013 and 2012 below for additional information concerning the compensation paid to Mr. Richison during 2014.

Name	Fees Earned or Paid in Cash[1] ($)	Stock Awards[2] ($)	Total ($)
Jason D. Clark	38,750		38,750
Robert J. Levenson	60,000		60,000
Robert Minicucci	77,500		77,500
Conner Mulvee	56,250		56,250
Frederick C. Peters II	63,750		63,750
Sanjay Swani	56,250		56,250

(1) For 2014, all of our non-employee directors received their fees for their service on our board of directors in cash.
(2) None of our directors owned any shares of restricted stock as of December 31, 2014.

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EXECUTIVE COMPENSATION

Overview of Executive Compensation

Our compensation committee makes the compensation decisions regarding our executive officers, including (i) Chad Richison, our president and chief executive officer, (ii) Craig E. Boelte, our chief financial officer, (iii) Jeffrey D. York, our chief sales officer and (iv) William X. Kerber III, our chief information officer, or collectively, the named executive officers.

We evaluate each executive officer s performance for the prior year on an annual basis. Our chief executive officer, Mr. Richison, with respect to each executive officer other than himself, prepares a written evaluation of the executive officers with input from others within our company. The written evaluation focuses on the achievement of stated corporate and individual goals and performance criteria and the amount of contributions made to management and the leadership of our company. This process leads to a recommendation from the chief executive officer to the compensation committee with respect to each executive officer s salary level, cash bonus, and whether or not equity incentive awards should be granted. The compensation committee (without input from the chief executive officer) determines the salary level, cash bonus, and whether or not equity incentive awards should be granted to our chief executive officer.

Summary Compensation Table For Fiscal Years Ended December 31, 2014, 2013 and 2012

The following table contains information regarding compensation that was paid to our named executive officers for the fiscal years ended December 31, 2014, 2013 and 2012.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock/ Unit Awards ($)[2]	Non-Equity Incentive Plan Compensation ($)[3]	All Other Compensation ($)[4]	Total ($)
Chad Richison[1]	2014	555,197		1,182,928[5]		116,564[6]	1,854,689
Director, President and	2013	534,788		49,594	682,961	47,723[6]	1,315,066
Chief Executive Officer	2012	495,051	17,000	1,040,179	516,921	47,592[6]	2,116,743
Craig E. Boelte	2014	291,600		169,814[5]		24,825[7]	486,239
Chief Financial Officer	2013	280,954		49,380	358,798	12,575	701,707
	2012	260,020		89,972	203,623	12,575	566,190
Jeffrey D. York	2014	367,102		129,560[5]		25,662[7]	522,324
Chief Sales Officer	2013	343,363		42,390	315,710	12,925	714,388
	2012	330,028		89,972	258,268	10,601	688,869
William X. Kerber III	2014	300,358		169,814[5]		13,100	483,272
Chief Information Officer	2013	280,963		49,380	269,107	12,575	612,025
	2012	260,028		89,972	203,623	12,575	566,198

(1)

All amounts shown reflect compensation paid to Mr. Richison for his service as our president and chief executive officer. Mr. Richison did not receive additional compensation for his service as a director.

(2) Amounts shown do not reflect compensation actually received by the named executive officers. Rather, the amounts represent the aggregate grant date fair value of restricted stock or incentive units granted to each named executive officer in 2014, 2013 and 2012 computed in accordance with ASC 718, with the exception that the amount shown assumes no forfeitures. A discussion of the assumptions used in the calculation of these amounts is included in Note 9. Stockholders Equity and Stock-Based Compensation in Software s annual condensed consolidated financial statements included in this prospectus.

(3) Amounts shown in this column represent the cash payment made to the named executive officer as performance-based cash bonuses. Our performance-based cash bonuses for 2014 are not calculable as of the latest practicable date prior to the preparation of this prospectus, and we expect that such amounts will be

determined during the first quarter of our 2015 fiscal year. We will disclose the amount of performance-based cash bonuses when they have been determined in accordance with applicable SEC rules. See Narrative Discussion Regarding Summary Compensation Table Performance-Based Cash Bonuses for more details.

(4) Amounts shown consist of insurance premiums paid by the Company, retainers for a supplemental medical plan and Company contributions to a 401(k) profit sharing plan for the benefit of the named executive officer. The amounts shown in this column for Mr. Richison also reflect the aggregate incremental cost of personal use of corporate aircraft by the named executive officer. Spouses and invited guests of executives occasionally fly on the corporate aircraft as additional passengers on business flights. In those cases, the aggregate incremental cost to us is a de minimis amount, and as a result, no amount is reflected in the table.

(5) In connection with the 2014 Reorganization, outstanding equity incentive units were converted into shares of restricted stock for each of our named executive officers on January 1, 2014. Shares of restricted stock vest in accordance with the terms described below. See Executive Compensation Narrative Discussion Regarding Summary Compensation Table Equity Incentive Units and Restricted Stock Awards for more details.

(6) In addition to the items listed in Note (4) above, the amounts shown also include country club dues and expenses and approximately $23,411 of lease payments for an automobile in each of 2014, 2013 and 2012.

(7) In addition to the items listed in Note (4) above, the amounts shown also include approximately $11,725 and $12,062, of lease payments for an automobile for Mr. Boelte and Mr. York, respectively, and $500 for Mr. York for the payment of an employee referral fee.

Narrative Discussion Regarding Summary Compensation Table

Executive Compensation Program Overview

The primary elements of our executive compensation program include:

- base salary;
- discretionary cash bonuses;
- equity incentive units;
- performance-based cash bonuses;
- retirement and other benefits; and
- perquisites and personal benefits.

Our compensation committee, after reviewing compensation information it considers relevant, has determined what it believes to be the appropriate level and mix of the various compensation components for our named executive officers. Ultimately, the objective in allocating between long-term and short-term compensation is to ensure adequate base compensation to attract and retain personnel, while providing incentives to maximize long-term value for our company and our stockholders.

Base Salary

We provide base salaries to our named executive officers to compensate them for services rendered during the fiscal year and to recognize their experience, skills, knowledge and responsibilities. Each of our named executive officers is currently party to an employment agreement. No formulaic base salary increases are provided to our named executive officers pursuant to the terms of their employment agreements. However, on an annual basis, our compensation committee reviews and evaluates, with input from our chief executive officer, the need for adjustment of the base salaries of our named executive officers. For additional information concerning the employment agreements, see Compensation Arrangements Adopted in Connection with our Initial Public Offering Employment Agreements.

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For 2012, Messrs. Richison, York, Boelte and Kerber received an annual base salary of $495,051, $330,028 $260,020 and $260,028, respectively. For 2013, Messrs. Richison, York, Boelte and Kerber received an annual base salary of $534,788, $343,363, $280,954 and $280,963, respectively. For 2014, Messrs. Richison, York, Boelte and Kerber received an annual base salary of $555,197, $367,102, $291,600 and $300,358, respectively, which reflects the compensation committee s six percent (6%) increase in the base salary of Messrs. York and Kerber, effective as of July 1, 2014.

Discretionary Cash Bonuses

We generally only award performance-based cash bonuses to our named executive officers. However, in 2012, we awarded cash bonuses on a discretionary basis to certain of our executive officers, including certain of our named executive officers. For the named executive officers other than the Company s chief executive officer, the compensation committee, in consultation with the Company s chief executive officer, recommended cash bonuses for the board s approval. The compensation committee reviewed the performance of the Company s chief executive officer and recommended the bonus for the Company s chief executive officer to the board of directors. For 2012, the compensation committee awarded Mr. Richison a discretionary cash bonus in an amount equal to $17,000, or 3% of his base salary. None of the other named executive officers received a cash bonus for 2012. For 2013, the compensation committee did not award cash bonuses to any of our named executive officers. For 2014, the compensation committee does not expect to award any cash bonuses to any of our named executive officers.

Equity Incentive Units and Restricted Stock Awards

Prior to 2014, our award of equity incentive units was the primary vehicle for offering long-term incentives to our executive officers, including our named executive officers. While we do not have any equity ownership guidelines for our named executive officers, we believe that equity incentive unit grants and restricted stock awards provide our named executive officers with a strong link to our long-term performance, create an incentive to achieve long-range performance goals and objectives and help to align the interests of our named executive officers and our stockholders. In 2012 and 2013, we issued equity incentive units to each of our named executive officers. In 2014, we issued shares of common stock and restricted stock to our named executive officers to replace previously granted awards of equity incentive units.

Material Terms of Equity Incentive Unit Grants

We have historically granted awards of equity incentive units to our named executive officers with a portion of the units being subject to time-based vesting conditions and a portion being subject to performance-based vesting conditions. Prior to the vesting of equity incentive units, the holder has no rights as a stockholder with respect to the shares subject to such unit, including voting rights or the right to receive dividends, dividend equivalents or distributions.

Number of Equity Incentive Unit Awards

The following table sets forth the number of equity incentive units granted to our named executive officers during the fiscal year ended December 31, 2012, each of which was granted on April 30, 2012:

Name	Number of Management	Number of CEO

	Incentive Units	Incentive Units
Chad Richison	9,359	126,067
Craig E. Boelte	8,062	
Jeffrey D. York	8,062	
William X. Kerber III	8,062	

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The following table sets forth the number of equity incentive units granted to our named executive officers during the fiscal year ended December 31, 2013, each of which were granted on October 14, 2013 (except for the units granted to Mr. York, which was granted on April 17, 2013):

Name	Management Incentive Units	CEO Incentive Units
Chad Richison	3,013	
Craig E. Boelte	3,000	
Jeffrey D. York	3,000	
William X. Kerber III	3,000	

Vesting of Equity Incentive Unit Awards

During 2012 and 2013, we granted Management Incentive Units to each of our named executive officers and we granted CEO Incentive Units only to our chief executive officer only during 2012. 50% of the Management Incentive Units awarded to each of our named executive officers were subject to time-based vesting conditions and 50% of the units were subject to performance-based vesting conditions. The Management Incentive Units that were subject to time-based vesting conditions were scheduled to vest 20% on each of the first five anniversaries of the date of grant or 100% upon the earlier sale of the Company. A sale of the Company included (i) a transaction or series of transactions (including by way of merger, consolidation, or sale of equity) the result of which is that the holders of units of the Company immediately prior to such transaction, do not, after giving effect to such transaction, own, directly or indirectly, through one or more intermediaries, at least 50% of the units of the Company, or (ii) a sale, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of the Company s assets determined on a consolidated basis to a person that is not affiliated with WCAS Holdings.

The Management Incentive Units that were subject to performance-based vesting conditions were scheduled to vest when the amount of cash, including cash dividends, distributions and proceeds, but excluding management fees, transaction-related fees and expense reimbursements with respect to, or in exchange for equity securities, or collectively, the Inflows, received by WCAS Holdings exceeded $280.4 million, as adjusted for payments made by WCAS Holdings with respect to or in exchange for securities after April 30, 2012 through the determination date, or the Outflows, as follows: 33% on the date for which the Inflows equaled at least 2.0 times the Outflows and 100% on the date for which the Inflows equaled at least 3.5 times the Outflows; provided the named executive officer was employed by us on such date. For any date on which the Inflows equaled more than 2.0 times and less than 3.5 times the Outflows, the number of Management Incentive Units that vested would be determined by straight-line interpolation.

25% of the CEO Incentive Units were subject to time-based vesting conditions and 75% of the units were subject to performance-based vesting conditions. The CEO Incentive Units that were subject to time-based vesting conditions were scheduled to vest 20% on each of the first five anniversaries of the date of grant or upon the earlier sale of the Company. The CEO Incentive Units that were subject to performance-based vesting conditions were scheduled to vest when the amount of the Inflows received by WCAS Holdings exceeded $386.3 million, as adjusted for payments made by WCAS Holdings with respect to or in exchange for securities after April 30, 2012 through the determination date, or the CEO Award Outflows, as follows: 33% on the date for which the Inflows equal at least 1.5 times the CEO Award Outflows and 100% on the date on which either the Inflows equaled at least (i) 2.0 times the CEO Award Outflows for a date on or prior to the second anniversary of the grant date or (ii) 2.5 times the CEO Award Outflows for a date following the second anniversary of the grant date; provided the chief executive officer continued to remain employed by us on such date. For any date on which the Inflows equaled more than (i) 1.5 times and less than 2.0 times the CEO Award Outflows on or prior to the second anniversary of the grant date or (ii) 1.5 times and less than 2.5 times the CEO Award Outflows following the second anniversary of the grant date, the number of CEO Incentive Units that vested would be determined by straight-line interpolation.

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Material Terms of Restricted Stock Awards

Effective January 1, 2014, our outstanding equity incentive units (Management Incentive Units and CEO Incentive Units) were converted into shares of our common and restricted stock as described in The 2014 Reorganization. The portion of the outstanding equity incentive units that had previously vested were converted into shares of our common stock and the remaining portion of unvested outstanding equity incentive units were converted into shares of restricted stock. As a result, we granted shares of our common stock and restricted stock to our named executive officers in connection with the 2014 Reorganization. A portion of the shares of restricted stock is subject to time-based vesting conditions and a portion is subject to performance-based vesting conditions. Prior to the vesting of restricted stock, the holder has certain rights as a stockholder with respect to the shares of restricted stock, including voting rights and the right to receive dividends, dividend equivalents or distributions; provided that the holder does not have the right to cash dividends and stock dividends are subject to the same restrictions as the restricted stock and shall vest as the restricted stock vests.

Number of Restricted Stock Awards

The following table sets forth the number of shares of our common and restricted stock that were granted to our named executive officers in connection with the 2014 Reorganization to replace the Management Incentive Units and CEO Incentive Units which were granted to our named executive officers on April 30, 2012:

	Management Incentive Units		CEO Incentive Units	
Name	Number of Shares of Common Stock	Number of Shares of Restricted Stock	Number of Shares of Common Stock	Number of Shares of Restricted Stock
Chad Richison	39,701	357,309	254,987	4,844,765
Craig E. Boelte	34,199	307,792		
Jeffrey D. York	34,199	307,792		
William X. Kerber III	34,199	307,792		

The following table sets forth the number of shares of our common and restricted stock that were granted to our named executive officers in connection with the 2014 Reorganization to replace the Management Incentive Units that were granted to our named executive officers on October 14, 2013 (except for the units granted to Mr. York, which were granted on April 17, 2013):

Name	Number of Shares of Common Stock	Number of Shares of Restricted Stock
Chad Richison		121,833
Craig E. Boelte		121,307
Jeffrey D. York		127,192
William X. Kerber III		121,307

Vesting of Restricted Stock Awards

With the exception of the shares of restricted stock granted to our chief executive officer, approximately 50% of the shares awarded to each of our named executive officers are subject to time-based vesting conditions and approximately 50% of the shares are subject to performance-based vesting conditions. The shares of restricted stock that are subject to time-based vesting conditions either vest: (i) 25% on each of April 3, 2014, April 3, 2015, April 2, 2016 and April 2, 2017 (for the shares of restricted stock granted to replace the equity incentive units awarded on April 30, 2012), provided that the person is employed by us on that date, (ii) 20% on each of the first five anniversaries of the date of grant of the Management Incentive Units (for the shares of restricted stock granted to replace the Management Incentive Units awarded on October 14, 2013 or April 17, 2013), provided that the person is employed by us on that date, or (iii) 100% upon a change in control.

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For purposes of our restricted stock award agreements, a change in control means: (i) a transaction or series of transactions in which any person becomes the beneficial owner of securities representing 30% or more of the combined voting power of our outstanding securities or 30% or more of our outstanding shares of our common stock, (ii) any merger or consolidation, or series of related transactions, which results in our voting securities outstanding immediately prior thereto failing to continue to represent at least 50% of the voting power of our voting securities, (iii) the sale or disposition of all or substantially all of our assets (or consummation of any transaction, or series of related transactions having a similar effect), (iv) during any consecutive twelve month period, the individuals who on the date of the award constitute the board of directors cease for any reason to constitute a majority of our board of directors, subject to certain exceptions, (v) our dissolution or liquidation or (vi) any transaction or series of related transactions having the substantial effect of any one or more of the foregoing. In the event of a change in control, all unvested shares of restricted stock not assumed by the surviving entity shall become fully vested immediately prior to the effective date of a change of control.

During 2014, our named executive officers had the following shares of restricted stock vest that were subject to time based vesting conditions: (i) on April 3, 2014, Messrs. Richison, Boelte, York and Kerber had 294,688, 34,200, 34,200 and 34,200 shares of restricted stock vest, respectively; (ii) on April 17, 2014, Mr. York had 12,720 shares of restricted stock vest; and (iii) on October 17, 2014, Messrs. Richison, Boelte and Kerber had 12,184, 12,131 and 12,131 shares of restricted stock vest, respectively.

Shares of restricted stock subject to performance-based vesting conditions vest 50% upon the Company reaching a total enterprise value of $1.4 billion and 50% upon the Company reaching a total enterprise value of $1.8 billion, provided that the person is employed by us on that date. For purposes of our restricted stock award agreements, total enterprise value is defined as the sum of: (i) the product of (A) the arithmetic average of the volume weighted average price of a share of common stock not subject to vesting or other restrictions on each of the twenty (20) consecutive trading days immediately preceding such date multiplied by (B) the number of outstanding shares of common stock, (ii) for each other class or series of equity securities of the Company, if any, the product of (A) the arithmetic average of the volume weighted average price per share for such class or series of such equity securities of the Company on each of the twenty (20) consecutive trading days immediately preceding such date multiplied by (B) the number of shares of such class or series of such equity securities of the Company, and (iii) the principal amount of our outstanding funded indebtedness less the aggregate amount of cash and cash equivalents of the Company (exclusive of funds held on behalf of clients). The Company s total enterprise value includes outstanding shares of restricted stock and calculates the value of such shares as if there were no vesting or other restrictions.

During 2014, the Company reached a total enterprise value of $1.4 billion and 50% of the shares of restricted stock that were subject to performance-based vesting conditions vested effective as of December 1, 2014. Our named executive officers had the following number of shares vest that were subject to performance based vesting conditions as calculated pursuant to the terms of the applicable restricted stock award agreements: effective as of December 1, 2014, Messrs. Richison, Boelte, York and Kerber had 2,042,120, 115,824, 117,294, and 115,824 shares of restricted stock vest, respectively.

All unvested shares of restricted stock also become fully vested in the event of the named executive officer s death while performing his duties and responsibilities for the Company. In the event of a termination of service of the named executive officer due to disability, by the named executive officer for good reason (as defined in the named executive officer s employment agreement), by the Company without cause (as defined in the named executive officer s employment agreement), or death (other than while performing his duties and responsibilities for the Company), the board of directors may, in its sole discretion, accelerate vesting of all or any portion of the unvested shares of restricted stock. Further, if the chief executive officer s employment is terminated by the Company without cause (as defined in his employment agreement), all unvested shares of restricted stock subject to time-based vesting conditions will remain outstanding and eligible for vesting for one year following such termination of employment, and the board of directors may accelerate the vesting of the other remaining unvested shares of restricted stock, in its discretion. Other than as provided above, all unvested

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shares of restricted stock shall be forfeited upon the named executive officer s termination of service or upon engaging in certain forfeiture activities involving violations of noncompetition, noninterference, non-solicitation provisions of his employment agreement.

Performance-Based Cash Bonuses

We award annual performance-based cash bonuses to certain members of our management, including our named executive officers, to emphasize pay-for-performance and to reward them for the achievement of specified corporate performance criteria. Each named executive officer is eligible to receive an annual performance-based cash bonus, which we refer to as an annual cash bonus, in an amount up to a fixed percentage of his base salary, or bonus percentage. Under their respective employment agreements, our named executive officers are eligible to receive a performance-based cash bonus equal to either 100% of their base salary (for Messrs. Richison and Boelte) or 75% of their base salary (for Messrs. York and Kerber).

Each of our compensation committee and our board of directors has authority, in its sole discretion, to adjust the bonus percentage and performance criteria each year in connection with its review of the executive s performance and has authority to allow an executive to receive a bonus payment in excess of his or her annual cash bonus for exceptional performance. Further, our board of directors reviews the assessment of each executive s performance conducted by the compensation committee with respect to the annual cash bonus and retains the authority, in its sole discretion, to modify the amount of the annual cash bonus above or below the amount recommended by the compensation committee.

Target Bonuses

For 2012, our chief executive officer was eligible for a bonus payout of up to 100% of his base salary, and our chief financial officer, chief sales officer and chief information officer were each eligible for a bonus payout of up to 75% of their respective base salaries. For 2013, our chief executive officer and chief financial officer were each eligible for a bonus payout of up to 100% of their respective base salaries, and our chief sales officer and chief information officer were each eligible for a bonus payout of up to 75% of their respective base salaries, each as adjusted by the compensation committee based on achievement of our corporate performance criteria, in the event of exceptional individual or functional performance. For 2014, our chief executive officer and chief financial officer were each eligible for a bonus payout of up to 100 % of their respective base salaries, and our chief sales officer and chief information officer were each eligible for a bonus payout of up to 75% of their respective base salaries, each as adjusted by the compensation committee based on achievement of our corporate performance criteria, in the event of exceptional individual or functional performance. The following table shows the 2012, 2013 and 2014 target bonus amounts as a percentage of base salary for each of our named executive officers.

Name	2012 Target Bonus Amount (as a percentage of base salary)	2013 Target Bonus Amount (as a percentage of base salary)	2014 Target Bonus Amount (as a percentage of base salary)
Chad Richison	100%	100%	100%
Craig E. Boelte	75%	100%	100%
Jeffrey D. York	75%	75%	75%

William X. Kerber III	75%	75%	75%

Corporate Performance Criteria

The corporate performance criteria that was used in determining the amount of performance bonuses for our named executive officers for 2012, 2013 and 2014 was GAAP revenue budget growth, with the exception of Mr. York, whose corporate performance criteria was booked sales budget for 2012 and 2013. For 2012, 2013 and 2014, the performance target for GAAP revenue budget growth was 31.4%, 31.4% and 32.9%, respectively. For 2012 and 2013, the performance target for booked sales budget was $28.7 million and $37.2 million, respectively.

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For 2012 and 2013, our named executive officers were not eligible to be awarded performance-based cash bonuses if less than 80% of the performance target was achieved, but were awarded performance-based cash bonuses equal to the amount of the performance target achievement when 80% or more of the performance target was achieved. For example, if 110% of the performance target was achieved, the named executive officer received 110% of the cash bonus target.

For 2014, our named executive officers were not eligible to be awarded performance-based cash bonuses if less than 64% of the performance target was achieved, but were awarded performance-based cash bonuses equal to the amount of the performance target achievement when more than 64% and less than 112% of the performance target was achieved. In cases where the performance target achievement was equal to or more than 112% of the performance target, named executed officers were eligible to receive 100% of the cash bonus target plus a percentage of the cash bonus target equal to (i) the amount of the performance target above 100% multiplied by (ii) two, up to a maximum amount of 200% of the cash bonus target. For example, if 112% of the performance target was achieved, the named executive officer would receive 124% of the cash bonus target (i.e., 100% + (112-100)*2).

Actual Bonuses

For 2012, the compensation committee determined that the actual performance achieved for GAAP revenue budget growth was 34.1% and for booked sales budget was $30.0 million. Based on these results, the compensation committee determined that the amount of the performance target achievement for the GAAP revenue budget growth was 108.6% and for booked sales budget was 104.4%. The target bonuses and actual bonuses paid by the compensation committee for 2012 were as follows.

Name	Target 2012 Bonuses	Actual 2012 Bonuses
Chad Richison	$ 475,992	$ 516,921
Craig E. Boelte	$ 187,500	$ 203,623
Jeffrey D. York	$ 247,500	$ 258,268
William X. Kerber III	$ 187,500	$ 203,623

For 2013, the compensation committee determined that the actual performance achieved for GAAP revenue budget growth was 40.1% and for booked sales budget was $45.6 million. Based on these results, the compensation committee determined that the amount of the performance target achievement for the GAAP revenue budget growth was 127.7% and for booked sales budget was 122.6%. The target bonuses and actual bonuses paid by the compensation committee for 2013 were as follows.

Name	Target 2013 Bonuses	Actual 2013 Bonuses
Chad Richison	$ 534,788	$ 682,961
Craig E. Boelte	$ 280,954	$ 358,798
Jeffrey D. York	$ 257,522	$ 315,710
William X. Kerber III	$ 210,722	$ 269,107

For 2014, the compensation committee has not yet determined the actual performance achieved for GAAP revenue budget growth. As such, the amount of performance-based cash bonuses for our named executive officers for 2014 are not calculable as of the latest practicable date prior to the preparation of this prospectus, and we expect that such amounts will be determined during the first quarter of our 2015 fiscal year. We will disclose information similar to the following once the amount of the actual performance achievement and performance-based cash bonuses for 2014 are determined.

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For 2014, the compensation committee determined that the actual performance achieved for GAAP revenue budget growth was %. Based on these results, the compensation committee determined that the amount of the performance target achievement for the GAAP revenue budget growth was %. The target bonuses and actual bonuses paid by the compensation committee for 2014 were as follows.

Name	Target 2014 Bonuses	Actual 2014 Bonuses
Chad Richison	$ 555,197	$
Craig E. Boelte	$ 291,600	$
Jeffrey D. York	$ 275,327	$
William X. Kerber III	$ 225,269	$

Retirement and Other Benefits

We believe that establishing competitive benefit packages for our employees is an important factor in attracting and retaining highly qualified personnel. We maintain broad-based benefits that are provided to all employees, including medical, dental, group life insurance, accidental death and dismemberment insurance, long and short term disability insurance, and a 401(k) plan. Our named executive officers are eligible to participate in all of our employee benefit plans, in each case on the same basis as other employees. The compensation committee in its discretion may revise, amend or add to the named executive officer s benefits and perquisites if it deems it advisable.

401(k) Plan

We maintain a 401(k) profit sharing plan for our employees. Our 401(k) plan is intended to qualify as a tax-qualified plan under Section 401 of the Code so that contributions to our 401(k) plan, and income earned on such contributions, are not taxable to participants until withdrawn or distributed from the 401(k) plan. Our 401(k) plan provides that each participant may contribute up to 100% of his or her pre-tax compensation, up to a statutory limit, which was $17,000 for 2012 and $17,500 for both 2013 and 2014. Participants who are at least 50 years old can also make catch-up contributions, which in 2012, 2013 and 2014 was limited to an additional $5,500 above the statutory limit. Under our 401(k) plan, each employee is fully vested in his or her deferred salary contributions. Employee contributions are held and invested by the plan s trustee, subject to participants ability to give investment directions by following certain procedures. We provide matching contributions under our 401(k) plan equal to 100% of the first 1% of employees salary deferrals and 50% of employees salary deferrals between 2% and 6%, up to a maximum matching contribution of 3.5% of the salary deferrals for our employees. Our 401(k) plan also permits us to make discretionary contributions, and all of our contributions are subject to established limits and a vesting schedule.

We do not maintain any defined benefit pension plans or any nonqualified deferred compensation plans.

Perquisites and Other Personal Benefits

We provided our named executive officers with perquisites and other personal benefits in 2012, 2013 and 2014 that the compensation committee believed were reasonable and consistent with our overall compensation program. The perquisites and personal benefits that we provide to our named executive officers include matching 401(k) contributions, a supplemental medical plan that provides for visits and benefits with a private physician, key man insurance premium payments, country club dues and car lease payments. On limited occasions, we also allow named executive officers that are authorized to use chartered aircraft for business travel to, if space allows, bring family members or guests along on the trip. Because we reimburse for use of the aircraft only for business travel and we pay for the aircraft based on the flight hours regardless of the passenger load, the aggregate incremental cost to us for the additional passengers is a de minimis amount. The compensation committee periodically reviews the levels of perquisites and other personal benefits provided to our named executive officers.

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Attributed costs, if any, of the personal benefits described above for the named executive officers for the years ended December 31, 2012, 2013 and 2014 are included in the summary compensation table under the heading All Other Compensation.

Fiscal Year 2014 Grants of Plan-Based Awards Table

The following table lists each grant of plan-based awards under the 2014 Plan to each of the Company s named executive officers during the year ended December 31, 2014. The table also includes the grant date fair value of the stock awards on the date of grant:

Name	Grant Date(1)	All Other Stock Awards: Number of Shares of Restricted Stock(1)	Grant Date Fair Value of Stock Awards($)(2)
Chad Richison	1/1/2014	5,323,907	$ 1,182,928
Craig E. Boelte	1/1/2014	429,099	$ 169,814
Jeffrey D. York	1/1/2014	434,984	$ 129,560
William X. Kerber III	1/1/2014	429,099	$ 169,814

(1) In connection with the 2014 Reorganization, outstanding equity incentive units were converted into the number of shares of restricted stock set forth above for each of our named executive officers on January 1, 2014. Shares of restricted stock vest in accordance with the terms described above. See Executive Compensation Narrative Discussion Regarding Summary Compensation Table Equity Incentive Units and Restricted Stock Awards for more details.

(2) Amounts represent the aggregate grant date fair value of restricted stock granted to each named executive officer in 2014 computed in accordance with ASC 718, with the exception that the amount shown assumes no forfeitures. A discussion of the assumptions used in the calculation of these amounts is included in Note 9. Stockholders Equity and Stock-Based Compensation in Software s annual consolidated financial statements included in this prospectus.

2014 Fiscal Year Outstanding Equity Awards At Fiscal Year-End Table

The following table lists all of the outstanding stock awards held by each of the Company s named executive officers on December 31, 2014. The table also includes the value of the stock awards based on the fair market value of our common stock as of December 31, 2014:

		Stock Awards	
Name	Grant Date	Number of Shares of Stock That Have Not Vested(1)	Market Value of Shares of Stock That Have Not Vested ($)(2)

Chad Richison	1/1/2014	2,974,915	$ 78,329,512
Craig E. Boelte	1/1/2014	266,944	$ 7,028,636
Jeffrey D. York	1/1/2014	270,770	$ 7,129,374
William X. Kerber III	1/1/2014	266,944	$ 7,028,636

(1) Shares of restricted stock vest in accordance with the terms described above. See Narrative Discussion Regarding Summary Compensation Table Equity Incentive Units Material Terms of Equity Incentive Units and Restricted Stock Awards for more details.

(2) Amounts shown reflect the value of our restricted stock calculated by multiplying the number of unvested shares of restricted stock by the closing price of our common stock on the New York Stock Exchange on December 31, 2014, which was $26.33 per share.

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Fiscal Year 2014 Option Exercises and Stock Vested Table

The following table lists the vesting of restricted stock awards for each of the Company s named executive officers during the year ended December 31, 2014.

	Stock Awards	
Name	Number of Shares Acquired on Vesting[1]	Value Realized on Vesting ($)[2]
Chad Richison	2,348,992	$ 62,558,933
Craig E. Boelte	162,155	$ 3,982,535
Jeffrey D. York	164,214	$ 4,032,604
William X. Kerber III	162,155	$ 3,982,535

(1) Shares of restricted stock vested in accordance with the terms described above. See Narrative Discussion Regarding Summary Compensation Table Equity Incentive Units Material Terms of Equity Incentive Units and Restricted Stock Awards for more details.

(2) Amounts shown reflect the value of our restricted stock calculated by multiplying the number of vested shares of restricted stock by the closing price of our common stock on the New York Stock Exchange on the date of vesting or, in the case of shares vesting prior to our initial public offering, the price to the public of our common stock on the date of our initial public offering.

Compensation Arrangements Adopted in Connection with our Initial Public Offering

Long-Term Incentive Plan

We adopted the 2014 Plan, effective January 1, 2014, which permits us to grant an array of equity-based incentive awards to our named executive officers and other key employees, key contractors and outside directors of the Company. The following is a summary of the material terms of the 2014 Plan.

Purpose. The purpose of the 2014 Plan is to:

- increase the interests of recipients of awards under the 2014 Plan in the Company s welfare;
- advance the Company s interests by attracting and retaining qualified employees, outside directors and other persons providing services to the Company and/or its related companies; and
- provide a means through which the Company may attract able persons as employees, contractors and outside directors.

Administration. The 2014 Plan is generally administered by the compensation committee of the board of directors. The compensation committee determines the recipients of awards, the types of awards to be granted and the applicable terms, provisions, limitations and performance requirements of such awards. The compensation committee also has the authority to conclusively interpret the 2014 Plan and any award agreements under the plan. The compensation committee may delegate certain duties to one or more officers of the Company as provided in the 2014 Plan.

Types of Awards. The 2014 Plan provides for grants of incentive stock options, or ISOs, nonqualified stock options, or NQSOs, stock appreciation rights, or SARs, restricted stock, restricted stock units, or RSUs, performance awards, dividend equivalent rights, and other awards.

Stock Options. A stock option is a contractual right to purchase shares at a future date at a specified exercise price. The per share exercise price of a stock option is determined by our compensation committee and many not be less than the fair market value of a share of our common stock on the grant date (or higher for certain employees receiving ISOs). The compensation committee determines the date after which each stock option may be exercised and the expiration date of each option, which may not exceed ten years from the grant date. The compensation committee may grant either ISOs qualifying under Section 422 of the Code or NQSOs, provided that only employees of the Company and its subsidiaries (excluding subsidiaries that are not corporations) are eligible to receive ISOs.

SARs. SARs represent a contractual right to receive, in cash or shares, an amount equal to the appreciation of one share of our common stock from the grant date. The grant price of a SAR cannot be less than the fair market value of a share of our common stock on the grant date. The compensation committee determines the date after which each SAR may be exercised and the expiration date of each SAR, which may not exceed ten years from the grant date.

Restricted Stock. Restricted stock is an award of shares of our common stock that are subject to restrictions on transfer and a substantial risk of forfeiture because of termination of service or failure to achieve certain performance conditions. Shares of restricted stock may be subject to restrictions which do not permit the holder to sell, transfer, pledge or assign his shares. The compensation committee determines the vesting and forfeiture conditions for each grant of restricted stock.

RSUs. RSUs represent a contractual right to receive the value of a share of our common stock at a future date, subject to specified vesting and other restrictions determined by the compensation committee. The compensation committee determines the vesting conditions, payment dates, and forfeiture conditions for each grant of RSUs.

Performance Awards. Performance awards, which may be denominated in cash or shares, are earned on the satisfaction of performance conditions specified by our compensation committee at the end of a specified performance period. The compensation committee determines the length of the performance period, the maximum payment value of an award, and the minimum performance goals required before payment will be made, so long as such provisions are not inconsistent with the terms of the 2014 Plan, and to the extent an award is subject to Section 409A of the Code, are in compliance with the applicable requirements of Section 409A of the Code and any applicable regulations or guidance. To the extent the Company determines that Section 162(m) of the Code shall apply to a performance award granted under the 2014 Plan, it is the intent of the Company that performance awards constitute performance-based compensation within the meaning of Section 162(m) of the Code and the regulations thereunder. Further, if complying with Section 162(m) of the Code, no participant may receive performance awards in any calendar year which have an aggregate value of more than $74,128,902, and if such awards involve the issuance of common stock, the aggregate value shall be based on the fair market value of such shares on the time of grant of such awards. In certain circumstances, the compensation committee may, in its discretion, determine that the amount payable with respect to certain performance awards will be reduced from the amount of any potential awards. However, the compensation committee may not, in any event, increase the amount of compensation payable to an individual upon the attainment of a performance goal intended to satisfy the requirements of Section 162(m) of the Code. With respect to a performance award that is not intended to satisfy the requirements of Section 162(m) of the Code, if the compensation committee determines in its sole discretion that the established performance measures or objectives are no longer suitable because of a change in the Company s business, operations, corporate structure, or for other reasons that the compensation committee deems satisfactory, it may modify the performance measures or objectives and/or the performance period.

Dividend Equivalent Rights. Dividend equivalent rights represent the right of the participant to receive cash or stock equal in value to the dividends that would have been paid on the shares of common stock specified in the award if such shares were held by the participant.

Other Awards. Our compensation committee is authorized to grant other forms of awards, based upon, payable in, or otherwise related to, in whole or in part, shares of common stock if the compensation committee determines that such other form of award is consistent with the purpose and restrictions of the 2014 Plan.

Performance Measures. Awards of restricted stock, RSUs, performance awards and other awards under the 2014 Plan may be made subject to the attainment of performance goals relating to one or more business criteria used to measure the performance of the Company as a whole or any business unit of the Company, which, where applicable, shall be within the meaning of Section 162(m) of the Code and consist of one or more or any combination of the following criteria: cash flow; cost; revenues; sales; ratio of debt to debt plus equity; net borrowing, credit quality or debt ratings; profit before tax; economic profit; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; gross margin; earnings per share (whether on a pre-tax, after-tax, operational or other basis); operating earnings; capital expenditures; expenses or expense levels; economic value added; ratio of operating earnings to capital spending or any other operating ratios; free cash flow; net profit; net sales; net asset value per share; the accomplishment of mergers, acquisitions, dispositions, public offerings or similar extraordinary business transactions; sales growth; price of the Company s common stock; return on assets, equity or stockholders equity; market share; inventory levels, inventory turn or shrinkage; or total return to stockholders, or the Performance Criteria. Any Performance Criteria may be used to measure the performance of the Company as a whole or any business unit of the Company and may be measured relative to a peer group or index. Any Performance Criteria may include or exclude (i) extraordinary, unusual and/or non-recurring items of gain or loss, (ii) gains or losses on the disposition of a business, (iii) changes in tax or accounting regulations or laws, (iv) the effect of a merger or acquisition, as identified in the Company s quarterly and annual earnings releases, or other similar occurrences. In all other respects, Performance Criteria shall be calculated in accordance with the Company s financial statements, under generally accepted accounting principles, or under a methodology established by the compensation committee prior to the issuance of an award which is consistently applied and identified in the audited financial statements, including footnotes, or the Compensation Discussion and Analysis section of the Company s annual report or proxy statement. However, to the extent Section 162(m) of the Code is applicable, the compensation committee may not in any event increase the amount of compensation payable to an individual upon the attainment of a performance goal.

Authorized Shares. We have reserved 11,350,881 of our shares of common stock for issuance pursuant to the 2014 Plan, of which 100% may be delivered pursuant to ISOs. In addition, the maximum number of shares of common stock with respect to which stock options or SARs may be granted to an officer of the Company subject to Section 16 of the Exchange Act, or a covered employee as defined in Section 162(m)(3) of the Code during any calendar year is limited to 5,323,907 shares of common stock. To the extent any award under the 2014 Plan is forfeited, expired or cancelled, then the number of shares of common stock covered by the award or stock option so forfeited, expired or canceled will again be available for awards under the 2014 Plan.

Capital Adjustments. In the event that any extraordinary dividend or other extraordinary distribution, recapitalization, stock split, reverse stock split, rights offering, reorganization, merger, consolidation, split-up, spin-off, split-off, combination, subdivision, repurchase, or exchange of common stock or other securities of the Company, issuance of warrants or other rights to purchase common stock or other securities of the Company, or other similar corporate transaction or event affects the fair value of an award, the compensation committee shall adjust any or all of the following so that the fair value of the award immediately after the transaction or event is equal to the fair value of the award immediately prior to the transaction or event:

- the number of shares and type of common stock (or the securities or property) which thereafter may be made the subject of awards;

- the number of shares and type of common stock (or other securities or property) subject to outstanding awards;

the number of shares and type of Common Stock (or other securities or property) specified as the annual per-participant limitation specified in the 2014 Plan;

the option price of each outstanding award;

the amount, if any, the Company pays for forfeited shares of common stock; and the number of or SAR price of shares of common stock then subject to outstanding SARs previously granted and unexercised under the plan, to the end that the same proportion of the Company s issued and outstanding shares of common stock in each instance shall remain subject to exercise at the same aggregate SAR price, provided that, the number of shares of common stock (or other securities or property) subject to any award shall always be a whole number.

Notwithstanding the foregoing, no adjustment shall be made or authorized to the extent that such adjustment would cause the 2014 Plan or any award to violate Section 422 of the Code or Section 409A of the Code. All such adjustments must be made in accordance with the rules of any securities exchange, stock market, or stock quotation system to which the Company is subject.

Eligibility. Any employees, contractors and outside directors whose judgment, initiative and efforts contributed or may be expected to contribute to the successful performance of the Company are eligible to receive awards under the 2014 Plan.

Vesting; Termination of Service. The compensation committee, in its sole discretion, may determine that an award will be immediately vested in whole or in part, or that all or any portion may not be vested until a date, or dates, subsequent to its grant date, or until the occurrence of one or more specified events, subject in any case to the terms of the 2014 Plan. If the compensation committee imposes conditions upon vesting, then, except as otherwise provided below, subsequent to the grant date the compensation committee may, in its sole discretion, accelerate the date on which all or any portion of the award may be vested. Full Value Awards (i.e., restricted stock or RSUs) that constitute performance awards must vest no earlier than one year after the date of grant, and Full Value Awards that are payable upon the completion of future services must vest no earlier than over the three year period commencing on the date of grant.

Notwithstanding the foregoing, the compensation committee may, in its sole discretion, accelerate the vesting or waive any applicable restriction period for such Full Value Awards, provided that the shares of common stock subject to such awards shall be Exempt Shares (as defined in the 2014 Plan), unless such acceleration or waiver occurs by reason of the participant s death, disability, retirement, or occurrence of a change in control. The number of Exempt Shares is limited to 10% of the number of shares available for issuance under the 2014 Plan, plus the total number of shares subject to awards that are received in exchange for incentive units in Holdings. The compensation committee may impose on any award, at the time of grant or thereafter, such additional terms and conditions as the compensation committee determines, including terms requiring forfeiture of awards in the event of a participant s termination of service. The compensation committee will specify the circumstances under which performance awards may be forfeited in the event of a termination of service by a participant prior to the end of a performance period or settlement of awards. Except as otherwise determined by the compensation committee, restricted stock will be forfeited upon a participant s termination of service during the applicable restriction period.

Change in Control. Upon the effective date of any change in control (as defined in the 2014 Plan), merger, consolidation or share exchange, or any issuance of bonds, debentures, preferred or preference stocks ranking prior to or otherwise affecting the common stock or the rights thereof (or any rights, options, or warrants to purchase same), or any proposed sale of all or substantially all of the assets of the Company, or of any dissolution or liquidation of the Company, all awards granted under the 2014 Plan may be cancelled by the Company upon (i) notice and a ten (10) day period during which the participant is permitted to purchase such shares of common stock subject to such awards or (ii) payment to the holder of an amount equal to a reasonable estimate of the difference between the fair market value of a share of stock underlying such award and the price per share of such award to be paid by the participant, multiplied by the number of shares subject to the award.

Transferability. Awards under the plan generally may not be transferred, assigned, pledged, hypothecated or otherwise conveyed or encumbered other than by will or the laws of descent and distribution; provided, however, that the compensation committee may permit transfers to or for the benefit of the participant s family.

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Effective Date and Expiration; Termination and Amendment. The 2014 Plan became effective on January 1, 2014, and will terminate on January 1, 2024, unless it is terminated earlier by our board of directors. No awards may be made under the 2014 Plan after its expiration date, but awards made prior thereto may extend beyond that date. Our board of directors may at any time and from time to time, without the consent of the participants, alter, amend, revise, suspend, or discontinue the 2014 Plan in whole or in part. Our board of directors does not need stockholder approval to amend our 2014 Plan unless required by any securities exchange or inter-dealer quotation system on which the common stock is listed or by applicable law. Unless required by law, no action by our board of directors regarding amendment or discontinuance of the 2014 Plan may adversely affect any rights of any participants or obligations of the Company to any participants with respect to any outstanding award under the 2014 Plan without the consent of the affected participant.

Employment Agreements

On December 30, 2013, we entered into employment agreements with each of our named executive officers, each of which were effective on, and not effective until, January 1, 2014. With the exception of the annual compensation (base salary and annual bonus potential), the material terms of the employment agreements of all four of our named executive officers are substantially the same. The summary of the employment agreements below does not contain complete descriptions of all provisions of the employment agreements of our named executive officers, copies of which will be included as exhibits to the registration statement of which this prospectus forms a part. See Where You Can Find Additional Information.

Under the employment agreements, Mr. Richison receives an annual base salary of $555,197, Mr. Boelte receives an annual base salary of $291,600, Mr. York receives an annual base salary of $356,400 and Mr. Kerber receives an annual base salary of $291,600. Each named executive officer is eligible to receive an annual bonus equal to 100% of his base salary (for Messrs. Richison and Boelte) or 75% of his base salary (for Messrs. York and Kerber), with the amount of such bonus to be determined by our compensation committee in accordance with the plans, policies and procedures adopted by the compensation committee from time to time.

The employment agreements also provide that each named executive officer is eligible to participate in, or receive benefits under, the Company s executive benefit plan and any plan or arrangement made available to our employees, including any health, dental, vision, disability, life insurance, 401(k), or other retirement programs in accordance with the terms and conditions of such plans or arrangements. Each named executive officer is also entitled to vacation time, Company automobile and reimbursement of business expenses. In addition, we have agreed to provide Mr. Richison the use of a private aircraft, home security while he travels on Company business and a country club membership.

In connection with the employment agreements, each named executive officer agreed to confidentiality, noncompetition, noninterference and intellectual property protection provisions.

The employment agreements have initial terms of three (3) years following the consummation of our initial public offering and automatically renew for successive one (1) year periods, unless earlier terminated by the Company or the named executive officer. Each named executive officer s employment terminates upon death, disability, termination by the Company with or without cause, or termination by the named executive officer with or without good reason. In each case, the named executive officer is entitled to (i) payment of any earned but unpaid salary and accrued but unused vacation time and (ii) payment of any business expenses incurred but not reimbursed. In addition, if the named executive officer s employment is terminated by the Company without cause or by the named executive officer with good reason, subject to the execution and return of a release of claims, the named executive officer is entitled to (i) continuation of his base salary for the length of the remaining Restricted Period following his termination, (ii) continuation of health insurance benefits for the length of the remaining Restricted Period, and (iii) a pro rata amount of the bonus the named executive officer would have earned as determined by the Compensation Committee for the year in which the termination occurred. For purposes of the employment agreements, the Restricted Period will elapse upon the later of thirty-six (36) months following the consummation of our initial public offering or twelve (12) months following the named executive officer s date of termination of employment.

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Each of the employment agreements define cause generally as (i) the repeated failure to perform such duties as are lawfully requested by the board of directors, (ii) the failure by named executive officer to observe material policies of the Company and its subsidiaries, (iii) gross negligence or willful misconduct in the performance of his duties, (iv) the material breach of employment or any non-competition, non-solicitation or similar restrictive agreement with the Company, (v) fraud, embezzlement, disloyalty or dishonesty with respect to the Company, (vi) use of illegal drugs or repetitive abuse of other drugs or alcohol which interferes with the performance of his duties, or (vii) the commission of any felony or of a misdemeanor involving dishonesty, disloyalty or moral turpitude. Each of the employment agreements define good reason as (i) any material reduction by the Company in the named executive officer s base salary without prior consent, (ii) following a change in control, any change in the named executive officer s status, reporting, duties or position that represents a demotion or diminution from such named executive officer s prior status, or (iii) any material breach by the Company of the employment agreement between the Company and the named executive officer; provided that the named executive officer shall not be deemed to have been terminated for good reason unless he delivers to the Company written notice specifying the alleged good reason within thirty (30) days after he learns of the circumstances giving rise to good reason, within thirty (30) days following delivery of such notice, the Company has failed to cure such circumstances and the named executive officer resigns within fifteen (15) days after the end of the cure period.

In connection with the employment agreements, we issued shares of restricted stock under our 2014 Plan to each of our named executive officers on January 1, 2014 to replace unvested management incentive units held by our named executive officers prior to the 2014 Reorganization. These grants are designed to provide our named executive officers with shares of restricted stock equivalent in value to the equity incentive units they held prior to the 2014 Reorganization and are subject to the terms of the respective restricted stock award agreements with each officer. Our named executive officers were issued shares of restricted stock in the following amounts:

Name	Number of Shares of Restricted Stock Subject to Time Vesting Awards(1)	Number of Shares of Restricted Stock Subject to Performance Vesting Awards(1)
Chad Richison	1,239,670	4,084,237
Craig E. Boelte	197,451	231,648
Jeffrey D. York	200,396	234,588
William X. Kerber III	197,451	231,648

(1) For additional information concerning the vesting conditions of the restricted stock, see Executive Compensation Narrative Discussion Regarding Summary Compensation Table Equity Incentive Units and Restricted Stock Awards.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In addition to the executive officer and director compensation arrangements discussed above under Executive Compensation, we describe transactions since January 1, 2011 to which we have been a participant, in which the amount involved in the transaction exceeds or will exceed $120,000 and in which any of our directors, executive officers or holders of more than 5% of our capital stock, or any immediate family member of, or person sharing the household with, any of these individuals, had or will have a direct or indirect material interest below.

The 2014 Reorganization

In anticipation of our initial public offering, we consummated the 2014 Reorganization as described under The 2014 Reorganization, which description is incorporated by reference herein.

2017 Note

In connection with the 2014 Reorganization, we assumed the 2017 Note that was issued by WCAS Holdings payable to WCAS X. As of March 31, 2014, the outstanding principal amount of the 2017 Note was $46.2 million (which excluded accrued interest of $1.6 million). The 2017 Note was due on April 3, 2017 and interest was payable at an annual rate of 14.0%, payable semiannually in arrears on June 30 and December 31 of each year. We could, at our option, choose to defer all or a portion of the accrued interest on the note that was due and payable on any payment date, provided that such amount of accrued interest was added to the principal amount of the note on such interest payment date (with the accrued but unpaid interest bearing interest at an annual rate of 14.0%). In April 2014, we paid off the outstanding principal balance of $46.2 million and accrued interest of $1.6 million under the 2017 Note with proceeds from our initial public offering.

Stockholders Agreement

Election of Directors

In connection with the 2014 Reorganization, we and the Stockholders Agreement Parties entered into the Stockholders Agreement. Among other things, the Stockholders Agreement provides that for so long as the parties thereto continue to collectively hold 40% of our issued and outstanding shares of common stock, each party will vote and take all other necessary and desirable action within such party s control to (i) cause the authorized number of directors of our board of directors to be established at seven and (ii) elect to our board of directors:

- three representatives designated by the holders of a majority of the shares of common stock held by WCAS X and any of its affiliates to which shares of common stock are transferred pursuant to the stockholders agreement;

- one representative designated by the holders of a majority of the shares of common stock held by WCAS Capital IV and any of its affiliates to which shares of common stock are transferred pursuant to the stockholders agreement; and subject to certain conditions, one representative designated by the holders of a majority of the shares of common stock held by the Minority Holders, who shall be Chad Richison for so long as he is employed by us.

As such, Welsh, Carson, Anderson & Stowe and its affiliates have effectively designated four representatives to our initial board of directors. Messrs. Levenson, Swani and Minicucci were designated by WCAS X. Mr. Mulvee was designated by WCAS Capital IV.

Termination

The Stockholders Agreement will terminate upon the latest of the date on which: (i) Chad Richison ceases to be our chief executive officer, (ii) the date on which Chad Richison ceases to be a director and (iii) the parties to the Stockholders Agreement collectively own less than 40% of our issued and outstanding shares of common stock.

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Registration Rights Agreement

In connection with the 2014 Reorganization, we and Payroll, the WCAS Funds, WCAS Holdings. the Estate of Richard Aiello, Robert J. Levenson, Sue Ann Jordan, Chad Richison, Jeffrey D. York and certain entities affiliated with these individuals became parties to a registration rights agreement, or the Registration Rights Agreement. The parties to the Registration Rights Agreement are entitled to certain rights with respect to registration of shares of our common stock under the Securities Act. These shares are referred to as registrable securities. The holders of these registrable securities will possess the registration rights contained in the Registration Rights Agreement that are described in additional detail below.

Demand Registration Rights

Under the Registration Rights Agreement, upon the written request of the holders of a majority of the registrable securities owned by WCAS Holdings and its affiliates to register all or part of their registrable securities on a registration statement under the Securities Act, we will be obligated to register the sale of all registrable securities that holders may request in writing to be registered within 20 days of the mailing of a notice by us to all holders of such registration. We are required to effect no more than four registration statements on Form S-1, subject to certain exceptions, and an unlimited number of registration statements on Form S-3. We may postpone the filing of a registration statement for up to 120 days once in a 12-month period if in the good faith judgment of our board of directors such registration would be materially harmful to our economic prospects, and we are not required to effect the filing of a registration statement within six months following the effective date of a previous registration of the registrable securities.

Piggyback Registration Rights

If we register any of our securities for public sale, we will have to register all registrable securities that the holders of such securities request in writing be registered within 20 days of mailing of notice by us to all holders of the proposed registration, subject to certain exceptions. However, this right does not apply to this offering, a registration statement on Form S-8 or S-4 or a demand registration. The managing underwriter of any underwritten offering will have the right to limit, due to marketing reasons, the number of shares registered by these holders.

Form S-3 Registration Rights

To the extent we are eligible to use a registration statement on Form S-3, the holders of a majority of the registrable securities owned by WCAS Holdings and its affiliates can request that we register all or a portion of their shares on a registration statement on Form S-3. We are required to use our best efforts to file one or more registration statements on Form S-3 upon the exercise of these rights, subject to certain exceptions.

Registration Expenses

We are required to pay all expenses incurred in connection with each of the registrations described above, including expenses incurred in connection with this registration, except for underwriting discounts and commissions. We are also required to pay the expenses incurred by the parties to the Registration Rights Agreement, including WCAS Holdings and its affiliates and the Estate of Richard Aiello, in connection with the registration of shares of common stock in this offering. We have also agreed to pay expenses incurred in connection with this registration on behalf of Hank Bikowski and Shannon Rowe, who is the sister of Chad Richison, our president and chief executive officer. We estimate that the total amount of these expenses will be approximately $50,000.

Expiration of Registration Rights

The registration rights described above will survive this offering and will terminate as to any stockholder as such time as the stockholder no longer holds shares of common stock.

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April 2012 Corporate Reorganization

Corporate Reorganization

In April 2012, Holdings was created and acquired 100% of the equity interests in Payroll pursuant to a corporate reorganization, or the April 2012 Corporate Reorganization. The April 2012 Corporate Reorganization was accomplished through the following steps:

- Payroll formed a new wholly-owned limited liability company subsidiary, Holdings, and Holdings formed a new wholly-owned limited liability company subsidiary, Paycom Payroll Merger Sub, LLC, or Merger Sub;

- Merger Sub merged with and into Payroll, with Payroll remaining as the surviving entity and a wholly-owned subsidiary of Holdings;

- Holdings issued the 2022 Note, a $18.8 million note payable to WCAS Capital IV, an affiliate of Welsh, Carson, Anderson & Stowe, in exchange for cash of $16.4 million and a discount of approximately $2.4 million;

- WCAS CP IV Blocker, Inc., a subsidiary of WCAS Capital IV, purchased 6,839 Series A Preferred Units of Holdings for $2,409,122; and

- Holdings distributed to its members either (i) cash or (ii) equivalent value of new 14% Series C Preferred Units, as elected by the members.

Related Party Distribution

In connection with the April 2012 Corporate Reorganization, we paid a $18.8 million cash distribution to our common unit holders on a pro rata basis, including to our executive officers and certain of their affiliated entities.

2022 Note

In connection with the April 2012 Corporate Reorganization we entered into the 2022 Note with WCAS Capital IV. The 2022 Note was due on April 3, 2022 and interest accrued at a rate of 10% per annum and was payable semiannually in arrears on December 31 and June 30 of each year. We could, at our option, choose to defer all or a portion of the accrued interest on the 2022 Note that was due and payable on any payment date, provided that such amount of accrued interest was multiplied by 1.3 and added to the principal amount of the note on such interest payment date (with the result that such interest will have accrued at an effective rate of 13.0% instead of 10.0% through such payment date). In April 2014, we paid off the outstanding principal balance of the 2022 Note of $18.8 million and the associated amortized discount of $4.1 million with proceeds from our initial public offering and from existing cash.

Payables

At December 31, 2013, Holdings owed $0.1 million, to Welsh, Carson, Anderson and Stowe and certain of their affiliates, representing tax distributions and travel expenses paid by Welsh, Carson, Anderson and Stowe and charged to Holdings. In April 2014, we paid off the balance of this payable.

Repurchase of Incentive Units

We entered into a Limited Liability Company Unit Redemption Agreement, effective as of January 26, 2013, pursuant to which we purchased 2,605 incentive units from John Kerber at a purchase price of $260.21 per unit, which price was based on a third party appraisal and an internal appraisal. The incentive units were purchased from John Kerber for an aggregate purchase price of approximately $0.7 million. John Kerber is one of our former employees and the brother of William X. Kerber III, our chief information officer.

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Lease of Office Space

During the nine months ended September 30, 2014, we paid rent on our Dallas office space in the amount of $0.2 million. For each of the years ended December 31, 2013, 2012 and 2011, we paid rent on our Dallas office space in the amounts of $0.3 million. The Dallas office building is owned by 417 Oakbend, LP, a Texas limited partnership. Jeffrey D. York, our Chief Sales Officer, owns a .01% general partnership interest and a 10.49% limited partnership interest in 417 Oakbend, LP.

Real Property Agreements

During 2012 and 2013, we had the following related party transactions with Kilpatrick Partners, L.L.C., or Kilpatrick Partners. At the time of these transactions, Mr. Richison, our President and Chief Executive Officer, was the manager of, and Mr. Richison and his wife owned 100% of, Kilpatrick Partners.

- We entered into a Real Property Purchase Agreement, dated November 28, 2012, with Kilpatrick Partners pursuant to which we purchased approximately 17.6 acres of land for the construction of a second building at our corporate headquarters in December 2012. The land was purchased from Kilpatrick Partners for a purchase price of approximately $2.3 million, which valuation was determined by a third party appraiser.

- We entered into a Real Property Purchase Agreement, dated October 16, 2013, with Kilpatrick Partners pursuant to which we purchased approximately 18.3 acres of land adjacent to our corporate headquarters in November 2013. The land was purchased from Kilpatrick Partners for a purchase price of approximately $4.8 million, which valuation was determined by a third party appraiser.

- We entered into a Right of First Refusal Agreement, dated October 4, 2013, or the Right of First Refusal Agreement, with Kilpatrick Partners pursuant to which we were granted a right of first refusal to purchase approximately 28.1 acres of land adjacent to our corporate headquarters. Pursuant to the Right of First Refusal Agreement, we have the right to purchase any portion of the covered property for ten days after Kilpatrick Partner s receipt of a third party bona fide offer to purchase the property.

Indemnification of Directors and Officers

We have entered and intend to continue to enter into indemnification agreements with our directors which, subject to certain exceptions, require us to indemnify such persons to the fullest extent permitted by applicable law, including indemnification against certain expenses, including attorneys fees, judgments, fines or penalties or other amounts paid in settlement in connection with any legal proceedings to which the director was, or is threatened to be made, a party by reason of the fact that such director is or was a director, officer, employee, fiduciary or agent of the Company or was serving as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise at the express written request of the Company, provided that such director or officer acted in good faith and in a manner that the director or officer reasonably believed to be in, or not opposed to, the best interest of the Company and, with respect to any criminal proceeding, in a manner in which such person would have had no reasonable cause to believe his conduct was unlawful. Subject to certain limitations, these indemnification agreements also require us to advance expenses to our directors in advance of the final disposition of any action or proceeding for which indemnification is required or permitted.

Directed Share Program

Chad Richison, our president, chief executive officer and director, Craig E. Boelte, our chief financial officer, William X. Kerber III, our chief information officer and Frederick C. Peters II, our director, on behalf of themselves and certain of their affiliates, purchased 52,600, 5,000, 5,000 and 5,000 shares of our common stock in our initial public offering for an aggregate purchase price of approximately $789,000, $75,000, $75,000 and $75,000, respectively, pursuant to the directed share program that was conducted in connection with our initial public offering.

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Review, Approval or Ratification of Transactions with Related Parties

We have adopted a formal written policy that our executive officers, directors, holders of more than 5% of any class of our voting securities, and any member of the immediate family of and any entity affiliated with any of the foregoing persons, are not permitted to enter into a related party transaction with us, in which the amount involved exceeds $120,000, without the prior review and approval of our audit committee. In approving or rejecting any such proposal, our audit committee will consider all of the relevant facts and circumstances of the related party transaction and the related party s relationship and interest in the transaction. All of the transactions described above were entered into prior to the adoption of this policy, except for the entry into the Stockholders Agreement, Registration Rights Agreement, Real Property Purchase Agreement, dated October 16, 2013, the Right of First Refusal Agreement, the repayment of the 2022 Note and the 2017 Note and the participation of our executive officers in the directed share program. All of the transactions described above were either approved or ratified in accordance with the terms of this policy.

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PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of January 7, 2015, for:

- each person, or group of affiliated persons, known by us to be the beneficial owner of more than 5% of our voting securities;
- each of our directors;
- each of our named executive officers;
- all of our directors and executive officers as a group; and
- each of the selling stockholders.

We have determined beneficial ownership in accordance with the rules of the SEC. Under such rules, a person is generally deemed to beneficially own a security if such person has sole or shared voting or investment power with respect to that security, including with respect to options and warrants that are currently exercisable or exercisable within 60 days. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to community property laws where applicable.

Applicable percentage ownership is based on 53,835,333 shares of common stock outstanding at January 7, 2015 and that the underwriters will not exercise their option to purchase up to an additional 837,750 shares of common stock. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we consider all shares of unvested restricted stock to be outstanding because holders of unvested restricted stock under the 2014 Plan have the right to vote such stock.

Name of Beneficial Owner[(1)]	Shares Beneficially Owned Prior to Offering Number	%	Shares Being Offered	Shares Beneficially Owned After Offering Number	%
5% Stockholders:					
Welsh, Carson, Anderson & Stowe X, L.P.[(2)]	27,587,654	51.2	4,836,639	22,751,015	42.3
WCAS Capital Partners IV, L.P.[(2)]	293,155	*	51,395	241,760	*
WCAS Management Corporation[(2)]	148,103	*	25,966	122,137	*
Ernest Group, Inc.[(3)]	7,170,999	13.3		7,170,999	13.3
Non-Employee Directors:					
Jason D. Clark	400	*		400	*
Robert J. Levenson[(4)]	477,745	*	84,000	393,745	*

Rob Minicucci					
Conner Mulvee					
Frederick C. Peters II	15,500	*		15,500	*
Sanjay Swani					
Named Executive Officers:					
Chad Richison(5)	13,071,329	23.0		13,071,329	23.0
Craig E. Boelte(6)	551,769	1.0		551,769	1.0
Jeffrey D. York(7)	1,370,391	2.5		1,370,391	2.5
William X. Kerber III(8)	1,348,175	2.5		1,348,175	2.5
Others:					
The Estate of Richard Aiello(9)	220,060	*	22,000	198,060	*
Hank Bikowski(10)	1,099,846	2.0	365,000	734,846	1.4
Shannon Rowe(11)	1,847,742	3.4	200,000	1,647,742	3.1
All directors and current executive officers as a group (11 persons)	16,835,309	29.2	84,000	16,751,309	29.1

* Less than one percent of common stock outstanding.

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(1) Unless otherwise indicated, the address of each beneficial owner in the table above is c/o Paycom Software, Inc., 7501 W. Memorial Road, Oklahoma City, Oklahoma 73142.

(2) The stockholders are WCAS X, WCAS Capital IV, and WCAS Management Corporation. WCAS X Associates LLC, or X Associates, is the general partner of WCAS X. The managing members of X Associates are Patrick Welsh, Bruce Anderson, Russ Carson, Tony de Nicola, Paul Queally, Jon Rather, Sanjay Swani, Chris Solomon, Scott Mackesy, Sean Traynor, Eric Lee, Mike Donovan, Brian Regan, Tom Scully and Tony Ecock. As a result, and by virtue of the relationships described above, each of the managing members of X Associates may be deemed to share beneficial ownership of the shares owned by WCAS X. The general partner of WCAS Capital IV is WCAS CP IV Associates LLC, or CP Associates. The managing members of CP Associates are Patrick Welsh, Bruce Anderson, Russ Carson, Tony de Nicola, Paul Queally, Jon Rather, Sanjay Swani, Chris Solomon, Scott Mackesy, Sean Traynor, Eric Lee, Mike Donovan, Brian Regan, Tom Scully and Tony Ecock. As a result, and by virtue of the relationships described above, each of the managing members of CP Associates may be deemed to share beneficial ownership of the shares owned by WCAS Capital IV. WCAS Management Corporation is the investment manager for WCAS X. The members of the board of directors of WCAS Management Corporation are Jon Rather, Paul Queally, Tony de Nicola and Russ Carson. As a result, and by virtue of the relationships described above, each of the directors of WCAS Management Corporation may be deemed to share beneficial ownership of the shares owned by WCAS Management Corporation. The address of each of the entities identified in this footnote is 320 Park Avenue, Suite 2500, New York, New York 10022.

(3) Ernest Group, Inc. is a private corporation that is wholly owned by Mr. Richison and certain trusts for Mr. Richison s children, for which Mr. Richison serves as trustee. Mr. Richison may be deemed to beneficially own the shares of common stock owned by Ernest Group, Inc.

(4) Includes 40,093 shares of common stock owned by the ELK II 2012 Descendants Trust u/a dated December 26, 2012, or the ELK Trust, and 40,093 shares of common stock owned by the SLY II 2012 Descendants Trust u/a dated December 26, 2012, or the SLY Trust, for which Mr. Levenson is the settlor of the trust. Also includes 82,186 shares of common stock owned by Lenox Capital Group, LLC, for which Mr. Levenson is the managing member. Mr. Levenson plans to sell an aggregate of 84,000 shares of common stock in this offering, consisting of 20,000 shares of common stock owned by Lenox Capital Group, LLC and 64,000 shares owned individually.

(5) Includes 7,170,999 shares of common stock owned by Ernest Group, Inc., 229,135 shares of common stock owned by The Ruby Group, Inc. and 2,974,915 shares of restricted stock. Mr. Richison is the sole director of Ernest Group, Inc. and Ernest Group, Inc. is wholly owned by Mr. Richison and certain trusts for Mr. Richison s children, for which Mr. Richison serves as trustee. Mr. Richison may be deemed to beneficially own the shares of common stock owned by Ernest Group, Inc. Mr. Richison is the sole director and sole shareholder of The Ruby Group, Inc. and may be deemed to beneficially own the shares of common stock owned by The Ruby Group, Inc.

(6) Includes 266,944 shares of restricted stock.

(7) Includes 270,770 shares of restricted stock.

(8) Includes 879,877 shares of common stock owned by WK-EGI, Inc. and 266,944 shares of restricted stock. Mr. Kerber is the sole director of WK-EGI, Inc. and WK-EGI, Inc. is wholly owned by Mr. Kerber and certain trusts for which Mr. Kerber serves as trustee. Mr. Kerber may be deemed to beneficially own the shares of common stock owned by WK-EGI, Inc.

(9) Mr. Aiello was a former director of the Company.

(10) Includes 1,099,846 shares of common stock owned by HB-EGI, Inc. Mr. Bikowski is the sole director of HB-EGI, Inc. and HB-EGI, Inc. is wholly owned by Mr. Bikowski. Mr. Bikowski may be deemed to beneficially own the shares of common stock owned by HB-EGI, Inc.

(11) Includes 1,847,742 shares of common stock owned by SR-EGI, Inc. Ms. Rowe is the sole director of SR-EGI, Inc. and SR-EGI, Inc. is wholly owned by Ms. Rowe and certain trusts for the benefit of Ms. Rowe s children. Ms. Rowe may be deemed to beneficially own the shares of common stock owned by SR-EGI, Inc. Ms. Rowe is the sister of Chad Richison, our president and chief executive officer.

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DESCRIPTION OF CAPITAL STOCK

General

The following summary describes the most important terms of our capital stock. Our authorized capital stock consists of one hundred million shares of common stock, par value $0.01 per share, and ten million shares of preferred stock, par value $0.01 per share. As of January 7, 2015, we had approximately 53,835,333 shares of common stock outstanding that were held by approximately 223 stockholders of record.

Common Stock

Dividend Rights

Subject to preferences that may be applicable to any then outstanding preferred stock, holders of our common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors out of legally available funds. See Dividend Policy.

Voting Rights

Except as required by law or matters relating solely to the terms of preferred stock, each outstanding share of common stock is entitled to one vote on all matters submitted to a vote of stockholders. Holders of shares of our common stock have no cumulative voting rights. Except in respect of matters relating to the election and removal of directors on our board of directors and as otherwise provided in our amended and restated certificate of incorporation, or the certificate of incorporation, or required by law, all matters to be voted on by our stockholders must be approved by a majority of the shares present in person or by proxy at the meeting and entitled to vote on the subject matter. In the case of election of directors, all matters to be voted on by our stockholders must be approved by a plurality of the votes entitled to be cast by all shares of our common stock.

Liquidation

In the event of the liquidation, dissolution or winding up of our company, holders of our common stock are entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities and the satisfaction of any liquidation preference granted to the holders of any then outstanding shares of preferred stock.

Rights and Preferences

Holders of our common stock have no preemptive, conversion, subscription or other rights, and there are no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of the holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of our preferred stock that we may designate in the future.

Undesignated Preferred Stock

Our board of directors may, without further action by our stockholders, from time to time, direct the issuance of shares of preferred stock in series and may, at the time of issuance, determine the designations, powers, preferences, privileges, and relative participating, optional or special rights as well as the qualifications, limitations or restrictions thereof, including, but not limited to:

the designation of the series;

the number of shares of the series, which our board of directors may, except where otherwise provided in the preferred stock designation, increase or decrease, but not below the number of shares then outstanding;

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- whether dividends, if any, will be cumulative or non-cumulative and the dividend rate of the series;
- the dates at which dividends, if any, will be payable;
- the redemption rights and price or prices, if any, for shares of the series;
- the terms and amounts of any sinking fund provided for the purchase or redemption of shares of the series;
- the amounts payable on shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of our company;
- whether the shares of the series will be convertible into shares of any other class or series, or any other security, of our company or any other entity, and, if so, the specification of the other class or series or other security, the conversion price or prices or rate or rates, any rate adjustments, the date or dates as of which the shares will be convertible and all other terms and conditions upon which the conversion may be made;
- restrictions on the issuance of shares of the same series or of any other class or series; and
- the voting rights, if any, of the holders of the series.

Satisfaction of any dividend preferences of outstanding shares of preferred stock would reduce the amount of funds available for the payment of dividends on shares of our common stock. Holders of shares of preferred stock may be entitled to receive a preference payment in the event of our liquidation before any payment is made to the holders of shares of our common stock. Under specified circumstances, the issuance of shares of preferred stock may render more difficult or tend to discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a large block of our securities or the removal of incumbent management. We may issue shares of preferred stock with voting and conversion rights which could adversely affect the holders of shares of our common stock and the market value of our common stock. Upon consummation of this offering, there will be no shares of preferred stock outstanding and we have no present intention to issue any shares of preferred stock.

Equity Grants

As of January 7, 2015, no shares of our common stock were issuable upon exercise of outstanding options and 4,537,352 shares of restricted stock were outstanding under the 2014 Plan.

Stockholders Agreement

After this offering, the Stockholders Agreement Parties will beneficially own or control, in the aggregate shares of our common stock, or approximately 76.4% of our outstanding shares. For a description of the Stockholders Agreement, see Certain Relationships and Related Party Transactions Stockholders Agreement.

Registration Rights Agreement

Upon completion of this offering, the parties to the Registration Rights Agreement, including Payroll, the WCAS Funds, WCAS Holdings, the Estate of Richard Aiello, Robert J. Levenson, Sue Ann Jordan, Chad Richison, Jeffrey D. York and certain entities affiliated with these individuals, owning approximately 32,828,586 shares of our common stock, are entitled to certain registration rights with respect to such shares under the Securities Act. The holders of these registrable securities possess registration rights pursuant to the terms of the Registration Rights Agreement. For a description of the Registration Rights Agreement, see Certain Relationships and Related Party Transactions Registration Rights Agreement.

Disgorgement Agreement

As described above, Robert J. Levenson purchased 1,000 shares of our common stock in the open market on September 9, 2014. Any profits realized by Mr. Levenson upon the sale of up to 1,000 shares of common stock prior to March 9, 2015 are recoverable by us under Section 16(b) of the Exchange Act. In recognition of Section 16(b) s requirements, we entered into a Disgorgement Agreement with Mr. Levenson pursuant to which Mr. Levenson will agree to pay the Company the full amount of any profits he realizes as a result of the sale of 1,000 shares of common stock in this offering, all in accordance with Section 16(b).

The Disgorgement Agreement provides that Mr. Levenson will pay us at closing of the offering, if such closing occurs prior to March 9, 2015, an amount equal to the proceeds payable to Mr. Levenson from the sale of up to 1,000 shares in the offering (but only to the extent the foregoing calculation results in a positive number). The Disgorgement Agreement further provides that it is not intended to limit Mr. Levenson s obligations or liabilities under Section 16(b) of the Exchange Act and that, if Mr. Levenson sells additional shares of common stock after the closing of the offering and prior to March 9, 2015 and realizes additional profits within the meaning Section 16(b), he will disgorge any such additional profits to the Company as and in the manner required by Section 16(b).

Mr. Levenson will not realize any profit on the sale of these shares of common stock in this offering unless the offering price is greater than $16.22 per share. Based upon an assumed offering price of $25.43 per share (which was the last reported sale price of our common stock on January 9, 2015), Mr. Levenson would disgorge approximately $9,210 to us.

Anti-Takeover Effects of Our Certificate of Incorporation and Bylaws and Certain Provisions of Delaware Law

Our certificate of incorporation and our bylaws contain provisions that may delay, defer or discourage another party from acquiring control of us. We expect that these provisions, which are summarized below, will discourage coercive takeover practices or inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with the board of directors, which we believe may result in an improvement of the terms of any such acquisition in favor of our stockholders. However, they also give the board of directors the power to discourage acquisitions that some stockholders may favor.

Classified Board of Directors

In accordance with the terms of our certificate of incorporation and bylaws, our board of directors is divided into three classes, as nearly equal in number as practicable, with members of each class serving staggered three-year terms. Our bylaws provide that the authorized number of directors shall be determined as set forth in the Stockholders Agreement, provided that following the time the Stockholders Agreement is terminated the number of directors shall be fixed exclusively from time to time solely by resolution of the board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes as the board of directors may determine in its discretion. Our certificate of incorporation and bylaws also provide that any vacancy on our board of directors, including a vacancy resulting from an enlargement of our board of directors, may be filled only by vote of a majority of our directors. Our classified board of directors could have the effect of delaying or discouraging an acquisition of us or a change in our management.

Undesignated Preferred Stock

The ability to authorize undesignated preferred stock under our certificate of incorporation will make it possible for our board of directors to issue preferred stock with super majority voting, special approval, dividend or other rights or preferences on a discriminatory basis that could impede the success of any attempt to acquire us or otherwise effect a change in control of us. These and other provisions may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in control or management of our company.

Requirements for Advance Notification of Stockholder Meetings, Nominations and Proposals

Our certificate of incorporation and bylaws provide that special meetings of the stockholders may be called only by the majority of our board of directors or the president. Our bylaws prohibit the conduct of any business at a special meeting other than as specified in the notice for such meeting. These provisions may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in control or management of our company.

Our bylaws include advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the board of directors or a committee of the board of directors. In order for any matter to be properly brought before a meeting, a stockholder will have to comply with advance notice requirements and provide us with certain information. Subject to the terms of the Stockholders Agreement, vacancies and newly created directorships may be filled only by a vote of a majority of the directors then in office, even though less than a quorum, and not by the stockholders. Our bylaws allow the chairman of a meeting of the stockholders to adopt rules and regulations for the conduct of meetings which may have the effect of precluding the conduct of certain business at a meeting if the rules and regulations are not followed. These provisions may also defer, delay or discourage a potential acquirer from conducting a solicitation of proxies to elect the acquirer s own slate of directors or otherwise attempting to obtain control of our company.

Our certificate of incorporation provides that the board of directors is expressly authorized to make, alter, or repeal our bylaws and that our stockholders may only amend our bylaws with the approval of not less than a majority of the total voting power of all of our outstanding securities entitled to vote generally in the election of directors.

No Cumulative Voting

Delaware General Corporation Law provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless our certificate of incorporation provides otherwise and our certificate of incorporation does not expressly provide for cumulative voting.

Action by Written Consent

Pursuant to Section 228 of the Delaware General Corporation Law, any action required to be taken at any annual or special meeting of the stockholders may be taken without a meeting, without prior notice and without a vote if a consent or consents in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of our stock entitled to vote thereon were present and voted, unless our certificate of incorporation provides otherwise. Our certificate of incorporation provides that stockholders may only act by written consent until such date that the parties to the Stockholder Agreement cease collectively to beneficially own (directly or indirectly) more than 50% of the outstanding shares of common stock, or the Trigger Date.

Amendment Provisions

The Delaware General Corporation Law provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation s certificate of incorporation or bylaws, unless a corporation s certificate of incorporation or bylaws, as the case may be, requires a greater percentage. Our bylaws may be amended or repealed by a majority vote of our board of directors or the affirmative vote of the holders of a majority of the total voting power of all outstanding securities of the Company entitled to vote in an annual election of directors. In addition, the affirmative vote of the holders of a majority of the total voting power of all outstanding securities of the Company entitled to vote in an annual election of directors is required to amend certain provisions of our certificate of incorporation prior to the Trigger Date. From and after the Trigger Date, the affirmative vote of the holders of at least 66 $\frac{2}{3}$ % of the total voting power of all outstanding securities of the Company entitled to vote in annual election of directors will be required to amend certain provisions of our certificate of incorporation.

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Authorized but Unissued Shares

The authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval, subject to any limitations imposed by the New York Stock Exchange. These additional shares may be used for a variety of corporate finance transactions, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved shares of common stock and preferred stock could make more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise, and thereby protect the continuity of our management and possibly deprive the stockholders of opportunities to sell their shares at prices higher than prevailing market prices.

Section 203 of Delaware General Corporation Law

In our certificate of incorporation, we have elected not to be governed by Section 203 of Delaware General Corporation Law. However, our certificate of incorporation contains provisions that are similar to Section 203. Specifically, our certificate of incorporation provides that we may not engage in certain business combinations with any interested stockholder for a three-year period following the time that the person became an interested stockholder, unless:

- prior to the time the person became an interested stockholder, our board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the Company outstanding at the time the transaction commenced, excluding certain shares; or

- at or subsequent to the time the person became an interested stockholder, the business combination is approved by our board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an interested stockholder is a person who, together with affiliates and associates, owns or, within the previous three years owned, 15% or more of our voting stock. However, in our case, the principal investors (meaning WCAS X and WCAS Capital IV, and their respective affiliates, employees and representatives, and Chad Richison and his affiliates) and any of their direct or indirect transferees receiving 15% or more of our voting stock will not be deemed to be interested stockholders regardless of the percentage of our voting stock owned by them, and accordingly will not be subject to such restrictions, subject to certain exceptions for the acquisition of additional shares of common stock. This provision could delay mergers or other takeover or change in control attempts with respect to us and, accordingly, may discourage attempts to acquire us.

Choice of Forum

Our certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or if no Court of Chancery located within the State of Delaware has jurisdiction, the Federal District Court for the District of Delaware) will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by our directors, officers, or other employees to us or to our stockholders, (iii) any action asserting a claim against us or any director, officer or other employee arising pursuant to any provision of the Delaware General Corporation Law, our certificate of incorporation or bylaws or (iv) any action asserting a claim against us or any director, officer or other employee that is governed by the internal affairs doctrine. It is possible that a court could rule that this provision is not applicable or is unenforceable. Any person or entity purchasing or otherwise acquiring shares of capital stock of the Corporation will be deemed to have notice of and consented to this provision of our certificate of incorporation.

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Limitations of Liability and Indemnification

See Certain Relationships and Related Party Matters Indemnification of Directors and Officers.

Listing

Our common stock is listed on the New York Stock Exchange under the symbol PAYC.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, LLC.

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SHARES ELIGIBLE FOR FUTURE SALE

Future sales of substantial amounts of shares of our common stock, including shares issued upon the exercise of outstanding options, in the public market, or the possibility of these sales occurring, could cause the prevailing market price for our common stock to fall or impair our ability to raise equity capital in the future.

Upon the completion of this offering, a total of 53,835,333 shares of our common stock will be outstanding, based on the number of shares outstanding as of January 7, 2015. Of the outstanding shares, 7,641,750 shares sold in our initial public offering are, and all of the shares sold in this offering will be, freely tradable, except that any shares held by our affiliates, as that term is defined in Rule 144 under the Securities Act, may only be sold in compliance with the limitations described herein.

The remaining outstanding shares of our common stock are restricted securities as that term is defined under Rule 144. Restricted securities may be sold in the public market only if registered under the Securities Act or if those securities qualify for an exemption from registration, including exemptions provided by Rules 144 and 701 under the Securities Act, which are summarized below. In addition, as a result of the lock-up agreements described below, certain shares of our common will not be eligible for sale until the expiration of such lock-up agreements 91 days after the date of this prospectus, assuming no extension of the lock-up period and no exercise of the underwriters option to purchase additional shares.

Lock-Up Agreements

Our officers, directors, greater than 5% stockholders and selling stockholders owning an aggregate of 44,252,296 shares of our common stock have agreed with the underwriters not to dispose of any of our common stock or securities convertible into or exchangeable for shares of our common stock during the 90-day period following the date of this prospectus, except with the prior written consent of Credit Suisse Securities (USA) LLC. See Underwriting for a more complete description of the lock-up agreements with the underwriters.

Rule 144

In general, under Rule 144 as currently in effect, a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least six months, including the holding period of any prior owner other than our affiliates, is entitled to sell those shares without complying with the manner of sale, volume limitation or notice provisions of Rule 144, subject to compliance with the public information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than our affiliates, then that person is entitled to sell those shares without complying with any of the requirements of Rule 144.

In general, under Rule 144, as currently in effect, our affiliates or persons selling shares on behalf of our affiliates are entitled to sell upon the expiration of the lock-up agreements described above (if applicable), within any three-month period, a number of shares that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately 538,353 shares immediately after this offering, or the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

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Rule 701

In general, under Rule 701 as currently in effect, any of our employees, consultants or advisors who acquired or purchased shares from us in connection with a compensatory stock or option plan or other written agreement in a transaction before the effective date of our initial public offering that was completed in reliance on Rule 701 and complied with the requirements of Rule 701 are, subject to the lock-up restrictions described below, eligible to resell such shares in reliance on Rule 144, but without compliance with certain restrictions, including the holding period, contained in Rule 144.

Registration Rights

Upon completion of this offering, stockholders owning an aggregate of approximately 32,828,586 shares of our common stock, or their transferees, are entitled to certain rights with respect to the registration of those shares under the Securities Act. For a description of these registration rights, see Description of Capital Stock Registration Rights. After these shares are registered, they will be freely tradable without restriction under the Securities Act.

Stock Options

We intend to file a registration statement on Form S-8 under the Securities Act to register shares of our common stock reserved for issuance under the 2014 Plan. This registration statement will become effective immediately upon filing, and shares covered by the Form S-8 registration statement will thereupon be eligible for sale in the public markets, subject to vesting restrictions, the lock-up agreements described above and Rule 144 limitations applicable to affiliates. For a more complete discussion of the 2014 Plan, see Executive Compensation Compensation Arrangements Adopted in Connection with our Initial Public Offering.

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MATERIAL U.S. FEDERAL INCOME AND ESTATE TAX

CONSIDERATIONS FOR NON-U.S. HOLDERS

The following is a general discussion of the material U.S. federal income and estate tax consequences to a non-U.S. holder of the acquisition, ownership and disposition of our common stock. For purposes of this discussion, a non-U.S. holder is any beneficial owner of our common stock, other than a partnership (or entity or arrangement treated as a partnership for U.S. federal income tax purposes), that is not for U.S. federal income tax purposes any of the following:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States or any state or the District of Columbia;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust (i) the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (ii) which has made a valid election to be treated as a U.S. person.

If a partnership (or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds our common stock, the tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Accordingly, we urge partnerships that hold our common stock and partners in such partnerships to consult their own tax advisors regarding the tax treatment of acquiring, holding and disposing of our common stock.

This discussion assumes that a non-U.S. holder will hold our common stock as a capital asset (generally, property held for investment). This discussion does not address all aspects of U.S. federal income taxation or any aspects of state, local or non-U.S. taxation, nor does it consider any U.S. federal income tax considerations that may be relevant to non-U.S. holders which may be subject to special treatment under U.S. federal income tax laws, including, without limitation, U.S. expatriates, controlled foreign corporations, passive foreign investment companies, insurance companies, tax-exempt or governmental organizations, dealers in securities or currency, banks or other financial institutions, and investors that hold our common stock as part of a hedge, straddle or conversion transaction. Furthermore, the following discussion is based on current provisions of the Code, and Treasury Regulations and administrative and judicial interpretations thereof, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect.

We urge each prospective investor to consult a tax advisor regarding the U.S. federal, state, local and non-U.S. income and other tax consequences of acquiring, holding and disposing of shares of our common stock.

Dividends on Common Stock

If we pay dividends on our common stock, those payments will constitute dividends for U.S. tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those dividends exceed our current and accumulated earnings and profits, the dividends will constitute a return of capital and will first reduce a holder s adjusted tax basis in its common stock, but not below zero, and then will be treated as gain from the sale of the common stock (see Gain on Disposition of Common Stock).

