

MANTECH INTERNATIONAL CORP  
Form 10-Q  
May 03, 2017

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 000-49604

ManTech International Corporation  
(Exact name of registrant as specified in its charter)

Delaware 22-1852179  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

12015 Lee Jackson Highway, Fairfax, VA 22033  
(Address of principal executive offices) (Zip Code)  
(703) 218-6000  
(Registrant's telephone number, including area code)

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

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

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

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

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

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

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As of May 1, 2017 there were 25,606,084 shares outstanding of our Class A common stock and 13,190,745 shares outstanding of our Class B common stock.

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MANTECH INTERNATIONAL CORPORATION  
FORM 10-Q  
FOR THE QUARTER ENDED March 31, 2017  
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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

MANTECH INTERNATIONAL CORPORATION  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In Thousands Except Share and Per Share Amounts)

|  | (unaudited)        |                      |
|--|--------------------|----------------------|
|  | March 31,<br>2017  | December 31,<br>2016 |
| <b>ASSETS</b>  |                    |                      |
| Cash and cash equivalents  | \$91,627           | \$ 64,936            |
| Receivables—net  | 315,595            | 320,677              |
| Prepaid expenses and other   | 30,129             | 34,423               |
| Contractual inventory  | 85                 | 1,277                |
| Total Current Assets   | 437,436            | 421,313              |
| Goodwill   | 955,874            | 955,874              |
| Other intangible assets—net  | 150,222            | 154,931              |
| Employee supplemental savings plan assets  | 30,670             | 29,383               |
| Property and equipment—net   | 23,510             | 23,121               |
| Investments  | 11,666             | 11,691               |
| Other assets   | 2,001              | 2,151                |
| <b>TOTAL ASSETS</b>  | <b>\$1,611,379</b> | <b>\$ 1,598,464</b>  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                    |                      |
| <b>LIABILITIES</b>   |                    |                      |
| Accounts payable and accrued expenses  | \$106,389          | \$ 108,888           |
| Accrued salaries and related expenses  | 74,422             | 70,768               |
| Billings in excess of revenue earned   | 11,425             | 11,998               |
| Total Current Liabilities  | 192,236            | 191,654              |
| Deferred income taxes—non-current  | 125,734            | 122,081              |
| Accrued retirement   | 29,926             | 30,581               |
| Other long-term liabilities  | 12,221             | 12,481               |
| <b>TOTAL LIABILITIES</b>   | <b>360,117</b>     | <b>356,797</b>       |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                    |                      |
| <b>STOCKHOLDERS' EQUITY</b>  |                    |                      |
| Common stock, Class A—\$0.01 par value; 150,000,000 shares authorized; 25,847,697 and 25,795,973 shares issued at March 31, 2017 and December 31, 2016; 25,603,584 and 25,551,860 shares outstanding at March 31, 2017 and December 31, 2016 | 258                | 258                  |
| Common stock, Class B—\$0.01 par value; 50,000,000 shares authorized; 13,190,745 and 13,190,745 shares issued and outstanding at March 31, 2017 and December 31, 2016  | 132                | 132                  |
| Additional paid-in capital   | 474,782            | 471,906              |
| Treasury stock, 244,113 and 244,113 shares at cost at March 31, 2017 and December 31, 2016   | (9,158 )           | (9,158 )             |
| Retained earnings  | 785,483            | 778,710              |
| Accumulated other comprehensive loss   | (235 )             | (181 )               |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>  | <b>1,251,262</b>   | <b>1,241,667</b>     |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b>\$1,611,379</b> | <b>\$ 1,598,464</b>  |

See notes to condensed consolidated financial statements.



MANTECH INTERNATIONAL CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (In Thousands Except Per Share Amounts)

|  | (unaudited)        |           |
|--|--------------------|-----------|
|  | Three months ended |           |
|  | March 31,          |           |
|  | 2017               | 2016      |
| REVENUES   | \$418,374          | \$390,662 |
| Cost of services   | 357,047            | 333,514   |
| General and administrative expenses                                      | 36,937             | 35,203    |
| OPERATING INCOME   | 24,390             | 21,945    |
| Interest expense   | (294 )             | (289 )    |
| Interest income  | 24                 | 44        |
| Other income (expense), net  | 39                 | 8         |
| INCOME FROM OPERATIONS BEFORE INCOME TAXES AND EQUITY METHOD INVESTMENTS | 24,159             | 21,708    |
| Provision for income taxes   | (9,100 )           | (8,560 )  |
| Equity in gains (losses) of unconsolidated subsidiaries                  | (31 )              | 68        |
| NET INCOME   | \$15,028           | \$13,216  |
| BASIC EARNINGS PER SHARE:  |                    |           |
| Class A common stock   | \$0.39             | \$0.35    |
| Class B common stock   | \$0.39             | \$0.35    |
| DILUTED EARNINGS PER SHARE:  |                    |           |
| Class A common stock   | \$0.39             | \$0.35    |
| Class B common stock   | \$0.39             | \$0.35    |

See notes to condensed consolidated financial statements.

MANTECH INTERNATIONAL CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(In Thousands)

|                                     | (unaudited)        |           |
|-------------------------------------|--------------------|-----------|
|                                     | Three months ended |           |
|                                     | March 31,          |           |
|                                     | 2017               | 2016      |
| NET INCOME                          | \$ 15,028          | \$ 13,216 |
| OTHER COMPREHENSIVE LOSS:           |                    |           |
| Translation adjustments, net of tax | (54                | ) —       |
| COMPREHENSIVE INCOME                | \$ 14,974          | \$ 13,216 |

See notes to condensed consolidated financial statements.



MANTECH INTERNATIONAL CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In Thousands)

|   | (unaudited)        |                  |
|---|--------------------|------------------|
|   | Three months ended |                  |
|   | March 31,          |                  |
|   | 2017               | 2016             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                    |                  |
| Net income  | \$ 15,028          | \$ 13,216        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                  |
| Depreciation and amortization   | 7,674              | 7,622            |
| Deferred income taxes   | 3,653              | 3,595            |
| Stock-based compensation  | 1,067              | 1,091            |
| Equity in (gains) losses of unconsolidated subsidiaries                           | 31                 | (68 )            |
| Excess tax benefits from exercise of stock options                                | —                  | (1 )             |
| Change in assets and liabilities—net of effects from acquired businesses:         |                    |                  |
| Receivables—net   | 5,645              | (7,307 )         |
| Prepaid expenses and other  | 4,411              | 2,690            |
| Contractual inventory   | 1,192              | —                |
| Employee supplemental savings plan asset  | (1,287 )           | (82 )            |
| Accounts payable and accrued expenses   | (2,644 )           | (1,084 )         |
| Accrued salaries and related expenses   | 3,646              | 14,596           |
| Billings in excess of revenue earned  | (899 )             | (2,899 )         |
| Accrued retirement  | (655 )             | (2,597 )         |
| Other   | (333 )             | 324              |
| Net cash flow from operating activities   | 36,529             | 29,096           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                    |                  |
| Purchases of property and equipment   | (2,578 )           | (2,278 )         |
| Investment in capitalized software for internal use                               | (817 )             | (399 )           |
| Payments to acquire investments   | —                  | (201 )           |
| Net cash flow from investing activities   | (3,395 )           | (2,878 )         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                    |                  |
| Dividends paid  | (8,137 )           | (7,910 )         |
| Proceeds from exercise of stock options   | 1,694              | 781              |
| Excess tax benefits from exercise of stock options                                | —                  | 1                |
| Net cash flow from financing activities   | (6,443 )           | (7,128 )         |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                                    | <b>26,691</b>      | <b>19,090</b>    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                             | <b>64,936</b>      | <b>41,314</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                                   | <b>\$ 91,627</b>   | <b>\$ 60,404</b> |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>   |                    |                  |
| Cash paid for income taxes, net   | \$(4,483 )         | \$(60 )          |
| Cash paid for interest  | \$ 244             | \$ 241           |
| Noncash investing and financing activities:                                       |                    |                  |
| Capital expenditures incurred but not yet paid                                    | \$ 371             | \$ —             |
| See notes to condensed consolidated financial statements.                         |                    |                  |



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017

UNAUDITED

1. Description of the Business

ManTech provides innovative technologies and solutions for mission-critical national security programs for the intelligence community; the departments of Defense, State, Homeland Security, Health and Human Services, Veteran Affairs and Justice, including the Federal Bureau of Investigations (FBI); the health and space community; and other U.S. government customers. Our expertise includes cybersecurity; software and systems development; enterprise information technology; multi-disciplined intelligence; command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR); program protection and mission assurance; systems engineering; supply chain management and logistics; test and evaluation (T&E); training; and management consulting. Additional information on ManTech can be found at [www.mantech.com](http://www.mantech.com).

2. Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in the annual financial statements, prepared in accordance with accounting principles generally accepted in the U.S., have been condensed or omitted pursuant to those rules and regulations. The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We recommend that you read these condensed consolidated financial statements in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, previously filed with the SEC. We believe that the condensed consolidated financial statements in this Form 10-Q reflect all adjustments that are necessary to fairly present the financial position, results of operations and cash flows for the interim periods presented. The results of operations for such interim periods are not necessarily indicative of the results that can be expected for the full year.

3. Acquisitions

Edaptive Systems LLC (Edaptive)—On December 15, 2016, we completed the acquisition of Edaptive. The results of Edaptive's operations have been included in our condensed consolidated financial statements since that date. The acquisition was completed through a membership interest purchase agreement dated December 15, 2016, by and among Edaptive, Everest Holdco, Inc., and certain members of Edaptive and ManTech Advanced Systems International, Inc. Edaptive provides innovative IT solutions primarily to federal health agencies, with a significant focus on the Centers for Medicare & Medicaid Services. The acquisition strategically expands our reach within the federal health community. We funded the acquisition with cash on hand. The membership interest purchase agreement did not contain provisions for contingent consideration.

The preliminary purchase price of \$13.3 million was preliminarily allocated to the underlying assets and liabilities based on their estimated fair value at the date of acquisition. The purchase price allocation for Edaptive is not complete as of March 31, 2017. The goodwill recorded related to this transaction will be deductible for tax purposes over 15 years. Recognition of goodwill is largely attributed to the value paid for Edaptive's capabilities to support Department of Health and Human Services customers and, specifically, in agile software development, testing and automation and business intelligence.

In preliminarily allocating the purchase price, we considered, among other factors, analysis of historical financial performance and estimates of future performance of Edaptive's contracts. The components of other intangible assets

associated with the acquisition were customer relationships and backlog valued at \$1.1 million and \$0.3 million, respectively. Customer contracts and related relationships represent the underlying relationships and agreements with Edaptive's existing customers. Customer relationships are amortized using the pattern of benefits method over their estimated useful lives of approximately 10 years. Backlog is amortized straight-line over its estimated useful life of 1 year. The weighted-average amortization period for the intangible assets is 8 years.

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The following table represents the preliminary purchase price allocation for Edaptive, as we are still in the process of reviewing the fair value of the assets acquired and liabilities assumed and determining the closing working capital adjustment (in thousands):

|   |           |
|---|-----------|
| Cash and cash equivalents                   | \$ 1,955  |
| Receivables                                 | 11,513    |
| Prepaid expenses and other                  | 261       |
| Goodwill                                    | 6,193     |
| Other intangible assets                     | 1,689     |
| Property and equipment                      | 502       |
| Other assets                                | 116       |
| Accounts payable and accrued expenses       | (6,286 )  |
| Accrued salaries and related expenses       | (2,324 )  |
| Billings in excess of revenue earned        | (326 )    |
| Net assets acquired and liabilities assumed | \$ 13,293 |

We have not disclosed current period, nor pro forma, revenues and earnings attributable to Edaptive as our integration of these operations post-acquisition and the entity's accounting methods pre-acquisition make it impracticable.

#### 4. Earnings Per Share

Under Accounting Standards Codification (ASC) 260, Earnings per Share, the two-class method is an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared (or accumulated) and participation rights in undistributed earnings. Under that method, basic and diluted earnings per share data are presented for each class of common stock.

In applying the two-class method, we determined that undistributed earnings should be allocated equally on a per share basis between Class A and Class B common stock. Under our Certificate of Incorporation, the holders of the common stock are entitled to participate ratably, on a share-for-share basis as if all shares of common stock were of a single class, in such dividends as may be declared by the Board of Directors. During each of the three months ended March 31, 2017 and 2016, we declared and paid quarterly dividends in the amount of \$0.21 per share on both classes of common stock.

Basic earnings per share has been computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during each period. Shares issued during the period and shares reacquired during the period are weighted for the portion of the period in which the shares were outstanding. Diluted earnings per share have been computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common shares that were outstanding during each period.

The net income available to common stockholders and weighted average number of common shares outstanding used to compute basic and diluted earnings per share for each class of common stock are as follows (in thousands, except per share amounts):

|                        | Three months<br>ended<br>March 31, |          |
|------------------------|------------------------------------|----------|
|                        | 2017                               | 2016     |
| Distributed earnings   | \$8,140                            | \$7,914  |
| Undistributed earnings | 6,888                              | 5,302    |
| Net income             | \$15,028                           | \$13,216 |

Class A common stock:

|   |         |         |
|---|---------|---------|
| Basic net income available to common stockholders | \$9,911 | \$8,588 |
| Basic weighted average common shares outstanding  | 25,547  | 24,476  |
| Basic earnings per share                          | \$0.39  | \$0.35  |

|   |         |         |
|---|---------|---------|
| Diluted net income available to common stockholders | \$9,941 | \$8,599 |
| Effect of potential exercise of stock options       | 231     | 91      |
| Diluted weighted average common shares outstanding  | 25,778  | 24,567  |
| Diluted earnings per share                          | \$0.39  | \$0.35  |

Class B common stock:

|   |         |         |
|---|---------|---------|
| Basic net income available to common stockholders | \$5,117 | \$4,628 |
| Basic weighted average common shares outstanding  | 13,191  | 13,192  |
| Basic earnings per share                          | \$0.39  | \$0.35  |

|   |         |         |
|---|---------|---------|
| Diluted net income available to common stockholders | \$5,087 | \$4,617 |
| Effect of potential exercise of stock options       | —       | —       |
| Diluted weighted average common shares outstanding  | 13,191  | 13,192  |
| Diluted earnings per share                          | \$0.39  | \$0.35  |

For the three months ended March 31, 2017 and 2016, options to purchase 158,074 shares and 1,271,949 shares, respectively, were outstanding but not included in the computation of diluted earnings per share because the options' effect would have been anti-dilutive. For the three months ended March 31, 2017 and 2016, there were 53,724 shares and 28,857 shares, respectively, issued from the exercise of stock options.

## 5. Receivables

We deliver a broad array of IT and technical services solutions under contracts with the U.S. government, state and local governments and commercial customers. The components of contract receivables are as follows (in thousands):

|  | March 31, December 31, |            |
|--|------------------------|------------|
|  | 2017                   | 2016       |
| Billed receivables                     | \$246,093              | \$ 247,114 |
| Unbilled receivables:                  |                        |            |
| Amounts billable                       | 43,877                 | 52,640     |
| Revenues recorded in excess of funding | 22,149                 | 20,078     |
| Retainage                              | 10,366                 | 8,353      |
| Allowance for doubtful accounts        | (6,890 )               | (7,508 )   |
| Receivables—net                        | \$315,595              | \$ 320,677 |



Amounts billable consist principally of amounts to be billed within the next month. Revenues recorded in excess of funding are billable upon receipt of contractual amendments or other modifications. The retainage is billable upon completion of contract performance and approval of final indirect expense rates by the government. Accounts receivable at March 31, 2017 are expected to be substantially collected within one year except for approximately \$1.0 million, of which 94.3% is related to receivables from sales to the U.S. government. The remainder is related to receivables from contracts in which we acted as a subcontractor to other contractors.