Any dividend paid out of earnings and profits to a non-U.S. holder of our common stock generally will be subject to U.S. withholding tax at a rate of 30% of the gross amount of the dividend or such lower rate as may be specified by an applicable tax treaty. To receive the benefit of a reduced treaty rate, a non-U.S. holder generally must provide us with an Internal Revenue Service, or IRS, Form W-8BEN or Form W-8BEN-E (or other applicable form) certifying qualification for the reduced rate. A non-U.S. holder eligible for a reduced rate of U.S. federal withholding tax pursuant to an applicable income tax treaty may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS.

Notwithstanding the foregoing, dividends received by a non-U.S. holder that are effectively connected with the conduct of a trade or business within the United States by the non-U.S. holder will be exempt from such withholding tax. To obtain this exemption, the non-U.S. holder must provide us with an IRS Form W-8ECI properly certifying such exemption. Such effectively connected dividends, although not subject to withholding tax, generally will be subject to federal income tax on a net income basis at the same graduated tax rates generally applicable to U.S. persons, subject to any applicable tax treaty providing otherwise. In addition to the income tax described above, dividends received by corporate non-U.S. holders that are effectively connected with the conduct of a trade or business in the United States by the corporate non-U.S. holder may be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable tax treaty.

Gain on Disposition of Common Stock

A non-U.S. holder generally will not be subject to U.S. federal income tax on any gain realized upon the sale or other disposition of our common stock unless:

- the gain is effectively connected with the conduct of a trade or business within the United States by the non-U.S. holder and, if required by an applicable tax treaty, is attributable to a U.S. permanent establishment maintained by such non-U.S. holder;

- the non-U.S. holder is an individual who is present in the United States for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met; or

- we become a U.S. real property holding corporation, or USRPHC, for U.S. federal income tax purposes, and the non-U.S. holder holds or has held, directly or indirectly, at any time within the shorter of (i) the five-year period preceding the disposition and (ii) the non-U.S. holder s holding period, more than 5% of our common stock. Generally, a corporation is a U.S. real property holding corporation if the fair market value of its U.S. real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests and its other assets used or held for use in a trade or business.

In the case of a non-U.S. holder described in the first bullet point immediately above, the gain will be subject to U.S. federal income tax on a net income basis generally in the same manner as if the non-U.S. holder were a U.S. person as defined under the Code (unless an applicable income tax treaty provides otherwise), and a non-U.S. holder that is a foreign corporation may be subject to an additional branch profits tax equal to 30% of its effectively connected earnings and profits attributable to such gain (or at such lower rate as may be specified by an applicable income tax treaty). In the case of an individual non-U.S. holder described in the second bullet point immediately above, except as otherwise provided by an applicable income tax treaty, the gain, which may be offset by certain U.S.-source capital losses, will be subject to a flat 30% tax.

We believe we are not and do not anticipate becoming a USRPHC for U.S. federal income tax purposes. If, however, we are or become a USRPHC, so long as our common stock is considered to be regularly traded on an established securities market, only a non-U.S. holder who actually or constructively holds or held (at any time during the shorter of the five year period ending on the date of disposition or the non-U.S. holder s holding period) more than 5% of our common stock will be subject to U.S. federal income tax, under the third bullet point immediately above, on the disposition of our common stock. Each non-U.S. holder should consult with its tax advisor about the consequences that could result if we are, or become, a USRPHC.

Backup Withholding and Information Reporting

Generally, we must report annually to the IRS the amount of dividends paid to each non-U.S. holder, and the amount, if any, of tax withheld with respect to those dividends. A similar report is sent to each non-U.S. holder. These information reporting requirements apply even if withholding was not required. Pursuant to tax treaties or other agreements, the IRS may make its reports available to tax authorities in the recipient s country of residence.

Payments of dividends to a non-U.S. holder may be subject to backup withholding (at a rate of 28%) unless the non-U.S. holder establishes an exemption, for example, by properly certifying its non-U.S. status on an IRS Form 8BEN or another appropriate version of IRS Form W-8. Notwithstanding the foregoing, backup withholding also may apply if we have actual knowledge, or reason to know, that the beneficial owner is a U.S. person that is not an exempt recipient.

Payments of proceeds from the sale or other disposition by a non-U.S. holder of our common stock effected outside the United States by or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting will apply to those payments if the broker does not have documentary evidence that the holder is a non-U.S. holder, an exemption is not otherwise established, and the broker has certain relationships with the United States.

Payments of proceeds from the sale or other disposition by a non-U.S. holder of our common stock effected by or through a U.S. office of a broker generally will be subject to information reporting and backup withholding (at a rate of 28%) unless the non-U.S. holder establishes an exemption, for example, by properly certifying its non-U.S. status on an IRS Form W-8BEN or Form W-8BEN-E or another appropriate version of IRS Form W-8. Notwithstanding the foregoing, information reporting and backup withholding also may apply if the broker has actual knowledge, or reason to know, that the holder is a U.S. person that is not an exempt recipient.

Backup withholding is not an additional tax. Rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained, provided that the required information is timely furnished to the IRS.

Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act (FATCA) imposes withholding tax at a rate of 30% on certain types of withholdable payments (including dividends and proceeds from the sale of stock in a U.S. corporation, including our common stock) made to foreign financial institutions and certain other non-financial foreign entities (all as specially defined for purposes of these rules) unless various U.S. information reporting and due diligence requirements (generally relating to ownership by U.S. persons of interests in or accounts with those foreign entities) have been satisfied. Withholding under FATCA on withholdable payments to foreign financial institutions and non-financial foreign entities began on July 1, 2014 with respect to dividends on our common stock, if any, and will not begin until January 1, 2017 with respect to gross proceeds of a disposition of our common stock. Non-U.S. holders should consult their own tax advisors regarding the possible implications of FATCA on their investment in our common stock.

Estate Tax

Our common stock owned or treated as owned by an individual who is not a citizen or resident of the United States (as specifically defined for U.S. federal estate tax purposes) at the time of death will be includible in the individual s gross estate for U.S. federal estate tax purposes and may be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise.

THE SUMMARY OF MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS ABOVE IS INCLUDED FOR GENERAL INFORMATION PURPOSES ONLY.

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POTENTIAL PURCHASERS OF OUR COMMON STOCK ARE URGED TO CONSULT THEIR TAX ADVISORS TO DETERMINE THE UNITED STATES FEDERAL, STATE, LOCAL AND NON-UNITED STATES TAX CONSEQUENCES OF PURCHASING, OWNING AND DISPOSING OF OUR COMMON STOCK.

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UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated January , 2015, the selling stockholders have agreed to sell to the underwriters named below, for whom Credit Suisse Securities (USA) LLC, Barclays Capital Inc. and J.P. Morgan Securities LLC are acting as representatives, the following respective numbers of shares of common stock:

Underwriters	Number of Shares
Credit Suisse Securities (USA) LLC	
Barclays Capital Inc.	
J.P. Morgan Securities LLC	
Jefferies LLC	
Stifel, Nicolaus & Company, Incorporated	
Pacific Crest Securities LLC	
Canaccord Genuity Inc.	
Total	

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the option to purchase additional shares described below. The underwriting agreement also provides that if an underwriter defaults the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

Certain selling stockholders have granted to the underwriters a 30-day option to purchase up to 837,750 additional shares at the public offering price, less the underwriting discounts and commissions. This option may be exercised to the extent the underwriters sell more than 5,585,000 shares in connection with this offering.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price, less a selling concession of $ per share. The underwriters and selling group members may allow a discount of $ per share on sales to other broker/dealers. After the public offering, the representatives may change the public offering price and concession and discount to broker/dealers.

The following table summarizes the compensation and estimated expenses the selling stockholders will pay assuming both no exercise and full exercise of the underwriters option to purchase additional shares:

	Per Share		Total	
	No Exercise	Full Exercise	No Exercise	Full Exercise
Per Share	$	$	$	$
Total	$	$	$	$

We have agreed to reimburse the underwriters for certain expenses related to the review and clearance of this offering by the Financial Industry Regulatory Authority in an amount up to $30,000.

We have agreed that for a period of 90 days after the date of the final prospectus we will not offer, sell, issue, contract to sell, issue, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act relating to, any shares of our common stock or securities convertible into shares of our common stock.

We, our directors, executive officers, greater than 5% stockholders and selling stockholders have agreed that, for a period of 90 days after the date of the final prospectus subject to certain limited exceptions as described below, we and they will not directly or indirectly, without the prior written consent of Credit Suisse

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Securities (USA) LLC, (1) offer for sale, sell, pledge, or otherwise dispose of (or enter into any transaction or device that is designed to, or could be expected to, result in the disposition by any person at any time in the future of) any shares of common stock (including, without limitation, shares of common stock that may be deemed to be beneficially owned by them in accordance with the rules and regulations of the SEC and shares of common stock that may be issued upon exercise of any options or warrants) or securities convertible into or exercisable or exchangeable for, or that represent the right to receive shares of, common stock (other than shares that may be sold in this offering), (2) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of shares of common stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of common stock or other securities, in cash or otherwise, (3) cause to be filed a registration statement, including any amendments thereto, with respect to the registration of any shares of common stock or securities convertible, exercisable or exchangeable into common stock or any of our other securities, or (4) publicly disclose the intention to do any of the foregoing.

Each of the lock-up agreements contain certain exceptions, including the disposition of shares of common stock purchased in open market transactions after the completion of this offering, bona fide gifts, sales, transfers or other dispositions of shares of any class of our common stock, including by will or intestacy, made exclusively between and among the holder and members of the holder s family or certain other persons, and the adoption of a Rule 10b5-1 sales plan; provided, in certain cases, that no filing shall be required under the Exchange Act and the holder agrees not to make any filing or public announcement in connection with the transfer or disposition during the 90-day lock-up period.

Credit Suisse Securities (USA) LLC, in its sole discretion, may release the common stock and other securities subject to the lock-up agreements described above in whole or in part at any time. When determining whether or not to release common stock and other securities from lock-up agreements, Credit Suisse Securities (USA) LLC will consider, among other factors, the holder s reasons for requesting the release, the number of shares of common stock and other securities for which the release is being requested and market conditions at the time.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

The representatives may engage in stabilizing transactions, short sales and purchases to cover positions created by short sales, and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of the common stock, in accordance with Regulation M under the Exchange Act:

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

A short position involves a sale by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase in the offering, which creates the syndicate short position. This short position may be either a covered short position or a naked short position. In a covered short position, the number of shares involved in the sales made by the underwriters in excess of the number of shares they are obligated to purchase is not greater than the number of shares that they may purchase by exercising their option to purchase additional shares. In a naked short position, the number of shares involved is greater than the number of shares in their option to purchase additional shares. The underwriters may close out any short position by either exercising their option to purchase additional shares and/or purchasing shares in the open market. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through their option to purchase additional shares. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions.

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Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of the common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters make any representation that the representatives will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

Our common stock is listed on the New York Stock Exchange under the symbol PAYC.

The underwriters and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters and certain of their affiliates have, from time to time, performed, and may in the future perform, various commercial and investment banking and financial advisory services for the issuer and its affiliates, for which they received or may in the future receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and certain of their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer or its affiliates. If the underwriters or their affiliates have a lending relationship with us, certain of those underwriters or their affiliates routinely hedge, and underwriters or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, the underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities or the securities of our affiliates, including potentially the shares of common stock offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the shares of common stock offered hereby. The underwriters and certain of their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Pursuant to an engagement agreement, we retained Solebury Capital LLC, or Solebury, a FINRA member, to provide certain financial consulting services in connection with this offering. We agreed to pay Solebury, only upon successful completion of this offering, a fee in an amount equal to 2% of the aggregate underwriting discounts and commissions earned by the underwriters from this offering (including those related to the exercise of the underwriters option to purchase additional shares). We also agreed to reimburse Solebury for reasonable and documented travel and other out-of-pocket expenses, not to exceed in each instance $1,000 without our prior written consent and up to a maximum of $25,000, and have provided indemnification of Solebury pursuant to the engagement agreement. Solebury is not acting as an underwriter and has no contact with any public or institutional investor on behalf of us or the underwriters. In addition, Solebury will not underwrite or purchase any of our common shares in this offering or otherwise participate in any such undertaking.

The underwriters have agreed to reimburse us for certain expenses incurred in connection with this offering.

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A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically. The representatives may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), our common shares will not be offered to the public in that Relevant Member State prior to the publication of a prospectus in relation to the common shares that has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the Relevant Implementation Date, an offer of common shares may be made to the public in that Relevant Member State at any time:

- to any legal entity that is a qualified investor as defined in the Prospectus Directive;

- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the manager for any such offer; or

- in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3(2) of the Prospectus Directive.

For the purposes of this provision, the expression an offer of common shares to the public in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the common shares to be offered so as to enable an investor to decide to purchase or subscribe to the common shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. The expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State, and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

United Kingdom

Our common stock may not be offered or sold and will not be offered or sold to any persons in the United Kingdom other than persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses and in compliance with all applicable provisions of the Financial Services and Markets Act 2000 (FSMA) with respect to anything done in relation to our common stock in, from or otherwise involving the United Kingdom.

In addition, each underwriter:

has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to us; and

has complied with, and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the common stock in, from or otherwise involving the United Kingdom.

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LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon for us by Haynes and Boone, LLP, Dallas, Texas. Certain legal matters will be passed upon for certain of the selling stockholders by Kirkland & Ellis LLP, New York, New York. The underwriters are being represented by Goodwin Procter LLP, Menlo Park, California in connection with the offering.

EXPERTS

The audited financial statements included in this prospectus and elsewhere in this registration statement have been so included in reliance upon the report of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered hereby. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits filed therewith. For further information about us and the common stock offered hereby, we refer you to the registration statement and the exhibits filed therewith. Statements contained in this prospectus regarding the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and in each instance we refer you to the copy of such contract or other document filed as an exhibit to the registration statement. We currently do not file periodic reports with the SEC. We are required to file periodic reports, proxy statements and other information with the SEC pursuant to the Exchange Act. A copy of the registration statement and the exhibits filed therewith may be inspected without charge at the public reference room maintained by the SEC, located at 100 F Street, NE, Washington, DC 20549, and copies of all or any part of the registration statement may be obtained from that office. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the website is www.sec.gov.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Paycom Software, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except share amounts)

(unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 18,473	$ 13,362
Restricted cash	370	369
Accounts receivable	1,468	1,705
Prepaid expenses	1,581	2,133
Inventory	384	578
Income tax receivable		150
Deferred tax assets	2,422	3,672
Current assets before funds held for clients	24,698	21,969
Funds held for clients	393,633	455,779
Total current assets	418,331	477,748
Property, plant and equipment, net of accumulated depreciation of $15.5 million and $11.5 million, respectively	46,642	38,671
Deposits and other assets	595	461
Goodwill	51,889	51,889
Intangible assets, net of accumulated amortization of $11.7 million and $10.5 million, respectively	5,499	6,709
Total assets	$ 522,956	$ 575,478
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 1,976	$ 5,020
Income tax payable	148	
Accrued commissions and bonuses	2,568	3,598
Accrued payroll and vacation	2,665	3,087
Deferred revenue	2,186	1,582
Current portion of long-term debt	845	9,545
Accrued expenses and other current liabilities	3,871	4,372

Current liabilities before client funds obligation	14,259	27,204
Client funds obligation	393,633	455,779
Total current liabilities	407,892	482,983
Deferred tax liabilities	3,059	2,895
Long-term deferred revenue	15,048	10,990
Long-term debt, less current portion	26,341	11,545
Long-term debt to related parties		60,875
Derivative liability		1,107
Total long-term liabilities	44,448	87,412
Commitments and contingencies		
Stockholders equity:		
Common stock, $0.01 par value (100,000,000 shares authorized, 51,056,462 and 45,708,573 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively)	510	457
Additional paid in capital	66,949	33,978
Retained earnings (accumulated deficit)	3,157	(29,349)
Total parent s stockholders equity	70,616	5,086
Noncontrolling interest		(3)
Total stockholders equity	70,616	5,083
Total liabilities and stockholders equity	$ 522,956	$ 575,478

See accompanying notes to the condensed consolidated financial statements.

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Paycom Software, Inc.

Condensed Consolidated Statements of Income

(in thousands, except share amounts)

(unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenues				
Recurring	$ 35,910	$ 25,210	$ 105,030	$ 75,808
Implementation and other	688	620	1,859	1,513
Total revenues	36,598	25,830	106,889	77,321
Cost of revenues				
Operating expenses	5,798	4,846	17,847	13,633
Depreciation	638	494	1,876	1,320
Total cost of revenues	6,436	5,340	19,723	14,953
Administrative expenses				
Sales and marketing	14,856	10,339	44,237	28,913
Research and development	1,059	538	2,878	1,317
General and administrative	8,410	6,815	25,816	18,851
Depreciation and amortization	1,159	959	3,322	2,716
Total administrative expenses	25,484	18,651	76,253	51,797
Total operating expenses	31,920	23,991	95,976	66,750
Operating income	4,678	1,839	10,913	10,571
Interest expense	(338)	(2,329)	(3,079)	(6,929)
Net loss on early repayment of debt			(4,044)	
Other income (expense), net	39	(133)	1,395	140
Income (loss) before income taxes	4,379	(623)	5,185	3,782
Provision (benefit) for income taxes	1,689	(199)	2,028	1,211
Net income (loss)	2,690	(424)	3,157	2,571
Net income (loss) attributable to the noncontrolling interest		(3)		19
	$ 2,690	$ (421)	$ 3,157	$ 2,552

Net income (loss) attributable to the Company								
Pro forma additional income tax expense (benefit)				(93)				563
Pro forma net income (loss)	$	2,690	$	(328)	$	3,157	$	1,989
Net income (loss) per share, basic	$	0.05	$	(0.01)	$	0.06	$	0.06
Net income (loss) per share, diluted	$	0.05	$	(0.01)	$	0.06	$	0.05
Pro forma net income (loss) per share, basic	$	0.05	$	(0.01)	$	0.06	$	0.04
Pro forma net income (loss) per share, diluted	$	0.05	$	(0.01)	$	0.06	$	0.04
Weighted average shares outstanding:								
Basic		51,056,462		45,707,802		49,040,344		45,398,933
Diluted		52,978,051		45,707,802		51,223,048		47,975,548
Pro forma weighted average shares outstanding:								
Basic		51,056,462		45,707,802		49,040,344		45,398,933
Diluted		52,978,051		45,707,802		51,223,048		47,975,548

See accompanying notes to the condensed consolidated financial statements.

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Paycom Software, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands, except share amounts)

(unaudited)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Operating activities		
Net income	$ 3,157	$ 2,571
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,198	4,036
Amortization of debt discount	67	178
Write off of debt issuance costs	4,051	
Stock-based compensation	362	925
Change in fair value of derivative liability	(1,107)	257
Changes in operating assets and liabilities:		
Accounts receivable	237	(85)
Prepaid expenses	(94)	(753)
Inventory	195	(121)
Deposits and other assets	(145)	(53)
Income tax receivable	150	
Deferred tax assets	1,250	1,211
Deferred tax liabilities	164	
Income tax payable	148	
Accounts payable	(3,044)	(159)
Accrued commissions and bonuses	(1,030)	(1,195)
Accrued payroll and vacation	(422)	(170)
Deferred revenue	4,662	2,775
Accrued expenses and other liabilities	(498)	2,679
Net cash provided by operating activities	13,301	12,096
Investing activities		
Decrease in funds held for clients	62,146	82,294
Increase (decrease) in restricted cash	1	(1)
Additions to property, plant and equipment	(11,948)	(6,243)
Net cash provided by investing activities	50,199	76,050
Financing activities		
Proceeds from issuance of long-term debt	6,539	
Proceeds from initial public offering	62,842	

Payments on long-term debt	(65,442)	1,750
Decrease in client funds obligation	(62,146)	(82,294)
Incentive awards redeemed		(1,061)
Capital impact of reorganization	(183)	
Capital contribution	1	1,162
Net cash used in financing activities	(58,389)	(80,443)
Change in cash and cash equivalents	5,111	7,703
Cash and cash equivalents		
Beginning of period	13,362	13,435
End of period	$ 18,473	$ 21,138

See accompanying notes to the condensed consolidated financial statements.

Paycom Software, Inc.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

1. CONSOLIDATION AND BASIS OF PRESENTATION

The Reorganization

Paycom Software, Inc. (Software) and its wholly-owned subsidiary, Payroll Software Merger Sub, LLC (Merger Sub) were formed as Delaware entities on October 31, 2013, and December 23, 2013, respectively, in anticipation of an initial public offering (IPO) and were wholly-owned subsidiaries of Paycom Payroll, LLC (Paycom) prior to December 31, 2013.

On January 1, 2014, we consummated a reorganization pursuant to which: (i) affiliates of Welsh, Carson, Anderson & Stowe, L.P. contributed WCAS Paycom Holdings, Inc. (WCAS Holdings) and WCAS CP IV Blocker, Inc. (CP IV Blocker), which collectively own all of the Series A Preferred Units of Paycom Payroll Holdings, LLC (Holdings), to Software in exchange for shares of common stock of Software and (ii) the owners of outstanding Series B Preferred Units of Holdings contributed their Series B Preferred Units of Holdings to Software in exchange for shares of common stock of Software. Immediately after these contributions, Merger Sub merged with and into Holdings with Holdings surviving the merger. Upon consummation of the merger, the remaining holders of outstanding common and incentive units of Holdings received shares of common stock of Software for their common and incentive units by operation of Delaware law and Holdings ownership interest in Software was cancelled. Outstanding common units, Series B Preferred Units and WCAS Holdings and CP IV Blocker were contributed to Software in exchange for, or converted into, 45,708,573 shares of common stock and 8,121,101 shares of restricted stock of Software. Following these transactions, all outstanding Series C Preferred Units were eliminated in an intercompany transaction between Holdings and WCAS Holdings, and we assumed the 14% Note due 2017 issued by WCAS Holdings (the 2017 Note). Following the reorganization, Software became a holding company with its principal asset being the Series A Preferred Units of Holdings (collectively, the 2014 Reorganization).

Software s acquisition of WCAS Holdings and Holdings in the 2014 Reorganization represented transactions under common control and were required to be retrospectively applied to the financial statements for all prior periods when the financial statements were issued for a period that included the date the transactions occurred. This includes a retrospective presentation for all equity related disclosures, including share, per share, and restricted stock disclosures, which have been revised to reflect the effects of the 2014 Reorganization. Therefore, our consolidated financial statements are presented as if WCAS Holdings and Holdings were wholly-owned subsidiaries in periods prior to the 2014 Reorganization. The acquisition of CP IV Blocker was not deemed to be a reorganization under common control and therefore our historical consolidated financial statements for periods prior to January 1, 2014 include the ownership of a minority equity interest in CP IV Blocker, which was eliminated upon the acquisition of CP IV Blocker in the 2014 Reorganization on January 1, 2014.

Our unaudited interim condensed consolidated financial statements include the financial results of Software, WCAS Holdings, CP IV Blocker and Holdings, effective January 1, 2014. Intercompany balances and transactions were eliminated in consolidation.

Unless we state otherwise or the context otherwise requires, the terms we, us, our and the Company refer, prior to t
2014 Reorganization, to Holdings, Holdings consolidated subsidiaries and WCAS Holdings collectively, and after the
2014 Reorganization, to Software and its consolidated subsidiaries.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP)

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Paycom Software, Inc.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial statements that permit reduced disclosure for interim periods. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments necessary to fairly present our condensed consolidated financial position as of September 30, 2014 and December 31, 2013, our condensed consolidated results of operations for the nine months ended September 30, 2014 and 2013 and our condensed consolidated cash flows for the nine months ended September 30, 2014 and 2013. Such adjustments are of a normal recurring nature. The information in this prospectus should be read in conjunction with our consolidated financial statements for the years ended December 31, 2013 and 2012 included elsewhere in this prospectus.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include the useful life for long-lived and intangible assets, the life of our client relationships, the fair market value of our equity incentive awards and the fair value of our financial instruments. These estimates are based on historical experience where applicable and other assumptions that management believes are reasonable under the circumstances. As such, actual results could materially differ from these estimates.

Segment Information

We operate in a single operating segment and a single reporting segment and all required financial segment information is presented in the condensed consolidated financial statements.

Summary of Significant Accounting Policies

Software s significant accounting policies are discussed in Note 2 to its audited consolidated financial statements for the fiscal years ended December 31, 2013 and 2012 included elsewhere in this prospectus.

Recently Issued and Adopted Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued authoritative guidance which requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. We adopted this new guidance during the nine months ended September 30, 2014, which did not have a material impact on our condensed consolidated financial statements.

In May 2014, the FASB issued authoritative guidance which included a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is not permitted. Accordingly, the standard is effective for us on January 1, 2017. We are currently evaluating the impact that the standard will have on our condensed consolidated financial statements.

In June 2014, the FASB issued authoritative guidance for share-based payments which requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be

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Paycom Software, Inc.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Accordingly, the standard is effective for us on January 1, 2016. We do not anticipate that the adoption of this standard will have a material impact on our condensed consolidated financial statements.

2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and accumulated depreciation were as follows (dollars in thousands):

	September 30, 2014	December 31, 2013
Property, plant and equipment		
Buildings	$ 28,154	$ 14,828
Software and capitalized software costs	7,635	5,578
Computer equipment	6,613	4,832
Rental clocks	6,111	4,865
Furniture, fixtures and equipment	4,073	3,189
Vehicles	421	421
Leasehold improvements	159	135
	53,166	33,848
Less: accumulated depreciation	(15,517)	(11,540)
	37,649	22,308
Land	8,993	8,993
Construction in process		7,370
Property, plant and equipment, net	$ 46,642	$ 38,671

Rental clocks included in property, plant and equipment, net represent time clocks issued to clients under month-to-month operating leases. These items are transferred upon issuance from inventory to property, plant and equipment and depreciated over their estimated useful lives.

Depreciation expense for property, plant and equipment, net was $1.4 million and $4.0 million for the three and nine months ended September 30, 2014, respectively. Depreciation expense for property, plant and equipment, net was $1.0 million and $2.8 million for the three and nine months ended September 30, 2013, respectively.

We capitalize interest incurred under our indebtedness related to construction of our principal executive offices. For the nine months ended September 30, 2014, we paid interest costs of $0.9 million, of which $0.4 million was capitalized. For the nine months ended September 30, 2013, we paid interest costs of $0.6 million, of which less than $0.1 million was capitalized.

3. GOODWILL AND INTANGIBLE ASSETS, NET

We had goodwill of $51.9 million as of September 30, 2014 and December 31, 2013. We have selected June 30 as our annual goodwill impairment testing date and determined there was no impairment as of June 30, 2014. For the year ended December 31, 2013, there were no indicators of impairment.

Paycom Software, Inc.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

All of our intangible assets are considered to have finite lives and, as such, are subject to amortization. The components of intangible assets were as follows (dollars in thousands):

	September 30, 2014			
	Weighted Avg. Remaining Useful Life (Years)	Gross	Accumulated Amortization	Net
Intangibles:				
Customer relationships	2.8	$ 13,997	$ (10,147)	$ 3,850
Trade name	7.8	3,194	(1,545)	1,649
Total		$ 17,191	$ (11,692)	$ 5,499

	December 31, 2013			
	Weighted Avg. Remaining Useful Life (Years)	Gross	Accumulated Amortization	Net
Intangibles:				
Customer relationships	3.5	$ 13,997	$ (9,098)	$ 4,899
Trade name	8.5	3,194	(1,384)	1,810
Total		$ 17,191	$ (10,482)	$ 6,709

The weighted average remaining useful life of our intangible assets was 4.3 years as of September 30, 2014. Amortization of intangible assets for the three and nine months ended September 30, 2014 was $0.4 million and $1.2 million, respectively. Amortization of intangible assets for the three and nine months ended September 30, 2013 was $0.4 million and $1.2 million, respectively. Estimated amortization expense as of September 30, 2014 for our existing intangible assets for the next five years and thereafter was as follows (dollars in thousands):

Year Ending December 31,	Amortization Expense
2014	$ 403
2015	1,613
2016	1,613
2017	913
2018	213
Thereafter	744
	$ 5,499

4. FUNDS HELD FOR CLIENTS AND CLIENT FUNDS OBLIGATION

As part of our payroll and tax filing application, we collect funds for federal, state and local employment taxes from clients, handle applicable regulatory tax filings, correspondence and amendments, remit the funds to appropriate tax agencies, and handle other employer-related services. Amounts collected by us from clients for their federal, state and local employment taxes earn interest during the interval between

Paycom Software, Inc.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

receipt and disbursement, as we invest these funds in money market funds and certificates of deposit. These collections from clients are typically disbursed from one to 30 days after receipt, with some funds being held for up to 120 days. These investments are shown in the Condensed Consolidated Balance Sheets as Funds held for clients , and the offsetting liability for the tax filings is shown as Client funds obligation. As of September 30, 2014 and December 31, 2013, the funds held for clients were invested in demand deposits, short-term certificates of deposit and money market funds. The interest earned on these funds is included in Other income (expense), net , on the Condensed Consolidated Statements of Income.

5. LONG-TERM DEBT

Our long-term debt consisted of the following (dollars in thousands):

	September 30, 2014	December 31, 2013
Term note to bank due December 15, 2018[1]	$	$ 11,963
Construction note to bank[2]		9,127
Term note to bank due June 1, 2021[3]	27,186	
Note to related party due April 3, 2017[4]		46,193
Note to related party due April 3, 2022[5]		18,807
Less: Unamortized debt discounts		(4,125)
Total long-term debt (including current portion)	27,186	81,965
Less: Current portion	(845)	(9,545)
Total long-term debt, net	$ 26,341	$ 72,420

(1) In March 2013, we entered into a construction loan agreement for the construction of a second building at our corporate headquarters with Kirkpatrick Bank due May 1, 2015, which allowed for a maximum principal amount of $12.3 million (the 2013 Construction Loan). The 2013 Construction Loan was secured by a first mortgage covering the second headquarters building and a first lien security interest in certain personal property relating to the second headquarters building. Under the 2013 Construction Loan, interest accrued monthly at the Wall Street Journal U.S. Prime Rate plus 0.5%, adjusted monthly, subject to a minimum interest rate of 4.0% per annum. Interest on the 2013 Construction Loan was payable monthly on the first day of each month. The 2013 Construction Loan, along with the 2011 Consolidated Loan, was converted

into a term loan in July 2013 (the 2013 Term Loan).

In November 2013, we entered into a loan agreement for the purchase of approximately 18.3 acres for future expansion at our headquarters with Kirkpatrick Bank, which allowed for a maximum principal amount of $3.0 million (2013 Land Loan). Under the 2013 Land Loan, interest accrued monthly at the Wall Street Journal U.S. Prime Rate plus 0.5%, adjusted monthly, subject to a minimum interest rate of 4.0% per annum.

In December 2013, we consolidated the 2013 Term Loan and the 2013 Land Loan (2013 Consolidated Loan) under a modification agreement that increased the combined maximum principal amount of the 2013 Consolidated Loan to $14.6 million. The 2013 Consolidated Loan was secured by a first mortgage covering all of the second headquarters building and a first lien security interest in certain personal property relating to the second headquarters building. Under the 2013 Consolidated Loan, interest accrued monthly at the Wall Street Journal U.S. Prime rate plus 0.5%, adjusted monthly, subject to a minimum interest rate of 4.0% per annum. In the second quarter of 2014, the 2013 Consolidated Loan was consolidated into the 2021 Consolidated Loan.

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The 2011 Consolidated Loan and the 2013 Consolidated Loan were subject to certain financial covenants, as defined in the applicable agreement, including maintaining a debt coverage ratio of EBITDA to indebtedness (defined as current maturities of long-term debt, interest expense and distributions) of greater than 1.5 to 1.0. As of December 31, 2013, we were not in compliance with the financial covenant related to the debt coverage ratio. We obtained a letter of waiver from the lender that excluded this item from the calculation as of December 31, 2013 and which remains in effect through April 30, 2015.

(2) In December 2011, we consolidated pre-existing construction loans for the construction of a new corporate headquarters, processing center and gymnasium into a term note (the 2011 Consolidated Loan). Under the 2011 Consolidated Loan, principal and interest were payable monthly based on a 20 year amortization rate of 5.0%. The 2011 Consolidated Loan was collateralized by a first mortgage covering our original corporate headquarters building and was secured by a first lien security interest in certain personal property relating to our original corporate headquarters building. In the second quarter of 2014, the 2011 Consolidated Loan was consolidated into the 2021 Consolidated Loan. See Note (3) below for the definition of, and more information about, the 2021 Consolidated Loan.

(3) At September 30, 2014, our outstanding indebtedness consisted of a term note under a Loan Agreement (the 2021 Consolidated Loan) with an outstanding principal balance of $27.2 million as of September 30, 2014. In June 2014, we consolidated outstanding amounts under the 2011 Consolidated Loan and 2013 Consolidated Loan into the 2021 Consolidated Loan under a modification agreement. The 2021 Consolidated Loan is due to Kirkpatrick Bank and matures on May 30, 2021. Under the 2021 Consolidated Loan, interest is payable monthly and accrues at a fixed rate of 4.75% per annum. The 2021 Consolidated Loan is secured by a mortgage covering our headquarters buildings and certain personal property relating to our headquarters buildings.

The 2021 Consolidated Loan includes certain financial covenants, including maintaining a debt coverage ratio of EBITDA to indebtedness (defined as current maturities of long-term debt, interest expense and distributions), as defined in the applicable agreement, of greater than 1.5 to 1.0. We were in compliance with the financial covenant related to the debt coverage ratio as of September 30, 2014.

(4) In April 2014, we paid off the balance of the 2017 Note that was issued by WCAS Holdings and was payable to Welsh, Carson, Anderson & Stowe X, L.P., a related party (WCAS X) with proceeds from our IPO. The 2017 Note accrued interest at a rate of 14% per annum. As of December 31, 2013, the outstanding principal balance of the 2017 Note was $46.2 million.

(5) In April 2014, we paid off the balance of the 10% Senior Note due 2022 (the 2022 Note) with WCAS Capital Partners IV, L.P., a related party (WCAS CP IV) with proceeds from our IPO and from existing cash. The 2022 Note accrued interest at a rate of 10% per annum. As of December 31, 2013, the outstanding principal amount of the 2022 Note was $18.8 million. The 2022 Note was issued at a discount of $2.4 million. The total unamortized discount related to this note was $4.1 million. As of December 31, 2013, in conjunction with the payoff of this note, we wrote off the remaining unamortized discount of $0.5 million.

As of September 30, 2014, the carrying value and fair value of our total long-term debt, including the current portion, were each $27.2 million. As of December 31, 2013, the carrying value and fair value of our total long-term debt, including the current portion, were $82.0 million and $84.9 million, respectively. The fair value of variable rate long-term debt approximates its market value because the cost of borrowing fluctuates based upon market conditions. The fair value of fixed rate long-term debt is estimated based on the borrowing rates currently available to us for bank loans with similar terms and maturities.

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6. EMPLOYEE SAVINGS PLAN

Our employees that are over the age of 21 and have completed 90 days of service are eligible to participate in our 401(k) plan. We have made a Qualified Automatic Contribution Arrangement (QACA) election, whereby we make a matching contribution equal to 100% of the first 1% of salary deferrals and 50% of salary deferrals between 2% and 6%, up to a maximum matching contribution of 3.5% of salary each plan year for our employees. We are allowed to make additional discretionary matching contributions and discretionary profit sharing contributions. Employees are 100% vested in amounts attributable to salary deferrals and rollover contributions. The QACA matching contributions will be 100% vested after two years of employment from the date of hire. If an employee terminates service prior to completing two years of employment, the employee will not be vested in these contributions. The discretionary contributions are vested over a six year period. Matching contributions amounted to $0.4 million and $1.3 million for the three and nine months ended September 30, 2014, respectively. Matching contributions amounted to $0.3 million and $0.9 million for the three and nine months ended September 30, 2013, respectively.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

Our financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, funds held for clients, client funds obligation, long-term debt and derivative liability. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, funds held for clients and client fund obligations approximates fair value because of the short-term nature of the instruments.

We measure certain financial assets and liabilities at fair value at each reporting period. Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. A financial instrument s classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value are as follows:

Level 1 Unadjusted observable inputs that reflect quoted prices in active markets

Level 2 Input other than quoted prices in active markets that are directly or indirectly observable

Level 3 Unobservable inputs that are supported by little or no market activity

We use observable data, when available. During the three and nine months ended September 30, 2014 and 2013, we did not have any transfers between Levels 1, 2 or 3 in the three-tier fair value hierarchy.

We had no financial assets or liabilities measured at fair value on a recurring basis as of September 30, 2014. The following tables provide a summary of the fair value of financial instruments that are measured on a recurring basis using the above input categories as of December 31, 2013 (dollars in thousands):

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Liabilities				
Derivative liability	$	$	$ 1,107	$ 1,107
	$	$	$ 1,107	$ 1,107

The derivative liability related to the 2022 Note was classified as a Level 3 financial instrument due to valuation being based upon significant unobservable inputs. See Note 5 Long-Term Debt for additional information.

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The key inputs used to calculate the fair value of the embedded derivative are: probability of exit, remaining term, yield volatility, credit spread, and risk-free rate. In general, increases in the probability of exit, credit spread, and risk-free rate would increase the value of the embedded derivative. Conversely, increases in the remaining term and yield volatility would decrease the value of the embedded derivative.

Quantitative information regarding significant unobservable inputs used for recurring Level 3 fair value measurements of financial instruments were as follows as of December 31, 2013:

		December 31, 2013	
	Valuation Technique	Key Inputs	Range
Derivative Liability	Lattice Model	Probability of exit	90%
		Remaining term	0.8 years - 8.3 years
		Yield Volatility	21.4% - 31.1%
		Credit Spread	8.90%
		Risk-free rate	0.13% - 2.45%

The following table summarizes the changes in fair value of our Level 3 financial instruments for the three and nine months ended September 30, 2014 and 2013 (dollars in thousands):

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
Beginning Balance	$	$ 1,107
Issuances		
Change in fair value of derivative liability		(635)
Write-off to Other income (expense)		(472)
Ending Balance	$	$

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013

Beginning Balance	$	1,766	$	1,767
Issuances				
Change in fair value of derivative liability		(659)		(660)
Ending Balance	$	1,107	$	1,107

Total change in fair value of derivative liability recognized as Other income (expense), net in the Condensed Consolidated Statements of Income was $(0.7) million for each of the three and nine months ended September 30, 2013. Total change in fair value of derivative liability, including write-off of the balance due to payoff of the associated loan, recognized as Other income (expense), net in the Condensed Consolidated Statements of Income, was $0 and $(1.1) million for the three and nine months ended September 30, 2014, respectively.

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8. EARNINGS PER SHARE

Basic earnings per share (EPS) is based on the weighted average number of shares of common stock outstanding for the period. Diluted EPS is computed in a similar manner to basic EPS after assuming the issuance of shares of common stock for all potentially dilutive shares of restricted stock whether or not they are vested.

Under the 2014 Reorganization, all the outstanding common units, Series B Preferred Units and incentive units of Holdings were exchanged for, or converted into, 45,708,573 shares of our common stock and 8,121,101 shares of our restricted stock as of January 1, 2014.

The following is a reconciliation of net income (loss) and the shares of common stock used in the computation of basic and diluted net earnings per share (dollars in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Numerator:				
Net income (loss)	$ 2,690	$ (424)	$ 3,157	$ 2,571
Net income (loss) attributable to the non-controlling interest		(3)		19
Net income (loss) attributable to the Company	$ 2,690	$ (421)	$ 3,157	$ 2,552
Denominator:				
Weighted average shares outstanding	51,056,462	44,560,053	49,040,344	44,560,053
Adjustment for vested restricted stock		1,147,749		838,880
Shares for calculating basic EPS	51,056,462	45,707,802	49,040,344	45,398,933
Weighted average shares outstanding	51,056,462	45,707,802	49,040,344	44,560,053
Dilutive effect of unvested restricted stock	1,921,589		2,182,704	3,415,495
Shares for calculating diluted EPS	52,978,051	45,707,802	51,223,048	47,975,548
Net income (loss) per share:				
Basic	$ 0.05	$ (0.01)	$ 0.06	$ 0.06

Diluted	$	0.05	$	(0.01)	$	0.06	$	0.05

We excluded 2,301,603 shares of restricted stock from the diluted earnings per share calculation for the three months ended September 30, 2013 because the shares were anti-dilutive.

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There is no difference in net income and pro forma net income for either the three or nine months ended September 30, 2014. The following is a reconciliation of pro forma net income for the three and nine months ended September 30, 2013 and the shares of stock used in the computation of pro forma basic and diluted net income per share (dollars in thousands):

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
Pro forma numerator:				
Net income (loss) attributable to the Company	$	(421)	$	2,552
Pro forma additional income tax (expense) benefit (Note 12)		(93)		563
Pro forma net income (loss) attributable to the Company (Note 12)	$	(328)	$	1,989
Pro forma denominator:				
Pro forma weighted average shares outstanding		44,560,053		44,560,053
Adjustment for vested restricted stock		1,147,749		838,880
Pro forma shares for calculating basic EPS		45,707,802		45,398,933
Pro forma weighted average shares outstanding		45,707,802		44,560,053
Effect of dilutive restricted stock				3,415,495
Pro forma shares for calculating diluted EPS		45,707,802		47,975,548
Pro forma net income per share:				
Basic	$	(0.01)	$	0.04
Diluted	$	(0.01)	$	0.04

See Note 12 Income Taxes for additional information regarding pro forma income tax expense.

9. STOCKHOLDERS EQUITY AND INCENTIVE COMPENSATION

Prior to the 2014 Reorganization, Holdings had four authorized classes of limited liability company interests (each a unit). Series A Preferred Units were voting units with first priority of distribution, entitled to a preferred yield (as defined within our limited liability company agreement) of 9% with regard to certain future asset distributions and conversion features. Series B Preferred Units were non-voting units, entitled to receive distributions only after certain conditions were met. Common units were voting units. Incentive units were non-voting units reserved for issuance to our employees, officers, directors and other service providers.

On January 1, 2014, we consummated the 2014 Reorganization, pursuant to which: (i) affiliates of Welsh, Carson, Anderson & Stowe, L.P., contributed WCAS Holdings and CP IV Blocker, which collectively owned all of the Series A Preferred Units of Holdings, to Software in exchange for shares of common stock of Software and (ii) the owners of outstanding Series B Preferred Units of Holdings contributed their Series B Preferred Units of Holdings to Software in exchange for shares of common stock of Software. Immediately after these contributions, Merger Sub merged with and into Holdings with Holdings surviving

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the merger. Upon consummation of the merger, the remaining holders of outstanding common and incentive units of Holdings received shares of common stock of Software for their common and incentive units by operation of Delaware law and Holdings ownership interest in Software was cancelled. Outstanding common units, Series B Preferred Units and WCAS Holdings and CP IV Blocker were contributed to Software in exchange for, or converted into, 45,708,573 shares of common stock and 8,121,101 shares of restricted stock of Software.

The shares of restricted stock were issued subject to various vesting conditions. A portion of the restricted stock is subject to time-based vesting conditions, while a portion is subject to performance-based vesting conditions. The performance-based vesting conditions are based on our total enterprise value exceeding certain specified thresholds. For additional information concerning the vesting conditions of the restricted stock, see Executive Compensation Narrative Discussion Regarding Summary Compensation Table Equity Incentive Units and Restricted Stock Awards included elsewhere in this prospectus.

Following these transactions, all outstanding Series C Preferred Units were eliminated in an intercompany transaction between Holdings and WCAS Holdings, and we assumed the 2017 Note. As a result of the 2014 Reorganization, we recorded a one-time reclassification of $29.3 million of historical accumulated deficit to additional paid in capital on January 1, 2014. Following the 2014 Reorganization, Software became a holding company with its principal asset being the Series A Preferred Units of Holdings.

As of September 30, 2014 and December 31, 2013, there was $1.0 million and $1.3 million, respectively, of total unrecognized compensation cost related to unvested restricted stock issued to employees. The unrecognized compensation cost is expected to be recognized over a weighted average period of 2.9 years. On April 21, 2014, 217,378 shares of restricted stock automatically vested and converted into shares of common stock.

10. RELATED-PARTY TRANSACTIONS

Our Dallas office building is owned by 417 Oakbend, LP, a Texas limited partnership. Jeff York, our Chief Sales Officer, owns a .01% general partnership interest and a 10.49% limited partnership interest in 417 Oakbend, LP. During each of the three months ended September 30, 2014 and 2013, we paid rent on our Dallas office space in the amounts of less than $0.1 million. During each of the nine months ended September 30, 2014 and 2013, we paid rent on our Dallas office space in the amounts of $0.2 million.

In connection with the corporate reorganization in April 2012, we entered into the 2022 Note with WCAS CP IV, a related party. We paid off the balance of this note in April 2014 with proceeds from our IPO and with existing cash on hand.

In connection with the 2014 Reorganization, we assumed the 2017 Note that was issued by WCAS Holdings and was payable to WCAS X. We paid off the balance of this note in April 2014 with proceeds from our IPO.

We entered into a Limited Liability Company Unit Redemption Agreement, effective as of January 26, 2013, pursuant to which we purchased 2,605 incentive units from a former employee at a purchase price of $260.21 per unit, which price was based on a third party appraisal and an internal appraisal. The incentive units were purchased from the former employee for an aggregate purchase price of approximately $0.7 million. The former employee is the brother of William X. Kerber III, our Chief Information Officer.

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11. COMMITMENTS AND CONTINGENCIES
Funding Agreement

In March 2010, we entered into a funding agreement with the Oklahoma City Economic Development Trust (the Trust) and the city of Oklahoma City. The Trust provided $2.0 million as an up-front job creation payment for the construction of certain public infrastructure improvements related to our new principal executive offices in northwest Oklahoma City. In exchange for the funding, we agreed to create at least 492 jobs over a five year period, with an average first year salary in excess of $37 thousand and make a minimum capital investment in the project of at least $15.0 million. We further agreed that we would be responsible for repayment of any amount that was not offset by earned job creation payments. As of September 30, 2014 and December 31, 2013, we had earned $1.9 million and $1.5 million of job creation payments, respectively. We believe that we will fulfill the obligations under this agreement within the time frame specified.

Legal Proceedings

In July 2013, Dr. Lakshmi Arunachalam filed a complaint against Paycom Payroll, LLC (Paycom) in the U.S. District Court for the District of Delaware alleging that Paycom infringes on U.S. Patent No. 8,244,833 assigned to her. Paycom denied all claims made against it by Dr. Arunachalam in her complaint, asserted various defenses and counterclaims for non-infringement and challenged the validity and enforceability of U.S. Patent No. 8,244,833. The initial lawsuit was dismissed and a complaint was filed by Pi-Net International, Inc. on April 18, 2014, along with the claims of infringement of two additional patents, U.S. Patent No. 5,987,500 and U.S. Patent No. 8,108,492. On July 1, 2014, Paycom, Webexchange, Inc., Dr. Arunachalam, and Pi-Net International, Inc. entered into a confidential settlement agreement. As part of this settlement agreement, Pi-Net International, Inc. and Paycom entered a stipulation of dismissal with prejudice on July 1, 2014.

On September 23, 2014, we filed a complaint against National Financial Partners Corp. in the United States District Court for the Western District of Oklahoma (Civil Action No. 5:14-cv-01029-R) seeking a declaratory judgment that we have not engaged in any trademark infringement or unfair competition in connection with the use of our logo. On September 23, 2014, National Financial Partners Corp. filed a complaint against Software in the United States District Court for the Northern District of Illinois (Civil Action No. 1:14-cv-07424). The complaint alleges trademark infringement, unfair competition, deceptive trade practices, consumer fraud and deceptive business practices related to the adoption and use of our logo and seeks preliminary and permanent injunctions prohibiting us from continued infringement as well as money damages, including an accounting for sales and profits, attorneys fees and disgorgement of profits. On October 16, 2014, National Financial Partners Corp. filed a motion to dismiss the action pending in the Western District of Oklahoma. On October 20, 2014, we filed a motion to transfer the action from the Northern District of Illinois to the Western District of Oklahoma, and a memorandum in support of the motion to transfer, in the Northern District of Illinois. On December 12, 2014, the United States District Court for the Western District of Oklahoma granted National Financial Partners Corp. s motion to dismiss. We intend to vigorously defend this litigation. National Financial Partners Corp. has moved for an order preliminarily enjoining us from using our logo. We intend to oppose that motion. In the event that a court ultimately determines that we have infringed any of the asserted trademarks or grants National Financial Partners Corp. s motion for a preliminary injunction, we may be subject to damages, which may include treble damages, and/or be enjoined from using our current logo while the parties are litigating the merits of their claims or be required to modify our logo and/or undergo a rebranding of our solution and applications. We cannot predict with any degree of certainty the outcome of the litigation or determine the extent of any potential liability or damages.

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We are involved in various other legal proceedings in the ordinary course of business. Although we cannot predict the outcome of these proceedings, legal matters are subject to inherent uncertainties and there exists the possibility that the ultimate resolution of these matters could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Operating Leases

We lease office space under several noncancellable operating leases with contractual terms expiring from 2014 to 2019. Minimum rent expense is recognized over the lease term. The lease term is defined as the fixed noncancellable term of the lease plus all periods, if any, for which failure to renew the lease imposes a penalty on us in an amount that a renewal appears, at the inception of the lease, to be reasonably assured. When a lease contains a predetermined fixed escalation of the minimum rent, we recognize the related rent expense on a straight-line basis and record the difference between the recognized rent expense and the amount payable under the lease as a liability.

Future annual minimum lease payments under noncancellable operating leases with initial or remaining terms of one year or more at September 30, 2014 were as follows:

Year Ending December 31,	Operating
2014	$ 927
2015	3,811
2016	3,542
2017	3,181
2018	2,622
Thereafter	1,772
Total minimum lease payments	$ 15,855

Rent expense under operating leases for the three and nine months ended September 30, 2014 was $1.0 million and $2.4 million, respectively. Rent expense under operating leases for the three and nine months ended September 30, 2013 was $0.5 million and $1.4 million, respectively.

12. INCOME TAXES

The provision for income taxes is based on a current estimate of the annual effective income tax rate adjusted to reflect the impact of discrete items. Significant management judgment is required in estimating operating income in order to determine our estimated effective income tax rate. The effective income tax rate was 39% and 32% for the nine months ended September 30, 2014 and 2013, respectively. The higher effective income tax rate for the nine

months ended September&nbSans-Serif; font-size: 13.33px; text-align: left; margin-top: 0px; margin-bottom: 0px; padding-bottom: pt; text-indent: 0px; padding-left: 0px; padding-right: 0px; margin-right: 0px;">
Sotera Defense Solutions

11.8x

9.5x

03/02/2015
SAIC
Scitor

14.1

11.8

10/28/2014
Engility
TASC

12.1

7.9

10/09/2013
CACI International
Six3 Systems

13.4

12.6

03/03/2011
Ares Capital
Global Defense

10.1

10.1

10/13/2010
Veritas Capital
Vencore

12.5

10.1

11/08/2009
General Atlantic / KKR
TASC

10.6

8.3

Statistical Summary

Selected Mission IT and Federal IT Precedents

Median

11.6x

11.4x

Mean

11.5

		11.2
Selected Intelligence Precedents		
Median	12.1x	10.1x
Mean	12.1	10.0
SAIC/Engility Merger	**13.9x**	**12.7x**

(1) Where applicable, the announced estimated present value of tax benefits is treated as cash (a reduction) in the calculation of the target company's transaction enterprise value.

(2) Multiple of 13.7x represents Adj. EBITDA less Excess Capital Expenditures , or capital expenditures in excess of 0.75% of revenue (the approximate average of the peer group), to provide greater comparability to other

transactions.

(3) Multiple of 10.4x represents multiple of 2016E Adj. EBITDA, which given the forecasted decline of Lockheed Martin IS&GS's Adj. EBITDA, provides greater comparability to other transactions.

In performing its selected precedent merger and acquisition transactions analysis with respect to Engility, Guggenheim Securities selected a reference range of transaction multiples for purposes of evaluating Engility based on tax-adjusted transaction enterprise value / LTM EBITDA multiple range of 9.5x – 13.5x based on CY2018E.

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Guggenheim Securities selected precedent merger and acquisition transactions analysis resulted in an overall reference range of $24.17 – $42.67 per share (including the estimated present value of tax benefits) for purposes of evaluating Engility s common stock in the context of a business combination transaction.

Engility Selected Publicly Traded Companies Analysis. Guggenheim Securities reviewed and analyzed Engility s historical stock price performance, trading metrics and historical and projected/forecasted financial performance compared to corresponding data for publicly traded companies providing mission-focused government services with market capitalizations over $500 million that Guggenheim Securities deemed relevant for purposes of this analysis. Guggenheim Securities calculated, among other things, various public market trading multiples for Engility and the selected publicly traded companies (in the case of the selected publicly traded companies, based on Wall Street equity research consensus estimates and each company s most recent publicly available financial filings), which are summarized in the table below:

Engility Selected Publicly Traded Companies Analysis

	Trading Enterprise Value / CY2018E EBITDA	**Trading Enterprise Value / CY2019E EBITDA**
Selected Government Services Peers		
Booz Allen Hamilton	15.0x	13.9x
CACI International	14.0	13.2
Leidos	12.6	12.0
ManTech International	16.1	14.6
Perspecta(1)	11.3	11.0
SAIC (Wall Street Consensus)	14.7	13.8
SAIC (Engility-Adjusted Forecast)	14.6	14.1
Statistical Summary		
Median(2)	14.0x	13.2x
Engility (Management Forecast)		
Trading Basis (without tax benefits)	**13.3x**	**13.1x**
Trading Basis (with tax benefits)	**12.1**	**11.9**

(1) Represents Adj. EBITDA less Excess Capital Expenditures , or capital expenditures in excess of 0.75% of revenue (the approximate average of the peer group), to provide greater comparability to other companies.

2) Median excludes SAIC (Wall Street Consensus) and SAIC (Engility-Adjusted Forecast).

In performing its selected publicly traded companies analysis with respect to Engility, Guggenheim Securities selected reference ranges of trading multiples for purposes of evaluating Engility on a stand-alone public market trading basis with and excluding the estimated present value of Engility s tax benefits as follows: (i) trading enterprise value / forward EBITDA multiple range of 11.5x – 16.0x plus tax benefits based on CY2018E,(ii) trading enterprise value / forward EBITDA multiple range of 11.0x – 14.5x plus tax benefits based on CY2019E, (iii) trading enterprise value/forward EBITDA multiple range of 11.5x – 16.0x excluding tax benefits based on CY2018E and (iv) trading enterprise value/forward EBITDA multiple range of 11.0x – 14.5x excluding tax benefits based on CY2019E.

Guggenheim Securities selected publicly traded companies analysis resulted in an overall reference range of (i) $26.45 – $48.36 per share excluding the estimated present value of Engility s existing tax benefits and (ii) $31.90 – $54.07 per share including the estimated present value of Engility s existing tax benefits for purposes of evaluating Engility s common stock on a stand-alone public market trading basis.

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SAIC Stand-Alone Financial Analyses

Recap of SAIC Stand-Alone Financial Analyses. In evaluating SAIC in connection with rendering its opinion, Guggenheim Securities performed various financial analyses which are summarized in the table below and described in more detail elsewhere herein, including discounted cash flow analyses and selected publicly traded companies analysis. Solely for informational reference purposes, Guggenheim Securities also reviewed the historical trading price range for SAIC s common stock and Wall Street equity research analysts price targets for SAIC s common stock.

Recap of SAIC Stand-Alone Financial Analyses

	Reference Range for SAIC on a Stand-Alone Basis	
Financial Analyses	**Low**	**High**
Discounted Cash Flow Analyses	$ 55.24	$ 86.22
Selected Publicly Traded Companies Analysis:		
CY2018E Adj. EBITDA	66.94	100.44
CY2019E Adj. EBITDA	66.00	92.94
For Informational Reference Purposes		
SAIC’s Stock Price Range During the Prior Year	$ 60.21	$ 93.31
Wall Street Equity Research Price Targets(1)	74.38	90.70

(1) Discounted at the midpoint of SAIC’s estimated cost of equity.

SAIC Discounted Cash Flow Analyses. Guggenheim Securities performed stand-alone discounted cash flow analyses of SAIC based on forecasted after-tax unlevered free cash flows (after deduction of stock-based compensation) for SAIC and an estimate of its terminal/continuing value at the end of the forecast horizon.

In performing its discounted cash flow analyses with respect to SAIC:

- Guggenheim Securities utilized financial projections for SAIC for the period ending January 31, 2023 as adjusted by and provided and approved for Guggenheim Securities’ use by Engility’s senior management.
- Guggenheim Securities used a discount rate range of 8.25% – 9.75% based on its estimate of SAIC’s weighted average cost of capital.
- In estimating SAIC’s terminal/continuing value, Guggenheim Securities used a reference range of perpetual growth rates of SAIC’s terminal year normalized after-tax unlevered free cash flow of 2.00% – 3.00%. The terminal/continuing values implied by the foregoing perpetual growth rate reference range were cross-checked for reasonableness by reference to SAIC’s implied terminal year EBITDA multiples.

Guggenheim Securities discounted cash flow analyses resulted in an overall reference range of $55.24 – $86.22 per share for purposes of evaluating SAIC s common stock on a stand-alone intrinsic-value basis.

SAIC Selected Publicly Traded Companies Analysis. Guggenheim Securities reviewed and analyzed SAIC s historical stock price performance, trading metrics and historical and projected/forecasted financial performance compared to corresponding data for selected publicly traded companies providing mission-focused government services and with market capitalizations in excess of $500 million that Guggenheim Securities deemed relevant for purposes of this analysis. Guggenheim Securities calculated, among other things, various public market trading multiples for SAIC and the selected publicly traded companies (in the case of the selected publicly traded companies, based on Wall Street equity research consensus estimates and each company s most recent publicly available financial filings), which are summarized in the table below:

SAIC Selected Publicly Traded Companies Analysis

	Trading Enterprise Value / CY2018E EBITDA	**Trading Enterprise Value / CY2019E EBITDA**
Selected Government Services Peers		
Booz Allen Hamilton	15.0x	13.9x
CACI International	14.0	13.2
Engility (Management Forecast)	13.3	13.1
Leidos	12.6	12.0
ManTech International	16.1	14.6
Perspecta[(1)]	11.3	11.0
Statistical Summary		
Median[(2)]	14.0x	13.2x
SAIC (Engility-Adjusted Forecast)		
Trading Basis	**14.6x**	**14.1x**

(1) Represents Adj. EBITDA less Excess Capital Expenditures , or capital expenditures in excess of 0.75% of revenue (the approximate average of the peer group), to provide greater comparability to other companies.

(2) Median excludes Engility (Management Forecast)

In performing its selected publicly traded companies analysis with respect to SAIC, Guggenheim Securities selected reference ranges of trading multiples for purposes of evaluating SAIC on a stand-alone public market trading basis as follows: (i) trading enterprise value / forward EBITDA multiple range of 11.5x – 16.0x based on CY2018E and (ii) trading enterprise value / forward EBITDA multiple range of 11.0x – 14.5x based on CY2019E.

Guggenheim Securities selected publicly traded companies analysis resulted in an overall reference range of $66.00 – $100.44 per share for purposes of evaluating SAIC s common stock on a stand-alone public market trading basis.

Implied Exchange Ratio Analysis

In assessing the SAIC/Engility merger exchange ratio, Guggenheim Securities derived valuation ranges for the common shares of Engility and SAIC, respectively, using the financial methodologies described above under the captions *Engility Discounted Cash Flow Analyses*, *Engility Selected Publicly Traded Companies Analysis*, *SAIC Discounted Cash Flow Analyses* and *SAIC Selected Publicly Traded Companies Analysis*.

The following table summarizes the implied exchange ratios derived using each of foregoing financial methodologies. In addition, the table includes, for informational reference purposes only, the implied exchange ratios as calculated by Guggenheim Securities based on SAIC s and Engility s respective stock price trading ranges during the past year. With respect to any given range of implied exchange ratios, the high implied exchange ratio assumes the maximum SAIC per share equity value and minimum Engility per share equity value, while the low implied exchange ratio assumes the minimum SAIC per share equity value and maximum Engility per share equity value.

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Implied Exchange Ratio Analysis

SAIC/Engility Merger Exchange Ratio		**0.450**
	Implied Exchange Ratio	
Financial Analyses	**Low**	**High**
Discounted Cash Flow Analyses	0.252	0.644
Selected Publicly Traded Companies Analysis *(including the PV of Engility's Tax Benefits):*		
CY2018E Adj. EBITDA	0.331	0.808
CY2019E Adj. EBITDA	0.343	0.733
Selected Publicly Traded Companies Analysis *(excluding the PV of Engility's Tax Benefits):*		
CY2018E Adj. EBITDA	0.277	0.723
CY2019E Adj. EBITDA	0.285	0.647
For Informational Reference Purposes		
SAIC's and Engility's Stock Price Range During Past Year	0.288	0.524

Guggenheim Securities financial analyses resulted in an implied exchange ratio reference range of 0.252 – 0.808, as compared to the SAIC/Engility merger exchange ratio of 0.450.

Historical Trading Market Exchange Ratio Analysis. Guggenheim Securities compared the SAIC/Engility merger exchange ratio of 0.450 shares of SAIC common stock for each share of Engility common stock with the observed trading market exchange ratios of SAIC common stock and Engility common stock during various timeframes as indicated, for informational purposes only, in the table below:

SAIC/Engility Merger Exchange Ratio vs Observed Trading Market Exchange Ratios

SAIC/Engility Merger Exchange Ratio		**0.450**
	Observed Trading Market Exchange Ratio (Engility/ SAIC)	**SAIC/Engility Merger Exchange Ratio Premium/ (Discount)**
Closing Trading Market Exchange Ratio @ 9/7/2018	0.403	11.6 %
Average Trading Market Exchange Ratio During:		
Past One Month	0.387	16.2
Past Three Months	0.386	16.7
Past Six Months	0.356	26.3

Past Year	0.382	17.9
Past Two Years	0.391	15.1

Other Financial Reviews and Analyses

Engility Illustrative Has/Gets Analysis (Based on Market Approach). Guggenheim Securities analyzed the pro forma impact of the transaction on the SAIC stock price and the implied Engility attributable per share equity value assuming that the value of the combined company would be equal to (i) SAIC s then-current enterprise value, plus (ii) Engility s then-current enterprise value, plus (iii) the capitalized value of synergies assuming a 9.0x capitalization multiple, less (iv) typical adjustments from enterprise value to equity value including debt, cash, minority interest and the PV of tax benefits (including NOLs).

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Under those assumptions, the implied Engility attributable equity value would be $43.55 per share as compared to the then-current price of $36.24. Guggenheim Securities noted that assuming a synergies capitalization multiple equal to the then-current weighted average trading enterprise value / CY2019E EBITDA multiple (based on weighted-average EBITDA contribution) resulted in an implied Engility attributable equity value of $45.95 per share as compared to the then-current price of $36.24.

Engility Illustrative Has/Gets Analysis (Based on DCF). Guggenheim Securities analyzed the illustrative pro forma impact of the transaction on Engility's discounted cash flow valuation based on (i) the financial projections for each of Engility and SAIC and the synergy estimates, in each case as adjusted and provided by Engility management and (ii) the SAIC/Engility merger exchange ratio. In performing the discounted cash flow analysis Guggenheim estimated a discount rate range of 9.0% – 10.25% for Engility and 8.0% – 9.25% for the pro forma combined company and utilized an assumption of a perpetual growth rate of 2.0% – 3.0% for both companies. This analysis implied a stand-alone discounted cash flow per share value of $21.73 to $35.59 for Engility and $31.54 to $49.32 per Engility share for the pro forma combined company.

Other Considerations

Except as described in the summary above, Engility did not provide specific instructions to, or place any limitations on, Guggenheim Securities with respect to the procedures to be followed or factors to be considered in performing its financial analyses, or providing its opinion. The type and amount of consideration payable in the merger were determined through negotiations between Engility and SAIC and were approved by Engility s board of directors. The decision to enter into the merger agreement was solely that of Engility s board of directors. Guggenheim Securities opinion was just one of the many factors taken into consideration by Engility s board of directors. Consequently, Guggenheim Securities financial analyses should not be viewed as determinative of the decision of SAIC s board of directors with respect to the fairness, from a financial point of view, to Engility s stockholders of the exchange ratio in connection with the merger.

Pursuant to the terms of Guggenheim Securities engagement, Engility has agreed to pay Guggenheim Securities a cash transaction fee that is currently estimated to be up to $17 million (including up to $6 million of value-based and/or discretionary amounts that are not yet known). In connection with Guggenheim Securities engagement, Engility has previously paid Guggenheim Securities a cash milestone fee of $2 million that became payable upon delivery of Guggenheim Securities opinion, which will be credited against the foregoing cash transaction fee. In addition, Engility has agreed to reimburse Guggenheim Securities for certain expenses and to indemnify Guggenheim Securities against certain liabilities arising out of its engagement.

Aside from its current engagement by Engility, Guggenheim Securities has not been previously engaged during the past two years by Engility, nor has Guggenheim Securities been previously engaged during the past two years by SAIC, to provide financial advisory, capital markets or other investment banking services for which Guggenheim Securities received fees. Guggenheim Securities may seek to provide Engility and SAIC and their respective affiliates with certain financial advisory and investment banking services unrelated to the merger in the future, for which services Guggenheim Securities would expect to receive compensation.

Guggenheim Securities and its affiliates and related entities engage in a wide range of financial services activities for its and their own accounts and the accounts of customers, including but not limited to: asset, investment and wealth management; insurance services; investment banking, corporate finance, mergers and acquisitions and restructuring; merchant banking; fixed income and equity sales, trading and research; and derivatives, foreign exchange and futures. In the ordinary course of these activities, Guggenheim Securities and its affiliates and related entities may (i) provide such financial services to Engility, SAIC, other participants in the merger and their respective affiliates, for which services Guggenheim Securities and its affiliates and related entities may have received, and may in the future receive, compensation and (ii) directly and indirectly hold long and short positions, trade and otherwise conduct such activities in or with respect to loans, debt and equity securities and derivative products of or

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relating to Engility, SAIC, other participants in the merger and their respective affiliates. Furthermore, Guggenheim Securities and its affiliates and related entities and its or their respective directors, officers, employees, consultants and agents may have investments in Engility, SAIC, other participants in the merger and their respective affiliates.

Consistent with applicable legal and regulatory guidelines, Guggenheim Securities has adopted certain policies and procedures to establish and maintain the independence of its research departments and personnel. As a result, Guggenheim Securities research analysts may hold views, make statements or investment recommendations and publish research reports with respect to Engility, SAIC, other participants in the merger and their respective affiliates and the merger that differ from the views of Guggenheim Securities investment banking personnel.

Financial Interests of Engility Directors and Executive Officers in the Merger

In considering the recommendation of the Engility board of directors that Engility stockholders approve and adopt the merger agreement and the merger, Engility stockholders should be aware that certain members of the Engility board and certain executive officers of Engility may be deemed to have financial interests in the merger that are in addition to, or different from, the interests of other Engility stockholders generally. The Engility Board was aware of these interests and considered them, among other matters, in approving the merger and the merger agreement and in making the recommendations that Engility stockholders adopt the merger agreement and approve the merger. These interests are described below.

Certain Assumptions

Except as otherwise specifically noted, for purposes of quantifying the potential payments and benefits described in this section, the following assumptions were used:

- The relevant price per share of Engility common stock is $35.46, which was the average closing price per share of Engility common stock as reported on the NYSE over the first five business days following the first public announcement of the merger on September 10, 2018;
- The effective date of the merger is December 31, 2018, which is the assumed date of the closing of the merger solely for purposes of the disclosure in this section; and
- The employment of each executive officer of Engility will have been terminated by SAIC without cause or due to the executive officer's resignation for good reason (as such terms are defined in the relevant plans and agreements), in either case immediately following the assumed effective time of the merger on December 31, 2018.

Because the amounts indicated below are estimates based on multiple assumptions that may or may not actually occur or be accurate as of the date referenced, the actual amounts, if any, that may be paid or become payable may materially differ from the amounts set forth below.

Treatment of Outstanding Equity Awards

As further described under —*The Merger Agreement — Treatment of Engility Equity Awards* on page 111, under the merger agreement, Engility equity awards, including awards held by the executive officers and directors of Engility that are outstanding immediately prior to the effective time, will be converted into corresponding equity awards for a number of shares of common stock of SAIC based on the exchange ratio.

Pursuant to the terms of the Engility RSUs and Engility PSUs held by executive officers, if an executive officer s employment is terminated by the combined company without cause or by the executive officer for good reason, then each outstanding converted Engility RSU and Engility PSU will vest. Pursuant to the terms of the awards held by directors, if a director s service ceases for any reason other than due to resignation or for cause, then any converted, unvested Engility RSUs will vest as of such date. No director holds Engility PSUs.

Based on the assumptions described above under —*Certain Assumptions*, the following table summarizes, as of December 31, 2018, immediately prior to the completion of the Merger, the number of

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shares of common stock of Engility underlying unvested Engility RSUs and Engility PSUs held by each executive officer and non-employee member of the Engility Board. Depending on when the merger is completed, certain outstanding equity awards reflected in the table below may become vested in accordance with their terms prior to and without regard to the merger.

Name	No. of Engility RSU Awards	Value of Engility RSU Awards ($)	No. of Engility PSU Awards	Value of Engility PSU Awards ($)	Total Value ($)
Executive Officers					
Lynn A. Dugle	92,682	3,286,503	264,264	9,370,801	12,657,304
Wayne M. Rehberger	23,511	833,701	71,276	2,527,447	3,361,148
Thomas O. Miiller	17,102	606,437	51,261	1,817,715	2,424,152
Susan M. Balaguer	11,851	420,237	35,400	1,255,284	1,675,521
Non-Employee Directors					
John W. Barter, III	8,736	309,779	—	—	309,779
Steven A. Denning	—	—	—	—	—
David M. Kerko	—	—	—	—	—
Peter A. Marino	16,067	569,736	—	—	569,736
Katharina G. McFarland	7,199	255,277	—	—	255,277
Darryll J. Pines	17,499	620,515	—	—	620,515
Anthony Principi	17,499	620,515	—	—	620,515
Charles S. Ream	17,499	620,515	—	—	620,515
David A. Savner	17,499	620,515	—	—	620,515
William G. Tobin	17,499	620,515	—	—	620,515
David J. Topper	—	—	—	—	—

Severance Plans and Employment Arrangements

Severance Benefits in Connection with the Consummation of the Merger

Each of the Engility executive officers is a participant in the Amended and Restated Engility Holdings, Inc. Change In Control Severance Plan (the CIC Severance Plan). The CIC Severance Plan provides that if an executive officer s employment is terminated without cause either by Engility or the combined company or by the executive officer for good reason, in each case, in connection with or in anticipation of the Merger or within two years following the effective time of the merger, the executive officer will be entitled to receive:

- a lump sum cash payment equal to the executive officer’s applicable severance multiple (3.00 in the case of the Chief Executive Officer and 2.00 in the case of each other executive officer) multiplied by the sum of (i) the greater of (A) the executive officer’s base salary in effect immediately prior to the effective time of the merger and (B) the executive officer’s base salary in effect immediately prior to the date of such termination, and (ii) the greater of the executive officer’s (A) average bonus paid for the three fiscal years prior to the fiscal year in effect on the date of such termination and (B) the target bonus in effect immediately prior to the effective time of the merger or immediately prior to the date of such termination, whichever amount is greater;

- a lump sum cash payment equal to the pro-rata bonus (based on the number of days elapsed during the fiscal year in which such termination occurs) based on either the actual bonus earned for such year if determinable or the average bonus paid for the three fiscal years prior to the termination date;
- continued medical, dental and life insurance coverage during the period of years following such termination equal to the executive officer's applicable severance multiple; and
- reasonable outplacement services.

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The provision of payments and benefits described above is conditioned upon the executive officer s execution of a release of claims and compliance with certain noncompetition and other restrictive covenants, which provide for a restricted period of twelve months following termination of employment.

Wayne Rehberger Employment Agreement

Engility s Senior Vice President and Chief Financial Officer, Wayne M. Rehberger, is a party to a legacy employment agreement with TASC that was assumed by Engility in connection with the acquisition of TASC, Inc. on February 26, 2015. Pursuant to the employment agreement, upon termination of Mr. Rehberger s employment by Engility without cause or resignation by Mr. Rehberger for good reason (each as defined in the employment agreement), Mr. Rehberger would be entitled to (1) 1.5 times the sum of (x) Mr. Rehberger s then-current base salary and (y) Mr. Rehberger s average annual bonus actually received in respect of the two years prior to the date in which termination occurs, payable over 18 months following the date of termination, (2) a lump sum payment equal to the estimated cost of COBRA premiums for 18 months following the date of his termination and (3) a pro rata bonus for the year of termination, based on actual performance for such year. The severance payments described in clause (1) above are condition upon Mr. Rehberger executing a release of claims and compliance with the restrictive covenants contained in his employment agreement. Mr. Rehberger would not be entitled to duplicate benefits under his employment agreement and the CIC Severance Plan, as applicable, and would receive the highest benefit available under each in the event of a termination of employment.

Severance Benefits Table

Based on the assumptions described above under —*Certain Assumptions*, the following table shows the estimated amounts that each executive officer would receive under the CIC Severance Plan upon a qualifying termination of employment immediately following the assumed effective time of the merger on December 31, 2018.

Executive Officer	Cash Severance ($)	Health and Medical Insurance Coverage ($)	Life Insurance Premiums ($)	Outplacement Services ($)	Total ($)
Lynn A. Dugle	5,218,645	18,780	4,998	18,000	5,260,423
Wayne M. Rehberger	1,846,667	9,250	3,332	18,000	1,877,249
Thomas O. Miiller	1,452,668	9,250	3,332	18,000	1,483,250
Susan M. Balaguer	1,029,867	9,250	3,332	18,000	1,060,449

Agreements with SAIC

As of the date of this joint proxy statement/prospectus, none of the Engility executive officers has entered into any agreement with SAIC or any of its affiliates regarding employment with, or the right to purchase or participate in the equity of, SAIC or one or more of its affiliates. Prior to or following the closing of the merger, however, some or all of the Engility executive officers may discuss or enter into agreements with SAIC or any of its affiliates regarding employment with, or the right to purchase or participate in the equity of, SAIC or one or more of its affiliates.

Indemnification and Insurance

Pursuant to the merger agreement, from and after the effective time of the merger, the combined company will indemnify, defend and hold harmless each current and former director or officer of Engility for liabilities for acts or omissions occurring at or prior to the effective time of the merger. In addition, the combined company will also maintain directors and officers liability insurance policies for six years following the effective time of the merger, subject to certain limitations on the amount of premiums payable under such policies. For additional information, see *The Merger Agreement — Indemnification and Insurance.*

Quantification of Potential Payments to Engility s Named Executive Officers in Connection with the Merger

In accordance with Item 402(t) of Regulation S-K, the table below sets forth the compensation that is based on, or otherwise relates to, the merger that will or may become payable to each named executive

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officer of Engility in connection with the merger. For additional details regarding the terms of the payments and benefits described below, see the discussion under the caption *Financial Interests of Engility s Directors and Executive Officers in the Merger* above.

The amounts shown in the table below are estimates based on multiple assumptions that may or may not actually occur or be accurate on the relevant date, including the assumptions described below and in the footnotes to the table, and do not reflect certain compensation actions that may occur prior to completion of the merger. As a result, the amounts received by a named executive officer may materially differ from the amounts set forth below. For purposes of calculating such amounts, the assumptions described above under *—Certain Assumptions* were used.

Named Executive Officer	**Cash ($)(1)**	**Equity ($)(2)**	**Perquisites / Benefits ($)(3)**	**Total ($)**
Lynn A. Dugle	5,218,645	12,657,304	41,778	17,917,727
Wayne M. Rehberger	1,846,667	3,361,148	30,582	5,238,397
Thomas O. Miiller	1,452,668	2,424,152	30,582	3,907,402
Susan M. Balaguer	1,029,867	1,675,521	30,582	2,735,970

(1) *Cash*. Represents the portion of the severance payable to each named executive officer upon a qualifying termination of employment that is based on or otherwise relates to the merger. The cash severance payable to each named executive officer is a double-trigger payment, which means the amounts will become payable only upon a qualifying termination of employment in connection with or in anticipation of the merger or within two years following the effective time of the merger. The receipt by the named executive officer of severance benefits under the CIC Severance Plan is conditioned upon the named executive officer's execution of a release of claims and compliance with certain noncompetition and other restrictive covenants, which provide for a restricted period of twelve months following termination of employment with respect to the noncompetition and nonsolicitation covenants. For further details regarding the cash severance that may become payable to Engility's named executive officers, see *Financial Interests of Engility Directors and Executive Officers in the Merger—Severance Plans and Employment Arrangements— Severance Benefits in Connection with the Consummation of the Merger.*

(2) *Equity*. Represents the value of the Engility RSUs and Engility PSUs held by each named executive officer that would vest upon a qualifying termination that is based on or otherwise relates to the merger, and excludes the value of equity awards that would vest upon a qualifying termination of employment independent of the merger. The amounts payable to named executive officers in respect of Engility RSUs and Engility PSUs are double-trigger payments, which means the amounts will become payable only upon a qualifying termination of employment following the effective time of the merger. For further details regarding the treatment of Engility equity awards in connection with the Merger, see *Financial Interests of Engility Directors and Executive Officers in the Merger—Treatment of Outstanding Equity Awards.*

(3) *Perquisites/Benefits*. Represents the portion of the value of continued medical, dental and life insurance coverage, as well as the cost of reasonable outplacement services, payable to each named executive officer upon a qualifying termination of employment that is based on or otherwise relates to the merger, and excludes the value of such coverage and services that would be provided upon a qualifying termination of employment in the ordinary course and independent of the merger. The continued coverage and services provided to each named executive officer is a double-trigger benefit, which means that the coverage and services will be provided only upon a qualifying termination of employment in connection with or in anticipation of the merger or within two years following the effective time of the merger. The receipt by the named executive officer of continued medical, dental and life insurance coverage and cost of reasonable outplacement services under the CIC Severance Plan is conditioned upon the named executive officer's execution of a release of claims and compliance with certain restrictive covenants, as described in note (1) above. For further details regarding the perquisites and benefits that may be provided to Engility's named executive officers, see *Financial Interests of Engility Directors*

and Executive Officers in the Merger—Severance Plans and Employment Arrangements— Severance Benefits in Connection with the Consummation of the Merger.

Certain Forecasts Prepared by SAIC

SAIC prepared unaudited forecasted financial information for the years ended January 31, 2019 through January 31, 2023 for SAIC and, using Engility unaudited forecasted financial information provided by Engility, prepared adjusted unaudited forecasted financial information for the years ended December 31, 2018 through December 31, 2022 for Engility on a standalone basis. The unaudited forecasted financial information does not give effect to the merger, the potential impact of estimated cost or revenue synergies, or any changes in the operations or strategies of either SAIC or Engility that may be implemented after completion of the merger. The unaudited forecasted financial information for Engility and SAIC was prepared separately by SAIC using, in some cases, different assumptions, and is not intended to be added together, nor is it intended to represent the results or forecasted financial information for the combined company if the merger is completed.

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The SAIC unaudited forecasted financial information was prepared by SAIC management in connection with SAIC s annual operating plan process and reflects a detailed forecast based on numerous estimates and assumptions, including SAIC s continued performance on its existing government contracts at sustained margin levels, success in contract re-competition and new business proposals congruent with historical performance, and SAIC management s view of continued government budget growth.

Neither SAIC nor Engility, as a matter of course, makes public long-term projections as to future revenues, earnings or other results due to, among other reasons, the uncertainty of the underlying assumptions and estimates. However, the SAIC unaudited forecasted financial information (as defined below) was made available to the SAIC Board, the Engility Board, Citi, Stone Key, and Guggenheim Securities, and the Engility adjusted unaudited forecasted financial information (as defined below) was made available to the SAIC Board, Citi, and Stone Key, in each case, as further described below, in connection with the evaluation of the merger. The inclusion of the unaudited forecasted financial information set forth below should not be regarded as an indication that any of SAIC, Engility, Citi, Stone Key and Guggenheim Securities or any other recipient of this information considered, or now considers, it to be necessarily predictive of actual future results. Readers of this document are cautioned not to place undue reliance on the unaudited forecasted financial information.

The unaudited forecasted financial information was, in general, prepared solely for internal use and is subjective in many respects. As a result, there can be no assurance that the forecasted results will be realized or that actual results will not be significantly higher or lower than estimated. Since the unaudited forecasted financial information covers multiple years, such information by its nature becomes less predictive with each successive year. The estimates and assumptions underlying the unaudited forecasted financial information involve judgments with respect to, among other things, future economic, competitive, regulatory and financial market conditions which may not materialize and that are inherently subject to significant uncertainties and contingencies, all of which are difficult to predict and many of which are beyond the control of Engility and/or SAIC and will be beyond the control of the combined company. SAIC stockholders and Engility stockholders are urged to review the SEC filings of SAIC for a description of risk factors with respect to the business of SAIC and the SEC filings of Engility for a description of risk factors with respect to the business of Engility. See the sections entitled *Cautionary Statement Regarding Forward-Looking Statements* and *Where You Can Find More Information* beginning on pages 23 and 156, respectively. SAIC stockholders and Engility stockholders are also urged to review the section entitled *Risk Factors* beginning on page 25. The prospective financial information included in this document was not prepared with a view toward public dissemination or compliance with published guidelines of the SEC or the guidelines established by the American Institute of Certified Public Accountants for preparation or presentation of prospective financial information but, in the view of each of SAIC's and Engility's management, as applicable, was prepared on a reasonable basis, reflects the best available estimates and judgments as of the date of preparation, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of SAIC and Engility, as applicable. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this joint proxy statement/prospectus are cautioned not to place undue reliance on the unaudited forecasted financial information. The prospective financial information included in this document has been prepared by, and is the responsibility of, SAIC's and Engility's management, as applicable.

Deloitte & Touche LLP has not audited, reviewed, examined, compiled nor applied agreed-upon procedures with respect to the accompanying prospective financial information and, accordingly, does not express an opinion or any other form of assurance on such information or its achievability, and assumes no responsibility for, and disclaims any association with, the prospective financial information. The Deloitte & Touche LLP report incorporated by reference in this joint proxy statement/prospectus relates only to the previously issued financial statements of SAIC. It does not extend to the prospective financial information and should not be read to do so.

PricewaterhouseCoopers LLP has not audited, reviewed, examined, compiled nor applied agreed-upon procedures with respect to the accompanying prospective financial information and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance

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with respect thereto. The PricewaterhouseCoopers LLP report incorporated by reference in this joint proxy statement/prospectus relates only to the previously issued financial statements of Engility. It does not extend to the prospective financial information and should not be read to do so.

NEITHER SAIC NOR ENGILITY HAVE UPDATED OR INTEND TO UPDATE OR OTHERWISE REVISE THE UNAUDITED FORECASTED FINANCIAL INFORMATION TO REFLECT CIRCUMSTANCES EXISTING AFTER THE DATE WHEN MADE OR TO REFLECT THE OCCURRENCE OF FUTURE EVENTS, EVEN IN THE EVENT THAT ANY OR ALL OF THE ASSUMPTIONS UNDERLYING SUCH PROSPECTIVE FINANCIAL INFORMATION ARE NO LONGER APPROPRIATE.

Summary of Certain Unaudited Forecasted Financial Information of SAIC

The following table presents a summary of certain unaudited forecasted financial information of SAIC on a standalone basis for the fiscal years ending 2019 through 2023 prepared by SAIC s management and provided to Engility and Guggenheim Securities, which is referred to as the SAIC unaudited forecasted financial information:

			January 31,		
(in millions)	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**
Revenue	$ 4,587	$ 4,725	$ 4,866	$ 5,012	$ 5,260
Adjusted EBITDA (1)(2)	$ 334	$ 352	$ 373	$ 394	$ 418
Unlevered Free Cash Flow (3)(4)	$ 162	$ 249	$ 262	$ 276	$ 324

(1) SAIC’s non-GAAP adjusted projections exclude the impact of the following, where applicable: acquisition and integration-related expenses, restructuring costs and legal and settlement costs, but includes stock based compensation expense. These non-GAAP financial measures are not in accordance with GAAP and may differ from non-GAAP methods of accounting and reporting used by other companies.

(2) Adjusted EBITDA is defined as estimated earnings before interest, taxes and depreciation and amortization expense excluding the pre-tax non-GAAP adjustments described in Note 1 above.

(3) Unlevered free cash flow is calculated as Adjusted EBITDA less cash tax expense, less capital expenditures, and less changes in working capital.

(4) FY2019 unlevered free cash flow represents the unlevered free cash flows for the six months ended January 31, 2019.