We do not believe that we have significant exposure to credit risk as accounts receivable and the related unbilled amounts are primarily due from the U.S. government. The allowance for doubtful accounts represents our estimate for exposure to compliance, contractual issues and bad debts related to prime contractors.

## 6. Property and Equipment

Major classes of property and equipment are summarized as follows (in thousands):

|   | March 31, December 31, |           |
|---|------------------------|-----------|
|   | 2017                   | 2016      |
| Furniture and equipment                   | \$ 52,628              | \$ 51,806 |
| Leasehold improvements                    | 37,924                 | 36,439    |
| Property and equipment—gross              | 90,552                 | 88,245    |
| Accumulated depreciation and amortization | (67,042 )              | (65,124 ) |
| Property and equipment—net                | \$ 23,510              | \$ 23,121 |

## 7. Goodwill and Other Intangible Assets

There was no change in the carrying amount of goodwill during the three months ended March 31, 2017. The change in the carrying amount of goodwill during the year ended December 31, 2016 is as follows (in thousands):

|                               | Goodwill<br>Balance |
|-------------------------------|---------------------|
| Goodwill at December 31, 2015 | \$919,591           |
| Acquisitions                  | 36,283              |
| Goodwill at December 31, 2016 | \$955,874           |

Other intangible assets consisted of the following (in thousands):

|  | March 31, 2017              |                             | Net                | December 31, 2016           |                             | Net                |
|--|-----------------------------|-----------------------------|--------------------|-----------------------------|-----------------------------|--------------------|
|  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Carrying<br>Amount |
| Other intangible assets:                   |                             |                             |                    |                             |                             |                    |
| Contract and program intangible assets     | \$ 301,082                  | \$ 163,498                  | \$ 137,584         | \$ 301,082                  | \$ 158,671                  | \$ 142,411         |
| Capitalized software cost for internal use | 40,215                      | 27,579                      | 12,636             | 39,332                      | 26,815                      | 12,517             |
| Other                                      | 58                          | 56                          | 2                  | 58                          | 55                          | 3                  |
| Total other intangible assets—net          | \$ 341,355                  | \$ 191,133                  | \$ 150,222         | \$ 340,472                  | \$ 185,541                  | \$ 154,931         |



Amortization expense relating to intangible assets for the three months ended March 31, 2017 and 2016 was \$5.6 million and \$5.4 million, respectively. We estimate that we will have the following amortization expense for the future periods indicated below (in thousands):

|  |           |
|--|-----------|
| For the remaining nine months ending December 31, 2017 | \$ 16,221 |
| For the year ending:                                   |           |
| December 31, 2018                                      | \$ 19,921 |
| December 31, 2019                                      | \$ 17,370 |
| December 31, 2020                                      | \$ 15,076 |
| December 31, 2021                                      | \$ 12,986 |
| December 31, 2022                                      | \$ 11,207 |

## 8. Debt

**Revolving Credit Facility**—We maintain a credit facility with a syndicate of lenders led by Bank of America, N.A, as sole administrative agent. The credit agreement provides for a \$500 million revolving credit facility, with a \$50 million letter of credit sublimit and a \$30 million swing line loan sublimit. The credit agreement also includes an accordion feature that permits us to arrange with the lenders for the provision of additional commitments. The maturity date is June 13, 2019. On May 17, 2016, we amended the credit agreement, which among other things increased the letter of credit sublimit to \$50 million. We deferred \$1.8 million in debt issuance costs, cumulatively over the agreement, which are amortized over the term of the credit agreement.

Borrowings under our credit agreement are collateralized by substantially all of our assets and our Material Subsidiaries (as defined in the credit agreement) and bear interest at one of the following variable rates as selected by us at the time of borrowing: a London Interbank Offer Rate based rate plus market-rate spreads (1.25% to 2.25% based on our consolidated total leverage ratio) or Bank of America's base rate plus market spreads (0.25% to 1.25% based on our consolidated total leverage ratio).

The terms of the credit agreement permit prepayment and termination of the loan commitments at any time, subject to certain conditions. The credit agreement requires us to comply with specified financial covenants, including the maintenance of certain leverage ratios and a certain consolidated coverage ratio. The credit agreement also contains various covenants, including affirmative covenants with respect to certain reporting requirements and maintaining certain business activities, and negative covenants that, among other things, may limit or impose restrictions on our ability to incur liens, incur additional indebtedness, make investments, make acquisitions and undertake certain other actions. As of and during the three months ended March 31, 2017 and 2016, we were in compliance with the financial covenants under the credit agreement.

There was no outstanding balance on our revolving credit facility at both March 31, 2017 and December 31, 2016. The maximum available borrowing under the revolving credit facility at March 31, 2017 was \$480.7 million. As of March 31, 2017, we were contingently liable under letters of credit totaling \$19.3 million, which reduces our availability to borrow under our revolving credit facility.

## 9. Commitments and Contingencies

Contracts with the U.S. government, including subcontracts, are subject to extensive legal and regulatory requirements and, from time-to-time, agencies of the U.S. government, in the ordinary course of business, investigate whether our operations are conducted in accordance with these requirements and the terms of the relevant contracts. U.S. government investigations of us, whether related to our U.S. government contracts or conducted for other reasons, could result in administrative, civil, or criminal liabilities, including repayments, fines or penalties being imposed upon us, or could lead to suspension or debarment from future U.S. government contracting activities. Management

believes it has adequately reserved for any losses that may be experienced from any investigation of which it is aware. The Defense Contract Audit Agency has substantially completed our incurred cost audits through 2012 with no material adjustments. The remaining audits for 2013 through 2016 are not expected to have a material effect on our financial position, results of operations or cash flow and management believes it has adequately reserved for any losses.

In the normal course of business, we are involved in certain governmental and legal proceedings, claims and disputes and have litigation pending under several suits. We believe that the ultimate resolution of these matters will not have a material effect on our financial position, results of operations or cash flows, except for the matter noted below.

We are a defendant in a lawsuit filed by two former employees alleging retaliation under both the False Claims Act (FCA) and the Defense Contractor Whistleblower Protection Act (DCWPA). In November 2016, we went to trial and the jury returned a verdict in favor of both plaintiffs, finding us liable to them for retaliation under both the FCA and the DCWPA, and awarded \$0.8 million in compensatory damages. As a result, these plaintiffs are also entitled to awards of (i) back pay, (ii) front pay and (iii) attorney's fees and costs. We have challenged the jury's verdict at the trial court level - both in terms of liability and in terms of the amount of the compensatory damages awarded. Specifically, we have asked the trial court to take the following actions: (i) grant us judgment as a matter of law and dismiss the retaliation claims under both the FCA and the DCWPA, and (ii) vacate the jury's awards of compensatory damages. The trial court has not issued a ruling on our motion. As of March 31, 2017, we have recorded a \$4.2 million liability, based on the jury's award of compensatory damages, the stipulation for back pay damages calculation and an estimate of front pay damages and the plaintiffs' legal expenses. Because our estimated liability and a portion of our legal defense costs are covered under an insurance policy, we have recorded a corresponding receivable of \$5.0 million. Legal defense costs that exceeded our coverage limits were expensed as incurred. Depending on the trial court's ruling and the outcome of any appeal, we estimate our liability range from a reduction to \$0, or an increase to \$11.1 million. Any increase in our liability would be reflected as a loss in our condensed consolidated income statement.