The estimates and assumptions underlying the SAIC unaudited forecasted financial information are inherently uncertain and, though considered reasonable by the management of SAIC as of the date of the preparation of such unaudited forecasted financial information, are subject to a wide variety of significant business, economic, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those contained in the unaudited forecasted financial information, including, among other things, the matters described in the sections entitled *Cautionary Statement Regarding Forward-Looking Statements* and *Risk Factors* beginning on pages 23 and 25, respectively. Accordingly, there can be no assurance that the forecasted results are indicative of the future performance of SAIC, or that actual results will not differ materially from those presented in the SAIC unaudited forecasted financial information. Inclusion of the SAIC unaudited forecasted financial information in this joint proxy statement/prospectus should not be regarded as a representation by any person that the results contained in the SAIC unaudited forecasted financial information will be achieved.

The SAIC unaudited forecasted financial information is not included in this joint proxy statement/prospectus in order to induce any stockholder to vote in favor of any of the proposals at the SAIC special meeting or the Engility special meeting or to acquire securities of SAIC or Engility.

Summary of SAIC-Prepared Engility Adjusted Unaudited Forecasted Financial Information

The following table presents a summary of certain unaudited forecasted financial information of Engility on a standalone basis for the fiscal years ending December 31, 2018 through December 31, 2022 as derived from materials provided to SAIC s management by Engility and prepared by SAIC management and provided to the SAIC Board, Citi, Stone Key, and Guggenheim Securities, which is referred to as the Engility adjusted unaudited forecasted financial information. Such Engility adjusted unaudited forecasted financial information was prepared by SAIC management from the Engility unaudited forecasted financial information provided by Engility to SAIC (as set forth in the table above).

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	December 31,				
(in millions)[1]	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**
Summary of Engility Adjusted Unaudited Forecasted Financial Information					
Total Revenue	$ 1,898	$ 1,951	$ 2,007	$ 2,067	$ 2,129
Adjusted EBITDA [2][3]	$ 170	$ 174	$ 177	$ 182	$ 187
Unlevered Free Cash Flow [4][5]	$ 75	$ 148	$ 165	$ 155	$ 169

(1) The adjustments made by SAIC management to the Engility unaudited forecasted financial information resulted primarily from changes to assumed re-compete and new business win rates based on SAIC management's view of the underlying assumptions. SAIC management also made adjustments to the assumed margin profile of certain opportunities being competed (re-compete and new business).

(2) Engility's non-GAAP adjusted projections exclude the impact of the following, where applicable: loss or gain on the disposal or sale of property, plant and equipment, acquisition and integration-related expenses, restructuring costs and legal and settlement costs, but includes stock based compensation expense. These non-GAAP financial measures are not in accordance with GAAP and may differ from non-GAAP methods of accounting and reporting used by other companies.

(3) Adjusted EBITDA is defined as estimated earnings before interest, taxes and depreciation and amortization expense excluding the pre-tax non-GAAP adjustments described in Note (1) above.

(4) Unlevered free cash flow is calculated as Adjusted EBITDA less cash tax expense, less capital expenditures, and less changes in working capital, and includes the impact of Engility federal and state NOLs as well as amortizable goodwill and other intangible assets, to the cash tax expense.

(5) FY2018 unlevered free cash flow represents the unlevered free cash flows for the six months ended December 31, 2018.

The estimates and assumptions underlying the Engility adjusted unaudited forecasted financial information are inherently uncertain and, though considered reasonable by the management of SAIC as of the date of the preparation of such forecasted financial information, are subject to a wide variety of significant business, economic, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those contained in the unaudited forecasted financial information, including, among other things, the matters described in the sections entitled *Cautionary Statement Regarding Forward-Looking Statements* and *Risk Factors* beginning on pages 23 and 25, respectively. Accordingly, there can be no assurance that the Engility adjusted unaudited forecasted financial information is indicative of the future performance of Engility, or that actual results will not differ materially from those presented in the Engility adjusted unaudited forecasted financial information. Inclusion of the Engility adjusted unaudited forecasted financial information in this joint proxy statement/prospectus should not be regarded as a representation by any person that the results contained in the Engility adjusted unaudited forecasted financial information will be achieved.

The Engility adjusted unaudited forecasted financial information is not included in this joint proxy statement/prospectus in order to induce any stockholder to vote in favor of any of the proposals at the SAIC special meeting or the Engility special meeting or to acquire securities of SAIC or Engility.

Summary of Forecasted Cost Synergy Information of the Combined Company

SAIC and Engility jointly prepared and provided forecasted cost synergies to the SAIC Board, the Engility Board, Guggenheim Securities, Citi and/or Stone Key for use in their financial analyses that were presented to the SAIC Board and Engility Board. These estimates are summarized in the following table. Based on these cost synergies, SAIC s management estimates that the combined company would realize run-rate gross synergies of $168 million and run-rate net synergies of $75 million over a two year period after adjusting for the impact of cost-plus contracts.

Category	**Estimated Synergies**	
Total Go-to-Market Costs[1]	$	53
Total Corporate Costs	$	95
Other Costs	$	20
Total Costs / Estimated Synergy Opportunity[2]	$	168

(1) Go-to-Market business units includes business development and other.

(2) For purposes of synergy recoverability, SAIC assumed that the pro forma combined company would have a 55% cost-plus revenue mix, resulting in 45% synergy recoverability.

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The estimates and assumptions underlying the forecasted synergy information are inherently uncertain and, though considered reasonable by the management of SAIC and Engility as of the date of the preparation of such forecasted synergy information, are subject to a wide variety of significant business, economic, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those contained in the forecasted synergy information, including, among other things, the matters described in the sections entitled *Cautionary Statement Regarding Forward-Looking Statements* and *Risk Factors* beginning on pages 23 and 25, respectively. Accordingly, there can be no assurance that the forecasted synergy information results are indicative of the future performance of the combined company, or that actual results will not differ materially from those presented in the forecasted synergy information. Inclusion of the forecasted synergy in this joint proxy statement/prospectus should not be regarded as a representation by any person that the results contained in the forecasted financial information will be achieved.

The forecasted synergy information is not included in this joint proxy statement/prospectus in order to induce any stockholder to vote in favor of any of the proposals at the SAIC special meeting or the Engility special meeting or to acquire securities of SAIC or Engility.

Certain Forecasts Prepared by Engility

Engility prepared unaudited forecasted financial information for the years ended December 31, 2018 through December 31, 2022 for Engility and, using SAIC unaudited forecasted financial information provided by SAIC, prepared adjusted unaudited forecasted financial information for the years ended January 31, 2019 through January 31, 2023 for SAIC on a standalone basis. The unaudited forecasted financial information does not give effect to the merger, the potential impact of estimated cost or revenue synergies, or any changes in the operations or strategies of either SAIC or Engility that may be implemented after completion of the merger. The unaudited forecasted financial information for Engility and SAIC was prepared separately by Engility using, in some cases, different assumptions, and is not intended to be added together, nor is it intended to represent the results or forecasted financial information for the combined company if the merger is completed.

The Engility unaudited forecasted financial information was prepared by Engility management in connection with Engility s annual operating plan process and reflects a detailed forecast based on numerous estimates and assumptions, including Engility s continued performance on its existing government contracts at sustained margin levels, success in contract re-competition and new business proposals congruent with historical performance, and Engility management s view of continued government budget growth. The Engility unaudited forecasted financial information also assumes, though not included in the unlevered free cash flow calculation, (for the duration of the forecast period) that Engility is not a cash taxpayer, aside from *de minimis* state and local taxes, as a result of Engility s existing tax amortization (goodwill and intangibles) and balance of net operating losses acquired in its merger with TASC, Inc.

The prospective financial information included in this document was not prepared with a view toward public dissemination or compliance with published guidelines of the SEC or the guidelines established by the American Institute of Certified Public Accountants for preparation or presentation of prospective financial information. The prospective financial information included in this document has been prepared by, and is the responsibility of, SAIC s and Engility s management, as applicable.

Deloitte & Touche LLP has not audited, reviewed, examined, compiled nor applied agreed-upon procedures with respect to the accompanying prospective financial information and, accordingly, does not express an opinion or any other form of assurance on such information or its achievability, and assumes no responsibility for, and disclaims any association with, the prospective financial information. The Deloitte & Touche LLP report incorporated by reference in this joint proxy statement/prospectus relates only to the previously issued financial statements of SAIC. It does not extend to the prospective financial information and should not be read to do so.

PricewaterhouseCoopers LLP has not audited, reviewed, examined, compiled nor applied agreed-upon procedures with respect to the accompanying prospective financial information and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report incorporated by reference in this joint proxy

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statement/prospectus relates only to the previously issued financial statements of Engility. It does not extend to the prospective financial information and should not be read to do so.

Summary of Certain Unaudited Forecasted Financial Information of Engility

The following table presents a summary of certain unaudited forecasted financial information of Engility on a standalone basis for the fiscal years ending 2018 through 2022 prepared by Engility s management and provided to SAIC, Guggenheim Securities, Citi and Stone Key, which is referred to as the Engility unaudited forecasted financial information:

	December 31,				
(in millions)	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**
Revenue	$ 1,914	$ 1,969	$ 2,044	$ 2,126	$ 2,212
Adjusted EBITDA(1)(2)	$ 174	$ 177	$ 183	$ 192	$ 199
Unlevered Free cash flow(3)	$ 51 (4)	$ 114	$ 130	$ 125	$ 126

(1) Engility's non-GAAP adjusted projections exclude the impact of the following, where applicable: loss or gain on the disposal or sale of property, plant and equipment, acquisition and integration-related expenses, restructuring costs and legal and settlement costs, but includes stock based compensation expense . These non-GAAP financial measures are not in accordance with GAAP and may differ from non-GAAP methods of accounting and reporting used by other companies.

(2) Adjusted EBITDA is defined as estimated earnings before interest, taxes and depreciation and amortization expense excluding the pre-tax non-GAAP adjustments described in Note 1 above.

(3) Unlevered free cash flow is calculated as Adjusted EBITDA less cash taxes, less capital expenditures, and less changes in working capital. Please note it does not include the impact of Engility's existing tax amortization benefit (goodwill and intangibles) and balance of net operating losses primarily related to its merger with TASC, Inc.

(4) Represents six months ended December 31, 2018.

The estimates and assumptions underlying the Engility unaudited forecasted financial information are inherently uncertain and, though considered reasonable by the management of Engility as of the date of the preparation of such unaudited forecasted financial information, are subject to a wide variety of significant business, economic, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those contained in the unaudited forecasted financial information, including, among other things, the matters described in the sections entitled *Cautionary Statement Regarding Forward-Looking Statements* and *Risk Factors* beginning on pages 23 and 25, respectively. Accordingly, there can be no assurance that the forecasted results are indicative of the future performance of Engility, or that actual results will not differ materially from those presented in the Engility unaudited forecasted financial information. Inclusion of the Engility unaudited forecasted financial information in this joint proxy statement/prospectus should not be regarded as a representation by any person that the results contained in the Engility unaudited forecasted financial information will be achieved.

The Engility unaudited forecasted financial information is not included in this joint proxy statement/prospectus in order to induce any stockholder to vote in favor of any of the proposals at the Engility special meeting or the SAIC special meeting or to acquire securities of Engility or SAIC.

Summary of Engility-Prepared SAIC Adjusted Unaudited Forecasted Financial Information

The following table presents a summary of certain unaudited forecasted financial information of SAIC on a standalone basis for the fiscal years ending January 31, 2019 through January 31, 2023 prepared by Engility management and provided to the Engility Board and to Guggenheim Securities, which is referred to as the SAIC adjusted unaudited forecasted financial information. Such SAIC adjusted unaudited forecasted financial information was prepared by Engility management from the SAIC unaudited forecasted financial information provided by SAIC to Engility (as set forth in the table above).

	January 31,				
(in millions)(1)	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**
Summary of SAIC Adjusted Unaudited Forecasted Financial Information					
Revenue	$ 4,557	$ 4,579	$ 4,734	$ 4,876	$ 5,022
Adjusted EBITDA(2)(3)	$ 333	$ 344	$ 362	$ 373	$ 384
Unlevered free cash flow(4)	$ 124 (5)	$ 253	$ 254	$ 263	$ 266

(1) The adjustments made by Engility management to the SAIC unaudited forecasted financial information resulted primarily from changes to assumed re-compete and new business win rates based on Engility management's view of the underlying assumptions. Engility management also made adjustments to the assumed margin profile of certain opportunities being competed (re-compete and new business).

(2) SAIC's non-GAAP adjusted projections exclude the impact of the following, where applicable: acquisition and integration-related expenses, restructuring costs and legal and settlement costs, but includes stock based compensation expense. These non-GAAP financial measures are not in accordance with GAAP and may differ from non-GAAP methods of accounting and reporting used by other companies.

(3) Adjusted EBITDA is defined as estimated earnings before interest, taxes and depreciation and amortization expense excluding the pre-tax non-GAAP adjustments described in Note (1) above.

(4) Unlevered free cash flow is calculated as Adjusted EBITDA less cash taxes, less capital expenditures, and less changes in working capital.

(5) Represents six months ended January 31, 2019.

The estimates and assumptions underlying the SAIC adjusted unaudited forecasted financial information are inherently uncertain and, though considered reasonable by the management of Engility as of the date of the preparation of such forecasted financial information, are subject to a wide variety of significant business, economic, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those contained in the unaudited forecasted financial information, including, among other things, the matters described in the sections entitled *Cautionary Statement Regarding Forward-Looking Statements* and *Risk Factors* beginning on pages 23 and 25, respectively. Accordingly, there can be no assurance that the SAIC adjusted unaudited forecasted financial information is indicative of the future performance of SAIC, or that actual results will not differ materially from those presented in the SAIC adjusted unaudited forecasted financial information. Inclusion of the SAIC adjusted unaudited forecasted financial information in this joint proxy statement/prospectus should not be regarded as a representation by any person that the results contained in the SAIC adjusted unaudited forecasted financial information will be achieved.

The SAIC adjusted unaudited forecasted financial information is not included in this joint proxy statement/prospectus in order to induce any stockholder to vote in favor of any of the proposals at the Engility special meeting or the SAIC special meeting or to acquire securities of Engility or SAIC.

Summary of Forecasted Cost Synergy Information of the Combined Company

Engility and SAIC jointly prepared and provided forecasted cost synergies to the Engility Board, the SAIC Board, Guggenheim Securities, Citi and/or Stone Key for use in their financial analyses that were presented to the Engility Board and SAIC Board. These estimates are summarized in the following table. Based on these cost synergies, Engility s management estimate that the combined company would realize run-rate gross synergies of $168 million and run-rate net synergies of $75 million over two years after adjusting for the impact of cost-plus contracts.

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Category	Estimated Synergies	
Total Go-to-Market Costs[1]	$	53
Total Corporate Costs	$	95
Other Costs	$	20
Total Costs / Estimated Synergy Opportunity[2]	$	168

(1) Go-to-Market business units includes business development and other.

(2) For purposes of synergy recoverability, SAIC assumed that the pro forma combined company would have a 55% cost-plus revenue mix, resulting in 45% synergy recoverability.

The estimates and assumptions underlying the forecasted synergy information are inherently uncertain and, though considered reasonable by the management of Engility and SAIC as of the date of the preparation of such forecasted synergy information, are subject to a wide variety of significant business, economic, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those contained in the forecasted synergy information, including, among other things, the matters described in the sections entitled *Cautionary Statement Regarding Forward-Looking Statements* and *Risk Factors* beginning on pages 23 and 25, respectively. Accordingly, there can be no assurance that the forecasted synergy information results are indicative of the future performance of the combined company, or that actual results will not differ materially from those presented in the forecasted synergy information. Inclusion of the forecasted synergy in this joint proxy statement/prospectus should not be regarded as a representation by any person that the results contained in the forecasted financial information will be achieved.

The forecasted synergy information is not included in this joint proxy statement/prospectus in order to induce any stockholder to vote in favor of any of the proposals at the Engility special meeting or the SAIC special meeting or to acquire securities of Engility or SAIC.

Regulatory Approvals

HSR Act and Antitrust. The merger is subject to the requirements of the HSR Act, which prevents SAIC and Engility from completing the merger until required information and materials are furnished to the Antitrust Division of the Department of Justice, which we refer to as the DOJ, and the U.S. Federal Trade Commission, which we refer to as the FTC, and the statutory waiting period is terminated or expires. SAIC and Engility filed the requisite notification and report forms under the HSR Act with the DOJ and the FTC on September 20, 2018. The 30-day waiting period required by the HSR Act expired on October 22, 2018. Notwithstanding, the DOJ, the FTC or others may challenge the merger on antitrust grounds after the expiration or termination of the waiting period, including without limitation seeking to enjoin the completion of the merger or permitting completion subject to concessions or conditions. The merger may also be reviewed by competition law authorities outside of the United States. We cannot assure you that a challenge to the merger will not be made or that, if a challenge is made, it will not succeed or will not include conditions that could be detrimental or result in the abandonment of the merger.

Exchange of Shares in the Merger

Prior to the effective time, SAIC shall designate a bank or trust company reasonably acceptable to Engility to act as the exchange agent in connection with the merger (the Exchange Agent). At or prior to the effective time, SAIC or merger sub shall deposit, or cause to be deposited, with the Exchange Agent (i) evidence of shares of SAIC common stock issuable pursuant to the merger agreement in book-entry form equal to the merger consideration (excluding any cash in lieu of fractional shares payable pursuant to the merger agreement), and (ii) cash in immediately available funds in an amount sufficient to pay any dividends under the merger agreement (such evidence of book-entry shares of SAIC common stock and cash amounts, together with any dividends or other distributions with respect thereto, the Exchange Fund), in each case, for the sole benefit of the holders of shares of Engility common stock.

Upon surrender of stock certificates accompanied by an executed letter of transmittal and other documents described in the instructions or, in the case of uncertificated shares, an agent s message in customary form, of Engility common stock for cancellation, an Engility stockholder will receive the

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following: (i) the share consideration to which such Engility stockholder is entitled, and (ii) cash in lieu of fractional shares of SAIC common stock, if any. Engility stockholders will not receive any fractional shares of SAIC common stock pursuant to the merger. After the effective time of the merger, Engility will not register any transfers of the shares of Engility common stock. Shares of SAIC stock issued in connection with the merger will be issued in uncertificated, book-entry form.

After the effective time of the merger, shares of Engility common stock will no longer be issued and outstanding, will be canceled and will cease to exist, and each certificate, if any, that previously represented Engility common stock will represent only the right to receive the merger consideration as described above. With respect to such shares of SAIC common stock deliverable upon the surrender of Engility share certificates, until holders of such Engility share certificates have surrendered such stock certificates to the exchange agent for exchange, those holders will not receive dividends or distributions with respect to such shares of SAIC common stock with a record date after the effective time of the merger.

SAIC stockholders need not take any action with respect to their stock certificates.

Treatment of Engility Equity Awards

Treatment of Restricted Stock Unit Awards. At the effective time, each outstanding Engility restricted stock unit, whether vested or unvested, will be converted into a restricted stock unit for a number of whole shares of SAIC common stock (rounded to the nearest whole share) equal to the product of (a) the number of shares of Engility common stock subject to such award and (b) the SAIC equity award exchange ratio, subject to the same terms and conditions, including vesting, as were applicable to such awards prior to the merger.

Treatment of Performance Stock Unit Awards. At the effective time, each outstanding Engility performance stock unit will be converted into a time-based vesting restricted stock unit for a number of whole shares of SAIC common stock (rounded up to the nearest whole share) equal to the product of (a) the number of shares of Engility common stock subject to such award determined based on (x) target performance (if the effective time occurs on or prior to December 31, 2018) or (y) actual performance measured on the effective time (or December 31, 2018 if determined by the compensation committee of Engility) if more than twelve months have elapsed from the beginning of the performance period of the applicable performance stock units to the effective time, and (b) the exchange ratio, subject to vesting based on continued service until the third anniversary of the grant date of the Engility performance stock unit, and other terms and conditions, including vesting acceleration terms, as were applicable to such awards prior to the merger.

While the consummation of the merger transactions will constitute a change in control of Engility under the Second Amended and Restated 2012 Long Term Performance Plan (the 2012 Plan), since the awards are being assumed, there will be no vesting acceleration unless and until certain holders have a qualifying termination following such change in control pursuant to the terms of the awards. Each of the named executive officers of Engility has been granted equity awards under 2012 Plan. The restricted stock unit awards, which vest in three equal annual installments on each of the first three anniversaries of the grant date, and performance stock share units, which require conditions to be met in determining the number of awards that may vest over a three-year period. The terms of the merger agreement provide that all outstanding equity awards will be assumed by SAIC and the 2012 Plan provides that awards do not accelerate if assumed by an acquirer. Under the terms of the 2012 Plan, assumption of awards upon a change in control is permissible, and the Engility Board has determined that all such awards issued thereunder will be assumed and converted into the right to receive SAIC common stock upon vesting and settlement of the awards.

For information showing the value of the outstanding awards for each individual who serves as an executive officer or director of Engility, see *Financial Interests of Engility Executive Officers and Directors in the Merger* beginning on page 85.

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Directors and Officers of SAIC Following the Merger

At the effective time of the merger, SAIC shall cause its board of directors to consist of eleven members. SAIC shall appoint two individuals who are currently members of the Engility Board to serve on the board of directors of SAIC, to be mutually agreed upon by SAIC and Engility. SAIC and Engility have agreed that these directorships shall be filled by David M. Kerko and Katharina G. McFarland, each of whom is currently a director of Engility.

Following closing, Anthony Moraco is expected to continue in his current role as Chief Executive Officer of SAIC.

Dividend Policy

SAIC currently pays a quarterly dividend of $0.31 per share. Following the closing of the merger, SAIC expects to continue its current dividend for stockholders of the combined company, subject to any factors that its board of directors in its discretion deems relevant. See *SAIC cannot assure you that it will be able to continue paying dividends at the current rate or at all*, in *Risk Factors—Risk Factors Relating to SAIC Following the Merger—Other Risks* beginning on page 31.

Engility does not currently pay dividends on its shares of common stock. Engility is effectively restricted under the merger agreement from paying cash dividends on shares of Engility common stock.

Listing of SAIC Common Stock

It is a condition to the completion of the merger that the SAIC common stock issuable in connection with the merger be approved for listing on the NYSE.

Financing Related to the Merger

On October 31, 2018, SAIC entered into an amended and restated credit agreement with Citibank, N.A. pursuant to which, among other things, Citibank, N.A. and certain other lenders have committed to provide SAIC with a new secured term loan A in the amount of $1.068 billion maturing on October 31, 2023 in addition to its currently outstanding $1.050 billion term loan B and $200 million committed revolving loan facility.

The interest rate with respect to the term loan A will be equal to LIBOR for an interest period of 1, 2, 3 or 6 months (or, if available to all lenders, an interest period of 12 months) plus an applicable margin of 1.25% to 2.00%, or an alternate base rate (defined as the highest of (x) Citibank, N.A. s prime rate, (y) the federal funds effective rate from time to time plus 0.50% and (z) LIBOR for a one month interest period plus 1.00%) plus an applicable margin of 0.25% to 1.00%, in each case based on the then applicable Leverage Ratio (as defined in the amended and restated credit agreement).

The proceeds of the term loan A will be used (x) to repay in full all outstanding indebtedness for borrowed money of Engility under their (i) existing Credit Agreement, dated as of August 12, 2016, with Morgan Stanley Senior Funding, Inc., as administrative agent and collateral agent, and the other lenders and parties thereto; and (ii) existing Indenture, dated August 12, 2016, with Deutsche Bank Trust Company Americas, as trustee, and the other parties thereto, and (y) to pay certain costs and expenses incurred in connection with the merger.

The commitment to provide the term loan A will terminate upon the earliest to occur of (x) the termination of the merger agreement, (y) the consummation of the transactions contemplated by the merger agreement and (z) June 15, 2019. The obligation of Citibank, N.A. and certain other lenders to fund the term loan A is subject to a number of conditions, including, without limitation, (i) the consummation of the transactions contemplated by the merger agreement (without giving effect to any modifications, amendments, waivers or consents thereto that are materially adverse to Citibank, N.A. and the lenders without the consent of Citibank, N.A.), (ii) no material adverse effect on either SAIC or Engility, (iii) the payment of certain fees and expenses, (iv) the delivery of customary legal opinions and closing certificates (including a solvency certificate of SAIC), (v) the accuracy of certain specified representations and warranties, (vi) the substantially simultaneous repayment of indebtedness for borrowed money of Engility as described above, (vii) the perfection of liens in favor of the commitment parties in respect of certain collateral and (viii) the receipt of customary customer information required to satisfy certain bank regulatory requirements. There can be no assurance that these conditions to funding will be met.

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The amended and restated credit agreement also provides for an increase to the existing revolving credit facility commitment by $200 million to $400 million upon the effectiveness of the merger.

At closing, Engility and certain of its subsidiaries are required to guarantee and provide security for all indebtedness of SAIC under the amended and restated credit agreement.

The amended and restated credit agreement contains customary covenants applicable to SAIC and its subsidiaries, which include limitations on: liens; accounting changes, nature of business, hedge agreements, sale leaseback, dividends and issuance of capital stock, further negative pledges, investments indebtedness, payments of subordinated indebtedness, other indebtedness and agreements, fundamental changes, and asset dispositions. The amended and restated credit agreement also requires the maintenance of a Senior Secured Leverage Ratio (as defined in the amended and restated credit agreement) of not greater than 3.75 to 1.00 until the effectiveness of the merger, and thereafter until six full quarters have passed, of not greater than 4.50 to 1.00, and thereafter, of not greater than 4.00 to 1.00; subject to additional modifications as set forth in the amended and restated credit agreement. Beginning with SAIC s fiscal year ending on or about January 31, 2020, annual mandatory prepayments of a portion of its Excess Cash Flow (as defined in the amended and restated credit agreement) will be required.

The amended and restated credit agreement also contains certain customary events of default, including, among others, defaults based on certain bankruptcy and insolvency events, nonpayment, cross-defaults to other debt, breach of specified covenants, ERISA events, material monetary judgments, change of control events, the material inaccuracy of our representations and warranties, invalidity of loan documents or a guarantee, and material invalidity of security. If an event of default occurs and is continuing under the amended and restated credit agreement, the agent shall at the request, or may with the consent, of the required lenders, terminate the commitments thereunder, declare amounts outstanding, including principal and accrued interest and fees, payable immediately, and enforce any and all rights and interests.

Litigation Related to the Merger

On October 31, 2018, an SAIC stockholder filed a purported class action complaint in the Court of Chancery of the State of Delaware, captioned *Jason Perlow v. Robert A. Bedingfield, et al.*, Case No. 2018-0785-AGB, on behalf of himself and all other similarly situated SAIC stockholders against SAIC s directors at the time the acquisition was announced. The complaint alleges, among other things, that in connection with SAIC's proposed acquisition of Engility, the defendants breached their fiduciary duties in failing to disclose certain information in the preliminary registration/joint proxy statement. The complaint seeks declaratory and injunctive relief, including preliminarily enjoining any vote on the merger and an award of attorneys fees and expenses.

On November 2, 2018, an Engility stockholder filed a purported class action complaint in the United States District Court for the District of Delaware, captioned *Karl Olsen v. Engility Holdings, Inc.*, Case No. 1:18-cv-01737-MN, on behalf of himself and all other similarly situated Engility stockholders against Engility, Engility s directors at the time the acquisition was announced, SAIC, and merger sub. The complaint alleges, among other things, that Engility s directors breached their fiduciary duties to Engility stockholders by agreeing to a supposedly inadequate price for the Engility shares, by following an allegedly unfair process in approving the merger agreement, and as a result of alleged material omissions and misstatements in the preliminary registration/joint proxy statement. The complaint also claims that the alleged misstatements and omissions in the preliminary registration/joint proxy statement constituted violations of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934. The complaint seeks injunctive relief and monetary recovery, including enjoining the defendants from taking any further action to consummate the proposed merger unless and until certain information is included in an amendment to the preliminary registration/joint proxy statement, monetary damages in the event that the proposed merger is consummated, and an award of attorneys fees and expenses.

On November 6, 2018, (1) an Engility stockholder filed a complaint in the United States District Court for the Eastern District of Virginia, captioned *John Patchan v. Engility Holdings, Inc.*, Case No. 1:18-cv-01384-AJT-IDD against Engility and Engility s directors at the time the acquisition was announced, and (2) an Engility stockholder filed a purported class action complaint in the United States District Court for the District of Delaware, captioned *Jack Wolf v. Engility Holdings, Inc.*, Case No. 1:18-cv-01751-UNA,

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on behalf of himself and all other similarly situated Engility stockholders against Engility, Engility s directors at the time the acquisition was announced, SAIC, and merger sub. Each of these complaints alleges, among other things, that the defendants violated Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 because the preliminary registration/joint proxy statement fails to disclose certain information. The complaints seek declaratory and injunctive relief and monetary recovery, including enjoining the defendants from taking any further action to consummate the proposed merger, monetary damages in the event that the proposed merger is consummated, and an award of attorneys fees and expenses.

The defendants have not yet responded to any of these complaints. While it is too early to predict the outcome of the litigation described above, or a reasonable range of potential losses related to such litigation, the defendants believe the claims asserted in these lawsuits are without merit. Additional lawsuits arising out of or relating to the merger agreement or the merger may be filed in the future.

Delisting and Deregistration of Engility Shares

When the merger is completed, the Engility common stock currently listed on the NYSE will cease to be quoted on the NYSE and will be deregistered under the Exchange Act.

Appraisal Rights

Under Delaware law, the holders of Engility common stock are not entitled to appraisal rights in connection with the Engility merger proposal.

Under Delaware law, the holders of SAIC common stock are not entitled to appraisal rights in connection with the SAIC stock issuance proposal.

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THE MERGER AGREEMENT

The following section summarizes the material provisions of the merger agreement, which is included in this joint proxy statement/prospectus as Annex A and is incorporated herein by reference in its entirety. The rights and obligations of SAIC and Engility are governed by the express terms and conditions of the merger agreement and not by this summary or any other information contained in this joint proxy statement/prospectus. SAIC and Engility stockholders are urged to read the merger agreement carefully and in its entirety as well as this joint proxy statement/prospectus before making any decisions regarding the merger, including the approval and adoption of the merger agreement or the approval of the SAIC stock issuance. This summary is qualified in its entirety by reference to the merger agreement.

The merger agreement is described in this joint proxy statement/prospectus to provide you with information regarding its terms and is not intended to provide any factual information about SAIC or Engility. The merger agreement contains representations and warranties that the parties made to each other as of the date of the merger agreement or other specific dates, solely for purposes of the contract between the parties, and those representations and warranties should not be relied upon by any other person. The assertions embodied in those representations and warranties are subject to important qualifications and limitations agreed to by the parties in connection with negotiating the merger agreement. Accordingly, the representations and warranties may not be accurate or complete characterizations of the actual state of facts at any time. In particular, the representations and warranties:

- may not be intended to establish matters of fact, but rather to allocate the risk between the parties in the event the statements contained in the representations and warranties prove to be inaccurate;
- have been modified in important part by certain underlying disclosures that were made between the parties in connection with the negotiation of the merger agreement, which are not reflected in the merger agreement itself or publicly filed; and
- are subject to contractual standards of materiality different from what is generally applicable to you or other investors.

Accordingly, the representations and warranties and other provisions of the merger agreement should not be read alone, but instead should be read together with the information provided elsewhere in this joint proxy statement/prospectus and in the documents incorporated by reference into this joint proxy statement/prospectus. See *Where You Can Find More Information* beginning on page 156.

Terms of the Merger; Merger Consideration

Pursuant to the merger agreement, and in accordance with Delaware law, at the effective time of the merger, merger sub will be merged with and into Engility, with Engility continuing as a direct wholly owned subsidiary of SAIC.

At the effective time of the merger, each outstanding share of Engility common stock (other than shares owned by SAIC or merger sub or shares held in treasury), will be automatically converted into the right to receive 0.450 of a share of validly issued, fully paid and non-assessable shares of SAIC common stock, par value $0.0001 per share (the merger consideration).

SAIC will not issue fractional shares of SAIC common stock pursuant to the merger agreement. Instead, each Engility stockholder who otherwise would have been entitled to receive a fraction of a share of SAIC common stock will receive cash in lieu thereof, as provided in the merger agreement.

In the event of any reclassification, stock split, reverse stock split, stock dividend, stock distribution, recapitalization, subdivision or other similar transaction with respect to the shares of Engility common stock or shares of SAIC common stock prior to the effective time of the merger, the merger consideration will be equitably adjusted to provide the same economic effect as contemplated by the merger agreement.

Exchange Procedures

Prior to the effective time of the merger, SAIC will enter into an agreement with an exchange agent selected by SAIC and reasonably acceptable to Engility, to handle the exchange of shares of Engility common stock in connection with the merger, including the payment of cash for fractional shares. At or prior to the effective time of the merger, SAIC or merger sub will deposit with the exchange agent, for the benefit of the holders of Engility common stock, the applicable number of shares of SAIC common stock to be issued as merger consideration and cash in an amount sufficient to make payments in respect of any dividends or distributions on SAIC common stock with a record date after the closing of the merger. SAIC will take all actions necessary to ensure that the amount deposited is sufficient to make such cash payments.

Promptly after the effective time of the merger, and in any event within five business days thereafter, the exchange agent will mail to each holder of record of Engility common stock represented by a certificate, a letter of transmittal and instructions explaining how to surrender stock certificates representing shares of Engility common stock in exchange for the merger consideration. Holders of uncertificated shares of Engility common stock will be entitled to receive the merger consideration without delivering a certificate or letter of transmittal upon receipt of an agent s message from the exchange agent.

If any stock certificate has been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the stock certificate to be lost, stolen or destroyed and, if required by SAIC or the exchange agent, the posting by such person of a bond in a reasonable amount as SAIC or the exchange agent may direct as indemnity against any claim that may be made against it with respect to the stock certificate, the exchange agent will issue, in exchange for such lost, stolen or destroyed stock certificate, the merger consideration payable with respect to the shares of Engility common stock represented by such certificate.

Upon surrender of an applicable stock certificate (or affidavit of loss in lieu of certificate) to the exchange agent in accordance with the exchange agent s instructions, the holder of such stock certificate will be entitled to receive the merger consideration, in the form of (i) that number of whole shares of SAIC common stock that such holder has the right to receive pursuant to the merger agreement, less any required tax withholdings, and (ii) cash in lieu of fractional shares as provided in the merger agreement, and such stock certificates so surrendered will be cancelled. No interest will be paid or will accrue on any merger consideration payable under the merger agreement. If payment is to be made to a person other than the person in whose name the certificate surrendered is registered, payment can be made to such person if the certificate formerly representing such shares is presented to the exchange agent, accompanied by all documents required to evidence and effect such transfer and to evidence that any applicable stock transfer taxes have been paid or are not applicable.

Stock certificates should not be returned with the enclosed proxy card(s). Stock certificates should be returned with a validly executed transmittal letter and accompanying instructions that will be provided to Engility stockholders following the effective time of the merger.

Following the effective time of the merger, no further registrations of transfers of shares of Engility common stock will be made on Engility s stock transfer books. 180 days after the effective time of the merger, SAIC may require the exchange agent to deliver to SAIC all cash and shares of SAIC common stock remaining in the exchange fund. Thereafter, Engility stockholders must look only to SAIC for payment of the merger consideration with respect to their shares of Engility common stock.

Completion of the Merger

The closing of the merger will take place (a) at the offices of Weil, Gotshal & Manges LLP in New York, New York as soon as reasonably practicable, and in no event later than three business days after the satisfaction or (to the extent permitted by applicable law) waiver of the conditions to the closing of the merger have been satisfied or waived (other than conditions that by their nature cannot be satisfied until the closing of the merger, which shall be required to be so satisfied or (to the extent permitted by applicable law) waived in accordance with the merger agreement upon the closing date of the merger) or (b) such other time, date or place as SAIC and Engility may agree in writing, but in any event in the case of (a) or (b), not earlier than November 12, 2018. The merger will become effective upon the filing of the certificate of merger with the Secretary of State of the State of Delaware, in accordance with the laws of Delaware.

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Representations and Warranties

The merger agreement contains representations and warranties made by each of SAIC and Engility related to, among other things:

- due organization, good standing and the requisite corporate power and authority to carry on their respective businesses;
- subsidiaries and equity interests;
- capital structure and related matters;
- corporate power and authority to enter into the merger agreement and due execution, delivery and enforceability of the merger agreement;
- absence of conflicts with organizational documents, breaches of contracts and agreements, liens upon assets and violations of applicable law resulting from the execution and delivery of the merger agreement and consummation of the transactions contemplated by the merger agreement;
- absence of required governmental or other third party consents in connection with execution and delivery of the merger agreement and consummation of the transactions contemplated by the merger agreement other than as specified in the merger agreement;
- SEC filings, financial statement compliance and absence of undisclosed liabilities;
- internal controls and procedures;
- absence of certain changes or events and conduct of business in the ordinary course since January 1, 2018;
- litigation;
- employee benefits matters and ERISA compliance;
- employee and labor matters;
- compliance with laws;
- export controls;
- material contracts;
- environmental matters and compliance with environmental laws;
- tax matters and intended tax treatment of the merger;
- intellectual property;
- compliance with privacy laws;
- insurance;
- title to properties;
- government contracts;
- accuracy and completeness of information supplied for the inclusion or incorporation by reference in this joint proxy statement/prospectus;
- absence of brokers and other advisors besides Guggenheim Securities, Citi or Stone Key;
- opinions of financial advisors; and
- absence of other representations and warranties.

The merger agreement also contains certain representations and warranties of SAIC with respect to its direct wholly owned subsidiary merger sub, including corporate organization, qualification to do

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business, no conflicts or violation, capitalization, authority with respect to the execution and delivery of the merger agreement and acknowledging that SAIC and merger sub s obligations pursuant to the merger agreement are not conditioned on the availability of funds.

SAIC made additional representations and warranties in the merger agreement relating to delivery to Engility of certain documents relating to the financing of the merger.

Many of the representations and warranties in the merger agreement are qualified by a materiality or material adverse effect standard (that is, they will not be deemed to be untrue or incorrect unless their failure to be true or correct, individually or in the aggregate, would, as the case may be, be material or have a material adverse effect). For purposes of the merger agreement, a material adverse effect means, with respect to a party, any fact, circumstance, effect, change, event or development that, individually or in the aggregate, (i) has had or would reasonably be expected to have a material adverse effect on the business, financial condition or results of operations of a party and its subsidiaries, taken as a whole, or (ii) would reasonably be expected to prevent or materially impair or delay the consummation of the merger. The definition of material adverse effect excludes any fact, circumstance, effect, change, event or development to the extent it results from or arises out of:

- changes or conditions generally affecting the industries in which such party and its subsidiaries operate, except to the extent such fact, circumstance, effect, change, event or development has a materially disproportionate adverse effect on such party and its subsidiaries, taken as a whole, relative to others in such industries in respect of the business conducted in such industries,
- general economic or political conditions or securities, credit, financial or other capital markets conditions, in each case in the United States or any foreign jurisdiction, except to the extent such fact, circumstance, effect, change, event or development has a materially disproportionate adverse effect on such party and its subsidiaries, taken as a whole, relative to others in the industries in which such party or any of its subsidiaries operate in respect of the business conducted in such industries,
- any failure, in and of itself, by such party to meet any internal or published projections, forecasts, estimates or predictions in respect of revenues, earnings or other financial or operating metrics for any period (it being understood that the facts or occurrences giving rise to or contributing to such failure may be deemed to constitute, or be taken into account in determining whether there has been, or is reasonably expected to be, a material adverse effect),
- the public announcement or pendency of the transactions contemplated in the merger agreement, including the impact thereof on the relationships, contractual or otherwise, of such party and its subsidiaries with employees, labor unions, customers, suppliers or partners,
- any change, in and of itself, in the market price or trading volume of such party’s securities or in its credit ratings (it being understood that the facts or occurrences giving rise to or contributing to such change may be deemed to constitute, or be taken into account in determining whether there has been, or is reasonably expected to be, a material adverse effect),
- any change in applicable law, regulation or GAAP (or authoritative interpretation thereof), except to the extent such fact, circumstance, effect, change, event or development has a materially disproportionate adverse effect on such party and its subsidiaries, taken as a whole, relative to others in the industries in which such party and its subsidiaries operate in respect of the business conducted in such industries,
- geopolitical conditions, the outbreak or escalation of hostilities, any acts of war (whether or not declared), sabotage or terrorism, or any escalation or worsening of any such acts of war, sabotage or terrorism threatened or underway as of the date of the merger agreement, except to the extent such fact, circumstance, effect, change, event or development has a materially disproportionate adverse effect on such party and its subsidiaries, taken as a whole, relative to others in the industries in which such party or any of its subsidiaries operate in respect of the business conducted in such industries,

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- any hurricane, tornado, flood, earthquake or other natural disaster, except to the extent such fact, circumstance, effect, change, event or development has a materially disproportionate adverse effect on such party and its subsidiaries, taken as a whole, relative to others in the industries in which such party or any of its subsidiaries operate in respect of the business conducted in such industries,
- any litigation arising from allegations of a breach of fiduciary duty or other violation of applicable law relating to the merger agreement or the transactions contemplated thereby, or
- any taking of any action not required by the merger agreement at the written request of the other party or parties thereto.

The representations and warranties contained in the merger agreement will not survive the consummation of the merger, but they form the basis of specified conditions to the parties obligations to complete the merger.

Conduct of Business

Each of SAIC and Engility has agreed to certain covenants in the merger agreement restricting the conduct of its business between the date of the merger agreement and the effective time of the merger. In general, each of SAIC and Engility has agreed to (i) conduct in all material respects its and its subsidiaries business in the ordinary course of business and in a manner consistent with past practice and in all material respects in compliance with applicable laws and (ii) use reasonable best efforts to preserve intact its business organization and advantageous business relationships and keep available the services of its current officers and employees.

In addition, each party has agreed to specific restrictions relating to the conduct of its business between the date of the merger agreement and the effective time of the merger, including not to do any of the following (subject, in each case, to exceptions specified below and in the merger agreement or previously disclosed in writing to the other party as provided in the merger agreement) without the other party s prior written consent, which, subject to specified exceptions, may not be unreasonably withheld, conditioned or delayed:

- (i) Make or declare dividends or distributions; (ii) split, combine or reclassify any of its capital stock, other equity interests or voting securities or securities convertible into or exchangeable for the same, or issue or authorize any other equity interests or voting securities, or (iii) repurchase, redeem or otherwise acquire any capital stock, voting securities or rights to acquire equity, other than (1) withholding to satisfy tax obligations with respect to awards granted under an existing stock plan, (2) the acquisition by Engility or SAIC, respectively, of awards granted pursuant to their respective stock plans in connection with forfeiture of such awards, and (3) in the case of SAIC, the acquisition of shares in connection with the surrender of shares of SAIC common stock by holders of SAIC common stock options in order to pay the exercise price thereof;
- Issue, deliver, sell, grant, pledge or otherwise encumber or subject to any lien (except from transactions with any wholly-owned subsidiary or liens in favor of such party’s existing credit facilities) any capital stock, equity interests or voting securities or any rights to acquire the same, except for (1) issuing shares in respect of equity awards outstanding under an existing stock plan at signing and (2) in the case of SAIC, any such actions that are done in the ordinary course of business consistent with past practice;
- Amend such party’s organizational documents, except as may be required by law (and, in the case of SAIC, by the rules and regulations of the SEC or NYSE);
- Directly or indirectly acquire or agree to acquire in any transaction any equity interest in or business of any person (other than internal reorganizations) (SAIC is only restricted from doing so if such acquisition would reasonably be expected to impede SAIC’s ability to consummate the merger);
- Except as required by applicable law, make, change or revoke any material tax election, materially change any method of tax accounting or annual tax accounting period, settle any claim, action or proceeding relating to material taxes, waive any statute of limitations for any

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material tax claim or assessment (other than pursuant to extensions of time to file tax returns obtained in the ordinary course of business), obtain or request any material tax ruling or closing agreement, or surrender any right to obtain a material tax refund;

- Enter any new line of business outside of the party and its subsidiaries' existing business (SAIC is only restricted to the extent the entry into such new line of business would reasonably be expected to impede SAIC's ability to consummate the merger); or
- Dissolve or liquidate any subsidiary (SAIC is not restricted from doing so to complete internal restructurings or to dissolve wholly-owned entities).

In addition to the above, unless previously disclosed to SAIC in writing as provided in the merger agreement or consented to by SAIC, Engility and its subsidiaries shall not:

- Amend the Engility stockholders agreement;
- Except as required by applicable law, pursuant to the terms of a company benefit plan or any material contract as in effect on the date of the merger agreement, (i) increase the salaries, bonus opportunities, incentive compensation or other compensation or benefits to employees, other than ordinary course increases to employees with a title below director; (ii) grant, announce or pay any new, retention, severance, change in control or other similar bonus or similar compensation to employees; (iii) establish, amend, terminate or increase the benefits or costs provided under any company benefits plan; (iv) accelerate the vesting or payment of, or take any action to fund, any employee or service provider benefit or payment; or (v) hire, promote or terminate any employee without cause, other than ordinary course actions regarding employees with a title below director and ordinary-course hirings or promotions to fill a vacancy or position that becomes vacant;
- Make any material changes to financial accounting methods, except as required by a change in GAAP;
- Sell, lease or otherwise dispose of any properties, rights or assets (including intellectual property) material to Engility and its subsidiaries taken as a whole, except in the ordinary course, pursuant to a contract existing at signing or pursuant to a contract entered into without violating the merger agreement;
- Incur or guarantee any indebtedness, except ordinary-course indebtedness of less than $2.5 million in the aggregate, replacement of existing indebtedness, ordinary-course intercompany indebtedness or guarantees, and ordinary-course borrowings under Engility's existing credit facilities;
- Make or commit to make any capital expenditure not contemplated by Engility's 2018 capital plan in excess of $500,000 in the aggregate;
- Assign or settle any claim in amounts in excess of the amounts reserved with respect thereto on Engility's SEC documents or in excess of $2.5 million in the aggregate;
- Enter into, modify, replace or terminate any collective bargaining agreement outside the ordinary course;
- Enter into licenses or agreements, other than non-exclusive licenses granted in the ordinary course, imposing material restrictions on Engility with respect to material third-party intellectual property rights; or
- Enter into, modify or amend any material contract outside the ordinary course of business.

No Solicitation of Alternative Proposals

Each of SAIC and Engility has agreed that, from the time of the execution of the merger agreement until the earlier of the termination of the merger agreement or the consummation of the merger, it, its subsidiaries and their respective directors, officers and employees will use its reasonable best efforts to cause its and their respective investment bankers, attorneys, accountants and other advisors, agents or representatives (collectively, along with such directors, officers and employees, representatives) not to,

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directly or indirectly, (i) solicit, initiate or knowingly encourage the submission of inquiries, proposals or offers relating to an acquisition proposal or that would reasonably be expected to lead to an acquisition proposal, (ii) participate in negotiations or discussions with respect to any acquisition proposal, (iii) provide any non-public information or data concerning such party in connection with any acquisition proposal, or (iv) approve, recommend, make any public statement approving or recommending, or enter into any definitive agreement with respect to any acquisition proposal. The merger agreement also requires both SAIC and Engility to immediately cease any and all existing activities, discussions or negotiations with any parties conducted prior to the execution of the merger agreement with respect to any acquisition proposal or that would reasonably be expected to lead to an acquisition proposal.

An acquisition proposal with respect to Engility means any proposal (other than an offer or proposal made or submitted by SAIC), for (i) any merger, consolidation, share exchange, business combination, issuance of securities, direct or indirect acquisition of securities, recapitalization, tender offer, exchange offer or other similar transaction in which (x) a person or group (as defined in the Exchange Act and the rules promulgated thereunder) of persons directly or indirectly acquires, or if consummated in accordance with its terms would acquire, beneficial or record ownership of securities representing more than twenty percent (20%) of the outstanding shares of any class of voting securities of Engility; or (y) Engility issues securities representing more than twenty percent (20%) of the outstanding shares of any class of voting securities of Engility; (ii) any direct or indirect sale, lease, exchange, transfer, acquisition or disposition of any assets of Engility and of its subsidiaries that constitute or account for (x) more than twenty percent (20%) of the consolidated net revenues, consolidated net income or consolidated book value of Engility; or (y) more than twenty percent (20%) of the fair market value of the assets of Engility; or (iii) any liquidation or dissolution of Engility.

An acquisition proposal with respect to SAIC means any proposal for (i) any merger, consolidation, share exchange, business combination, issuance of securities, direct or indirect acquisition of securities, recapitalization, tender offer, exchange offer or other similar transaction in which (x) a person or group (as defined in the Exchange Act and the rules promulgated thereunder) of persons directly or indirectly acquires, or if consummated in accordance with its terms would acquire, beneficial or record ownership of securities representing more than twenty percent (20%) of the outstanding shares of any class of voting securities of SAIC; or (y) SAIC issues securities representing more than twenty percent (20%) of the outstanding shares of any class of voting securities of SAIC; (ii) any direct or indirect sale, lease, exchange, transfer, acquisition or disposition of any assets of SAIC and its subsidiaries that constitute or account for (x) more than twenty percent (20%) of the consolidated net revenues, consolidated net income or consolidated book value of SAIC; or (y) more than twenty percent (20%) of the fair market value of the assets of SAIC; or (iii) any liquidation or dissolution of SAIC.

Notwithstanding the restrictions described above, if, prior to obtaining stockholder approval, Engility receives an acquisition proposal that constitutes, or could reasonably be expected to lead to, a superior proposal from a third party, then Engility and its representatives may (i) furnish non-public information regarding Engility and its subsidiaries to such third party or (ii) participate or engage in negotiations or discussions with such third party if, and only if, prior to taking such actions, the Engility Board determines in good faith after consultation with its financial advisors and outside legal counsel that such acquisition proposal constitutes, or would reasonably be expected to result in, a superior proposal and that the failure to take such action would reasonably be expected to be inconsistent with the directors fiduciary duties under applicable law.

A superior proposal with respect to Engility means any bona fide, binding, written acquisition proposal (with all percentages in the definition of acquisition proposal above increased to fifty percent (50%)) on terms which the Engility Board determines in good faith (after consultation with outside legal counsel and financial advisors of nationally recognized reputation) to be (i) more favorable to the holders of shares of Engility common stock (solely in their capacity as such) than the merger (taking into account all of the terms and conditions of, and the likelihood of completion of, such proposal and the merger agreement (including any changes to the terms of the merger agreement proposed by SAIC in response to such offer or otherwise, including termination or break-up fees and conditions to consummation contained therein)) and (ii) reasonably likely of being completed in accordance with its terms.

Notwithstanding the restrictions described above, SAIC may, in response to an unsolicited, bona fide written permitted acquisition proposal (which permitted acquisition proposal was made after the date of the merger agreement) which did not result from a breach, in any material respect, of the non-solicitation provisions of the merger agreement described above and so long as it has provided prior written notice to Engility, (i) furnish non-public information regarding SAIC and its subsidiaries to such third party, (ii) participate or engage in negotiations or discussions with such third party and (iii) cause or permit SAIC or any of its subsidiaries to enter into any agreement relating to such permitted acquisition proposal; provided, that prior to taking any of the actions described in clauses (i), (ii) or (iii) SAIC shall obtain a standstill agreement from the person who made such permitted acquisition proposal that prohibits the making of any acquisition proposal that does not constitute a permitted acquisition proposal.

A permitted acquisition proposal with respect to SAIC is an acquisition proposal that expressly requires, as a condition to consummation of such proposal, either (i) the prior consummation of the merger or (ii) the termination of the merger agreement as a result of the Engility stockholder approval not being obtained.

For the avoidance of doubt, to the extent that any proposal was but ceased to be a permitted acquisition proposal as a result of it no longer being conditioned on the consummation of the merger or otherwise contemplates or requires SAIC to abandon, terminate, delay, modify, renegotiate or fail to consummate the merger, SAIC shall immediately cease taking any actions described in clauses (i), (ii) or (iii) of the foregoing sentence and shall promptly terminate access by any such person to any physical or electronic data rooms relating to SAIC. SAIC shall take all actions necessary to enforce its rights under the provisions of any standstill agreement between itself and any person (other than Engility), and shall not grant any waiver of, or agree to any amendment or modification to, any such agreement, to permit such person to submit a proposal that is not a permitted acquisition proposal.

The merger agreement requires each party to notify the other within one business day of, among other things, the receipt of or occurrence of any acquisition proposal and, with respect to any acquisition proposals received by Engility, the material terms and conditions of any such acquisition proposal. In addition, the merger agreement requires each party to continue to inform the other of the status of any such discussions or negotiations and requires Engility to inform SAIC of any material changes to any acquisition proposal.

Changes in Board Recommendations

Each of SAIC and Engility has agreed that its board of directors shall not (i) withhold, withdraw, qualify or modify (or publicly propose or resolve to withhold, withdraw, qualify or modify), in any manner adverse to the other party the recommendation by such board with respect to the transactions contemplated by the merger agreement, as applicable or approve, recommend or otherwise declare advisable (or publicly propose or resolve to approve, recommend or otherwise declare advisable) any acquisition proposal (with respect to SAIC, that is not a permitted acquisition proposal) or make or authorize the making of any public statement (oral or written) that has the substantive effect of such a withdrawal, qualification or modification (each such event, a change in recommendation), (ii) enter into any agreement relating to any acquisition proposal (with respect to SAIC, that is not a permitted acquisition proposal) or requiring such party (or that would require such party) to abandon, terminate, or fail to consummate the merger or any other transaction contemplated by the merger agreement (an alternative acquisition agreement); or, in the case of Engility, (iii) approve or recommend, or publicly propose to approve or recommend or enter into an alternative acquisition agreement.

Notwithstanding the foregoing, the SAIC Board may make a change in recommendation in response to a material intervening event or development, including an acquisition proposal, that was not known by the SAIC Board as of the date of the merger agreement which becomes known to, or reasonably foreseeable by, the SAIC Board prior to the receipt of the SAIC stockholder approval and does not relate to (i) any changes in the market price or trading volume of SAIC or Engility, (ii) SAIC or Engility meeting, failing to meet or exceeding published or unpublished revenue or earnings projections, or (iii) a permitted acquisition proposal, provided that such event did not result from a breach of the non-solicitation

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provisions of the merger agreement described above, if the SAIC Board has determined in good faith, after consultation with its financial advisors and outside legal counsel, that the failure to make such change in recommendation would be inconsistent with its fiduciary duties under applicable law to the stockholders of SAIC.

Notwithstanding the foregoing, the Engility Board may make a change of recommendation in response to (i) a material intervening event or development not related to an acquisition proposal that was not known by the Engility Board as of the date of the merger agreement which becomes known to, or reasonably foreseeable by, the Engility Board prior to the receipt of the Engility stockholder approval and does not relate to (A) any changes in the market price or trading volume of SAIC or Engility or (B) SAIC or Engility meeting, failing to meet or exceeding published or unpublished revenue or earnings projections, or (ii) an acquisition proposal that was unsolicited and did not result from a breach of the non-solicitation provisions of the merger agreement described above, if the Engility Board has determined in good faith, after consultation with its financial advisors and outside legal counsel, that (x) in the case of (ii) above, such acquisition proposal is a superior proposal and (y) in the case of (i) and (ii) above, the failure to take such action would be inconsistent with its fiduciary duties under applicable law to the stockholders of Engility.

Prior to taking any such action, the SAIC or Engility board of directors, as applicable, must give three business days notice to the other party in writing of its decision to change its recommendation, provide in reasonable detail information describing the event triggering the change in recommendation and such board s rationale for such change in recommendation, solely with respect to Engility s board, provide the material terms and conditions of any acquisition proposal to SAIC if an acquisition proposal has been made prior to such action, and negotiate in good faith with the other party changes to the merger agreement. Upon any amendment to the amount or form of consideration of an acquisition proposal with respect to Engility, a new notice and an additional two business days must be provided.

Efforts to Obtain Required Stockholder Votes

Engility has agreed, subject to the qualifications described above, to use its reasonable best efforts to convene and hold a meeting of its stockholders to consider and vote upon the adoption of the merger agreement. The Engility Board has approved the merger agreement and determined the merger agreement and the transactions contemplated thereby, including the merger, advisable, fair to and in the best interests of Engility and its stockholders, and has adopted resolutions directing that the merger agreement be submitted to the Engility stockholders for their consideration. If, on the date the Engility stockholders meeting is scheduled to be held, Engility has not received proxies representing a sufficient number of shares of Engility common stock to approve and adopt the merger agreement and the transactions contemplated thereby or it will not have enough shares of Engility common stock to constitute a quorum, Engility has the right on one or more occasions to postpone or adjourn the meeting for not more than an aggregate thirty days.

Notwithstanding any Engility change in recommendation, Engility shall submit the merger agreement to its stockholders for adoption at the Engility stockholders meeting unless the merger agreement is terminated in accordance with its terms prior to such meeting. Without the prior written consent of SAIC, the adoption of the merger agreement shall be the only matter (other than matters of procedure and matters required by law to be voted on by Engility s stockholders in connection with the adoption of the merger agreement and the transactions contemplated thereby) that Engility shall propose to be acted on by its stockholders at the Engility stockholders meeting.

SAIC has agreed, subject to the qualifications described above, to use its reasonable best efforts to convene and hold a meeting of its stockholders to consider and vote upon the SAIC share issuance. The SAIC board has approved the merger agreement and determined that the merger agreement is advisable and in the best interests of SAIC and its stockholders, and has adopted resolutions directing that the SAIC share issuance be submitted to the SAIC stockholders for their consideration. If, on the date the SAIC stockholders meeting is scheduled to be held, SAIC has not received proxies representing a sufficient number of shares of SAIC common stock to approve the SAIC share issuance or it will not have enough shares of SAIC common stock to constitute a quorum, SAIC has the right on one or more occasions to postpone or adjourn the meeting for not more than an aggregate thirty days.

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Notwithstanding any SAIC change in recommendation, SAIC shall seek the SAIC stockholder approval at the SAIC stockholders meeting unless the merger agreement is terminated in accordance with its terms prior to such meeting. Without the prior written consent of Engility, the SAIC share issuance shall be the only matter (other than matters of procedure and matters required by law to be voted on by SAIC s stockholders in connection with the transactions contemplated by the merger agreement) that SAIC shall propose to be acted on by its stockholders at the SAIC stockholders meeting.

Efforts to Complete the Merger

SAIC and Engility have each agreed to cooperate with each other and use, and to cause their respective subsidiaries to use, their respective reasonable best efforts to take or cause to be taken all actions, and do or cause to be done all things, necessary, proper or advisable under the merger agreement and applicable laws to consummate and make effective the merger and the other transactions contemplated by the merger agreement as expeditiously as possible, including:

- preparing and filing all documentation to effect all necessary notices, reports and other filings (and in any event, by filing within ten business days after the date of the merger agreement the notifications, filings and other information required to be filed under the HSR Act and to obtain as expeditiously as possible all consents, expirations of waiting periods and authorizations necessary or advisable to be obtained from any third party and/or any governmental entity in order to consummate the merger or any of the other transactions contemplated by the merger agreement, (ii) satisfying the conditions to consummating the merger, (iii) defending any lawsuits or other legal proceedings, whether judicial or administrative, challenging the merger agreement or the consummation of the merger, (iv) obtaining (and cooperating with each other in obtaining) any consent, approval of, waiver or any exemption by, any non-governmental third party, in each case, to the extent necessary, proper or advisable in connection with the merger and (v) executing and delivering any reasonable additional instruments necessary to consummate the transactions contemplated hereby and to fully carry out the purposes of the merger agreement;
- preparing and submitting, in a form acceptable to the cognizant security agency, to the Defense Security Service (DSS) of the United States Department of Defense a notification under NISPOM and any other applicable national or industrial security regulations, and any other applicable customer, national or industrial security regulations or customer program security requirements;
- using its reasonable best efforts to resolve such objections, if any, as may be asserted by any governmental entity in connection with the HSR Act, any other applicable antitrust laws with respect to the transactions contemplated under the merger agreement and to avoid the entry of, or effect the dissolution of, any decree, order, judgment, injunction, temporary restraining order or other order in any suit or proceeding, that would otherwise have the effect of preventing the consummation of the transactions contemplated under the merger agreement; and
- if any administrative or judicial action or proceeding, including any proceeding by a private party, is instituted (or threatened to be instituted) challenging the merger or any other transaction contemplated by the merger agreement as violative of any antitrust law, using its reasonable best efforts to contest and resist any such action or proceeding and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts consummation of the merger.

Reasonable best efforts shall include taking any and all actions necessary to obtain the consents or waiting period expirations of any governmental entity required to consummate the merger prior to June 10, 2019, including (i) proposing, negotiating, committing to, effecting and agreeing to, by consent decree, hold separate order, or otherwise, the sale, divestiture, license, hold separate, and other disposition of the businesses, assets, products or equity interests of Engility or its subsidiaries or any of SAIC s or its subsidiaries other businesses, assets, products or equity interests now owned or hereafter acquired by SAIC, (ii) creating, terminating, or amending any existing relationships, ventures, contractual rights or obligations of SAIC, Engility or their respective subsidiaries, (iii) otherwise taking or committing to any action that would limit SAIC s freedom of action with respect to, or its ability to retain or hold, directly

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or indirectly, any businesses, assets, products or equity interests of SAIC or Engility (including any of their respective subsidiaries) and (iv) making, or causing any subsidiaries to make, any commitment, or committing to (or causing any subsidiaries to commit to) make any commitment (to any governmental entity or otherwise) regarding the future operations of SAIC or Engility (including any of their respective subsidiaries).

SAIC will, however, not be required to accept or agree to any regulatory action that would result in, or would be reasonably likely to result in, either individually or in the aggregate, a regulatory material adverse effect on SAIC or on Engility. A regulatory material adverse effect means any fact, circumstance, effect, change, event or development arising out of the matters contemplated by the foregoing that has a material adverse effect on the financial condition, business, revenue or EBITDA of such party and its subsidiaries, taken as a whole, determined based upon the size (revenue and EBITDA) of Engility, not the size of SAIC or the combined company.

Governance Matters After the Merger

At the effective time of the merger, SAIC shall cause its board of directors to consist of eleven members. SAIC shall appoint two individuals who are currently members of the Engility Board to serve on the SAIC Board, to be mutually agreed upon by SAIC and Engility. SAIC and Engility have agreed that these directorships shall be filled by David M. Kerko and Katharina G. McFarland, each of whom is currently a director of Engility.

Following closing, Anthony Moraco is expected to continue in his current role as Chief Executive Officer of SAIC.

Engility Employee Benefits Matters

From the effective time of the merger until December 31, 2019 (the continuation period), SAIC will provide each employee of Engility who continues to remain employed by Engility, SAIC or the surviving company following the effective time of the merger (hereinafter referred to as a continuing employee), with (1) an annual rate of base salary or base wage that is no less favorable than the base salary or base wage that was provided to such continuing employee immediately prior to the effective time of the merger, (2) target annual cash bonus opportunities that are no less favorable in the aggregate than the target annual cash bonus opportunities that were provided to such continuing employee immediately prior to the effective time of the merger, and (3) long-term incentive opportunities that are no less favorable in the aggregate than the long-term incentive opportunities that were provided to such continuing employee immediately prior to the effective time of the merger. In addition, SAIC agrees that continuing employees shall, during the continuation period, be provided with pension, welfare and other employee benefits that are substantially comparable in the aggregate to those provided to such continuing employees as of immediately prior to the effective time of the merger and will be provided with severance benefits that are no less favorable than the severance benefits provided by Engility prior to the Effective Time.

To the extent continuing employees become eligible to participate in any employee benefit plan maintained by SAIC or its subsidiaries following the effective time of the merger, the continuing employees service with Engility or any of its subsidiaries prior to the effective time will be treated as service with SAIC or its subsidiaries for purposes of eligibility, vesting, continuous service, determination of service awards, vacation, paid time off and severance entitlement. SAIC will waive eligibility requirements and pre-existing condition limitations under any SAIC benefit plan that is a welfare benefit plan, except to the extent such eligibility requirements or pre-existing conditions would apply under the analogous Engility benefit plan in which the continuing employee participated or was eligible to participate prior to the effective time. In addition, SAIC will give effect, in determining any deductibles or out-of-pocket limitations under any SAIC benefit plan that is a welfare benefit plan, to amounts paid by continuing employees prior to the effective time of the merger under any Engility benefit plan in which the continuing employee (or eligible dependent) was a participant as of immediately prior to the effective time of the merger.

Indemnification and Insurance

The merger agreement requires SAIC to indemnify, to the fullest extent permitted by law, any person who is now an officer or director of Engility, has been at any time prior to the effective time of the merger

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an officer or director of Engility or who was serving at the request of Engility as an officer or director of another corporation, joint venture or other enterprise or general partner of any partnership or a trustee of any trust, in connection with any claim, action, suit, proceeding or investigation based directly or indirectly (in whole or in part) on, or arising directly or indirectly (in whole or in part) out of, the fact that such person was an officer or director of Engility, or is or was serving at the request of Engility as an officer or director of another corporation, joint venture or other enterprise or general partner of any partnership or a trustee of any trust, whether pertaining to any matter asserted before or after the effective time of the merger.

SAIC shall cause the surviving company to not, for a period of six years following the effective time of the merger, amend, repeal or otherwise modify the exculpation, indemnification and advancement of expenses provisions of Engility s organizational documents as in effect immediately prior to the effective time of the merger in any manner that would adversely affect the rights thereunder of any individuals who at the effective time were directors, officers or employees of Engility.

The merger agreement requires SAIC to cause the surviving company to purchase a six year tail prepaid officers and directors liability insurance policy prior to the effective time of the merger with benefits and levels of coverage at least as favorable as Engility s existing policies with respect to matters existing or occurring at or prior to the effective time of the merger for an amount not to exceed 300% of Engility s current annual premiums. However, the surviving company is not required to incur an annual premium expense greater than 300% of the annual premiums currently paid by Engility. If the surviving company is unable to maintain a policy because the annual premium expense is greater than 300% of Engility s current annual directors and officers liability insurance premiums, the surviving company is obligated to obtain as much insurance as is available for the amount that is 300% of Engility s current annual premiums.

Treatment of Engility Equity Awards

Treatment of Restricted Stock Unit Awards. At the effective time, each outstanding Engility restricted stock unit, whether vested or unvested, will be converted into a restricted stock unit for a number of whole shares of SAIC common stock (rounded up to the nearest whole share) equal to the product of (a) the number of shares of Engility common stock subject to such award and (b) the exchange ratio, subject to the same terms and conditions, including vesting requirements and vesting acceleration terms, as were applicable to such awards prior to the merger.

Treatment of Performance Stock Unit Awards. At the effective time, each outstanding Engility performance stock unit will be converted into a time-based vesting restricted stock unit for a number of whole shares of SAIC common stock (rounded up to the nearest whole share) equal to the product of (a) the number of shares of Engility common stock subject to such award determined based on (x) target performance (if the effective time occurs on or prior to December 31, 2018) or (y) actual performance measured on the effective time (or December 31, 2018 if determined by the compensation committee of Engility) if more than twelve months have elapsed from the grant date of the applicable performance stock units to the effective time, and (b) the exchange ratio, subject to vesting based on continued service until the third anniversary of the grant date of the Engility performance stock unit, and other terms and conditions, including vesting acceleration terms, as were applicable to such awards prior to the merger.

Following the signing of the merger agreement, Engility will take all actions with respect to its employee stock purchase plan (ESPP) to provide that with respect to the offering period in effect as of September 9, 2018 (the Current Purchase Period), (x) no employee who is not a participant in the ESPP as of September 9, 2018 may become a participant in the ESPP, and (y) each individual participating in the Current Purchase Period will not be permitted to increase his or her payroll contribution rate pursuant to the ESPP from the rate in effect immediately prior to September 9, 2018, except as may be required by applicable Law. In addition, (i) the Current Purchase Period will end on December 31, 2018; provided that if the effective time of the merger is prior to December 31, 2018, the Company will end the Current Purchase Period on a specified trading day occurring at least ten (10) days prior to the date on which the effective time occurs; (ii) there will be no offering periods following the Current Purchase Period and (iii) in all events, the Company shall terminate the ESPP prior to the effective time of the merger.

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Other Covenants and Agreements

The merger agreement contains certain other covenants and agreements, including covenants relating to:

- SAIC using reasonable best efforts to cause the shares of SAIC common stock to be issued in the merger to be approved for listing on the NYSE, subject to official notice of issuance, prior to the effective time of the merger;
- Engility taking all actions necessary to permit the shares of Engility common stock to be de-listed from the NYSE and de-registered under the Exchange Act as soon as possible following the effective time of the merger;
- cooperation between SAIC and Engility in connection with the preparation of this joint proxy statement/ prospectus and any other statement, filing, notice or application made by or on behalf of SAIC, Engility or any of their respective subsidiaries to any third party and/or any governmental entity in connection with the merger and the other transactions contemplated by the merger agreement;
- ensuring that no state takeover statute or similar statute or regulation is or becomes applicable to the merger agreement or the transactions contemplated thereunder and ensuring prompt consummation of the merger if any state takeover statute or similar statute or regulation becomes applicable to the merger agreement or the transactions contemplated thereunder
- keeping the other reasonably apprised of the status of matters relating to completion of the transactions contemplated under the merger agreement, including copies of notice or other communications from any third party and/or any governmental entity with respect to the merger and the other transactions contemplated by the merger agreement, other than immaterial communications;
- prompt notification to the other party of any litigation related to the merger that is brought or threatened against such party and keeping the other party informed on a reasonably current basis with respect to the status thereof. The parties agree to cooperate in the defense and settlement of any such litigation, and Engility shall not settle any such litigation without the prior written consent of SAIC (not to be unreasonably withheld, conditioned or delayed).
- use of reasonable best efforts to provide the representations of its officers required in connection with the issuance of the opinion of Weil, Gotshal & Manges LLP that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code and obtain the opinions in connection therewith.
- in the case of SAIC, use reasonable best efforts to obtain financing in connection with the merger, and in the case of Engility, use reasonable best efforts to cooperate with SAIC in obtaining such financing.

Conditions to Completion of the Merger

The obligations of each of SAIC and Engility to effect the merger are subject to the satisfaction, or waiver, of the following conditions:

- Approval of the merger agreement by holders of a majority of the outstanding shares of Engility common stock entitled to vote thereon at the Engility stockholders meeting.
- Approval of the SAIC share issuance by the affirmative vote of a majority of the outstanding shares of SAIC common stock entitled to vote thereon and present in person or represented by proxy at the SAIC stockholders meeting.
- Expiration or earlier termination of all waiting periods applicable to the merger under the Hart-Scott-Rodino Act.
- No governmental entity of competent jurisdiction shall have issued, enacted, promulgated, enforced or entered any law or judgment that is in effect and restrains, enjoins or otherwise prohibits consummation of the merger.

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- Shares of SAIC common stock issuable to Engility's stockholders pursuant to the merger agreement shall have been authorized for listing on the NYSE, subject to official notice of issuance.
- The Form S-4 registration statement of which this joint proxy statement/prospectus forms a part has become effective under the Securities Act and no stop order suspending the effectiveness of such Form S-4 has been issued and no proceedings for that purpose have been initiated or threatened.

In addition, the obligations of SAIC and merger sub to effect the merger are subject to the satisfaction, or waiver, of the following additional conditions:

- The representations and warranties of Engility (except for the representations and warranties relating to (i) organization, (ii) certain capitalization and related matters, (iii) authorization and validity of the merger agreement and (iv) brokers and finders) being true and correct as of the date of the merger agreement and as of the effective date of the merger (other than those representations and warranties that were made only as of an earlier date, which need only be true and correct as of that date) except where the failure of such representations and warranties to be true and correct individually or in the aggregate, has not had and would not reasonably be expected to have a material adverse effect;
- The representations and warranties of Engility relating to (i) organization, (ii) authorization and validity of the merger agreement and (iii) brokers and finders, being true and correct in all material respects at and as of the date of the date of the merger agreement and as of the effective date of the merger (other than those representations and warranties that were made only as of an earlier date, which need only be true and correct as of that date);
- The representations and warranties of Engility relating to certain capitalization and related matters shall be true and correct in all respects, except for *de minimis* inaccuracies at and as of the date of the merger agreement and at and as of the effective time of the merger as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such earlier date);
- Engility having in all material respects performed all obligations required to be performed by it under the merger agreement at or prior to the effective time of the merger;
- No fact, circumstance, effect, change, event or development occurring after the date of the merger agreement that, individually or in the aggregate, has resulted, or would reasonably be likely to result, in a material adverse effect on Engility;
- SAIC's receipt of a certificate, dated as of the effective date of the merger, from an Engility senior executive officer, confirming that the conditions in the previous five bullet points above have been satisfied; and
- SAIC's receipt of FIRPTA certificate to the effect that the shares of Engility common stock are not a U.S. real property interest within the meaning of Section 897 of the Code.

In addition, the obligations of Engility to effect the merger are subject to the satisfaction, or waiver, of the following additional conditions:

- The representations and warranties of SAIC (except for the representations and warranties relating to (i) organization, (ii) certain capitalization and related matters, (iii) authorization and validity of the merger agreement and (iv) brokers and finders) being true and correct as of the date of the merger agreement and as of the effective date of the merger (other than those representations and warranties that were made only as of an earlier date, which need only be true and correct as of that date) except where the failure of such representations and warranties to be true and correct individually or in the aggregate, has not had and would not reasonably be expected to have a material adverse effect;
- The representations and warranties of SAIC relating to (i) organization, (ii) authorization and validity of the merger agreement and (iii) brokers and finders, being true and correct in all

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material respects at and as of the date of the date of the merger agreement and as of the effective date of the merger (other than those representations and warranties that were made only as of an earlier date, which need only be true and correct as of that date);

- The representations and warranties of SAIC relating to certain capitalization and related matters shall be true and correct in all respects, except for *de minimis* inaccuracies at and as of the date of the merger agreement and at and as of the effective time of the merger as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such earlier date);
- SAIC and merger sub having performed in all material respects all obligations required to be performed by them under the merger agreement at or prior to the effective time of the merger;
- No fact, circumstance, effect, change, event or development occurring after the date of the merger agreement that, individually or in the aggregate, has resulted, or would reasonably be likely to result, in a material adverse effect on SAIC;
- Engility's receipt of a certificate, dated as of the effective date of the merger, from an SAIC senior executive officer, confirming that the conditions in the previous five bullet points above have been satisfied; and
- Engility's receipt of a tax opinion of Weil, Gotshal & Manges LLP or, if Weil, Gotshal & Manges LLP shall not render such opinion, Morrison & Foerster LLP, dated as of the effective time of the merger, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code.

Termination of the Merger Agreement

The merger agreement may be terminated and the merger abandoned at any time prior to the effective time of the merger, and, except as described below, whether before or after the receipt of the required stockholder approvals, under the following circumstances:

- by mutual written consent of SAIC and Engility;
- by SAIC or Engility if Closing does not occur on or before 5:00 p.m. New York City time on June 10, 2019, provided that such right to terminate the merger agreement shall not be available to any party that has breached in any material respect its obligations under the merger agreement in any manner that shall have been the primary cause of the failure of the merger to be consummated;
- by SAIC or Engility if any law or judgment permanently restraining, enjoining or otherwise prohibiting consummation of the merger shall become final and non-appealable, whether before or after the date of the SAIC stockholder approval or the Engility stockholder approval;
- by SAIC or Engility if the Engility stockholder approval shall not have been obtained at a meeting duly convened therefor or at any adjournment or postponement thereof at which a vote upon the adoption of the merger agreement was taken; or
- by SAIC or Engility if the SAIC stockholder approval shall not shall not have been obtained at a meeting duly convened therefor or at any adjournment or postponement thereof at which a vote upon the issuance of the SAIC common stock was taken.

The merger agreement may be terminated and the merger abandoned at any time before the effective time of the merger by Engility:

- If, prior to the time the SAIC stockholder approval is obtained, (i) SAIC effects a change in recommendation, (ii) SAIC fails to include the SAIC board recommendation in this joint proxy statement/prospectus, or (iii) SAIC materially breaches or fails to perform its non-solicitation obligations pursuant to the merger agreement; or
- If, at any time prior to the effective time of the merger, whether before or after the Engility stockholder approval is obtained, by action of the Engility Board if there has been a breach of any representation, warranty, covenant or agreement made by SAIC or merger sub in the merger

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agreement, or any such representation and warranty shall have become untrue after the date of the merger agreement, such that the closing conditions set forth in Sections 6.3(a) or 6.3(b) of the merger agreement (relating to breaches of representations and warranties and compliance with covenants) would not be satisfied and such breach or failure to be true is not curable or, if curable, is not cured prior to the earlier of (i) thirty days following notice to SAIC from Engility of such breach or failure and (ii) the date that is three business days prior to June 10, 2019; provided that Engility shall not have the right to terminate the merger agreement pursuant to this bullet point if Engility is then in material breach of any of its representations, warranties, covenants or agreements under the merger agreement.

The merger agreement may be terminated and the merger abandoned at any time before the effective time of the merger by SAIC:

- If, prior to the time the Engility stockholder approval is obtained, (i) the Engility board effects a change in recommendation, (ii) Engility fails to include the Engility board recommendation in this joint proxy statement/prospectus, or (iii) Engility materially breaches or fails to perform the non-solicitation provisions of the merger agreement; or
- If, at any time prior to the effective time of the merger, whether before or after the SAIC stockholder approval is obtained, by action of the SAIC Board, if there has been a breach of any representation, warranty, covenant or agreement made by Engility in the merger agreement, or any such representation and warranty shall have become untrue after the date of the merger agreement, such that any condition set forth in Sections 6.2(a) or 6.2(b) of the merger agreement (relating to breaches of representations and warranties and compliance with covenants) would not be satisfied and such breach or failure to be true is not curable or, if curable, is not cured prior to the earlier of (i) thirty days following notice to Engility from SAIC of such breach or failure and (ii) the date that is three business days prior to June 10, 2019; provided that SAIC shall not have the right to terminate the merger agreement pursuant to this bullet point if SAIC is then in material breach of any of its representations, warranties, covenants or agreements under the merger agreement.

Termination Fees and Expenses; Liability for Breach

- If the merger agreement is terminated by SAIC pursuant to Engility’s change in recommendation, then Engility shall, within two business days after such termination, pay SAIC a fee equal to $50,000,000 plus $10,000,000 of SAIC’s expenses, less any amount of SAIC expenses previously paid by Engility.
- If (i) the merger agreement is terminated by either party pursuant to Section 7.2(a) (failure to close by June 10, 2019) or Section 7.2(b) (failure to obtain the Engility stockholder approval) thereof, (ii) prior to such termination referred to in clause (i) of this sentence, but after the date of the merger agreement, an acquisition proposal shall have been publicly made to Engility or any of its subsidiaries or shall have been made directly to Engility’s stockholders or otherwise communicated to the Engility and stockholders (whether or not conditional) (or any person shall have publicly announced a bona fide written intention, whether or not conditional, to make an acquisition proposal) and, in each case, not withdrawn, and (iii) within twelve months after the date of a termination in either of the cases referred to in clause (i) above, Engility consummates an acquisition proposal or enters into an agreement contemplating an acquisition proposal which is subsequently consummated, then Engility shall pay the SAIC a fee equal to $50,000,000 plus $10,000,000 of SAIC’s expenses, less any amount of SAIC Expenses previously paid by Engility, concurrently with such consummation. Solely for purposes of this provision, the term acquisition proposal shall have the meaning assigned to such term in No Solicitation of Alternate Proposals above, except that the references to twenty (20%) or more shall be deemed to be references to fifty percent (50%) or more .
- In no event shall Engility be required to pay a termination fee or SAIC’s expenses on more than one occasion.

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- If the merger agreement is terminated by either party pursuant to failure to obtain the required Engility stockholder approval, then Engility shall pay to SAIC, by wire transfer of immediately available funds, a fee equal to $10,000,000 of SAIC's expenses as promptly as practicable (and, in any event, within two business days following such termination).
- If the merger agreement is terminated by Engility pursuant to an SAIC change in recommendation then SAIC shall, within two business days after such termination pay Engility a fee equal to $100,000,000 plus $10,000,000 of Engility's expenses, less any amount of Engility expenses previously paid by SAIC.
- If (i) the merger agreement is terminated by either party pursuant to Section 7.2(a) (failure to close by June 10, 2019) or Section 7.2(c) (failure to obtain the SAIC stockholder approval) thereof, (ii) prior to such termination referred to in clause (i) of this sentence, but after the date of the merger agreement, an acquisition proposal (other than a permitted acquisition proposal) shall have been publicly made to SAIC or any of its subsidiaries or shall have been made directly to SAIC's stockholders or otherwise communicated to the SAIC Board and stockholders (whether or not conditional) (or any person shall have publicly announced a bona fide written intention, whether or not conditional, to make an acquisition proposal (other than a permitted acquisition proposal)) and, in each case, not withdrawn, and (iii) within twelve months after the date of a termination in either of the cases referred to in clause (i) above, SAIC consummates an acquisition proposal or enters into an agreement contemplating an acquisition proposal which is subsequently consummated, then SAIC shall pay Engility a fee equal to $100,000,000 plus $10,000,000 of Engility's expenses, less any amount of Engility expenses previously paid by SAIC, concurrently with such consummation. Solely for purposes of this provision, the term acquisition proposal shall have the meaning assigned to such term in No Solicitation of Alternate Proposals above, except that the references to twenty (20%) or more shall be deemed to be references to fifty percent (50%) or more .
- In no event shall SAIC be required to pay a termination fee or Engility's expenses on more than one occasion.
- If the merger agreement is terminated by either party pursuant to failure to obtain the required SAIC stockholder approval, then SAIC shall pay to Engility, by wire transfer of immediately available funds, a fee equal to $10,000,000 of Engility's expenses as promptly as practicable (and, in any event, within two business days following such termination).
- Except as discussed above, each party shall pay all fees and expenses incurred by it in connection with the merger and the other transactions contemplated by the merger agreement.
- Following termination, in addition to any termination fee or expense reimbursement, each party will have the right to pursue damages and other relief for the other party's fraud or intentional and willful breach of any covenant or agreement in the merger agreement. SAIC's failure to consummate the merger on the date the closing of the merger would have otherwise occurred as a result of SAIC's failure to obtain the financing sufficient to consummate the merger will be deemed a willful breach of the merger agreement by SAIC.

Amendments and Waivers

The merger agreement may be amended, modified or supplemented by the parties at any time prior to the effective time of the merger. However, Section 7.7(c) (exclusive remedy), Section 8.2 (modification or amendment), Section 8.5 (governing law and venue; waiver of jury trial), Section 8.8 (no third party beneficiaries), Section 8.14 (specific performance and Section 8.15 (lender related parties) of the merger agreement, in each case may not be amended, modified or altered in any manner adverse to entities that have entered into agreements in connection with the financing of the merger without such entities prior written consent.

At any time prior to the effective time of the merger, any party may waive any provision of the merger agreement if, and only if, such waiver is in writing and signed by the party against whom the waiver is to be effective.

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Specific Performance

The parties agreed in the merger agreement that irreparable damage would occur in the event that any of the provisions of the merger agreement were not performed in accordance with their specific terms or were otherwise breached, and that monetary damages would not be an adequate remedy for such occurrence. The parties agreed that they shall be entitled to an injunction or injunctions to prevent breaches of the merger agreement and to enforce specifically the performance of terms and provisions of the merger agreement in addition to any other remedy to which they are entitled at law or in equity. In no event shall Engility or its successors or assigns be entitled to enforce specific performance of the commitment papers against entities that have entered into agreements in connection with the financing of the merger.

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THE VOTING AGREEMENT

The following section summarizes the material provisions of the voting agreement, which is included in this joint proxy statement/prospectus as Annex B and is incorporated herein by reference in its entirety. The rights and obligations of SAIC and Engility are governed by the express terms and conditions of the voting agreement and not by this summary or any other information contained in this joint proxy statement/prospectus. SAIC and Engility stockholders are urged to read the voting agreement carefully and in its entirety as well as this joint proxy statement/prospectus before making any decisions regarding the merger, including the approval and adoption of the merger agreement and approval of the merger or the approval of the SAIC stock issuance. This summary is qualified in its entirety by reference to the voting agreement.

On September 9, 2018, pursuant to the terms of and simultaneously with the merger agreement, and as a condition and inducement to SAIC s willingness to enter into the merger agreement, Birch entered into the voting agreement with SAIC and Engility and, for purposes of certain sections thereof, certain investment funds affiliated with KKR and certain investment funds affiliated with GA. As of September 5, 2018, Birch owned 17,920,892 Covered Shares (or approximately 48.48% of the total outstanding shares, of Engility s common stock).

Subject to the terms and conditions set forth in the voting agreement, Birch has agreed, among other things, to the fullest extent Birch is permitted to do so:

- To appear in person or by proxy at any Engility stockholders meeting at which a vote with respect to the approval or adoption of the merger agreement and the transactions contemplated thereby is sought, including any adjournment, recess or postponement thereof, or otherwise cause all covered shares to be counted as present at such meeting for purposes of calculating a quorum;
- To vote (or cause to be voted), in person or by proxy, or deliver (or cause to be delivered) a written consent covering, all of the covered shares which Birch is permitted to vote:
  - in favor of the merger and the approval and adoption of the merger agreement and the transactions contemplated thereby, including any amendment and restatement of the merger agreement or amendment to the merger agreement, in each case, to the extent such amendment and restatement or amendment increases the merger consideration;
  - in favor of the approval of any proposal to adjourn or postpone each such meeting of the Engility stockholders to a later date if there are not sufficient votes for adoption of the merger agreement on the date on which such meeting is held;
  - against any proposal to amend Engility's certificate of incorporation or bylaws to the extent such amendment would change in any manner the voting rights of any class of shares of Engility; and
  - against any Engility acquisition proposal; and
- To grant SAIC an irrevocable proxy to vote all the covered shares which Birch is permitted to vote.