We have \$19.3 million outstanding on our letter of credit, of which \$15.2 million is related to an outstanding performance bond in connection with a contract between ManTech MENA, LLC and Jadwalean International Operations and Management Company to fulfill technical support requirements for the Royal Saudi Air Force.

#### 10. Stock-Based Compensation

Our 2016 Management Incentive Plan (the Plan) was designed to attract, retain and motivate key employees. The types of awards available under the Plan include stock options, restricted stock and restricted stock units (RSUs). Equity awards granted under the Plan are settled in shares of Class A common stock. At the beginning of each year, the Plan provides that the number of shares available for issuance automatically increases by an amount equal to 1.5% of the total number of shares of Class A and Class B common stock outstanding on December 31<sup>st</sup> of the previous year. On January 2, 2017, there were 581,139 additional shares made available for issuance under the Plan. Through March 31, 2017, the Board of Directors has authorized the issuance of up to 13,963,435 shares under this Plan. Through March 31, 2017, the remaining aggregate number of shares of our common stock available for future grants under the Plan was 6,234,422. The Plan expires in March 2026.

The Plan is administered by the compensation committee of our Board of Directors, along with its delegates. Subject to the express provisions of the Plan, the committee has the Board of Directors' authority to administer and interpret the Plan, including the discretion to determine the exercise price, vesting schedule, contractual life and the number of shares to be issued.

On January 1, 2017, we adopted Accounting Standards Update (ASU) 2016-09, Compensation - Stock Compensation (Topic 718), which simplifies several aspects of the accounting for employee share-based payment transactions. All excess tax benefits (deficiencies) will be recognized as income tax expense (benefit) in the condensed consolidated income statement. For the three months ended March 31, 2017, we recorded \$0.1 million to income tax expense for tax deficiencies related to the exercise of stock options, vested cancellations and the vesting of restricted stock. For the three months ended March 31, 2016, we recorded \$1.4 million to paid in capital related to tax deficiencies from the exercise of stock options, vested cancellations and the vesting of restricted stock. The ASU eliminates the requirement to estimate forfeitures. We have elected to account for forfeitures when they occur. Upon transition we recognized a cumulative-effect adjustment to retained earnings of \$0.2 million related to previously estimated forfeitures. Excess tax benefits no longer represent financing activities since they are recognized in the income statement; therefore, excess tax benefits are not separate cash flows and will be classified as operating activities in the same manner as other cash flows related to income taxes. The ASU eliminates the requirement to reclassify excess tax benefits from

operating activities to financing activities. The change in the presentation of the cash flows was applied prospectively starting January 1, 2017. Therefore, prior periods were not adjusted. Furthermore, there was no effect on the condensed consolidated statement of cash flows related to statutory tax withholding requirements on prior periods because we do not withhold shares from an employee's award for tax-withholding purposes.

**Stock Compensation Expense**—For the three months ended March 31, 2017 and 2016, we recorded \$1.0 million and \$1.1 million of stock-based compensation expense, respectively. No compensation expense of employees with stock awards, including stock-based compensation expense, was capitalized during the periods.

**Stock Options**—Under the Plan, we have issued stock options. A stock option granted gives the holder the right, but not the obligation to purchase a certain number of shares at a predetermined price for a specific period of time. We typically issue options that vest over three years in equal installments beginning on the first anniversary of the date of grant. Under the terms of the Plan, the contractual life of the option grants may not exceed eight years. During the three months ended March 31, 2017 and 2016, we issued options that expire five years from the date of grant.

Fair Value Determination—We have used the Black-Scholes-Merton option pricing model to determine the fair value of our awards on the date of grant. We will reconsider the use of the Black-Scholes-Merton model if additional information becomes available in the future that indicates another model would be more appropriate or if grants issued in future periods have characteristics that cannot be reasonably estimated under this model.

The following weighted-average assumptions were used for option grants during the three months ended March 31, 2017 and 2016:

Volatility—The expected volatility of the options granted was estimated based upon historical volatility of our share price through weekly observations of our trading history.

Expected life of options—The expected life of options granted to employees was determined from historical exercises of the grantee population. The options had graded vesting over three years in equal installments beginning on the first anniversary of the date of grant and a contractual term of five years.

Risk-free interest rate—The yield on zero-coupon U.S. Treasury strips was used to extrapolate a forward-yield curve. This “term structure” of future interest rates was then input into a numeric model to provide the equivalent risk-free rate to be used in the Black-Scholes-Merton model based on the expected term of the underlying grants.

Dividend Yield—The Black-Scholes-Merton valuation model requires an expected dividend yield as an input. We have calculated our expected dividend yield based on an expected annual cash dividend of \$0.84 per share.

The following table summarizes weighted-average assumptions used in our calculations of fair value for the three months ended March 31, 2017 and 2016:

|                          | Three months ended<br>March 31, |   |         |   |
|--------------------------|---------------------------------|---|---------|---|
|                          | 2017                            |   | 2016    |   |
| Volatility               | 25.12                           | % | 23.62   | % |
| Expected life of options | 3 years                         |   | 3 years |   |
| Risk-free interest rate  | 1.67                            | % | 1.21    | % |
| Dividend yield           | 2.75                            | % | 3.00    | % |

Stock Option Activity—The weighted-average fair value of options granted during the three months ended March 31, 2017 and 2016, as determined under the Black-Scholes-Merton valuation model, was \$5.63 and \$3.96, respectively. Option grants that vested during the three months ended March 31, 2017 and 2016 had a combined fair value of \$0.8 million and \$1.3 million, respectively.

The following table summarizes stock option activity for the year ended December 31, 2016 and the three months ended March 31, 2017:

|  | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value<br>(in<br>thousands) | Weighted Average Remaining<br>Contractual Life |
|--|---------------------|--|--|--|
| Stock options outstanding at December 31, 2015 | 2,495,310           | \$ 30.86                                 | \$ 3,583   |  |
| Granted  | 199,938             | \$ 34.22                                 |  |  |
| Exercised                                      | (1,045,789)         | \$ 29.24                                 | \$ 8,858   |  |
| Cancelled and expired                          | (489,040 )          | \$ 37.91                                 |  |  |
| Stock options outstanding at December 31, 2016 | 1,160,419           | \$ 29.93                                 | \$ 14,299  |  |
| Granted  | 265,865             | \$ 36.87                                 |  |  |
| Exercised                                      | (53,724 )           | \$ 32.65                                 | \$ 202   |  |
| Cancelled and expired                          | (22,904 )           | \$ 32.15                                 |  |  |
| Stock options outstanding at March 31, 2017    | 1,349,656           | \$ 31.15                                 | \$ 5,593   | 3 years  |
| Stock options exercisable at March 31, 2017    | 703,200             | \$ 28.58                                 | \$ 4,254   | 2 years  |

The following table summarizes non-vested stock options for the three months ended March 31, 2017:

|   | Number<br>of Shares | Weighted<br>Average<br>Fair<br>Value |
|---|---------------------|--------------------------------------|
| Non-vested stock options at December 31, 2016 | 562,927             | \$ 4.66                              |
| Granted                                       | 265,865             | \$ 5.63                              |
| Vested  | (171,015)           | \$ 4.78                              |
| Cancelled                                     | (11,321 )           | \$ 4.54                              |
| Non-vested stock options at March 31, 2017    | 646,456             | \$ 5.03                              |

Unrecognized compensation expense related to non-vested awards was \$2.8 million as of March 31, 2017, which is expected to be recognized over a weighted-average period of 2 years.

**Restricted Stock**—Under the Plan, we have issued restricted stock. A restricted stock award is an issuance of shares that cannot be sold or transferred by the recipient until the vesting period lapses. Restricted stock issued to members of our Board of Directors vests in one year. The related compensation expense is recognized over the service period and is based on the grant date fair value of the stock and the number of shares expected to vest. The grant date fair value of the restricted stock is equal to the closing market price of our common stock on the date of grant.