Birch s ability to vote the covered shares is limited by the existing stockholders agreement.

Pursuant to the stockholders agreement, Birch is entitled to vote its shares of Engility common stock representing 30% of the total outstanding shares of Engility common stock in favor of the adoption of the merger agreement. In addition, under the stockholders agreement, Birch is obligated to vote its shares of Engility common stock in excess of 30% of the total outstanding shares of Engility common stock in the same manner as, and in the same proportion to, all shares of Engility common stock voted by holders of Engility common stock (excluding those votes of Birch that represent up to 30% of all issued and outstanding shares of Engility common stock).

The voting agreement also restricts Birch, among other things, from:

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entering into any other voting agreement, voting trust or similar agreement or understanding, with respect to any of the covered shares (other than the stockholders agreement);

- while the voting agreement remains in effect, granting a proxy, consent or power of attorney with respect to any of the covered shares (other than as required by the stockholders agreement);
- giving any voting instructions in any manner inconsistent with the provisions above, with respect to any of the covered shares;
- taking any action that would (i) constitute a breach of the voting agreement, (ii) make any representation or warranty of Birch contained in the voting agreement untrue or incorrect or (iii) have the effect of preventing or disabling Birch from performing any of its obligations under the voting agreement; and
- transferring any of the covered shares, except to KKR and GA pursuant to the stockholders agreement, provided that such KKR or GA recipient executes a joinder to the voting agreement.

In addition, Birch, KKR and GA each agree that they will not, will cause their respective affiliates not to, and will use reasonable best efforts to cause the representatives of their respective affiliates not to, directly or indirectly:

- solicit, initiate, knowingly induce, knowingly encourage or knowingly facilitate any inquiries or the making of any proposal or offer that constitutes, or would reasonably be expected to lead to, an acquisition proposal with respect to Engility;
- participate in any discussions or negotiations with any person regarding any proposal the consummation of which would constitute an acquisition proposal with respect to Engility;
- provide any non-public information or data concerning Engility or any of its subsidiaries to any person in connection with any proposal the consummation of which would constitute an acquisition proposal with respect to Engility; or
- approve or recommend, make any public statement approving or recommending, or enter into any agreement relating to, any inquiry, proposal or offer that constitutes, or would reasonably be expected to lead to, an acquisition proposal with respect to Engility.

The voting agreement also requires Birch, KKR and GA to immediately cease all discussions or negotiations with any person conducted heretofore with any person other than SAIC and/or its representatives with respect to any acquisition proposal.

Notwithstanding the foregoing, prior to the time the Engility stockholder approval is obtained, Birch, KKR or GA may engage in negotiations or discussions with any person that has made an unsolicited bona fide written acquisition proposal to Engility, its subsidiaries or representatives not resulting from or arising out of a breach, in any material respect, of the non-solicitation provisions of the merger agreement or the non-solicitation provisions of the voting agreement, if, and only if, prior to doing so, such party has provided prior written notice thereof to SAIC and the Engility Board determines in good faith after consultation with outside legal counsel that (A) based on the information then available and after consultation with a financial advisor of nationally recognized reputation that such acquisition proposal either constitutes a superior proposal or could reasonably be expected to result in a superior proposal and (B) the failure to take such action would reasonably be expected to be inconsistent with the directors fiduciary duties under applicable law.

Until the voting agreement is terminated in accordance with its terms, Birch, KKR and GA shall not (and shall cause their respective affiliates to whom they have provided confidential information regarding Engility (or its subsidiaries) or the merger, not to), directly or indirectly:

- alone or in concert with others, make or propose, or seek to make or propose, to Engility or any of its stockholders any acquisition proposal,
- make any public request or public proposal to amend, waive or terminate the provisions of the non-solicitation provisions of the voting agreement;
- take any action that would reasonably be expected to result in Engility having to make a public announcement regarding any of the matters referred to in the preceding clauses, or publicly announce an intention to do; or

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- enter into any arrangement or understanding or discussion with others to do, any of the actions restricted or prohibited under the preceding clauses.

Under the voting agreement, Birch irrevocably and unconditionally agrees not to commence or join in, and agrees to take all actions necessary to opt out of any class in any class action with respect to, any claim, derivative or otherwise, against SAIC, merger sub, Engility, any of the other parties to the merger agreement or any of their respective successors relating to the negotiation, execution or delivery of the voting agreement or the merger agreement or the consummation of the merger, including any proceeding challenging the validity of, or seeking to enjoin the operation of, any provision of the voting agreement or the merger agreement. To the fullest extent permitted by applicable laws, Birch irrevocably and unconditionally waives and agrees not to exercise, assert or perfect, any right of dissent or rights to demand appraisal in respect of the covered shares.

The voting agreement terminates on the earliest to occur of (a) the effective time of the merger, (b) the termination of the merger agreement pursuant to its terms, (c) an Engility change in recommendation relating to a superior proposal or intervening event in accordance with the terms of Section 5.2(f) and Section 5.2(g), respectively, of the merger agreement, (d) the date of any amendment, restatement, modification, or change of any provision of the merger agreement without the prior written consent of Birch that reduces the amount or changes the form of the merger consideration or otherwise materially adversely affects Birch, and (e) the mutual written consent of the parties to the voting agreement.

IF YOU ARE AN SAIC STOCKHOLDER, THE SAIC BOARD RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO ISSUE SHARES OF SAIC COMMON STOCK IN THE MERGER.

IF YOU ARE AN ENGILITY STOCKHOLDER, THE ENGILITY BOARD RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO APPROVE AND ADOPT THE MERGER AGREEMENT.

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SAIC PROPOSAL II:
ADJOURNMENT OF THE SAIC SPECIAL MEETING

This proposal would permit the SAIC Board, if necessary or advisable, to adjourn the SAIC special meeting from time to time to solicit additional proxies if there are insufficient votes to approve the SAIC merger agreement and stock issuance proposal.

If the time and place of an adjourned meeting (and means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting) are announced at the original convening of the SAIC special meeting, no notice of an adjourned meeting need be given unless the adjournment is for more than 30 days or if, after the adjournment, a new record date is fixed for the adjourned meeting, in which case notice of the adjourned meeting will be given to SAIC stockholders of record entitled to vote at the adjourned meeting. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

Approval of any SAIC adjournment proposal, if necessary, requires the affirmative vote of a majority in voting interest of the holders of SAIC common stock present in person or by proxy entitled to vote on such matter of the SAIC special meeting (provided that a quorum exists). For any adjournment proposal, an abstention will have no effect on the outcome of the proposal. Broker non-votes will also have no effect on the outcome of the proposal.

THE SAIC BOARD RECOMMENDS A VOTE FOR THE PROPOSAL TO PERMIT THE SAIC BOARD TO ADJOURN THE SAIC SPECIAL MEETING.

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ENGILITY PROPOSAL II:
ADJOURNMENT OF THE ENGILITY SPECIAL MEETING

This proposal would permit the Engility Board, if necessary or advisable, to adjourn the Engility special meeting from time to time to solicit additional proxies if there are insufficient votes to approve the Engility merger proposal.

If the time and place of an adjourned meeting (and means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting) are announced at the original convening of the Engility special meeting, no notice of an adjourned meeting need be given unless the adjournment is for more than 30 days or if, after the adjournment, a new record date is fixed for the adjourned meeting, in which case notice of the adjourned meeting will be given to Engility stockholders of record entitled to vote at the adjourned meeting. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

Approval of any Engility adjournment proposal, if necessary, requires the affirmative vote of a majority of the votes cast on such matter at the Engility special meeting by holders of the Engility common stock (provided that a quorum exists). For any adjournment proposal, an abstention will have no effect on the outcome of the proposal. Broker non-votes will also have no effect on the outcome of the proposal.

THE ENGILITY BOARD RECOMMENDS A VOTE FOR THE PROPOSAL TO PERMIT THE ENGILITY BOARD TO ADJOURN THE ENGILITY SPECIAL MEETING.

ENGILITY PROPOSAL III:
ADVISORY VOTE ON MERGER-RELATED COMPENSATION OF THE NAMED EXECUTIVE OFFICERS OF ENGILITY

Under Section 14A of the Exchange Act and the applicable SEC rules issued thereunder, Engility is required to submit a proposal to its stockholders for a non-binding, advisory vote to approve certain compensation that may become payable to Engility's named executive officers in connection with the completion of the merger. This proposal, which we refer to as the Engility compensation proposal, gives Engility's stockholders the opportunity to vote, on an advisory (non-binding) basis, on the compensation that may be paid or become payable to Engility's named executive officers in connection with the merger and the agreements pursuant to which such compensation may be paid or become payable. This compensation is summarized above in the table in the section entitled *The Merger and the Stock Issuance—Financial Interests of Engility Directors and Executive Officers in the Merger—Quantification of Potential Payments to Engility's Named Executive Officers in Connection with the Merger* beginning on page 85, including the footnotes to the table and the associated narrative discussion.

The Engility Board unanimously recommends that Engility s stockholders approve at the Engility special meeting the following resolution:

RESOLVED, that the compensation that may be paid or become payable to the named executive officers of Engility in connection with the merger, as disclosed pursuant to Item 402(t) of Regulation S-K in the table in the section of the joint proxy statement/prospectus entitled *The Merger and the Stock Issuance—Financial Interests of Engility Directors and Executive Officers in the Merger—Quantification of Potential Payments to Engility s Named Executive Officers in Connection with the Merger* including the footnotes to the table and the associated narrative discussion, and the agreements, plans and understandings pursuant to which such compensation may be paid or become payable, are hereby APPROVED.

The vote on the Engility compensation proposal is a vote separate and apart from the vote on the Engility merger proposal. Accordingly, you may vote to approve the Engility merger proposal and vote not to approve the Engility compensation proposal and vice versa. Because the vote on the Engility compensation proposal is advisory only, it will not be binding on either Engility or SAIC. Accordingly, if the merger agreement is approved and adopted and the merger is completed, the compensation will be payable, subject only to the conditions applicable thereto, regardless of the outcome of the vote on the Engility compensation proposal.

Approval of the Engility compensation proposal requires the affirmative vote of a majority of votes cast on such matter of the Engility special meeting by holders of Engility common stock (provided that a quorum exists).

Abstentions, failures to submit a proxy card or vote in person, by telephone, or through the Internet and broker non-votes will be treated in the following manner with respect to determining the votes received for each of the proposals:

- an abstention will have no effect on the Engility compensation proposal;
- a failure to submit a proxy card or vote in person, by telephone, or through the Internet or a failure to instruct your broker or nominee to vote will, assuming a quorum is present, have no effect on the Engility compensation proposal.

THE ENGILITY BOARD RECOMMENDS A VOTE FOR THE ENGILITY COMPENSATION PROPOSAL.

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MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

This section describes the material U.S. federal income tax consequences of the merger to U.S. holders (as defined below) of Engility common stock who exchange shares of Engility common stock for shares of SAIC common stock and cash in lieu of fractional shares of SAIC common stock pursuant to the merger. The following discussion is based on the Code, applicable U.S. Treasury regulations thereunder, administrative interpretations and published rulings and court decisions, each as in effect as of the date hereof, and all of which are subject to change, possibly with retroactive effect. Any such change could affect the continuing validity of this discussion.

For purposes of this discussion, a U.S. holder is a beneficial owner that is:

- an individual citizen or resident of the United States;
- a corporation, or any other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- a trust (1) that is subject to the primary supervision of a court within the United States and all the substantial decisions of which are controlled by one or more U.S. persons or (2) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or
- an estate that is subject to U.S. federal income tax on its income regardless of its source.

If a partnership (including for this purpose any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds Engility common stock, the tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding Engility common stock, you should consult your own tax advisor regarding the tax consequences of the merger.

This discussion addresses only U.S. holders of Engility common stock who hold their Engility common stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment), and this discussion does not address the tax consequences applicable to U.S. holders subject to Section 451(b) of the Code. This discussion does not cover all aspects of U.S. federal income taxation that may be relevant to a U.S. holder (including consequences under the alternative minimum tax or the medicare tax on net investment income), and does not address any U.S. federal non-income tax (such as the estate or gift tax), state, local, non-U.S. or other tax laws. This discussion also does not address all aspects of U.S. federal income taxation that may be relevant to particular Engility stockholders in light of their individual circumstances or to Engility stockholders that are subject to special rules, such as:

- financial institutions;
- pass-through entities or investors in pass-through entities;
- real estate investment trusts;
- insurance companies;
- tax-exempt organizations;
- brokers or dealers in securities;
- traders in securities that elect to use a mark-to-market method of accounting;
- regulated investment companies;
- persons that hold Engility common stock as part of a straddle, hedge, short sale, constructive sale or conversion transaction;
- persons that purchased or sell their shares of Engility common stock as part of a wash sale;
- certain expatriates or persons that have a functional currency other than the U.S. dollar; and
- stockholders who acquired their shares of Engility common stock through the exercise of an employee stock option or otherwise as compensation or through a tax-qualified retirement plan.

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THE FOLLOWING DISCUSSION DOES NOT PURPORT TO BE A COMPLETE ANALYSIS OR DISCUSSION OF ALL OF THE POTENTIAL TAX CONSEQUENCES OF THE MERGER. ALL HOLDERS OF ENGILITY COMMON STOCK SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE MERGER, INCLUDING TAX RETURN REPORTING REQUIREMENTS AND THE APPLICABILITY AND EFFECT OF THE ALTERNATIVE MINIMUM TAX AND ANY STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES.

U.S. Federal Income Tax Consequences of the Merger

Consequences if the Merger Qualifies as a Reorganization

It is intended that, for U.S. federal income tax purposes, the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. **Engility s obligation to effect the merger is subject to the satisfaction, or waiver by Engility, at or prior to the effective time of the merger, of the following condition: receipt by Engility of a tax opinion from Weil, Gotshal & Manges LLP, legal counsel to Engility, dated as of the closing date of the merger, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. Such tax opinion will be based on customary assumptions and representations made by SAIC and Engility, as well as certain covenants and undertakings by SAIC and Engility. If any of the assumptions, representations, covenants or undertakings by SAIC or Engility is incorrect, incomplete or inaccurate or is violated, the validity of the opinion described above may be affected and the tax consequences of the merger could differ from those described in this proxy statement/prospectus. In the event that Weil, Gotshal & Manges LLP does not render the tax opinion, and Engility does not otherwise waive this condition, the condition may be satisfied if Morrison & Foerster LLP, legal counsel to SAIC, renders the tax opinion. An opinion of counsel represents counsel s best legal judgment, but is not binding on the Internal Revenue Service (the IRS) or any court. Neither SAIC nor Engility intends to request a ruling from the IRS regarding the U.S. federal income tax consequences of the merger. Accordingly, even if Engility receives a tax opinion that concludes that the merger qualifies as a reorganization within the meaning of Section 368(a) of the Code, no assurance can be given that the IRS will not challenge the conclusions reflected in the opinion or that a court would not sustain such a challenge.**

The remainder of this discussion under the caption Consequences if the Merger Qualifies as a Reorganization and the discussion under Cash Received Instead of a Fractional Share of SAIC common stock below assumes the receipt and accuracy of the opinion described above. The discussion under Backup Withholding below applies whether or not the merger qualifies as a reorganization within the meaning of Section 368(a) of the Code.

Assuming that the merger qualifies as a reorganization within the meaning of Section 368(a) of the Code, the U.S. federal income tax consequences of the merger to U.S. holders of Engility common stock are as follows:

- a U.S. holder of Engility common stock will not recognize any gain or loss realized on the exchange of shares of Engility common stock for shares of SAIC common stock (excluding any cash received in lieu of fractional share interests in SAIC common stock, which shall be treated as discussed below);
- the aggregate tax basis of the SAIC common stock received in the merger (including any fractional share interests in SAIC common stock deemed received and exchanged for cash, as discussed below) will be the same as the aggregate tax basis of the Engility common stock surrendered in exchange for the SAIC common stock; and
- the holding period of SAIC common stock received in exchange for shares of Engility common stock (including any fractional share interests in SAIC common stock deemed received and exchanged for cash, as discussed below) will include the holding period of the Engility common stock surrendered in exchange for

the SAIC common stock.

If a U.S. holder exchanges more than one block of Engility common stock (that is, groups of Engility common stock that the U.S. holder acquired at different times or different prices), tax basis in, and the

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holding period of, the Engility common stock exchanged for SAIC common stock in accordance with the preceding rules will be determined separately with respect to each block of such Engility common stock.

Cash Received Instead of a Fractional Share of SAIC Common Stock

A U.S. holder of Engility common stock who receives cash in lieu of a fractional share of SAIC common stock as part of the merger generally will recognize gain or loss measured by the difference between the amount of cash received for such fractional share and the portion of the U.S. holder s tax basis in the Engility common stock allocated to the fractional share. Gain or loss recognized with respect to cash received in lieu of a fractional share of SAIC common stock generally will be capital gain or loss, and generally will be long-term capital gain or loss if, as of the effective time, the holding period for such shares of Engility common stock is greater than one year. Long-term capital gain of certain non-corporate taxpayers, including individuals, generally is taxed at reduced U.S. federal income tax rates. The deductibility of capital losses is subject to limitations.

Consequences if the Merger Fails to Qualify as a Reorganization

If any requirement for the merger to qualify as a reorganization within the meaning of Section 368(a) of the Code is not satisfied, a U.S. holder of Engility common stock generally would recognize gain or loss for U.S. federal income tax purposes on each share of Engility common stock surrendered in the merger in an amount equal to the difference between (1) the fair market value of the merger consideration received in exchange for such surrendered share upon completion of the merger and (2) the holder s basis in the share of Engility common stock surrendered. Gain or loss must be calculated separately for each block of Engility common stock exchanged by such U.S. holder if such blocks were acquired at different times or for different prices. Any gain or loss recognized generally would be long-term capital gain or loss if the U.S. holder s holding period in a particular block of Engility common stock exceeds one year at the effective time. Long-term capital gain of non-corporate U.S. holders (including individuals) generally is taxed at reduced U.S. federal income tax rates. The deductibility of capital losses is subject to limitations. A U.S. holder s tax basis in shares of SAIC common stock received in the merger would be equal to the fair market value thereof as of the effective time, and such U.S. holder s holding period in such shares would begin on the day following the merger.

Backup Withholding

Payments of cash to a holder of Engility common stock may, under certain circumstances, be subject to backup withholding at the applicable rate (currently 24%), unless the holder of the Engility common stock receiving such payments provides proof of an applicable exemption (generally exemptions apply to corporations, tax-exempt organizations, qualified pension and profit-sharing trusts, individual retirement accounts, or nonresident aliens who, when required, provide certification as to their status) or provides a certificate containing the holder s name, address, correct federal taxpayer identification number and a statement that the holder is exempt from backup withholding and otherwise complies with all applicable requirements of the backup withholding rules. Backup withholding does not constitute an additional tax, and any amounts withheld from payments to a holder under the backup withholding rules will be allowed as a refund or credit against the holder s U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

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ACCOUNTING TREATMENT

The merger will be accounted for under the acquisition method of accounting in accordance with Accounting Standards Codification 805, *Business Combinations* (ASC 805), with SAIC treated as the acquirer. SAIC will record all tangible and intangible assets acquired and liabilities assumed in the acquisition of Engility at fair value as of the acquisition date. The excess amount of the aggregated purchase consideration paid over the fair value of the net of assets acquired and liabilities assumed is recorded as goodwill. Acquisition-related costs that are not part of the purchase price consideration are expensed as incurred.

Intangible assets with finite lives are amortized using the method that best reflects how their economic benefits are utilized or, if a pattern of economic benefits cannot be reliably determined, on a straight-line basis over their estimated useful lives. Goodwill and intangible assets with indefinite lives are not amortized, but rather tested for potential impairment annually. Intangible assets and goodwill are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

The allocation of purchase price reflected in the unaudited pro forma combined financial statements is based on preliminary estimates using assumptions Engility management and SAIC management believe are reasonable based on currently available information. The final purchase price and fair value assessment of assets and liabilities will be based in part on a detailed valuation that has not yet been completed.

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UNAUDITED PRO FORMA CONDENSED, CONSOLIDATED AND COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed, consolidated and combined financial statements of SAIC and Engility (the pro forma financial statements) include the unaudited pro forma condensed, consolidated and combined balance sheet (the pro forma balance sheet) as of August 3, 2018 and the unaudited pro forma condensed, consolidated and combined statement of income for the six months ended August 3, 2018 (the interim pro forma statement of income) and the unaudited pro forma condensed, consolidated and combined statement of income for the year ended February 2, 2018 (the year end pro forma statement of income and, together with the interim pro forma statement of income, the pro forma statements of income), after giving effect to the merger. As SAIC is the accounting acquiror and has not yet reported results for the third quarter of its fiscal year 2019, the pro forma information below does not reflect the third quarter results of either company.

The pro forma balance sheet as of August 3, 2018, has been presented as if the acquisition of Engility had occurred on such date. The pro forma statements of income for the six months ended August 3, 2018 and the year ended February 2, 2018 have been prepared as if the acquisition of Engility had occurred on February 4, 2017. The historical financial information has been adjusted in the pro forma financial statements to give effect to pro forma events that are (1) directly attributable to the merger, (2) factually supportable, and (3) with respect to the pro forma statements of income, expected to have a continuing impact on the results of operations of the combined business.

The pro forma financial statements are for informational purposes only and are not intended to represent or to be indicative of the actual results of operations or financial position that the combined SAIC and Engility would have reported had the merger been completed as of the dates set forth in the pro forma financial statements, and should not be taken as being indicative of SAIC s future consolidated results of operations or financial position.

The pro forma financial statements should be read in conjunction with:

- the accompanying notes to the pro forma financial statements;
- SAIC’s audited historical consolidated financial statements and related notes as of and for the year ended February 2, 2018, which are incorporated by reference in this document;
- SAIC’s unaudited historical condensed and consolidated financial statements and related notes as of and for the six-month period ended August 3, 2018, which are incorporated by reference in this document;
- Engility’s audited historical consolidated financial statements and related notes as of and for the year ended December 31, 2017, which are incorporated by reference in this document; and
- Engility’s unaudited historical consolidated financial statements and related notes as of and for the six months ended June 29, 2018, which are incorporated by reference in this document.

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UNAUDITED PRO FORMA CONDENSED, CONSOLIDATED AND COMBINED BALANCE SHEET
As of August 3, 2018

	Historical				
	SAIC as of August 3, 2018	Engility as of June 29, 2018	Pro Forma Adjustments	Footnote Reference	Pro Forma Combined
			(Amounts in millions)		
ASSETS					
Current assets:					
Cash and cash equivalents	$ 106	$ 40	$ 75	5.A	$ 221
Receivables, net	713	84	251	1	1,048
Unbilled receivables	—	251	(251)	1	—
Inventory, prepaid expenses and other current assets	107	—	20	1	127
Other current assets	—	20	(20)	1	—
Total current assets	926	395	75		1,396
Goodwill	863	1,071	149	5.B	2,083
Intangible assets, net	169	345	390	5.C	904
Property, plant, and equipment, net	70	45	—		115
Deferred tax assets	—	142	(68)	5.D	74
Other assets	32	6	—		38
Total assets	$ 2,060	$ 2,004	$ 546		$ 4,610
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable and accrued liabilities	$ 450	$ —	$ 261	5.E, 1	$ 711
Accrued payroll and employee benefits	163	—	81	1	244
Accounts payable, trade	—	47	(47)	1	—
Accrued employment costs	—	81	(81)	1	—
Accrued expenses	—	80	(80)	1	—
Advance payments and billings in excess of costs incurred	—	26	(26)	1	—
Other current liabilities	—	23	(23)	1	—
Long-term debt, current portion	49	25	(12)	4	62
Total current liabilities	662	282	73		1,017
Long-term debt, net of current portion	959	900	130	4	1,989
Other long-term liabilities	48	60	45	5.G, 1	153
Deferred income taxes	24	—	(24)	5.D	—
Income tax liabilities	—	61	(61)	1	—

Commitments and contingencies	—	—	—		—
Stockholders’ equity:					
Common stock	—	—	—		—
Additional paid-in capital	8	1,249	(89)	5.H	1,168
Retained earnings/(Accumulated deficit)	355	(556)	470	5.H	269
Accumulated other comprehensive income (loss)	4	(2)	2	5.H	4
Total common stockholders’ equity	367	691	383		1,441
Non-controlling interest	—	10	—		10
Total stockholders’ equity	367	701	383		1,451
Total liabilities and stockholders’ equity	$ 2,060	$ 2,004	$ 546		$ 4,610

See accompanying notes to unaudited pro forma condensed, consolidated and combined financial statements.

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UNAUDITED PRO FORMA CONDENSED, CONSOLIDATED AND COMBINED STATEMENT OF INCOME
For the Six Months Ended August 3, 2018

	Historical				
	SAIC for the Six Months Ended August 3, 2018	Engility for the Six Months Ended June 29, 2018	Pro Forma Adjustments	Footnote Reference	Pro Forma Combined
	(Amounts in millions, except per share amounts)				
Revenues	$ 2,290	$ 965	$ (16)	6.A	$ 3,239
Cost of revenues	2,077	825	(16)	6.A	2,886
Selling, general and administrative expenses	73	77	17	6.B	167
Operating income	140	63	(17)		186
Interest expense	22	36	(14)	6.C	44
Other income, net	(1)	—	—		(1)
Income before income taxes	119	27	(3)		143
Provision for income taxes	(21)	(7)	1	6.D	(27)
Net income	98	20	(2)		116
Net income attributable to non-controlling interest	—	2	—		2
Net income attributable to common stockholders	$ 98	$ 18	$ (2)		$ 114
Earnings per share:					
Basic	$ 2.31				$ 1.92
Diluted	$ 2.26				$ 1.89
Weighted-average shares:					
Basic shares	42.4		17.0	6.E	59.4
Diluted shares	43.3		17.0	6.E	60.3

See accompanying notes to unaudited pro forma condensed, consolidated and combined financial statements.

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UNAUDITED PRO FORMA CONDENSED, CONSOLIDATED AND COMBINED STATEMENT OF INCOME
For the Year Ended February 2, 2018

	Historical				
	SAIC for the Year Ended February 2, 2018	**Engility for the Year Ended December 31, 2017**	**Pro Forma Adjustments**	**Footnote Reference**	**Pro Forma Combined**
	(Amounts in millions, except per share amounts)				
Revenues	$ 4,454	$ 1,932	$ (34)	6.A	$ 6,352
Cost of revenues	4,043	1,656	(34)	6.A	5,665
Selling, general and administrative expenses	155	142	36	6.B	333
Goodwill impairment	—	7	—		7
Operating income	256	127	(36)		347
Interest expense	44	77	(31)	6.C	90
Other income, net	(2)	—	—		(2)
Income before income taxes	214	50	(5)		259
Provision for income taxes	(35)	(80)	2	6.D	(113)
Net income (loss)	179	(30)	(3)		146
Net income attributable to non-controlling interest	—	5	—		5
Net income (loss) attributable to common stockholders	$ 179	$ (35)	$ (3)		$ 141
Earnings per share:					
Basic	$ 4.13				$ 2.34
Diluted	$ 4.02				$ 2.29
Weighted-average shares:					
Basic shares	43.3		17.0	6.E	60.3
Diluted shares	44.5		17.0	6.E	61.5

See accompanying notes to unaudited pro forma condensed, consolidated and combined financial statements.

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NOTES TO UNAUDITED PRO FORMA CONDENSED, CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Note 1—Basis of Presentation

The accompanying pro forma financial statements were prepared in accordance with Article 11 of Regulation S-X and present the pro forma balance sheet and pro forma statements of income of SAIC based upon the historical financial statements of SAIC and Engility, after giving effect to the merger and are intended to reflect the impact of the merger on SAIC s financial statements.

The pro forma balance sheet as of August 3, 2018, has been presented as if the acquisition of Engility had occurred on such date. The pro forma statements of income for the six months ended August 3, 2018 and the year ended February 2, 2018 have been prepared as if the acquisition of Engility had occurred on February 4, 2017.

SAIC and Engility have different fiscal years. SAIC utilizes a 52/53 week fiscal year ending on the Friday closest to January 31, with fiscal quarters typically consisting of 13 weeks. SAIC s fiscal year 2018 began on February 4, 2017 and ended on February 2, 2018. Engility s fiscal year begins on January 1 and ends on December 31 each year. The unaudited pro forma condensed combined balance sheet and statements of operations have been prepared utilizing period ends that differ by less than 93 days, as permitted by Rule 11-02 Regulation S-X.

Due to different fiscal period ends, the pro forma statement of income for the six months ended August 3, 2018 combines the historical results of SAIC for the six months ended August 3, 2018 and the historical results of Engility for the six months ended June 29, 2018. The pro forma statement of income for the year ended February 2, 2018 combines the historical results of SAIC for the year ended February 2, 2018 and the historical results of Engility for the year ended December 31, 2017. The pro forma balance sheet combines the historical balance sheet of SAIC as of August 3, 2018, and the historical balance sheet of Engility as of June 29, 2018, giving effect to the acquisition as if it had been consummated on August 3, 2018.

The pro forma financial statements were prepared using the acquisition method of accounting with SAIC considered the accounting acquirer of Engility. Under the acquisition method of accounting, the purchase price is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair values at the acquisition date, with any excess purchase price allocated to goodwill. The pro forma purchase price allocation of Engility s assets to be acquired and liabilities to be assumed is based on preliminary estimates of the fair values of the assets acquired and liabilities assumed and was estimated utilizing company specific information made available by Engility, relevant industry benchmarks, and comparable market transactions. The pro forma adjustments are subject to change as additional information becomes available and as additional analyses are performed. These potential changes to the purchase price allocation and related pro forma adjustments could be material.

The reclassification adjustments related to the balance sheet of Engility (to conform to SAIC presentation) include the following:

- (i) reclassification of $251 million of Unbilled receivables to Receivables, net;
- (ii) reclassification of $20 million of Other current assets to Inventory, prepaid expenses and other current assets;
- (iii) reclassification of Accounts payable, trade of $47 million, Accrued expenses of $80 million, Advance payments and billings in excess of costs incurred of $26 million, and Other current liabilities of $23 million to Accounts payable and accrued liabilities;
- (iv) reclassification of $81 million of Accrued employment costs to Accrued payroll and employee benefits; and
- (v) reclassification of $61 million of Income tax liabilities to Other long-term liabilities;

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Note 2—Accounting Policies

For the purposes of preparing the pro forma financial statements, SAIC management has conducted a preliminary analysis of the adjustments required to conform Engility s financial statements to reflect the current accounting policies of SAIC. SAIC management s assessment is ongoing and, at the time of preparing the pro forma financial statements, other than the adjustments made herein, management is not aware of any other material accounting policy differences. Upon consummation of the merger, SAIC management will conduct a review of Engility s accounting policies to determine if additional differences in accounting policies or financial statement classification exist that may require additional adjustments to or reclassification of Engility s results of operations, assets or liabilities to conform to SAIC s accounting policies and classifications. As a result of that review, SAIC management may identify differences that, when conformed, could have a material impact on the pro forma financial statements.

Note 3—Purchase Price Allocation

The pro forma balance sheet has been adjusted to reflect the allocation of the preliminary estimated purchase price to identifiable assets to be acquired and liabilities to be assumed, with the excess recorded as goodwill. The following table represents the preliminary estimate of the purchase price to be paid in the merger (in millions, except exchange ratio and SAIC share price):

Total Engility shares outstanding (i)		37.0
Total Engility awards expected to be converted (ii)		0.7
		37.7
Exchange ratio		0.45
Total SAIC shares issued		17.0
SAIC share price (iii)	$	68.42
Stock consideration to be transferred	$	1,160
Cash paid to extinguish Engility debt		968
Total purchase price	$	2,128

(i) Total shares outstanding as of the close of business on November 21, 2018.
(ii) Total awards expected to be converted into SAIC common stock in connection with the merger.
(iii) Represents SAIC closing share price on November 21, 2018.

The actual value of SAIC common stock to be issued in the merger will depend on the market price of shares of SAIC common stock at the closing date of the merger, and therefore the actual purchase price will fluctuate based on the market price of SAIC common stock. Accordingly, the final purchase price could differ significantly from the current estimate. A 10% difference in SAIC s stock price as of November 21, 2018 would change the purchase price by approximately $116 million and impact goodwill by a corresponding amount.

The cash paid to extinguish Engility debt that is included in the transaction consideration above reflects an estimate of Engility s outstanding debt as of November 21, 2018, and a make-whole redemption premium of $30 million. The cash paid to extinguish Engility debt will depend on the outstanding debt at the closing date of the merger, and, therefore, the actual purchase price could fluctuate based on Engility s outstanding debt, and the final purchase price could differ from the current estimate. Engility expects to make a mandatory principal payment of approximately $6 million no later than December 31, 2018.

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The preliminary estimated purchase price is allocated as follows (in millions):

Cash and cash equivalents	$	40
Receivables, net		335
Inventory, prepaid expenses and other current assets		20
Intangible assets, net (i)		735
Property, plant and equipment, net		45
Deferred tax assets (ii)		98
Other assets		6
Total Assets Acquired		1,279
Accounts payable and accrued liabilities		174
Accrued payroll and employee benefits		81
Income tax liabilities		61
Other long-term liabilities		45
Total Liabilities Assumed		361
Net identifiable assets		918
Add: Non-controlling interest		(10)
Goodwill		1,220
Total consideration to be transferred	$	2,128

For the purposes of the preliminary purchase price allocation, the carrying values are assumed to approximate the preliminary fair values unless noted otherwise. The final valuation may be materially different as more detailed information will become available after the consummation of the merger.

(i) The identifiable intangible assets acquired in the transaction consist of trade names, developed technology, and customer relationships with estimated useful lives of 1, 3, and 11 years, respectively. The estimated fair values of these identifiable intangible assets are $5 million, $20 million, and $710 million, respectively. The estimated fair value of $735 million is determined primarily using the income approach, which is based on market participant expectations of the cash flows an asset would generate over its useful life. The more significant assumptions inherent in the development of these estimates include the estimated after-tax cash flows that will be received for the intangible asset and the appropriate discount rate selected.

(ii) This balance reflects the elimination of certain historical deferred tax assets and liabilities as part of purchase accounting. The deferred tax asset balance is presented net of deferred tax liabilities. It also includes the recognition of deferred tax liabilities resulting from the fair value adjustments for the identifiable intangible assets recognized at a blended federal and state statutory tax rate of 25.5%. The combined federal and state statutory tax rate was based upon the jurisdictions in which SAIC operates. The fair value adjustments to goodwill and identifiable intangible assets recognized in the transaction are not expected to be deductible for income tax purposes.

Refer to Note 5 for additional information on how the adjustments described above have been reflected in the pro forma balance sheet.

Note 4—Financing Adjustments

In connection with the acquisition, SAIC expects to incur additional indebtedness of approximately $1.068 billion in a new five year secured term loan A with interest payments indexed to the 1-month LIBOR plus an applicable margin of 1.25% to 2.00%. The debt proceeds, net of related financing fees, will be used to repay Engility s existing debt at closing.

Long-term debt, current portion was adjusted as follows:

	As of August 3, 2018 (in millions)		
To remove historical Engility long-term debt, current portion	$	(25	)
To record the current portion of the new term loan A		13	
Total long-term debt, current portion adjustments	$	(12	)

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Long-term debt, net of current portion was adjusted as follows:

	As of August 3, 2018 (in millions)	
To remove historical Engility long-term debt, net of current portion and debt issuance costs (i)	$	(900)
To record the new term loan A, net of current portion (ii)		1,055
To record new debt issuance costs related to the new term loan A		(25)
Total long-term debt, net of current portion, adjustments	$	130

(i) Represents the long-term portion of historical borrowings of Engility, which is comprised of aggregate long-term principal of $943 million, net of $43 million of debt issuance costs.

(ii) Represents the long-term borrowings, net of $13 million of the current portion incurred by SAIC under the new term loan A.

Note 5—Pro Forma Adjustments – Balance Sheet

The pro forma adjustments included in the pro forma balance sheet as of August 3, 2018 are as follows (in millions):

A) *Cash and cash equivalents* were adjusted as follows:

Net proceeds from issuance from the new term loan A	$	1,043
Cash paid to extinguish Engility debt (see Note 3)		(968)
Total cash and cash equivalents adjustments	$	75

B) *Goodwill* was adjusted as follows:

To remove Engility historical goodwill	$	(1,071)
To record goodwill recognized as a result of the merger (see Note 3)		1,220
Total goodwill adjustments	$	149

C) *Intangible assets, net* was adjusted as follows:

To remove Engility historical intangible assets	$	(345)
To record intangible assets acquired in the merger (see Note 3)		735
Total intangible assets, net adjustments	$	390

D) *Deferred tax assets* were adjusted as follows:

To remove certain historical Engility deferred tax assets and liabilities as a result of the acquisition	$	55
To reclassify SAIC deferred income taxes in order to present a net deferred tax asset		(24)
To record deferred tax liabilities for excess book over carry-over basis for intangible assets acquired		(99)
Total deferred tax assets adjustments	$	(68)

E) *Accounts payable and accrued liabilities* were adjusted as follows:

To record transaction fees directly related to the merger (i)	$	75
To record expected severance for terminated Engility executives in connection with the merger		11
To eliminate historical Engility deferred rent balances (current)		(2)
To align Engility's presentation of accounts payable and accrued liabilities with SAIC (see Note 1)		176
To reclassify the long-term incentive plan accrual for Engility's CEO (ii)		1
Total accounts payable and accrued liabilities adjustments	$	261

(i) Reflects estimated financial advisory, legal, and accounting fees directly attributable to the acquisition and not yet recognized in the historical financial statements.

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(ii) Reflects the amount of deferred compensation that will become due to Engility CEO upon termination in connection with the merger.

F) *Long-term debt, current portion* and *long-term debt, net of current portion* were adjusted as described in Note 4.

G) *Other long-term liabilities* were adjusted as follows:

To reclassify Income tax liabilities to Other long-term liabilities (see Note 1)	$	61
To reclassify the long-term incentive plan accrual for Engility's CEO		(1)
To eliminate historical Engility deferred rent balances (long-term)		(15)
Total other long-term liabilities adjustments	$	45

H) *Additional paid-in capital, Accumulated other comprehensive income (loss),* and *Retained earnings* were adjusted as follows:

To remove Engility historical additional paid-in capital	$	(1,249)
Issuance of stock consideration (i)		1,160
Total additional paid-in capital adjustments	$	(89)
To remove Engility historical accumulated other comprehensive loss		2
To remove Engility historical accumulated deficit		556
To recognize transaction costs and severance costs accrued in connection with the acquisition (ii)		(86)
Total retained earnings adjustments	$	470

(i) Relates to the issuance of stock consideration by SAIC in connection with the merger, as described further in Note 3.

(ii) Reflects transaction costs of $75 million and severance costs of $11 million for Engility executives accrued in connection with the acquisition. These amounts were not tax effected as the tax deductibility of these items has not been determined.

Note 6—Pro Forma Adjustments – Statements of Income

The pro forma adjustments included in the pro forma statements of income are as follows (in millions):

A) This adjustment reflects the elimination of Revenues, and related Cost of revenues, generated from transactions between SAIC and Engility.

B) Selling, general and administrative expenses were adjusted as follows:

	Six Months Ended August 3, 2018		Year Ended February 2, 2018	
To remove amortization of historical Engility intangible assets	$	(16)	$	(32)
To record amortization of intangible assets acquired as a result of the merger (i)		38		76
To remove Engility compensation cost for executives terminated in connection with the merger (ii)		(5)		(7)
To remove Engility Board compensation (iii)		—		(1)
Total selling, general and administrative expense adjustments	$	17	$	36

(i) The estimated amortization expense was computed using the straight-line method and the estimated useful lives for the three intangible assets, as described further in Note 3.

An increase (decrease) of 10% in the estimated fair value allocated to the intangible assets would result in an increase (decrease) in the six-month pro forma amortization expense of $4 million and an increase (decrease) in the 12-month amortization expense of $8 million. An increase in the estimated useful life of each of the intangible assets of one year would result in a decrease in the six-month pro forma amortization expense of $5 million and a decrease in the 12-month pro forma amortization expense of $10 million, while a decrease in the estimated useful life of each of the intangible assets of one year would result in an increase in the six-month pro forma amortization expense of $2 million and an increase in the 12-month pro forma amortization expense of $5 million.

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(ii) To remove Engility compensation cost for executives terminated in conjunction with the closing of the transaction, including cash and stock compensation.

(iii) To remove Engility compensation cost for Board members who will not be continuing service with SAIC, including cash and stock compensation.

C) *Interest expense* was adjusted as follows:

	Six Months Ended August 3, 2018	Year Ended February 2, 2018
To remove interest expense related to Engility debt	$ (36)	$ (77)
To record interest expense on the new term loan A (i)	20	41
To record amortization of debt issuance costs on the new term loan A	2	5
Total interest expense adjustments	$ (14)	$ (31)

(i) Interest expense for the six months ended August 3, 2018 and year ended February 2, 2018 is based on the 1-month LIBOR of 2.32% as of November 21, 2018 plus the applicable margin of 1.50%. For each 0.125% change in the estimated interest rate for the new term loan A, interest expense would increase or decrease by approximately $1 million for the six months ended August 3, 2018 and the year ended February 2, 2018.

D) Provision for income taxes decreased by $1 million for the six months ended August 3, 2018 and $2 million for the year ended February 2, 2018. This adjustment represents the income tax impact of the pro forma adjustments, using the blended federal and state statutory tax rate of approximately 25.5% for the six months ended August 3, 2018 and approximately 37.7% for the year ended February 2, 2018. This does not represent SAIC s effective tax rate, which will include other taxes and benefits, and does not take into account any historical or possible future tax events that may impact SAIC following the consummation of the merger.

E) *Earnings per share* was adjusted in order to reflect the shares of SAIC common stock that will be issued as purchase consideration for the acquisition of Engility. The pro forma adjustment to weighted average common shares outstanding (basic and diluted) was 17.0 million shares. This adjustment includes (i) outstanding Engility common stock (at November 21, 2018) that will be converted into SAIC common stock (16.7 million) and (ii) Engility awards expected to be issued in connection with the merger and converted into SAIC common stock (0.3 million). See Note 3 for share conversion rate details.

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COMPARATIVE STOCK PRICE DATA AND DIVIDENDS

SAIC common stock and Engility common stock are both traded on the NYSE under the symbols SAIC and EGL, respectively. The following table presents trading information for SAIC and Engility common shares on September 7, 2018, the last trading day before public announcement of the transaction, and November 29, 2018, the last practicable trading day before the date of this joint proxy statement/prospectus.

	SAIC Common Stock			Engility Common Stock		
Date	**High**	**Low**	**Close**	**High**	**Low**	**Close**
September 7, 2018	91.01	89.20	89.86	36.57	36.02	36.24
November 29, 2018	70.22	68.69	69.52	31.42	30.72	31.15

For illustrative purposes, the following table provides Engility equivalent per share information on each of the specified dates. Engility equivalent per share amounts are calculated by multiplying Engility per share amounts by the exchange ratio of 0.450 shares of SAIC common stock for each share of Engility common stock.

	SAIC Common Stock			Engility Equivalent Per Share		
Date	**High**	**Low**	**Close**	**High**	**Low**	**Close**
September 7, 2018	91.01	89.20	89.86	40.95	40.14	40.44
November 29, 2018	70.22	68.69	69.52	31.60	30.91	31.28

The market value of the shares of SAIC common stock to be issued in exchange of shares of Engility common stock upon the completion of the merger will not be known at the time of the SAIC and Engility special meetings. The above tables show only historical comparisons. Because the market prices of SAIC and Engility will likely fluctuate prior to the merger, these comparisons may not provide meaningful information to SAIC stockholders in determining whether to approve the issuance of shares of SAIC common stock to Engility stockholders in connection with the merger or to Engility stockholders in determining whether to approve and adopt the merger agreement. SAIC stockholders and Engility stockholders are encouraged to obtain current market quotations for shares of SAIC common stock and Engility common stock and to review carefully the other information contained in this joint proxy statement/prospectus or incorporated by reference in this joint proxy statement/prospectus.

Market Prices and Dividend Data

SAIC

The following table sets forth the high and low sales prices of SAIC s common stock as reported in the NYSE s consolidated transaction reporting system, and the quarterly cash dividends declared per share, for the fiscal quarters indicated.

	High	Low	Dividend Declared
2017			
First Quarter	$ 54.17	$ 40.50	$ 0.31
Second Quarter	$ 62.09	$ 51.45	$ 0.31
Third Quarter	$ 70.62	$ 60.52	$ 0.31
Fourth Quarter	$ 88.65	$ 70.66	$ 0.31
2018			

First Quarter	$ 89.24	$ 70.10	$ 0.31
Second Quarter	$ 81.44	$ 69.10	$ 0.31
Third Quarter	$ 74.85	$ 61.06	$ 0.31
Fourth Quarter	$ 79.97	$ 67.89	$ 0.31
2019			
First Quarter	$ 86.30	$ 67.73	$ 0.31
Second Quarter	$ 90.10	$ 80.25	$ 0.31
Third Quarter (through November 29, 2018)	$ 92.74	$ 66.11	$ 0.31

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As discussed in greater detail under *Risk Factors—Risk Factors Relating to SAIC Following the Merger—Other Risks—SAIC cannot assure you that it will be able to continue paying dividends at the current rate, or at all,* the declaration and payment of future dividends is at the discretion of the SAIC Board, and will depend upon its financial results, cash requirements, future prospects and other factors deemed relevant by the SAIC Board.

Engility

The following table sets forth the high and low sales prices of Engility s common stock as reported by the NYSE s consolidated transaction reporting system for the fiscal quarters indicated.

	High	Low	Dividend Declared
2016			
First Quarter	$ 32.26	$ 11.46	$ —
Second Quarter	$ 24.31	$ 17.31	$ —
Third Quarter	$ 32.76	$ 21.79	$ —
Fourth Quarter	$ 39.16	$ 27.81	$ —
2017			
First Quarter	$ 34.32	$ 26.57	$ —
Second Quarter	$ 31.58	$ 25.70	$ —
Third Quarter	$ 34.99	$ 28.12	$ —
Fourth Quarter	$ 35.63	$ 26.56	$ —
2018			
First Quarter	$ 28.97	$ 22.29	$ —
Second Quarter	$ 32.18	$ 23.62	$ —
Third Quarter	$ 38.54	$ 30.16	$ —
Fourth Quarter (through November 29, 2018)	$ 38.54	$ 29.50	$ —

Engility has not declared or paid any dividends on its common shares other than the payment of a special cash dividend in conjunction with the acquisition of TASC, Inc. in February 2015. The declaration of any future cash dividends and the amount of any such dividends, if declared, will be subject to Engility s financial condition, earnings, capital requirements, financial covenants and other contractual restrictions and to the discretion of the Engility Board. The Engility Board may take into account such matters as general business conditions, industry practice, financial condition and performance, future prospects, cash needs and capital investment plans, income tax consequences, applicable law and such other factors as the Engility Board may deem relevant.

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PRINCIPAL STOCKHOLDERS OF SAIC

Stock Ownership of Certain Beneficial Owners

The following table sets for, as of November 29, 2018, information regarding the beneficial ownership of each person known by us to beneficially own more than five percent of SAIC common stock.

Name and Address of Beneficial Owner	Amount and nature of ownership	Percentage of SAIC Common Stock Beneficially Owned	
The Vanguard Group(1) 100 Vanguard Blvd. Malvern, PA 19355	4,767,852	11.26	%
BlackRock, Inc.(2) 55 East 52nd Street, New York, NY 10055	4,510,575	10.65	%

(1) Information shown is based on information reported by the filer on a Schedule 13G/A filed with the SEC on February 9, 2018 in which The Vanguard Group, an investment adviser filing on behalf of itself and two wholly-owned subsidiaries, reported that it has sole voting power over 83,849 shares, shared voting power over 5,363 shares, sole dispositive power over 4,681,802 shares and shared dispositive power over 86,050 shares.

(2) Information shown is based on information reported by the filer on a Schedule 13G/A filed with the SEC on January 19, 2018 in which BlackRock, Inc., a holding company filing on behalf of a number of its subsidiaries, reported that it has sole voting power over 4,417,877 shares and sole dispositive power over 4,510,575 shares

Stock Ownership of Directors and Officers

The following table sets forth, as of November 29, 2018, the beneficial ownership of our common stock by our directors, the named executive officers, and all of our directors and executive officers as a group. Unless otherwise indicated, each individual has sole investment power and sole voting power with respect to the shares beneficially owned by that individual, except for any investment or voting power that may be shared with a spouse. No shares have been pledged.

	Common Stock(1)	Stock Units(2)	Options and RSUs(3)	Total Shares Beneficially Owned	Percentage of SAIC Common Stock Beneficially Owned
Directors					
Robert A. Bedingfield	12,685	2,726	27,499	42,910	*
Deborah B. Dunie	5,779	—	3,177	8,956	*
John J. Hamre	21,892	—	3,177	25,069	*
Mark J. Johnson	657	—	1,539	2,196	*
Timothy J. Mayopoulos	5,420	—	12,207	17,627	*
Donna S. Morea	9,685	—	27,499	37,184	*
Edward J. Sanderson, Jr.	22,404	7,571	24,705	54,680	*
Steven R. Shane	11,685	—	27,499	39,184	*
Named Executive Officers					

Anthony J. Moraco	141,199	5,374	259,385	405,958		*
Charles A. Mathis	2,245	—	7,949	10,194		*
Nazzic S. Keene	28,336	—	66,011	94,347		*
Steven G. Mahon	2,055	—	12,401	14,456		*
Karen A. Wheeler	11,414	1,319	7,239	19,972		*
All directors and executive officers as a group (13 persons)	275,456	16,990	480,287	772,733	1.8	%

* Represents less than 1%

(1) Information in this column includes (a) the approximate number of shares allocated to the account of the individual by the trustee of the SAIC Retirement Plan as follows: Mr. Moraco, 1,582 shares and Ms. Wheeler, 2,239 shares; and all directors and officers as a group, 94,350 shares, (b) shares held by certain trusts established by the individuals as follows: Mr. Bedingfield, 9,631 shares; Mr. Shane, 2,000 shares; Mr. Moraco, 137,502 shares; and Ms. Keene, 28,151 shares.

(2) Represents vested stock units attributable to the individual or the group in the Key Executive Stock Deferral Plan and the Management Stock Compensation Plan. Shares held in these plans are voted by the trustee in the same proportion as all other stockholders collectively vote their shares of common stock.

(3) Shares subject to options exercisable or restricted stock units subject to vesting, both within 60 days following November 29, 2018.

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PRINCIPAL STOCKHOLDERS OF ENGILITY

This table includes information regarding the amount of our common stock beneficially owned as of November 29, 2018, by (i) each of our directors, (ii) each of our executive officers named in Executive Compensation—2017 Summary Compensation Table, (iii) all of our directors and current executive officers as a group and (iv) each person or entity known to us to own more than 5% of our outstanding common stock. Percentage ownership calculations for beneficial ownership are based on 36,968,909 shares outstanding as of November 29, 2018.

Name and Address of Beneficial Owner(1)	Number of Shares Beneficially Owned(2)	Percentage Ownership
Directors and Named Executive Officers:		
Named Executive Officers		
Lynn A. Dugle(3)	71,464	**
Wayne M. Rehberger	24,140	**
Thomas O. Miiller	24,725	**
Susan M. Balaguer	6,452	**
Directors		
Peter A. Marino(4)	13,309	**
Darryll J. Pines(5)	20,853	**
Anthony Principi(5)	21,667	**
Charles S. Ream(5)	18,203	**
David A. Savner(5)	19,566	**
John W. Barter, III(6)	15,715	**
William G. Tobin(5)(7)	17,869	**
Steven A. Denning(8)	0	**
David M. Kerko(9)	0	**
Katharina G. McFarland(10)	3,228	**
All directors and executive officers, as a group (14 persons)(11)	257,191	**
Other Stockholders:		
Birch Partners, LP(12)	17,920,892	48.4 %
BlackRock, Inc.(13)	3,699,601	10.0 %

** Represents beneficial ownership of less than 1% of our outstanding common stock.

(1) Unless otherwise noted, the address for each listed director and executive officer is c/o Engility Holdings, Inc., 4803 Stonecroft Boulevard Chantilly, VA 20151.

(2) The number of shares of common stock beneficially owned by each stockholder is determined under SEC rules, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which a person has sole or shared voting power or investment power and also any shares which a person has the right to acquire within 60 days after October 13, 2018, through the vesting and/or exercise of any equity award or other right. The inclusion herein of such shares, however, does not constitute an admission that the named stockholder is a direct or indirect beneficial owner of such shares. Unless otherwise indicated, each person named in the table has sole voting power and investment power (or shares such power with his or her spouse) with respect to all shares of common stock listed as owned by such person.

(3) Includes 4,239 shares issuable upon settlement of RSUs that have vested but have not yet been delivered.

(4) Includes 12,096 shares issuable upon settlement of RSUs that have vested but have not yet been delivered.
(5) Includes 11,563 shares issuable upon settlement of RSUs that have vested but have not yet been delivered.
(6) Includes 1,192 shares issuable upon settlement of RSUs that have vested but have not yet been delivered.
(7) Includes 16 shares held by Mr. Tobin's spouse. Mr. Tobin disclaims beneficial ownership of such shares.
(8) Mr. Denning is the Chairman and a Managing Director of General Atlantic LLC (GA LLC). As discussed below in footnote 12, GA may be deemed, by virtue of its rights under the operating agreement of Birch GP, LLC, to share dispositive and/or voting power with respect to the shares of common stock held by Birch Partners, LP. Mr. Denning disclaims beneficial ownership of any such shares. The principal office address for Mr. Denning is c/o General Atlantic Service Company, L.P., 600 Steamboat Road, Greenwich, CT 06830. Mr. Denning has waived the right to receive any cash or equity compensation for his service on the Board.
(9) Mr. Kerko has waived the right to receive any cash or equity compensation for his service on the Board.
(10) Includes 3,228 shares issuable upon settlement of RSUs that have vested but have not yet been delivered.
(11) Includes 78,570 shares issuable upon settlement of RSUs that have vested but have not yet been delivered.

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(12) Information shown is based solely on information reported by each of Birch Partners, LP, KKR 2006 Fund L.P. and certain of its affiliates and GA LLC and certain of its affiliates on Schedules 13D filed with the SEC on September 11, 2018.

Birch Partners, LP directly owns 17,920,892 shares of the Company s common stock. Birch GP, LLC (as the general partner of Birch Partners, LP) may be deemed to be the beneficial owner of the shares of the Company s common stock beneficially owned by Birch Partners, LP, and Birch GP, LLC disclaims beneficial ownership of such shares. The members of Birch GP, LLC are KKR 2006 Fund L.P. (KKR 2006) and General Atlantic Partners 85, L.P. (GAP 85). The principal business address for Birch Partners, LP and Birch GP, LLC is c/o Kohlberg Kravis Roberts & Co., L.P., 2800 Sand Hill Road, Suite 200, Menlo Park, CA 94025.

An aggregate of 8,960,446 shares of the Company s common stock held by Birch Partners, LP is economically attributable to KKR 2006, KKR Partners III, L.P., OPERF Co-Investment LLC and 8 North America Investor L.P. as a result of their limited partner interests in Birch Partners, LP and KKR 2006 s membership interests in Birch GP, LLC, the general partner of Birch Partners, LP.

Each of KKR 2006 (as holder of membership interests in Birch GP, LLC, the general partner of Birch Partners, LP), KKR Associates 2006 L.P. (KKR Associates 2006) (as the general partner of KKR 2006), KKR 2006 GP LLC (KKR 2006 GP) (as the general partner of KKR Associates 2006), KKR Fund Holdings L.P. (KKR Fund Holdings) (as the designated member of KKR 2006 GP), KKR Fund Holdings GP Limited (KKR Fund Holdings GP) (as a general partner of KKR Fund Holdings), KKR Group Holdings Corp. (KKR Group Holdings) (as a general partner of KKR Fund Holdings and the sole shareholder of KKR Fund Holdings GP), KKR & Co. Inc. (KKR & Co.) (as the sole shareholder of KKR Group Holdings), KKR Management LLC (KKR Management) (as the controlling shareholder of KKR & Co.) and Messrs. Henry R. Kravis and George R. Roberts (as the designated members of KKR Management) may be deemed to share voting and dispositive power with respect to any shares of the Company s common stock beneficially owned directly by Birch Partners, LP, and each disclaims beneficial ownership of such shares of the Company s common stock. The address for KKR 2006, KKR Associates 2006, KKR 2006 GP, KKR Fund Holdings, KKR Fund Holdings GP, KKR Group Holdings, KKR & Co., KKR Management and Mr. Kravis is c/o Kohlberg Kravis Roberts & Co. L.P., 9 West 57th Street, Suite 4200, New York, NY 10019. The address for Mr. Roberts is c/o Kohlberg Kravis Roberts & Co. L.P., 2800 Sand Hill Road, Suite 200, Menlo Park, CA 94025.

By virtue of the fact that (i) GAP 85 is a member of Birch GP, LLC and each of GAP 85, GAP Coinvestments III, LLC (GAPCO III), GAP Coinvestments IV, LLC (GAPCO IV), GAP Coinvestments CDA, L.P. (GAPCO CDA) and GAPCO GmbH & Co KG (KG) (the GA Funds) are each limited partners of Birch Partners, LP, (ii) General Atlantic GenPar, L.P. (GenPar) is the general partner of GAP 85, (iii) GA LLC is the general partner of GenPar and GAPCO CDA and the managing member of GAPCO III and GAPCO IV, (iv) GAPCO Management GmbH (GmbH Management) is the general partner of KG, and (v) the 27 managing directors of GA LLC, including Steven A. Denning (the GA Managing Directors), may be deemed to share voting and dispositive power with respect to shares and interests held by the GA Funds, and voting and disposition decisions with respect to interests held by the GA Funds are made by a portfolio committee of GA LLC comprising certain of the GA Managing Directors and officers of GA LLC, GA LLC, GenPar, GAP 85, GAPCO III, GAPCO IV, GAPCO CDA, KG and GmbH Management may be deemed to beneficially own, in the aggregate, 17,920,892 shares of the Company s common stock (and a pecuniary interest in an aggregate of 8,960,446 shares of the Company s common stock.

Birch Partners, LP, Birch GP, LLC, KKR 2006 and certain of its affiliates and GAP 85 and certain of its affiliates may each be deemed to be a member of a group exercising voting and investment control over the shares of the Company s common stock held by Birch Partners, LP. However, each such person disclaims membership in any such group.

The shares of the Company s common stock reported above are subject to the provisions of the stockholders agreement, as more fully described under the heading Voting Agreement with Birch Partners, L.P.

(13) Information shown is based solely on information reported by BlackRock, Inc. on a Schedule 13G filed with the SEC on May 8, 2018, in which BlackRock, Inc. reported that it has beneficial ownership of 3,699,601 shares of common stock, including sole dispositive power over 3,699,601 shares of common stock and sole voting power over 3,656,334 shares of common stock.

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COMPARISON OF RIGHTS OF ENGILITY STOCKHOLDERS AND SAIC STOCKHOLDERS

If the merger is consummated, stockholders of Engility will become stockholders of SAIC. The rights of SAIC stockholders are governed by and subject to the provisions of the Delaware General Corporation Law and the Certificate of Incorporation and bylaws of SAIC. Below is a summary of the material differences between the rights of holders of SAIC common stock and the rights of holders of Engility common stock, which does not purport to be a complete description of those differences or a complete description of the terms of the SAIC common stock subject to issuance in connection with the merger. The following summary is qualified in its entirety by reference to the relevant provisions of (i) the Delaware General Corporation Law (ii) the Amended and Restated Certificate of Incorporation of SAIC, which we refer to as the SAIC charter, (iii) the Amended and Restated Certificate of Incorporation of Engility, which we refer to as the Engility charter, (iv) the amended and restated bylaws of SAIC, which we refer to as the SAIC bylaws, (v) the amended and restated bylaws of Engility, which we refer to as the Engility bylaws, and (vi) the description of SAIC common stock contained in SAIC s Form 10/A registration statement filed with the SEC on September 10, 2013 and any amendment or report filed with the SEC for the purpose of updating such description.

This section does not include a complete description of all differences among the rights of SAIC stockholders and Engility stockholders, nor does it include a complete description of the specific rights of such holders. Furthermore, the identification of some of the differences in the rights of such holders as material is not intended to indicate that there are no other differences that may be equally important. You are urged to read carefully the relevant provisions of the Delaware General Corporation Law, as well as the governing corporate instruments of each of SAIC and Engility, copies of which are available, without charge, to any person, including any beneficial owner to whom this joint proxy statement/prospectus is delivered, by following the instructions listed under *Where You Can Find More Information* beginning on page 156 of this joint proxy statement/prospectus.

SAIC	**Engility**
Authorized Capital	
The aggregate number of shares that SAIC is authorized to issue is 1,010,000,000, consisting of (i) 1,000,000,000 shares of common stock, par value $0.0001 per share, and (ii) 10,000,000 shares of preferred stock, par value $0.0001 per share.	The aggregate number of shares that Engility is authorized to issue is 200,000,000, consisting of (i) 175,000,000 shares of common stock, par value $.01 per share, and (ii) 25,000,000 shares of preferred stock, par value $.01 per share.
Outstanding Capital	
Common Stock. As of the record date, SAIC had 42,368,119 shares of common stock issued and outstanding.	*Common Stock.* As of the record date, Engility had 36,968,909 shares of common stock issued and outstanding.
Holders of shares of SAIC common stock do not have preemptive, subscription, or conversion rights.	Holders of shares of Engility common stock do not have preemptive, subscription, or conversion rights.
Holders of shares of SAIC common stock are entitled to receive dividends when and if declared by the SAIC Board out of funds legally available therefor, subject to	Holders of shares of Engility common stock are entitled to receive dividends when and if declared by the Engility Board out of funds legally available therefor, subject to any

any statutory or contractual restrictions on the payment of dividends and to any restrictions on the payment of dividends imposed by the terms of any outstanding preferred stock.	statutory or contractual restrictions on the payment of dividends.

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SAIC	Engility
Preferred Stock. The SAIC Board has the authority to issue up to 10,000,000 shares of preferred stock in one or more series. The holders of SAIC preferred stock do not have the right to vote, except as the SAIC Board establishes, or as provided in the SAIC charter or as determined by state law.	*Preferred Stock*. The Engility Board has the authority to issue up to 25,000,000 shares of preferred stock in one or more series. The holders of Engility preferred stock do not have the right to vote, except as the Engility Board establishes, or as provided in the Engility charter or as determined by state law.
The SAIC Board has the authority to determine the terms of each series of preferred stock, within the limits of the SAIC charter, the SAIC bylaws and the laws of the state of Delaware, and the SAIC Board could take that action without stockholder approval. These terms include the number of shares in a series, dividend rights, rights in liquidation, terms of redemption, conversion and exchange rights and voting rights, if any. The issuance of SAIC preferred stock could delay or prevent a change in control of SAIC.	The Engility Board has the authority to determine the terms of each series of preferred stock, within the limits of the Engility charter, the Engility bylaws and the laws of the state of Delaware, and the Engility Board could take that action without stockholder approval. These terms include the number of shares in a series, dividend rights, rights in liquidation, terms of redemption, conversion and exchange rights and voting rights, if any. The issuance of Engility preferred stock could delay or prevent a change in control of Engility.
As of the record date, SAIC does not have any preferred stock issued and outstanding.	As of the record date, Engility does not have any preferred stock issued and outstanding.
Voting Rights	
Holders of shares of SAIC common stock are entitled to one vote for each share held of record on all matter submitted to a vote of stockholders. The vote of the holders of a majority of the stock represented at a meeting at which a quorum is present is generally required to take stockholder action, unless a different vote is required by law or specifically required by the SAIC charter or bylaws, Delaware law, or the NYSE.	Holders of shares of Engility common stock are entitled to one vote for each share held of record on all matter submitted to a vote of stockholders, subject, with respect to certain stockholders, to the restrictions contained in the stockholders agreement. The vote of the holders of a majority of the stock represented at a meeting at which a quorum is present is generally required to take stockholder action, unless a different vote is required by law or specifically required by the Engility charter or bylaws, Delaware law, or the NYSE.
The holders of SAIC preferred stock do not have the right to vote, except as the SAIC Board establishes, or as provided in the SAIC charter or as determined by state law.	The holders of Engility preferred stock do not have the right to vote, except as the Engility Board establishes, or as provided in the Engility charter or as determined by state law.
The SAIC charter does not provide for cumulative voting in the election of directors.	The Engility charter does not provide for cumulative voting in the election of directors.
Amendments to the Charter	

Under Section 242 of the Delaware General Corporation Law, the charter may be amended upon a resolution by the board and approved by:	Under Section 242 of the Delaware General Corporation Law, the charter may be amended upon a resolution by the board and approved by:
• the holders of a majority of the outstanding shares entitled to vote, and	• the holders of a majority of the outstanding shares entitled to vote, and

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SAIC	Engility
• a majority of the outstanding shares of each class entitled to a class vote, if any.	• a majority of the outstanding shares of each class entitled to a class vote, if any.
The SAIC charter provides that, for amendments to Articles FIFTH, SIXTH, SEVENTH, EIGHT, and NINTH of the SAIC charter, any amendment must be approved by the affirmative vote of the holders of not less than two-thirds of the total voting power of all outstanding shares of SAIC voting stock.	The Engility charter provides that, for amendments to Sections C, D or E of Article FIFTH, Article SIXTH, Article SEVENTH, Article EIGHT, Article NINTH and Article TENTH of the Engility charter, any amendment must be approved by the affirmative vote of the holders of not less than seventy-five percent (75%) of the total voting power of all outstanding shares of Engility voting stock. In addition, the stockholders agreement provides that Engility may not, without the prior written consent of Birch or KKR and/or GA (for so long as such entities retain nomination rights under the stockholders agreement), take any action to cause the amendment of the Engility charter that would adversely affect the rights of Birch or KKR and/or GA.

Amendments to the Bylaws

SAIC	Engility
The SAIC bylaws may be adopted, amended, or repealed by the affirmative vote of the holders of not less than two-thirds of the total voting power of all outstanding shares of SAIC voting stock. The SAIC bylaws may also be adopted, amended, or repealed by the affirmative vote of a majority of the number of SAIC directors then serving.	The Engility bylaws may be adopted, amended, or repealed by the affirmative vote of the holders of not less than seventy-five percent (75%) of the total voting power of all outstanding shares of Engility voting stock. The Engility bylaws may also be adopted, amended, or repealed by the affirmative vote of a majority of the number of Engility directors then serving.

Special Meetings of Stockholders

SAIC	Engility
Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the SAIC charter or bylaws, may be called by the SAIC Board, a majority of the members of the SAIC Board, or a committee designated by the SAIC Board with the power to call such meetings. A special meeting may also be called by a single stockholder owning at least 10%, or one or more stockholders owning at least 25% of the combined voting power of all classes of capital stock entitled to vote on the matter or matters to be brought before the proposed special meeting.	Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Engility charter or bylaws, may be called only by a majority of the full Engility Board.

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Stockholder Proposals and Nominations	
The SAIC bylaws provide that stockholders seeking to nominate candidates for election as directors or to bring business before an annual meeting of stockholders must provide timely notice of their proposal in writing to the corporate secretary. As specified in the SAIC bylaws, director nominations and the proposal of business to be considered by stockholders may be made only pursuant to a notice of meeting, at the direction of the board or by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures that are provided in the SAIC bylaws.	The Engility bylaws provide that stockholders seeking to nominate candidates for election as directors or to bring business before an annual meeting of stockholders must provide timely notice of their proposal in writing to the corporate secretary. As specified in the Engility bylaws, director nominations and the proposal of business to be considered by stockholders may be made only pursuant to a notice of meeting, at the direction of the board or by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures that are provided in the Engility bylaws. The Engility Board's ability to nominate directors is subject to the nomination rights of Birch and KKR and GA as set forth in the stockholders agreement.
Generally, to be timely, a stockholder's notice must be received at the principal executive offices of SAIC not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting. If the date of the annual meeting is more than 30 days before or more than 70 days after that anniversary date, however, notice by the stockholder must be delivered not earlier than the close of business on the 120th day prior to that annual meeting and not later than the close of business on the 90th day prior to that annual meeting or the 10th day following the day on which SAIC first publicly announces the date of that annual meeting, whichever occurs later.	Generally, to be timely, a stockholder's notice must be received at the principal executive offices of Engility not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting. If the date of the annual meeting is more than 30 days before or more than 70 days after that anniversary date, however, notice by the stockholder must be delivered not earlier than the close of business on the 120th day prior to that annual meeting and not later than the close of business on the 90th day prior to that annual meeting or the 10th day following the day on which Engility first publicly announces the date of that annual meeting, whichever occurs later.
In the event a special meeting of stockholders is called for the purpose of electing one or more directors, any stockholder entitled to vote may nominate a person or persons as specified in the SAIC bylaws, but only if the stockholder notice is delivered to the SAIC secretary at SAIC's principal offices not later than the close of business on the 90th day, nor earlier than the close of business on the 120th day prior to such special meeting; provided, however, that in the event that the date of an annual meeting is advanced by more than 30 days or delayed by more than 70 days from such anniversary date, for notice by the stockholder to be timely, it must be delivered not earlier than the 120th day prior to such annual meeting and not later than the close of business	

on the later of (1) the 90th day prior to such annual meeting and (2) the 10th day following the day on which public announcement of the date of such meeting is first made, whichever first occurs.

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SAIC	Engility
In addition, the SAIC bylaws permit an eligible stockholder, or an eligible group of up to 20 stockholders, owning continuously for at least three years shares of SAIC representing an aggregate of at least three percent of the voting power entitled to vote in the election of directors, to nominate and include in SAIC's annual meeting proxy materials director nominees constituting up to 25 percent of the SAIC board, or, if such amount is not a whole number, the closest whole number below 25 percent, but not less than two. Such nominations are subject to certain eligibility, procedural, and disclosure requirements set forth in SAIC's bylaws, including the requirement that SAIC must receive notice of such nominations between 150 and 120 calendar days prior to the anniversary date of the prior year's annual proxy materials mailing, except as otherwise provided in SAIC's bylaws.	Engility has not adopted a proxy access bylaw.
Action by Written Consent	
The SAIC charter prohibits stockholder action by written consent.	The Engility charter prohibits stockholder action by written consent.
Board of Directors	
Number of Directors	
SAIC's bylaws provide that the number of directors will be fixed from time to time by resolution of the SAIC board at not less than seven and not more than fourteen. The SAIC Board currently consists of nine directors. SAIC has agreed to increase the size of its board to eleven directors in connection with the combination.	The Engility bylaws provide that the number of directors will be fixed from time to time by resolution of the Engility board. Engility's stockholders agreement provides that the number of directors not be less than eleven nor more than fourteen. The Engility Board currently consists of twelve directors.
Classification	
The SAIC Board is not classified.	The Engility Board is classified into three classes, with each class currently consisting of four directors each. Each director is appointed for a three-year term.

Removal

The SAIC charter and bylaws provide that directors may only be removed for cause and only upon the affirmative vote of holders of at least a majority of the voting power of all the then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class.	The Engility bylaws provide that directors may only be removed for cause and only upon the affirmative vote of holders of at least seventy-five percent (75%) of the voting power of all the then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class.

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Vacancies	
The SAIC charter and bylaws provide that, subject to the rights granted to one or more series of preferred stock then outstanding, any vacancies on the SAIC Board will be filled only by affirmative vote of a majority of the remaining directors, although less than a quorum, or by a sole remaining director, and not by stockholders.	The Engility bylaws provide that, subject to the rights granted to any series of preferred stock then outstanding and to the terms and conditions of the stockholders agreement (which provides that Birch will be entitled to designate a replacement to fill any vacancy in the event that a director nominated by Birch retires or ceases to serve on the Engility Board for any reason), any vacancies on the Engility Board will be filled only by affirmative vote of a majority of the remaining directors, although less than a quorum, or by a sole remaining director, and not by stockholders.
Director Liability and Indemnification	
Elimination of Liability of Directors. The SAIC charter provides that, to the fullest extent permitted by the Delaware General Corporation Law as the same exists or may hereafter be amended, a director of SAIC will not be personally liable to SAIC or any of its stockholders for monetary damages for breach of fiduciary duty as a director except (i) for any breach of the director's duty of loyalty to SAIC or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law (which concerns unlawful payments of dividends, stock purchases, or redemptions), or (iv) for any transactions from which the director derived an improper personal benefit.	*Elimination of Liability of Directors.* The Engility charter provides that, to the fullest extent permitted by the Delaware General Corporation Law, as so amended, a director of Engility will not be personally liable to Engility or any of its stockholders for monetary damages for breach of fiduciary duty as a director except (i) for any breach of the director's duty of loyalty to Engility or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law (which concerns unlawful payments of dividends, stock purchases, or redemptions), or (iv) for any transactions from which the director derived an improper personal benefit.
Indemnification of Directors and Officers. The SAIC charter provides that SAIC shall indemnify its directors and elected and appointed officers to the fullest extent authorized or permitted by the DGCL, as the same exists or may hereafter be amended, and such right to indemnification shall continue as to a person who has ceased to be a director or officer SAIC and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except for proceedings to enforce rights to indemnification, SAIC shall not be obligated to indemnify any director or officer (or his or her heirs, executors or administrators)	*Indemnification of Directors and Officers.* The Engility bylaws provide that Engility will indemnify and hold harmless, to the fullest extent permitted by Delaware law, as the same exists or may hereafter be amended, any person (an Indemnitee) who was or is made or is threatened to be made a party to or is otherwise involved in any proceeding by reason of the fact that he or she is or was a director or officer of Engility or, while a director or officer of Engility, is or was serving, at the request of Engility, as a director, officer, employee, agent or trustee of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans,

in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of SAIC. The SAIC bylaws also provide that, notwithstanding the foregoing, SAIC be required to indemnify an Indemnitee in

against all expense, liability and loss reasonably incurred or suffered by such Indemnitee in connection therewith. The Engility bylaws also provide that, notwithstanding the foregoing, Engility be required to indemnify an

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connection with a proceeding, or part thereof, initiated by such Indemnitee only if such proceeding, or part thereof, was authorized by the SAIC Board. Under Delaware law, SAIC is also authorized to carry directors and officers insurance to protect SAIC, its directors, officers and certain employees from some liabilities.	Indemnitee in connection with a proceeding, or part thereof, initiated by such Indemnitee only if such proceeding, or part thereof, was authorized by the Engility Board. Under Delaware law, Engility is also authorized to carry directors and officers insurance to protect Engility, its directors, officers and certain employees from some liabilities.
The SAIC bylaws further provide that SAIC will pay the expenses (including attorneys' fees) incurred by an Indemnitee in defending any proceeding in advance of its final disposition or a proceeding brought to establish or enforce a right to indemnification or advancement of expenses under the SAIC bylaws, but only upon receipt of an undertaking by the Indemnitee to repay all amounts so advanced if it should be ultimately determined by final, non-appealable judicial decision that the Indemnitee is not entitled to indemnification.	The Engility bylaws further provide that Engility will pay the expenses (including attorneys' fees) incurred by an Indemnitee in appearing at, participating in or defending any proceeding in advance of its final disposition or a proceeding brought to establish or enforce a right to indemnification or advancement of expenses under the Engility bylaws, but only upon receipt of an undertaking by the Indemnitee to repay all amounts so advanced if it should be ultimately determined by final, non-appealable judicial decision that the Indemnitee is not entitled to indemnification.
Although SAIC's charter provides directors with protection from awards for monetary damages for breaches of their duty of care, it does not eliminate such duty. In particular, SAIC's charter has no effect on the availability of equitable remedies such as an injunction or rescission based on a director's breach of his or her duty of care. The provisions of SAIC's charter described above apply to an officer of SAIC only if he or she is a director of SAIC and is acting in his or her capacity as director, and do not apply to officers of SAIC who are not directors.	Although Engility's charter provides directors with protection from awards for monetary damages for breaches of their duty of care, it does not eliminate such duty. In particular, Engility's charter has no effect on the availability of equitable remedies such as an injunction or rescission based on a director's breach of his or her duty of care. The provisions of Engility's charter described above apply to an officer of Engility only if he or she is a director of Engility and is acting in his or her capacity as director, and do not apply to officers of Engility who are not directors.
Stockholder Rights Plan	
SAIC does not have a stockholder rights plan currently in effect, but under Delaware law, the SAIC Board could adopt such a plan without stockholder approval.	Engility does not have a stockholder rights plan currently in effect, but under Delaware law, the Engility Board could adopt such a plan without stockholder approval.

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Business Combinations

Business Combinations with Related Persons. The SAIC charter generally requires that mergers and certain other business combinations between SAIC and a Related Person must be approved by the holders of SAIC voting stock having eighty percent of the outstanding voting power, as well as by the holders of a majority of the voting power of such voting stock that are not owned by the Related Person. A Related Person means any holder of 5% or more of SAIC outstanding voting power. Under Delaware law, unless the certificate of incorporation provides otherwise, only a majority of SAIC outstanding voting power is required to approve certain of these transactions, such as mergers and consolidations, while certain other of these transactions would not require stockholder approval.

These requirements of the SAIC charter do not apply, however, to a business combination with a related person, if the transaction

- is approved by the SAIC Board before the Related Person acquired beneficial ownership of 5% or more of SAIC outstanding voting power
- is approved by a majority of the members of the SAIC Board who are not affiliated with the Related Person and who were directors before the Related Person became a Related Person; or
- involves only SAIC and one or more subsidiaries of SAIC, and certain other conditions are satisfied.

In addition, any amendment to the charter provisions described above requires (1) the vote of at least 80% in voting power of all of the outstanding shares of our stock entitled to vote and (2) the vote of at least a majority in voting power of the outstanding shares of SAIC stock entitled to vote other than shares of voting stock that are beneficially owned by a related person that directly proposed such amendment.

Business Combinations with Related Persons. Under Delaware law, only a majority of Engility outstanding voting power is required to approve mergers and other business combinations between Engility and third parties. Engility's charter does not require that a higher percentage of outstanding voting power approve such transactions.

Engility has not opted out of Section 203 of the Delaware General Corporation Law, which provides that, if a person acquires 15% or more of the outstanding voting stock of a Delaware corporation, thereby becoming an interested stockholder , that person may not engage in certain business combinations with the corporation, including mergers, purchases and sales of 10% or more of its assets, stock purchases and other transactions pursuant to which the percentage of the corporation's stock owned by the interested stockholder increases (other than on a pro rata basis) or pursuant to which the interested stockholder receives a financial benefit from the corporation, for a period of three years after becoming an interested stockholder unless one of the following exceptions applies: (i) the Engility Board approved the acquisition of stock pursuant to which the person became an interested stockholder or the transaction that resulted in the person becoming an interested stockholder prior to the time that the person became an interested stockholder; (ii) upon consummation of the transaction that resulted in the person becoming an interested stockholder such person owned at least 85% of the outstanding voting stock of the corporation, excluding, for purposes of determining the voting stock outstanding, voting stock owned by directors who are also officers and certain employee stock plans; or (iii) the transaction is approved by the Engility Board and by the affirmative vote of two-thirds of the outstanding voting stock which is not owned by the interested stockholder. An interested stockholder also includes the affiliates and associates of a 15% or more owner and any affiliate or associate of the corporation who was the owner of 15% or more of the outstanding voting stock within the three-year period prior to determine whether a person is an interested stockholder.

SAIC has not opted out of Section 203 of the Delaware General Corporation Law, which provides that, if a person acquires 15% or more of the outstanding voting stock of a Delaware corporation,

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thereby becoming an interested stockholder , that person may not engage in certain business combinations with the corporation, including mergers, purchases and sales of 10% or more of its assets, stock purchases and other transactions pursuant to which the percentage of the corporation s stock owned by the interested stockholder increases (other than on a pro rata basis) or pursuant to which the interested stockholder receives a financial benefit from the corporation, for a period of three years after becoming an interested stockholder unless one of the following exceptions applies: (i) the SAIC Board approved the acquisition of stock pursuant to which the person became an interested stockholder or the transaction that resulted in the person becoming an interested stockholder prior to the time that the person became an interested stockholder; (ii) upon consummation of the transaction that resulted in the person becoming an interested stockholder such person owned at least 85% of the outstanding voting stock of the corporation, excluding, for purposes of determining the voting stock outstanding, voting stock owned by directors who are also officers and certain employee stock plans; or (iii) the transaction is approved by the SAIC Board and by the affirmative vote of two-thirds of the outstanding voting stock which is not owned by the interested stockholder. An interested stockholder also includes the affiliates and associates of a 15% or more owner and any affiliate or associate of the corporation who was the owner of 15% or more of the outstanding voting stock within the three-year period prior to determine whether a person is an interested stockholder.	
Ownership Limitations	
Not applicable.	In order to help preserve certain tax attributes, the Engility charter contains restrictions on direct and indirect acquisitions and dispositions of Engility common stock or certain other interests in Engility that are treated as stock for tax purposes that will apply to direct and indirect holders of (or persons who would become holders of) 4.9% or more of Engility common stock or certain other interests in Engility that are treated as stock for tax purposes.

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SAIC	Engility
Exclusive Forum	
Unless SAIC consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of SAIC, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of SAIC to SAIC or SAIC's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL, this Certificate of Incorporation or the Bylaws of SAIC, or (iv) any action asserting a claim governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of SAIC shall be deemed to have notice of and consented to the provisions of Article TWELFTH of SAIC's charter.	The Engility charter provides that unless Engility consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action brought on behalf of Engility, (ii) any action asserting a claim of breach of a fiduciary duty owned by any director, officer or other employee of Engility to Engility or Engility stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, the Engility charter or the Engility bylaws, or (iv) any action asserting a claim governed by the internal affairs doctrine; *provided*, that forum selection does not apply if, as to each of (i) through (iv), for any claim as to which the Court of Chancery determines that there is an indispensable party not subject to the jurisdiction of the Court of Chancery (and the indispensable party does not consent to the personal jurisdiction of the Court of Chancery within 10 days following such determination), which is vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery, or for which the Court of Chancery does not have subject matter jurisdiction.

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APPRAISAL RIGHTS

Engility Stockholders

Under Delaware law, the holders of Engility common stock are not entitled to appraisal rights in connection with the Engility merger proposal.

SAIC Stockholders

Under Delaware law, the holders of SAIC common stock are not entitled to appraisal rights in connection with the SAIC stock issuance proposal.

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LEGAL MATTERS

The validity of the shares of SAIC common stock to be issued in the merger will be passed upon by Morrison & Foerster LLP. Certain U.S. federal income tax consequences relating to the merger will also be passed upon for Engility by Weil, Gotshal, & Manges LLP.

EXPERTS

SAIC

The financial statements of SAIC incorporated by reference into this joint proxy statement/prospectus from SAIC s Annual Report on Form 10-K for the year ended February 2, 2018 and the effectiveness of SAIC s internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference (which reports (1) express an unqualified opinion on the financial statements and (2) express an adverse opinion on the effectiveness of SAIC s internal control over financial reporting because of a material weakness). Such financial statements have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

Change in Accountants

During SAIC s fiscal year ending February 2, 2018, the Audit Committee conducted a competitive process to determine the company s independent registered public accounting firm for the company s fiscal year ending February 1, 2019. The Audit Committee invited several independent registered public accounting firms to participate in this process, including Deloitte & Touche LLP, the company s independent registered public accounting firm for fiscal 2018. Following review of proposals from the independent registered public accounting firms that participated in the process, on December 12, 2017, the Audit Committee approved the engagement of Ernst & Young LLP as the company s independent registered public accounting firm for the fiscal year ending February 1, 2019. Deloitte & Touche LLP continued to serve as SAIC s independent registered public accounting firm for the fiscal year ended February 2, 2018. On March 29, 2018, when SAIC filed its Annual Report on Form 10-K for the fiscal year ended February 2, 2018 with the SEC, Deloitte & Touche LLP completed its audit of SAIC s consolidated financial statements for such fiscal year, and SAIC s retention of Deloitte & Touche LLP as its independent registered public accounting firm with respect to the audit of the company s consolidated financial statements ended as of that date.

Engility

The financial statements of Engility Holdings, Inc. and its management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) incorporated in this joint proxy statement/prospectus by reference to its Annual Report on Form 10-K for the year ended December 31, 2017 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

FUTURE STOCKHOLDER PROPOSALS

SAIC

SAIC held its last regular annual meeting of stockholders on June 6, 2018, and plans to hold its next annual meeting regardless of whether the merger has been completed. The deadline for submitting shareholder proposals to be included in SAIC s 2019 proxy materials is December 26, 2018. In order to be properly brought before the 2019

Annual Meeting, a stockholder who desires to provide notice of nomination of one or more director candidates to be included in the company s Proxy Statement and ballot pursuant to Section 3.17 of our bylaws (a proxy access nomination) must be received by our Corporate Secretary no earlier than November 26, 2018 and no later than the close of business on December 26, 2018. SAIC s bylaws require SAIC stockholders to furnish timely advance written notice of their intent to nominate a director or bring any other matter before a stockholder s meeting, whether or not they wish to include the candidate or proposal in SAIC s proxy materials.