**Restricted Stock Activity**—There was no restricted stock activity during the three months ended March 31, 2017. The following table summarizes the restricted stock activity during the year ended December 31, 2016:

|  | Number<br>of<br>Shares | Weighted<br>Average<br>Fair<br>Value |
|--|------------------------|--------------------------------------|
|--|------------------------|--------------------------------------|

|  |          |          |
|--|----------|----------|
| Non-vested restricted stock at December 31, 2015 | 21,000   | \$ 28.98 |
| Granted  | 18,000   | \$ 33.84 |
| Vested   | (21,000) | \$ 28.98 |
| Non-vested restricted stock at December 31, 2016 | 18,000   | \$ 33.84 |

RSUs—Under the Plan, we have issued RSUs. RSUs are not actual shares, but rather a right to receive shares in the future. The shares are not issued and the employee cannot sell or transfer shares prior to vesting and has no voting rights until the RSUs vest. Employees who are granted RSUs do not receive dividend payments during the vesting period. Generally, our employees are granted performance-based RSUs. These RSUs will result in the delivery of shares only if (a) performance criteria is met and (b) the employee remains employed, in good standing, through the date of the performance period. The performance period is

two years. In addition, in 2016 we granted 26,788 time-based RSUs to an officer, which do not contain performance criteria (half will vest four years after the date of grant and the other half will vest five years after the date of grant). The grant date fair value of the RSUs is equal to the closing market price of our common stock on the grant date less the present value of dividends expected to be awarded during the service period. We recognize the grant date fair value of RSUs of shares we expect to issue as compensation expense ratably over the requisite service period.

RSU Activity—The following table summarizes the non-vested RSU activity during the year ended December 31, 2016 and the three months ended March 31, 2017:

|                                      | Number<br>of Units | Weighted<br>Average<br>Fair<br>Value |
|--------------------------------------|--------------------|--------------------------------------|
| Non-vested RSUs at December 31, 2015 | 93,450             | \$ 30.84                             |
| Granted                              | 132,988            | \$ 29.50                             |
| Cancelled and expired                | (20,100 )          | \$ 29.56                             |
| Non-vested RSUs at December 31, 2016 | 206,338            | \$ 30.10                             |
| Granted                              | 54,880             | \$ 35.29                             |
| Cancelled and expired                | (85,050 )          | \$ 30.79                             |
| Non-vested RSUs at March 31, 2017    | 176,168            | \$ 31.39                             |

#### 11. Business Segment and Geographic Area Information

We have one reportable segment. We deliver a broad array of IT and technical services solutions under contracts with the U.S. government. Our U.S. government customers typically exercise independent contracting authority, and even offices or divisions within an agency or department may directly, or through a prime contractor, use our services as a separate customer so long as that customer has independent decision-making and contracting authority within its organization. Revenues from the U.S. government under prime contracts and subcontracts were approximately 98% and 98% of our revenues for the three months ended March 31, 2017 and 2016, respectively. We treat sales to U.S. government customers as sales within the U.S. regardless of where the services are performed. U.S. revenues were approximately 98% and 99% of our total revenues for the three months ended March 31, 2017 and 2016, respectively. International revenues were approximately 2% and 1% of our total revenues for the three months ended March 31, 2017 and 2016, respectively. Furthermore, substantially all assets from continuing operations were held in the U.S. for the three months ended March 31, 2017 and year ended December 31, 2016.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Cautionary Note Regarding Forward-Looking Statements

All statements and assumptions contained in this Quarterly Report on Form 10-Q that do not relate to historical facts constitute "forward-looking statements." These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often include the use of words such as "may," "will," "expect," "intend," "anticipate," "believe," "estimate," "plan" and words and terms of similar substance in connection with discussions of future events, situations or financial performance. While these statements represent our current expectations, no assurance can be given that the results or events described in such statements will be achieved.

Forward-looking statements may include, among other things, statements with respect to our financial condition, results of operations, prospects, business strategies, competitive position, growth opportunities, and plans and objectives of management. Such statements are subject to numerous assumptions, risks, uncertainties and other factors, many of which are outside of our control, and include, without limitations, the risks and uncertainties discussed in the section titled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Factors or risks that could cause our actual results to differ materially from the results we anticipate include, but are not limited to, the following:

- Failure to maintain our relationship with the U.S. government, or the failure to compete effectively for new contract awards or to retain existing U.S. government contracts;

- Issues relating to competing effectively for awards procured through the competitive bidding process, including the adverse impact of delays caused by competitors' protests of contract awards received by us;

- Inability to recruit and retain a sufficient number of employees with specialized skill sets who are in great demand and limited supply;

- Adverse changes in U.S. government spending for programs we support, whether due to changing mission priorities, socio-economic policies that reduce contracts that we may bid on, cost reduction and efficiency initiatives by our customers, or federal budget contracts generally;

- Failure to obtain option awards, task orders or funding under contracts;

- Increased exposure to risks associated with conducting business internationally;

- Failure to realize the full amount of our backlog, or adverse changes in the timing of receipt of revenues under contracts included in backlog;

- Renegotiation, modification or termination of our contracts, or failure to perform in conformity with contract terms or our expectations;

- Disruption of our business or damage to our reputation resulting from security breaches in customer systems, internal systems or service failures (including as a result of cyber or other security threats), or employee or subcontractor misconduct;

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Failure to successfully integrate acquired companies or businesses into our operations or to realize any accretive or synergistic effects from such acquisitions;

• Adverse changes in business conditions that may cause our investments in recorded goodwill to become impaired;

• Non-compliance with, or adverse changes in, complex U.S. government laws, procurement regulations or processes;  
and

• Adverse results of U.S. government audits or other investigations of our government contracts.

We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report. We undertake no obligation to update any forward-looking statement made herein following the date of this Quarterly Report, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

## Overview

We provide innovative technologies and solutions for mission-critical national security programs for the intelligence community; the departments of Defense, State, Homeland Security, Health and Human Services, Veterans Affairs and Justice, including the FBI; the space community; and other U.S. government customers. We derive revenues primarily from contracts with U.S. government agencies that are focused on national security and consequently our operational results are affected by U.S. government spending levels in the areas of defense, federal health IT, intelligence and homeland security.

Over the last few years, financial performance in our industry was adversely impacted by public and political pressure regarding government funding levels, uncertainty about the appropriations process and delays in contract awards and spending. With the passing of budget and appropriation acts late in 2015 and early 2016, industry conditions began to improve. Entering 2017, the new Administration and Congress present shifts in the political environment and national priorities. Several priorities of the new Administration include the near term expansion of budgets for the DoD related to readiness, anti-ISIS and force structure readiness, which are generally favorable to our industry. The new Administration's policy priorities will be presented to Congress to debate how to reconcile the stated priorities and needs with the continuing national budget deficits, debt ceilings and the Budget Control Act. We believe our strong position as a prime contractor and our broad array of service offerings are a competitive advantage, and that we are well positioned to support the challenges our customers face.

We recommend that you read this discussion and analysis in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, previously filed with the SEC.

## Three Months Ended March 31, 2017 Compared to the Three Months Ended March 31, 2016

The following table sets forth certain items from our condensed consolidated statements of income and the relative percentage that certain items of expenses and earnings bear to revenues, as well as the period-to-period change from March 31, 2016 to March 31, 2017.

|   | Three months ended<br>March 31, |                 | 2017               |                    | 2016                    |                            | Period-to-Period<br>Change |  |
|---|---------------------------------|-----------------|--------------------|--------------------|-------------------------|----------------------------|----------------------------|--|
|   | 2017<br>Dollars                 | 2016<br>Dollars | 2017<br>Percentage | 2016<br>Percentage | 2016 to 2017<br>Dollars | 2016 to 2017<br>Percentage |                            |  |
|   | (dollars in thousands)          |                 |                    |                    |                         |                            |                            |  |
| REVENUES  | \$418,374                       | \$390,662       | 100.0 %            | 100.0 %            | \$27,712                | 7.1                        | %                          |  |
| Cost of services  | 357,047                         | 333,514         | 85.3 %             | 85.4 %             | 23,533                  | 7.1                        | %                          |  |
| General and administrative expenses   | 36,937                          | 35,203          | 8.9 %              | 9.0 %              | 1,734                   | 4.9                        | %                          |  |
| OPERATING INCOME  | 24,390                          | 21,945          | 5.8 %              | 5.6 %              | 2,445                   | 11.1                       | %                          |  |
| Interest expense  | (294)                           | (289)           | — %                | — %                | 5                       | 1.7                        | %                          |  |
| Interest income   | 24                              | 44              | — %                | — %                | (20)                    | (45.5)                     | %                          |  |
| Other income (expense), net   | 39                              | 8               | — %                | — %                | 31                      | 387.5                      | %                          |  |
| INCOME FROM OPERATIONS BEFORE INCOME<br>TAXES AND EQUITY METHOD INVESTMENTS | 24,159                          | 21,708          | 5.8 %              | 5.6 %              | 2,451                   | 11.3                       | %                          |  |
| Provision for income taxes  | (9,100)                         | (8,560)         | 2.2 %              | 2.2 %              | 540                     | 6.3                        | %                          |  |
| Equity in gains (losses) of unconsolidated subsidiaries                     | (31)                            | 68              | — %                | — %                | (99)                    | (145.6)                    | %                          |  |

|            |          |          |     |   |     |   |         |      |   |
|------------|----------|----------|-----|---|-----|---|---------|------|---|
| NET INCOME | \$15,028 | \$13,216 | 3.6 | % | 3.4 | % | \$1,812 | 13.7 | % |
|------------|----------|----------|-----|---|-----|---|---------|------|---|

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## Revenues

The primary driver of our increase in revenues relates to revenues from new contract awards, growth on existing contracts, including higher levels of material procurements, and acquisitions. These increases were offset by contracts and tasks that ended and reduced scope of work on some contracts.

## Cost of services

The increase in cost of services was primarily due to increases in revenues. As a percentage of revenues, direct labor costs decreased to 49% for the three months ended March 31, 2017, compared to 51% for the same period in 2016. As a percentage of revenues, other direct costs, which include subcontractors and third party equipment and materials used in the performance of our contracts, increased to 37% for the three months ended March 31, 2017, compared to 35% for the same period in 2016. We expect cost of services as a percentage of revenues to remain relatively stable or slightly increase for the remainder of 2017.

## General and administrative expenses

The increase in general and administrative expenses was due to an increase in legal expenses and amortization expense from acquired intangibles. As a percentage of revenues, general and administrative expenses remained consistent period to period. We expect general and administrative expenses as a percentage of revenues to remain relatively stable or slightly increase for the remainder of 2017.

## Provision for income taxes

Our effective tax rate is affected by recurring items, such as relative amount of income we earn in various taxing jurisdictions and their tax rates. It is also affected by discrete items that may occur in any given year, but are not consistent from year-to-year. Our effective income tax rates were 38% and 39% for the three months ended March 31, 2017 and 2016, respectively. The decrease in our effective tax rate is related to discrete items recognized during the period ended March 31, 2017. Assuming no changes in federal tax legislation, we expect our effective tax rate to increase slightly for the remainder of 2017.

## Backlog

At March 31, 2017 and December 31, 2016, our backlog was \$5.1 billion and \$4.9 billion, respectively, of which \$1.2 billion and \$1.0 billion, respectively, was funded backlog. The increase in our backlog is due to our receipt of new awards. The current trend is that contracts are awarded for a longer term, which increases the time over which backlog will be recognized as revenues. Backlog represents estimates that we calculate on a consistent basis. For additional information on how we compute backlog, see our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, previously filed with the SEC.

## Liquidity and Capital Resources

Our primary liquidity needs relate to managing working capital, making cash dividend payments, financing acquisitions, purchasing property and equipment and investing in capital software. Our primary sources of liquidity are cash from operating activities and borrowings under our revolving credit facility. On March 31, 2017, our cash and cash equivalents balance was \$91.6 million. There were no outstanding borrowings under our revolving credit facility at March 31, 2017. The maximum available borrowings under our revolving credit facility at March 31, 2017 were \$480.7 million. As of March 31, 2017, we were contingently liable under letters of credit totaling \$19.3 million, which reduces our availability to borrow under our revolving credit facility.

### Cash Flows from Operating Activities

Our operating cash flow is primarily affected by our ability to invoice and collect from our customers in a timely manner, our management of vendor payments and the overall profitability of our contracts. We bill most of our customers monthly after services are rendered. Our accounts receivable days sales outstanding were 68 and 72 for the three months ended March 31, 2017 and 2016, respectively. For the three months ended March 31, 2017 and 2016, our net cash flows from operating activities were \$36.5 million and \$29.1 million, respectively. The increase in net cash flows from operating activities during the three months ended March 31, 2017 when compared to the same period in 2016 was primarily due to the timing on the collection of receivables.

### Cash Flows from Investing Activities

For the three months ended March 31, 2017, our net cash outflows from investing activities were \$3.4 million, which were due to capital expenditures. For the three months ended March 31, 2016, our net cash outflows from investing activities were \$2.9 million, which were primarily related to capital expenditures.

### Cash Flows from Financing Activities

For the three months ended March 31, 2017, our net cash outflows from financing activities were \$6.4 million, which were primarily due to dividends paid partially offset by the proceeds from the exercise of stock options. For the three months ended March 31, 2016, our net cash outflows from financing activities were \$7.1 million, which were primarily related to dividends paid offset by the proceeds from the exercise of stock options.

### Revolving Credit Facility

We maintain a credit agreement with a syndicate of lenders led by Bank of America, N.A., as sole administrative agent. The credit agreement provides for a \$500 million revolving credit facility, with a \$50 million letter of credit sublimit and a \$30 million swing line loan sublimit. The credit agreement also includes an accordion feature that permits us to arrange with the lenders for the provision of additional commitments. The maturity date is June 13, 2019. Borrowings under our credit agreement are collateralized by substantially all the assets of us and our Material Subsidiaries (as defined in the credit agreement) and bear interest at one of the following variable rates as selected by us at the time of borrowing: a London Interbank Offer Rate (LIBOR) based rate plus market spreads (1.25% to 2.25% based on our consolidated total leverage ratio) or Bank of America's base rate plus market spreads (0.25% to 1.25% based on our consolidated total leverage ratio). There were no outstanding borrowings under our revolving credit facility at March 31, 2017. As of and during the three months ended March 31, 2017, we were in compliance with the financial covenants under the credit agreement.

### Capital Resources

We believe the capital resources available to us from cash on hand, our remaining capacity under our revolving credit facility, and cash from our operations are adequate to fund our anticipated cash requirements for at least the next year. We anticipate financing our internal and external growth through cash from operating activities, borrowings under our revolving credit facility or other debt and issuance of equity.

### Cash Management

To the extent possible, we invest our available cash in short-term, investment grade securities in accordance with our investment policy. Under our investment policy, we manage our investments in accordance with the priorities of maintaining the safety of our principal, maintaining the liquidity of our investments, maximizing the yield on our investments and investing our cash to the fullest extent possible. Our investment policy provides that no investment security can have a final maturity that exceeds six months and that the weighted average maturity of the portfolio cannot exceed 60 days. Cash and cash equivalents include cash on hand, amounts due from banks and short-term investments with maturity dates of three months or less at the date of purchase.

### Dividend

During each of the three months ended March 31, 2017 and 2016, we declared and paid quarterly dividends in the amount of \$0.21 per share on both classes of our common stock. While we expect to continue the cash dividend program, any future dividends declared will be at the discretion of our Board of Directors and will depend, among

other factors, upon our results of operations, financial condition and cash requirements, as well as such other factors that our Board of Directors deems relevant.