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In order for a stockholder to propose any matter for consideration at the 2019 Annual Meeting other than by inclusion in the Proxy Statement, the stockholder must give timely notice to the SAIC Corporate Secretary of his or her intention to bring such business before the meeting. To be timely, notice must be delivered to the SAIC Corporate Secretary not later than the close of business on the 90th day, nor earlier than the close of business on the 120th day, prior to the first anniversary of the preceding year s annual meeting. Therefore, in connection with the 2018 Annual Meeting, notice must be delivered to the Corporate Secretary between February 6, 2019 and March 8, 2019. In the event, however, that the date of the annual meeting is more than 30 days before or more than 70 days after such anniversary date, notice by the stockholder must be delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by SAIC, whichever occurs later.

Engility

Engility held its last regular annual meeting of stockholders on May 24, 2018. In light of the expected timing of the completion of the merger, it is not expected that Engility will hold an annual meeting in 2019, unless the merger is not completed. If an annual meeting is held, any stockholder who desires to submit a proposal for inclusion in the proxy materials related to the annual meeting must ensure that such proposal has been received at Engility s principal executive offices as provided below. Any stockholder proposal submitted for inclusion in Engility s proxy materials must comply with the requirements of Rule 14a-8 under the Exchange Act.

For a stockholder proposal to be considered for inclusion in Engility s proxy statement for the 2019 Annual Meeting of Stockholders (2019 Annual Meeting), the written proposal must be received by Engility s Corporate Secretary at Engility s principal executive offices not later than December 13, 2018. If the date of the 2019 Annual Meeting is moved more than 30 days before or after the anniversary date of this year s Annual Meeting, then the deadline for inclusion of a stockholder proposal in Engility s proxy statement is instead a reasonable time before Engility begins to print and mail its proxy materials. The proposal must comply with the requirements of SEC Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Proposals should be addressed to:

Engility Holdings, Inc.
4803 Stonecroft Boulevard
Chantilly, VA 20151
Attn: Vice President, General Counsel, and Corporate Secretary

Stockholders seeking to nominate directors at the 2018 Annual Meeting or who wish to bring a proposal before the meeting that is not intended to be included in Engility s proxy statement for the 2019 Annual Meeting must comply with the advance notice deadlines contained in Engility s Bylaws. In order for the proposal to be considered timely for Engility s 2019 annual meeting, such stockholder proposal must be received by Engility at the address stated above not less than 90 days nor more than 120 days prior to the one-year anniversary of the preceding year s annual meeting of stockholders; provided, however, that if the date of the annual meeting is advanced more than 30 days prior to such anniversary date or delayed more than 70 days after such anniversary date, then to be timely such notice must be so received not later than the 10th day following the day on which public announcement of the date of such meeting is first made. Notwithstanding anything in the preceding sentence to the contrary, in the event that the number of directors to be elected to the Engility board is increased and there has been no public announcement naming all of the nominees for director or indicating the increase in the size of the Engility board made by Engility at least 10 days before the last date a stockholder may deliver a notice of nomination in accordance with the preceding sentence, a stockholder s notice required by Engility s Amended and Restated Bylaws shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be received by Engility s secretary at the principal executive offices of Engility not later than the close of business on the 10th day following the day on which such public announcement is first made by Engility. For the 2019 Annual Meeting of Stockholders, a stockholder s notice, to be timely, must be delivered to, or mailed and received at Engility s principal executive offices:

- not earlier than the close of business on January 25, 2019; and
- not later than the close of business on February 24, 2019.

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WHERE YOU CAN FIND MORE INFORMATION

SAIC and Engility file annual, quarterly and current reports, proxy statements and other information with the SEC under the Exchange Act. You may read and copy any of this information at the SEC s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The SEC also maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including SAIC and Engility, who file electronically with the SEC. The address of that site is www.sec.gov.

Investors may also consult SAIC s or Engility s website for more information concerning the merger described in this joint proxy statement/prospectus. SAIC s website is www.saic.com. Engility s website is www.engility.com. Information included on these websites is not incorporated by reference into this joint proxy statement/prospectus.

SAIC has filed with the SEC a registration statement on Form S-4 of which this joint proxy statement/prospectus forms a part. The registration statement registers the shares of SAIC common stock to be issued to Engility stockholders in connection with the merger. The registration statement, including the attached exhibits and schedules, contains additional relevant information about SAIC common stock. The rules and regulations of the SEC allow SAIC and Engility to omit certain information included in the registration statement from this joint proxy statement/prospectus.

In addition, the SEC allows SAIC and Engility to disclose important information to you by referring you to other documents filed separately with the SEC, which we refer to as incorporated documents. Information contained in incorporated documents is considered to be a part of this joint proxy statement/prospectus, except as otherwise specified below.

This joint proxy statement/prospectus incorporates by reference the documents listed below that SAIC has previously filed with the SEC; provided, however, that we are not incorporating by reference, in each case, any documents, portions of documents or information deemed to have been furnished and not filed in accordance with SEC rules. They contain important information about SAIC, its financial condition or other matters.

- Annual Report on Form 10-K for the fiscal year ended February 2, 2018.
- Proxy Statement on Schedule 14A filed April 25, 2018.
- Quarterly Report on Form 10-Q for the quarterly periods ended August 3, 2018 and May 4, 2018.
- Current Reports on Form 8-K, filed on February 9, 2018, March 29, 2018, March 30, 2018, June 8, 2018, June 12, 2018, September 10, 2018, September 11, 2018, October 23, 2018, November 5, 2018 and November 15, 2018 (other than documents or portions of those documents not deemed to be filed).
- The description of SAIC common stock contained in SAIC’s Form 10/A filed with the SEC on September 10, 2013.

In addition, SAIC incorporates by reference herein any future filings it makes with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this joint proxy statement/prospectus and prior to the date of the SAIC special meeting, and after the date of the initial registration statement and prior to the effectiveness of the registration statement, except that SAIC is not incorporating any information included in a Current Report on Form 8-K that has been or will be furnished (and not filed) with the SEC, unless such information is expressly incorporated herein by reference to a furnished Current Report on Form 8-K or other furnished document. Such documents are considered to be a part of this joint proxy statement/prospectus, effective as of the date such documents are filed. In the event of conflicting information in these documents, the information in the latest filed document should be considered correct.

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You can obtain any of the documents listed above from the SEC, through the SEC s website at the address described above or from SAIC by requesting them in writing or by telephone at the following address:

SAIC
12010 Sunset Hills Road
Reston, VA 20190
(703) 676-4300
Attention: Investor Relations

These documents are available from SAIC without charge, excluding any exhibits to them unless the exhibit is specifically listed as an exhibit to the registration statement of which this joint proxy statement/prospectus forms a part.

This joint proxy statement/prospectus also incorporates by reference the incorporated documents listed below that Engility has previously filed with the SEC; provided, however, that we are not incorporating by reference, in each case, any documents, portion of documents or information deemed to have been furnished and not filed in accordance with SEC rules. They contain important information about Engility, its financial condition or other matters.

- Annual Report on Form 10-K for the fiscal year ended December 31, 2017.
- Proxy Statement on Schedule 14A filed April 13, 2018.
- Quarterly Reports on Form 10-Q for the quarterly periods ended March 30, 2018, June 29, 2018, and September 28, 2018.
- Current Reports on Form 8-K, filed on January 5, 2018, March 1, 2018, March 26, 2018, May 31, 2018, September 10, 2018, September 12, 2018 and November 26, 2018.

In addition, Engility incorporates by reference any future filings it makes with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this joint proxy statement/prospectus and prior to the date of the Engility special meeting, and after the date of the initial registration statement and prior to the effectiveness of the registration statement, except that Engility is not incorporating any information included in a Current Report on Form 8-K that has been or will be furnished (and not filed) with the SEC, unless such information is expressly incorporated herein by reference to a furnished Current Report on Form 8-K or other furnished document. Such documents are considered to be a part of this joint proxy statement/prospectus, effective as of the date such documents are filed. In the event of conflicting information in these documents, the information in the latest filed document should be considered correct.

You can obtain any of these documents from the SEC, through the SEC s website at the address described above, or Engility will provide you with copies of these documents, without charge, upon written or oral request to:

Engility Holdings, Inc.
4803 Stonecroft Boulevard
Chantilly, VA 20151
(703) 633-8300
Attention: Investor Relations

If you are a stockholder of SAIC or a stockholder of Engility and would like to request documents, please do so by January 4, 2018 to receive them before the SAIC special meeting and the Engility special meeting. If you request any documents from SAIC or Engility, SAIC or Engility will undertake to mail them to you by first class mail, or another equally prompt means, within one business day after SAIC or Engility receives your request.

Information appearing in this joint proxy statement/prospectus or any particular incorporated document is not necessarily complete and is qualified in its entirety by the information and financial statements appearing in all of the other incorporated documents and should be read together therewith.

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Any statement contained in any particular incorporated document will be deemed to be modified or superseded to the extent that a statement contained in this joint proxy statement/prospectus or in any incorporated document filed after such particular incorporated document modifies or supersedes such statement.

This document is a prospectus of SAIC and is a joint proxy statement of SAIC and Engility for the SAIC special meeting and the Engility special meeting. Neither SAIC nor Engility has authorized anyone to give any information or make any representation about the merger or SAIC or Engility that is different from, or in addition to, that contained in this joint proxy statement/prospectus or in any of the incorporated documents that SAIC or Engility has incorporated by reference into this joint proxy statement/prospectus. Therefore, if anyone does give you information of this sort, you should not rely on it. The information contained in this joint proxy statement/prospectus speaks only as of the date of this joint proxy statement/prospectus unless the information specifically indicates that another date applies.

OTHER MATTERS

As of the date of this joint proxy statement/prospectus, neither the SAIC Board nor the Engility Board knows of any matters that will be presented for consideration at either the SAIC special meeting or the Engility special meeting other than as described in this joint proxy statement/prospectus. If any other matters properly come before the Engility special meeting or any adjournments or postponements of the meeting and are voted upon, the enclosed proxy will confer discretionary authority on the individuals named as proxy to vote the shares represented by the proxy as to any other matters. The individuals named as proxies intend to vote in accordance with their best judgment as to any other matters. In accordance with SAIC s bylaws and Delaware law, business transacted at the SAIC special meeting will be limited to those matters set forth in the accompanying notice of the special meeting. Nonetheless, if any other matter is properly presented at the SAIC special meeting, or any adjournments or postponements of the meeting, and are voted upon, including matters incident to the conduct of the meeting, the enclosed proxy card will confer discretionary authority on the individuals named therein as proxies to vote the shares represented thereby as to any such other matters. It is intended that the persons named in the enclosed proxy card and acting thereunder will vote in accordance with their best judgment on any such matter.

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Annex A

AGREEMENT AND PLAN OF MERGER

among

ENGILITY HOLDINGS, INC.,

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

and

RAPTORS MERGER SUB, INC.

Dated as of September 9, 2018

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (hereinafter referred to as this Agreement), dated as of September 9, 2018, among ENGILITY HOLDINGS, INC., a Delaware corporation (the Company), SCIENCE APPLICATIONS INTERNATIONAL CORPORATION, a Delaware corporation (Parent), and RAPTORS MERGER SUB, INC., a Delaware corporation and a direct wholly owned Subsidiary of Parent (Merger Sub). Parent, Merger Sub and the Company are each sometimes referred to herein as a Party and collectively as the Parties .

RECITALS

WHEREAS, the Parties wish to effect a business combination through the merger of Merger Sub with and into the Company, with the Company being the surviving corporation (the Merger);

WHEREAS, in connection with the Merger, each outstanding share of common stock, par value $0.01 per share, of the Company (Company Common Stock or Shares) issued and outstanding immediately prior to the Effective Time shall be cancelled and each holder of Company Common Stock shall have the right to receive the Merger Consideration upon the terms and subject to the conditions set forth in this Agreement and in accordance with the General Corporation Law of the State of Delaware (the DGCL) (other than Shares to be cancelled in accordance with Section 2.1(a)(iii));

WHEREAS, the board of directors of the Company (the Company Board) has determined that this Agreement and the transactions contemplated hereby, including the Merger, are advisable and in the best interests of the Company and its stockholders;

WHEREAS, the Company Board has unanimously adopted resolutions approving this Agreement and the Merger, the execution of this Agreement and the consummation of the transactions contemplated hereby and declaring advisable and recommending that the Company s stockholders approve and adopt this Agreement (the Company Board Recommendation) pursuant to the DGCL;

WHEREAS, the board of directors of Parent (the Parent Board) has unanimously adopted resolutions approving this Agreement, the execution of this Agreement and the consummation of the transactions contemplated hereby, including but not limited to the Parent Share Issuance, and recommending that Parent s stockholders vote to approve the Parent Share Issuance (the Parent Board Recommendation);

WHEREAS, the board of directors of Merger Sub, by resolutions duly adopted, has unanimously approved the Merger upon the terms and subject to the conditions set forth in this Agreement, has approved and declared advisable this Agreement, and has resolved to recommend to its sole stockholder the adoption of this Agreement;

WHEREAS, for U.S. federal income tax purposes, it is intended that (i) the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code) and (ii) this Agreement be, and it is hereby adopted as a plan of reorganization within the meaning of Treasury Regulations Section 1.368-2(g);

WHEREAS, concurrently with the execution and delivery of this Agreement, and as a condition and inducement to Parent s willingness to enter into this Agreement, Birch Partners is entering into an agreement with Parent (the Voting Agreement) pursuant to which Birch Partners has agreed, among other things, to vote the Shares it holds in favor of the Merger, subject to the limitations of the Company Stockholders Agreement (as defined below); and

WHEREAS, the Company, Parent and Merger Sub desire to make certain representations, warranties, covenants and agreements in connection with this Agreement.

NOW, THEREFORE, in consideration of the premises, and of the representations, warranties, covenants and agreements contained herein, the Parties hereby agree as follows:

Article I - THE MERGER; CLOSING; SURVIVING COMPANY

1.1 The Merger. Upon the terms and subject to the conditions set forth in this Agreement, at the Effective Time, Merger Sub shall be merged with and into the Company and the separate corporate existence of Merger Sub shall thereupon cease. The Company shall be the surviving company in the

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Merger (sometimes hereinafter referred to as the Surviving Company), and the separate corporate existence of the Company with all its rights, privileges, immunities, powers and franchises shall continue unaffected by the Merger, except as set forth in Article II. The Merger shall have the effects specified in the DGCL.

1.2 Closing. The closing of the Merger (the Closing) shall take place (a) at the offices of Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153, as soon as reasonably practicable, and in no event later than three Business Days following the day on which the last to be satisfied or waived of each of the conditions set forth in Article VI (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of those conditions) shall have been satisfied or waived in accordance with this Agreement or (b) at such other place and time and/or on such other date as the Company and Parent may otherwise agree in writing (but in any event in the case of clauses (a) or (b), not earlier than November 12, 2018) (the date on which the Closing occurs, the Closing Date).

1.3 Effective Time. Upon the Closing, the Company and Parent will cause a Certificate of Merger with respect to the Merger (the Certificate of Merger) to be executed, acknowledged and filed with the Secretary of State of the State of Delaware as provided in the DGCL. The Merger shall become effective at the time when the Certificate of Merger has been duly filed with the Secretary of State of the State of Delaware, or at such later time as may be agreed upon by the Parties in writing and set forth in the Certificate of Merger in accordance with the DGCL (the Effective Time).

1.4 The Certificate of Incorporation. At the Effective Time, the certificate of incorporation of the Company shall be amended and restated in its entirety as set forth in Exhibit A hereto and as so amended and restated shall be the Certificate of Incorporation of the Surviving Company (the Certificate of Incorporation), until thereafter amended as provided therein or by applicable Law.

1.5 The Bylaws. At the Effective Time, the bylaws of the Company shall be amended and restated to conform to the bylaws of Merger Sub (except that references to the name of Merger Sub shall be replaced with the name of the Company) (the Bylaws), and as so amended and restated shall be the Bylaws of the Surviving Company until thereafter amended as provided therein or by applicable Law.

1.6 Directors of the Surviving Company. The Parties shall take all actions necessary so that the directors of Merger Sub immediately prior to the Effective Time shall, from and after the Effective Time, be the directors of the Surviving Company until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Certificate of Incorporation and the Bylaws.

1.7 Officers of the Surviving Company. The Parties shall take all actions necessary so that the officers of Merger Sub immediately prior to the Effective Time shall, from and after the Effective Time, be the officers of the Surviving Company until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Certificate of Incorporation and the Bylaws.

ARTICLE II - EFFECT OF THE MERGER ON SECURITIES; EXCHANGE

2.1 Effect on Capital Stock.

(a) At the Effective Time, as a result of the Merger and without any action on the part of the holder of any capital stock of the Company, Parent or Merger Sub:

(i) Merger Consideration. Each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than Shares owned by Parent or Merger Sub or Shares held in treasury, if any (each such Share, an Excluded Share and, collectively, Excluded Shares)) shall be automatically converted into the right to receive 0.450

(the Exchange Ratio) validly issued, fully paid and non-assessable shares of Parent Common Stock (the Merger Consideration).

(ii) At the Effective Time, all of the Shares (other than Excluded Shares) shall cease to be outstanding, shall be cancelled and shall cease to exist, and (A) each certificate (a Certificate) formerly representing any of the Shares (other than Excluded Shares) and (B) each book-entry

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account formerly representing any uncertificated Shares (Uncertificated Shares) (other than Excluded Shares) shall thereafter represent only the right to receive the Merger Consideration, any distributions or dividends payable pursuant to Section 2.2(c) and cash in lieu of any fractional shares of Parent Common Stock payable pursuant to Section 2.2(e), without interest, in each case to be issued or paid in consideration therefor upon surrender of such Certificate in accordance with Section 2.2, in the case of certificated Shares, and upon receipt by the Exchange Agent of an agent s message in customary form in accordance with Section 2.2(i) in the case of Uncertificated Shares.

(iii) Cancellation of Excluded Shares. Each Excluded Share shall, by virtue of the Merger and without any action on the part of the Company, Parent, Merger Sub or the holder thereof, cease to be outstanding, shall be cancelled without payment of any consideration therefor and shall cease to exist.

(b) Merger Sub. Each share of common stock, par value $0.01 per share, of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into and become one validly issued, fully paid and nonassessable share of common stock, $0.01 par value per share, of the Surviving Company, and such converted shares shall constitute the only outstanding shares of capital stock of the Surviving Company.

2.2 Exchange of Certificates.

(a) Exchange Agent and Exchange Fund. Prior to the Effective Time, Parent shall designate a bank or trust company reasonably acceptable to the Company to act as the exchange agent in connection with the Merger (the Exchange Agent). The Exchange Agent shall also act as the agent for the Company s stockholders for the purpose of receiving and holding their Certificates and Uncertificated Shares and shall obtain no rights or interests in the shares represented thereby. At or prior to the Effective Time, Parent or Merger Sub shall deposit, or cause to be deposited, with the Exchange Agent (i) evidence of shares of Parent Common Stock issuable pursuant to Section 2.1(a) in book-entry form equal to the aggregate Merger Consideration (excluding any cash in lieu of fractional shares payable pursuant to Section 2.2(e)), and (ii) cash in immediately available funds in an amount sufficient to pay any dividends under Section 2.2(c) (such evidence of book-entry shares of Parent Common Stock and cash amounts, together with any dividends or other distributions with respect thereto, the Exchange Fund), in each case, for the sole benefit of the holders of shares of Company Common Stock. In the event the Exchange Fund shall be insufficient to pay any dividends under Section 2.2(c), Parent shall, or shall cause Merger Sub to, promptly deposit additional funds with the Exchange Agent in an amount which is equal to the deficiency in the amount required to make such payment. Parent shall cause the Exchange Agent to make, and the Exchange Agent shall make, delivery of the Merger Consideration and any amounts payable in respect of dividends or other distributions on shares of Parent Common Stock in accordance with Section 2.2(c) out of the Exchange Fund in accordance with this Agreement. The Exchange Fund shall not be used for any purpose that is not expressly provided for in this Agreement. The cash portion of the Exchange Fund shall be invested by the Exchange Agent as reasonably directed by Parent; *provided, however*, that any investment of such cash shall in all events be limited to direct short-term obligations of, or short-term obligations fully guaranteed as to principal and interest by, the U.S. government, in commercial paper rated P-1 or A-1 or better by Moody s Investors Service, Inc. or Standard & Poor s Corporation, respectively, or in certificates of deposit, bank repurchase agreements or banker s acceptances of commercial banks with capital exceeding $10 billion (based on the most recent financial statements of such bank that are then publicly available), and that no such investment or loss thereon shall affect the amounts payable to holders of Certificates or Uncertificated Shares entitled to receive such amounts pursuant to this Article II. Any interest and other income resulting from such investments shall be paid to the Surviving Company on the earlier of (A) one year after the Effective Time or (B) the full payment of the Exchange Fund.

(b) Exchange Procedures. Promptly after the Effective Time (and in any event within five business days thereafter), the Exchange Agent shall mail to each holder of record of Shares represented by a Certificate (other than holders of Excluded Shares) (i) a letter of transmittal in customary form specifying that delivery shall be effected, and risk of loss and title to the Certificates

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shall pass, only upon delivery of the Certificates (or affidavits of loss in lieu of the Certificates as provided in Section 2.2(g)) to the Exchange Agent, such letter of transmittal to be in such form and have such other provisions as Parent and the Company may reasonably agree, and (ii) instructions for surrendering the Certificates (or affidavits of loss in lieu of the Certificates as provided in Section 2.2(g)) to the Exchange Agent. Upon surrender of a Certificate (or affidavit of loss in lieu of the Certificate as provided in Section 2.2(g)) to the Exchange Agent in accordance with the terms of such letter of transmittal, the holder of such Certificate shall be entitled to receive in exchange therefor one or more shares of Parent Common Stock which shall represent, in the aggregate, the whole number of shares of Parent Common Stock that such holder has the right to receive pursuant to Section 2.1(a), less any required Tax withholdings as provided in Section 2.2(h). The Certificate so surrendered shall forthwith be cancelled. No interest will be paid or accrued on any amount payable upon due surrender of the Certificates. In the event of a transfer of ownership of Shares that is not registered in the transfer records of the Company, the shares of Parent Common Stock to be exchanged upon due surrender of the Certificate may be issued to such transferee if the Certificate formerly representing such Shares is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and to evidence that any applicable stock transfer Taxes have been paid or are not applicable.

(c) Distributions with Respect to Unexchanged Shares. All shares of Parent Common Stock to be issued pursuant to the Merger shall be deemed issued and outstanding as of the Effective Time and whenever a dividend or other distribution is declared by Parent in respect of the Parent Common Stock, the record date for which is after the Effective Time, that declaration shall include dividends or other distributions in respect of all shares of Parent Common Stock issuable in the Merger. No dividends or other distributions in respect of the Parent Common Stock issued pursuant to the Merger shall be paid to any holder of any unsurrendered Certificate until such Certificate (or affidavit of loss in lieu thereof as provided in Section 2.2(g)) is surrendered for exchange in accordance with this Article II. Subject to the effect of applicable Laws, following surrender of any such Certificate (or affidavit of loss in lieu thereof as provided in Section 2.2(g)), there shall be issued and/or paid to the holder of the whole shares of Parent Common Stock issued in exchange therefor, without interest thereon, (A) at the time of such surrender, the dividends or other distributions with a record date after the Effective Time theretofore payable with respect to such whole shares of Parent Common Stock and not paid and (B) at the appropriate payment date, the dividends or other distributions payable with respect to such whole shares of Parent Common Stock with a record date after the Effective Time, but with a payment date subsequent to surrender.

(d) Transfers. From and after the Effective Time, there shall be no transfers on the stock transfer books of the Company of the Shares that were outstanding immediately prior to the Effective Time.

(e) Fractional Shares. No certificate or scrip representing fractional shares of Parent Common Stock shall be issued upon the surrender for exchange of Certificates or Uncertificated Shares, and such fractional share interests shall not entitle the owner thereof to vote or to any other rights of a stockholder of Parent. The Exchange Agent, acting as agent for the holders of shares of Company Common Stock otherwise entitled to receive fractional shares of Parent Common Stock, will aggregate all fractional shares of Parent Common Stock that would otherwise have been required to be distributed and cause them to be sold in the open market for the accounts of such holders. Notwithstanding any other provision of this Agreement, each holder of shares of Company Common Stock converted pursuant to the Merger who would otherwise have been entitled to receive a fraction of a share of Parent Common Stock shall receive, in lieu thereof, cash, rounded to the nearest whole cent and without interest, in an amount equal to the proceeds from such sale by the Exchange Agent, if any, less any brokerage commissions or other fees, transfer Taxes or other out-of-pocket transaction costs, as well as any expenses of the Exchange Agent incurred from the sale of such fractional shares of Parent Common Stock in accordance with such holder s fractional interest in the aggregate number of shares of Parent Common Stock sold.

(f) Termination of Exchange Fund. Any portion of the Exchange Fund (including the proceeds of any investments of the Exchange Fund) that remains unclaimed by the stockholders of the Company for one-hundred and eighty (180) days after the Effective Time shall be delivered, at

Parent s option, to Parent. Any holder of Shares (other than Excluded Shares) who has not theretofore complied with this Article II shall thereafter look only to Parent for delivery of any shares of Parent Common Stock and payment of cash in lieu of fractional shares and any dividends and other distributions in respect of the Parent Common Stock to be issued or paid pursuant to the provisions of this Article II (after giving effect to any required Tax withholdings as provided in Section 2.2(h)) upon due surrender of its Certificates (or affidavits of loss in lieu of the Certificates as provided in Section 2.2(g)), without any interest thereon. Notwithstanding the foregoing, none of the Surviving Company, Parent, the Exchange Agent or any other Person shall be liable to any former holder of Shares for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar Laws. To the fullest extent permitted by Law, immediately prior to the date any Merger Consideration would otherwise escheat to or become the property of any Governmental Entity, such Merger Consideration shall become the property of the Surviving Company, free and clear of all claims or interest of any Person previously entitled thereto.

(g) Lost, Stolen or Destroyed Certificates. In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed, and, if required by Parent or the Exchange Agent, the posting by such person of a bond in such reasonable amount as Parent or the Exchange Agent, as applicable, may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate, the cash in lieu of fractional shares, shares of Parent Common Stock and any dividends and other distributions in respect of the Parent Common Stock that would have been issuable or payable pursuant to the provisions of this Article II (after giving effect to any required Tax withholdings as provided in Section 2.2(h)) had such lost, stolen or destroyed Certificate been surrendered.

(h) Withholding Rights. Each of Parent, Merger Sub, the Surviving Company and the Exchange Agent shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code, or any other applicable state, local or foreign Tax Law. To the extent that amounts are so withheld by Parent, Merger Sub, the Surviving Company or the Exchange Agent, as the case may be, such withheld amounts (i) shall be remitted by Parent, Merger Sub, the Surviving Company or the Exchange Agent, as applicable, to the applicable Governmental Entity and (ii) shall be treated for all purposes of this Agreement as having been paid to the Person in respect of which such deduction and withholding was made by Parent, Merger Sub, the Surviving Company or the Exchange Agent, as the case may be.

(i) Uncertificated Shares. Any holder of Uncertificated Shares shall not be required to deliver a Certificate or an executed letter of transmittal to the Exchange Agent to receive the Merger Consideration, any dividends or other distributions payable pursuant to Section 2.2(c) and cash in lieu of any fractional shares of Parent Common Stock payable pursuant to Section 2.2(e) that such holder is entitled to receive pursuant to this Article II in respect of such Uncertificated Shares. In lieu thereof, each registered holder of one or more Uncertificated Shares whose Shares were converted into the right to receive the Merger Consideration, any distributions or dividends payable pursuant to Section 2.2(c) and cash in lieu of any fractional shares of Parent Common Stock payable pursuant to Section 2.2(e), shall, upon receipt by the Exchange Agent of an agent s message in customary form (or such other evidence, if any, as the Exchange Agent may reasonably request), be entitled to receive, and the Surviving Company shall cause the Exchange Agent to pay and deliver as soon as reasonably practicable after the Effective Time, the Merger Consideration, any dividends or other distributions payable pursuant to Section 2.2(c) and cash in lieu of any fractional shares of Parent Common Stock payable pursuant to Section 2.2(e) for each Uncertificated Share, and the Uncertificated Shares of such holder shall forthwith be cancelled. No interest will be paid or accrued on any amount payable to a holder of Uncertificated Shares.

2.3 Adjustments to Prevent Dilution. In the event that the Company changes the number of Shares or securities convertible or exchangeable into or exercisable for any such Shares, or Parent changes the number of shares of Parent

Common Stock or securities convertible or exchangeable into or exercisable for any such Parent Common Stock, in each case issued and outstanding prior to the Effective Time as a result of a reclassification, stock split (including a reverse stock split), stock dividend or distribution, recapitalization, subdivision, or other similar transaction, the Merger Consideration shall be equitably adjusted to eliminate the effects of such event on the Merger Consideration.

2.4 Treatment of Equity Awards.

(a) Treatment of Restricted Stock Units. Each outstanding Company RSU, whether vested or unvested, that is outstanding immediately prior to the Effective Time shall, as of the Effective Time, automatically and without any action on the part of the holder thereof, be converted into a Parent restricted stock unit award on the terms and conditions (including, if applicable, any continuing vesting requirements and vesting acceleration terms) under the Company Stock Plan and applicable award agreement in effect immediately prior to the Effective Time, with respect to a number of shares of Parent Common Stock, rounded up to the nearest whole share, determined by multiplying (i) the number of Shares subject to such Company RSU immediately prior to the Effective Time by (ii) the Exchange Ratio.

(b) Treatment of Performance Stock Units. Each Company PSU, whether vested or unvested, that is outstanding immediately prior to the Effective Time shall, as of the Effective Time, automatically and without any action on the part of the holder thereof, be converted into a Parent restricted stock unit award that vests solely based on the passage of time on the terms and conditions (including, if applicable, any continuing vesting requirements and vesting acceleration terms) under the Company Stock Plan and applicable award agreement in effect immediately prior to the Effective Time, with respect to a number of shares of Parent Common Stock, rounded up to the nearest whole share, determined by multiplying (i) the number of Shares subject to such Company PSU determined pursuant to the applicable award agreement governing the Company PSU that would vest based on the terms of such agreement by (ii) the Exchange Ratio.

(c) Further Action. At or prior to the Effective Time, the Company and the Company Board shall adopt any resolutions and take any actions which are necessary to effectuate the treatment of the Company RSUs and Company PSUs (collectively, the Company Equity Awards) set forth in this Section 2.4(c). Effective as of the Effective Time, Parent shall assume (A) the Company Equity Awards in accordance with the terms of this Section 2.4 and (B) sponsorship of the Company Stock Plan, provided that references to the Company shall thereupon be deemed reference to Parent and references to Shares therein shall be deemed references to Parent Common Stock with appropriate equitable adjustments to reflect the transactions contemplated by this Agreement.

(d) As soon as practicable following the Effective Time, Parent shall prepare and file with the SEC a Form S-8 (or file such other appropriate form) registering a number of shares of Parent Common Stock necessary to fulfill Parent s obligations under this Section 2.4. Parent shall take all corporate action necessary to reserve for issuance a sufficient number of shares of Parent Common Stock for delivery with respect to the Company Equity Awards assumed by it in accordance with this Section 2.4.

2.5 No Dissenters Rights. In accordance with Section 262 of the DGCL, no appraisal rights shall be available to holders of the Shares in connection with the Merger.

ARTICLE III - REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Parent as set forth in the statements contained in this Article III except as set forth in the Company SEC Documents filed and publicly available after January 1, 2017 but prior to the date of this Agreement (the Filed Company SEC Documents) (excluding any disclosures in the Filed Company SEC Documents in any risk factors section, any forward-looking disclosure in any section related to forward-looking statements and other disclosures that are predictive or forward-looking in nature, other than historical facts included therein) or in the disclosure letter delivered by the Company to Parent at or before the execution and delivery of this Agreement (the "Company Disclosure Letter"). The Company Disclosure Letter shall be arranged in numbered and lettered sections corresponding to the numbered and lettered sections contained in this Article III, and the disclosure in any section of the Company Disclosure Letter shall be deemed to qualify other sections in this Article III to the extent that it is reasonably apparent on the face of such disclosure that such disclosure also qualifies or applies to such other sections.

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3.1 Organization, Good Standing and Qualification. Each of the Company and each of the Company s Subsidiaries (such Subsidiaries of the Company, the Company Subsidiaries) is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized (in the case of good standing, to the extent such jurisdiction recognizes such concept), except, in the case of the Company Subsidiaries, where the failure to be so organized, existing or in good standing, individually or in the aggregate, has not had and would not reasonably be expected to have a Company Material Adverse Effect. Each of the Company and the Company Subsidiaries has all requisite power and authority and possesses all Permits necessary to enable it to own, operate, lease or otherwise hold its properties and assets and to conduct its businesses as presently conducted (the Company Permits), except where the failure to have such power or authority or to possess the Company Permits, individually or in the aggregate, has not had and would not reasonably be expected to have a Company Material Adverse Effect. Each of the Company and the Company Subsidiaries is duly qualified or licensed to do business in each jurisdiction where the nature of its business or the ownership or leasing of its properties make such qualification necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, has not had and would not reasonably be expected to have a Company Material Adverse Effect. The Company has delivered or made available to Parent, prior to execution of this Agreement, true and complete copies of the amended and restated certificate of incorporation of the Company, dated as of February 25, 2015 (the Company Charter) and the amended and restated bylaws of the Company in effect as of the date of this Agreement, dated as of February 25, 2015 (the Company Bylaws), in each case as in effect on the date of this Agreement.

3.2 Company Subsidiaries.

(a) Except as set forth on Section 3.2(a) of the Company Disclosure Letter, (i) all the outstanding shares of capital stock or voting securities of, or other equity interests in, each of the Company Subsidiaries and (ii) any shares of capital stock, voting securities or equity interests in any other entity which interests are owned by the Company or any Company Subsidiary have been validly issued and are owned by the Company, by another Company Subsidiary or by the Company and another Company Subsidiary, free and clear of all material Liens, and free of any other restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock, voting securities or other equity interests), except for restrictions imposed by applicable securities laws. Section 3.2(a) of the Company Disclosure Letter sets forth, as of the date of this Agreement, a true and complete list of the Company Subsidiaries.

(b) Except as set forth on Section 3.2(b) of the Company Disclosure Letter, and except for the capital stock and voting securities of, and other equity interests in, the Company Subsidiaries, neither the Company nor any Company Subsidiary owns, directly or indirectly, any capital stock or voting securities of, or other equity interests in, or any interest convertible into or exchangeable or exercisable for, any capital stock or voting securities of, or other equity interests in, any firm, corporation, partnership, company, limited liability company, trust, joint venture, association or other entity other than ordinary course investments in publicly traded securities constituting one percent or less of a class of outstanding securities of any entity.

3.3 Capital Structure.

(a) The authorized capital stock of the Company consists of 175,000,000 Shares and 25,000,000 shares of preferred stock, par value $0.01 (the Company Preferred Stock and, together with the Shares, the Company Capital Stock). At the close of business on September 5, 2018, (i) 36,968,909 Shares were issued and outstanding, (ii) no shares of Company Preferred Stock were issued and outstanding, (iii) no Shares were held by the Company in its treasury, (iv) 3,804,345 Shares were reserved and available for issuance pursuant to the Company Stock Plan, including (A) 602,763 Shares issuable upon vesting or settlement of outstanding Company RSUs (whether or not vested) and (B) 579,083 Shares issuable upon vesting or settlement of outstanding Company PSUs (whether or not vested) and (v) 1,000,000 Shares were reserved for issuance pursuant to the Company s Employee Stock Purchase Plan (the ESPP). Except as set forth in this Section 3.3(a), at the close of business on September 5, 2018, no shares of capital stock or voting securities of, or other equity interests in, the Company were issued, reserved for issuance or outstanding. From the close of business on September 5, 2018 to the date of this Agreement, there have been no issuances

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by the Company of shares of capital stock or voting securities of, or other equity interests in, the Company, other than the issuance of Shares upon the vesting or settlement of Company RSUs or Company PSUs, in each case outstanding at the close of business on September 5, 2018 and in accordance with their terms in effect at such time.

(b) All outstanding shares of Company Capital Stock are, and, at the time of issuance, all such shares that may be issued upon the exercise or vesting of the Company RSUs or Company PSUs will be, duly authorized, validly issued, fully paid and nonassessable and not subject to, or issued in violation of, any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the DGCL, the Company Charter, the Company Bylaws, any Contract to which the Company is a party or otherwise bound, or by applicable Law. Except as set forth above in this Section 3.3 there are no issued, reserved for issuance or outstanding, and there are no outstanding obligations of the Company or any Company Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, (x) any capital stock of the Company or any Company Subsidiary or any securities of the Company or any Company Subsidiary convertible into or exchangeable or exercisable for shares of capital stock or voting securities of, or other equity interests in, the Company or any Company Subsidiary, (y) any warrants, calls, options or other rights to acquire from the Company or any Company Subsidiary, or any other obligation of the Company or any Company Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, any capital stock or voting securities of, or other equity interests in, the Company or any Company Subsidiary or (z) any rights issued by or other obligations of the Company or any Company Subsidiary that are linked in any way to the price of any class of the capital stock of the Company or any shares of capital stock of any Company Subsidiary, the value of the Company, any Company Subsidiary or any part of the Company or any Company Subsidiary or any dividends or other distributions declared or paid on any shares of capital stock of the Company or any Company Subsidiary. Other than (1) the withholding of Shares to satisfy Tax obligations with respect to awards granted pursuant to the Company Stock Plan and (2) the acquisition by the Company of awards granted pursuant to the Company Stock Plan in connection with the forfeiture of such awards, there are not any outstanding obligations of the Company or any of the Company Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock or voting securities or other equity interests of the Company or any Company Subsidiary or any securities, interests, warrants, calls, options or other rights referred to in clause (x), (y) or (z) of the immediately preceding sentence. There are no bonds, debentures, notes or other Indebtedness of the Company having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which stockholders of the Company may vote (collectively, Company Voting Debt). Other than as contemplated by this Agreement, neither the Company nor any of the Company Subsidiaries nor any of the Company s stockholders is a party to any voting agreement with respect to the voting of any capital stock or voting securities of, or other equity interests in, the Company. Neither the Company nor any of the Company Subsidiaries is a party to any agreement pursuant to which any Person is entitled to elect, designate or nominate any director of the Company or any of the Company Subsidiaries.

(c) No Subsidiary of the Company owns any Shares.

(d) Neither the Company nor any Company Subsidiary or associates (as defined in Section 203 of the DGCL) owns, or has owned at any time within the past three years, any shares of Parent Common Stock.

3.4 Corporate Authority and Approval.

(a) The Company has all requisite corporate power and authority to execute and deliver this Agreement and, subject to receipt of the Company Stockholder Approval, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The Company Board has adopted resolutions, by unanimous vote at a meeting duly called, at which all directors of the Company were present, and in support of the Company Board Recommendation and directing that this Agreement be submitted to the Company s stockholders for adoption. As of the date of this Agreement, such resolutions have not been amended or withdrawn.

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(b) Except for the adoption of this Agreement by the affirmative vote of the holders of a majority of the outstanding Shares with respect to the Merger (the Company Stockholder Approval), no other corporate proceedings on the part of the Company are necessary to authorize, adopt or approve, as applicable, this Agreement or to consummate the transactions contemplated hereby (except for the filing of the appropriate merger documents as required by the DGCL). The Company has duly executed and delivered this Agreement and, assuming the due authorization, execution and delivery by Parent and Merger Sub, this Agreement constitutes its legal, valid and binding obligation, enforceable against the Company in accordance with its terms, except, in each case, as enforcement may be limited by bankruptcy, insolvency, reorganization or similar Laws affecting creditors rights generally and by general principles of equity (the Bankruptcy and Equity Exception).

(c) Prior to the date of this Agreement, the Company and the Company Board have taken all action necessary to exempt each of the execution and delivery of this Agreement, the Voting Agreement and the transactions contemplated hereby under or thereunder, or make not subject, to (i) the provisions of Section 203 of the DGCL, (ii) any other applicable fair price , moratorium , control share acquisition or other similar antitakeover statute or similar statute or regulation or (iii) any provision of the organizational documents of the Company and the Company Subsidiaries that would require any corporate approval other than that otherwise required by the DGCL or other applicable state Law. There is no stockholder rights plan, poison pill antitakeover plan or similar device in effect to which the Company or any of its Subsidiaries is subject, party or otherwise bound.

3.5 No Conflicts; Consents.

(a) Except as set forth on Section 3.5(a) of the Company Disclosure Letter, the execution and delivery of this Agreement by the Company does not, and the performance by the Company of its obligations hereunder and the consummation of the transactions contemplated hereby will not, (i) conflict with, or result in any violation of any provision of, the Company Charter, the Company Bylaws or the comparable charter or organizational documents of any Company Subsidiary (assuming that the Company Stockholder Approval is obtained), (ii) conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation under, or give rise to any obligation to make an offer to purchase or redeem any Indebtedness or capital stock or any loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of the Company or any Company Subsidiary under, any provision of any Contract to which the Company or any Company Subsidiary is a party or by which any of their respective properties or assets is bound or any Company Permit or (iii) conflict with, or result in any violation of any provision of, subject to the filings and other matters referred to in Section 3.5(b), any Judgment or Law, in each case, applicable to the Company or any Company Subsidiary or their respective properties or assets (assuming that the Company Stockholder Approval is obtained), other than, in the case of clauses (ii) and (iii) above, any matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect (it being agreed that for purposes of this Section 3.5(a), effects resulting from or arising in connection with the execution and delivery of this Agreement, as set forth in clause (iv) of the definition of the term Material Adverse Effect , shall not be excluded in determining whether a Company Material Adverse Effect has occurred or would reasonably be expected to occur to the extent such effects were not otherwise excluded from determining whether a Company Material Adverse Effect has occurred or would reasonably be expected to occur) and would not prevent or materially impede, interfere with, hinder or delay the consummation of the transactions contemplated hereby.

(b) Except as set forth on Section 3.5(b) of the Company Disclosure Letter, no Consent of or from, or registration, declaration, notice or filing made to or with any Governmental Entity is required to be obtained or made by or with respect to the Company or any Company Subsidiary in connection with the execution and delivery of this Agreement or its performance of its obligations hereunder or the consummation of the transactions contemplated hereby, other than (i) compliance with and filings under the HSR Act, (ii) receipt of the Company Stockholder Approval, (iii) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware, and the filing of appropriate documents with the relevant authorities of the other jurisdictions in which the Company are qualified to do business, (iv) such Consents, registrations, declarations, notices or filings as are required to be made or obtained under the securities or blue sky laws of various states in connection with the issuance of the shares of Parent Common Stock to be issued as the Merger Consideration, (v) such filings with and approvals of the NYSE as are required to permit the consummation of the Merger and the listing of the shares of Parent Common Stock to be issued as the Merger Consideration and (vi) such other matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect (it being agreed that for purposes of this Section 3.5(b), effects resulting from or arising in connection with the execution and delivery of this Agreement, as set forth in clause (iv) of the definition of the term Material Adverse Effect, shall not be excluded in determining whether a Company Material Adverse Effect has occurred or would reasonably be expected to occur to the extent such effects were not otherwise excluded from determining whether a Company Material Adverse Effect has occurred or would reasonably be expected to occur) and would not prevent or materially impede, interfere with, hinder or delay the consummation of the transactions contemplated hereby.

3.6 Company SEC Documents; Financial Statements. No Undisclosed Liabilities.

(a) The Company has furnished or filed all reports, schedules, forms, statements and other documents (including exhibits and other information incorporated therein) required to be furnished or filed by Company with the SEC since January 1, 2017 (such documents, together with any documents filed with the SEC during such period by Company on a voluntary basis on a Current Report on Form 8-K, being collectively referred to as the Company SEC Documents).

(b) Each Company SEC Document (i) at the time filed, complied in all material respects with the requirements of SOX and the Exchange Act or the Securities Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such Company SEC Document and (ii) did not at the time it was filed (or if amended or superseded by a filing or amendment prior to the date of this Agreement, then at the time of such filing or amendment) contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the consolidated financial statements of the Company included in the Company SEC Documents complied at the time it was filed as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, was prepared in accordance with GAAP (except, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly presented in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods shown (subject, in the case of unaudited statements, to normal year-end audit adjustments).

(c) Except (i) as reflected or reserved against in the Company s consolidated unaudited balance sheet as of June 29, 2018 (or the notes thereto) as included in the Company SEC Documents, (ii) for liabilities and obligations incurred since June 29, 2018 in the ordinary course of business and (iii) for liabilities and obligations incurred as permitted by this Agreement, neither the Company nor any Company Subsidiary has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) that, individually or in the aggregate, have had or would reasonably be expected to have a Company Material Adverse Effect. For purposes of this Section 3.6, the term liabilities shall not include liabilities or obligations of the Company or any Company Subsidiary to perform under or comply with any applicable Law, action, Judgment or Contract, but would include such liabilities and obligations if there has been a default or failure to perform or comply by the Company or any Company Subsidiary with any such liability or obligation if such default or failure would, with the giving of notice or passage of time or both, reasonably be expected to result in a monetary obligation or the imposition of injunctive or other equitable remedies.

3.7 Internal Controls and Procedures.

(a) Each of the chief executive officer of the Company and the chief financial officer of the Company (or each former chief executive officer of the Company and each former chief financial

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officer of the Company, as applicable) has made all applicable certifications required by Rule 13a-14 or 15d-14 under the Exchange Act and Sections 302 and 906 of SOX with respect to the Company SEC Documents, and the statements contained in such certifications are true and accurate. For purposes of this Agreement, chief executive officer and chief financial officer shall have the meanings given to such terms in SOX. None of the Company or any of the Company Subsidiaries has outstanding, or has arranged any outstanding, extensions of credit to directors or executive officers within the meaning of Section 402 of SOX.

(b) The Company maintains a system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) sufficient to provide reasonable assurance (i) that transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP, consistently applied, (ii) that transactions are executed only in accordance with the authorization of management and (iii) regarding prevention or timely detection of the unauthorized acquisition, use or disposition of the Company s properties or assets.

(c) The Company is, and since January 1, 2017 has been, in compliance in all material respects with the applicable listing and corporate governance rules and requirements of the NYSE.

(d) The disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) utilized by the Company are reasonably designed to ensure that all information (both financial and non-financial) required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the periods specified in the rules and forms of the SEC and that all such information required to be disclosed is accumulated and communicated to the management of the Company to allow timely decisions regarding required disclosure and to enable the chief executive officer and chief financial officer of the Company to make the certifications required under the Exchange Act with respect to such reports.

(e) Neither the Company nor any Company Subsidiary is a party to, or has any commitment to become a party to, any joint venture, off balance sheet partnership or any similar Contract (including any Contract or arrangement relating to any transaction or relationship between or among the Company and any of the Company Subsidiaries, on the one hand, and any unconsolidated Affiliate, including any structured finance, special purpose or limited purpose entity or Person, on the other hand, or any off balance sheet arrangements (as defined in Item 303(a) of Regulation S-K under the Exchange Act)), where the result, purpose or intended effect of such Contract is to avoid disclosure of any material transaction involving, or material liabilities of, the Company or any of the Company Subsidiaries in the Company s or such Company Subsidiary s published financial statements.

3.8 Absence of Certain Changes. From January 1, 2018 to the date of this Agreement, there has not occurred any Effect that, individually or in the aggregate, has had or would reasonably be expected to have a Company Material Adverse Effect. From January 1, 2018 to the date of this Agreement, except for actions taken in connection with the execution and delivery of this Agreement and the transactions contemplated by this Agreement, the Company and the Company Subsidiaries have conducted the business of the Company and the Company Subsidiaries in the ordinary course in all material respects, and during such period there have not been any actions taken that if taken after the date of this Agreement without the prior written consent of Parent would constitute a violation of Section 5.1(a) (other than clauses (i)(A), (i)(B), (ii), (iii)(A), (iv), (v) or (xiii) of Section 5.1(a)).

3.9 Litigation and Liabilities. As of the date of this Agreement, there is no suit, action or other proceeding pending or, to the Knowledge of the Company, threatened against the Company or any Company Subsidiary or any of their respective properties or assets that, individually or in the aggregate, has had or would reasonably be expected to have a Company Material Adverse Effect. As of the date of this Agreement, there is no Judgment outstanding against or, to the Knowledge of the Company, investigation by any Governmental Entity involving the Company or any Company Subsidiary or any of their respective properties or assets that, individually or in the aggregate, has had or would reasonably be expected to have a Company Material Adverse Effect.

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3.10 Benefits Matters; ERISA Compliance.

(a) For the purposes of this Agreement, the term Company Plan shall mean any benefit and compensation plan, policy, program or arrangement maintained, sponsored or contributed to (or required to be contributed to) by the Company or any Company Subsidiary or under which the Company or any Company Subsidiary has any liability covering or for the benefit of any current or former employees of the Company or any Company Subsidiary or any current or former directors of the Company or Company Subsidiary, including employee benefit plans within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (ERISA), and any incentive and bonus, deferred compensation, retention, stock purchase, employment, retirement, retiree medical, profit sharing, pension, severance, change-in-control, termination, restricted stock, stock option, stock appreciation rights or stock based plans, programs, agreements or arrangements, excluding any statutory plans (a Statutory Plan). Each material Company Plan as of the date of this Agreement is listed in Section 3.10(a) of the Company Disclosure Letter. True and complete copies of each of the material Company Plans (or, if unwritten, a written summary thereof), and all amendments thereto, and to the extent applicable, any related trust or other funding vehicle, and the most recent determination letter or opinion letter received from or issued by the IRS with respect to each Company Plan intended to qualify under Section 401 of the Code, have been provided or made available to Parent on or prior to the date of this Agreement.

(b) All Company Plans are in compliance with their terms and applicable Laws (including, if applicable, ERISA and the Code) and the Company and Company Subsidiaries have complied with all Statutory Plans in accordance with their terms and applicable Law, except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect.

(c) Except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect, each Company Plan that is intended to be qualified under Section 401(a) of the Code, has received a favorable determination letter or opinion letter from the Internal Revenue Service (the IRS) and, to the Knowledge of the Company, circumstances do not exist that are likely to result in the loss of the qualification of such plan under Section 401(a) of the Code. Except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect, each non-U.S. Company Plan, to the extent required to be registered or approved by any Governmental Entity, has been registered with, or approved by, such Governmental Entity and, to the Knowledge of the Company, nothing has occurred that would adversely affect such registration or approval.

(d) Except as set forth on Section 3.10(d) of the Company Disclosure Letter, neither the Company nor any Company Subsidiary or any entity which is considered one employer with the Company under Section 4001 of ERISA or Section 414 of the Code, contributes to or is obligated to contribute to (i) an employee pension benefit plan (as defined in Section 3(2) of ERISA) subject to Title IV of ERISA, Section 412 of the Code or Section 302 of ERISA (including any multiemployer plan within the meaning of Section (3)(37) of ERISA), (ii) a multiple employer plan as defined in Section 413(c) of the Code or (iii) a multiple employer welfare arrangement within the meaning of Section 3(40) of ERISA.

(e) Except as would not, individually or in the aggregate, reasonably be likely to result in a material liability to the Company or any Company Subsidiary, taken as a whole, with respect to each Company Plan that is subject to Title IV or Section 302 of ERISA or Section 412 or 4971 of the Code: (i) no Company Plan has failed to satisfy the minimum funding standard (within the meaning of Sections 412 and 430 of the Code or Section 302 of ERISA) applicable to such Company Plan, whether or not waived and no application for a waiver of the minimum funding standard with respect to any Company Plan has been submitted; (ii) no reportable event within the meaning of Section 4043(c) of ERISA for which the thirty day notice requirement has not been waived has occurred; (iii) no material liability (other than for premiums to the Pension Benefit Guaranty Corporation (the PBGC)) under Title IV of ERISA has been or is expected to be incurred by the Company or any Company Subsidiary; (iv) the PBGC has not instituted proceedings to terminate any such plan or made any inquiry which would reasonably be expected to lead to termination of any such plan, and, to the Knowledge of the Company, no condition exists that presents a risk that such proceedings will be instituted or which would constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any such plan; and (v) no plan is, or is expected to be, in at-risk status (as defined in Section 303(i)(4) of ERISA or Section 430(i)(4) of the Code).

(f) All contributions required to be made by the Company or a Company Subsidiary under each Company Plan and each Statutory Plan have been timely made and all obligations in respect of each Company Plan have been properly accrued and reflected in the most recent consolidated balance sheet filed or incorporated by reference in the Company SEC Documents prior to the date of this Agreement, except as in each instance, would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect.

(g) As of the date of this Agreement, there are no pending or, to the Knowledge of the Company, threatened proceedings relating to the Company Plans, except as would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect.

(h) Except as expressly contemplated by this Agreement, as required by applicable Law or as set forth on Section 3.10(h) of the Company Disclosure Letter, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby would reasonably be expected to, either alone or in combination with any other event, (i) result in any material payment becoming due to any employee, officer or director of the Company or any Company Subsidiary, (ii) materially increase the amount or value of any compensation or benefits under any Company Plan or otherwise payable to any employee, officer or director of the Company or any of its Subsidiaries, (iii) result in the acceleration of the time of payment, vesting or funding of any such compensation or benefits, or (iv) result in any excess parachute payment (within the meaning of Section 280G of the Code) becoming due to any current or former employee, officer, individual independent contractor or director of the Company or any Company Subsidiary. Except as set forth on Section 3.10(h) of the Company Disclosure Letter, neither the Company nor any Company Subsidiary has any obligation to gross-up, indemnify or otherwise reimburse any current or former employee, director or other independent contractor of the Company or any Company Subsidiary for any excise or additional tax, interest or penalties incurred by such individual under Section 4999 or Section 409A of the Code.

(i) Except as set forth on Section 3.10(i) of the Company Disclosure Letter, neither the Company nor any Company Subsidiary sponsors any employee benefit plan that provides for any post-employment or post-retirement health or medical or life insurance benefits for retired or former employees or their dependents, except as required by Section 4980B of the Code, that could result in a material liability to the Company or any Company Subsidiary taken as a whole.

3.11 Labor Matters.

(a) Except as set forth on Section 3.11(a) of the Company Disclosure Letter, as of the date of this Agreement, all employees of the Company and the Company Subsidiaries are employed on an at will basis, which means that their employment can be terminated at any time, with or without notice, for any reason or no reason at all. No employee of the Company or a Company Subsidiary has been granted the right to continued employment by the Company or any successor.

(b) The Company and the Company Subsidiaries are, and since January 1, 2016 have been, in compliance in all material respects with all applicable Laws related to employment and employees, including but not limited to wages and other compensation, overtime requirements, classification of employees and independent contractors under federal and state Laws, hours of work, leaves of absence, equal opportunity, immigration, occupational health and safety, workers compensation, background checks, hiring, pre-employment tests, affirmative action, equal pay, and the payment of social security and other Taxes. There are no charges, investigations, administrative proceedings or formal complaints of discrimination (including discrimination based upon sex, age, marital status, race, national origin, sexual orientation, disability or veteran status) threatened or pending before the Equal Employment Opportunity Commission, the National Labor Relations Board, the U.S. Department of Labor, the U.S. Occupational Health and Safety Administration, the Workers Compensation Appeals Board, or any other Governmental Entity against the Company pertaining to any employee, except for those charges, investigations, administrative proceedings or formal complaints of discrimination that, individually or in the aggregate, would not reasonably be likely to result in material liability to the Company or any Company Subsidiary taken as a whole.

(c) The Company and the Company Subsidiaries have, since January 1, 2016, properly classified their U.S. based employees as exempt or nonexempt under federal and state Laws, except as would not, individually or in the aggregate, reasonably be likely to result in a material liability to the Company or any Company Subsidiary taken as a whole. The Company and the Company Subsidiaries have, since January 1, 2016, properly classified their U.S. based independent contractors as independent contractors under federal and state Laws, except as would not, individually or in the aggregate, reasonably be likely to result in a material liability to the Company or any Company Subsidiary taken as a whole.

(d) As of the date of this Agreement, Section 3.11(d) of the Company Disclosure Letter sets forth a true and complete list of all collective bargaining or other labor union contracts applicable to any employees of the Company or any of the Company Subsidiaries. To the Knowledge of the Company, no labor organization or group of employees of the Company or any Company Subsidiary has made a pending demand for recognition or certification, and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or threatened to be brought or filed, with the National Labor Relations Board or any other labor relations tribunal or authority. To the Knowledge of the Company, there are no material organizing activities, strikes, work stoppages, slowdowns, lockouts, material arbitrations or material grievances, or other material labor disputes pending or threatened against or involving the Company or any Company Subsidiary. None of the Company or any of the Company Subsidiaries has breached or otherwise failed to comply with any provision of any collective bargaining agreement or other labor union Contract applicable to any employees of the Company or any of the Company Subsidiaries, except for any breaches or failures to comply that, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect. There are no written grievances or written complaints by represented employees of the Company or its Subsidiaries and, to the Knowledge of the Company, no such grievances or complaints are threatened, in each case, that individually or in the aggregate, has had or would reasonably be expected to have a Company Material Adverse Effect.

(e) The Company is in full compliance with the Worker Readjustment and Notification Act (the WARN Act) (29 USC §2101) and any applicable state Laws or other legal requirements regarding redundancies, reductions in force, mass layoffs, and plant closings, including all obligations to promptly and correctly furnish all notices required to be given thereunder in connection with any redundancy, reduction in force, mass layoff, or plant closing to affected employees, representatives, any state dislocated worker unit and local government officials, or any other Governmental Entity, except as, in each instance, would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect. No reduction in the notification period under the WARN Act is being relied upon by the Company.

3.12 Compliance with Laws. Except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect, the Company and the Company Subsidiaries are, and since January 1, 2016 have been, in compliance with all applicable Laws and the Company Permits. Except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect, there is no, and since January 1, 2016, there has been no, action, demand or investigation by or before any Governmental Entity pending or, to the Knowledge of the Company, threatened alleging that the Company or a Company Subsidiary is not in compliance with any applicable Law or the Company Permit or which challenges or questions the validity of any rights of the holder of any Company Permit. The Company and the Company Subsidiaries, and, to the Knowledge of the Company, their respective directors, officers, employees and agents are, and since January 1, 2016 have been, in compliance with the Foreign Corrupt Practices Act of 1977, as amended (the FCPA) and any rules and regulations thereunder or any applicable Law of similar effect. The Company and the Company Subsidiaries are, and at all times during the past three years have been, in compliance in all material respects with all statutory and regulatory

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requirements under the Arms Export Control Act (22 U.S.C. 2778), the International Traffic in Arms Regulations (ITAR) (22 C.F.R. 120 et seq.), the Export Administration Regulations (15 C.F.R. 730 et seq.) and associated executive orders, the anti-boycott laws and regulations administered by the United States Department of the Treasury and the United States Department of Commerce, Department of Homeland Security (Customs and Border Protection) and the laws, regulations, and all other rules, Executive Orders, directives, and other official actions implemented or administered by the Office of Foreign Assets Controls, United States Department of the Treasury and all comparable applicable Laws outside the United States (collectively, the Export Control Laws), other than information included in voluntary disclosures that do not result in any action on the part of any Governmental Entity as set forth in Section 3.12(i) of the Company Disclosure Letter. Since January 1, 2016, neither the Company nor its Subsidiaries has received any written or, to the Knowledge of the Company, oral communication from any Governmental Entity alleging that it is not in compliance with the Export Control Laws and that a penalty will be imposed for such noncompliance. The Company and the Company Subsidiaries have established and maintain internal controls and procedures intended to ensure compliance in all material respects with all applicable Export Control Laws, including controls and procedures intended to ensure that the products and technologies of the Company and the Company Subsidiaries are and have been properly classified under the Export Control Laws, including with accurate Export Control Classification Numbers and U.S. Munitions List category identifications as set forth in Section 3.12(ii) of the Company Disclosure Letter. Notwithstanding anything contained in this Section 3.12 to the contrary, no representation or warranty shall be deemed to be made in this Section 3.12 in respect of the matters referenced in Sections 3.6 (*Company SEC Documents; Financial Statements; No Undisclosed Liabilities*), 3.7 (*Internal Controls and Procedures*), 3.10 (*Benefits Matters; ERISA Compliance*), 3.11 (*Labor Matters*), 3.14 *(Environmental Matters)*, 3.15 (*Taxes*), or 3.21 (*Government Contracts*).

3.13 Contracts.

(a) Except for this Agreement, neither the Company nor any Company Subsidiary is a party to any Contract required to be filed by the Company as a material contract pursuant to Item 601(b)(10) of Regulation S-K under the Securities Act (a Filed Company Contract) that has not been so filed.

(b) Section 3.13(b) of the Company Disclosure Letter sets forth, as of the date of this Agreement, a true and complete list, and the Company has made available to Parent true and complete copies, of (i) each agreement, Contract, understanding, or undertaking to which the Company or any of the Company Subsidiaries is a party that (A) restricts the ability of the Company or the Company Subsidiaries to compete in any business or with any Person in any geographical area in a manner that is material to the Company and the Company Subsidiaries, taken as a whole, (B) would, to the Knowledge of the Company, restrict in any material respect the ability of Parent or any of the Parent Subsidiaries to compete in any business or with any Person in any geographical area after the Effective Time, (C) requires the Company or any Company Subsidiary to conduct any business on a most favored nations basis with any third party in a manner that is material to the Company and the Company Subsidiaries, taken as a whole, (D) provides for exclusivity or any similar requirement in favor of any third party in a manner that is material to the Company and the Company Subsidiaries, taken as a whole, or (E) would require disclosure under Item 404 of SEC Regulation S-K, (ii) each loan and credit agreement, Contract, note, debenture, bond, indenture, mortgage, security agreement, pledge, or other similar agreement pursuant to which any material Indebtedness of the Company or any of the Company Subsidiaries is outstanding or may be incurred, other than any such agreement between or among the Company and the wholly owned Company Subsidiaries, (iii) each Company Lease, (iv) each partnership, joint venture or similar agreement, Contract, understanding or undertaking to which the Company or any of the Company Subsidiaries is a party relating to the formation, creation, operation, management or control of any partnership or joint venture, in each case, material to the Company and the Company Subsidiaries, taken as a whole, (v) each Company License Agreement, (vi) each Contract under which the Company or any Company Subsidiary provides an express covenant not to sue for infringement of Patent Rights, and (vii) each agreement, Contract, understanding or undertaking relating to the disposition or acquisition by the Company or any of the Company Subsidiaries of any material business or any material amount of assets (excluding dispositions or acquisitions which were consummated prior to the date of this Agreement and with respect to which there is no ongoing liability or obligation of the Company or any Company Subsidiaries). Each agreement, Contract, understanding or undertaking of the type described in this Section 3.13(b) and each Filed Company Contract is referred to herein as a Company Material Contract .

(c) Except for matters which, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect, (i) each Company Material Contract (including, for purposes of this Section 3.13(c), any Contract entered into after the date of this Agreement that would have been a Company Material Contract if such Contract existed on the date of this Agreement) is a valid, binding and legally enforceable obligation of the Company or one of the Company Subsidiaries, as the case may be, and, to the Knowledge of the Company, of the other parties thereto, except, in each case, as enforcement may be limited by the Bankruptcy and Equity Exception, (ii) each such Company Material Contract is in full force and effect and (iii) none of Company or any of the Company Subsidiaries is (with or without notice or lapse of time, or both) in breach or default under any such Company Material Contract and, to the Knowledge of the Company, no other party to any such Company Material Contract is (with or without notice or lapse of time, or both) in breach or default thereunder.

3.14 Environmental Matters. Except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect:

(a) the Company and the Company Subsidiaries are and, since January 1, 2016, have been, in compliance with all Environmental Laws, which compliance includes obtaining, maintaining and complying with all Permits required pursuant to any Environmental Law;

(b) there are no Environmental Claims pending against or, to the Knowledge of the Company, threatened against or affecting, the Company or any of the Company Subsidiaries;

(c) except as set forth on Section 3.14(c) of the Company Disclosure Letter, to the Knowledge of the Company, there has been no Release of, or exposure to, any Hazardous Material that would reasonably be expected to form the basis of any Environmental Claim against the Company; and

(d) the Company and the Company Subsidiaries have made available to Parent true and complete copies of all Phase I Environmental Site Assessments with respect to the Company and Company Subsidiaries, the Company Properties or real property formerly owned, leased or operated by the Company or any of the Company Subsidiaries, to the extent such documentation is in the Company s or any of the Company Subsidiaries possession, custody or control.

3.15 Taxes. Except as set forth on Section 3.15 of the Company Disclosure Letter or as would not reasonably be likely to have, individually or in the aggregate, a Company Material Adverse Effect, the Company and each of its Subsidiaries (a) have duly and timely filed, or caused to be filed, taking into account any extensions, all Tax Returns required to have been filed by them, and such Tax Returns are true, correct and complete, and (b) have duly and timely paid all Taxes required to have been paid by them (including any Taxes required to be withheld from amounts owing to any employee, creditor, stockholder or other third party), except in each case of clauses (a) and (b), with respect to matters contested in good faith in appropriate proceedings and for which adequate reserves have been established in accordance with GAAP in the financial statements included in the Company SEC Documents.

3.16 Intended Tax Treatment. Neither the Company nor any Company Subsidiary has taken or agreed to take any action or knows of the existence of any fact that is reasonably likely to prevent or impede the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

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3.17 Intellectual Property. Section 3.17 of the Company Disclosure Letter sets forth, as of the date of this Agreement, a true and complete list of all registrations and pending applications for Intellectual Property Rights owned by, or exclusively licensed to, the Company and the Company Subsidiaries. All of the Intellectual Property Rights listed on or required to be listed on Section 3.17 of the Company Disclosure Letter are subsisting and, to the Knowledge of the Company, valid and enforceable. Except as has not had and would not reasonably be expected to have a Company Material Adverse Effect (other than with respect to Section 3.17(a):

(a) The Company and the Company Subsidiaries exclusively own their material proprietary Intellectual Property Rights, free and clear of all Liens except for Permitted Liens, and own, or are validly licensed or otherwise have the right to use, all other material Company Intellectual Property, and the Company and Company Subsidiaries have taken commercially reasonable actions to protect and preserve the material Company Intellectual Property;

(b) No actions, suits or other proceedings are pending or, to the Knowledge of the Company, threatened (i) that allege that the Company or any of the Company Subsidiaries is infringing, misappropriating or otherwise violating any Person s Intellectual Property Rights, or (ii) challenging the use, ownership, validity, or enforceability of any Intellectual Property Rights owned (or purported to be owned) by the Company or any of the Company Subsidiaries;

(c) Section 3.17(c) of the Company Disclosure Letter sets forth a list of all material agreements: (i) under which the Company or any Company Subsidiary licenses or otherwise obtains from a third party material Intellectual Property Rights that are used by the Company or such Company Subsidiary in the conduct of its business as currently conducted or receives any Computing Services (in each case, other than Commercial Software and Services) (such agreements being referred to as Company Licensed-In Agreements), and (ii) under which the Company or any Company Subsidiary grants rights to access or otherwise exploit any material Company Intellectual Property or provides any Computing Services (other than non-exclusive licenses of Company s products or services pursuant to the Company s standard forms of agreement and in the ordinary course of business) (together with the Company Licensed-In Agreements, the Company License Agreements). Each Company License Agreement is in full force and effect and will continue to be in full force and effect immediately following the consummation of the transactions contemplated hereby. Neither the Company nor any Company Subsidiary is in breach of any Company License Agreement;

(d) Except as set forth on Section 3.17(d) of the Company Disclosure Schedule, to the Knowledge of the Company, neither the use or practice of any Intellectual Property Rights by the Company or any Company Subsidiary, the operation of their businesses as currently conducted (including the design, development, manufacturing, reproduction, marketing, importation, distribution, licensing, offer for sale, sale, delivery or use of any Company Product) nor the current business practices or methods of the Company or any Company Subsidiary has during the past six years infringed, misappropriated, used without authorization or otherwise violated or currently infringes, misappropriates, uses without authorization, or otherwise violates any Intellectual Property Right of any Person, and during the past six years, neither the Company nor any Company Subsidiary has received any written notice or claim asserting that any such infringement, misappropriation or other violation has or may have occurred, including any communication suggesting or offering that the Company or any Company Subsidiary obtain a license to any Intellectual Property Rights of another Person and implying or suggesting that the Company or any Company Subsidiary, or any of their respective customers, has been or is infringing, misappropriating, violating or making unlawful use of any such Intellectual Property Rights;

(e) To the Knowledge of the Company, no Person is infringing, misappropriating or otherwise violating (or has during the past six years infringed, misappropriated or otherwise violated) any Company Intellectual Property and neither the Company nor any Company Subsidiary has made any such claims against any Person;

(f) Each of the Company and the Company Subsidiaries have taken reasonable security measures to protect the confidentiality of all material trade secrets, know-how and confidential or other proprietary information owned or held by the Company or any Company Subsidiary and no such material trade secrets, know-how, or confidential or other proprietary information have been disclosed by the Company or any Company Subsidiary to any Person, or have been authorized to be disclosed to or accessed by, or, to the Knowledge of the Company, actually disclosed to or accessed by, any Person, in each case, other than pursuant to valid and enforceable written non-disclosure agreements restricting the disclosure and use thereof and, to the Knowledge of the Company, no Person is in breach of any such agreement;

(g) No prior or current employee or officer or any prior or current consultant or contractor of the Company or any of the Company Subsidiaries has asserted in writing or, to the Knowledge of the Company, has any ownership in any Company Intellectual Property;

(h) The Company and the Company Subsidiaries have entered into written agreements with all past and current employees, independent contractors and consultants who have developed any material Intellectual Property Rights for Company and the Company Subsidiaries, pursuant to which each such Person has presently assigned to Company or a Company Subsidiary all such Person s right, title, and interest in and to all Intellectual Property Rights created or developed for the Company or the Company Subsidiary in the course of such Person s employment or engagement thereby (to the extent such rights did not otherwise vest with Company or a Company Subsidiary under applicable Law);

(i) Except as set forth in Section 3.17(i) of the Company Disclosure Letter, no funding, facilities, personnel, consultants or contractors of any Governmental Entity or any university, college, other educational institution or research center were used in the development of any Company Intellectual Property owned or purported to be owned by the Company or any Company Subsidiary where, as a result thereof, the Governmental Entity, university, college, other educational institution or research center has any rights in such Intellectual Property Rights.

(j) No Open Source Software is or has been included, incorporated or embedded in, linked to, combined or distributed with or used in the development, maintenance, operation, delivery or provision of any material Company Product or any material Software owned by the Company or any Company Subsidiary, in each case, in a manner that subjects any source code or related materials for any such Company Product or Software to any requirement or obligation to be made available, disclosed or contributed to the public (including the open source community) without charge (except for fees for transferring a copy of Software, fees for related services, or similar fees permitted by Open Source Software licenses). To the Knowledge of the Company, neither the Company nor any Company Subsidiary is in breach of any of the material terms or conditions of any license to any Open Source Software;

(k) To the Knowledge of Company, no event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time, or both) will, or would reasonably be expected to, result in the delivery, license or disclosure of the source code for any material Software owned by Company or any Company Subsidiary to any third party;

(l) The computer Software, systems, servers, network equipment and other information technology systems (including Computing Services) owned, leased, licensed or subscribed to by the Company or any Company Subsidiaries (Company IT Systems) are adequate and sufficient for the conduct and operation of their businesses as presently conducted and each of the Company and the Company Subsidiaries has taken reasonable measures to maintain the performance, security and integrity of the Company IT Systems;

(m) To the Knowledge of Company, the Company IT Systems do not contain any malicious code: (i) that materially disrupts, disables, harms or adversely affects the functionality of the Company IT Systems; (ii) that is intended to damage or destroy any data or file or send information to Company, the Company Subsidiaries, or any third party without the user s, Company s or one of Company s Subsidiaries consent; or (iii) that enables or assists any Person to access without authorization any Company IT Systems;

(n) To the Knowledge of the Company, since January 1, 2017, there has been no failure or unauthorized access to or use of any Company IT Systems;

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(o) Each of the Company and the Company Subsidiaries has reasonable back-up and disaster recovery arrangements in the event of a failure of the Company IT Systems that are, at a minimum, in accordance with standard industry practice and, to the Knowledge of the Company, there has not been any material malfunction, failure or security breach with respect to any of the Company IT Systems or any material Software owned by Company or any Company Subsidiary within the past twelve months; and

(p) The consummation of the transactions contemplated hereby will not result in (i) a Lien on, or the loss or impairment of the Company s or any Company Subsidiary s right to own or use, any Intellectual Property Rights; or (ii) the grant, assignment or transfer to any other Person of any license or other right or interest under, to or in any of the Company Intellectual Property.

3.18 Privacy. The Company and the Company Subsidiaries (i) are in material compliance with all applicable Laws relating to collecting, accessing, using, disclosing, transmitting, securing, sharing, processing, transferring and storing personally identifiable information as defined under applicable Law (Personal Information) (such Laws, Privacy Laws) and (ii) take commercially reasonable actions to protect the confidentiality, integrity and accessibility of Personal Information maintained by or on behalf of the Company and any Company Subsidiary. To the Knowledge of the Company, there has been no unauthorized or unlawful destruction, loss or alteration, or unauthorized disclosure of or access to (x) Personal Information maintained by or on behalf of the Company or any Company Subsidiary with respect to which notification to affected data subjects, customers, or Governmental Entity was made or was required by applicable Laws or (y) any trade secrets, know-how or confidential or other proprietary information that is owned by the Company or any Company Subsidiary, except, in each case, as has not had and would not reasonably be expected to have a Company Material Adverse Effect. No written claims have been asserted against, nor have any investigations or inquiries by a Governmental Entity been threatened in writing or commenced regarding, the Company or any Company Subsidiary alleging any violation of the applicable Privacy Laws.

3.19 Insurance. Each of the Company and the Company Subsidiaries maintains insurance policies with reputable insurance carriers against all risks of a character and in such amounts as are usually insured against by similarly situated companies in the same or similar businesses. Except as has not had and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, (a) each insurance policy of the Company or any Company Subsidiary is in full force and effect and was in full force and effect during the periods of time such insurance policy are purported to be in effect, and (b) neither the Company nor any of the Company Subsidiaries is (with or without notice or lapse of time, or both) in breach or default (including any such breach or default with respect to the payment of premiums or the giving of notice) under any such policy. There is no claim by the Company or any of the Company Subsidiaries pending under any such policies that (i) to the Knowledge of the Company, has been denied or disputed by the insurer other than denials and disputes in the ordinary course of business consistent with past practice or (ii) if not paid would constitute a Company Material Adverse Effect.

3.20 Properties.

(a)

(i) The Company and each Company Subsidiary has good, valid, insurable and marketable fee simple title to the Owned Company Properties and good and valid leasehold interest in the Leased Company Properties (together with the Owned Company Properties, the Company Properties), except (i) for Liens permitted by the penultimate sentence of this Section 3.20(a) and (ii) with respect to such Liens, individually or in the aggregate, such Liens have not had and would not reasonably be expected to have a Company Material Adverse Effect. This Section 3.20(a) does not relate to Intellectual Property Rights matters, which are the subject of Section 3.17. The Company Properties and all components of all buildings, structures and other improvements located thereon are, in all material respects, adequate and sufficient, and in satisfactory operating condition, to support the operations of the Company and the Company

Subsidiaries as presently conducted. Section 3.20(a) of the Company Disclosure Letter lists, as of the date hereof, each parcel of Owned Company Property. All of the Owned Company

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Properties are owned and all of the Leased Company Properties are leased free and clear of all Liens, except for (i) Liens (other than in connection with borrowed money) on Company Properties that, individually or in the aggregate, do not materially impair and would not reasonably be expected to materially impair, the continued use and operation of such Company Property to which they relate in the conduct of the Company and the Company Subsidiaries as presently conducted and (ii) Permitted Liens. To the Company s Knowledge, there are no leases, subleases, licenses, concessions or other agreements granting to any party or parties the right of use or occupancy of any material portion of the Owned Company Properties.

(ii) None of the buildings, plants, structures, or equipment located on the Company Properties is in need of current maintenance or repairs which are scheduled to occur more than twelve months after the Closing Date other than routine maintenance and repairs that are not material in nature or cost. To the Company s Knowledge, there are no defects or conditions of the Owned Company Property that materially impairs the current use thereof by the Company or the Company Subsidiaries. Except as set forth on Section 3.20(a) of the Company Disclosure Letter, with respect to the Material Real Property, there are no proceedings pending or, to the Company s Knowledge, threatened against or affecting the Owned Company Properties or any portion thereof or interest therein in the nature or in lieu of condemnation or eminent domain proceeding that would have a Company Material Adverse Effect. Each of the Owned Company Properties that is a Material Real Property constitutes a separately subdivided or separately taxed parcel, is assessed separately from all other adjacent real property for purposes of real estate Taxes, and is not treated as part of any other real property for title, zoning or building purposes. To the Knowledge of the Company, none of the Owned Company Properties that is a Material Real Property is located in a flood hazard area as defined by the Federal Insurance Administration.

(b) Section 3.20(b)(i) of the Company Disclosure Letter sets forth a complete list, as of the date hereof, of all written Company Leases (or a written description of any oral Company Leases) for all of the parcels of Leased Company Property. The Company and each of the Company Subsidiaries has complied in all material respects with the terms of all leases, subleases and licenses entitling it to the use or occupancy of real property owned by third parties where the Company or any of its Subsidiaries holds an interest as tenant, subtenant, licensee or other similar party (the Company Leases), and all the Company Leases are valid and in full force and effect, except, in each case, as, individually or in the aggregate, has not had and would not reasonably be expected to have a Company Material Adverse Effect. The Company and each Company Subsidiary is in exclusive possession of the properties or assets purported to be leased under all the Company Leases, except for (i) such failures to have such possession of material properties or assets as, individually or in the aggregate, do not materially impair and would not reasonably be expected to materially impair, the continued use and operation of such material assets to which they relate in the conduct of the Company s and the Company Subsidiaries business as presently conducted and (ii) failures to have such possession of properties or assets as, individually or in the aggregate, have not had and would not reasonably be expected to have a Company Material Adverse Effect. Except as set forth on Section 3.20(b)(ii), of the Company Disclosure Letter, to the Company s Knowledge, there are no leases, subleases, licenses, concessions or other agreements granting to any party or parties (other than the Company or a Company Subsidiary) the right of use or occupancy of any material portion of any premises subject to a Company Lease.

3.21 Government Contracts.

(a) To the Company s Knowledge, each Government Contract to which the Company or any of the Company Subsidiaries is a party (a Company Government Contract), the period for performance of which has not yet expired or been terminated (collectively, the Current Company Government Contracts), is in full force and effect and constitutes a legal, valid and binding agreement, enforceable in accordance with its terms against the Company. To the Company s Knowledge, each Current Company Government Contract was awarded in compliance with applicable Law.

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(b) Except as set forth on Section 3.21(b) of the Company Disclosure Letter, or except, in each case, as has not had and would not be reasonably expected to have a Company Material Adverse Effect with respect to any Company Government Contract, to the Knowledge of the Company, (i) the Company and each of its Subsidiaries have complied with the material terms and conditions of each Company Government Contract and Company Government Bid, including all clauses, provisions, specifications and requirements incorporated expressly by reference therein and any applicable Laws, (ii) all representations, certifications, disclosures and warranties acknowledged or submitted by or on behalf of the Company or any Company Subsidiary with respect to each Company Government Contract or Company Government Bid were current, accurate and complete as of the date made and the Company and its Subsidiaries have complied with all such representations, certifications, disclosures and warranty requirements, (iii) no Governmental Entity has alleged that the Company or any Company Subsidiary has committed civil fraud or initiated an investigation related to the Company s, or any Company Subsidiary s, performance of any Government Contract during the past five years, (iv) neither the Company, nor any Company Subsidiary, nor any of their respective Principals (as defined in Federal Acquisition Regulation (FAR) 52.209-5) is (or at any time during the last three years has been) suspended or debarred from doing business with the Government, or proposed for suspension or debarment or prohibited from bidding on any Government Contract or declared nonresponsible or ineligible to receive a Government Contract, (v) neither the Company, nor any Company Subsidiary has received a request by a Governmental Entity for a contract price adjustment since January 1, 2016 based on a claimed disallowance by an applicable Governmental Entity or claim of defective certified cost or pricing data in excess of $500,000, (vi) dispute between the Company or any of its Subsidiaries and a Governmental Entity which, since January 1, 2016, has resulted in a government contracting officer s final decision where the amount in controversy exceeds or is expected to exceed $500,000, and (vii) no Governmental Entity nor any prime contractor, subcontractor or other Person has notified the Company or its Subsidiaries in writing, or, to the Knowledge of the Company, orally, that the Company or its Subsidiaries has or may have defaulted, breached or violated any Law, order representation, certification, disclosure, warranty, clause, provision, specification or requirements pertaining to any Company Government Contract or Company Government Bid.

(c) Except as set forth on Section 3.21(c) of the Company Disclosure Letter, since January 1, 2016, no termination for default, cure notice, or show cause notice has been issued by any Governmental Entity or by any prime contractor or subcontractor, in writing or, to the Knowledge of the Company, orally, with respect to performance by the Company or any of its Subsidiaries as a prime contractor or subcontractor of any portion of the obligation of a Company Government Contract which would be material.

(d) Since January 1, 2016, neither the Company nor any of its Subsidiaries has made or submitted a mandatory or voluntary disclosure to any Governmental Entity with respect to any suspected, alleged or possible breach, violation, irregularity, mischarging, misstatement or other act or omission arising under or relating to any Company Government Contract or Government Bid which would be material.

(e) Without giving effect to any organizational conflicts of interest that may arise as a result of the transactions contemplated under this Agreement, Section 3.21(e) of the Company Disclosure Letter identifies by material Company Government Contract, any work or future business opportunities from which, to the Knowledge of the Company and its Subsidiaries, the Company or any of its Subsidiaries is currently limited, prohibited or otherwise restricted from performing due to organizational conflicts of interest (as defined in FAR Subpart 9.5), contract terms or provisions, or organizational conflicts of interest mitigation plans submitted by the Company or any of its Subsidiaries in connection with any Company Government Contract.

(f) The Company and its Subsidiaries (and to the Company s Knowledge, their employees who hold personnel security clearances) possess all required facility security clearances to perform the Company Government Contracts and Government Task Orders and are in compliance with all applicable national security obligations, including those specified in the National Industrial Security

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Program Operating Manual, DOD 5220.22-M (February 2006), and any supplements, amendments or revised editions thereof (NISPOM) except to the extent such noncompliance would not reasonably be expected to result in a Company Material Adverse Effect.

(g) To the Company s Knowledge, the business and cost accounting systems of the Company and its Subsidiaries are in compliance with applicable Laws and have not been determined in writing by any Governmental Entity not to be in compliance with any applicable Laws.

(h) Since January 1, 2016, neither the Company nor any of its Subsidiaries has undergone, and there is not currently pending or threatened, any material audit, survey, review or investigation (other than routine audits) by any U.S. Governmental Entity, with respect to any alleged or actual irregularity, misstatement or omission arising under or relating to a Company Government Contract or Company Government Bid that could reasonably be expected to give rise to liability in excess of $500,000 and neither the Company, nor any of its Subsidiaries has received in writing adverse audit findings from the Defense Contract Audit Agency, the Defense Contract Management Agency or any other U.S. Governmental Entity that remain unresolved and that are expected to result in a liability in excess of $500,000 to the Company or any of its Subsidiaries, beyond what has been reserved on the Company s books and records.

(i) Over the last three years, the Company and its Subsidiaries have complied in all material respects with all data security, cybersecurity, and physical security systems and procedures required by its Company Government Contracts. Since January 1, 2016, to the Knowledge of the Company, neither the Company, nor any Subsidiary had or experienced any breach of data security or cybersecurity, whether physical or electronic. Any data security, cybersecurity or physical security breach related to any Company Government Contract, if known by the Company or any Subsidiary, has been reported to the necessary Governmental Entity or higher tier contractor, as required.

(j) As of the date of this Agreement, the Company does not hold and has not been awarded any Current Company Government Contract, or submitted any Company Government Bid, in its own name utilizing the Company s specific Commercial and Government Entity (CAGE) Code and the execution and delivery by the Company of this Agreement do not, and the consummation of the Merger and compliance with the terms hereof will not subject the Company or any Subsidiary to the requirements stated in FAR 42.12, or require the Company or any Subsidiary to seek, request, or enter into any novation agreement with any U.S. Governmental Entity, as specified in FAR 42.12.