#### Off-Balance Sheet Arrangements

In the ordinary course of business, we use letters of credit issued to satisfy certain contractual terms with our customers. As of March 31, 2017, \$19.3 million in letters of credit were issued but undrawn. We have an outstanding performance bond in connection with a contract between ManTech MENA, LLC and Jadwalean International Operations and Management Company to fulfill technical support requirements for the Royal Saudi Air Force. This performance bond is guaranteed by a letter of credit in the amount of \$15.2 million. We have off-balance sheet arrangements related to operating leases. For a description of our operating leases, see our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, previously filed with the SEC.



### Critical Accounting Estimates and Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. Application of these policies is particularly important to the portrayal of our financial condition and results of operations. The discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates under different assumptions or conditions. Our significant accounting policies are described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, previously filed with the SEC.

### Revenue Recognition and Cost Estimation

We recognize revenues when persuasive evidence of an arrangement exists, services have been rendered, the contract price is fixed or determinable and collectability is reasonably assured. We have a standard internal process that we use to determine whether all required criteria for revenue recognition have been met.

Our revenues consist primarily of services provided by our employees and the pass through of costs for materials and subcontract efforts under contracts with our customers. Cost of services consists primarily of compensation expenses for program personnel, the fringe benefits associated with this compensation and other direct expenses incurred to complete programs, including cost of materials and subcontract efforts.

We derive the majority of our revenues from cost-plus-fixed-fee, cost-plus-award-fee, fixed-price or time-and-materials contracts. Revenues for cost-reimbursable contracts are recorded as reimbursable costs are incurred, including an estimated share of the applicable contractual fees earned. For performance-based fees under cost-reimbursable contracts, we recognize the relevant portion of the expected fee to be awarded by the customer at the time such fee can be reasonably estimated, based on factors such as our prior award experience and communications with the customer regarding performance, or upon approval by the customer. For time-and-materials contracts, revenues are recognized to the extent of billable rates times hours delivered plus materials and other reimbursable costs incurred. For long-term fixed-price production contracts, revenues are recognized at a rate per unit as the units are delivered or by other methods to measure services provided. Revenues from other long-term fixed-price contracts are recognized ratably over the contract period or by other appropriate methods to measure services provided. Contract costs are expensed as incurred except for certain limited long-term contracts noted below. For long-term contracts specifically described in the scope section of ASC 605-35, Revenue Recognition - Construction-Type and Production-Type Contracts, we apply the percentage of completion method. Under the percentage of completion method, income is recognized at a consistent profit margin over the period of performance based on estimated profit margins at completion of the contract. This method of accounting requires estimating the total revenues and total contract cost at completion of the contract. During the performance of long-term contracts, these estimates are periodically reviewed and revisions are made as required using the cumulative catch-up method of accounting. The impact on revenues and contract profit as a result of these revisions is included in the periods in which the revisions are made. This method can result in the deferral of costs or the deferral of profit on these contracts. Because we assume the risk of performing a fixed-price contract at a set price, the failure to accurately estimate ultimate costs or to control costs during performance of the work could result, and in some instances has resulted, in reduced profits or losses for such contracts. Estimated losses on contracts at completion are recognized when identified. In certain circumstances, revenues are recognized when contract amendments have not been finalized.

### Accounting for Business Combinations and Goodwill and Other Intangible Assets

The purchase price of an acquired business is allocated to the tangible assets, financial assets and separately recognized intangible assets acquired less liabilities assumed based upon their respective fair values, with the excess recorded as goodwill. Such fair value assessments require judgments and estimates that can be affected by contract performance and other factors over time, which may cause final amounts to differ materially from original estimates.

We review goodwill at least annually for impairment, or whenever events or circumstances indicate that the carrying value of long-lived assets may not be fully recoverable. We perform this review at the reporting unit level, which is one level below our reportable segment.

In reviewing goodwill for impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the estimated fair value of a reporting unit is less than its carrying amount. If we elect to perform a qualitative assessment and determine that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test (described below), otherwise no

further analysis is required. We also may elect not to perform the qualitative assessment and, instead, proceed directly to the two-step quantitative impairment test.

The goodwill impairment test is a two-step process performed at the reporting unit level. The first step of the goodwill impairment test compares the fair value of a reporting unit with its carrying value (including goodwill). If the reporting unit's fair value exceeds its carrying value, no further procedures are required. However, if the reporting unit's fair value is less than its carrying value, an impairment of goodwill may exist, requiring a second step to be performed. Step two of this test measures the amount of the impairment loss, if any. Step two of this test requires the allocation of the reporting unit's value to its assets and liabilities, including any unrecognized intangible assets in a hypothetical analysis that calculates the implied fair value of goodwill as if the reporting unit were being acquired in a business combination. If the implied fair value of goodwill is less than the carrying value, the difference is recorded as a goodwill impairment charge in operations.

The fair values of the reporting units are determined based on a weighting of the income approach, market approach and market transaction approach. The income approach is a valuation technique in which fair value is calculated based on forecasted future cash flow discounted at the appropriate rate of return commensurate with the risk as well as current rates of return for equity and debt capital as of the valuation date. The forecast used in our estimation of fair value was developed by management based on a contract basis, incorporating adjustments to reflect known contract and market considerations (such as reductions and uncertainty in government spending, pricing pressure and opportunities). The discount rate utilizes a risk adjusted weighted average cost of capital. The market approach is a valuation technique in which the fair value is calculated based on market prices realized in an actual arm's length transaction. The technique consists of undertaking a detailed market analysis of publicly traded companies that provides a reasonable basis for comparison to us. Valuation ratios, which relate market prices to selected financial statistics derived from comparable companies, are selected and applied to us after consideration of adjustments for financial position, growth, market, profitability and other factors. The market transaction approach is a valuation technique in which the fair value is calculated based on market prices realized in actual arm's length transactions. The technique consists of undertaking a detailed market analysis of merged and acquired companies that provides a reasonable basis for comparison to us. Valuation ratios, which relate market prices to selected financial statistics derived from comparable companies, are selected and applied to us after consideration of adjustments for financial position, growth, market, profitability and other factors. To assess the reasonableness of the calculated reporting unit fair values, we compare the sum of the reporting units' fair values to our market capitalization (per share stock price times the number of shares outstanding) and calculate an implied control premium (the excess of the sum of the reporting units' fair values over the market capitalization), and then assess the reasonableness of our implied control premium.

We have elected to perform our annual review October 31st of each calendar year. In addition, management monitors events and circumstances that could result in an impairment. A significant amount of judgment is involved in determining if an indicator of impairment has occurred between annual testing dates. Events that could cause the fair value of our long-lived assets to decrease include: changes in our business environment or market conditions, a material change in our financial outlook, including declines in expected revenue growth rates and operating margins, or a material decline in the market price for our stock. If any impairment were indicated as a result of a review, we would recognize a loss based on the amount by which the carrying amount exceeds the estimated fair value.

Due to the many variables inherent in the estimation of a reporting unit's fair value and the relative size of our recorded goodwill, differences in assumptions may have a material effect on the results of our goodwill impairment analysis.

Recently Issued But Not Yet Adopted ASUs

On January 26, 2017, the Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the manner in which an entity determines the amount of a goodwill impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. In computing the implied fair value of goodwill under Step 2, an entity, prior to the amendments in ASU 2017-04, had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities, including unrecognized assets and liabilities, in accordance with the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under the amendments in this ASU, an entity should (1) perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and (2) recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the understanding that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Public entities should adopt the amendments in this ASU prospectively for their annual, or any interim periods, in fiscal years beginning after December 15, 2019. Early adoption is permitted for all entities for interim or annual goodwill impairment tests performed on testing dates

after January 1, 2017. We will evaluate adopting when we perform our goodwill impairment test in 2017. We do not expect the adoption of this ASU to have a material effect on our condensed consolidated financial statements.