(k) Neither the Company nor any of the Company Subsidiaries, nor any director, manager, or officer thereof, nor to the Knowledge of the Company, any employee or Person acting for or on behalf of any of the Company or any Company Subsidiary, has, within the past three years: (i) used any funds for unlawful contributions, gifts, gratuities, entertainment or other unlawful expenses related to political activity; (ii) made any payment or offered, promised or authorized the payment of anything of value to any government official or employee or any political party or candidate for political office for the purpose of influencing any act or decision of such official or of any Governmental Entity to obtain or retain business or direct business to any Person in violation of Law; or (iii) made any other payment in violation of Law to any official of any Governmental Entity, including but not limited to, bribes, gratuities, kickbacks, lobbying expenditures, political contributions or contingent fee payments, except, in each case, as would not be material.

3.22 Joint Proxy Statement/Prospectus. None of the information supplied or to be supplied by the Company for inclusion or incorporation by reference in (a) the Form S-4 will, at the time the Form S-4 or any amendment or supplement thereto is declared effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading or (b) the Joint Proxy Statement/Prospectus will, at the date it is first mailed to each of the Company s stockholders and Parents stockholders or at the time of the Company Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Joint Proxy Statement/Prospectus will

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comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations thereunder, except that no representation is made by the Company with respect to statements made or incorporated by reference therein based on information supplied by Parent for inclusion or incorporation by reference therein.

3.23 Brokers and Finders. No broker, investment banker, financial advisor or other Person, other than Guggenheim Securities LLC (the Company Financial Advisor), the fees and expenses of which will be paid by the Company or the Company Subsidiaries, is entitled to any broker s, finder s, financial advisor s or other similar fee or commission in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of the Company. Prior to the execution of this Agreement, the Company has furnished to Parent true and complete copies of all agreements between the Company or its Subsidiaries and the Company Financial Advisor relating to the transactions contemplated hereby.

3.24 Opinions of Financial Advisors. As of the date of this Agreement, the Company Board has received the opinion of the Company Financial Advisor, as of the date of such opinion and based upon and subject to the various qualifications, assumptions, limitations and other matters set forth therein, the Exchange Ratio provided for in the Merger is fair, from a financial point of view, to such holders. The Company shall, promptly following the execution of this Agreement by all Parties, furnish a copy of each such written opinion to Parent solely for informational purposes (it being agreed that none of the Parent or Merger Sub, nor any of their respective affiliates or Representatives, shall have the right to rely on such opinions).

3.25 No Other Representations and Warranties. Except for the representations and warranties of the Company contained in this Article III, the Company is not making and has not made, and no other Person is making or has made on behalf of the Company, any express or implied representation or warranty in connection with this Agreement or the transactions contemplated hereby.

ARTICLE IV - REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Parent represents and warrants to the Company as set forth in the statements contained in this Article IV except as set forth in the Parent SEC Documents filed and publicly available after January 1, 2017 but prior to the date of this Agreement (the Filed Parent SEC Documents) (excluding any disclosures in the Filed Parent SEC Documents in any risk factors section, any forward-looking disclosure in any section related to forward-looking statements and other disclosures that are predictive or forward-looking in nature, other than historical facts included therein) or in the disclosure letter delivered by Parent to the Company at or before the execution and delivery by Parent of this Agreement (the Parent Disclosure Letter). The Parent Disclosure Letter shall be arranged in numbered and lettered sections corresponding to the numbered and lettered sections contained in this Article IV, and the disclosure in any section of the Parent Disclosure Letter shall be deemed to qualify other sections in this Article IV to the extent that it is reasonably apparent on the face of such disclosure that such disclosure also qualifies or applies to such other sections.

4.1 Organization, Good Standing and Qualification. Each of Parent, Merger Sub and each of Parent s other Subsidiaries (such Subsidiaries of Parent, the Parent Subsidiaries) is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized (in the case of good standing, to the extent such jurisdiction recognizes such concept), except, in the case of the Parent Subsidiaries, where the failure to be so organized, existing or in good standing, individually or in the aggregate, has not had and would not reasonably be expected to have a Parent Material Adverse Effect. Each of Parent, Merger Sub and the Parent Subsidiaries has all requisite power and authority and possesses all Permits necessary to enable it to own, operate, lease or otherwise hold its properties and assets and to conduct its businesses as presently conducted (the Parent Permits), except where the failure to have such power or authority or to possess Parent Permits, individually or in the aggregate, has not had and would not reasonably be expected to have a Parent Material Adverse Effect. Each of Parent, Merger Sub and the

Parent Subsidiaries is duly qualified or licensed to do business in each jurisdiction where the nature of its business or the ownership or leasing of its properties make such qualification necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, has not had and would not reasonably be expected to have a Parent Material Adverse Effect. Parent has delivered or made available to the Company, prior to execution of this Agreement, true and complete copies of the (a) certificate of incorporation of Parent (the Parent Charter), (b) the bylaws of Parent (the Parent Bylaws), (c) the certificate of incorporation of Merger Sub and (d) the bylaws of Merger Sub, in each case, as in effect as of the date of this Agreement.

4.2 Parent Subsidiaries.

(a) All the outstanding shares of capital stock or voting securities of, or other equity interests in, each of the Parent Subsidiaries have been validly issued and are owned by Parent, by another Parent Subsidiary or by Parent and another Parent Subsidiary, free and clear of all material Liens, and free of any other restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock, voting securities or other equity interests), except for restrictions imposed by applicable securities laws. Section 4.2(a) of the Parent Disclosure Letter sets forth, as of the date of this Agreement, a true and complete list of the Parent Subsidiaries.

(b) Except for the capital stock and voting securities of, and other equity interests in, the Parent Subsidiaries, neither Parent nor any Parent Subsidiary owns, directly or indirectly, any capital stock or voting securities of, or other equity interests in, or any interest convertible into or exchangeable or exercisable for, any capital stock or voting securities of, or other equity interests in, any firm, corporation, partnership, company, limited liability company, trust, joint venture, association or other entity other than ordinary course investments in publicly traded securities constituting one percent or less of a class of outstanding securities of any entity.

4.3 Capital Structure.

(a) The authorized capital stock of Parent consists of 1,000,000,000 shares of common stock, par value $0.0001 per share (Parent Common Stock), and 10,000,000 shares of preferred stock, par value $0.0001 per share, (the Parent Preferred Stock and, together with the Parent Common Stock, the Parent Capital Stock). At the close of business on September 5, 2018, (i) 42,344,521 shares of Parent Common Stock were issued and outstanding, (ii) no shares of Parent Preferred Stock were issued and outstanding, (iii) no shares of Parent Common Stock were held by Parent in its treasury and (iv) 15,496,380 shares of Parent Common Stock were reserved and available for issuance pursuant to the Parent Stock Plans, including (A) 1,078,640 shares of Parent Common Stock issuable upon the exercise of outstanding Parent Stock Options (whether or not presently exercisable), (B) 858,363 shares of Parent Common Stock issuable upon vesting or settlement of outstanding Parent RSUs (whether or not vested) and (C) 232,060 shares of Parent Common Stock issuable upon vesting or settlement of outstanding Parent PSUs (assuming achievement of the maximum level of performance). Except as set forth in this Section 4.3(a), at the close of business on September 5, 2018, no shares of capital stock or voting securities of, or other equity interests in, Parent were issued, reserved for issuance or outstanding. From the close of business on September 5, 2018 to the date of this Agreement, there have been no issuances by Parent of shares of capital stock or voting securities of, or other equity interests in, Parent other than the issuance of Parent Common Stock upon the exercise of Parent Stock Options or upon the vesting or settlement of Parent RSUs or Parent PSUs, in each case, outstanding at the close of business on September 5, 2018 and in accordance with their terms in effect at such time.

(b) All outstanding shares of Parent Capital Stock are, and, at the time of issuance, all such shares that may be issued upon the exercise or vesting of Parent Stock Options, Parent RSUs or Parent PSUs will be, duly authorized, validly issued, fully paid and nonassessable and not subject to, or issued in violation of, any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the DGCL, the Parent Charter, the Parent Bylaws, any Contract to which Parent is a party or otherwise bound, or applicable Law. The shares of Parent Common Stock constituting the Merger Consideration will be, when issued, duly authorized, validly issued, fully paid and nonassessable and not subject to, or issued in violation of, any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the DGCL, the Parent Charter, the Parent Bylaws or any Contract to which Parent is a party or otherwise bound. Except as set forth above in this

Section 4.3(b) or pursuant to the terms of this Agreement, there are no issued, reserved for issuance or outstanding, and there are no outstanding obligations of Parent or any Parent Subsidiary to issue, deliver or sell, or cause to be

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issued, delivered or sold, (x) any capital stock of Parent or any Parent Subsidiary or any securities of Parent or any Parent Subsidiary convertible into or exchangeable or exercisable for shares of capital stock or voting securities of, or other equity interests in, Parent or any Parent Subsidiary, (y) any warrants, calls, options or other rights to acquire from Parent or any Parent Subsidiary, or any other obligation of Parent or any Parent Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, any capital stock or voting securities of, or other equity interests in, Parent or any Parent Subsidiary, or (z) any rights issued by or other obligations of Parent or any Parent Subsidiary that are linked in any way to the price of any class of Parent Capital Stock or any shares of capital stock of any Parent Subsidiary, the value of Parent, any Parent Subsidiary or any part of Parent or any Parent Subsidiary or any dividends or other distributions declared or paid on any shares of capital stock of Parent or any Parent Subsidiary. Other than (1) the acquisition by Parent of shares of Parent Common Stock in connection with the surrender of shares of Parent Common Stock by holders of Parent Stock Options in order to pay the exercise price thereof, (2) the withholding of shares of Parent Common Stock to satisfy Tax obligations with respect to awards granted pursuant to the Parent Stock Plans and (3) the acquisition by Parent of awards granted pursuant to the Parent Stock Plans in connection with the forfeiture of such awards, there are not any outstanding obligations of Parent or any of the Parent Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock or voting securities or other equity interests of Parent or any Parent Subsidiary or any securities, interests, warrants, calls, options or other rights referred to in clause (x), (y) or (z) of the immediately preceding sentence. There are no bonds, debentures, notes or other Indebtedness of Parent having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which stockholders of Parent may vote (collectively, Parent Voting Debt). Other than as contemplated by this Agreement, neither Parent nor any of the Parent Subsidiaries is a party to any (i) voting agreement with respect to the voting of any capital stock or voting securities of, or other equity interests in, Parent or (ii) agreement pursuant to which any Person is entitled to elect, designate or nominate any director of Parent or any of the Parent Subsidiaries.

(c) As of the date hereof, neither Parent nor any Parent Subsidiary owns any Shares.

4.4 Corporate Authority and Approval.

(a) Each of Parent and Merger Sub has all requisite corporate power and authority to execute and deliver this Agreement and, subject, with respect to Parent, to receipt of the Parent Stockholder Approval and, with respect to Merger Sub, the adoption of this Agreement by Parent in its capacity as sole stockholder of Merger Sub, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The Parent Board has unanimously adopted resolutions (i) determining that the terms of this Agreement and the transactions contemplated hereby are advisable and in the best interests of Parent and its stockholders, (ii) approving the Merger and this Agreement and the transactions contemplated hereby, including, but not limited to, the issuance of shares of Parent Common Stock (the Parent Share Issuance) and (iii) recommending that the stockholders of Parent approve the Parent Share Issuance in connection with the Merger and directing that the Parent Share Issuance be submitted to Parent s stockholders for approval at a duly held meeting of such stockholders for such purpose (the Parent Stockholders Meeting). As of the date of this Agreement, such resolutions have not been amended or withdrawn.

(b) Except for the approval of the Parent Share Issuance by the affirmative vote of the holders of a majority of the outstanding shares of Parent Common Stock, present in person or by proxy and entitled to vote thereon, at the Parent Stockholders Meeting (such approval, the Parent Stockholder Approval), no other corporate proceedings on the part of Parent are necessary to authorize, adopt, or approve, as applicable, this Agreement or to consummate the transactions contemplated hereby (except for the filing of the appropriate merger documents as required by the DGCL). Parent and Merger Sub have duly executed and delivered this Agreement and, assuming the due authorization, execution and delivery by the Company, this Agreement constitutes its legal, valid and binding obligation, enforceable against Parent, in accordance with its terms except, in each case, as enforcement may be limited by the Bankruptcy and Equity Exception.

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4.5 No Conflicts; Consents.

(a) The execution and delivery of this Agreement by Parent and Merger Sub does not, and the performance by Parent and Merger Sub of their respective obligations hereunder and the consummation of the transactions contemplated hereby will not, (i) conflict with, or result in any violation of any provision of, the Parent Charter, the Parent Bylaws or the comparable charter or organizational documents of any Parent Subsidiary (assuming that the Parent Stockholder Approval is obtained and that Parent, in its capacity as sole stockholder of Merger Sub, adopts this Agreement), (ii) conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation, or give rise to any obligation to make an offer to purchase or redeem any Indebtedness or capital stock or any loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of Parent or any Parent Subsidiary under, any provision of any Contract to which Parent or any Parent Subsidiary is a party or by which any of their respective properties or assets is bound or any Parent Permit or (iii) conflict with, or result in any violation of any provision of, subject to the filings and other matters referred to in Section 4.5(b), any Judgment or Law, in each case, applicable to Parent or any Parent Subsidiary or their respective properties or assets (assuming that the Parent Stockholder Approval is obtained and that Parent, in its capacity as sole stockholder of Merger Sub, adopts this Agreement), other than, in the case of clauses (ii) and (iii) above, any matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Parent Material Adverse Effect (it being agreed that for purposes of this Section 4.5(a), effects resulting from or arising in connection with the execution and delivery of this Agreement, as set forth in clause (iv) of the definition of the term Material Adverse Effect , shall not be excluded in determining whether a Parent Material Adverse Effect has occurred or would reasonably be expected to occur to the extent such effects were not otherwise excluded from determining whether a Parent Material Adverse Effect has occurred or would reasonably be expected to occur) and would not prevent or materially impede, interfere with, hinder or delay the consummation of the transactions contemplated hereby.

(b) No Consent of or from, or registration, declaration, notice or filing made to or with any Governmental Entity, is required to be obtained or made by or with respect to Parent or any Parent Subsidiary in connection with the execution and delivery of this Agreement or its performance of its obligations hereunder or the consummation of the transactions contemplated hereby, other than (i) (A) the filing with the SEC of the Joint Proxy Statement/Prospectus in definitive form, (B) the filing with the SEC, and declaration of effectiveness under the Securities Act of the Form S-4, and (C) the filing with the SEC of such reports and other filings under, and such other compliance with, the Exchange Act and the Securities Act, and the rules and regulations thereunder, as may be required in connection with this Agreement, and the transactions contemplated hereby, (ii) compliance with and filings under the HSR Act, (iii) the Parent Stockholder Approval, (iv) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and the filing of appropriate documents with the relevant authorities of the other jurisdictions in which Parent and the Company are qualified to do business, (v) such Consents, registrations, declarations, notices or filings as are required to be made or obtained under the securities or blue sky laws of various states in connection with the issuance of the shares of Parent Common Stock to be issued as the Merger Consideration, (vi) such filings with and approvals of the NYSE as are required to permit the consummation of the Merger and the listing of the shares of Parent Common Stock to be issued as the Merger Consideration and (vii) such other matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Parent Material Adverse Effect (it being agreed that for purposes of this Section 4.5(b), effects resulting from or arising in connection with the execution and delivery of this Agreement, as set forth in clause (iv) of the definition of the term Material Adverse Effect , shall not be excluded in determining whether a Parent Material Adverse Effect has occurred or would reasonably be expected to occur to the extent such effects were not otherwise excluded from determining whether a Parent Material Adverse Effect has occurred or would reasonably be expected to occur) and would not prevent or materially impede, interfere with, hinder or delay the consummation of the transactions contemplated hereby.

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4.6 Parent SEC Documents; Financial Statements; No Undisclosed Liabilities.

(a) Parent has furnished or filed all reports, schedules, forms, statements and other documents (including exhibits and other information incorporated therein) required to be furnished or filed by Parent with the SEC since January 1, 2017 (such documents, together with any documents filed with the SEC during such period by Parent on a voluntary basis on a Current Report on Form 8-K, but excluding the Proxy Statement/Prospectus and the Form S-4, being collectively referred to as the Parent SEC Documents).

(b) Each Parent SEC Document (i) at the time filed, complied in all material respects with the requirements of SOX and the Exchange Act or the Securities Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such Parent SEC Document and (ii) did not at the time it was filed (or if amended or superseded by a filing or amendment prior to the date of this Agreement, then at the time of such filing or amendment) contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the consolidated financial statements of Parent included in the Parent SEC Documents complied at the time it was filed as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, was prepared in accordance with GAAP (except, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly presented in all material respects the consolidated financial position of Parent and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods shown (subject, in the case of unaudited statements, to normal year-end audit adjustments).

(c) Except (i) as reflected or reserved against in Parent s consolidated unaudited balance sheet as of May 4, 2018 (or the notes thereto) as included in the Parent SEC Documents, (ii) for liabilities and obligations incurred since May 4, 2018 in the ordinary course of business and (iii) for liabilities and obligations incurred as permitted by this Agreement, neither Parent nor any Parent Subsidiary has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) that, individually or in the aggregate, have had or would reasonably be expected to have a Parent Material Adverse Effect. For purposes of this Section 4.6, the term liabilities shall not include liabilities or obligations of Parent or any Parent Subsidiary to perform under or comply with any applicable Law, action, Judgment or Contract, but would include such liabilities and obligations if there has been a default or failure to perform or comply by Parent or any Parent Subsidiary with any such liability or obligation if such default or failure would, with the giving of notice or passage of time or both, reasonably be expected to result in a monetary obligation or the imposition of injunctive or other equitable remedies.

4.7 Internal Controls and Procedures.

(a) Each of the chief executive officer of Parent and the chief financial officer of Parent (or each former chief executive officer of Parent and each former chief financial officer of Parent, as applicable) has made all applicable certifications required by Rule 13a-14 or 15d-14 under the Exchange Act and Sections 302 and 906 of SOX with respect to the Parent SEC Documents, and the statements contained in such certifications are true and accurate. For purposes of this Agreement, chief executive officer and chief financial officer shall have the meanings given to such terms in SOX. None of Parent or any of the Parent Subsidiaries has outstanding, or has arranged any outstanding, extensions of credit to directors or executive officers within the meaning of Section 402 of SOX.

(b) Parent maintains a system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) sufficient to provide reasonable assurance (A) that transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP, consistently applied, (B) that transactions are executed only in accordance with the authorization of management and (C) regarding prevention or timely detection of the unauthorized acquisition, use or disposition of Parent s properties or assets.

(c) Parent is, and since January 1, 2017 has been, in compliance in all material respects with the applicable listing and corporate governance rules and requirements of the NYSE.

(d) The disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) utilized by Parent are reasonably designed to ensure that all information (both financial and non-financial) required to be disclosed by Parent in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the periods specified in the rules and forms of the SEC and that all such information required to be disclosed is accumulated and communicated to the management of Parent to allow timely decisions regarding required disclosure and to enable the chief executive officer and chief financial officer of Parent to make the certifications required under the Exchange Act with respect to such reports.

(e) Neither Parent nor any Parent Subsidiary is a party to, or has any commitment to become a party to, any joint venture, off balance sheet partnership or any similar Contract (including any Contract or arrangement relating to any transaction or relationship between or among Parent and any of the Parent Subsidiaries, on the one hand, and any unconsolidated Affiliate, including any structured finance, special purpose or limited purpose entity or Person, on the other hand, or any off balance sheet arrangements (as defined in Item 303(a) of Regulation S-K under the Exchange Act)), where the result, purpose or intended effect of such Contract is to avoid disclosure of any material transaction involving, or material liabilities of, Parent or any of the Parent Subsidiaries in Parent s or such Parent Subsidiary s published financial statements.

4.8 Absence of Certain Changes. From January 1, 2018 to the date of this Agreement, there has not occurred any Effect that, individually or in the aggregate, has had or would reasonably be expected to have a Parent Material Adverse Effect. From January 1, 2018 to the date of this Agreement, except for actions taken in connection with the execution and delivery of this Agreement and the transactions contemplated by this Agreement, Parent and the Parent Subsidiaries have conducted the business of Parent and the Parent Subsidiaries in the ordinary course in all material respects.

4.9 Litigation and Liabilities. As of the date of this Agreement, there is no suit, action or other proceeding pending or, to the Knowledge of Parent, threatened against Parent or any Parent Subsidiary or any of their respective properties or assets that, individually or in the aggregate, has had or would reasonably be expected to have a Parent Material Adverse Effect. As of the date of this Agreement, there is no Judgment outstanding against or, to the Knowledge of Parent, investigation by any Governmental Entity involving Parent or any Parent Subsidiary or any of their respective properties or assets that, individually or in the aggregate, has had or would reasonably be expected to have a Parent Material Adverse Effect.

4.10 Benefits Matters; ERISA Compliance.

(a) For the purposes of this Agreement, the term Parent Plan shall mean any benefit and compensation plan, policy, program or arrangement maintained, sponsored or contributed to (or required to be contributed to) by Parent or any Parent Subsidiary or under which Parent or any Parent Subsidiary has any liability covering or for the benefit of any current or former employees of Parent or any Parent Subsidiary or any current or former directors of Parent or Parent Subsidiary, including employee benefit plans within the meaning of Section 3(3) of ERISA, and any incentive and bonus, deferred compensation, retention, stock purchase, employment, retirement, retiree medical, profit sharing, pension, severance, change-in-control, termination, restricted stock, stock option, stock appreciation rights or stock based plans, programs, agreements or arrangements, excluding any Statutory Plans. Each material Parent Plan as of the date of this Agreement is listed in Section 4.10(a) of the Parent Disclosure Letter. True and complete copies of each of the material Parent Plans (or, if unwritten, a written summary thereof), and all amendments thereto, and to the extent applicable, any related trust or other funding vehicle, and the most recent determination letter or opinion letter received from or issued by the IRS with respect to each Parent Plan intended to qualify under Section 401 of the Code, have been provided or made available to the Company on or prior to the date of this Agreement.

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(b) All Parent Plans are in compliance with their terms and applicable Laws (including, if applicable, ERISA and the Code), and Parent and the Parent Subsidiaries have complied with all Statutory Plans in accordance with their terms and applicable Law, except as would not, individually or in the aggregate, reasonably be likely to have a Parent Material Adverse Effect.

(c) Except as would not, individually or in the aggregate, reasonably be likely to have a Parent Material Adverse Effect, each Parent Plan that is intended to be qualified under Section 401(a) of the Code, has received a favorable determination letter or opinion letter from the IRS and, to the Knowledge of Parent, circumstances do not exist that are likely to result in the loss of the qualification of such plan under Section 401(a) of the Code. Except as would not, individually or in the aggregate, reasonably be likely to have a Parent Material Adverse Effect, each non-U.S. Parent Plan to the extent required to be registered or approved by any Governmental Entity, has been registered with, or approved by, such Governmental Entity and, to the Knowledge of Parent, nothing has occurred that would adversely affect such registration or approval.

(d) Except as set forth on Section 4.10(d) of the Parent Disclosure Letter, neither Parent nor any Parent Subsidiary or any entity which is considered one employer with Parent under Section 4001 of ERISA or Section 414 of the Code, contributes to or is obligated to contribute to (i) an employee pension benefit plan (as defined in Section 3(2) of ERISA) subject to Title IV of ERISA, Section 412 of the Code or Section 302 of ERISA (including any multiemployer plan within the meaning of Section (3)(37) of ERISA), (ii) a multiple employer plan as defined in Section 413(c) of the Code or (iii) a multiple employer welfare arrangement within the meaning of Section 3(40) of ERISA.

(e) Except as would not, individually or in the aggregate, reasonably be likely to result in a material liability to the Parent or any Parent Subsidiary taken as a whole, with respect to each Parent Plan that is subject to Title IV or Section 302 of ERISA or Section 412 or 4971 of the Code: (i) no Parent Plan has failed to satisfy the minimum funding standard (within the meaning of Sections 412 and 430 of the Code or Section 302 of ERISA) applicable to such Parent Plan, whether or not waived and no application for a waiver of the minimum funding standard with respect to any Parent Plan has been submitted; (ii) no reportable event within the meaning of Section 4043(c) of ERISA for which the 30-day notice requirement has not been waived has occurred; (iii) no material liability (other than for premiums to the PBGC) under Title IV of ERISA has been or is expected to be incurred by Parent or any Parent Subsidiary; (iv) the PBGC has not instituted proceedings to terminate any such plan or made any inquiry which would reasonably be expected to lead to termination of any such plan, and, to the Knowledge of Parent, no condition exists that presents a risk that such proceedings will be instituted or which would constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any such plan; and (v) no plan is, or is expected to be, in at-risk status (as defined in Section 303(i)(4) of ERISA or Section 430(i)(4) of the Code).

(f) All contributions required to be made by Parent or a Parent Subsidiary under each Parent Plan and each Statutory Plan have been timely made and all obligations in respect of each Parent Plan have been properly accrued and reflected in the most recent consolidated balance sheet filed or incorporated by reference in the Parent SEC Documents prior to the date of this Agreement, except as, in each instance, would not, individually or in the aggregate, reasonably be likely to have a Parent Material Adverse Effect.

(g) As of the date of this Agreement, there are no pending or, to the Knowledge of Parent, threatened proceedings relating to the Parent Plans, except as would not, individually or in the aggregate, reasonably be likely to have a Parent Material Adverse Effect.

(h) Except as expressly contemplated by this Agreement, as required by applicable Law or as set forth on Section 4.10(h) of the Parent Disclosure Letter, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby would reasonably be expected to, either alone or in combination with any other event, (i) result in any material payment becoming due to any employee, officer or director of Parent or any Parent Subsidiary, (ii) materially increase the amount or value of any compensation or benefits under any Parent Plan or otherwise payable to any employee, officer or director of Parent or any of its Subsidiaries, (iii) result in the

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acceleration of the time of payment, vesting or funding of any such compensation or benefits, or (iv) result in any excess parachute payment (within the meaning of Section 280G of the Code) becoming due to any current or former employee, officer, individual independent contractor or director Parent or any Parent Subsidiary. Except as set forth on Section 4.10(h) of the Parent Disclosure Letter, neither Parent nor any Parent Subsidiary has any obligation to gross-up, indemnify or otherwise reimburse any current or former employee, director or other independent contractor of Parent or any Parent Subsidiary for any excise or additional tax, interest or penalties incurred by such individual under Section 4999 or Section 409A of the Code.

(i) Except as set forth on Section 4.10(i) of the Parent Disclosure Letter, neither Parent nor any Parent Subsidiary sponsors any employee benefit plan that provides for any post-employment or post-retirement health or medical or life insurance benefits for retired or former employees or their dependents, except as required by Section 4980B of the Code, that could result in a material liability to the Parent or any Parent Subsidiary taken as a whole.

4.11 Labor Matters.

(a) Except as set forth on Section 4.11(a) of the Parent Disclosure Letter, as of the date of this Agreement, all employees of the Parent and the Parent Subsidiaries are employed on an at will basis, which means that their employment can be terminated at any time, with or without notice, for any reason or no reason at all. No employee of Parent or a Parent Subsidiary has been granted the right to continued employment by Parent or any successor.

(b) The Parent and the Parent Subsidiaries are, and since January 1, 2016 have been, in compliance in all material respects with all applicable Laws related to employment and employees, including but not limited to wages and other compensation, overtime requirements, classification of employees and independent contractors under federal and state Laws, hours of work, leaves of absence, equal opportunity, immigration, occupational health and safety, workers compensation, background checks, hiring, pre-employment tests, affirmative action, equal pay, and the payment of social security and other Taxes. There are no charges, investigations, administrative proceedings or formal complaints of discrimination (including discrimination based upon sex, age, marital status, race, national origin, sexual orientation, disability or veteran status) threatened or pending before the Equal Employment Opportunity Commission, the National Labor Relations Board, the U.S. Department of Labor, the U.S. Occupational Health and Safety Administration, the Workers Compensation Appeals Board, or any other Governmental Entity against the Parent pertaining to any employee, except for those charges, investigations, administrative proceedings or formal complaints of discrimination that, individually or in the aggregate, would not reasonably be likely to result in a material liability to the Parent or any Parent Subsidiary taken as a whole.

(c) The Parent and the Parent Subsidiaries have, since January 1, 2016, properly classified their U.S. based employees as exempt or nonexempt under federal and state Laws, except as would not, individually or in the aggregate, reasonably be likely to result in a material liability to the Parent or any Parent Subsidiary taken as a whole. The Parent and the Parent Subsidiaries have, since January 1, 2016, properly classified their U.S. based independent contractors as independent contractors under federal and state Laws, except as would not, individually or in the aggregate, reasonably be likely to result in a material liability to the Parent or any Parent Subsidiary taken as a whole.

(d) As of the date of this Agreement, Section 4.11(d) of the Parent Disclosure Letter sets forth a true and complete list of all collective bargaining or other labor union contracts applicable to any employees of Parent or any of the Parent Subsidiaries. To the Knowledge of Parent, no labor organization or group of employees of Parent or any Parent Subsidiary has made a pending demand for recognition or certification, and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or threatened to be brought or filed, with the National Labor Relations Board or any other labor relations tribunal or authority. To the Knowledge of Parent, there are no material organizing activities, strikes, work stoppages, slowdowns, lockouts, material arbitrations or material grievances, or other material labor disputes pending or threatened against or involving Parent or any Parent

Subsidiary. None of Parent or any of the Parent

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Subsidiaries has breached or otherwise failed to comply with any provision of any collective bargaining agreement or other labor union Contract applicable to any employees of Parent or any of the Parent Subsidiaries, except for any breaches or failures to comply that, individually or in the aggregate, have not had and would not reasonably be expected to have a Parent Material Adverse Effect. There are no written grievances or written complaints by represented employees of Parent or its Subsidiaries and, to the Knowledge of Parent, no such grievances or complaints are threatened, in each case, that individually or in the aggregate, has had or would reasonably be expected to have a Parent Material Adverse Effect.

(e) Parent is in full compliance with the WARN Act and any applicable state Laws or other legal requirements regarding redundancies, reductions in force, mass layoffs, and plant closings, including all obligations to promptly and correctly furnish all notices required to be given thereunder in connection with any redundancy, reduction in force, mass layoff, or plant closing to affected employees, representatives, any state dislocated worker unit and local government officials, or any other Governmental Entity, except as, in each instance, would not, individually or in the aggregate, reasonably be likely to have a Parent Material Adverse Effect. No reduction in the notification period under the WARN Act is being relied upon by Parent.

4.12 Compliance with Laws. Except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Parent Material Adverse Effect, Parent and the Parent Subsidiaries are, and since January 1, 2016 have been, in compliance with all applicable Laws and Parent Permits. Except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Parent Material Adverse Effect, there is no, and since January 1, 2016, there has been no, action, demand or investigation by or before any Governmental Entity pending or, to the Knowledge of Parent, threatened alleging that Parent or a Parent Subsidiary is not in compliance with any applicable Law or Parent Permit or which challenges or questions the validity of any rights of the holder of any Parent Permit. Parent and the Parent Subsidiaries, and, to the Knowledge of Parent, their directors, officers, employees and agents are, and since January 1, 2016 have been, in compliance with the FCPA and any rules and regulations thereunder or any applicable Law of similar effect. Parent and its Subsidiaries are, and at all times during the past three years have been, in compliance in all material respects with all statutory and regulatory requirements under the Export Control Laws, other than information included in voluntary disclosures that do not result in any action on the part of any Governmental Entity. Since January 1, 2016, neither Parent nor its Subsidiaries has received any written or, to the Knowledge of Parent, oral communication from any Governmental Entity alleging that it is not in compliance with the Export Control Laws and that a penalty will be imposed for such noncompliance. Parent and the Parent Subsidiaries have established and maintain internal controls and procedures intended to ensure compliance in all material respects with all applicable Export Control Laws, including controls and procedures intended to ensure that the products and technologies of Parent and the Parent Subsidiaries are and have been properly classified under the Export Control Laws, including with accurate Export Control Classification Numbers and U.S. Munitions List category identifications. Notwithstanding anything contained in this Section 4.12 to the contrary, no representation or warranty shall be deemed to be made in this Section 4.12 in respect of the matters referenced in Sections 4.6 (*Parent SEC Documents; Financial Statements; No Undisclosed Liabilities*), 4.7 (*Internal Controls and Procedures*), 4.10 (*Benefits Matters; ERISA Compliance*), 4.11 (*Labor Matters*), 4.14 *(Environmental Matters)*, 4.15 (*Taxes*), or 4.21 (*Government Contracts*).

4.13 Contracts.

(a) Except for this Agreement, neither Parent nor any Parent Subsidiary is a party to any Contract required to be filed by Parent as a material contract pursuant to Item 601(b)(10) of Regulation S-K under the Securities Act (a Filed Parent Contract) that has not been so filed.

(b) Section 4.13 of the Parent Disclosure Letter sets forth, as of the date of this Agreement, a true and complete list, and Parent has made available to the Company true and complete copies, of (i) each agreement, Contract, understanding, or undertaking to which Parent or any of the Parent Subsidiaries is a party that (A) restricts the ability of Parent or the Parent Subsidiaries to compete in any business or with any Person in any geographical area in a manner that is material to Parent and the Parent Subsidiaries, taken as a whole, (B) would, to the Knowledge of Parent, restrict in any

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material respect the ability of Parent or any of the Parent Subsidiaries to compete in any business or with any Person in any geographical area after the Effective Time, (C) requires Parent or any Parent Subsidiary to conduct any business on a most favored nations basis with any third party in a manner that is material to Parent and the Parent Subsidiaries, taken as a whole, (D) provides for exclusivity or any similar requirement in favor of any third party in a manner that is material to Parent and the Parent Subsidiaries, taken as a whole, or (E) would require disclosure under Item 404 of SEC Regulation S-K, (ii) each loan and credit agreement, Contract, note, debenture, bond, indenture, mortgage, security agreement, pledge, or other similar agreement pursuant to which any material Indebtedness of Parent or any of the Parent Subsidiaries is outstanding or may be incurred, other than any such agreement between or among Parent and the wholly owned Parent Subsidiaries, (iii) each Parent Lease, (iv) each partnership, joint venture or similar agreement, Contract, understanding or undertaking to which Parent or any of the Parent Subsidiaries is a party relating to the formation, creation, operation, management or control of any partnership or joint venture, in each case, material to Parent and the Parent Subsidiaries, taken as a whole, (v) each Contract under which Parent or any Parent Subsidiary provides an express covenant not to sue for infringement of Patent Rights, and (vi) each agreement, Contract, understanding or undertaking relating to the disposition or acquisition by Parent or any of the Parent Subsidiaries of any material business or any material amount of assets (excluding dispositions or acquisitions which were consummated prior to the date of this Agreement and with respect to which there is no ongoing liability or obligation to Parent or any Parent Subsidiaries). Each agreement, Contract, understanding or undertaking of the type described in this Section 4.13(b) and each Filed Parent Contract is referred to herein as a Parent Material Contract .

(c) Except for matters which, individually or in the aggregate, have not had and would not reasonably be expected to have a Parent Material Adverse Effect, (i) each Parent Material Contract (including, for purposes of this Section 4.13(c), any Contract entered into after the date of this Agreement that would have been a Parent Material Contract if such Contract existed on the date of this Agreement) is a valid, binding and legally enforceable obligation of Parent or one of the Parent Subsidiaries, as the case may be, and, to the Knowledge of Parent, of the other parties thereto, except, in each case, as enforcement may be limited by the Bankruptcy and Equity Exception, (ii) each such Parent Material Contract is in full force and effect and (iii) none of Parent or any of the Parent Subsidiaries is (with or without notice or lapse of time, or both) in breach or default under any such Parent Material Contract and, to the Knowledge of Parent, no other party to any such Parent Material Contract is (with or without notice or lapse of time, or both) in breach or default thereunder.

4.14 Environmental Matters. Except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Parent Material Adverse Effect:

(a) Parent and the Parent Subsidiaries are and, since January 1, 2016 have been, in compliance with all Environmental Laws, which compliance includes obtaining, maintaining and complying with all Permits required pursuant to any Environmental Law;

(b) there are no Environmental Claims pending against or, to the Knowledge of Parent, threatened against or affecting, Parent or any of the Parent Subsidiaries;

(c) except as set forth on Section 4.14(c) of the Parent Disclosure Letter, to the Knowledge of Parent, there has been no Release of, or exposure to, any Hazardous Material that, would reasonably be expected to form the basis of any Environmental Claim against Parent; and

(d) Parent and the Parent Subsidiaries have made available to the Company true and complete copies of all Phase I Environmental Site Assessments with respect to Parent and the Parent Subsidiaries, the Parent Properties or real property formerly owned, leased or operated by Parent or any of the Parent Subsidiaries, to the extent such documentation is in Parent s or any of the Parent Subsidiaries possession, custody or control.

4.15 Taxes. Except as set forth on Section 4.15 of the Parent Disclosure Letter, or as would not reasonably be likely to have, individually or in the aggregate, a Parent Material Adverse Effect, the Parent and each of its Subsidiaries (a) have duly and timely filed, or caused to be filed, taking into account any extensions, all Tax Returns required to have been filed by them and such Tax Returns are true, correct

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and complete, and (b) have duly and timely paid all Taxes required to have been paid by them (including any Taxes required to be withheld from amounts owing to any employee, creditor, stockholder or other third party), except in each case of clauses (a) and (b), with respect to matters contested in good faith in appropriate proceedings and for which adequate reserves have been established in accordance with GAAP in the financial statements included in the Parent SEC Documents.

4.16 Intended Tax Treatment. Neither Parent nor any Parent Subsidiary has taken or agreed to take any action or knows of the existence of any fact that is reasonably likely to prevent or impede the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

4.17 Intellectual Property. Section 4.17 of the Parent Disclosure Letter sets forth, as of the date of this Agreement, a true and complete list of all registrations and pending applications for Intellectual Property Rights owned by, or exclusively licensed to, Parent and the Parent Subsidiaries. All of the Intellectual Property Rights listed on or required to be listed on Section 4.17 of the Parent Disclosure Letter are subsisting and, to the Knowledge of the Parent, valid and enforceable. Except as has not had and would not reasonably be expected to have a Parent Material Adverse Effect (other than with respect to Section 4.17(a)):

(a) Parent and the Parent Subsidiaries exclusively own their material proprietary Intellectual Property Rights, free and clear of all Liens except for Permitted Liens, and own, or are validly licensed or otherwise have the right to use, all other material Parent Intellectual Property, and Parent and the Parent Subsidiaries have taken commercially reasonable actions to protect and preserve the material Parent Intellectual Property;

(b) No actions, suits or other proceedings are pending or, to the Knowledge of Parent, threatened (i) that allege that Parent or any of the Parent Subsidiaries is infringing, misappropriating or otherwise violating any Person s Intellectual Property Rights, or (ii) challenging the use, ownership, validity, or enforceability of any Intellectual Property Rights owned (or purported to be owned) by Parent or any of the Parent Subsidiaries;

(c) Except as set forth on Section 4.17(c) of the Parent Disclosure Schedule, to the Knowledge of Parent, neither the use or practice of any Intellectual Property Rights by Parent or any Parent Subsidiary, the operation of their businesses as currently conducted (including the design, development, manufacturing, reproduction, marketing, importation, distribution, licensing, offer for sale, sale, delivery or use of any Parent Product) nor the current business practices or methods of Parent or any Parent Subsidiary has during the past six years infringed, misappropriated, used without authorization or otherwise violated or currently infringes, misappropriates, uses without authorization, or otherwise violates any Intellectual Property Right of any Person, and during the past six years, neither Parent nor any Parent Subsidiary has received any written notice or claim asserting that any such infringement, misappropriation or other violation has or may have occurred, including any communication suggesting or offering that Parent or any Parent Subsidiary obtain a license to any Intellectual Property Rights of another Person and implying or suggesting that Parent or any Parent Subsidiary, or any of their respective customers, has been or is infringing, misappropriating, violating or making unlawful use of any such Intellectual Property Rights;

(d) To the Knowledge of Parent, no Person is infringing, misappropriating or otherwise violating (or has during the past six years infringed, misappropriated or otherwise violated) any Parent Intellectual Property and neither the Parent nor any Parent Subsidiary has made any such claims against any Person;

(e) Each of Parent and the Parent Subsidiaries have taken reasonable security measures to protect the confidentiality of all material trade secrets, know-how and confidential or other proprietary information owned or held by Parent or any Parent Subsidiary and no such material trade secrets, know-how, or confidential or other proprietary information have been disclosed by Parent or any Parent Subsidiary to any Person, or have been authorized to be disclosed to or accessed by, or actually disclosed to or accessed by, any Person, in each case, other than pursuant to valid and enforceable written non-disclosure agreements restricting the disclosure and use thereof and, to the Knowledge of Parent, no Person is in breach of any such agreement;

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(f) No prior or current employee or officer or any prior or current consultant or contractor of Parent or any of the Parent Subsidiaries has asserted in writing or, to the Knowledge of Parent, has any ownership in any Parent Intellectual Property;

(g) Parent and the Parent Subsidiaries have entered into written agreements with all past and current employees, independent contractors and consultants who have developed any material Intellectual Property Rights for Parent and the Parent Subsidiaries, pursuant to which each such Person has presently assigned to Parent or a Parent Subsidiary all such Person s right, title, and interest in and to all Intellectual Property Rights created or developed for Parent or the Parent Subsidiary in the course of such Person s employment or engagement thereby (to the extent such rights did not otherwise vest with Parent or a Parent Subsidiary under applicable Law);

(h) No funding, facilities, personnel, consultants or contractors of any Governmental Entity or any university, college, other educational institution or research center were used in the development of any Parent Intellectual Property owned or purported to be owned by Parent or any Parent Subsidiary where, as a result thereof, the Governmental Entity, university, college, other educational institution or research center has any rights in such Intellectual Property Rights;

(i) No Open Source Software is or has been included, incorporated or embedded in, linked to, combined or distributed with or used in the development, maintenance, operation, delivery or provision of any material Parent Product or any material Software owned by Parent or any Parent Subsidiary, in each case, in a manner that subjects any source code or related materials for any such Parent Product or Software to any requirement or obligation to be made available, disclosed or contributed to the public (including the open source community) without charge (except for fees for transferring a copy of Software, fees for related services, or similar fees permitted by Open Source Software licenses).

(j) To the Knowledge of the Parent, neither Parent nor any Parent Subsidiary is in breach of any of the material terms or conditions of any license to any Open Source Software; To the Knowledge of Parent, no event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time, or both) will, or would reasonably be expected to, result in the delivery, license or disclosure of the source code for any material Software owned by Parent or any Parent Subsidiary to any third party;

(k) The computer Software, systems, servers, network equipment and other information technology systems (including Computing Services) owned, leased, licensed or subscribed to by Parent or any Parent Subsidiaries (Parent IT Systems) are adequate and sufficient for the conduct and operation of their businesses as presently conducted and each of Parent and the Parent Subsidiaries has taken reasonable measures to maintain the performance, security and integrity of the Parent IT Systems;

(l) To the Knowledge of Parent, the Parent IT Systems do not contain any malicious code: (i) that materially disrupts, disables, harms or adversely affects the functionality of the Parent IT Systems; (ii) that is intended to damage or destroy any data or file or send information to Parent, the Parent Subsidiaries, or any third party without the user s, Parent s or one of Parent s Subsidiaries consent; or (iii) that enables or assists any Person to access without authorization any Parent IT Systems;

(m) To the Knowledge of Parent, since January 1, 2017, there has been no failure or unauthorized access to or use of any Parent IT Systems;

(n) Each of Parent and the Parent Subsidiaries has reasonable back-up and disaster recovery arrangements in the event of a failure of the Parent IT Systems that are, at a minimum, in accordance with standard industry practice and to the Knowledge of the Parent, there has not been any material malfunction, failure or security breach with respect to any of the Parent IT Systems or any material Software owned by Parent or any Parent Subsidiary within the past twelve months; and

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(o) The consummation of the transactions contemplated hereby will not result in (i) a Lien on, or the loss or impairment of Parent s or any Parent Subsidiary s right to own or use, any Intellectual Property Rights; or (ii) the grant, assignment or transfer to any other Person of any license or other right or interest under, to or in any of the Parent Intellectual Property.

4.18 Privacy. Parent and the Parent Subsidiaries (i) are in material compliance with all Privacy Laws; and (ii) take commercially reasonable actions to protect the confidentiality, integrity and accessibility of Personal Information maintained by or on behalf of Parent and any Parent Subsidiary. To the Knowledge of Parent, there has been no unauthorized or unlawful destruction, loss or alteration, or unauthorized disclosure of or access to (x) Personal Information maintained by or on behalf of Parent or any Parent Subsidiary with respect to which notification to affected data subjects, customers, or Governmental Entity was made or was required by applicable Laws or (y) any trade secrets, know-how or confidential or other proprietary information that is owned by Parent or any Parent Subsidiary, except, in each case, as has not had and would not reasonably be expected to have a Parent Material Adverse Effect. No written claims have been asserted against, nor have any investigations or inquiries by a Governmental Entity been threatened in writing or commenced regarding, Parent or any Parent Subsidiary alleging any violation of the applicable Privacy Laws.

4.19 Insurance. Each of Parent and the Parent Subsidiaries maintains insurance policies with reputable insurance carriers against all risks of a character and in such amounts as are usually insured against by similarly situated companies in the same or similar businesses. Except as has not had and would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect, (a) each insurance policy of Parent or any Parent Subsidiary is in full force and effect and was in full force and effect during the periods of time such insurance policy are purported to be in effect, and (b) neither Parent nor any of the Parent Subsidiaries is (with or without notice or lapse of time, or both) in breach or default (including any such breach or default with respect to the payment of premiums or the giving of notice) under any such policy. There is no claim by Parent any of the Parent Subsidiaries pending under any such policies that (i) to the Knowledge of Parent, has been denied or disputed by the insurer other than denials and disputes in the ordinary course of business consistent with past practice or (ii) if not paid would constitute a Parent Material Adverse Effect.

4.20 Properties.

(a)

(i) Parent and each Parent Subsidiary has good, valid, insurable and marketable fee simple title to the Owned Parent Properties and good and valid leasehold interest in the Leased Parent Properties (together with the Owned Parent Properties, the Parent Properties), except (i) for Liens permitted by the penultimate sentence of this Section 4.20(a)(i) and (ii) with respect to such Liens, individually or in the aggregate, such Liens have not had and would not reasonably be expected to have a Parent Material Adverse Effect. This Section 4.20(a) does not relate to Intellectual Property Rights matters, which are the subject of Section 4.17. The Parent Properties and all components of all buildings, structures and other improvements located thereon are, in all material respects, adequate and sufficient, and in satisfactory operating condition, to support the operations of Parent and the Parent Subsidiaries as presently conducted. Section 4.20(a) of the Parent Disclosure Letter lists, as of the date hereof, each parcel of Owned Parent Property. All of the Owned Parent Properties are owned and all Leased Parent Properties are leased free and clear of all Liens, except for (i) Liens (other than in connection with borrowed money) on Parent Properties that, individually or in the aggregate, do not materially impair and would not reasonably be expected to materially impair, the continued use and operation of such Parent Property to which they relate in the conduct of Parent and the Parent Subsidiaries as presently conducted and (ii) Permitted Liens. To Parent s Knowledge, there are no leases, subleases, licenses, concessions or other agreements granting to any party or parties the right of use or occupancy of any material portion of the Owned Parent Properties.

(ii) None of the buildings, plants, structures, or equipment located on the Parent Properties is in need of current maintenance or repairs which are scheduled to occur more than twelve months after the Closing Date other than routine maintenance and repairs that are not material

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in nature or cost. To Parent s Knowledge, there are no defects or conditions of the Owned Parent Property that materially impairs the current use thereof by the Parent or the Parent Subsidiaries. Except as set forth on Section 4.20(a) of the Parent Disclosure Letter, with respect to the Material Real Property, there are no proceedings pending or, to Parent s Knowledge, threatened against or affecting the Owned Parent Properties or any portion thereof or interest therein in the nature or in lieu of condemnation or eminent domain proceeding that would have a Parent Material Adverse Effect. Each of the Owned Parent Properties that is a Material Real Property constitutes a separately subdivided or separately taxed parcel, is assessed separately from all other adjacent real property for purposes of real estate Taxes, and is not treated as part of any other real property for title, zoning or building purposes. To the Knowledge of Parent, none of the Owned Parent Properties that is a Material Real Property is located in a flood hazard area as defined by the Federal Insurance Administration.

(b) Section 4.20(b)(i) of the Parent Disclosure Letter sets forth a complete list, as of the date hereof, of all written Parent Leases (or a written description of any oral Parent Lease) for all of the parcels of Leased Parent Property. Parent and each of the Parent Subsidiaries has complied in all material respects with the terms of all leases, subleases and licenses entitling it to the use or occupancy of real property owned by third parties where Parent or any of its Subsidiaries holds an interest as tenant, subtenant, licensee or other similar party (the Parent Leases), and all the material Parent Leases are valid and in full force and effect, except, in each case, as, individually or in the aggregate, has not had and would not reasonably be expected to have a Parent Material Adverse Effect. Parent and each Parent Subsidiary is in exclusive possession of the properties or assets purported to be leased under all the Parent Leases, except for (i) such failures to have such possession of material properties or assets as, individually or in the aggregate, do not materially impair and would not reasonably be expected to materially impair, the continued use and operation of such material assets to which they relate in the conduct of Parent s and the Parent Subsidiaries business as presently conducted and (ii) failures to have such possession of properties or assets as, individually or in the aggregate, have not had and would not reasonably be expected to have a Parent Material Adverse Effect. Except as set forth on Section 4.20(b)(ii) of the Parent Disclosure Letter, to Parent s Knowledge, there are no leases, subleases, licenses, concessions or other agreements granting to any party or parties (other than Parent or a Parent Subsidiary) the right of use or occupancy of any material portion of any premises subject to a Parent Lease.

4.21 Government Contracts.

(a) To Parent s Knowledge, each Government Contract to which Parent or a Parent Subsidiary is a party (a Parent Government Contract), the period for performance of which has not yet expired or been terminated (collectively, the Current Parent Government Contracts) is in full force and effect and constitutes a legal, valid and binding agreement, enforceable in accordance with its terms against Parent. To Parent s Knowledge, each Current Parent Government Contract was awarded in compliance with applicable Law.

(b) Except as set forth on Section 4.21(b) of the Parent Disclosure Letter, or except, in each case, as has not had and would not be reasonably expected to have a Parent Material Adverse Effect with respect to any Parent Government Contract, to the Knowledge of Parent, (i) Parent and each of its Subsidiaries have complied with the material terms and conditions of each Parent Government Contract and Parent Government Bid, including all clauses, provisions, specifications and requirements incorporated expressly by reference therein and any applicable Laws, (ii) all representations, certifications, disclosures and warranties acknowledged or submitted by or on behalf of Parent or its Subsidiaries with respect to each Parent Government Contract or Parent Government Bid were current, accurate and complete as of the date made and Parent and its Subsidiaries have complied with all such representations, certifications, disclosures and warranty requirements, (iii) no Governmental Entity has alleged that Parent or any Parent Subsidiary has committed civil fraud or initiated an investigation related to Parent s, or any Parent Subsidiary s, performance of any Government Contract during the past five years, (iv) neither Parent, nor any Parent Subsidiary, nor any of their respective Principals (as defined in FAR 52.209-5) is (or at any time during the last three years has been) suspended or debarred from doing business with the Government, or proposed for

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suspension or debarment or prohibited from bidding on any Government Contract or declared nonresponsible or ineligible to receive a Government Contract, (v) neither Parent, nor any Parent Subsidiary has received a request by a Governmental Entity for a contract price adjustment since January 1, 2016 based on a claimed disallowance by an applicable Governmental Entity or claim of defective certified cost or pricing data in excess of $500,000, (vi) there has not been any dispute between Parent or any of its Subsidiaries and a Governmental Entity which, since January 1, 2016, has resulted in a government contracting officer s final decision where the amount in controversy exceeds or is expected to exceed $500,000, and (vii) no Governmental Entity nor any prime contractor, subcontractor or other Person has notified Parent or its Subsidiaries in writing, or, to the Knowledge of Parent, orally, that Parent or its Subsidiaries has or may have defaulted, breached or violated any Law, order representation, certification, disclosure, warranty, clause, provision, specification or requirements pertaining to any Parent Government Contract or Parent Government Bid.

(c) Except as set forth on Section 4.21(c) of the Parent Disclosure Letter, since January 1, 2016, no termination for default, cure notice, or show cause notice has been issued by any Governmental Entity or by any prime contractor or subcontractor, in writing or, to the Knowledge of Parent, orally, with respect to performance by Parent or any of its Subsidiaries as a prime contractor or subcontractor of any portion of the obligation of a Parent Government Contract, which would be material.

(d) Since January 1, 2016, neither Parent nor any of its Subsidiaries has made or submitted a mandatory or voluntary disclosure to any Governmental Entity with respect to any suspected, alleged or possible breach, violation, irregularity, mischarging, misstatement or other act or omission arising under or relating to any Parent Government Contract or Government Bid, which would be material.

(e) Without giving effect to any organizational conflicts of interest that may arise as a result of the transactions contemplated under this Agreement, Section 4.21(e) of the Parent Disclosure Letter identifies by material Parent Government Contract and description, any work or future business opportunities from which, to the Knowledge of Parent and its Subsidiaries, Parent or any of its Subsidiaries is currently limited, prohibited or otherwise restricted from performing due to organizational conflicts of interest (as defined in FAR Subpart 9.5), Contract terms or provisions, or organizational conflicts of interest mitigation plans submitted by Parent or any of its Subsidiaries in connection with any Parent Government Contract.

(f) Parent and its Subsidiaries (and to Parent s Knowledge, their employees who hold personnel security clearances) possess all required facility security clearances to perform the Parent Government Contracts and Government Task Orders and are in compliance with all applicable national security obligations, including those specified in the NISPOM except to the extent such noncompliance would not reasonably be expected to result in a Parent Material Adverse Effect.

(g) To Parent s Knowledge, the business and cost accounting systems of Parent and its Subsidiaries are in compliance with applicable Laws and have not been determined in writing by any Governmental Entity not to be in compliance with any applicable Laws.

(h) Since January 1, 2016, neither Parent nor any of its Subsidiaries has undergone, and there is not currently pending or threatened, any material audit, survey, review or investigation (other than routine audits) by any U.S. Governmental Entity, with respect to any alleged or actual irregularity, misstatement or omission arising under or relating to a Parent Government Contract or Parent Government Bid that could reasonably be expected to give rise to liability in excess of $500,000 and neither Parent, nor any of its Subsidiaries has received in writing adverse audit findings from the Defense Contract Audit Agency, the Defense Contract Management Agency or any other U.S. Governmental Entity that remain unresolved and that are expected to result in a liability in excess of $500,000 to Parent or any of its Subsidiaries, beyond what has been reserved on Parent s books and records.

(i) Over the last three years, Parent and its Subsidiaries have complied in all material respects with all data security, cybersecurity, and physical security systems and procedures required by its Parent Government Contracts. Since January 1, 2016, to the Knowledge of Parent, neither Parent,

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nor any Parent Subsidiary had or experienced any breach of data security or cybersecurity, whether physical or electronic. Any data security, cybersecurity or physical security breach related to any Parent Government Contract, if known by Parent or any Subsidiary, has been reported to the necessary Governmental Entity or higher tier contractor, as required.

(j) As of the date of this Agreement, Parent does not hold and has not been awarded any Current Parent Government Contract, or submitted any Parent Government Bid, in its own name utilizing Parent s specific Commercial and Government Entity (CAGE) Code and the execution and delivery by Parent of this Agreement do not, and the consummation of the Merger and compliance with the terms hereof will not subject Parent or any Parent Subsidiary to the requirements stated in FAR 42.12, or require Parent or any Parent Subsidiary to seek, request, or enter into any novation agreement with any U.S. Governmental Entity, as specified in FAR 42.12.

(k) Neither Parent nor any of the Parent Subsidiaries, nor any director, manager, or officer thereof, nor to the Knowledge of Parent, any employee or Person acting for or on behalf of any of Parent or any Parent Subsidiary, has, within the past three years: (i) used any funds for unlawful contributions, gifts, gratuities, entertainment or other unlawful expenses related to political activity; (ii) made any payment or offered, promised or authorized the payment of anything of value to any government official or employee or any political party or candidate for political office for the purpose of influencing any act or decision of such official or of any Governmental Entity to obtain or retain business or direct business to any Person in violation of Law; or (iii) made any other payment in violation of Law to any official of any Governmental Entity, including but not limited to, bribes, gratuities, kickbacks, lobbying expenditures, political contributions or contingent fee payments, except in each case as would not be material.

4.22 Form S-4 and Joint Proxy Statement/Prospectus. None of the information supplied or to be supplied by Parent for inclusion or incorporation by reference in (a) the Form S-4 will, at the time the Form S-4 or any amendment or supplement thereto is declared effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading or (b) the Joint Proxy Statement/Prospectus will, at the date it is first mailed to each of Parent s stockholders and the Company s stockholders or at the time of the Parent Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Joint Proxy Statement/Prospectus will comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations thereunder, except that no representation is made by Parent with respect to statements made or incorporated by reference therein based on information supplied by the Company for inclusion or incorporation by reference therein.

4.23 Brokers and Finders. No broker, investment banker, financial advisor or other Person, other than Citigroup Global Markets Inc. and Stone Key Partners LLC (the Parent Financial Advisors), the fees and expenses of which will be paid by Parent, is entitled to any broker s, finder s, financial advisor s or other similar fee or commission in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of Parent. Prior to the execution of this Agreement, Parent has furnished to the Company true and complete copies of all agreements between or among Parent and the Parent Financial Advisors relating to the transactions contemplated hereby.

4.24 Opinions of Financial Advisors. The Parent Board has received opinions from the Parent Financial Advisors to the effect that, subject to the assumptions, limitations, qualifications and conditions set forth therein, the Exchange Ratio provided in the Merger is fair, from a financial point of view, to Parent.

4.25 Sufficiency of Funds. Parent and Merger Sub expressly acknowledge and agree that their obligations under this Agreement, including their obligations to consummate the Merger or any of the other transactions contemplated by this Agreement, are not subject to, or conditioned on, the receipt or availability of any funds or financing.

4.26 Ownership and Operations of Merger Sub. Parent, directly or indirectly, owns beneficially all of the outstanding shares of common stock of Merger Sub. Merger Sub was formed solely for the purpose of

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engaging in the Merger, has engaged in no other business activities and has conducted its operations only as contemplated hereby. The authorized shares of common stock of Merger Sub consist of 100 shares, all of which are validly issued and outstanding. All of the issued and outstanding shares of Merger Sub are directly or indirectly owned by Parent, free and clear of any Liens other than Liens imposed under any federal or state securities Laws.

4.27 Financing. Parent has delivered to the Company (i) a true and complete copy of a fully executed commitment letter dated on or about the date of this Agreement from the Financing Sources (together with all exhibits, annexes, schedules and term sheets attached thereto and as amended, modified, supplemented, replaced, waived or extended from time to time after the date of this Agreement in compliance with Section 5.20 (collectively, the Commitment Letter)), and (ii) true and complete (other than with respect to redacted fees, fee amounts, pricing terms, pricing caps and other customarily-redacted economic terms, but which redacted information does not relate to or adversely affect the amount, availability, enforceability or conditionality of the Financing) copies of fully executed fee letter(s) and engagement letter(s) with respect to fees and related arrangements with respect to the Financing (collectively, the Fee Letter , and together with the Commitment Letter, the Commitment Papers), providing, subject to the terms and conditions therein, for debt financing in the amounts set forth therein (being collectively referred to as the Financing). As of the date of this Agreement, the Commitment Papers have not been amended or modified, and, to the Knowledge of Parent, no such amendment or modification is contemplated, and none of the respective obligations and commitments contained in the Commitment Papers have been withdrawn, terminated or rescinded in any respect and, to the Knowledge of Parent, no such withdrawal, termination or rescission is contemplated; provided that the existence or exercise of market flex or similar provisions contained in the Fee Letter shall not constitute an amendment or modification of the Commitment Papers. Assuming the Financing is funded in accordance with the Commitment Letter, Parent and Merger Sub will have sufficient cash on hand on the Closing Date to pay the aggregate Merger Consideration and all other cash amounts payable pursuant to this Agreement, and repay and/or refinance all Indebtedness and other obligations owing as of the Closing Date pursuant to the Existing Company Credit Agreement (the Refinancing). As of the date of this Agreement, the Commitment Papers are (y) legal, valid and binding obligations of Parent and, to the Knowledge of Parent, each of the other parties thereto, enforceable in accordance with their respective terms against Parent and, to the Knowledge of Parent, each of the other parties thereto (in each case, subject to bankruptcy, insolvency, reorganization, moratorium or other Laws of general applicability relating to or affecting creditors rights, or by principles governing the availability of equitable remedies) and (z) in full force and effect. No event has occurred that, with or without notice, lapse of time or both, would constitute a default or breach on the part of Parent or, to the Knowledge of Parent, any other party thereto under the Commitment Papers. The only conditions precedent (including any market flex provisions contained in the Commitment Papers) related to the obligations of the Financing Sources under the Commitment Papers to fund the full amount of the Financing are those expressly set forth in the Commitment Papers and there are no contingencies that would permit the Financing Sources to reduce the total amount of the Financing. As of the date of this Agreement, Parent has no reason to believe that it will be unable to satisfy on a timely basis all of the terms and conditions to be satisfied by it in the Commitment Papers on or prior to the Closing Date, nor does Parent have Knowledge that any of the Financing Sources will not perform its obligations thereunder. As of the date of this Agreement, there are no side letters, understandings or other agreements, contracts or arrangements of any kind relating to the Commitment Papers that could reasonably be expected to adversely affect the amount, availability, enforceability or conditionality of the Financing contemplated by the Commitment Papers. Parent has paid in full any and all commitment fees or other fees that are required to be paid on or before the date of this Agreement pursuant to the terms of the Commitment Papers. In no event shall the receipt or availability of any funds or financing (including, for the avoidance of doubt, the Financing) by Parent or any of its Affiliates or any other financing or other transactions be a condition to any of Parent s obligations under this Agreement.

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4.28 No Other Representations and Warranties. Except for the representations and warranties of Parent and Merger Sub contained in this Article IV, Parent and Merger Sub are not making and have not made, and no other Person is making or has made on behalf of Parent or Merger Sub, any express or implied representation or warranty in connection with this Agreement or the transactions contemplated hereby.

ARTICLE V - COVENANTS

5.1 Interim Operations.

(a) Conduct of Business by the Company. Except for matters set forth in Section 5.1(a) of the Company Disclosure Letter or otherwise expressly permitted or expressly contemplated by this Agreement (including to effect any of the transactions contemplated hereby) or required by applicable Law or with the prior written consent of Parent (which shall not be unreasonably withheld, conditioned or delayed), from the date of this Agreement to the Effective Time, or, if earlier, the termination of this Agreement in accordance with its terms, the Company shall, and shall cause each Company Subsidiary to, (i) conduct its business in the ordinary course consistent with past practice in all material respects and (ii) use reasonable best efforts to preserve intact its business organization and advantageous business relationships and keep available the services of its current officers and employees. In addition, and without limiting the generality of the foregoing, except for matters set forth in the Company Disclosure Letter or otherwise expressly permitted or expressly contemplated by this Agreement or required by applicable Law or with the prior written consent of Parent (which shall not be unreasonably withheld, conditioned or delayed), from the date of this Agreement to the Effective Time, or, if earlier, the termination of this Agreement in accordance with its terms, the Company shall not, and shall not permit any Company Subsidiary to, do any of the following:

(i) (A) declare, set aside or pay any dividends on, or make any other distributions (whether in cash, stock, property or any combination thereof) in respect of, any of its capital stock, other equity interests or voting securities, other than dividends and distributions by a direct or indirect wholly owned Company Subsidiary to its parent, (B) split, combine, subdivide or reclassify any of its capital stock, other equity interests or voting securities, or securities convertible into or exchangeable or exercisable for capital stock or other equity interests or voting securities or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for its capital stock, other equity interests or voting securities or (C) repurchase, redeem or otherwise acquire, or offer to repurchase, redeem or otherwise acquire, any capital stock or voting securities of, or equity interests in, the Company or any Company Subsidiary or any securities of the Company or any Company Subsidiary convertible into or exchangeable or exercisable for capital stock or voting securities of, or equity interests in, the Company or any Company Subsidiary, or any warrants, calls, options or other rights to acquire any such capital stock, securities or interests, other than (1) the withholding of Shares to satisfy Tax obligations with respect to awards granted pursuant to the Company Stock Plan, and (2) the acquisition by the Company of awards granted pursuant to the Company Stock Plan in connection with the forfeiture of such awards;

(ii) issue, deliver, sell, grant, pledge or otherwise encumber or subject to any Lien (except for transactions among the Company and wholly owned Company Subsidiaries and for any Liens in favor of the administrative agent under the Existing Company Credit Agreement) (A) any shares of capital stock of the Company or any Company Subsidiary, (B) any other equity interests or voting securities of the Company or any Company Subsidiary, (C) any securities convertible into or exchangeable or exercisable for capital stock or voting securities of, or other equity interests in, the Company or any Company Subsidiary, (D) any warrants, calls, options or other rights to acquire any capital stock or voting securities of, or other equity interests in, the Company or any Company Subsidiary, (E) any rights issued by the Company or any Company Subsidiary that are linked in any way to the price of any class of the capital stock of the Company or any shares of capital stock of any Company Subsidiary, the value of the Company, any Company Subsidiary or any part of the Company or any Company Subsidiary or any

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dividends or other distributions declared or paid on any shares of capital stock of the Company or any Company Subsidiary, or (F) any Company Voting Debt except, in each case of (A)-(F), for issuing Shares in respect of equity awards outstanding under the Company Stock Plan as of the date hereof;

(iii) (A) amend the Company Charter or the Company Bylaws (including by merger, consolidation or otherwise), (B) amend in any material respect the charter or organizational documents of any Company Subsidiary (including by merger, consolidation or otherwise) or (C) amend the Company Stockholders Agreement, except, in the case of each of the foregoing clauses (A) and (B) as may be required by applicable Law;

(iv) except as required by applicable Law, pursuant to the terms of any Company Plan set forth in Section 3.10 of the Company Disclosure Letter or any Material Contract as in effect on the date hereof: (A) increase the salaries, bonus opportunities, incentive compensation or other compensation or benefits payable to any employee of the Company or a Company Subsidiary at a level of director or higher, (B) increase the salaries, bonus opportunities, incentive compensation or other compensation or benefits payable to any employee with a title below director or other service provider of the Company or a Company Subsidiary, in each case of this clause (B), other than in the ordinary course of business consistent with past practices; (C) grant, announce or pay any new, retention, severance, change in control or other similar bonus or similar compensation to any employee of the Company or a Company Subsidiary, (D) establish, amend, terminate or increase the benefits or costs provided under any Company Plan, (E) accelerate the vesting or payment of, or take any action to fund, any benefit or payment provided to employees or service providers of the Company or the Company Subsidiaries, (F) hire or promote any person for employment with the Company or any Company Subsidiary at a level of director or higher or terminate (without cause) any employees of the Company or any Company Subsidiary at a level of director or higher, provided, that the Company or any Company Subsidiary may hire or promote any person to fill any such position that is vacant as of the date of this Agreement or that becomes vacant thereafter in accordance with past practices, or (G) hire, promote or terminate (without cause) any employee or service provider of the Company or the Company Subsidiaries, in each case of this clause (G), other than in the ordinary course of business consistent with past practices;

(v) make any material change in financial accounting methods, principles or practices, except insofar as may have been required by a change in GAAP (after the date of this Agreement);

(vi) directly or indirectly acquire or agree to acquire in any transaction any equity interest in or business of any Person (other than any transaction solely between the Company and a wholly owned Company Subsidiary or between wholly owned Company Subsidiaries);

(vii) sell, lease (as lessor), license, covenant not to assert, mortgage, abandon, allow to lapse, and leaseback or otherwise encumber or subject to any Lien (other than any Permitted Lien), or otherwise dispose of any properties, rights or assets (including any Company Intellectual Property) that are material to the Company and its Subsidiaries taken as a whole (other than sales and non-exclusive licenses of products or services in the ordinary course of business consistent with past practice), except (A) pursuant to Contracts or commitments in effect on the date of this Agreement (or entered into after the date of this Agreement without violating the terms of this Agreement), (B) any of the foregoing with respect to inventory in the ordinary course of business consistent with past practice, (C) any of the foregoing with respect to obsolete or worthless equipment in the ordinary course of business consistent with past practice, (D) in relation to mortgages, liens and pledges to secure Indebtedness for borrowed money permitted to be incurred under Section 5.1(a)(viii) and guarantees thereof or (E) for any transactions among the Company and the wholly owned Company Subsidiaries in the ordinary course of business consistent with past practice;

(viii) incur any Indebtedness, except for (A) Indebtedness incurred in the ordinary course of business consistent with past practice not to exceed $2,500,000 in the aggregate;

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(B) Indebtedness in replacement of existing Indebtedness, provided that the replacement Indebtedness does not increase the aggregate amount of Indebtedness permitted to be outstanding under the replaced Indebtedness; (C) guarantees by the Company of Indebtedness of any wholly owned Company Subsidiary and guarantees by any Company Subsidiary of Indebtedness of the Company or any other wholly owned Company Subsidiary, in each case, in the ordinary course of business consistent with past practice, (D) intercompany Indebtedness among the Company and the wholly owned Company Subsidiaries in the ordinary course of business consistent with past practice or (E) making borrowings under the Company s revolving credit facility (as existing on the date hereof) in the ordinary course of business consistent with past practice;

(ix) make, or agree or commit to make any capital expenditure in excess of $500,000 in the aggregate for all such capital expenditures that are not contemplated by the capital plan for 2018 (copies of which were previously provided to Parent);

(x) waive, release, assign, settle or compromise any claim, action or proceeding, other than waivers, releases, assignments, settlements or compromises that do not create material obligations of the Company or any of the Company Subsidiaries other than the payment of monetary damages (A) equal to or less than the amounts reserved with respect thereto on the Company SEC Documents or (B) not in excess of $2,500,000 in the aggregate;

(xi) enter into, modify, amend, extend, renew, replace or terminate any collective bargaining or other labor union Contract applicable to the employees of the Company or any of the Company Subsidiaries, other than modifications, amendments, extensions, renewals, replacements or terminations of such Contracts in the ordinary course of business consistent with past practice;

(xii) abandon, allow to lapse, subject to a Lien, assign, transfer, convey title (in whole or in part), license, covenant not to assert, grant any right or other licenses to, or otherwise dispose of, material trademarks, trademark rights, trade names or service marks or other material Company Intellectual Property, or enter into licenses or agreements that impose material restrictions upon the Company or any Company Subsidiaries with respect to material trademarks, trademark rights, trade names or service marks or other material Intellectual Property Rights owned by any third party, in each case other than non-exclusive licenses in the ordinary course of business consistent with past practice;

(xiii) other than in the ordinary course of business, materially amend or modify any Company Material Contract or enter into, materially amend or modify any Contract that would be a Company Material Contract if it had been entered into prior to the date of this Agreement;

(xiv) except as required by applicable Law, make, change or revoke any material Tax election, materially change any method of Tax accounting or annual Tax accounting period, settle any claim, action or proceeding relating to material Taxes, waive any statute of limitations for any material Tax claim or assessment (other than pursuant to extensions of time to file Tax Returns obtained in the ordinary course of business), obtain or request any material Tax ruling or closing agreement, or surrender any right to obtain a material Tax refund;

(xv) enter into any new line of business outside of its and the Company Subsidiaries existing business;

(xvi) dissolve or liquidate the Company or any Company Subsidiary; or

(xvii) authorize any of, or commit, resolve or agree to take any of, the foregoing actions.

(b) Conduct of Business by Parent. Except for matters set forth in Section 5.1(b) of the Parent Disclosure Letter or otherwise expressly permitted or expressly contemplated by this Agreement (including to effect any of the transactions contemplated hereby) or required by applicable Law or with the prior written consent of the Company (which shall not be unreasonably withheld, conditioned or delayed), from the date of this Agreement to the Effective Time, or, if earlier, the termination of this Agreement in accordance with its terms, Parent shall, and shall cause each Parent Subsidiary to,

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(i) conduct its business in the ordinary course consistent with past practice in all material respects and (ii) use reasonable best efforts to preserve intact its business organization and advantageous business relationships and keep available the services of its current officers and employees. In addition, and without limiting the generality of the foregoing, except for matters set forth in the Parent Disclosure Letter or otherwise expressly permitted or expressly contemplated by this Agreement or required by applicable Law or with the prior written consent of the Company (which shall not be unreasonably withheld, conditioned or delayed), from the date of this Agreement to the Effective Time, or, if earlier, the termination of this Agreement in accordance with its terms, Parent shall not, and shall not permit any Parent Subsidiary to, do any of the following:

(i) (A) declare, set aside or pay any dividends on, or make any other distributions (whether in cash, stock, property or any combination thereof) in respect of, any of its capital stock, other equity interests or voting securities, (B) split, combine, subdivide or reclassify any of its capital stock, other equity interests or voting securities, or securities convertible into or exchangeable or exercisable for capital stock or other equity interests or voting securities or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for its capital stock, other equity interests or voting securities or (C) repurchase, redeem or otherwise acquire, or offer to repurchase, redeem or otherwise acquire, any capital stock or voting securities of, or equity interests in, Parent or any Parent Subsidiary or any securities of Parent or any Parent Subsidiary convertible into or exchangeable or exercisable for capital stock or voting securities of, or equity interests in, Parent or any Parent Subsidiary, or any warrants, calls, options or other rights to acquire any such capital stock, securities or interests, other than (1) the acquisition by Parent of shares of Parent Common Stock in connection with the surrender of shares of Parent Common Stock by holders of Parent Stock Options in order to pay the exercise price thereof, (2) the withholding of shares of Parent Common Stock to satisfy Tax obligations with respect to awards granted pursuant to the Parent Stock Plans, and (3) the acquisition by Parent of awards granted pursuant to the Parent Stock Plans in connection with the forfeiture of such awards.

(ii) except in the ordinary course of business consistent with past practices, issue, deliver, sell, grant, pledge or otherwise encumber or subject to any Lien (except for transactions among Parent and wholly owned Parent Subsidiaries and for any Liens in favor of the administrative agent under Parent s existing credit agreement or any new credit agreement entered into after the date hereof) (A) any shares of capital stock of Parent or any Parent Subsidiary, (B) any other equity interests or voting securities of Parent or any Parent Subsidiary, (C) any securities convertible into or exchangeable or exercisable for capital stock or voting securities of, or other equity interests in, Parent or any Parent Subsidiary, (D) any warrants, calls, options or other rights to acquire any capital stock or voting securities of, or other equity interests in, Parent or any Parent Subsidiary, (E) any rights issued by Parent or any Parent Subsidiary that are linked in any way to the price of any class of Parent Capital Stock or any shares of capital stock of any Parent Subsidiary, the value of Parent, any Parent Subsidiary or any part of Parent or any Parent Subsidiary or any dividends or other distributions declared or paid on any shares of capital stock of Parent or any Parent Subsidiary or (F) any Parent Voting Debt, except, in each case of (A)-(F), for issuing shares of Parent Common Stock in respect of equity awards outstanding under the Parent Stock Plans;

(iii) amend the Parent Charter or the Parent By-laws except as may be required by applicable Law or the rules and regulations of the SEC or the NYSE;

(iv) directly or indirectly acquire or agree to acquire in any transaction any equity interest in or business of Person (other than any transaction solely between Parent and a wholly owned Parent Subsidiary or between wholly owned Parent Subsidiaries) if such acquisition or agreement to acquire would reasonably be expected to materially impede the ability of Parent to consummate the Merger;

(v) except as required by applicable Law, make, change or revoke any material Tax election, materially change any method of Tax accounting or annual Tax accounting period, settle any claim, action or proceeding relating to material Taxes, waive any statute of limitations for any

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material Tax claim or assessment (other than pursuant to extensions of time to file Tax Returns obtained in the ordinary course of business), obtain or request any material Tax ruling or closing agreement, or surrender any right to obtain a material Tax refund;

(vi) enter into any new line of business outside of its and the Parent Subsidiaries existing business if the entry into such new line of business would reasonably be expected to materially impede the ability of Parent to consummate the Merger;

(vii) dissolve or liquidate any Parent Subsidiary or Merger Sub, other than to complete internal restructurings or dissolutions of wholly owned entities; or

(viii) authorize any of, or commit, resolve or agree to take any of, the foregoing actions.

(c) All notices, requests, instructions, communications or other documents to be given in connection with any consultation or approval required pursuant to this Section 5.1 shall be in writing and shall be deemed given as provided for in Section 8.6, and, in each case, shall be addressed to such individuals as the Parties shall designate in writing from time to time.

5.2 Company Acquisition Proposal.

(a) No Solicitation or Negotiation. From and after the date of this Agreement until the earlier to occur of the Effective Time and the termination of this Agreement in accordance with Article VII, except as expressly permitted by this Section 5.2, neither the Company nor any of its Subsidiaries shall, and the Company shall cause its and its Subsidiaries directors, officers and employees not to, and shall use reasonable best efforts to cause its and their respective investment bankers, attorneys, accountants and other advisors, agents or representatives (collectively, along with such directors, officers and employees, Representatives) not to, directly or indirectly:

(i) solicit, initiate, knowingly induce, knowingly encourage or knowingly facilitate (including by way of furnishing information) any inquiries or the making of any proposal or offer that constitutes, or would reasonably be expected to lead to, a Company Acquisition Proposal;

(ii) participate in any discussions or negotiations or cooperate in any way not permitted by this Section 5.2 with any Person regarding any proposal the consummation of which would constitute a Company Acquisition Proposal;

(iii) provide any information or data concerning the Company or any of its Subsidiaries to any Person in connection with any proposal the consummation of which would constitute a Company Acquisition Proposal; or

(iv) approve or recommend, make any public statement approving or recommending, or enter into any agreement relating to, any inquiry, proposal or offer that constitutes, or would reasonably be expected to lead to, a Company Acquisition Proposal.

The Company shall, and the Company shall cause its Subsidiaries and Representatives to, immediately cease and cause to be terminated any discussions and negotiations with any Person conducted heretofore with respect to any Company Acquisition Proposal, or proposal that would reasonably be expected to lead to a Company Acquisition Proposal, and shall promptly terminate access by any such Person to any physical or electronic data rooms relating to any such Company Acquisition Proposal. The Company shall take all actions necessary to enforce its rights under the provisions of any standstill agreement between the Company and any Person (other than Parent), and shall not grant any waiver of, or agree to any amendment or modification to, any such agreement, to permit such person to submit a Company Acquisition Proposal; provided that the foregoing shall not restrict the Company from permitting a Person to orally and non-publicly request the waiver of a standstill or similar obligation or from granting such a waiver, in each case, to the extent the Company Board determines in good faith, after consultation with outside legal counsel, that the failure to take such action would reasonably be expected to be inconsistent with the directors fiduciary duties under applicable Law.

(b) Fiduciary Exception to No Solicitation Provision. Notwithstanding anything to the contrary in Section 5.2(a), prior to the time, but not after, the Company Stockholder Approval is obtained, the Company may, in response to an unsolicited, bona fide written Company Acquisition Proposal (which

Company Acquisition Proposal was made after the date of this Agreement) which did not result from a breach, in any material respect, of this Section 5.2 and so long as it has provided prior written notice to Parent, (i) provide access to non-public information regarding the Company or any of its Subsidiaries to the Person who made such Company Acquisition Proposal; provided that such information has previously been made available to Parent or is provided to Parent substantially concurrently with the making of such information available to such Person and that, prior to furnishing any such material non-public information, the Company receives from the Person making such Company Acquisition Proposal an executed confidentiality agreement with terms at least as restrictive on such Person as the Confidentiality Agreement s terms are on Parent (it being understood that such confidentiality agreement need not prohibit the making or amending of a Company Acquisition Proposal), and (ii) engage or participate in any discussions or negotiations with any such Person regarding such Company Acquisition Proposal if, and only if, prior to taking any action described in clause (i) or (ii) above, the Company Board determines in good faith after consultation with outside legal counsel that (A) based on the information then available and after consultation with a financial advisor of nationally recognized reputation that such Company Acquisition Proposal either constitutes a Company Superior Proposal or could reasonably be expected to result in a Company Superior Proposal and (B) the failure to take such action would reasonably be expected to be inconsistent with the directors fiduciary duties under applicable Law.

(c) Notice. The Company shall promptly (and, in any event, within one Business Day) notify Parent if (i) any written or other inquiries, proposals or offers with respect to a Company Acquisition Proposal or any inquiries, proposals, offers or requests for information relating to or that could reasonably be expected to lead to a Company Acquisition Proposal are received by the Company, (ii) any non-public information is requested in connection with any Company Acquisition Proposal from the Company or (iii) any discussions or negotiation with respect to or that could reasonably be expected to lead to a Company Acquisition Proposal are sought to be initiated or continued with the Company, indicating, in connection with such notice, the name of such Person and the material terms and conditions of any proposals or offers (including, if applicable, copies of any written requests, proposals or offers, including proposed agreements and other material written communications), and thereafter shall keep Parent informed, on a current basis, of the status and terms of any such proposals or offers (including any amendments thereto) and the status of any such discussions or negotiations, including by promptly providing copies of any additional requests, proposals or offers, including any drafts of proposed agreements and any amendments thereto.

(d) Definitions. For purposes of this Agreement:

Company Acquisition Proposal means any proposal (other than a proposal or offer by Parent or any of its subsidiaries) for (i) any merger, consolidation, share exchange, business combination, issuance of securities, direct or indirect acquisition of securities, recapitalization, tender offer, exchange offer or other similar transaction in which (x) a person or group (as defined in the Exchange Act and the rules promulgated thereunder) of persons directly or indirectly acquires, or if consummated in accordance with its terms would acquire, beneficial or record ownership of securities representing more than twenty percent (20%) of the outstanding shares of any class of voting securities of the Company; or (y) the Company issues securities representing more than twenty percent (20%) of the outstanding shares of any class of voting securities of the Company; (ii) any direct or indirect sale, lease, exchange, transfer, acquisition or disposition of any assets of the Company and of the subsidiaries of the Company that constitute or account for (x) more than twenty percent (20%) of the consolidated net revenues of the Company, consolidated net income of the Company or consolidated book value of the Company; or (y) more than twenty percent (20%) of the fair market value of the assets of the Company; or (iii) any liquidation or dissolution of the Company.

Company Intervening Event means any event, occurrence, fact, condition, change, development or effect occurring or arising after the date of this Agreement that (i) was not known to, or reasonably foreseeable by, the Company Board prior to the execution of this Agreement, which event, occurrence, fact, condition, change, development or effect becomes known to, or reasonably foreseeable by, the Company Board prior to the receipt of the Company Stockholder

Approval and (ii) does not relate to (A) a Company Acquisition Proposal or (B) (1) any changes in the market price or trading volume of the

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Company or Parent or (2) the Company or Parent meeting, failing to meet or exceeding published or unpublished revenue or earnings projections, in each case in and of itself (it being understood that with respect to each of clause (1) and clause (2) the facts or occurrences giving rise or contributing to such change or event may be taken into account when determining a Company Intervening Event to the extent otherwise satisfying this definition).

Company Superior Proposal means any bona fide, binding, written Company Acquisition Proposal (with all percentages in the definition of Company Acquisition Proposal increased to fifty percent (50%)) on terms which the Company Board determines in good faith (after consultation with outside legal counsel and financial advisors of nationally recognized reputation) to be (i) more favorable to the holders of Shares (solely in their capacity as such) than the Merger (taking into account all of the terms and conditions of, and the likelihood of completion of, such proposal and this Agreement (including any changes to the terms of this Agreement proposed by Parent in response to such offer or otherwise, including termination or break-up fees and conditions to consummation contained herein)) and (ii) reasonably likely of being completed in accordance with its terms.

(e) No Company Change in Recommendation or Company Alternative Acquisition Agreement. Except as provided in Section 5.2(f) and Section 5.2(g), the Company Board and each committee of the Company Board shall not (i) withhold, withdraw, qualify or modify (or publicly propose or resolve to withhold, withdraw, qualify or modify), in a manner adverse to Parent, the Company Board Recommendation or approve, recommend or otherwise declare advisable (or publicly propose or resolve to approve, recommend or otherwise declare advisable) any Company Acquisition Proposal or make or authorize the making of any public statement (oral or written) that has the substantive effect of such a withdrawal, qualification or modification (each, a Company Change in Recommendation), (ii) cause or permit the Company or any of its Subsidiaries to enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, option agreement, joint venture agreement, partnership agreement, lease agreement or other agreement (other than a confidentiality agreement referred to in Section 5.2(b) entered into in compliance with Section 5.2(a)) relating to any Company Acquisition Proposal or requiring the Company (or that would require the Company) to abandon, terminate, or fail to consummate the Merger or any other transaction contemplated by this Agreement (a Company Alternative Acquisition Agreement); or (iii) approve or recommend, or publicly propose to approve or recommend or enter into a Company Alternative Acquisition Agreement.

(f) Fiduciary Exception to No Company Change in Recommendation Provision. Notwithstanding anything to the contrary set forth in Section 5.2(e), following receipt of an unsolicited, written Company Acquisition Proposal by the Company after the date of this Agreement that did not result from a material breach of this Section 5.2 and with respect to which the Company has received a written, definitive form of Company Alternative Acquisition Agreement, and the Company Board determining in good faith, after consultation with financial advisors of nationally recognized reputation and outside legal counsel, that such Company Acquisition Proposal constitutes a Company Superior Proposal, the Company Board may, at any time prior to the time the Company Stockholder Approval is obtained, make a Company Change in Recommendation with respect to such Company Superior Proposal, if all of the following conditions are met:

(i) the Company shall have complied in all material respects with the provisions of this Section 5.2 and shall have (A) provided to Parent three Business Days prior written notice, which shall state expressly (1) that it has received a written Company Acquisition Proposal that constitutes a Company Superior Proposal, (2) the material terms and conditions of the Company Acquisition Proposal (including the consideration offered therein and the identity of the Person or group making the Company Acquisition Proposal), and shall have contemporaneously provided an unredacted copy of the Company Alternative Acquisition Agreement and all other documents related to the Company Superior Proposal (it being understood and agreed that any amendment to the financial terms or any other material term or condition of such Company Superior Proposal shall require a new notice and an additional two Business Day period) and (3) that, subject to clause (ii) below, the Company Board has determined to effect a Company Change in

Recommendation, and (B) prior to making such a Company Change in Recommendation,

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(x) engaged in good faith negotiations with Parent (to the extent Parent wishes to engage) during such notice period to consider adjustments to the terms and conditions of this Agreement which may be proposed in writing by Parent such that the Company Alternative Acquisition Agreement ceases to constitute a Company Superior Proposal, and (y) in determining whether to make a Company Change in Recommendation, the Company Board shall take into account any changes to the terms of this Agreement proposed in writing by Parent; and

(ii) the Company Board shall have determined, in good faith, after consultation with financial advisors of nationally recognized reputation and outside legal counsel, that, in light of such Company Superior Proposal and taking into account any revised terms proposed in writing by Parent, such Company Superior Proposal continues to constitute a Company Superior Proposal and, after consultation with outside legal counsel, that the failure to make such Company Change in Recommendation, would reasonably be expected to be inconsistent with the directors fiduciary duties under applicable Law.

(g) Company Change in Recommendation Due to Company Intervening Event. Notwithstanding anything to the contrary set forth in Section 5.2(e), upon the occurrence of any Company Intervening Event, the Company Board may, at any time prior to the time the Company Stockholder Approval is obtained, make a Company Change in Recommendation, if all of the following conditions are met:

(i) the Company shall have (A) provided to Parent three Business Days prior written notice, which shall (1) set forth in reasonable detail information describing the Company Intervening Event and the rationale for the Company Change in Recommendation, and (2) state expressly that, subject to clause (ii) below, the Company Board has determined to effect a Company Change in Recommendation and (B) prior to making such a Company Change in Recommendation, engaged in good faith negotiations with Parent (to the extent Parent wishes to engage) during such three Business Day period to consider adjustments to the terms and conditions of this Agreement which may be proposed in writing by Parent in such a manner that the failure of the Company Board to make a Company Change in Recommendation in response to the Company Intervening Event in accordance with clause (ii) below would no longer be reasonably expected to be inconsistent with the directors fiduciary duties under applicable Law; and

(ii) the Company Board shall have determined in good faith, after consultation with financial advisors of nationally recognized reputation and outside legal counsel, that in light of such Company Intervening Event and taking into account any revised terms proposed in writing by Parent, the failure to make a Company Change in Recommendation, would be inconsistent with the directors fiduciary duties under applicable Law.

(h) Certain Permitted Disclosure. Nothing contained in this Section 5.2 shall be deemed to prohibit the Company from complying with its disclosure obligations under applicable U.S. federal or state Law with regard to a Company Acquisition Proposal; provided that any stop look and listen communication to its stockholders of the nature contemplated by Rule 14d-9 under the Exchange Act shall include an affirmative statement to the effect that the recommendation of the Company Board is affirmed or remains unchanged; provided, further, that this Section 5.2(h) shall not be deemed to permit the Company or the Company Board to effect a Company Change in Recommendation except in accordance with Sections 5.2(f) or 5.2(g). The Company shall not submit to the vote of its stockholders any Company Acquisition Proposal or Company Superior Proposal prior to the termination of this Agreement.

5.3 Parent Acquisition Proposal.

(a) No Solicitation or Negotiation. From and after the date of this Agreement until the earlier to occur of the Effective Time and the termination of this Agreement in accordance with Article VII, neither Parent nor any of its Subsidiaries shall, and Parent shall cause its and its Subsidiaries directors, officers and employees not to, and shall use reasonable best efforts to cause its and their Representatives not to, directly or indirectly:

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(i) solicit, initiate, knowingly induce, knowingly encourage or knowingly facilitate (including by way of furnishing information) any inquiries or the making of any proposal or offer that constitutes, or would reasonably be expected to lead to, a Parent Acquisition Proposal;

(ii) participate in any discussions or negotiations or cooperate in any way not permitted by this Section 5.3 with any Person regarding any proposal the consummation of which would constitute a Parent Acquisition Proposal;

(iii) provide any information or data concerning Parent or any of its Subsidiaries to any Person in connection with any proposal the consummation of which would constitute a Parent Acquisition Proposal;

(iv) approve or recommend, make any public statement approving or recommending, or enter into any agreement relating to, any inquiry, proposal or offer that constitutes, or would reasonably be expected to lead to, a Parent Acquisition Proposal.

Parent shall, and Parent shall cause its Subsidiaries and Representatives to, immediately cease and cause to be terminated any discussions and negotiations with any Person conducted heretofore with respect to any Parent Acquisition Proposal, or proposal that would reasonably be expected to lead to a Parent Acquisition Proposal.

(b) Fiduciary Exception to No Solicitation Provision. Notwithstanding anything to the contrary in Section 5.3(a), Parent may, in response to an unsolicited, bona fide written Permitted Parent Acquisition Proposal (which Permitted Parent Acquisition Proposal was made after the date of this Agreement) which did not result from a breach, in any material respect, of this Section 5.3 and so long as it has provided prior written notice to the Company, (i) provide access to non-public information regarding Parent or any of its Subsidiaries to the Person who made such Permitted Parent Acquisition Proposal, (ii) engage or participate in any discussions or negotiations with any such Person regarding such Permitted Parent Acquisition Proposal and (iii) cause or permit Parent or any of its Subsidiaries to enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, option agreement, joint venture agreement, partnership agreement, lease agreement or other agreement relating to such Permitted Parent Acquisition Proposal; provided, that prior to taking any of the actions described in clauses (i), (ii) or (iii) the Parent shall obtain a standstill agreement from the Person who made such Permitted Parent Acquisition Proposal that prohibits the making of any Parent Acquisition Proposal that does not constitute a Permitted Parent Acquisition Proposal. For the avoidance of doubt, to the extent that any proposal was but ceased to be a Permitted Parent Acquisition Proposal as a result of it no longer being conditioned on the consummation of the Merger or otherwise contemplates or requires Parent to abandon, terminate, delay, modify, renegotiate or fail to consummate the Merger, Parent shall immediately cease taking any actions described in clauses (i), (ii) or (iii) of the foregoing sentence and shall promptly terminate access by any such Person to any physical or electronic data rooms relating to Parent. Parent shall take all actions necessary to enforce its rights under the provisions of any standstill agreement between Parent and any Person (other than the Company), and shall not grant any waiver of, or agree to any amendment or modification to, any such agreement, to permit such person to submit a proposal that is not a Permitted Parent Acquisition Proposal.

(c) Notice. Parent shall promptly (and, in any event, within one Business Day) notify the Company if (i) any written or other inquiries, proposals or offers with respect to a Parent Acquisition Proposal or any inquiries, proposals, offers or requests for information relating to or that could reasonably be expected to lead to a Parent Acquisition Proposal are received by Parent, (ii) any non-public information is requested in connection with any Parent Acquisition Proposal from Parent or (iii) any discussions or negotiation with respect to or that could reasonably be expected to lead to a Parent Acquisition Proposal are sought to be initiated or continued with Parent, and thereafter shall keep the Company informed, on a current basis, of the status of any such discussions or negotiations.

(d) Definitions. For purposes of this Agreement:

Parent Acquisition Proposal means any proposal for (i) any merger, consolidation, share exchange, business combination, issuance of securities, direct or indirect acquisition of securities, recapitalization, tender offer, exchange offer or other similar transaction in which (x) a person or group (as defined in the Exchange Act and the rules promulgated thereunder) of persons directly or indirectly acquires, or if consummated in accordance with its terms would acquire, beneficial or record ownership of securities representing more than twenty percent (20%) of the outstanding shares of any class of voting securities of Parent; or (y) Parent issues securities representing more than twenty percent (20%) of the outstanding shares of any class of voting securities of Parent; (ii) any direct or indirect sale, lease, exchange, transfer, acquisition or disposition of any assets of Parent and of the subsidiaries of Parent that constitute or account for (x) more than twenty percent (20%) of the consolidated net revenues of Parent, consolidated net income of Parent or consolidated book value of Parent; or (y) more than twenty percent (20%) of the fair market value of the assets of Parent; or (iii) any liquidation or dissolution of Parent.

Parent Intervening Event means any event, occurrence, fact, condition, change, development or effect occurring or arising after the date of this Agreement, including without limitation a Parent Acquisition Proposal that (i) was not known to, or reasonably foreseeable by, the Parent Board prior to the execution of this Agreement, which event, occurrence, fact, condition, change, development or effect becomes known to, or reasonably foreseeable by, the Parent Board prior to the receipt of the Parent Stockholder Approval and (ii) does not relate to (A) any changes in the market price or trading volume of Parent or the Company, (B) the Company or Parent meeting, failing to meet or exceeding published or unpublished revenue or earnings projections, in each case in and of itself (it being understood that with respect to each of clause (A) and clause (B) the facts or occurrences giving rise or contributing to such change or event may be taken into account when determining a Parent Intervening Event to the extent otherwise satisfying this definition), or (C) a Permitted Parent Acquisition Proposal.

Permitted Parent Acquisition Proposal means a Parent Acquisition Proposal that, when made and at all times thereafter, expressly requires, as a condition to the consummation of such Parent Acquisition Proposal either (i) the prior consummation of the Merger or (ii) the termination of this Agreement as a result of the Company Stockholder Approval not being obtained.

(e) No Parent Change in Recommendation. Except as provided in Section 5.3(f), the Parent Board and each committee of the Parent Board shall not withhold, withdraw, qualify or modify (or publicly propose or resolve to withhold, withdraw, qualify or modify), in a manner adverse to the Company, the Parent Board Recommendation or approve, recommend or otherwise declare advisable (or publicly propose or resolve to approve, recommend or otherwise declare advisable) any Parent Acquisition Proposal that is not a Permitted Parent Acquisition Proposal or make or authorize the making of any public statement (oral or written) that has the substantive effect of such a withdrawal, qualification or modification (each, a Parent Change in Recommendation), (ii) cause or permit Parent or any of its Subsidiaries to enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, option agreement, joint venture agreement, partnership agreement, lease agreement or other agreement relating to any Parent Acquisition Proposal that is not a Permitted Parent Acquisition Proposal or requiring Parent (or that would require Parent) to abandon, terminate, delay, modify, renegotiate or fail to consummate the Merger or any other transaction contemplated by this Agreement.

(f) Parent Change in Recommendation Due to Parent Intervening Event. Notwithstanding anything to the contrary set forth in Section 5.3(e), upon the occurrence of any Parent Intervening Event, that did not result from a material breach of this Section 5.3, the Parent Board may, at any time prior to the time the Parent Stockholder Approval is obtained, make a Parent Change in Recommendation, if all of the following conditions are met:

(i) Parent shall have (A) provided to the Company three Business Days prior written notice, which shall (1) set forth in reasonable detail information describing the Parent Intervening Event and the rationale for the Parent Change in Recommendation, as the case may be, and (2) state expressly that, subject to clause (ii) below, the Parent Board has determined to effect a Parent Change in Recommendation and (B) prior to making such a Parent Change in

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Recommendation, engaged in good faith negotiations with the Company (to the extent the Company wishes to engage) during such three Business Day period to consider adjustments to the terms and conditions of this Agreement which may be proposed in writing by the Company in such a manner that the failure of the Parent Board to make a Parent Change in Recommendation in response to the Parent Intervening Event in accordance with clause (ii) below would no longer reasonably be expected to be inconsistent with the directors fiduciary duties under applicable Law; and

(ii) The Parent Board shall have determined in good faith, after consultation with outside legal counsel and financial advisors of nationally recognized reputation, that in light of such Parent Intervening Event and taking into account any revised terms proposed in writing by the Company, the failure to make a Parent Change in Recommendation would reasonably be expected to be inconsistent with the directors fiduciary duties under applicable Law.

(g) Certain Permitted Disclosure. Nothing contained in this Section 5.3 shall be deemed to prohibit Parent from complying with its disclosure obligations under applicable U.S. federal or state Law with regard to a Parent Acquisition Proposal; provided that any stop look and listen communication to its stockholders of the nature contemplated by Rule 14d-9 under the Exchange Act shall include an affirmative statement to the effect that the recommendation of the Parent Board is affirmed or remains unchanged; provided, further, that this Section 5.3(g) shall not be deemed to permit Parent or the Parent Board to effect a Parent Change in Recommendation, except in accordance with Section 5.3(f).

5.4 Information Supplied. (a) The Company and Parent shall jointly prepare and cause to be filed with the SEC a joint proxy statement (as amended or supplemented from time to time, the Joint Proxy Statement/Prospectus) with respect to the Company Stockholders Meeting and the Parent Stockholders Meeting. As promptly as practicable following the date of this Agreement, Parent shall prepare (with the Company s reasonable cooperation) and file with the SEC a registration statement on Form S-4 (as amended or supplemented from time to time, the Form S-4), in which the Joint Proxy Statement/Prospectus will be included as a prospectus, in connection with the registration under the Securities Act of the shares of Parent Common Stock to be issued in the Merger. Parent shall use its reasonable best efforts to have the Form S-4 declared effective under the Securities Act as promptly as practicable after such filing and to keep the Form S-4 effective as long as is necessary to consummate the Merger and the other transactions contemplated hereby. Parent shall also take any action (other than qualifying to do business in any jurisdiction in which it is not now so qualified or filing a general consent to service of process) required to be taken under any applicable state securities or blue sky laws in connection with the issuance of shares of Parent Common Stock in the Merger. Each of the Company and Parent shall furnish all information concerning the Company and the holders of Shares and Parent and the holders of the capital stock of Parent, as applicable, as may be reasonably requested in connection with any such action. Each of the Company and Parent shall use reasonable best efforts to cause the Joint Proxy Statement/Prospectus to be mailed to the Company s stockholders and Parent s stockholders, as applicable, as promptly as practicable after the Form S-4 is declared effective under the Securities Act.

(b) No filing of, or amendment or supplement to, the Form S-4 will be made by Parent, and no filing of, or amendment or supplement to, the Joint Proxy Statement/ Prospectus will be made by the Company or Parent, in each case without providing the other Party a reasonable opportunity to review and comment thereon (other than, in each case, any filing, amendment or supplement in connection with a Company Change in Recommendation or a Parent Change in Recommendation, as applicable), and each Party shall consider in good faith all comments reasonably proposed by the other Party. Each of the Company and Parent shall promptly provide the other with copies of all such filings, amendments or supplements to the extent not publicly available. Each of the Company and Parent shall furnish all information concerning such Person and its Affiliates to the other and provide such other assistance as may be reasonably requested by such other Party to be included therein and shall otherwise reasonably assist and cooperate with the other in the preparation of the Form S-4 or Joint Proxy Statement/ Prospectus, as applicable, and the resolution of any comments to either received from the SEC. If at any time prior to the receipt of the Company

Stockholder Approval or the

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Parent Stockholder Approval, any information relating to the Company or Parent, or any of their respective Affiliates, directors or officers, should be discovered by the Company or Parent which is required to be set forth in an amendment or supplement to either the Form S-4 or the Joint Proxy Statement/ Prospectus, so that either such document would not include any misstatement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the Party which discovers such information shall promptly notify the other Party and an appropriate amendment or supplement describing such information shall be promptly filed with the SEC and, to the extent required by applicable Law, disseminated to the stockholders of the Company or the stockholders of Parent, as applicable. The Parties shall notify each other promptly of the receipt of any comments from the SEC or the staff of the SEC and of any request by the SEC or the staff of the SEC for amendments or supplements to the Form S-4 or the Joint Proxy Statement/Prospectus, or for additional information and shall supply each other with copies of (i) all correspondence between it or any of its Representatives, on the one hand, and the SEC or the staff of the SEC, on the other hand, with respect to the Form S-4, Joint Proxy Statement/ Prospectus or the Merger and (ii) all orders of the SEC relating to the Form S-4. No response to any comments from the SEC or the staff of the SEC relating to the Joint Proxy Statement/ Prospectus will be made by either Party without providing the other a reasonable opportunity to review and comment thereon unless pursuant to a telephone call initiated by the SEC, and each Party shall consider in good faith all comments reasonably proposed by the other Party. The Parties will cause the Form S-4 and Joint Proxy Statement/ Prospectus to comply as to form in all material respects with the applicable provisions of the Securities Act and the Exchange Act and the rules and regulations thereunder.

5.5 Company and Parent Stockholder Meetings.

(a) Company Stockholders Meeting.

(i) The Company will, as promptly as practicable in accordance with applicable Law and the Company Charter and Company Bylaws, establish a record date for, duly call and give notice of, and use its reasonable best efforts to convene a meeting of holders of Shares to consider and vote upon the adoption of this Agreement (the Company Stockholders Meeting). Subject to the provisions of Section 5.2, the Company Board shall include the Company Board Recommendation in the Joint Proxy Statement/ Prospectus and recommend at the Company Stockholders Meeting that the holders of Shares adopt this Agreement and shall use its reasonable best efforts to obtain and solicit such adoption. Notwithstanding the foregoing, (x) if on or before the date on which the Company Stockholders Meeting is scheduled, the Company reasonably believes that (i) it will not receive proxies representing the Company Stockholder Approval, whether or not a quorum is present or (ii) it will not have enough Shares represented to constitute a quorum necessary to conduct the business of the Company Stockholders Meeting, the Company may (and, if requested by Parent, the Company shall) postpone or adjourn, or make one or more successive postponements or adjournments of, the Company Stockholders Meeting and (y) the Company may postpone or adjourn the Company Stockholders Meeting to allow reasonable additional time for the filing or mailing of any supplemental or amended disclosure that the Company has determined, after consultation with outside legal counsel, is reasonably likely to be required under applicable Law and for such supplemental or amended disclosure to be disseminated and reviewed by stockholders of the Company prior to the Company Stockholders Meeting, as long as the date of the Company Stockholders Meeting is not postponed or adjourned more than an aggregate of thirty calendar days in connection with any such postponements or adjournments pursuant to either or both of the preceding clauses (x) and (y).

(ii) Notwithstanding any Company Change in Recommendation, the Company shall submit this Agreement to the holders of Shares for adoption at the Company Stockholders Meeting unless this Agreement is terminated in accordance with Article VII prior to the Company Stockholders Meeting. Without the prior written consent of Parent, the adoption of this Agreement shall be the only matter (other than matters of procedure and matters required by

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Law to be voted on by the Company s stockholders in connection with the adoption of this Agreement and the transactions contemplated hereby) that the Company shall propose to be acted on by the stockholders of the Company at the Company Stockholders Meeting.

(b) Parent Stockholders Meeting.

(i) Parent will, in accordance with applicable Law and the Parent Charter and Parent Bylaws, establish a record date for, duly call and give notice of, and use its reasonable best efforts to convene and hold a meeting of holders of capital stock of Parent to consider and vote upon the Parent Share Issuance as promptly as practicable. Subject to the provisions of Section 5.3, the Parent Board shall include the Parent Board Recommendation in the Joint Proxy Statement/ Prospectus and recommend at the Parent Stockholders Meeting that the holders of capital stock of Parent approve the Parent Share Issuance and shall use its reasonable best efforts to obtain and solicit such approval. Notwithstanding the foregoing, (x) if on or before the date on which the Parent Stockholders Meeting is scheduled, Parent reasonably believes that (A) it will not receive proxies representing the Parent Stockholder Approval, whether or not a quorum is present, or (B) it will not have enough shares of Parent Common Stock represented to constitute a quorum necessary to conduct the business of the Parent Stockholders Meeting, Parent may (and, if requested by the Company, Parent shall) postpone or adjourn, or make one or more successive postponements or adjournments of, the Parent Stockholders Meeting and (y) Parent may postpone or adjourn the Parent Stockholders Meeting to allow reasonable additional time for the filing or mailing of any supplemental or amended disclosure that Parent has determined, after consultation with outside legal counsel, is reasonably likely to be required under applicable Law and for such supplemental or amended disclosure to be disseminated and reviewed by stockholders of Parent prior to the Parent Stockholders Meeting, as long as the date of the Parent Stockholders Meeting is not postponed or adjourned more than an aggregate of thirty calendar days in connection with any such postponements or adjournments pursuant to either or both of the preceding clauses (x) and (y).

(ii) Notwithstanding any Parent Change in Recommendation, Parent shall seek the Parent Stockholder Approval at the Parent Stockholders Meeting unless this Agreement is terminated in accordance with Article VII prior to the Parent Stockholders Meeting. Without the prior written consent of the Company, the Parent Share Issuance shall be the only matter (other than matters of procedure and matters required by Law to be voted on by Parent s stockholders in connection with the transactions contemplated hereby) that Parent shall propose to be acted on by the stockholders of Parent at the Parent Stockholders Meeting.

5.6 Filings; Other Actions; Notification.

(a) The Company and Parent shall, subject to Sections 5.2 and 5.3, cooperate with each other and use, and shall cause their respective Subsidiaries to use, their respective reasonable best efforts to take or cause to be taken all actions, and do or cause to be done all things, necessary, proper or advisable under this Agreement and applicable Laws and Orders to consummate and make effective the Merger and the other transactions contemplated by this Agreement as expeditiously as possible, including (i) preparing and filing all documentation to effect all necessary notices, reports and other filings (and in any event, by filing within ten (10) Business Days after the date of this Agreement the notifications, filings and other information required to be filed under the HSR Act and to obtain as expeditiously as possible all Consents, expirations of waiting periods and authorizations necessary or advisable to be obtained from any third party and/or any Governmental Entity in order to consummate the Merger or any of the other transactions contemplated by this Agreement, (ii) satisfying the conditions to consummating the Merger, (iii) defending any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the Merger, (iv) obtaining (and cooperating with each other in obtaining) any consent, approval of, waiver or any exemption by, any non-governmental third party, in each case, to the extent necessary, proper or advisable in connection with the Merger and (v) executing and delivering any reasonable additional instruments necessary to consummate the transactions contemplated hereby and to fully carry out the purposes of this Agreement.

For the avoidance of doubt, Parent shall pay the HSR filing fee owed by Parent and any foreign filing fee owed by the Company or Parent.

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(b) Subject to Section 5.6(c), in the event that the Parties receive a request for information or documentary material pursuant to the HSR Act or any other Antitrust Laws (a Second Request), unless otherwise agreed to by the Parties, the Parties will use their reasonable best efforts to submit an appropriate response to, and to certify compliance with, such Second Request as promptly as practicable, and counsel for both Parties will closely cooperate during the entirety of any such Second Request review process. Neither Party shall agree to extend any waiting period under the HSR Act or any other Antitrust Laws or enter into any agreement with any Governmental Entity to delay the transactions contemplated hereby except with prior written consent of the other Party. None of the Parties shall knowingly take, cause or permit to be taken or omit to take any action which such Party reasonably expects is likely to materially delay or prevent consummation of the contemplated transactions, unless otherwise agreed to by the Parties.

(c) Parent and the Company shall cooperate with respect to the Antitrust Laws. No Party or its counsel shall independently participate in any substantive call or meeting relating to the Antitrust Laws with any Governmental Entity in respect of such filings, investigation, or other inquiry without giving the other Party or its counsel prior notice of such call or meeting and, to the extent permitted by such Governmental Entity, the opportunity to attend and/or participate. In furtherance of the foregoing and to the extent permitted by applicable Law, (i) each Party shall notify the other, of any filing or material or substantive communication or inquiry it or any of its Subsidiaries intends to make with any Governmental Entity relating to the matters that are the subject of this Section 5.6, (ii) prior to submitting any such filing or making any such communication or inquiry, such Party shall provide the other Party and its counsel a reasonable opportunity to review, and shall consider in good faith the comments of the other Party in connection with, any such filing, communication or inquiry, (iii) promptly following the submission of such filing or making such communication or inquiry, provide the other Party with a copy of any such filing or, if in written form, communication or inquiry and (iv) consult with the other Party in connection with any inquiry, hearing, investigation or litigation by, or negotiations with, any Governmental Entity relating to the Merger, including the scheduling of, and strategic planning for, any meetings with any Governmental Entity relating thereto. In exercising the foregoing cooperation rights, the Company and Parent each shall act reasonably and as promptly as reasonably practicable. Notwithstanding the foregoing, materials provided pursuant to this Section 5.6 may be (x) reasonably redacted (A) to remove references concerning the valuation of the Company and the Merger, (B) as necessary to comply with contractual arrangements, (C) as necessary to address reasonable privilege concerns, (D) as necessary to remove competitively sensitive material, or (E) as otherwise required by applicable Law or (y) provided to the other Party as Outside Counsel Only Material or with similar restrictions pursuant to Section 5.7(c).

(d) In furtherance and not in limitation of the covenants of the Parties contained in this Section 5.6, each of the Parties shall prepare and submit, in a form acceptable to the cognizant security agency, to the Defense Security Service (DSS) of the United States Department of Defense a notification under NISPOM and any other applicable national or industrial security regulations, and any other applicable customer, national or industrial security regulations or customer program security requirements; provided, that each of Parent and the Company shall have approval rights over the content of all related communications, filings and notifications and shall be entitled to participate in all related discussions, where acceptable to the cognizant security agency.

(e) In furtherance and not in limitation of the covenants of the Parties contained in this Section 5.6, each of the Parties hereto shall use its reasonable best efforts to resolve such objections, if any, as may be asserted by any Governmental Entity in connection with the HSR Act, any other applicable Antitrust Laws with respect to the transactions contemplated hereby and to avoid the entry of, or effect the dissolution of, any decree, order, judgment, injunction, temporary restraining order or other order in any suit or proceeding, that would otherwise have the effect of preventing the consummation of the transactions contemplated hereby. For the purposes of this Section 5.6, reasonable best efforts shall include taking any and all actions necessary to obtain the Consents or waiting period expirations of any Governmental Entity required to consummate the Merger prior to the Termination Date, including (i) proposing, negotiating, committing to, effecting and agreeing to, by consent decree, hold separate order, or otherwise, the sale, divestiture, license, hold separate, and other disposition of the businesses, assets, products or equity interests of the Company or its

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Subsidiaries or any of Parent s or its Subsidiaries other businesses, assets, products or equity interests now owned or hereafter acquired by Parent, (ii) creating, terminating, or amending any existing relationships, ventures, contractual rights or obligations of Parent, the Company or their respective Subsidiaries, (iii) otherwise taking or committing to any action that would limit Parent s freedom of action with respect to, or its ability to retain or hold, directly or indirectly, any businesses, assets, products or equity interests of Parent or the Company (including any of their respective Subsidiaries) and (iv) making, or causing any Subsidiaries to make, any commitment, or committing to (or causing any Subsidiaries to commit to) make any commitment (to any Governmental Entity or otherwise) regarding the future operations of Parent or the Company (including any of their respective Subsidiaries) (the Regulatory Actions); provided that Parent shall not be required to accept or agree to any Regulatory Action that would result in, or would be reasonably likely to result in, either individually or in the aggregate, a Regulatory Material Adverse Effect on Parent or on the Company. Regulatory Material Adverse Effect means, with respect to any Person, any Effect, in each case resulting from or arising out of the matters contemplated by this Section 5.6 that has a material adverse effect on the financial condition, business, revenue or EBITDA of such Person and its Subsidiaries, taken as a whole; *provided that*, for purposes of determining whether any action, term or condition would have or would reasonably be expected to have a Regulatory Material Adverse Effect on Parent, Parent and its Subsidiaries will collectively be deemed to be a company the size of (and with revenue and EBITDA equal to those of) the Company and its Subsidiaries, taken as a whole; provided, further, that, for purposes of determining whether any action, term or condition would have or would reasonably be expected to have a Regulatory Material Adverse Effect on Parent or on the Company, impacts on Parent, the Company or any of their respective Subsidiaries will be aggregated. EBITDA means, with respect to any Person, the sum of (1) consolidated net income, determined in accordance with GAAP, plus (2) without duplication and to the extent deducted in determining such consolidated net income, the sum of (I) consolidated interest expense, (II) consolidated income tax expense and (III) all amounts attributed to depreciation or amortization, in each case of such Person and its Subsidiaries. Nothing in this Section 5.6 shall require Parent, the Company or their respective Subsidiaries to take or agree to take any action with respect to its business or operations unless the effectiveness of such agreement or action is conditioned upon the Closing.

(f) In furtherance and not in limitation of the covenants of the Parties contained in this Section 5.6, if any administrative or judicial action or proceeding, including any proceeding by a private party, is instituted (or threatened to be instituted) challenging the Merger or any other transaction contemplated by this Agreement as violative of any Antitrust Law, each of the Company and Parent shall use reasonable best efforts to contest and resist any such action or proceeding and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts consummation of the Merger.

(g) Information. The Company and Parent each shall, upon request by the other, promptly furnish the other with all information concerning itself, its Subsidiaries, directors, officers and shareholders and such other matters as may be reasonably necessary or advisable in connection with the Form S-4, Joint Proxy Statement/ Prospectus and any other statement, filing, notice or application made by or on behalf of Parent, the Company or any of their respective Subsidiaries to any third party and/or any Governmental Entity in connection with the Merger and the other transactions contemplated by this Agreement.

(h) Status. The Company and Parent each shall keep the other reasonably apprised of the status of matters relating to completion of the transactions contemplated hereby, including promptly furnishing the other with copies of notice or other communications received by the Company or Parent, as the case may be, or any of their respective Subsidiaries from any third party and/or any Governmental Entity with respect to the Merger and the other transactions contemplated by this Agreement, other than immaterial communications.

5.7 Access; Consultation. (a) Upon reasonable notice, and except as may otherwise be required by applicable Law, each of the Company and Parent shall, and shall cause each of its Subsidiaries to, afford

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the other Party s Representatives reasonable access, during normal business hours during the period prior to the Effective Time, to the other Party s, and each of its Subsidiaries employees, properties, assets, books, records and contracts and, during such period, each of the Company and Parent shall, and shall cause each of its Subsidiaries to, furnish promptly to the other all information concerning its or any of its Subsidiaries capital stock, business and personnel as may reasonably be requested by the other; provided that no investigation pursuant to this Section 5.7 shall affect or be deemed to modify any representation or warranty made by the Company or Parent; and provided, further that the foregoing shall require neither the Company nor Parent to permit any invasive environmental sampling or to disclose any information pursuant to this Section 5.7 to the extent that (i) in the reasonable good faith judgment of such Party, any applicable Law requires such Party or its Subsidiaries to restrict or prohibit access to any such properties or information, (ii) in the reasonable good faith judgment of such Party, the information is subject to confidentiality obligations to a third party or (iii) disclosure of any such information or document would result in the loss of attorney-client privilege; provided, further that with respect to clauses (i) through (iii) of this Section 5.7(a), Parent or the Company, as applicable, shall use its commercially reasonable efforts to (1) obtain the required consent of any such third party to provide such inspection or disclosure, (2) develop an alternative to providing such information so as to address such matters that is reasonably acceptable to Parent and the Company and (3) in the case of clauses (i) and (iii), implement appropriate and mutually agreeable measures to permit the disclosure of such information in a manner to remove the basis for the objection, including by arrangement of appropriate clean room procedures, redaction or entry into a customary joint defense agreement with respect to any information to be so provided, if the Parties determine that doing so would reasonably permit the disclosure of such information without violating applicable Law or jeopardizing such privilege. Any investigation pursuant to this Section 5.7 shall be conducted in such a manner as not to interfere unreasonably with the conduct of the business of the other Party. All requests for information made pursuant to this Section 5.7 shall be directed to an executive officer of the Company or Parent, as applicable, or such Person as may be designated by any such executive officer.

(b) Each of Parent and the Company, as it deems advisable and necessary, may reasonably designate competitively sensitive material provided to the other as Outside Counsel Only Material or with similar restrictions. Such material and the information contained therein shall be given only to the outside counsel of the recipient, or otherwise as the restriction indicates, and be subject to any additional confidentiality or joint defense agreement between the Parties. All information exchanged pursuant to this Section 5.7 shall be subject to the Confidentiality Agreement. To the extent that any of the information or material furnished pursuant to this Section 5.7 or otherwise in accordance with the terms of this Agreement may include material subject to the attorney-client privilege, work product doctrine or any other applicable privilege concerning pending or threatened legal proceedings or governmental investigations, the Parties understand and agree that they have a commonality of interest with respect to such matters and it is their desire, intention and mutual understanding that the sharing of such material is not intended to, and, to the fullest extent permitted by Law, shall not, waive or diminish in any way the confidentiality of such material or its continued protection under the attorney-client privilege, work product doctrine or other applicable privilege. All such information that is entitled to protection under the attorney-client privilege, work product doctrine or other applicable privilege shall, to the fullest extent permitted by Law, remain entitled to such protection under these privileges, this Agreement, and under the joint defense doctrine. Prior to the Effective Time, the Company and Parent shall reasonably cooperate in identifying any actions or practices of the Company or any of its Subsidiaries that could require remediation under applicable Law and, to the extent identified, shall cooperate in taking commercially reasonable actions or practices and other customary actions to reduce the risks related to such actions where the failure to remediate would reasonably be likely to result in substantial fines or penalties.

(c) Each of the Company and Parent shall give prompt notice to one another upon obtaining Knowledge of any Effect that would reasonably be likely to result in a Company Material Adverse Effect or Parent Material Adverse Effect (as applicable), or of any reasonably likely failure of any condition to Parent s or the Company s obligations to effect the Merger (as applicable).

5.8 Stock Exchange Listing, De-listing and De-registration. Parent shall use its reasonable best efforts to cause the shares of Parent Common Stock to be issued in the Merger to be approved for listing

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on the NYSE, subject to official notice of issuance, prior to the Effective Time. The Company shall take all actions necessary to permit the Shares and any other security issued by the Company or one of its Subsidiaries and listed on the NYSE to be de-listed from the NYSE and de-registered under the Exchange Act as soon as possible following the Effective Time.

5.9 Publicity. The initial press release with respect to the Merger and the other transactions contemplated hereby shall be a joint press release and thereafter the Company and Parent shall consult with each other prior to issuing or making, and provide each other the reasonable opportunity to review and comment on, any press releases or other public announcements with respect to the Merger and the other transactions contemplated by this Agreement and any filings with any Governmental Entity (including any national securities exchange) with respect thereto, except (a) as may be required by applicable Law or by obligations pursuant to any listing agreement with or rules of any national securities exchange, (b) any consultation that would not be reasonably practicable as a result of requirements of applicable Law, (c) any press release or public statement that in the good faith judgment of the applicable Party is consistent with prior press releases issued or public statements made in compliance with this Section 5.9 or (d) with respect to any Company Change in Recommendation or Parent Change in Recommendation made in accordance with this Agreement or the other Party s response thereto.

5.10 Employee Benefits.

(a) Parent agrees that each employee of the Company or a Company Subsidiary who continues to remain employed with the Company or its Subsidiaries following the Effective Time (a Continuing Employee) shall, during the period commencing at the Effective Time and ending on December 31, 2019 (the Continuation Period), be provided with (i) an annual rate of base salary or base wage that is no less favorable than the base salary or base wages provided to such Continuing Employee by the Company and its Subsidiaries immediately prior to the Effective Time, (ii) target annual cash bonus opportunities that are no less favorable in the aggregate than the target annual cash bonus opportunities provided to such Continuing Employee by the Company and its Subsidiaries immediately prior to the Effective Time and (iii) long-term incentive opportunities that are no less favorable in the aggregate than the long-term incentive opportunities provided to such Continuing Employee by the Company and its Subsidiaries immediately prior to the Effective Time. Parent agrees that Continuing Employees shall, during the Continuation Period, be provided with pension, welfare and other employee benefits that are substantially comparable in the aggregate to those provided by the Company and its Subsidiaries to such Continuing Employees as of immediately prior to the Effective Time (excluding, for the avoidance of doubt, annual and long-term incentive opportunities and equity-based compensation). Additionally, Parent agrees that each Continuing Employee shall, during the period commencing at the Effective Time and ending on December 31, 2019, be provided with severance benefits that are no less favorable than the severance benefits provided by the Company and its Subsidiaries to such Continuing Employee under the Company Plans set forth on Section 5.10 of the Company Disclosure Letter. Parent shall or shall cause the Surviving Company to honor the annual bonus obligations set forth on Section 5.10 of the Company Disclosure Letter. Subject to Section 5.10(e), following the Effective Time, Parent shall or shall cause the Surviving Company to honor all Company Plans, in accordance with their terms.

(b) Parent shall or shall cause the Surviving Company to waive, or cause its insurance carriers to waive, all pre-existing conditions, exclusions or waiting periods that could otherwise apply to any Continuing Employee under the benefit plans provided for such Continuing Employee following the Closing, except to the extent such conditions, exclusions or waiting periods were applicable to the Continuing Employee prior to the Effective Time. With respect to the plan year during which the Effective Time occurs, Parent shall provide each Continuing Employee with credit for deductibles and out-of-pocket requirements paid prior to the Closing Date in satisfying any applicable deductible or out-of-pocket requirements under any Parent plan in which such Continuing Employee is eligible to participate following the Closing Date.

(c) From and after the Closing Date, Parent shall or shall cause the Surviving Company to, provide credit to Continuing Employees for their service recognized by the Company and its Subsidiaries as of the Effective Time for purposes of eligibility, vesting, continuous service, determination of service awards, vacation, paid time off, and severance entitlements to the same extent and for the same purposes as such service was credited under the Company Plans, provided that such service shall not be recognized to the extent that such recognition would result in a duplication of benefits.

(d) As soon as practicable following the date hereof, the Company shall take all actions with respect to the ESPP to provide that with respect to any offering periods in effect as of the date hereof (the Current Purchase Period), (x) no employee who is not a participant in the ESPP as of the date hereof may become a participant in the ESPP, and (y) each individual participating in the Current Purchase Period in progress on the date of this Agreement will not be permitted to increase his or her payroll contribution rate pursuant to the ESPP from the rate in effect immediately prior to the date of this Agreement, except as may be required by applicable Law. In addition, (i) the Current Purchase Period will end on December 31, 2018; provided that if the Effective Time is prior to December 31, 2018, the Company will end the Current Purchase Period on a specified trading day occurring at least ten (10) days prior to the date on which the Effective Time occurs; (ii) there will be no offering periods following the Current Purchase Period and (iii) in all events, the Company shall terminate the ESPP prior to the Effective Time.

(e) If Parent so requests (which request shall be made not less than forty-five (45) days prior to the Effective Time), the Company shall take any and all actions required (including, without limitation, the adoption of resolutions by the Company Board of Directors) to amend, suspend or terminate any or all Company Plans immediately prior to the Effective Time to the extent such actions are permitted by Law (including any required prior notice obligations), the terms of this Section 5.10, or the terms of the applicable plan; provided that any amendment, suspension or termination of any Company Plan shall not impact the benefits required to be provided pursuant to Section 5.10(a).

(f) The provisions of this Section 5.10 are solely for the benefit of the Parties to this Agreement, and no other Person, including any current or former employee, participant in any Company Plan or other dependent, beneficiary or other individual associated therewith, is or shall be regarded for any purpose as a third party beneficiary to this Agreement. Notwithstanding anything to the contrary in this Agreement (except to the extent provided in Section 8.8), no provision of this Agreement is intended to, or does, (i) constitute the establishment of, or an amendment to, any Company Plan or any employee benefit plan of Parent, the Surviving Company or any of their Affiliates, (ii) alter or limit the ability of Parent or any of its Affiliates to amend, modify or terminate any Company Plan, any other benefit plan, program, agreement or arrangement, (iii) give any third party any right to enforce the provisions of this Section 5.10, (iv) prevent Parent, the Surviving Company or any of their Affiliates, after the Effective Time, from terminating the employment of any Continuing Employee or (v) be deemed to confer upon any such individual or legal representative any right to continued employment or any rights under or with respect to any plan, program or arrangement described in or contemplated by this Agreement, and each such individual or legal representative shall be entitled to look only to the express terms of any such plan, program or arrangement for his or her rights thereunder.

5.11 Expenses. Except as otherwise provided in Sections 7.5 and 7.6, whether or not the Merger is consummated, all costs and expenses incurred in connection with this Agreement and the Merger and the other transactions contemplated by this Agreement shall be paid by the Party incurring such expense.

5.12 Indemnification; Directors and Officers Insurance. (a) From and after the Effective Time, Parent shall, and shall cause the Surviving Company to, indemnify and hold harmless each present and former director and officer of the Company determined as of the Effective Time (the Indemnified Parties), against any costs or expenses (including reasonable and documented attorneys fees), judgments, fines, losses, claims, damages or liabilities incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative (a proceeding) (including with respect to matters existing or occurring at or prior to the Effective Time (including this Agreement and the transactions and actions contemplated hereby)), arising out of the fact that such Indemnified Party is or was a director or officer of the Company, or, while a director or officer of the Company, is or was serving at the request of the Company as a director, officer, employee or agent of another Person prior to the

Effective Time, in each case, whether asserted or claimed prior to, at or after the Effective Time, to the fullest extent that the Company would have been required to under Delaware Law, any applicable indemnification agreement to which such Person is a party in effect as of the date of this Agreement, the Company Charter or Company Bylaws in effect on the date of this Agreement to indemnify such Person (and the Surviving Company shall also advance expenses as incurred by Indemnified Parties in defending any proceeding to the same extent as such Indemnified Parties are entitled to advance of expenses as of the date of this Agreement by Company pursuant to the Company Charter, Company Bylaw or any applicable indemnification agreement to which such Person is a party; provided that the Person to whom expenses are advanced shall provide an undertaking to repay such advances if it is ultimately determined that such Person is not entitled to indemnification). Parent shall ensure that the organizational documents of the Surviving Company shall, for a period of six years from and after the Effective Time, contain provisions no less favorable with respect to indemnification, advancement of expenses and exculpation of present and former directors, officers, employees and agents of the Company and its Subsidiaries than are presently set forth in the Company Charter and Company Bylaws. Any right of indemnification of an Indemnified Party pursuant to this Section 5.12 shall not be amended, repealed or otherwise modified at any time in a manner that would adversely affect the rights of such Indemnified Party as provided herein.

(b) Prior to the Effective Time, the Company shall and, if the Company is unable to, Parent shall cause the Surviving Company as of the Effective Time to, obtain and fully pay for tail insurance policies with a claims period of at least six years from and after the Effective Time from an insurance carrier with the same or better credit rating as the Company s current insurance carrier with respect to directors and officers liability insurance, employment practices liability insurance and fiduciary liability insurance with benefits and levels of coverage at least as favorable as the Company s existing policies with respect to matters existing or occurring at or prior to the Effective Time (including in connection with this Agreement or the transactions or actions contemplated hereby); provided, however that in no event shall the Company expend for such policies an annual premium amount in excess of three hundred percent (300%) of the annual premiums currently paid by the Company for such insurance provided, further that if the premium for such insurance coverage exceeds such amount, the Surviving Company shall obtain a policy with the greatest coverage available for a cost not exceeding such amount.

If Parent or any of its successors or assigns (i) shall consolidate with or merge into any other corporation or entity and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) shall transfer all or substantially all of its properties and assets to any individual, corporation or other entity, then and in each such case proper provisions shall be made so that the successors and assigns of Parent shall assume all of the obligations of Parent set forth in this Section 5.12.

(c) The provisions of this Section 5.12 are intended to be for the benefit of, and shall be enforceable by, each of the Indemnified Parties, their heirs and their representatives. The rights of each Indemnified Party under this Section 5.12 shall be in addition to any rights such individual may have under Delaware Law, any applicable indemnification agreement to which such Person is a party, the Company Charter or the Company Bylaws.

(d) Neither of Parent or the Surviving Company shall settle, compromise or consent to the entry of any judgment in any threatened or actual proceeding for which indemnification could be sought by an Indemnified Party hereunder, unless such settlement, compromise or consent includes an unconditional release of such Indemnified Party from all liability arising out of such proceeding or such Indemnified Party otherwise consents in writing (such consent not to be unreasonably withheld or delayed) to such settlement, compromise or consent.

(e) Nothing in this Agreement is intended to, shall be construed to or shall release, waive or impair any rights to directors and officers insurance claims under any policy that is or has been in existence with respect to the Company or any of its Subsidiaries for any of their respective directors, officers or other employees, it being understood and agreed that the indemnification provided for in this Section 5.12 is not prior to or in substitution for any such claims under such policies.

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5.13 Takeover Statute. The Company and the Company Board and Parent and the Parent Board shall use their respective reasonable best efforts to (x) take all action reasonably appropriate to ensure that no state takeover statute or similar statute or regulation is or becomes applicable to this Agreement or the transactions contemplated hereby and (y) if any state takeover statute or similar statute or regulation becomes applicable to this Agreement or the transactions contemplated hereby, take all action reasonably appropriate to ensure that the transactions contemplated hereby may be consummated as promptly as practicable on the terms contemplated by this Agreement.

5.14 Control of the Company s or Parent s Operations. Nothing contained in this Agreement shall give Parent or the Company, directly or indirectly, rights to control or direct the operations of the other prior to the Effective Time. Prior to the Effective Time, each of Parent and the Company shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision of its operations.

5.15 Section 16(b). The board of directors of each of the Company and Parent (or, in each case, a duly authorized committee thereof) shall, prior to the Effective Time, take all such actions within its control as may be necessary or appropriate to cause the transactions contemplated by this Agreement and any other dispositions of equity securities of the Company and acquisitions of equity securities of Parent (including derivative securities) in connection with the transactions contemplated by this Agreement by each individual who is a director or executive officer of the Company or is or may become a director or executive officer of Parent in connection with the transactions contemplated hereby to be exempt under Rule 16b-3 promulgated under the Exchange Act.

5.16 Approval by Sole Stockholder of Merger Sub. Immediately following the execution and delivery of this Agreement by the Parties, Parent, as sole stockholder of Merger Sub, shall adopt this Agreement and approve the Merger, in accordance with Delaware Law, by written consent.

5.17 Stockholder Litigation. Each Party shall notify the other Party, in writing and promptly after acquiring knowledge thereof, of any litigation related to this Agreement, the Merger or the other transactions contemplated hereby that is brought against or, to the Knowledge of such Party, threatened against, such Party, its Subsidiaries and/or any of their respective directors or officers and shall keep the other Party informed on a reasonably current basis with respect to the status thereof. The Parties agree to cooperate in the defense and settlement of any such litigation, and the Company shall not settle any such litigation without the prior written consent of Parent (not to be unreasonably withheld, conditioned or delayed). Without limiting in any way the Parties obligations under Section 5.6, each of the Company and Parent shall, and shall cause their respective Subsidiaries to, cooperate in the defense or settlement of any litigation contemplated by this Section 5.17.

5.18 Tax Treatment.

(a) The Company and Parent shall each use its reasonable best efforts to cause the Merger to qualify as a reorganization within the meaning of Section 368(a) of the Code and cooperate with one another in obtaining an opinion from Weil, Gotshal & Manges LLP (Company s Counsel) or Morrison & Foerster, LLC (Parent s Counsel), as provided for in Section 6.3(d), and neither shall take any action (or fail to take any action) that is reasonably likely to prevent or impede such qualification. Parent will report the Merger in a manner consistent with such qualification.

(b) Each of the Company and Parent shall deliver to the Company s Counsel and Parent s counsel at such time or times as requested by the Company s Counsel or Parent s Counsel letters signed by an officer thereof and containing representations substantially in the form of Exhibits B and C hereto, respectively, for the purposes of obtaining a tax opinion from the Company s Counsel to the effect that the Merger will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code.

5.19 Directorship. Effective as of the Effective Time, Parent shall cause the board of directors of Parent to consist of eleven (11) members. Parent shall appoint two individuals who are currently members of the Company Board to serve on the board of directors of Parent, to be mutually agreed upon by Parent and the Company.

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5.20 Financing.

(a) Parent shall use its, and shall cause its controlled Affiliates to use their, reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to consummate and obtain the Financing on the terms and subject only to the conditions (including the market flex provisions) set forth in the Commitment Papers contemporaneously with the Closing, including by using its reasonable best efforts to (i) maintain in effect the Commitment Papers, (ii) negotiate and enter into definitive agreements with respect to the Financing (the Definitive Agreements) consistent with the terms and conditions contained in the Commitment Papers and (iii) satisfy on or prior to the Closing Date all conditions in the Commitment Papers and the Definitive Agreements and comply with its obligations thereunder. In the event that all conditions contained in the Commitment Papers or the Definitive Agreements (other than the consummation of the Merger and other than those that by their nature are to be satisfied at the Closing) have been satisfied or waived, Parent shall use its reasonable best efforts to in all material respects enforce its rights under the Commitment Papers, including using reasonable best efforts to cause the Lenders to comply with their respective obligations thereunder, including to fund the Financing. Parent shall not, without the prior written consent of the Company, permit any termination of or amendment, supplement or modification to be made to, or grant any waiver of any provision under, the Commitment Papers if such termination, amendment, supplement, modification or waiver would (A) reduce the aggregate amount of the Financing to an amount that, when combined with cash of the Parent, would not be sufficient to consummate the Refinancing, (B) impose new or additional conditions precedent to the availability of the Financing or otherwise expand, amend or modify any of the conditions precedent to the Financing in a manner that would reasonably be expected to prevent or materially impede or delay the funding of the Financing, (C) adversely impact the ability of Parent to enforce its rights against the other parties to the Commitment Papers or (D) would otherwise reasonably be expected to prevent or materially impede or delay the funding of the Financing. Parent shall promptly deliver to the Company true and complete copies of any amendment, modification, supplement, consent or waiver to or under any Commitment Papers promptly upon execution thereof.

(b) Parent shall keep the Company informed on a reasonably prompt basis and in reasonable detail of the status of its efforts to arrange the Financing. Without limiting the generality of the foregoing, Parent shall give the Company prompt written notice of (i) any actual or threatened breach, default, termination, cancellation or repudiation by any party to the Commitment Papers and the receipt of any written notice or other written communication from any Financing Source with respect to any breach, default, termination, cancellation or repudiation by any party to the Commitment Papers, or (ii) the occurrence of an event or development that could reasonably be expected to adversely affect the ability of Parent to obtain all or any portion of the Financing on the Closing Date to the extent necessary to fund the Refinancing. As soon as reasonably practicable after the Company delivers to Parent a written request, Parent shall provide any information reasonably requested by the Company relating to any circumstance referred to in the immediately preceding sentence. If the Financing becomes unavailable on the terms and conditions (including any applicable market flex provisions) contemplated by the Commitment Papers (other than solely as a result of Company s material breach of any covenant in this Section 5.20), Parent shall (i) use its reasonable best efforts to arrange and obtain, in replacement thereof alternative financing (the Alternative Financing) in an amount, when combined with cash on hand of Parent, sufficient to consummate the Refinancing with terms and conditions (including market flex provisions) not less favorable to Parent (or its Affiliates) than the terms and conditions set forth in the Commitment Papers and (ii) promptly notify the Company of such unavailability and the reason therefor. Upon any amendment, supplement, modification, waiver or replacement of the Commitment Papers in accordance with the terms hereof (including upon the execution of any commitment letter or fee letter in respect of any Alternative Financing), the terms Financing , Commitment Letter ; Fee Letter and Commitment Papers shall mean the applicable Financing, Commitment Letters, Fee Letters and Commitment Papers as so amended, supplemented, modified, waived or replaced, and Parent shall deliver to the Company true and complete copies of the alternative debt financing letters (including fee letters that shall have fee or related information redacted in a manner consistent with the Fee Letter delivered as

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of the date of this Agreement). The foregoing notwithstanding, compliance by Parent with this Section 5.20 shall not relieve Parent of its obligation to consummate the transactions contemplated by this Agreement whether or not the Financing is available.

(c) Prior to the Closing Date, the Company shall provide, and shall cause its Subsidiaries to provide, and shall use its reasonable best efforts to cause its and their respective officers, employees and advisors to provide, to Parent, at Parent s sole cost and expense, such reasonable cooperation as is customary and reasonably requested by Parent in connection with the arrangement of the Financing, including using its reasonable best efforts to:

(i) as promptly as reasonably practicable, furnish Parent with the Required Information;

(ii) upon reasonable advance notice, cause senior management of the Company to participate in a reasonable number of investor and lender meetings and sessions with rating agencies in connection with the Financing at reasonable times and locations mutually agreed, and assist Parent in obtaining ratings in connection with the Financing;

(iii) assist Parent with the preparation by Parent and the Lender Related Parties of, and use reasonable best efforts to provide, customary information about the Company necessary for the preparation of, materials for rating agency presentations, bank information memoranda, lender presentations, syndication memoranda and similar marketing materials, memoranda or documents, and due diligence memoranda and schedules to definitive financing documentation, in each case to the extent, and solely to the extent, such materials relate to information concerning the Company and the Company Subsidiaries;

(iv) execute and deliver as of (but not prior to) the Closing any pledge and security documents, other definitive financing documents, or other certificates or documents as may be reasonably requested by Parent (provided that (A) none of the documents or certificates shall be executed or delivered except in connection with the Closing (except for customary authorization letters , authorizing, among other things, the distribution of information to prospective lenders and identifying, among other things, any portion of such information that constitutes material, non-public information regarding the Company and its subsidiaries or their respective securities, which shall be executed by an officer of the Company prior to Closing), (B) the effectiveness thereof shall be conditioned upon, or become operative after, the occurrence of the Closing and (C) no liability shall be imposed on the Company or any of its Subsidiaries or any of their respective officers or employees involved prior to the Closing Date); and otherwise reasonably facilitate the pledging of collateral;

(v) subject to Section 5.20(d), cause the taking of corporate and other actions by the Company and its Subsidiaries that are reasonably necessary to permit the consummation of the Financing on the Closing Date and to permit the proceeds thereof to be made available to Parent as of the Closing; it being understood and agreed that (A) no such corporate or other action will take effect prior to the Closing and (B) any such corporate or other action will only be required of the directors, members, partners, managers or officers of the Company and its Subsidiaries who retain their respective positions as of the Closing;

(vi) provide, at least five Business Days prior to the Closing, all documentation and other information about the Company and its Subsidiaries as is reasonably required under applicable know your customer and anti-money laundering rules and regulations including the USA PATRIOT Act, in each case to the extent requested at least ten Business Days in advance of the Closing;

(vii) as promptly as reasonably practicable, inform Parent if the Company or its Subsidiaries shall have actual knowledge of any facts that (x) require the restatement of any financial statements comprising a portion of the Required Information in order for such financial statements to comply with GAAP or (y) result in any of the Required Information no longer being Compliant; and

(viii) prior to or at, and conditioned upon, the occurrence of the Closing, deliver all notices and take all other actions required to facilitate (i) the termination of commitments (if any) under

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the Existing Company Credit Agreement, the repayment in full of all obligations then outstanding thereunder, if any, and the release of all Liens in connection therewith, if any, on the Closing Date, and deliver to Parent prior to the Closing Date a customary payoff letter in respect of the Existing Company Credit Agreement or such termination or other documents as may be reasonably required by the Lender Related Parties, which payoff letter or other documents shall (A) indicate the total amount required to be paid to fully satisfy all principal, interest, prepayment premiums, penalties, breakage costs or other similar obligations related to the Existing Company Credit Agreement as of the Closing Date (the Payoff Amount) and (B) state that all obligations (including guarantees) in respect thereof (other than those contingent indemnification obligations that customarily remain following termination of a credit agreement) and Liens in connection therewith on the assets of the Company or any of its Subsidiaries shall be, substantially concurrently with the receipt of the Payoff Amount on the Closing Date, released or arrangements reasonably satisfactory to Parent for such release shall have been made by such time and (ii) the satisfaction and discharge of that certain Indenture dated August 12, 2016 (the Indenture) relating to the 8.875% Senior Notes due 2024, by and among the Company, Deutsche Bank Trust Company Americas, as trustee, and the other parties thereto, in accordance with Article Four of the Indenture.

(d) Notwithstanding anything to the contrary herein, none of such requested cooperation provided in accordance with this Section 5.20 shall unreasonably interfere with the normal business or operations of the Company and its Subsidiaries and in no event shall the Company or any of its Subsidiaries be required to (i) bear any expense, pay any commitment or other fee, enter into any definitive agreement, incur any other liability, make any other payment, be an issuer or other obligor with respect to the Financing or agree to provide any indemnity in connection with the Financing or any of the foregoing in each case prior to the Effective Time or (ii) take any action to cause any condition to Closing set forth in this Agreement to fail to be satisfied or otherwise cause any breach of this Agreement that would provide Parent or Merger Sub the right to terminate this Agreement or seek indemnity under the terms hereof. In addition, nothing in this Section 5.20 shall require (u) access to or disclosure of information that the Company or any of its Subsidiaries determines would jeopardize any attorney-client privilege of the Company or any of its Subsidiaries, (v) the preparation of any financial statements or information that (1) are not available to it and prepared in the ordinary course of its financial reporting practice or (2) would not otherwise be available to it or capable of being prepared by it without undue burden or other than with the use of its reasonable best efforts, (w) any action that would conflict with or violate the Company Charter, Company Bylaws or any Law or result in, prior to the Effective Time, the contravention of, or that would reasonably be expected to result in, prior to the Effective Time, a violation or breach of, or default under, any Company Material Contract, (x) any employee, officer or director of the Company or any of its Subsidiaries incurring any personal liability (as opposed to liability in his or her capacity as an officer of such Person) with respect to any matters related to the Financing, (y) the Company, any of its Subsidiaries or any of their respective boards of directors (or equivalent bodies) to approve or authorize the Financing or any documentation related thereto, prior to the Effective Time or (z) the Company, any of its Subsidiaries or their counsel to provide any legal opinion in connection with the Financing. For the avoidance of doubt, none of the Company or any of its Subsidiaries or their respective officers, directors (with respect to any Subsidiary of the Company) or employees shall be required to execute or enter into or perform any agreement with respect to the Financing contemplated by the Commitment Letter (except for customary authorization letters , authorizing, among other things, the distribution of information to prospective lenders and identifying, among other things, any portion of such information that constitutes material, non-public information regarding the Company and its Subsidiaries or their respective securities, which shall be executed by an officer of the Company prior to Closing) that is not contingent upon the Closing or that would be effective prior to the Closing and no directors of the Company that will not be continuing directors, acting in such capacity, shall be required to execute or enter into or perform any agreement with respect to the Financing. Parent shall, promptly upon request by the Company, reimburse the Company for all reasonable out-of-pocket costs incurred by the Company or its Subsidiaries or their respective Representatives in connection with the cooperation contemplated by this Section 5.20 and shall indemnify and hold harmless the Company and its Subsidiaries and their respective

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Representatives from and against any and all losses suffered or incurred by them in connection with the arrangement of the Financing, any action taken by them at the request of Parent pursuant to this Section 5.20 and any information used in connection therewith, except to the extent such losses arise out of or result from the gross negligence or willful misconduct of the Company or its Subsidiaries and/or any of their respective Representatives acting on behalf or at their instruction. All non-public or otherwise confidential information regarding the Company or its Subsidiaries obtained by Parent or its Representatives pursuant to this Section 5.20 shall be kept confidential in accordance with the Confidentiality Agreement; provided, that the Company acknowledges and confirms that Parent or its Representatives may disclose such confidential information to the Financing Sources subject to compliance with the applicable provisions of the Confidentiality Agreement.

(e) The Company hereby consents to the use of its logos solely in connection with the Financing; provided that Parent shall ensure that such logos are used solely in a manner that is not intended to or reasonably likely to harm or disparage the Company or the Company s reputation or goodwill and will comply with the Company s usage requirements to the extent made available to Parent prior to the date of this Agreement.

(f) Parent and Merger Sub acknowledge and agree that the obtaining of the Financing, or any Alternative Financing, is not a condition to Closing.

ARTICLE VI - CONDITIONS

6.1 Conditions to Each Party s Obligation to Effect the Merger. The respective obligation of each Party to effect the Merger is subject to the satisfaction or waiver at or prior to the Closing of each of the following conditions:

(a) Stockholder Approvals. (i) The Company Stockholder Approval shall have been obtained in accordance with applicable Law, the Company Charter and the Company Bylaws and (ii) the Parent Stockholder Approval shall have been obtained in accordance with applicable Law, the Parent Charter and the Parent Bylaws.

(b) Governmental Consents. The waiting period applicable to the consummation of the Merger under the HSR Act shall have expired or been earlier terminated.

(c) Law; Judgment. No Governmental Entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any Law or Judgment (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits consummation of the Merger.

(d) NYSE Listing. The shares of Parent Common Stock issuable in connection with the Merger shall have been approved for listing on NYSE, subject to official notice of issuance.

(e) Form S-4. The Form S-4 shall have been declared effective by the SEC under the Securities Act and no stop order suspending the effectiveness of the Form S-4 shall have been issued and no proceedings for that purpose shall have been initiated or threatened.

6.2 Conditions to Obligations of Parent and Merger Sub. The obligations of Parent and Merger Sub to effect the Merger are also subject to the satisfaction or waiver by Parent at or prior to the Closing of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Company contained in this Agreement (except for the representations and warranties contained in Sections 3.1 (*Organization, Good Standing and Qualification*), 3.3(a) (*Capital Structure*), 3.4 (*Corporate Authority and Approval*), and 3.23 (*Brokers and Finders*)) shall be true and correct (without giving effect to any limitation as to materiality or Company Material Adverse Effect set forth therein) at and as of the date of this Agreement and at and as of the Closing Date as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such earlier date), except where the failure of such representations and warranties to be true and correct (without giving effect to any limitation as to materiality or Company Material Adverse Effect set forth therein), individually or in the aggregate, has not had and would not reasonably be expected to have a Company Material Adverse Effect; the representations and warranties of the Company contained in Sections 3.1 (*Organization, Good Standing and Qualification*), 3.4 (*Corporate Authority and Approval*), and 3.23

(*Brokers and Finders*) shall be true and correct in all material respects at and as of the date of this Agreement and at and as of the Closing Date as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such earlier date); and the representations and warranties of the Company contained in Section 3.3(a) (*Capital Structure*) shall be true and correct in all respects, except for *de minimis* inaccuracies at and as of the date of this Agreement and at and as of the Closing Date as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such earlier date).

(b) Performance of Obligations of the Company. The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing.

(c) No Company Material Adverse Effect. After the date of this Agreement, there shall not have occurred any Effect that, individually or in the aggregate, has resulted, or would reasonably be likely to result, in a Company Material Adverse Effect.

(d) Company Certificate. Parent shall have received at the Closing a certificate signed on behalf of the Company by a senior executive officer of the Company to the effect that the conditions set forth in Sections 6.2(a), (b) and (c) have been satisfied.

(e) FIRPTA Certificate. Parent shall have received, on or prior to the Closing, a certificate meeting the requirements of Treasury Regulation Section 1.1445-2(c)(4) to the effect that the Shares are not a U.S. real property interest within the meaning of Section 897 of the Code.

6.3 Conditions to Obligation of the Company. The obligation of the Company to effect the Merger is also subject to the satisfaction or waiver by the Company at or prior to the Closing of the following conditions:

(a) Representations and Warranties. The representations and warranties of Parent contained in this Agreement (except for the representations and warranties contained in Sections 4.1 (*Organization, Good Standing and Qualification*), 4.3(a) (*Capital Structure*), 4.4 (*Corporate Authority and Approval*) and 4.23 (*Brokers and Finders*)) shall be true and correct (without giving effect to any limitation as to materiality or Parent Material Adverse Effect set forth therein) at and as of the date of this Agreement and at and as of the Closing Date as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such earlier date), except where the failure of such representations and warranties to be true and correct (without giving effect to any limitation as to materiality or Parent Material Adverse Effect set forth therein), individually or in the aggregate, has not had and would not reasonably be expected to have a Parent Material Adverse Effect; the representations and warranties of Parent contained in Sections 4.1 (*Organization, Good Standing and Qualification*), 4.4 (*Corporate Authority and Approval*) and 4.23 (*Brokers and Finders*) shall be true and correct in all material respects at and as of the date of this Agreement and at and as of the Closing Date as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such earlier date); and the representations and warranties of Parent contained in Section 4.3(a) (*Capital Structure*) shall be true and correct in all respects, except for *de minimis* inaccuracies, at and as of the date of this Agreement and at and as of the Closing Date as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such earlier date).

(b) Performance of Obligations of Parent and Merger Sub. Each of Parent and Merger Sub shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing.

(c) No Parent Material Adverse Effect. After the date of this Agreement, there shall not have occurred any Effect that, individually or in the aggregate, has resulted, or would reasonably be likely to result, in a Parent Material Adverse Effect.

(d) Tax Opinion. The Company shall have received the written opinion of Company s Counsel, dated as of the Closing Date, to the effect that the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code; *provided, however*, that if Company s Counsel shall not render such opinion, this condition will nonetheless be deemed satisfied if Parent s Counsel shall

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render such opinion to the Company. In rendering such opinion, Company s Counsel or Parent s Counsel, as appropriate shall be entitled to rely upon the representations contained in the letters of Parent and the Company referred to in Section 5.18(b) hereto and upon such other representations as the counsel rendering such tax opinion reasonably deems relevant.

(e) Parent Certificate. The Company shall have received at the Closing a certificate signed on behalf of Parent by a senior executive officer of Parent to the effect that the conditions set forth in Sections 6.3(a), (b) and (c) have been satisfied

6.4 Frustration of Conditions. None of the Company, Parent or Merger Sub may rely, either as a basis for not consummating the Merger or the other transactions or terminating this Agreement and abandoning the Merger, on the failure of any condition set forth in Sections 6.1, 6.2 or 6.3, as the case may be, to be satisfied if such failure was caused by such Party s material breach of any provision of this Agreement.

ARTICLE VII - TERMINATION

7.1 Termination by Mutual Consent. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, whether before or after the date of the Company Stockholder Approval and the Parent Stockholder Approval referred to in Section 6.1(a), by mutual written consent of the Company and Parent.

7.2 Termination by Either Parent or the Company. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time by either Parent or the Company if:

(a) the Merger shall not have been consummated by 5:00 p.m. (New York City time) on June 10, 2019 (the Termination Date), whether such date is before or after the date of the Company Stockholder Approval and Parent Stockholder Approval referred to in Section 6.1(a);

(b) the Company Stockholder Approval shall not have been obtained at a meeting duly convened therefor or at any adjournment or postponement thereof at which a vote upon the adoption of this Agreement was taken;

(c) the Parent Stockholder Approval shall not have been obtained at a meeting duly convened therefor or at any adjournment or postponement thereof at which a vote upon the issuance of the Parent Common Stock was taken; or

(d) any Law or Judgment permanently restraining, enjoining or otherwise prohibiting consummation of the Merger shall become final and non-appealable, whether before or after the date of the Company Stockholder Approval and Parent Stockholder Approval referred to in Section 6.1(a);

provided that the right to terminate this Agreement pursuant to Section 7.2(a) shall not be available to any Party that has breached in any material respect its obligations under this Agreement in any manner that shall have been the primary cause of the failure of the Merger to be consummated.

7.3 Termination by the Company. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time by the Company if:

(a) at any time prior to the Parent Stockholder Approval having been obtained, (i) the Parent Board shall have made a Parent Change in Recommendation, (ii) Parent shall have failed to include the Parent Board Recommendation in the Joint Proxy Statement/Prospectus or (iii) Parent shall have materially breached or shall have failed to perform in any material respect its obligations set forth in Section 5.3; or

(b) at any time prior to the Effective Time, whether before or after the Company Stockholder Approval referred to in Section 6.1(a) is obtained, by action of the Company Board if there has been a breach of any representation, warranty, covenant or agreement made by Parent or Merger Sub in this Agreement, or any such representation and warranty shall have become untrue after the date of this Agreement, such that any condition set forth in Sections 6.3(a) or 6.3(b) would not be satisfied and such breach or failure to be true is not curable or, if curable, is not cured prior to the earlier of (i) thirty days following notice to Parent from the Company of such breach or failure and (ii) the date that is three Business Days prior to the Termination Date; provided that the Company shall not have the right to terminate this Agreement pursuant to this Section 7.3(b) if the Company is then in material breach of any of its representations, warranties, covenants or agreements under this Agreement.

7.4 Termination by Parent. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time by Parent if:

(a) at any time prior to the Company Stockholder Approval having been obtained, (i) the Company Board shall have made a Company Change in Recommendation, (ii) the Company shall have failed to include the Company Board Recommendation in the Joint Proxy Statement/Prospectus or (iii) the Company shall have materially breached or shall have failed to perform in any material respect its obligations set forth in Section 5.2; or

(b) at any time prior to the Effective Time, whether before or after the Parent Stockholder approval referred to in Section 6.1(a) is obtained, by action of the Parent Board, if there has been a breach of any representation, warranty, covenant or agreement made by the Company in this Agreement, or any such representation and warranty shall have become untrue after the date of this Agreement, such that any condition set forth in Sections 6.2(a) or 6.2(b) would not be satisfied and such breach or failure to be true is not curable or, if curable, is not cured prior to the earlier of (i) thirty days following notice to the Company from Parent of such breach or failure and (ii) the date that is three Business Days prior to the Termination Date; provided that Parent shall not have the right to terminate this Agreement pursuant to this Section 7.4(b) if Parent is then in material breach of any of its representations, warranties, covenants or agreements under this Agreement.

7.5 Company Termination Fee.

(a) If this Agreement is terminated (i) by Parent pursuant to Section 7.4(a) (*Company Change in Recommendation*), then the Company shall, within two Business Days after such termination, pay Parent a fee equal to $50,000,000 plus the Parent Expenses (the Company Termination Fee) less any amount of Parent Expenses previously paid by the Company.

(b) If (i) this Agreement is terminated by Parent or the Company pursuant to Section 7.2(a) (*Termination Date*) or Section 7.2(b) (*Company Stockholder Approval*), (ii) prior to such termination referred to in clause (i) of this sentence, but after the date of this Agreement, a Company Acquisition Proposal shall have been publicly made to the Company or any of its Subsidiaries or shall have been made directly to the Company s stockholders or otherwise communicated to the Company Board and the Company s stockholders (whether or not conditional) (or any Person shall have publicly announced a bona fide written intention, whether or not conditional, to make a Company Acquisition Proposal) and, in each case, not withdrawn, and (iii) within twelve months after the date of a termination in either of the cases referred to in clause (i) of this Section 7.5(b), the Company consummates a Company Acquisition Proposal or enters into an agreement contemplating a Company Acquisition Proposal which is subsequently consummated, then the Company shall pay the Company Termination Fee, less any amount of Parent Expenses previously paid by the Company, concurrently with such consummation; provided that solely for purposes of this Section 7.5(b), the term Company Acquisition Proposal shall have the meaning assigned to such term in Section 5.2(d), except that the references to twenty (20%) or more shall be deemed to be references to fifty percent (50%) or more . In no event shall the Company be required to pay the Company Termination Fee or the Parent Expenses on more than one occasion.

(c) If this Agreement is terminated by Parent or the Company pursuant to Section 7.2(b) (*Company Stockholder Approval)*, then the Company shall pay to Parent, by wire transfer of immediately available funds, a fee equal to $10,000,000 (the Parent Expenses) as promptly as practicable (and, in any event, within two Business Days following such termination).

7.6 Parent Termination Fee.

(a) If this Agreement is terminated by the Company pursuant to Section 7.3(a) (*Parent Change in Recommendation*) then Parent shall, within two Business Days after such termination pay the Company a fee equal to $100,000,000 plus the Company Expenses (the Parent Termination Fee) less any amount of Company Expenses previously paid by Parent. In no event shall Parent be required to pay the Parent Termination Fee or the Company Expenses on more than one occasion.

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(b) If (i) this Agreement is terminated by Parent or the Company pursuant to Section 7.2(a) (*Termination Date*) or Section 7.2(c) (*Parent Stockholder Approval*), (ii) prior to such termination referred to in clause (i) of this sentence, but after the date of this Agreement, a Parent Acquisition Proposal (other than a Permitted Parent Acquisition Proposal) shall have been publicly made to Parent or any of its Subsidiaries or shall have been made directly to Parent s stockholders or otherwise communicated to the Parent Board and Parent s stockholders (whether or not conditional) (or any Person shall have publicly announced a bona fide written intention, whether or not conditional, to make a Parent Acquisition Proposal (other than a Permitted Parent Acquisition Proposal)) and, in each case, not withdrawn, and (iii) within twelve months after the date of a termination in either of the cases referred to in clause (i) of this Section 7.6(b), Parent consummates a Parent Acquisition Proposal or enters into an agreement contemplating a Parent Acquisition Proposal which is subsequently consummated, then Parent shall pay the Parent Termination Fee, less any amount of Company Expenses previously paid by Parent, concurrently with such consummation; provided that solely for purposes of this Section 7.6(b), the term Parent Acquisition Proposal shall have the meaning assigned to such term in Section 5.2(d), except that the references to twenty (20%) or more shall be deemed to be references to fifty percent (50%) or more . In no event shall Parent be required to pay the Parent Termination Fee or the Company Expenses on more than one occasion.

(c) If this Agreement is terminated by Parent or the Company pursuant to Section 7.2(c) (*Parent Stockholder Approval*), then Parent shall pay to the Company, by wire transfer of immediately available funds, a fee equal to $10,000,000 (the Company Expenses) as promptly as practicable (and, in any event, within two Business Days following such termination).

7.7 Effect of Termination and Abandonment. (a) In the event of termination of this Agreement and the abandonment of the Merger pursuant to this Article VII, this Agreement (other than as set forth in this Section 7.7 and in Section 8.1) shall become void and of no effect with no liability on the part of any Party (or of any of its respective Representatives); provided that no such termination shall relieve any Party (1) from any liability for fraud or Willful Breach of this Agreement prior to such termination or (2) from any obligation to pay, if applicable, the Company Termination Fee or the Parent Expenses pursuant to Section 7.5 or Parent Termination Fee, or the Company Expenses pursuant to Section 7.6. For purposes of this Agreement, the term Willful Breach means a deliberate act or a deliberate failure to act, taken or not taken with the actual knowledge that such act or failure to act would, or would reasonably be expected to, result in or constitute a material breach of this Agreement, regardless of whether breaching was the object of the act or failure to act. For the avoidance of doubt, the Parties acknowledge and agree that any failure by Parent to consummate the transactions contemplated by this Agreement on the date the Closing should have occurred as a result of Parent s failure to obtain the Financing sufficient to consummate the transactions contemplated by this Agreement when all of the conditions to Closing set forth in Article VI (other than those conditions that by their nature are to be satisfied by actions to be taken at the Closing, but subject to the fulfillment or waiver (to the extent permitted by applicable Law) of those conditions) have been satisfied or waived in accordance with this Agreement on or prior to such date, shall be deemed to be a Willful Breach of this Agreement by Parent for purposes of this Agreement.

(b) Each Party acknowledges that the agreements contained in this Section 7.7 are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, no Party would have entered into this Agreement; accordingly, if the Company fails to pay promptly the amount due pursuant to Section 7.5 or Parent fails to pay promptly the amount due pursuant to Section 7.6 (any such amount due, a Payment), and, in order to obtain such Payment, the Party entitled to receive such Payment (the Recipient) commences a suit which results in a judgment against the Party obligated to make such Payment (the Payor) for the applicable Payment, or any portion thereof, the Payor shall pay to the Recipient its costs and expenses (including attorneys fees) in connection with such suit, together with interest on the amount of the Payment at the prime rate in effect on the date such Payment was required to be paid from such date through the date of full payment thereof.

(c) The Parties agree that the monetary remedies set forth in this Article VII and the specific performance remedies set forth in Section 8.14 shall be the sole and exclusive remedies of (i) the

Company and the Company Subsidiaries against Parent, Merger Sub and any of their respective former, current or future general or limited partners, shareholders, managers, members, Financing Sources (including the Lender Related Parties), Representatives or Affiliates for any loss suffered as a result of the failure of the Merger to be consummated except in the case of fraud or a Willful Breach of any covenant, agreement or obligation (in which case only Parent shall be liable for damages for such fraud or Willful Breach), and upon payment of such amount, none of Parent, Merger Sub or any of their respective former, current or future general or limited partners, shareholders, managers, members, Financing Sources (including the Lender Related Parties), Representatives or Affiliates shall have any further liability or obligation relating to or arising out of this Agreement or the transactions contemplated by this Agreement, except for the liability of Parent in the case of fraud or a Willful Breach of any covenant, agreement or obligation; and (ii) Parent and Merger Sub against the Company and its Subsidiaries and any of their respective former, current or future general or limited partners, shareholders, managers, members, Representatives or Affiliates for any loss suffered as a result of the failure of the transactions contemplated by this Agreement to be consummated except in the case of fraud or a Willful Breach of any covenant, agreement or obligation (in which case only the Company shall be liable for damages for such fraud or Willful Breach), and upon payment of such amount, none of the Company and the Company Subsidiaries or any of their respective former, current or future general or limited partners, shareholders, managers, members, Representatives or Affiliates shall have any further liability or obligation relating to or arising out of this Agreement or the transactions contemplated by this Agreement, except for the liability of the Company in the case of fraud or a Willful Breach of any covenant, agreement or obligation.

ARTICLE VIII - MISCELLANEOUS AND GENERAL

8.1 Survival. This Article VIII and the agreements of the Company, Parent and Merger Sub contained in Section 5.11 (*Expenses*) and Section 5.12 (*Indemnification; Directors and Officers Insurance*) shall survive the consummation of the Merger. This Article VIII (other than Section 8.2 (*Modification or Amendment*), Section 8.3 (*Waiver*) and Section 8.13 (*Assignment*)) and the agreements of the Company, Parent and Merger Sub contained in Section 5.7(b) (*Access, Consultation*), Section 5.11 (*Expenses*), Section 7.7 (*Effect of Termination and Abandonment*) and the Confidentiality Agreement shall survive the termination of this Agreement. All other representations, warranties, covenants and agreements in this Agreement and in any certificate or other writing delivered pursuant hereto shall not survive the consummation of the Merger or the termination of this Agreement. This Section 8.1 shall not limit any covenant or agreement of the Parties which by its terms contemplates performance after the Effective Time.

8.2 Modification or Amendment. Subject to the provisions of applicable Law, at any time prior to the Effective Time, this Agreement (including any Schedule hereto) may be amended, modified or supplemented in writing by the Parties, by action of the boards of directors of the respective Parties. Notwithstanding the foregoing, Section 7.7(c), this Section 8.2, Section 8.5, Section 8.8, Section 8.14 and Section 8.15, in each case may not be amended, modified or altered in any manner adverse to the Lender Related Parties without the prior written consent of such Lender Related Parties.

8.3 Waiver. (a) Any provision of this Agreement may be waived prior to the Effective Time if, and only if, such waiver is in writing and signed by the Party against whom the waiver is to be effective.

(b) No failure or delay by any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. Except as otherwise herein provided, the rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by Law.

8.4 Counterparts; Effectiveness. This Agreement may be executed in any number of counterparts (including by facsimile or by attachment to electronic mail in portable document format (PDF)), each such counterpart being deemed to be an original instrument, and all such counterparts shall together constitute the same agreement, and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Parties.

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8.5 Governing Law and Venue; Waiver of Jury Trial.

(a) THIS AGREEMENT SHALL BE DEEMED TO BE MADE IN AND IN ALL RESPECTS SHALL BE INTERPRETED, CONSTRUED AND GOVERNED BY AND IN ACCORDANCE WITH THE LAW OF THE STATE OF DELAWARE WITHOUT REGARD TO THE CONFLICT OF LAW PRINCIPLES THEREOF. Each of the Parties hereby irrevocably submits exclusively to the jurisdiction of the Court of Chancery of the State of Delaware (or in the event, but only in the event, that such court does not have subject matter jurisdiction over such action or proceeding, the Superior Court of the State of Delaware (Complex Commercial Division) or, if subject matter jurisdiction over the action or proceeding is vested exclusively in the federal courts of the United States of America, the United States District Court for the District of Delaware) and hereby waives, and agrees not to assert, as a defense in any action, suit or proceeding for the interpretation or enforcement hereof, that it is not subject thereto or that such action, suit or proceeding may not be brought or is not maintainable in said courts or that the venue thereof may not be appropriate or that this Agreement may not be enforced in or by such courts, and each of the Parties hereto irrevocably agrees that all claims relating to such action, suit or proceeding shall be heard and determined in such a state or federal court. The Parties hereby consent to and grant any such court jurisdiction over the person of such Parties and over the subject matter of such dispute and agree that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 8.6 or in such other manner as may be permitted by Law, shall be valid and sufficient service thereof. Notwithstanding the foregoing, each Party acknowledges and irrevocably agrees (i) that any action, suit or proceeding, whether at Law or in equity, whether in Contract or in tort or otherwise, against any of the Lender Related Parties arising out of or relating to this Agreement or the Commitment Papers or the performance thereunder shall be subject to the exclusive jurisdiction of any state or federal court sitting in the Borough of Manhattan in the City and State of New York (whether a state or Federal court), and any appellate court from any thereof, (ii) that any such action, suit or proceeding, whether at Law or in equity, whether in Contract or in tort or otherwise, against any of the Lender Related Parties shall be governed by, and construed in accordance with, the laws of the State of New York, (iii) not to bring or permit any of their Affiliates to bring or support anyone else in bringing any such action, suit or proceeding in any other court, (iv) that the provisions of Section 8.5(b) shall apply to any such action, suit or proceeding and (v) that the Lender Related Parties are express third-party beneficiaries of this Section 8.5(a).

(b) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT (INCLUDING ANY LITIGATION ARISING OUT OF OR RELATING TO A LENDER RELATED PARTY UNDER THE FINANCING). EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (ii) EACH SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (iii) EACH SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (iv) EACH SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 8.5.

8.6 Notices. Notices, requests, instructions or other documents to be given under this Agreement shall be in writing and shall be deemed given, (a) on the date sent by facsimile (with confirmation of transmission) or e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient, (b) when delivered, if delivered personally to the intended recipient, and (c) one Business Day later, if sent by overnight delivery via a national courier service (providing proof of delivery), and in each case, addressed to a Party at the following address for such Party:

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if to Parent or Merger Sub

Science Applications International Corporation
12010 Sunset Hills Road
Reston, VA 20190
Attention: Steven G. Mahon
Email: steven.mahon@saic.com

with copies to (which shall not constitute notice):

Morrison & Foerster LLP
1650 Tysons Boulevard, Suite 400
McLean, Virginia 22102
Attention: Charles W. Katz
Email: CKatz@mofo.com

if to the Company

Engility Holdings, Inc.
4803 Stonecroft Boulevard
Chantilly, Virginia 20151
Attention: Thomas O. Miiller
Email: Tom.Miiller@Engility.com

with copies to (which shall not constitute notice):

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
Attention: Frederick S. Green, Eoghan P. Keenan
Email: Frederick.green@weil.com; Eoghan.keenan@weil.com

And

Bass, Berry & Sims PLC
150 Third Avenue South, Suite 2800
Nashville, Tennessee 37201
Attention: Ryan D. Thomas
Email: rthomas@bassberry.com

or to such other persons or addresses as may be designated in writing by the Party to receive such notice as provided above.

8.7 Entire Agreement. This Agreement (including any exhibits hereto, the Company Disclosure Letter and the Parent Disclosure Letter) and the Confidentiality Agreement, the Voting Agreement, and the other documents and instruments executed pursuant hereto constitute the entire agreement, and supersede all other prior agreements, understandings, representations and warranties both written and oral, among the Parties, with respect to the subject matter hereof.

8.8 No Third Party Beneficiaries. This Agreement is not intended to, and does not, confer upon any Person other than the Parties any rights or remedies hereunder, other than (a) as provided in Section 5.12 (*Indemnification; Directors and Officers Insurance*), (b) the right of the Company s stockholders to receive the Merger Consideration after the Closing, (c) the right of the holders of awards under the Company

Stock Plans to receive such consideration as provided for in Section 2.4 after the Closing, (d) Sections 7.5 and 7.6 and (e) as to the Lender Related Parties, for the provisions of Section 7.7(c), Section 8.2, Section 8.5, this Section 8.8, Section 8.14 and Section 8.15.

8.9 Obligations of Parent and of the Company. Whenever this Agreement requires a Subsidiary of Parent to take any action, such requirement shall be deemed to include an undertaking on the part of Parent to cause such Subsidiary to take such action. Whenever this Agreement requires a Subsidiary of the Company to take any action, such requirement shall be deemed to include an undertaking on the part of the Company to cause such Subsidiary to take such action and, after the Effective Time, on the part of the Surviving Company to cause such Subsidiary to take such action.