On January 5, 2017, the FASB has issued ASU 2017-01, Business Combinations (Topic 805)—Clarifying the Definition of a Business, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the current implementation guidance in Topic 805, there are three elements of a business: inputs, processes and outputs. While an integrated set of assets and activities (collectively, a “set”) that is a business usually has outputs, outputs are not required to be present. Additionally, all of the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs. The amendments in ASU 2017-01 provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If, however, the screen is not met, then the amendments in this ASU (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. Finally, the amendments in this ASU narrow the definition of the term “output” so that the term is consistent with the manner in which outputs are described in Topic 606. The amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods, with early adoption permissible. We are currently evaluating the effect of adoption on our condensed consolidated financial statements.

On August 26, 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments in this ASU apply to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. The amendments in ASU 2016-15 become effective for fiscal years that start after December 15, 2017. We do not plan to early adopt this ASU. We plan to apply it retrospectively to all periods presented in our quarterly and annual reports on Form 10-Q and Form 10-K. We plan to apply the equity method of accounting for applicable investments. Therefore, we will make an accounting policy election to classify distributions received from equity method investees using the cumulative earnings approach. Distributions received are considered returns on investment and classified as cash inflows from operating activities, unless the investor’s cumulative distributions received less distributions received in prior periods that were determined to be returns of investment exceed cumulative equity in earnings recognized by the investor (as adjusted for amortization of basis differences). When such an excess occurs, the current-period distribution up to this excess is considered a return of investment and should be classified as cash inflows from investing. We do not expect this ASU to have a material effect on our condensed consolidated financial statements.

On February 25, 2016, the FASB issued ASU 2016-02—Leases (Topic 842). The amendments in this ASU create Topic 842, Leases, and supersede the leases requirements in Topic 840, Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors should apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. This ASU is effective for public entities for annual periods after December 15, 2018, and interim periods therein. Early adoption is permitted for all entities. We are currently evaluating methods of adoption as well as the effect on our condensed consolidated financial statements. However, it is expected to increase total assets and total liabilities for operating leases that are currently recorded off balance sheet.

On May 28, 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 supersedes existing revenue recognition guidance, including ASC 605-35, Revenue Recognition - Construction-Type

and Production-Type Contracts. ASU 2014-09 outlines a single set of comprehensive principles for recognizing revenue under GAAP. Among other things, it requires companies to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time. These concepts, as well as other aspects of ASU 2014-09, may change the method and/or timing of revenue recognition for certain of our contracts. ASU 2014-09 may be applied either retrospectively or through the use of a modified-retrospective method. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Public business entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Several related ASUs have been issued since the issuance of ASU 2014-09. These ASUs, which modify certain sections of ASU 2014-09, are intended to promote a more consistent interpretation and application of the principles outlined in the standard. Also these

ASUs provide technical corrections and updates intended to clarify ASU 2014-09, which we do not expect to have a significant impact on the application of ASU 2014-09.

The adoption of ASU 2014-09 will impact our policies, controls, business processes and information systems. To prepare for the changes in this guidance, we developed a plan for adoption. Based on our plan, we commenced an assessment in 2016 on the impacts of this guidance on a representative sample of our existing contract population. The sample contracts selected covered more than 20% of our existing revenue base and included contracts from all of our various contract types. A majority of the contracts we tested were not impacted by the new guidance. For contracts that were impacted, we identified two primary differences. First, the determination of performance obligations under this ASU will lead to a different unit of accounting than we are currently applying. Second, for contracts where we are recognizing revenue ratably over the contract term, we will reassess whether the contract, or performance obligation, meets the definition of a "stand ready to perform" obligation. Those contracts that do not meet the "stand ready to perform" definition will be transitioned to a percentage of completion model primarily based on cost incurred. The impact of these changes will produce a more consistent gross margin period-to-period as the obligations are satisfied. We developed a detailed implementation plan for 2017, which includes, among other things, an update to our policies, development of disclosures, updates to our controls and application of the guidance across our contract population. We are still assessing the quantitative impact to our condensed consolidated financial statements as well as a transition method.

Other ASUs effective after March 31, 2017, are not expected to have a material effect on our condensed consolidated financial statements.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our exposure to market risk relates to changes in interest rates for borrowing under our revolving credit facility. At March 31, 2017, we had no outstanding balance on our revolving credit facility. Borrowings under our revolving credit facility bear interest at variable rates. A hypothetical 10% increase in interest rates would have no effect on our interest expense for the three months ended March 31, 2017, as there were no borrowings during the quarter.

We do not use derivative financial instruments for speculative or trading purposes. When we have excess cash, we invest in short-term, investment grade, interest-bearing securities. Our investments are made in accordance with an investment policy. Under this policy, no investment securities can have maturities exceeding six months and the weighted average maturity of the portfolio cannot exceed 60 days.

### Item 4. Controls and Procedures

Management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal control over financial reporting. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act, such as this Quarterly Report on Form 10-Q, is accurately recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. As a result, our disclosure controls and procedures are designed to provide reasonable assurance that such disclosure controls and procedures will meet their objectives.

As of March 31, 2017, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), management evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level described above.

There were no changes in our internal control over financial reporting during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to certain legal proceedings, government audits, investigations, claims and disputes that arise in the ordinary course of our business. Like most large government defense contractors, our contract costs are audited and reviewed on a continual basis by an in-house staff of auditors from the Defense Contract Audit Agency. In addition to these routine audits, we are subject from time-to-time to audits and investigations by other agencies of the United States of America government. These audits and investigations are conducted to determine if our performance and administration of our government contracts are compliant with contractual requirements and applicable federal statutes and regulations. An audit or investigation may result in a finding that our performance, systems and administration are compliant or, alternatively, may result in the government initiating proceedings against us or our employees, including administrative proceedings seeking repayment of monies, suspension and/or debarment from doing business with the U.S. government or a particular agency or civil or criminal proceedings seeking penalties and/or fines. Audits and investigations conducted by the U.S. government frequently span several years.

Although we cannot predict the outcome of these and other legal proceedings, investigations, claims and disputes, based on the information now available to us, we do not believe the ultimate resolution of these matters, either individually or in the aggregate, will have a material adverse effect on our business, prospects, financial condition or operating results.

Item 1A. Risk Factors

There have been no material changes from the risk factors described in the “Risk Factors” section of our Annual Report on the Form 10-K for the year ended December 31, 2016.

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K:

Exhibit Description of Exhibit

- |       |   |
|-------|---|
| 10.1* | ManTech International Corporation 2017 Executive Incentive Compensation Plan (incorporated herein by reference from registrant's Current Report on Form 8-K, as filed with the SEC on March 13, 2017).  |
| 10.2* | Form of Performance-Based Restricted Stock Unit Award Agreement (incorporated herein by reference from registrant's Current Report on Form 8-K, as filed with the SEC on March 13, 2017).   |
| 31.1‡ | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.   |
| 31.2‡ | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.   |
| 32‡   | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.   |
| 101   | The following materials from the ManTech International Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at March 31, 2017 and December 31, 2016; (ii) Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2017 and 2016; (iii) Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2017 and 2016; (iv) Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2017 and 2016; and (v) Notes to Condensed Consolidated Financial Statements. |

\*Management contract or compensatory plan or arrangement required to be filed as an Exhibit to this report pursuant to Item 15(a)(3).

‡ Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MANTECH INTERNATIONAL  
CORPORATION

By: /s/ GEORGE J. PEDERSEN

Date: May 3, 2017 Name: George J. Pedersen

Title: Chairman of the Board of Directors and  
Chief Executive Officer

By: /s/ JUDITH L. BJORNAAS

Date: May 3, 2017 Name: Judith L. Bjornaas

Title: Chief Financial Officer