8.10 Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any Person or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision negotiated in good faith by the Parties shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not, subject to clause (a) above, be affected by such invalidity or unenforceability, except as a result of such substitution, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

8.11 Interpretation. (a) The table of contents and the Article, Section and paragraph headings or captions herein are for convenience of reference only, do not constitute part of this Agreement and shall not be deemed to limit or otherwise affect any of the provisions hereof. Where a reference in this Agreement is made to a Section or Exhibit, such reference shall be to a Section of or Exhibit to this Agreement unless otherwise indicated. Whenever the words include , includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation . The words hereof , herein and hereunder and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The word or when used in this Agreement is not exclusive. The word extent in the phrase to the extent shall mean the degree to which a subject or other thing extends, and such phrase shall not mean simply if . When calculating the period of time before which, within which or following which any act is to be done or step taken, the date that is the reference date in beginning the calculation of such period shall be excluded. If the last day of such period is a non-Business Day, the period in question shall end on the next succeeding Business Day. All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Any agreement, instrument or statute defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein.

(b) The Parties have participated jointly in negotiating and drafting this Agreement. In the event that an ambiguity or a question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provision of this Agreement.

8.12 Certain Definitions: For the purposes of this Agreement:

(a) An <u>Affiliat</u>e of any Person means another Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first Person. Notwithstanding the foregoing, for all purposes of this Agreement, in no event shall an Affiliate of the Company include any portfolio company (as such term is customarily used among institutional investors) of General Atlantic Service Company, LLC, Kohlberg Kravis Roberts & Co. L.P. or any of their respective Affiliates.

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(b) Alternative Financing has the meaning set forth in Section 5.20.

(c) Antitrust Laws means the Sherman Antitrust Act of 1890, the Clayton Antitrust Act of 1914, the HSR Act and all other federal, state and foreign statutes, rules, regulations, orders, decrees and other Laws and Judgments that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or competition.

(d) Business Day means any day other than (i) a Saturday or a Sunday or (ii) a day on which banking and savings and loan institutions are authorized or required by Law to be closed in New York City.

(e) Commercial Software and Services means nonexclusive, commercially-available, off-the-shelf Software licenses and Computing Services subscriptions (including but not limited to information technology Software services and productivity tools) with one-time fees of less than $500,000 and annual fees of less than $250,000, entered into in the ordinary course of business.

(f) Company Intellectual Property means all Intellectual Property Rights used in or necessary for the business of the Company and the Company Subsidiaries as presently conducted.

(g) Company Material Adverse Effect means a Material Adverse Effect with respect to the Company.

(h) Company Product means any material Computing Services or other material products or services produced, marketed, licensed, made available, sold, distributed or performed by or on behalf of the Company or any Company Subsidiary.

(i) Company PSU means any award of the right to receive Shares that is subject to vesting restrictions based on performance and granted under any Company Stock Plan.

(j) Company RSU means any award of the right to receive Shares that is subject to vesting restrictions based on continuing service and granted under any Company Stock Plan.

(k) Company Stockholders Agreement means that certain Stockholders Agreement, dated as of February 26, 2015, by and between with Birch Partners, LP (Birch Partners), and for the limited purposes set forth therein, certain investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P. and certain investment funds affiliated with General Atlantic LLC.

(l) Company Stock Plans means the Engility Holdings, Inc. Second Amended and Restated 2012 Long Term Performance Plan.

(m) Compliant means, with respect to the Required Information, that such Required Information does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make such Required Information not materially misleading.

(n) Computing Services means application service provider services, hosted computing services, Software-as-a-Service, Infrastructure-as-a-Service, Platform-as-a-Service, Storage-as-a-Service, cloud and simil services.

(o) Confidentiality Agreement means the confidentiality agreement entered into between Company and Parent on February 26, 2018, as amended on July 31, 2018.

(p) Consent means consent, approval, clearance, waiver, Permit or order.

(q) Contract means any contract, lease, license, indenture, note, bond, mortgage, agreement, concession, franchise or other instrument (each, excluding any Parent Plan or Company Plan).

(r) Environmental Claim means any suit, order, demand, directive, claim, lien, investigation, proceeding or administrative, regulatory or judicial action alleging liability or noncompliance with or violation of any Environmental Laws.

(s) Environmental Laws means any Law concerning or relating to pollution or protection of the environment or natural resources, or protection of human health and safety as related to exposure to any harmful or deleterious substances.

(t) Exchange Act means the Securities Exchange Act of 1934, as amended.

(u) Existing Company Credit Agreement means that certain Credit Agreement dated as of August 12, 2016 (as amended, restated, supplemented or otherwise modified from time to time) by and among the Company, Morgan Stanley Senior Funding, Inc., as administrative agent and collateral agent, and the other lenders and parties thereto.

(v) Financing Sources means the entities that have committed to provide or arrange or otherwise have entered into agreements in connection with all or any part of the Financing in connection with the transactions contemplated by this Agreement, including the parties to any joinder agreements, indentures or credit agreements entered pursuant thereto or relating thereto

(w) GAAP means United States generally accepted accounting principles.

(x) Government Bid means any quotation, bid or proposal made by Parent or the Company, as applicable, or any Subsidiary of Parent or the Company, as applicable, for the sale of goods or the provision of services, which, if accepted or awarded, would lead to a Government Contract with a Governmental Entity, or a prime contractor or a higher-tier subcontractor to a Governmental Entity. For purposes of clarity, a quotation, bid or proposal related or with respect to a Government Task Order shall not constitute a separate Government Bid for purposes of this definition, but shall be part of the Government Bid to which it relates.

(y) Government Contract means any prime Contract, subcontract, basic ordering agreement, blanket purchase agreement, letter agreement, grant, cooperative agreement, or other commitment or funding vehicle between Parent or the Company, as applicable, or any Subsidiary of Parent or the Company, as applicable, and (a) a Governmental Entity, (b) any prime contractor to a Governmental Entity or (c) any subcontractor with respect to any contract described in clause (a) or (b). A Government Task Order shall not constitute a separate Government Contract for purposes of this definition, but shall be part of the Government Contract to which it relates.

(z) Government Task Order means any purchase order, delivery order, or task order under a Government Contract.

(aa) Governmental Entity means any federal, national, state, provincial or local, whether domestic or foreign, government or any court of competent jurisdiction, administrative agency or commission or other governmental authority or instrumentality, whether domestic, foreign or supranational.

(bb) HSR Act means Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

(cc) Hazardous Materials means any substance, material or waste that is listed, defined or otherwise characterized as hazardous , toxic , radioactive or a pollutant , or contaminant or terms of similar meaning or effect under any Environmental Law, including petroleum or its by-products, asbestos and polychlorinated biphenyls.

(dd) Indebtedness means, with respect to any Person, without duplication, (i) all obligations of such Person for borrowed money, or with respect to deposits or advances of any kind to such Person, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all capitalized lease obligations of such Person or obligations of such Person to pay the deferred and unpaid purchase price of property and equipment, (iv) all obligations of such Person pursuant to securitization or factoring programs or arrangements, (v) all guarantees and arrangements having the economic effect of a guarantee of such Person of any Indebtedness of any other Person (other than any guarantee by Parent or any wholly owned Parent Subsidiary with respect to Indebtedness of Parent or any wholly owned Parent Subsidiary, or any guarantee by the Company or any wholly owned Company Subsidiary with respect to Indebtedness of the Company or any wholly owned Company Subsidiary), (vi) all obligations or undertakings of such Person to maintain or cause to be maintained the financial position or covenants of others or to purchase the obligations or property of others, (vii) net cash payment obligations of such Person under swaps, options, derivatives and other hedging agreements or arrangements that will be payable upon termination thereof (assuming they were terminated on the date of determination) or (viii) letters of credit, bank guarantees, and other similar contractual obligations entered into by or on behalf of such Person.

(ee) Intellectual Property Rights means all (i) patents, patent applications (including divisions, continuations, continuation-in-part, renewal applications, provisionals, extensions, reexaminations and supplementary protection certifications), and invention disclosures (collectively, Patent Rights); (ii) trademarks, trade names, service marks, brand names, trade dress, domain names, Internet addresses, and universal resource locator (URL) names and other indicia of origin, including the goodwill associated therewith, (iii) copyrights, works of authorship, design rights, mask works, (iv) trade secrets, confidential or proprietary information, (v) information, compositions, methods, techniques, tools, specifications, designs, data, databases, metadata, compilations, processes, methods, inventions, algorithms, schematics, technology, Software, interfaces, development tools, know-how, documentation, and other intellectual property rights and other similar proprietary rights, (vi) all rights under any registrations or applications for registration of any of the foregoing; and (vii) all rights to seek remedies against infringement of any of the foregoing and rights of protection of interest therein under the laws of all jurisdictions (including, but not limited to, rights to recover for past, present and future violations thereof).

(ff) Judgment means any judgment, order, injunction, ruling, writ award or decree of any Governmental Entity.

(gg) The Knowledge of any Person means, in the case of Parent, the actual knowledge after reasonable inquiry of any of the Persons set forth on Section 8.12(gg) of the Parent Disclosure Letter and, in the case of the Company, the actual knowledge after reasonable inquiry of any of the Persons set forth on Section 8.12(gg) of the Company Disclosure Letter.

(hh) Law means any federal, state, local, foreign or transnational law, statute, ordinance, common law, ruling, writ, award or decree of any Governmental Entity.

(ii) Leased Company Property means the real property leased, subleased, or licensed by the Company or any of its Subsidiaries, in each case, as tenant or subtenant, as applicable, together with, to the extent leased or subleased by the Company or any of its Subsidiaries, all buildings and other structures, facilities, fixtures or improvements located thereon and all easements, licenses, rights and appurtenances of the Company or any of its Subsidiaries relating to the foregoing.

(jj) Leased Parent Property means the real property leased, subleased, or licensed by Parent or any of its Subsidiaries, in each case, as tenant or subtenant, as applicable, together with, to the extent leased or subleased by Parent or any of its Subsidiaries, all buildings and other structures, facilities, fixtures or improvements located thereon and all easements, licenses, rights and appurtenances of Parent or any of its Subsidiaries relating to the foregoing.

(kk) Lender Related Parties means the Financing Sources identified in the Commitment Letter, together with their respective Affiliates, and the respective officers, directors, employees, agents and Representatives of the foregoing and their respective successors and assigns.

(ll) Liens means pledges, liens, claims, charges, mortgages, deeds of trust, rights of first offer or first refusal, options, encumbrances and security interests of any kind or nature whatsoever (collectively, with covenants, conditions, restrictions, easements, encroachments, any conditional sale or title retention agreements or other third party rights or title defect of any kind or nature whatsoever).

(mm) Material Adverse Effect with respect to any Person means any fact, circumstance, effect, change, event or development (an Effect) that, individually or in the aggregate with all other Effects, (1) materially adversely affects or would reasonably be expected to materially adversely affect the business, financial condition or results of operations of such Person and its Subsidiaries, taken as a whole or (2) would reasonably be expected to prevent or materially impair or delay the consummation of the transactions contemplated by this Agreement, excluding any Effect to the extent that, either alone or in combination, it results from or arises out of (i) changes or conditions generally affecting the industries in which such Person and any of its Subsidiaries operate, except to the extent such Effect has a materially disproportionate adverse effect on such Person and its Subsidiaries, taken as a whole, relative to others in such industries in respect of the business conducted in such industries, (ii) general economic or political conditions or securities, credit, financial or other capital markets conditions, in each case in the United States or any foreign jurisdiction, except to the extent such Effect has a materially disproportionate adverse effect on such Person and its Subsidiaries, taken as a whole, relative to others in the industries in which such Person and any of its Subsidiaries operate in respect of the business conducted in such industries, (iii) any failure, in and of itself, by such Person to meet any internal or published projections, forecasts, estimates or predictions in respect of revenues, earnings or other financial or operating metrics for any period (it being understood that the facts or occurrences giving rise to or contributing to such failure may be deemed to constitute, or be taken into account in determining whether there has been, or is reasonably expected to be, a Material Adverse Effect, to the extent permitted by this definition), (iv) the public announcement or pendency of the transactions contemplated hereby, including the impact thereof on the relationships, contractual or otherwise, of such Person or any of its Subsidiaries with employees, labor unions, customers, suppliers or partners, (v) any change, in and of itself, in the market price or trading volume of such Person s securities or in its credit ratings (it being understood that the facts or occurrences giving rise to or contributing to such change may be deemed to constitute, or be taken into account in determining whether there has been, or is reasonably expected to be, a Material Adverse Effect, to the extent permitted by this definition), (vi) any change in applicable Law, regulation or GAAP (or authoritative interpretation thereof), except to the extent such Effect has a materially disproportionate adverse effect on such Person and its Subsidiaries, taken as a whole, relative to others in the industries in which such Person and any of its Subsidiaries operate in respect of the business conducted in such industries, (vii) geopolitical conditions, the outbreak or escalation of hostilities, any acts of war (whether or not declared), sabotage or terrorism, or any escalation or worsening of any such acts of war, sabotage or terrorism threatened or underway as of the date of this Agreement, except to the extent such Effect has a materially disproportionate adverse effect on such Person and its Subsidiaries, taken as a whole, relative to others in the industries in which such Person and any of its Subsidiaries operate in respect of the business conducted in such industries (viii) any hurricane, tornado, flood, earthquake or other natural disaster, except to the extent such fact, circumstance, effect, change, event or development has a materially disproportionate adverse effect on such Person and its Subsidiaries, taken as a whole, relative to others in the industries in which such Person and any of its Subsidiaries operate in respect of the business conducted in such industries, (ix) any litigation arising from allegations of a breach of fiduciary duty or other violation of applicable Law relating to this Agreement or the transactions contemplated hereby, or (x) any taking of any action not required by this Agreement at the written request of the other Parties hereto.

(nn) Material Real Property means Owned Company Property, Leased Company Property, Owned Parent Property, or Leased Parent Property identified on Section 8.12(oo) of the Company Disclosure Letter or Parent Disclosure Letter, as applicable (i) without which the operations as presently conducted by the Company, Company Subsidiaries, Parent, or Parent Subsidiaries would be materially and adversely impacted, or (ii) which are subject to the completion of improvements, restoration, or remediation, the cost of which exceeds $$2,500,000.

(oo) NYSE means the New York Stock Exchange.

(pp) Open Source Software means Software that is distributed or made available under open source, public source or freeware license terms, including any software licensed pursuant to any GNU General Public License (GPL), the GNU Lesser General Public License (LGPL), GNU Affero General Public License (AGPL), the Mozilla Public License (MPL), the Berkeley Software Distribution (BSD) licenses, the Massachusetts Institute of Technology License (MIT) and the Apache License or Software distributed or made available under any other license listed at www.opensource.org.

(qq) Owned Company Properties means the real property owned by the Company or any Company Subsidiary together with all buildings and other structures, facilities, fixtures or improvements located thereon and all easements, licenses, rights and appurtenances of the Company or any of its Subsidiaries relating to the foregoing.

(rr) Owned Parent Properties means the real property owned by Parent or any Parent Subsidiary together with all buildings and other structures, facilities, fixtures or improvements located thereon and all easements, licenses, rights and appurtenances of the Company or any of its Subsidiaries relating to the foregoing.

(ss) Parent Intellectual Property means all Intellectual Property Rights used in or necessary for the business of Parent and the Parent Subsidiaries as presently conducted.

(tt) Parent Material Adverse Effect means a Material Adverse Effect with respect to Parent.

(uu) Parent Product means any material Computing Services or other material products or services produced, marketed, licensed, made available, sold, distributed or performed by or on behalf of Parent or any Parent Subsidiary.

(vv) Parent PSU means any award of the right to receive shares of Parent Common Stock that is subject to vesting restrictions based on performance and granted under any Parent Stock Plan.

(ww) Parent RSU means any award of the right to receive shares of Parent Common Stock that is subject to vesting restrictions based on continuing service and granted under any Parent Stock Plan.

(xx) Parent Stock Option means any option to purchase Parent Common Stock granted under any Parent Stock Plan.

(yy) Parent Stock Plans means (i) the Science Applications International Corporation Amended and Restated 2013 Equity Incentive Plan, (ii) the Science Applications International Corporation Management Stock Compensation Plan, (iii) the Science Applications International Corporation Key Executive Stock Deferral Plan, (iv) the Science Applications International Corporation 2013 Employee Stock Purchase Plan, (v) the Science Applications International Corporation 401(k) Excess Deferral Plan, (vi) the Science Applications International Corporation Retirement Plan and (vii) the Science Applications International Corporation Deferred Compensation Plan.

(zz) Permits means governmental franchises, licenses, permits, authorizations, variances, exemptions, orders, registrations, clearances and approvals.

(aaa) Permitted Liens means any (1) Lien (i) for Taxes or governmental assessments, charges or claims of payment (A) not yet due or (B) being contested in good faith in appropriate proceedings and for which adequate reserves have been established in accordance with GAAP, (ii) which is a carriers , warehousemen s, mechanics , materialmen s, repairmen s, or other similar lien arising in the ordinary course of business, (iii) with respect to zoning, planning, and other limitations and restrictions, including all rights of any Governmental Entity (but not violations thereof) so long as such limitations, restrictions and rights do not interfere with the use of or materially detract from the value of any of the Owned Company Properties or Owned Parent Properties, (iv) with respect to this Agreement and Liens created by the execution and delivery of this Agreement or (v) which is disclosed on the most recent consolidated balance sheet of the Company or Parent, as applicable, or notes thereto which has been previously provided to Parent or the Company, as applicable and (2) non-exclusive licenses of Intellectual Property Rights in the ordinary course of business consistent with past practice.

(bbb) Person means any natural person, firm, corporation, partnership, company, limited liability company, trust, joint venture, association, Governmental Entity or other entity.

(ccc) Release means any release, spill, emission, leaking, dumping, injection, pouring, deposit, disposal, discharge, dispersal, leaching or migration into or through the environment (including ambient air, surface water, groundwater, land surface or subsurface strata) or within or from any building, structure, facility or fixture.

(ddd) Required Information means (i) the financial statements of the Company and its Subsidiaries necessary to satisfy the condition set forth in clause (b) of paragraph 9 to Exhibit C to

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the Commitment Letter as in effect on the date hereof; (ii) such historical financial information about the Company and its Subsidiaries requested with specificity and in writing by Parent to the Company as is necessary in order to permit Parent to prepare the pro forma financial statements described in clause (c) of paragraph 9 of Exhibit C to the Commitment Letter as in effect as of the date hereof; and (iii) such other customary financial, marketing and other information about the Company and its Subsidiaries requested with specificity and in writing by Parent to the Company as is necessary in order to prepare the customary confidential information memorandum referenced in clause (iii) of the second paragraph of Section 2 (Syndication) of the Commitment Letter as in effect as of the date hereof. Notwithstanding anything to the contrary in the preceding sentence, nothing will require the Company to provide (or be deemed to require the Company to prepare) any pro forma financial statements to reflect the transactions contemplated hereby.

(eee) SEC means the Securities and Exchange Commission.

(fff) Securities Act means the Securities Act of 1933, as amended.

(ggg) Software means computer software code, applications, configuration files and data, software implementations of algorithms, recipes, models and methodologies, utilities, development tools, diagnostics, databases, control and quality systems, firmware and embedded systems, whether in source code, interpreted code, firmware or object code form, together with all boot, compilation, configuration, debugging, performance analysis and runtime files, libraries, data, documentation and other information accompanying such software.

(hhh) SOX means the Sarbanes-Oxley Act of 2002.

(iii) Subsidiary of any Person means another Person, an amount of the voting securities, other voting ownership or voting partnership interests of which is sufficient to elect at least a majority of its Board of Directors or other governing Person or body (or, if there are no such voting interests, 50% or more of the equity interests of which) is owned directly or indirectly by such first Person.

(jjj) Tax Return means all Tax returns, declarations, statements, reports, claims for refund, schedules, forms and information returns, any amended Tax return and any other document filed or required to be filed with a taxing authority relating to Taxes.

(kkk) Taxes means all federal, state, local and foreign income, profits, franchise, gross receipts, environmental, customs duty, capital stock, severance, stamp, payroll, sales, employment, unemployment, disability, use, property, withholding, excise, production, value added, occupancy and other taxes, duties or assessments in the nature of a tax, in each case that is imposed by a Tax authority, together with all interest, penalties and additions imposed with respect to such amounts and any interest in respect of such penalties and additions.

8.13 Assignment. This Agreement shall not be assignable by operation of Law or otherwise; provided that Parent may designate, prior to the Effective Time, by written notice to the Company, another Subsidiary to be a party to the Merger in lieu of Merger Sub, in which event all references herein to Merger Sub shall be deemed references to such other Subsidiary (except with respect to representations and warranties made herein with respect to Merger Sub as of the date of this Agreement) and all representations and warranties made herein with respect to Merger Sub as of the date of this Agreement shall also be made with respect to such other Subsidiary as of the date of such designation; provided that such assignment shall not relieve Parent of its obligations hereunder or otherwise enlarge, alter or change any obligation of any other Party hereto or due to Parent or such other Subsidiary. Any assignment in contravention of the preceding sentence shall be null and void. Notwithstanding the foregoing, Parent and Merger Sub may assign any of or all of their rights, interests and obligations under this Agreement to any Financing Source (or any agent or collateral trustee for any such Person) as collateral security in connection with the Financing.

8.14 Specific Performance. The Parties acknowledge and agree that irreparable damage would occur and that the Parties would not have any adequate remedy at Law if any provision of this Agreement were not performed in accordance with its specific terms or were otherwise breached, and that monetary damages, even if available, would not be an adequate remedy therefor. It is accordingly agreed, subject in all events to the limits in Section 7.7(c), that the Parties shall be entitled to an injunction or injunctions to

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prevent breaches of this Agreement and to enforce specifically the performance of the terms and provisions hereof in accordance with Section 8.5, without proof of actual damages (and each Party hereby waives any requirement for the security or posting of any bond in connection with such remedy), this being in addition to any other remedy to which they are entitled at Law or in equity. Subject in all events to the limits of Section 7.7(c), the Parties further agree not to assert that a remedy of specific enforcement is unenforceable, invalid, contrary to applicable Law or inequitable for any reason, and not to assert that a remedy of monetary damages would provide an adequate remedy for any such breach or that the Company or Parent otherwise have an adequate remedy at law. For the avoidance of doubt, in no event shall the Company or any of its successors or permitted assigns be entitled to enforce or seek to enforce specifically the remedy of specific performance of the Commitment Papers against any Lender Related Party.

8.15 Lender Related Parties. Subject, in each case, to the rights and claims of Parent under the terms of the Commitment Papers, (i) none of the Parties nor any of their respective Affiliates, directors, officers, employees, agents, partners, managers, members or stockholders shall have any rights or claims against, and this Agreement may not be enforced against, any of the Lender Related Parties in any way relating to this Agreement, the Commitment Papers or any of the transactions contemplated by this Agreement or by the Commitment Papers, including any dispute arising out of or relating in any way to the performance of any financing commitments of such Lender Related Parties with respect to the transactions contemplated hereby or by the Commitment Papers, whether at law or equity, in Contract or in tort, or otherwise and (ii) no Lender Related Party shall have any liability (whether at law or in equity, in Contract or in tort, or otherwise) to any of the Parties or any of their respective Affiliates, directors, officers, employees, agents, partners, managers, members or stockholders under this Agreement or the Commitment Papers or for any claim based on, in respect of, or by reason of, the transactions contemplated hereby or by the Commitment Papers, including any dispute arising out of or relating in any way to the performance of any financing commitment. The Company and its Affiliates and Representatives hereby waive any and all claims and causes of action (whether in Contract or in tort, in law or in equity) against the Lender Related Parties that may be based upon, arise out of or relate to this Agreement, the Commitment Papers or the transactions contemplated hereby or thereby.

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IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of the Parties hereto as of the date first written above.

ENGILITY HOLDINGS, INC.

By:	/s/ Lynn Dugle
Name:	Lynn Dugle
Title:	President, Chief Executive Officer

[Signature Page to Agreement and Plan of Merger]

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SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

By:	/s/ Anthony J. Moraco
Name:	Anthony J. Moraco
Title:	Chief Executive Officer

RAPTORS MERGER SUB, INC.

By:	/s/ Anthony J. Moraco
Name:	Anthony J. Moraco
Title:	President

[Signature Page to Agreement and Plan of Merger]

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Annex B

VOTING AGREEMENT

Voting Agreement, dated as of September 9, 2018 (this "Agreement"), by and among Science Applications International Corporation, a Delaware corporation ("Parent"), Engility Holdings, Inc., a Delaware corporation (the "Company"), Birch Partners, LP, a Delaware limited partnership (the "Stockholder"), and, in each case, for purposes of Sections 2.1, 2.3, 5.2, 5.4 and ARTICLE VI only, the KKR Investors (as defined below) and the GA Investors (as defined below).

RECITALS

WHEREAS, the Company, Parent and Raptors Merger Sub, Inc., a Delaware corporation and a direct wholly-owned Subsidiary of Parent ("Merger Sub"), are concurrently entering into an Agreement and Plan of Merger (as the same may be amended, supplemented or modified, the "Merger Agreement"), pursuant to which, among other things, Merger Sub will merge with and into the Company, with the Company continuing as the surviving corporation in the merger (the "Merger");

WHEREAS, the Company, the Stockholder (together with its Permitted Transferees (as defined in the Stockholder Agreement) that Beneficially Own any Shares and have become a party thereto, the "Stockholder Group"), the KKR Investors and the GA Investors are party to that certain Stockholders Agreement, dated February 26, 2015, as amended by that First Amendment to the Stockholders Agreement, dated February 28, 2018 (as amended and in effect on the date hereof, the "Stockholder Agreement");

WHEREAS, the Stockholder agrees to enter into this Agreement with respect to all shares of common stock, par value $0.01 per share, of the Company (such shares, including any shares of such common stock that are reclassified, the "Shares") that the Stockholder Beneficially Owns or owns of record on the date of this Agreement and any additional Shares that the Stockholder may hereinafter acquire;

WHEREAS, on the date of this Agreement, the Stockholder is the Beneficial Owner or record owner of, and has either sole or shared voting power over, such number of Shares as are indicated opposite its name on Schedule A (such shares and any additional shares or other voting securities of the Company of which the Stockholder acquires record or Beneficial Ownership after the date hereof, including, without limitation, by purchase, as a result of a stock dividend, stock split, recapitalization, combination, reclassification, exchange or change of such shares, or upon exercise or conversion of any securities, the "Covered Shares"); and

WHEREAS, as a condition to the willingness of Parent to enter into the Merger Agreement, Parent has required that the Stockholder enter into this Agreement and abide by the covenants and obligations set forth herein, including with respect to the Covered Shares.

NOW, THEREFORE, in consideration of the foregoing and the mutual representations, warranties, covenants and agreements herein contained, for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Agreement, intending to be legally bound hereby, agree as follows:

ARTICLE I
DEFINITIONS

The following capitalized terms, as used in this Agreement, shall have the meanings set forth below. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed thereto in the Merger Agreement.

"Affiliates" of any Person means an "affiliate" as defined in Rule 405 of the regulations promulgated under the Securities Act; provided, however, that, for purposes of this Agreement, neither the Company nor any of its Subsidiaries shall be deemed an Affiliate of the Stockholder, the GA Investors, the KKR Investors or any of their respective Affiliates; provided, further, that an Affiliate of the Stockholder, a GA Investor or a KKR Investor shall include any investment fund, vehicle or holding company of which such

GA Investor or KKR Investor or an Affiliate of such GA Investor or KKR Investor, as applicable, serves as the general partner, management member or discretionary manager or advisor; and provided, further, that notwithstanding the foregoing, an Affiliate of the Stockholder, a GA Investor or a KKR Investor shall not include any portfolio company or other investment of the Stockholder, such GA Investor or KKR Investor or any limited partners of the Stockholder, such GA Investor or KKR Investor.

Beneficial Ownership by a Person of any securities shall have the meaning ascribed to such term pursuant to Section 13(d) of the Exchange Act. The terms Beneficially Own, Beneficially Owned and Beneficial Owner shall have a correlative meaning.

control (including, with correlative meanings, the terms controlling, controlled by and under common control with) when used with respect to any Person, means the power to direct or cause the direction of the management or policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

GA Investor shall mean each of General Atlantic Partners 85, L.P., GAP Coinvestments III, LLC, GAP Coinvestments IV, LLC, GAP Coinvestments CDA, L.P. and GAPCO GmbH & Co. KG and any Permitted Transferee (as defined in the Stockholder Agreement) of any such Person who holds limited partnership interests of the Stockholder or, following a Distribution (as defined in the Stockholder Agreement), Shares.

KKR Investor shall mean each of KKR 2006 Fund L.P., KKR Partners III, L.P., OPERF Co-Investment LLC and 8 North America Investor L.P and any Permitted Transferee (as defined in the Stockholder Agreement) of any such Person who holds limited partnership interests of the Stockholder or, following a Distribution (as defined in the Stockholder Agreement), Shares.

ARTICLE II
RESTRICTIONS ON TRANSFER

2.1 No Transfer and Encumbrance. Until the termination of this Agreement, (i) the Stockholder shall not sell, transfer, assign, pledge, give, tender in any tender or exchange offer or otherwise dispose of any of the Covered Shares or any interest therein, including the right to vote (any of the foregoing, a Transfer), any of the Covered Shares directly held by the Stockholder, and (ii) the Stockholder shall not otherwise permit or effect any transaction that would result in a direct or indirect Transfer of any Covered Shares. Until the termination of this Agreement, the Stockholder (x) shall not effect a distribution of any Covered Shares and (y) agrees, with respect to any Covered Shares currently or hereinafter Beneficially Owned by the Stockholder, except as required by the Stockholder Agreement not to deposit any such Covered Shares into a voting trust or enter into a voting agreement or arrangement with respect to Covered Shares or grant any proxy (except as otherwise provided herein) or power of attorney with respect thereto (other than pursuant to this Agreement). Notwithstanding anything to the contrary herein, (i) direct or indirect transfers of equity or other interests in the Stockholder by its equityholders is not prohibited by this Section 2.1 and (ii) nothing herein shall prevent or prohibit a Transfer of Covered Shares at the Effective Time pursuant to the Merger or any dissolution, liquidation or other action with respect to the Stockholder resulting in the distribution of the assets of the Stockholder (including pursuant to a Distribution (as defined in the Stockholder Agreement)), in each case, solely to the GA Investors and the KKR Investors; provided, that, in the case of clause (ii), prior to and as a condition to effecting any such dissolution, liquidation or other action, each of the GA Investors and the KKR Investors executes a joinder to this Agreement in form and substance reasonably satisfactory to Parent agreeing to be bound by the terms of this Agreement as if the GA Investors and the KKR Investors were each the Stockholder and, in the case of clauses (i) and (ii), no such transfer shall reduce the number of Covered Shares with respect to which the actions described in Section 3.1(b) are required to be taken.

2.2 Prohibited Transfers. Any Transfer or attempted Transfer of any Covered Shares in violation of this Article 2 shall, to the fullest extent permitted by Law, be null and void *ab initio* and the Company agrees not to register any such attempted Transfer on the Company s records.

2.3 Waiver of Transfer of Covered Shares at Effective Time. The Company hereby acknowledges and agrees that, notwithstanding anything to the contrary set forth in the Stockholder Agreement, the

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Stockholder, the GA Investors and the KKR Investors shall be permitted to Transfer any Covered Shares at the Effective Time pursuant to the Merger, and the Company hereby waives all restrictions regarding such Transfer set forth in the Stockholder Agreement.

ARTICLE III
VOTING

3.1 Agreement to Vote. The Stockholder hereby agrees that during the term of this Agreement, at the Company Stockholders Meeting and at any other meeting of the stockholders of the Company at which a vote of the stockholders of the Company with respect to the approval or adoption of the Merger Agreement and the transactions contemplated by the Merger Agreement is sought, however called, including any adjournment, recess or postponement thereof, and in connection with any written consent of the stockholders of the Company with respect to the approval or adoption of the Merger Agreement and the transactions contemplated by the Merger Agreement, the Stockholder shall, in each case to the fullest extent that the Covered Shares are entitled to vote thereon or consent thereto:

(a) appear (in person or by proxy) at each such meeting or otherwise cause all of the Covered Shares to be counted as present thereat for purposes of calculating a quorum; and

(b) vote (or cause to be voted), in person or by proxy, or deliver (or cause to be delivered) a written consent covering, all of the Covered Shares (other than only those Covered Shares with respect to which Section 3.3 of the Stockholder Agreement prohibits the Stockholder from taking such action): (i) in favor of the Merger and the approval and adoption of the Merger Agreement and the transactions contemplated by the Merger Agreement, including any amendment and restatement of the Merger Agreement or amendment to the Merger Agreement, in each case, to the extent such amendment and restatement or amendment increases the Merger Consideration; (ii) in favor of the approval of any proposal to adjourn or postpone each such meeting of the stockholders of the Company to a later date if there are not sufficient votes for adoption of the Merger Agreement on the date on which such meeting is held; (iii) against any proposal to amend the Company s certificate of incorporation or bylaws to the extent such amendment would change in any manner the voting rights of any class of shares of the Company; and (iv) against any Company Acquisition Proposal.

3.2 No Inconsistent Agreements. The Stockholder hereby represents, covenants and agrees that, except for this Agreement, it (i) has not entered into, and shall not enter into, any voting agreement, voting trust or similar agreement or understanding, with respect to any of the Covered Shares, (ii) has not granted, and shall not grant at any time while this Agreement remains in effect, a proxy, consent or power of attorney with respect to any of the Covered Shares, (iii) has not given, and shall not give, any voting instructions in any manner inconsistent with Section 3.1, with respect to any of the Covered Shares and (iv) has not taken, and shall not, knowingly take any action that would constitute a breach hereof, make any representation or warranty of the Stockholder contained herein untrue or incorrect or have the effect of preventing or disabling the Stockholder from performing any of its obligations under this Agreement, except, in the case of clauses (i) and (ii) above, for the provisions of the Stockholder Agreement as in effect on the date hereof, which provisions do not and will not make any representation or warranty of the Stockholder contained herein untrue or incorrect or have the effect of preventing or disabling the Stockholder from performing any of its obligations under this Agreement.

3.3 Other Voting. Subject to the limitations set forth in the Stockholder Agreement, the Stockholder may vote on all issues that may come before a meeting of the stockholders of the Company in its sole discretion; provided that such vote does not contravene the provisions of this Article.

3.4 Proxy. The Stockholder hereby irrevocably and unconditionally grants to, and appoints, Parent or any duly appointed designee of Parent as the stockholder s proxy and attorney-in-fact (with full power of substitution), for and in the name, place and stead of the Stockholder, to vote or cause to be voted (including by proxy or written consent, if applicable) in accordance with and to the extent provided in Section 3.1 all of the Covered Shares. Parent agrees not to exercise the proxy granted herein for any purpose other than in accordance with and to the extent provided in Section 3.1. The Stockholder hereby revokes any proxies heretofore given in respect of any Covered Shares with respect to the matters specified by Section 3.1. The Stockholder hereby affirms that the irrevocable proxy set forth in this Section 3.4 is given in connection with the execution of the Merger Agreement, and that such irrevocable

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proxy is given to secure the performance of the duties of the Stockholder under this Agreement. The parties hereby further affirm that the irrevocable proxy is coupled with an interest and is intended to be irrevocable until the termination of this Agreement, at which time it will terminate automatically. If for any reason the proxy granted herein is not irrevocable and is revoked after it becomes effective, then the Stockholder agrees, until the termination of this Agreement, to vote the Covered Shares in accordance with and to the extent provided in Section 3.1. This irrevocable proxy is binding upon the heirs, estate, executors, personal representatives, successors and assigns of the Stockholder (including any transferee of any of the Covered Shares).

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

The Stockholder hereby represents and warrants to Parent as follows:

4.1 Due Authority. The Stockholder has the full power and authority to make, enter into and carry out the terms of this Agreement. This Agreement has been duly and validly executed and delivered by the Stockholder and, assuming the due authorization and execution and delivery of this Agreement by Parent, constitutes a valid and binding agreement of the Stockholder enforceable against it in accordance with its terms, except to the extent enforceability may be limited by the effect of applicable bankruptcy, reorganization, insolvency, moratorium or other Laws affecting the enforcement of creditors rights generally and the effect of general principles of equity, regardless of whether such enforceability is considered in a proceeding at Law or in equity.

4.2 Ownership of the Covered Shares. As of the date of this Agreement, the Stockholder is the owner of record and Beneficial Owner of the Shares that are indicated opposite its name on Schedule A, free and clear of any Liens and any other limitations or restrictions (including any restrictions on the right to vote), other than (i) any Liens pursuant to this Agreement, (ii) transfer restrictions of general applicability as may be provided under the Securities Act and the blue sky laws of the various states of the United States, (iii) any Liens granted in connection with a general pledge of Covered Shares to the Stockholder s prime broker, which do not and will not affect the Stockholder s Beneficial Ownership of such Shares, and (iv) the Stockholder Agreement. None of the terms or conditions of the Stockholder Agreement make any representation or warranty of the Stockholder contained herein untrue or incorrect or have the effect of preventing or disabling the Stockholder from performing any of its obligations under this Agreement with respect to all Covered Shares (other than, with respect to its obligations under Section 3.1, those Covered Shares with respect to which Section 3.3 of the Stockholder Agreement prohibits the Stockholder from taking any action specified in Section 3.1). As of the date of this Agreement, the Shares that are indicated opposite the Stockholder s name on Schedule A constitute all of the Shares Beneficially Owned by the Stockholder, and, except for its Beneficial Ownership of such Shares, the Stockholder does not Beneficially Own any (A) shares of capital stock or voting securities of the Company or (B) options, warrants or other rights to acquire, or securities convertible into or exchangeable for (in each case, whether currently, upon lapse of time, following the satisfaction of any conditions, upon the occurrence of any event or any combination of the foregoing), any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of the Company.

4.3 No Conflict; Consents.

(a) The execution and delivery of this Agreement by the Stockholder does not, and the performance by the Stockholder of the obligations under this Agreement and the compliance by the Stockholder with any provisions hereof do not and will not: (a) conflict with or violate any Laws applicable to the Stockholder, or (b) result in any material breach of or constitute a material default (or an event that with notice or lapse of time or both would become a material default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a Lien on, any of the Covered Shares pursuant to any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Stockholder is a party or by which the Stockholder is bound, except for any of the foregoing as would not reasonably be expected, either individually or in the aggregate, to materially impair the ability of the Stockholder to perform its obligations hereunder or to consummate the transactions contemplated hereby.

(b) Except as may be required by U.S. Federal securities Laws, no consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity or any other Person, is required by or with respect to the Stockholder in connection with the execution and delivery of this Agreement or the consummation by the Stockholder of the transactions contemplated hereby.

4.4 Reliance by Parent. The Stockholder understands and acknowledges that Parent is entering into the Merger Agreement in reliance upon the Stockholder s execution and delivery of this Agreement and the representations, warranties, covenants and obligations of the Stockholder contained herein.

4.5 Absence of Litigation. As of the date hereof, there is no suit, claim, action, proceeding or, to the knowledge of the Stockholder, investigation, in each case, pending against or, to the knowledge of the Stockholder, threatened against the Stockholder at law or in equity before or by any Governmental Entity that would reasonably be expected to materially impair the ability of the Stockholder to perform the Stockholder s obligations hereunder or to consummate the transactions contemplated hereby.

ARTICLE V
ADDITIONAL COVENANTS OF THE STOCKHOLDER

5.1 Stock Dividends, etc. In the event of a reclassification, recapitalization, reorganization, stock split (including a reverse stock split) or combination, exchange or readjustment of shares or other similar transaction, or if any stock dividend or stock distribution is declared, in each case affecting the Covered Shares, the terms Shares and Covered Shares shall be deemed to refer to and include such shares as well as all such stock dividends and distributions and any securities of the Company into which or for which any or all of such shares may be changed or exchanged or which are received in such transaction. Any such shares shall automatically become subject to the terms of this Agreement as Covered Shares.

5.2 No Solicitation.

(a) Each of the Stockholder, the KKR Investors and the GA Investors hereby agree that it shall not, and shall cause its respective Affiliates and shall use its reasonable best efforts to cause its and its respective Affiliates Representatives not to, directly or indirectly, (i) solicit, initiate, knowingly induce, knowingly encourage or knowingly facilitate any inquiries or the making of any proposal or offer that constitutes, or would reasonably be expected to lead to, a Company Acquisition Proposal; (ii) participate in any discussions or negotiations with any Person regarding any proposal the consummation of which would constitute a Company Acquisition Proposal; (iii) provide any non-public information or data concerning the Company or any of its Subsidiaries to any Person in connection with any proposal the consummation of which would constitute a Company Acquisition Proposal; or (iv) approve or recommend, make any public statement approving or recommending, or enter into any agreement relating to, any inquiry, proposal or offer that constitutes, or would reasonably be expected to lead to, a Company Acquisition Proposal. Each of the Stockholder, the KKR Investors and the GA Investors agree that it shall immediately cease and cause to be terminated, and cause its respective Affiliates and shall use its reasonable best efforts to cause its and its respective Affiliates Representatives to immediately cease and cause to be terminated, all discussions or negotiations with any Person conducted heretofore with any Person other than Parent and/or its Representatives with respect to any Company Acquisition Proposal. Notwithstanding the foregoing, each of the Stockholder, the KKR Investors or the GA Investors, directly or indirectly through their respective Affiliates, Representatives, advisors or other intermediaries, may, prior to the time, but not after, the Company Stockholder Approval is obtained, engage in negotiations or discussions with any Person (and its Representatives, advisors and intermediaries) that has made an unsolicited bona fide written Company Acquisition Proposal to the Company, its Subsidiaries or Representatives not resulting from or arising out of a breach, in any material respect, of (x) this Section 5.2 or (y) the provisions of Section 5.2 of the Merger Agreement; provided, that each of the Stockholder, the KKR Investors or the GA Investors, directly or indirectly through their respective Affiliates, Representatives, advisors or other intermediaries, shall be permitted to engage in such negotiations or discussions if, and only if, prior to doing so, the Stockholder, the KKR Investors or the GA Investors, as applicable, have provided prior written notice thereof to Parent and the Company Board determines in good faith after consultation with outside legal counsel that (A) based on the information then available and after consultation with a financial advisor of nationally recognized reputation that such Company

Acquisition Proposal either constitutes a Company Superior Proposal or could reasonably be expected to result in a Company Superior Proposal and (B) the failure to take such action would reasonably be expected to be inconsistent with the directors fiduciary duties under applicable Law.

(b) Until this Agreement is terminated in accordance with its terms, the Stockholder, the KKR Investors and the GA Investors shall not (and shall cause their respective Affiliates to whom they have provided confidential information regarding the Company (or its Subsidiaries) or the Merger, not to), directly or indirectly, (i) alone or in concert with others, make or propose, or seek to make or propose, to the Company or any of its stockholders any Company Acquisition Proposal, (ii) make any public request or public proposal to amend, waive or terminate the provisions of this Section 5.2(b) or (iii) take any action that would reasonably be expected to result in the Company having to make a public announcement regarding any of the matters referred to in clauses (i) and (ii) of this Section 5.2(b), or publicly announce an intention to do, or enter into any arrangement or understanding or discussion with others to do, any of the actions restricted or prohibited under such clauses (i) and (ii) of this Section 5.2(b); provided, however, that the provisions set forth in Section 3.1 of the Stockholder Agreement shall not in any way restrict or otherwise affect the Stockholder s, the KKR Investors or the GA Investors ability to take any of the actions set forth in the third sentence of Section 5.2(a) to the extent permitted therein.

5.3 Waiver of Actions. The Stockholder hereby irrevocably and unconditionally agrees not to commence or join in, and agrees to take all actions necessary to opt out of any class in any class action with respect to, any claim, derivative or otherwise, against Parent, Merger Sub, the Company, any of the other parties to the Merger Agreement or any of their respective successors relating to the negotiation, execution or delivery of this Agreement or the Merger Agreement or the consummation of the Merger, including any proceeding challenging the validity of, or seeking to enjoin the operation of, any provision of this Agreement or the Merger Agreement. To the fullest extent permitted by applicable Laws, the Stockholder hereby irrevocably and unconditionally waives and agrees not to exercise, assert or perfect, any right of dissent or rights to demand appraisal in respect of the Covered Shares.

5.4 Further Assurances; Public Announcements. During the term of this Agreement, from time to time, at Parent s request and without further consideration, the Stockholder shall execute and deliver such additional documents and take all such further action, in each case, as may be reasonably necessary to effect the actions and consummate the transactions contemplated by this Agreement. Each of the Stockholder, the KKR Investors and the GA Investors hereby authorize Parent and the Company, to the extent required by applicable Law, to publish and disclose in any announcement or disclosure in the Joint Proxy Statement/Prospectus or any other filing with any Governmental Entity made in connection with the Merger, the Stockholder s, the KKR Investors and the GA Investors identity and the Stockholder s ownership of Shares and the nature of the Stockholder s, the KKR Investors and the GA Investors obligations under this Agreement. Each of Parent and the Company hereby authorize the Stockholder, the KKR Investors and the GA Investors, to the extent required by applicable Law, to publish and disclose in any announcement or disclosure in any filing with any Governmental Entity (including the SEC) made in connection with the Merger, Parent s and the Company s identity and the nature of the Stockholder s, the KKR Investor s and the GA Investor s obligations under this Agreement. Except as otherwise required by applicable Law or listing agreement with a national securities exchange or a Governmental Entity, the Company and Parent will not make any other disclosures regarding the Stockholder in any press release or otherwise without the prior written consent of the Stockholder (not to be unreasonably withheld or delayed); provided, that in advance of any such disclosure, the Stockholder shall be afforded a reasonable opportunity to review and approve (not to be unreasonably withheld or delayed) such disclosure.

ARTICLE VI
MISCELLANEOUS

6.1 Termination. This Agreement and all obligations of the parties hereunder shall automatically terminate on the earliest to occur of (a) the Effective Time, (b) such date and time as the Merger Agreement shall be validly terminated pursuant to Article VII thereof, (c) a Company Change of Recommendation relating to a Company Superior Proposal or Company Intervening Event in accordance with the terms of Section 5.2(f) and Section 5.2(g), respectively, of the Merger Agreement, (d) the date of any amendment, restatement, modification, or change of any provision of the Merger Agreement in effect as of the date hereof without the prior written consent of the Stockholder that either (i) reduces the amount or changes the form of the Merger Consideration (other than adjustments in accordance with the terms of the Merger Agreement) or (ii) otherwise materially adversely affects the Stockholder, and (e) the mutual written consent of the parties hereto. Upon termination of this Agreement, this Agreement shall become void and of no effect with no liability on the party of any party hereto (or any of its Affiliates or its or its Affiliates Representatives); provided, that the provisions set forth in this Article VI (other than the provisions set forth in Sections 6.2, 6.6, 6.11 and 6.13) shall survive the termination of this Agreement; provided, further, that no such termination shall relieve any party hereto from any liability for Willful Breach of this Agreement. For purposes of this Agreement, the term Willful Breach means a deliberate act or a deliberate failure to act, taken or not taken with the actual knowledge that such act or failure to act would, or would reasonably be expected to, result in or constitute a material breach of this Agreement, regardless of whether breaching was the object of the act or failure to act.

6.2 No Ownership Interest. Nothing contained in this Agreement shall be deemed to vest in Parent any direct or indirect ownership or incidence of ownership of or with respect to the Covered Shares. All rights, ownership and economic benefits of and relating to the Covered Shares shall remain vested in and belong to the Stockholder, and Parent and Merger Sub shall have no authority to direct the Stockholder in the voting or disposition of any of the Covered Shares, except as otherwise provided herein.

6.3 Notices. Notices, requests, instructions or other documents to be given under this Agreement shall be in writing and shall be deemed given, (a) on the date sent by e-mail of a PDF document if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient, (b) when delivered, if delivered personally to the intended recipient, and (c) one Business Day later, if sent by overnight delivery via a national courier service (providing proof of delivery), and in each case, addressed to a party at the following address for such party (or to such other persons or addresses as may be designated in writing by the party to receive such notice as provided above):

(i) if to the Stockholder, by email to:

Name: Birch Partners, LP
Attention: Brittany Bagley
David Topper
Email: brittany.bagley@kkr.com
dtopper@generalatlantic.com

with a copy (which shall not constitute notice) to each of:

Name: Simpson Thacher & Bartlett LLP
Address: 425 Lexington Avenue
New York, New York 10017
Attention: Marni Lerner
Sebastian Tiller
Email: mlerner@stblaw.com
stiller@stblaw.com

and

Name:	Paul, Weiss, Rifkind, Wharton & Garrison LLP
Address:	1285 Avenue of the Americas
	New York, New York 10019
Attention:	Matthew W. Abbott
Email:	mabbott@paulweiss.com

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(ii) if to Parent, by email to:

Name: Science Applications International Corporation
Attention: Steven G. Mahon, General Counsel
Email: steven.mahon@saic.com

and by email and hand delivery to:

Name: Science Applications International Corporation
Address: 12010 Sunset Hills Road
Reston, Virginia 20190
Attention: Steven G. Mahon, General Counsel
Email: Steven.Mahon@saic.com

with a copy (which shall not constitute notice) to each of:

Name: Morrison & Foerster LLP
Address: 1650 Tysons Boulevard, Suite 400
McLean, Virginia 22102
Attention: Charles W. Katz
Email: CKatz@mofo.com

(iii) if to the Company, by email to:

Name: Engility Holdings, Inc.
Attention: Thomas O. Miiller, General Counsel
Email: Tom.Miiller@Engility.com

and by email and hand delivery to:

Name: Engility Holdings, Inc.
Address: 4803 Stonecroft Boulevard
Chantilly, Virginia 20151
Attention: Thomas O. Miiller, General Counsel
Email: Tom.Miiller@Engility.com

with a copy (which shall not constitute notice) to each of:

Name: Weil, Gotshal & Manges LLP

Address: 767 Fifth Avenue
New York, New York 10153
Attention: Frederick S. Green, Eoghan P. Keenan
Email: frederick.green@weil.com; eoghan.keenan@weil.com

6.4 Entire Agreement. This Agreement (including any exhibits or schedules hereto) constitutes the entire agreement, and supersede all other prior agreements, understandings, representations and warranties both written and oral, among the parties, with respect to the subject matter hereof.

6.5 Governing Law and Venue; Waiver of Jury Trial.

(a) THIS AGREEMENT SHALL BE DEEMED TO BE MADE IN AND IN ALL RESPECTS SHALL BE INTERPRETED, CONSTRUED AND GOVERNED BY AND IN ACCORDANCE WITH THE LAW OF THE STATE OF DELAWARE WITHOUT REGARD TO THE CONFLICT OF LAW PRINCIPLES THEREOF. Each of the parties hereby irrevocably submits exclusively to the jurisdiction of the Chancery Courts of the State of Delaware and the federal courts of the United States of America, in each case, located in New Castle County in the State of Delaware and hereby waives, and agrees not to assert, as a defense in any action, suit or proceeding for the interpretation or enforcement hereof, that it is not subject thereto or that such action, suit or proceeding may not be brought or is not maintainable in said courts or that the venue thereof may not be appropriate or that this Agreement may not be enforced in or by such courts, and each of the parties hereto irrevocably agrees that all claims relating to such action, suit or proceeding shall be heard and determined in such a state or federal court. The parties hereby consent to and grant any such court jurisdiction over the person of such parties and over the subject matter of such dispute and agree that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 6.3 or in such other manner as may be permitted by Law, shall be valid and sufficient service thereof.

(b) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (ii) EACH SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (iii) EACH SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (iv) EACH SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 6.5(a).

6.6 Amendments and Modifications. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

6.7 Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any Person or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision negotiated in good faith by the parties hereto shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not, subject to clause (a) above, be affected by such invalidity or unenforceability, except as a result of such substitution, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

6.8 Successors and Assigns; Third Party Beneficiaries. This Agreement shall not be assignable by operation of Law or otherwise without the prior written consent of the other parties; provided that Parent may designate by written notice to the parties hereto, another Subsidiary to be a party to the Merger in lieu of Merger Sub, in which event all references herein to Merger Sub shall be deemed references to such other Subsidiary and all representations and warranties made herein with respect to Merger Sub as of the date of this Agreement shall also be made with respect to such other Subsidiary as of the date of such designation; provided that such assignment or delegation shall not relieve Parent of its obligations hereunder or otherwise enlarge, alter or change any obligation of any other party hereto or due to Parent or such other Subsidiary. Any assignment in contravention of the preceding sentence shall be null and void. Subject to the foregoing, this Agreement shall bind and inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns. Any purported assignment in violation of this Agreement is void. Nothing in this Agreement, express or implied, is intended to confer on any Person other than the parties hereto or their respective successors and permitted assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement; provided, that each Non-Recourse Party shall be an express third-party beneficiary with respect to Section 6.14.

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6.9 Interpretation; Construction.

(a) The headings herein are for convenience of reference only, do not constitute part of this Agreement and shall not be deemed to limit or otherwise affect any of the provisions of this Agreement. Where a reference in this Agreement is made to a Section or Schedule, such reference shall be to a Section of or Schedule to this Agreement unless otherwise indicated. Whenever the words include, includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation.

(b) The parties have participated jointly in negotiating and drafting this Agreement. In the event that an ambiguity or a question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

6.10 Stockholder Capacity; Fiduciary Duties. Notwithstanding anything contained in this Agreement to the contrary, the representations, warranties, covenants and agreements made herein by the Stockholder are made solely with respect to the Stockholder and the Covered Shares. The Stockholder is entering into this Agreement solely in its capacity as the Beneficial Owner of such Covered Shares and nothing herein shall limit or affect any actions taken by any officer or director of the Company (or a Subsidiary of the Company), including any designee of the Stockholder serving on the board of directors of the Company, in his or her capacity as a director or officer of the Company (or of a Subsidiary of the Company), including to the extent applicable, participating in his or her capacity as a director of the Company in any discussions or negotiations in accordance with Section 5.2 of the Merger Agreement. Nothing contained herein, and no action taken by the Stockholder pursuant hereto, shall be deemed to constitute the parties as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the parties are in any way acting in concert or as a group with respect to the obligations or the transactions contemplated by this Agreement.

6.11 Counterparts; Effectiveness. This Agreement may be executed in any number of counterparts (including by facsimile or by attachment to electronic mail in portable document format (PDF)), each such counterpart being deemed to be an original instrument, and all such counterparts shall together constitute the same agreement, and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

6.12 Expenses. All costs and expenses incurred in connection with this Agreement shall be paid by the party incurring such cost or expense.

6.13 Specific Performance; Injunctive Relief. The parties acknowledge and agree that irreparable damage would occur and that the parties would not have any adequate remedy at Law if any provision of this Agreement were not performed in accordance with its specific terms or were otherwise breached, and that monetary damages, even if available, would not be an adequate remedy therefor. It is accordingly agreed that, unless this Agreement has been terminated in accordance with its terms, the parties shall be entitled to seek an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the performance of the terms and provisions hereof in accordance with Section 6.5, without proof of actual damages (and each party hereby waives any requirement for the security or posting of any bond in connection with such remedy), this being in addition to any other remedy to which they are entitled at Law or in equity. The parties further agree not to assert that a remedy of monetary damages would provide an adequate remedy for any such breach or that the Company or Parent otherwise have an adequate remedy at law.

6.14 No Recourse. Notwithstanding anything to the contrary contained herein or otherwise, this Agreement may only be enforced against, and any claims or causes of action that may be based upon, arise out of or relate to this

Agreement, or the negotiation, execution or performance of this Agreement or the transactions contemplated hereby, may only be made against the entities and Persons that are expressly identified as parties to this Agreement in their capacities as such and no former, current or future stockholders, equity holders, controlling persons, directors, officers, employees, general or limited partners, members, managers, agents or Affiliates of any party hereto, or any former, current or future direct or indirect stockholder, equity holder, controlling person, director, officer, employee, general or limited partner, member, manager, agent or Affiliate of any of the foregoing (each, a Non-Recourse

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Party) shall have any liability for any obligations or liabilities of the parties to this Agreement under this Agreement or for any claim (whether in tort, contract or otherwise) based on, in respect of, or by reason of, the transactions contemplated hereby or in respect of any oral representations made or alleged to be made in connection herewith. Without limiting the rights of any party against the other parties hereto, in no event shall any party or any of its Affiliates seek to enforce this Agreement against, make any claims for breach of this Agreement against, or seek to recover monetary damages on account of breach of this Agreement from, any Non-Recourse Party.

6.15 No Conflict with Stockholder Agreement. The Company, the Stockholder, the KKR Investors and the GA Investors hereby agree that nothing set forth in the Stockholder Agreement restricts or otherwise prevents the Stockholder, the KKR Investors or the GA Investors from executing and delivering this Agreement or from performing their respective obligations hereunder, and to the extent there is a conflict between this Agreement and the Stockholder Agreement, this Agreement shall prevail and control.

6.16 Several Not Joint Obligations. The parties hereto hereby acknowledge and agree that notwithstanding anything to the contrary contained in this Agreement, the representations, warranties, covenants and other agreements of the Stockholder, the KKR Investors or the GA Investors shall be several and not joint representations, warranties, covenants and agreements, as applicable, of the Stockholder, the KKR Investors or the GA Investors, as applicable.

[*Signature pages follow*]

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IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed on the date and year first above written.

Science Applications International Corporation

By: /s/ Anthony J. Moraco

Anthony J. Moraco
Chief Executive Officer

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ENGILITY HOLDINGS, INC.

By:	/s/ Lynn Dugle
Name:	Lynn Dugle
Title:	President, Chief Executive Officer

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STOCKHOLDER:

BIRCH PARTNERS, LP

By: Birch GP, LLC, its general partner

By: /s/ Brittany Bagley
Name: Brittany Bagley
Title: Manager

By: /s/ David Topper
Name: David Topper
Title: Manager

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FOR PURPOSES OF SECTIONS 2.1, 2.3, 5.2, 5.4 AND ARTICLE VI ONLY:

KKR 2006 FUND L.P.

By: KKR Associates 2006 L.P., its general partner

By: KKR 2006 GP LLC, its general partner

By: /s/ William J. Janetschek
Name: William J. Janetschek
Title: Authorized Person

KKR PARTNERS III, L.P.

By: KKR III GP LLC, its general partner

By: /s/ William J. Janetschek
Name: William J. Janetschek
Title: Authorized Person

OPERF CO-INVESTMENT LLC

By: KKR Associates 2006 L.P., its general partner

By: KKR 2006 GP LLC, its general partner

By: /s/ William J. Janetschek
Name: William J. Janetschek
Title: Authorized Person

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8 NORTH AMERICA INVESTOR L.P.

By: KKR Associates 8 NA L.P., its general partner

By: KKR 8 NA Limited, its general partner

By: /s/ William J. Janetschek
Name: William J. Janetschek
Title: Authorized Person

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FOR PURPOSES OF SECTIONS 2.1, 2.3, 5.2, 5.4 AND ARTICLE VI ONLY:

GENERAL ATLANTIC PARTNERS 85, L.P.

By: General Atlantic GenPar, L.P., its general partner member

By: General Atlantic LLC, its general partner

By: /s/ Thomas J. Murphy
Name: Thomas J. Murphy
Title: Managing Director

GAP COINVESTMENTS III, LLC

By: General Atlantic LLC, its managing member

By: /s/ Thomas J. Murphy
Name: Thomas J. Murphy
Title: Managing Director

GAP COINVESTMENTS IV, LLC

By: General Atlantic LLC, its managing member

By: /s/ Thomas J. Murphy
Name: Thomas J. Murphy
Title: Managing Director

GAP COINVESTMENTS CDA, L.P.

By: General Atlantic LLC, its managing member

By: /s/ Thomas J. Murphy
Name: Thomas J. Murphy
Title: Managing Director

GAPCO GMBH & CO. KG

By: GAPCO Management GmbH, its general partner

By:	/s/ Thomas J. Murphy
Name:	Thomas J. Murphy
Title:	Managing Director

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SCHEDULE A

Name	Address	Shares
Birch Partners, LP	Birch Partners, LP c/o Kohlberg Kravis Roberts & Co. L.P. 2800 Sand Hill Road, Suite 200 Menlo Park, CA 94025 and c/o General Atlantic Service Company, L.P. 55 East 52nd Street, 33rd Floor New York, NY 10055	17,920,892

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Annex C

Opinion of Citigroup Global Markets

Confidential

September 9, 2018

The Board of Directors
Science Applications International Corporation
12010 Sunset Hills Road
Reston, VA 20190

Members of the Board:

You have requested our opinion as to the fairness, from a financial point of view, to Science Applications International Corporation (SAIC), of the Exchange Ratio (defined below) provided pursuant to the terms and subject to the conditions set forth in the Agreement and Plan of Merger, dated as of September 9, 2018 (the Merger Agreement) among SAIC, Raptors Merger Sub, Inc. (Merger Sub) and Engility Holdings, Inc. (the Company). As more fully described in the Merger Agreement, (i) Merger Sub will merge with and into the Company (the Merger), with the Company continuing as the surviving corporation and (ii) each outstanding share of the common stock, par value $0.01 per share, of the Company (Company Common Stock) (other than Excluded Shares (as defined in the Merger Agreement)) will be converted into the right to receive 0.450 of a share (the Exchange Ratio) of common stock, par value $0.0001 per share, of SAIC (SAIC Common Stock).

In arriving at our opinion, we reviewed the Merger Agreement and held discussions with certain senior officers, directors and other representatives and advisors of SAIC and certain senior officers and other representatives and advisors of the Company concerning the businesses, operations and prospects of SAIC and the Company. We examined certain publicly available and other business and financial information relating to SAIC and the Company as well as certain financial forecasts and other information and data relating to SAIC and the Company which were provided to or discussed with us by the respective managements of SAIC and the Company, including financial forecasts related to SAIC and the Company that we were directed by SAIC to use in connection with our analysis and this opinion (the Forecasts) and discussed with SAIC management information relating to the potential strategic implications and operational benefits (including the amount, timing and achievability thereof) anticipated by the management of SAIC to result from the Merger (the Synergies). We reviewed the financial terms of the Merger as set forth in the Merger Agreement in relation to, among other things: current and historical market prices and trading volumes of SAIC Common Stock and Company Common Stock; the historical and projected earnings and other operating data of SAIC and the Company; and the capitalization and financial condition of SAIC and the Company. We considered, to the extent publicly available, the financial terms of certain other transactions which we considered relevant in evaluating the Merger and analyzed certain financial, stock market and other publicly available information relating to the businesses of other companies whose operations we considered relevant in evaluating those of SAIC and the Company. We also evaluated certain potential pro forma financial effects of the Merger on SAIC utilizing, at the direction of SAIC, the Forecasts. In addition to the foregoing, we conducted such other analyses and examinations and considered such other information and financial, economic and market criteria as we deemed appropriate in arriving at our opinion. The issuance of our opinion has been authorized by our fairness opinion committee.

In rendering our opinion, we have assumed and relied, without independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with us and upon the assurances of the respective managements of SAIC and the Company that they are not aware of any relevant information that has been omitted or that remains undisclosed to us. With respect to the Forecasts and the Synergies, we have been advised by the respective managements of SAIC and the Company that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of the respective managements of SAIC and the Company as to the future financial performance of SAIC and the Company, the potential strategic implications and operational benefits (including the amount, timing and achievability thereof) anticipated

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by the management of SAIC to result from the Merger and the other matters covered thereby, and have assumed, with your consent, that the financial results (including the potential strategic implications and operational benefits anticipated to result from the Merger) reflected in the Forecasts and the Synergies will be realized in the amounts and at the times projected.

We have assumed, with your consent, that the Merger will be consummated in accordance with its terms, without waiver, modification or amendment of any material term, condition or agreement and that, in the course of obtaining the necessary regulatory or third party approvals, consents and releases for the Merger, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on SAIC, the Company or the contemplated benefits to SAIC of the Merger. We are not expressing any opinion as to what the value of the SAIC Common Stock actually will be when issued pursuant to the Merger or the price at which the SAIC Common Stock will trade at any time. We have not made or been provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of SAIC or the Company nor have we made any physical inspection of the properties or assets of SAIC or the Company. We express no view as to, and our opinion does not address, the underlying business decision of SAIC to effect the Merger, the relative merits of the Merger as compared to any alternative business strategies or transactions that might exist for SAIC or the effect of or on any other transaction in which SAIC might engage. We also express no view as to, and our opinion does not address, the fairness (financial or otherwise) of the amount or nature or any other aspect of any compensation or other consideration to any officers, directors or employees of any parties to the Merger, or any class of such persons, relative to the Exchange Ratio. Our opinion is necessarily based upon information available to us, and financial, stock market and other conditions and circumstances existing, as of the date hereof.

Citigroup Global Markets Inc. has acted as financial advisor to SAIC in connection with the proposed Merger and will receive a fee for such services, a significant portion of which is contingent upon the consummation of the Merger. We also will receive a fee in connection with the delivery of this opinion. In addition, SAIC has agreed to reimburse our expenses and to indemnify us against certain liabilities arising out of our engagement. As you are aware, we and our affiliates in the past have provided, are currently providing, and in the future may provide investment banking, commercial banking and other financial services to SAIC unrelated to the proposed Merger, for which services we and such affiliates have received and expect to receive compensation, including, without limitation, during the two year period prior to the date hereof, having acted or acting as a lead left arranger on a repricing of a revolving credit facility, a Term Loan A and a Term Loan B for SAIC in January 2018. As you are also aware, at SAIC s request, we and certain of our affiliates also expect to participate in certain financings to be undertaken in connection with the Merger, for which services we and such affiliates will receive compensation, including acting as lead bookrunner for, and as a lender under, such financings. In the ordinary course of our business, we and our affiliates may actively trade or hold the securities of SAIC and the Company for our own account or for the account of our customers and, accordingly, may at any time hold a long or short position in such securities. In addition, we and our affiliates (including Citigroup Inc. and its affiliates) may maintain relationships with SAIC, the Company and their respective affiliates.

Our advisory services and the opinion expressed herein are provided solely for the information of the Board of Directors of SAIC in its evaluation of the proposed Merger, and our opinion is not intended to be and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matters relating to the proposed Merger or any related matter.

Based upon and subject to the foregoing, our experience as investment bankers, our work as described above and other factors we deemed relevant, we are of the opinion that, as of the date hereof, the Exchange Ratio is fair, from a financial point of view, to SAIC.

Very truly yours,

/s/ Citigroup Global Markets Inc.
CITIGROUP GLOBAL MARKETS INC.

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Annex D

411 West Putnam Avenue
Greenwich, CT 06830
(203) 930-3700 main
(203) 930-3799 fax

September 9, 2018

The Board of Directors
Science Applications International Corporation
12010 Sunset Hills Road
Reston, VA 20190

Ladies and Gentlemen:

We understand that Science Applications International Corporation. (SAIC) and Engility Holdings, Inc. (Engility) intend to enter into an Agreement and Plan of Merger to be dated as of September 9, 2018 (the Merger Agreement), pursuant to which a wholly owned subsidiary of SAIC (Merger Sub) will merge with and into Engility and Engility will become a wholly owned subsidiary of SAIC. Upon the terms and subject to the conditions set forth in the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of the common stock, par value $0.01 per share, of Engility (the Engility Common Stock), other than any share of Engility Common Stock owned by SAIC or Merger Sub or held in treasury, shall be automatically converted into the right to receive 0.450 (the Exchange Ratio) validly issued, fully paid and non-assessable shares of the common stock, par value $0.0001 per share, of SAIC (the SAIC Common Stock). Concurrently with the execution and delivery of the Merger Agreement, and as a condition and inducement to SAIC s willingness to enter into the Merger Agreement, Birch Partners, LP is entering into an agreement with SAIC (together with the Merger Agreement, the Transaction Documentation) pursuant to which Birch Partners, LP has agreed, among other things, to vote the shares of Engility Common Stock it holds in favor of the Merger, subject to the limitations of the Company Stockholders Agreement (as such term is defined in the Merger Agreement). You have provided us with a copy of the Transaction Documentation in substantially final form.

You have asked us to render our opinion as to whether the Exchange Ratio is fair, from a financial point of view, to SAIC.

In the course of performing our reviews and analyses for rendering this opinion, we have:

- reviewed drafts of the Transaction Documentation in substantially final form;
- reviewed SAIC's Annual Reports to Shareholders and Annual Reports on Form 10-K for the fiscal years ended January 29, 2016, February 3, 2017 and February 2, 2018, its Quarterly Report on Form 10-Q for the period ended May 4, 2018 and its Current Reports on Form 8-K filed since February 2, 2018;
- reviewed Engility's Annual Reports to Shareholders and Annual Reports on Form 10-K for the fiscal years ended December 31, 2015, 2016 and 2017, its Quarterly Reports on Form 10-Q for the periods ended March 30, 2018 and June 29, 2018 and its Current Reports on Form 8-K filed since December 31, 2017;
- reviewed certain operating and financial information relating to SAIC's and Engility's respective businesses and prospects, including SAIC's balance sheet as of August 3, 2018 and projections for SAIC for the six years ending February 2, 2024, projections for Engility for the seven years ending December 31, 2024 and projections for the combined company for the five years ending February 2, 2024, all as prepared and provided to us by SAIC's management;

- reviewed certain estimates of net revenue enhancements, cost savings and other combination benefits (collectively, net synergy estimates) expected to result from the Merger, all as prepared and provided to us by SAIC's management;

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- discussed with certain members of SAIC's senior management SAIC's and Engility's respective businesses, operations, historical and projected financial results and future prospects;
- reviewed the historical prices, trading multiples and trading volumes of the SAIC Common Stock and the Engility Common Stock;
- reviewed certain publicly available financial data, stock market performance data and trading multiples of companies which we deemed generally comparable to SAIC and Engility;
- reviewed the terms of certain relevant mergers and acquisitions involving companies which we deemed generally comparable to SAIC and Engility;
- performed discounted cash flow analyses based on the projections for SAIC, Engility and the combined company and the net synergy estimates furnished to us by SAIC;
- reviewed the pro forma financial results, financial condition and capitalization of SAIC giving effect to the Merger; and
- conducted such other studies, analyses, inquiries and investigations as we deemed appropriate.

We have relied upon and assumed, without independent verification, the accuracy and completeness of the financial, legal, regulatory, tax, accounting and other information provided to, discussed with or reviewed by us, including, without limitation, the projections and net synergy estimates referred to above. With respect to the projections and net synergy estimates, we have assumed with the consent of the Board of Directors that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the senior management of SAIC as to the expected future performance of SAIC and Engility. We have not assumed any responsibility for the independent verification of any such information, including, without limitation, the projections and net synergy estimates; we express no view or opinion as to such projections and net synergy estimates and the assumptions upon which they are based; and we have further relied upon the assurances of the senior management of SAIC that they are unaware of any facts that would make the information, projections and net synergy estimates incomplete or misleading.

In arriving at our opinion, we have not performed or obtained any independent appraisal of the assets or liabilities (contingent or otherwise) of SAIC or Engility, nor have we been furnished with any such appraisals. We have assumed that the Merger will qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code. We have assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the Merger will be obtained without any adverse effect on the expected benefits of the Merger in any way meaningful to our analysis. In addition, we have assumed that the Merger will be consummated in a timely manner and in accordance with the terms of the Merger Agreement without any amendments or modifications, the effect of which would be in any way meaningful to our analysis. We are not legal, regulatory, tax or accounting experts and have relied on the assessments made by SAIC and its advisors with respect to such issues.

We do not express any opinion as to the price or range of prices at which the shares of SAIC Common Stock or Engility Common Stock may trade at any time.

We have acted as a financial advisor to SAIC in connection with the Merger and will receive a fee for such services, a substantial portion of which is contingent on successful consummation of the Merger. A portion of our compensation is payable upon delivery of this letter and will be credited against the fee payable upon consummation of the Merger. In addition, SAIC has agreed to reimburse us for certain expenses and to indemnify us against certain liabilities arising out of our engagement. During the two year period prior to the date hereof, no material relationship existed between us and our affiliates, on the one hand, and Engility or any of its affiliates, on the other hand, pursuant to which compensation was received by us or our affiliates as a result of such a relationship.

It is understood that this letter is intended for the benefit and use of the Board of Directors of SAIC in a representative capacity in connection with its consideration of the Merger. This letter and our opinion are not to be reproduced, disseminated, quoted from or referred to by SAIC at any time, in whole or in part, without our prior written consent.

This letter and our opinion do not constitute a recommendation to the Board of Directors of SAIC in connection with the Merger, nor do this letter and our opinion constitute a

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recommendation to any holders of SAIC Common Stock as to how to vote in connection with the Merger or any other matter. Our opinion does not address SAIC s underlying business decision to pursue the Merger, the relative merits of the Merger as compared to any alternative business or financial strategies that might exist for SAIC, the financing of the Merger or the effects of any other transaction in which SAIC might engage. Our opinion addresses only the fairness, from a financial point of view, of the Exchange Ratio to SAIC. We do not express any view or opinion with respect to the fairness of the Merger, from a financial point of view, to Engility or its stockholders or affiliates. Furthermore, our opinion does not address any other term or aspect of the Transaction Documentation or any term or aspect of any other agreement or instrument contemplated by the Transaction Documentation or entered into or amended in connection with the Merger, or the impact thereof on SAIC or Engility.

Our opinion has been authorized for issuance by the Fairness Opinion and Valuation Committee of Stone Key. Our opinion is subject to the assumptions, limitations, qualifications and other conditions contained herein and is necessarily based on economic, market and other conditions, and the information made available to us, as of the date hereof. We assume no responsibility for updating or revising our opinion based on circumstances or events occurring after the date hereof.

Based on and subject to the foregoing, it is our opinion that, as of the date hereof, the Exchange Ratio is fair, from a financial point of view, to SAIC.

Very truly yours,

STONE KEY PARTNERS LLC

By: /s/ Michael J. Urfirer
Chairman & Chief Executive Officer

STONE KEY SECURITIES LLC

By: /s/ Michael J. Urfirer
Chairman & Chief Executive Officer

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Annex E

Opinion of Guggenheim Securities, LLC

Guggenheim Securities, LLC
330 Madison Avenue
New York, New York 10017
GuggenheimPartners.com

September 9, 2018

The Board of Directors
Engility Holdings, Inc.
4803 Stonecroft Boulevard
Chantilly, VA 20151

Members of the Board:

We understand that Engility Holdings, Inc. (Engility) and Science Applications International Incorporated (SAIC) intend to enter into an Agreement and Plan of Merger to be dated as of September 9, 2018 (the Agreement), pursuant to which Merger Sub, a wholly owned subsidiary of SAIC, will merge (the Merger) with and into Engility and Engility will become a wholly owned subsidiary of SAIC. Pursuant to the Agreement, each of the issued and outstanding shares of the common stock, par value $0.01 per share, of Engility and the associated stock purchase rights (subject to certain exceptions) will be converted into the right to receive 0.450 shares of common stock, par value $0.01 per share, of SAIC (the Exchange Ratio). In connection with the Merger, SAIC and Birch Partners, LP (Birch Partners) intend to concurrently enter into a Voting Agreement (the Voting Agreement and, together with the Agreement, the Transaction Documentation), pursuant to which Birch Partners will agree, subject to certain limitations, to vote its shares of Engility common stock in favor of the Merger. The terms and conditions of the Merger are more fully set forth in the Agreement.

You have asked us to render our opinion as to whether the Exchange Ratio is fair, from a financial point of view, to the stockholders of Engility.

In the course of performing our reviews and analyses for rendering our opinion, we have:

- Reviewed drafts of the Transaction Documentation dated as of September 9, 2018;
- Reviewed certain publicly available business and financial information regarding each of Engility and SAIC;
- Reviewed certain non-public business and financial information regarding Engility's and SAIC's respective businesses and prospects (including certain financial projections for Engility for the years ending December 31, 2018 through December 31, 2022 and for SAIC for the fiscal years ending January 31, 2019 through January 31, 2023), which projections were prepared and approved for our use by Engility's senior management;
- Reviewed certain estimated revenue enhancements, cost savings and other combination benefits and estimated costs to achieve such synergies (collectively, synergy estimates or synergies) expected to result from the Merger, all as jointly prepared by Engility's and SAIC's senior management and approved for our use by Engility's senior management;
- Discussed with Engility's senior management their strategic and financial rationale for the Merger as well as their views of Engility's and SAIC's respective businesses, operations, historical and projected financial results and future prospects;

- Discussed with SAIC's senior management their views of SAIC's business, operations, historical and projected financial results and future prospects;
- Reviewed the historical prices, trading multiples and trading activity of the common shares of Engility and SAIC;

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- Compared the financial performance of Engility and SAIC and the trading multiples and trading activity of the common shares of Engility and SAIC with corresponding data for certain other publicly traded companies that we deemed relevant in evaluating Engility and SAIC;
- Reviewed the valuation and financial metrics of certain mergers and acquisitions that we deemed relevant in evaluating the Merger;
- Performed discounted cash flow analyses based on the financial projections for SAIC, Engility and the synergy estimates; and
- Conducted such other studies, analyses, inquiries and investigations as we deemed appropriate.

With respect to the information used in arriving at our opinion:

- We have relied upon and assumed the accuracy, completeness and reasonableness of all industry, business, financial, legal, regulatory, tax, accounting, actuarial and other information (including, without limitation, any financial projections, synergy estimates, other estimates and other forward-looking information) provided by or discussed with Engility or SAIC or obtained from public sources, data suppliers and other third parties.
- We (i) do not assume any responsibility, obligation or liability for the accuracy, completeness, reasonableness, achievability or independent verification of, and we have not independently verified, any such information (including, without limitation, any financial projections, synergy estimates, other estimates and other forward-looking information), (ii) express no view, opinion, representation, guaranty or warranty (in each case, express or implied) regarding the reasonableness or achievability of any financial projections, synergy estimates, other estimates and other forward-looking information or the assumptions upon which they are based and (iii) have relied upon the assurances of Engility's senior management and SAIC's senior management (as the case may be) that they are unaware of any facts or circumstances that would make such information (including, without limitation, any financial projections, synergy estimates, other estimates and other forward-looking information) incomplete, inaccurate or misleading.
- Specifically, with respect to any (i) financial projections, synergy estimates, other estimates and other forward-looking information provided by or discussed with Engility or SAIC, (a) we have been advised by Engility's senior management and SAIC's senior management (as the case may be), and we have assumed, that such financial projections, synergy estimates, other estimates and other forward-looking information utilized in our analyses have been reasonably prepared on bases reflecting the best currently available estimates and judgments of Engility's senior management and SAIC's senior management (as the case may be) as to the expected future performance of Engility and SAIC (as the case may be) and the expected amounts and realization of such synergies (and we have assumed that such synergies will be realized in the amounts and at the times projected) and (b) we have assumed that such financial projections, synergy estimates, other estimates and other forward-looking information have been reviewed by Engility's Board of Directors with the understanding that such information will be used and relied upon by us in connection with rendering our opinion and (ii) financial projections, other estimates and/or other forward-looking information obtained by us from public sources, data suppliers and other third parties, we have assumed that such information is reasonable and reliable.

In arriving at our opinion, we have not performed or obtained any independent appraisal of the assets or liabilities (including any contingent, derivative or off-balance sheet assets and liabilities) of Engility, SAIC or any other entity or the solvency or fair value of Engility, SAIC or any other entity, nor have we been furnished with any such appraisals. We are not legal, regulatory, tax, consulting, accounting, appraisal or actuarial experts and nothing in our opinion should be construed as constituting advice with respect to such matters; accordingly, we have relied on the assessments of Engility s senior management and Engility s other professional advisors with respect to such matters. We have assumed that the Merger will

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qualify, for US federal income tax purposes, as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. We are not expressing any view or rendering any opinion regarding the tax consequences of the Merger to Engility, SAIC or their respective securityholders.

During the course of our engagement, we were asked by Engility s Board of Directors to solicit indications of interest from various potential acquirors regarding a potential transaction with Engility, and we have considered the results of such solicitation process in rendering our opinion.

In rendering our opinion, we have assumed that, in all respects meaningful to our analyses, (i) the final executed form of the Transaction Documentation will not differ from the drafts that we have reviewed, (ii) Engility and SAIC will comply with all terms and provisions of the Transaction Documentation and (iii) the representations and warranties of Engility and SAIC contained in the Agreement are true and correct and all conditions to the obligations of each party to the Agreement to consummate the Merger will be satisfied without any waiver, amendment or modification thereof. We also have assumed that the Merger will be consummated in a timely manner in accordance with the terms of the Agreement and in compliance with all applicable laws, documents and other requirements, without any delays, limitations, restrictions, conditions, waivers, amendments or modifications (regulatory, tax-related or otherwise) that would have an effect on Engility, SAIC or the Merger (including its contemplated benefits) in any way meaningful to our analyses or opinion.

In rendering our opinion, we do not express any view or opinion as to the price or range of prices at which the shares of common stock or other securities or financial instruments of or relating to Engility or SAIC may trade or otherwise be transferable at any time, including subsequent to the announcement or consummation of the Merger.

We have acted as a financial advisor to Engility in connection with the Merger and will receive a customary fee for such services, a substantial portion of which is payable upon successful consummation of the Merger and a portion of which is payable upon delivery of our opinion. In addition, Engility has agreed to reimburse us for certain expenses and to indemnify us against certain liabilities arising out of our engagement.

As previously disclosed, aside from our current engagement by Engility, Guggenheim Securities, LLC (Guggenheim Securities) has not been previously engaged during the past two years by Engility, nor has Guggenheim Securities been previously engaged during the past two years by SAIC, to provide financial advisory or investment banking services for which we received fees. Guggenheim Securities may seek to provide Engility and SAIC and their respective affiliates with certain financial advisory and investment banking services unrelated to the Merger in the future, for which services Guggenheim Securities would expect to receive compensation.

Guggenheim Securities and its affiliates and related entities engage in a wide range of financial services activities for our and their own accounts and the accounts of customers, including but not limited to: asset, investment and wealth management; insurance services; investment banking, corporate finance, mergers and acquisitions and restructuring; merchant banking; fixed income and equity sales, trading and research; and derivatives, foreign exchange and futures. In the ordinary course of these activities, Guggenheim Securities and its affiliates and related entities may (i) provide such financial services to Engility, SAIC, other participants in the Merger and their respective affiliates, for which services Guggenheim Securities and its affiliates and related entities may have received, and may in the future receive, compensation and (ii) directly and indirectly hold long and short positions, trade and otherwise conduct such activities in or with respect to loans, debt and equity securities and derivative products of or relating to Engility, SAIC, other participants in the Merger and their respective affiliates. Furthermore, Guggenheim Securities and its affiliates and related entities and our or their respective directors, officers, employees, consultants and agents may have investments in Engility, SAIC, other participants in the Merger and their respective affiliates.

Consistent with applicable legal and regulatory guidelines, Guggenheim Securities has adopted certain policies and procedures to establish and maintain the independence of its research departments and personnel. As a result, Guggenheim Securities research analysts may hold views, make statements or

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investment recommendations and publish research reports with respect to Engility, SAIC, other participants in the Merger and their respective affiliates and the Merger that differ from the views of Guggenheim Securities investment banking personnel.

Our opinion has been provided to Engility s Board of Directors (in its capacity as such) for its information and assistance in connection with its evaluation of the Exchange Ratio. Our opinion may not be disclosed publicly, made available to third parties or reproduced, disseminated, quoted from or referred to at any time, in whole or in part, without our prior written consent; *provided*, *however*, that this letter may be included in its entirety in any joint proxy statement/prospectus to be distributed to the holders of Engility common stock in connection with the Merger.

Our opinion and any materials provided in connection therewith do not constitute a recommendation to Engility s Board of Directors with respect to the Merger, nor does our opinion constitute advice or a recommendation to any holder of Engility or SAIC common stock as to how to vote or act in connection with the Merger or otherwise. Our opinion does not address Engility s underlying business or financial decision to pursue the Merger, the relative merits of the Merger as compared to any alternative business or financial strategies that might exist for Engility or the effects of any other transaction in which Engility might engage. Our opinion addresses only the fairness, from a financial point of view and as of the date hereof, of the Exchange Ratio to the stockholders of Engility. We do not express any view or opinion as to (i) any other term, aspect or implication of (a) the Merger (including, without limitation, the form or structure of the Merger) or the Transaction Documentation or (b) the Voting Agreement or any other agreement, transaction document or instrument contemplated by the Transaction Documentation or to be entered into or amended in connection with the Merger or (ii) the fairness, financial or otherwise, of the Merger to, or of any consideration to be paid to or received by, the holders of any class of securities, creditors or other constituencies of Engility. Furthermore, we do not express any view or opinion as to the fairness, financial or otherwise, of the amount or nature of any compensation payable to or to be received by any of Engility s or SAIC s directors, officers or employees, or any class of such persons, in connection with the Merger relative to the Exchange Ratio or otherwise.

Our opinion has been authorized for issuance by the Fairness Opinion and Valuation Committee of Guggenheim Securities. Our opinion is subject to the assumptions, limitations, qualifications and other conditions contained herein and is necessarily based on economic, capital markets and other conditions, and the information made available to us, as of the date hereof. We assume no responsibility for updating or revising our opinion based on facts, circumstances or events occurring after the date hereof.

Based on and subject to the foregoing, it is our opinion that, as of the date hereof, the Exchange Ratio is fair, from a financial point of view, to the stockholders of Engility.

Very truly yours,