

MANTECH INTERNATIONAL CORP  
Form 10-Q  
May 03, 2013

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended March 31, 2013

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

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

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

22-1852179  
(I.R.S. Employer  
Identification No.)

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

22033  
(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting 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

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

As of May 1, 2013 there were outstanding 23,923,213 shares of our Class A common stock and 13,192,845 shares of our Class B common stock.



MANTECH INTERNATIONAL CORPORATION  
FORM 10-Q  
FOR THE QUARTER ENDED March 31, 2013  
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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	(unaudited)	
	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 172,301	\$ 134,896
Receivables—net	541,996	548,309
Prepaid expenses and other	15,370	27,185
Contractual inventory	4,185	34,762
Total Current Assets	733,852	745,152
Goodwill	870,759	861,912
Other intangibles—net	163,903	167,910
Property and equipment—net	28,701	28,588
Employee supplemental savings plan assets	28,661	27,352
Other assets	10,469	10,995
<b>TOTAL ASSETS</b>	<b>\$ 1,836,345</b>	<b>\$ 1,841,909</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 268,499	\$ 315,582
Accrued salaries and related expenses	75,345	52,364
Billings in excess of revenue earned	15,454	15,031
Deferred income taxes—current	2,385	4,266
Total Current Liabilities	361,683	387,243
Long-term debt	200,000	200,000
Deferred income taxes—non-current	55,695	50,645
Accrued retirement	29,244	29,390
Other long-term liabilities	10,482	9,403
<b>TOTAL LIABILITIES</b>	<b>657,104</b>	<b>676,681</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, Class A—\$0.01 par value; 150,000,000 shares authorized; 24,135,673 and 24,093,832 shares issued at March 31, 2013 and December 31, 2012; 23,891,560 and 23,849,719 shares outstanding at March 31, 2013 and December 31, 2012	241	241
Common stock, Class B—\$0.01 par value; 50,000,000 shares authorized; 13,192,845 and 13,192,845 shares issued and outstanding at March 31, 2013 and December 31, 2012		132
Additional paid-in capital	419,534	417,917
Treasury stock, 244,113 and 244,113 shares at cost at March 31, 2013 and December 31, 2012	(9,158	) (9,158 )
Retained earnings	768,638	756,241
Accumulated other comprehensive income (loss)	(146	) (145 )

TOTAL STOCKHOLDERS' EQUITY	1,179,241	1,165,228
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,836,345	\$1,841,909

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,	
	2013	2012
REVENUES	\$646,008	\$676,509
Cost of services	562,297	582,867
General and administrative expenses	47,340	47,947
OPERATING INCOME	36,371	45,695
Interest expense	(4,051	) (4,148
Interest income	113	72
Other income (expense), net	46	15
INCOME FROM OPERATIONS BEFORE INCOME TAXES	32,479	41,634
Provision for income taxes	(12,299	) (15,992
NET INCOME	\$20,180	\$25,642
BASIC EARNINGS PER SHARE:		
Class A basic earnings per share	\$0.55	\$0.70
Weighted average common shares outstanding	23,832	23,642
Class B basic earnings per share	\$0.55	\$0.70
Weighted average common shares outstanding	13,193	13,193
DILUTED EARNINGS PER SHARE:		
Class A diluted earnings per share	\$0.54	\$0.69
Weighted average common shares outstanding	23,876	23,716
Class B diluted earnings per share	\$0.54	\$0.69
Weighted average common shares outstanding	13,193	13,193

See notes to condensed consolidated financial statements.

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

	(unaudited)	
	Three months ended	
	March 31,	
	2013	2012
NET INCOME	\$20,180	\$25,642
OTHER COMPREHENSIVE INCOME (LOSS):		
Translation adjustment, net of tax	(1	) (51
Total other comprehensive income (loss)	(1	) (51
COMPREHENSIVE INCOME	\$20,179	\$25,591

See notes to condensed consolidated financial statements.

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

	(unaudited)	
	Three months ended	
	March 31,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$20,180	\$25,642
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,686	21,724
Deferred income taxes	2,425	2,029
Stock-based compensation	1,383	2,367
Excess tax benefits from the exercise of stock options	(3	) (43
Change in assets and liabilities—net of effects from acquired businesses:		
Receivables—net	7,719	(22,114
Contractual inventory	30,577	—
Prepaid expenses and other	11,682	8,360
Accounts payable and accrued expenses	(47,444	) 22,177
Accrued salaries and related expenses	22,405	4,344
Billings in excess of revenue earned	423	(14,400
Accrued retirement	(146	) (429
Other	728	2,592
Net cash flow from operating activities	57,615	52,249
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of businesses—net of cash acquired	(10,082	) (38,435
Purchases of property and equipment	(2,318	) (3,688
Investment in capitalized software for internal use	(829	) (573
Proceeds from sale of investment	239	—
Proceeds from disposition of a business	—	1,799
Net cash flow from investing activities	(12,990	) (40,897
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Dividends paid	(7,756	) (7,716
Proceeds from exercise of stock options	533	1,115
Excess tax benefits from the exercise of stock options	3	43
Net cash flow from financing activities	(7,220	) (6,558
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>37,405</b>	<b>4,794</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>134,896</b>	<b>114,483</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$172,301</b>	<b>\$119,277</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for income taxes	\$244	\$509
Cash paid for interest	\$508	\$296
Noncash investing and financing activities:		
Employee Stock Ownership Plan Contributions	\$458	\$563

See notes to condensed consolidated financial statements.





## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

UNAUDITED

### 1. Introduction and Overview

ManTech International Corporation (depending on the circumstances, “ManTech,” “Company,” “we,” “our,” “ours” or “us”) is a leading provider of innovative technologies and solutions for mission-critical national security programs for the intelligence community; departments of Defense, State, Homeland Security, Energy and Justice, including the Federal Bureau of Investigation (FBI); the healthcare and space communities; and other U.S. federal government customers. We provide support to critical national security programs for approximately 50 federal agencies through approximately 1,000 current contracts. Our services include the following solution sets that are aligned with the long-term needs of our customers: command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) solutions and services; cyber security; global logistics support; information technology (IT) modernization and sustainment; intelligence/counter-intelligence solutions and support; systems engineering; test and evaluation; environmental, range and sustainability services; and healthcare analytics and IT. We support major national missions, such as military readiness and wellness, terrorist threat detection, information security and border protection. Our employees operate primarily in the United States, as well as in numerous locations internationally.

### 2. Basis of Presentation

The accompanying unaudited 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 United States of America, have been condensed or omitted pursuant to those rules and regulations. We recommend that you read these unaudited 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, 2012, previously filed with the SEC. We believe that the unaudited 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

Our acquisitions have been accounted for using the acquisition method of accounting under Accounting Standards Codification (ASC) 805, Business Combinations.

ALTA Systems, Inc.-On January 8, 2013, we completed the acquisition of ALTA Systems, Inc. (ALTA). The results of ALTA's operations have been included in our consolidated financial statements since that date. The acquisition was completed through a stock purchase agreement dated January 8, 2013, by and among ManTech International Corporation, ALTA Holdings LLC and the sole member of ALTA Holding LLC. ALTA is an information technology (IT) and professional services company with valuable applications in healthcare systems and capital planning. ALTA provides a broad range of IT and professional services to government and private industry in three major areas: capital planning and investment control; system design, development and operations; and fraud detection and statistical analysis. The acquisition allows ManTech to deliver technology services through ALTA's prime position on the Centers for Medicare and Medicaid Services (CMS) Enterprise Systems Development (ESD) contract. ManTech funded the acquisition with cash on hand. The stock purchase agreement did not contain provisions for contingent consideration.

During the three months ended March 31, 2013, ManTech incurred approximately \$0.1 million of acquisition costs related to the ALTA transaction, which are included in the general and administrative expense in our condensed consolidated statement of income.

The purchase price of \$10.2 million has been preliminarily allocated to the underlying assets and liabilities based on their estimated fair value at the date of acquisition. We are still evaluating the fair value of assets and liabilities

acquired. We have preliminarily recorded total assets of \$11.1 million, including goodwill and intangible assets recognized in connection with the acquisition, and total liabilities of \$0.9 million. Included in total assets were \$0.7 million in acquisition related intangible assets. We recorded goodwill of \$8.8 million, which will be deductible for tax purposes over 15 years, assuming adequate levels of taxable income. Recognition of goodwill is largely attributed to the value paid for ALTA's capabilities in providing technology services to the federal government in the health care sector.

In preliminarily allocating the purchase price, we considered among other factors, analysis of historical financial performance and estimates of future performance of ALTA's contracts. The components of other intangible assets associated with the acquisition were customer relationships and backlog valued at \$0.6 million and \$0.1 million, respectively. Customer contracts and related relationships represent the underlying relationships and agreements with ALTA's existing customers. Customer relationships and

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backlog are amortized straight-line over their estimated useful lives of approximately 20 years and 1 year, respectively. The weighted-average amortization period for the intangible assets is 17.1 years.

HBGary, Inc.-On April 2, 2012, we completed the acquisition of certain assets of HBGary, Inc. (HBGary). The results of HBGary's operations have been included in our consolidated financial statements since that date. The acquisition was completed through an asset purchase agreement dated February 27, 2012, by and among a subsidiary of ManTech International Corporation, HBGary and the shareholders of HBGary. HBGary provides a comprehensive suite of software products to detect, analyze and diagnose Advance Persistent Threats and targeted malware. The company has customers in the financial services, energy, critical infrastructure and technology sectors. This acquisition broadened our cyber security solution capability for customers. ManTech funded the acquisition with cash on hand. The asset purchase agreement did not contain provisions for contingent consideration.

During the three months ended March 31, 2012, ManTech incurred approximately \$0.4 million of acquisition costs related to the HBGary transaction, which are included in the general and administrative expense in our condensed consolidated statement of income.

The purchase price of \$23.8 million was allocated to the underlying assets and liabilities based on their fair value at the date of acquisition. Total assets were \$24.6 million, including goodwill and intangible assets recognized in connection with the acquisition, and total liabilities were \$0.8 million. Included in total assets were \$3.1 million in acquisition related intangible assets. We recorded goodwill of \$20.1 million, which will be deductible for tax purposes over 15 years, assuming adequate levels of taxable income. Recognition of goodwill is largely attributed to the value paid for HBGary's capabilities in providing cyber service and product solutions to both federal and commercial customers.

The components of other intangible assets associated with the acquisition were developed technology, customer relationships and trademark valued at \$2.0 million, \$0.9 million and \$0.2 million, respectively. Developed technology represents the software developed by HBGary to detect, analyze and diagnose Advanced Persistent Threats and targeted malware. Customer relationships represent the underlying relationship with HBGary customers in the financial services, energy, critical infrastructure and technology sectors. Trademark represents the HBGary trade name that is recognized in the industry. Developed technology, customer relationships and trademark are amortized straight-line over their estimated useful lives of approximately 3 years, 2 years and 2 years, respectively. The weighted-average amortization period for the intangible assets is 2.5 years.

Evolvent Technologies, Inc.-On January 6, 2012, we completed the acquisition of Evolvent Technologies, Inc. (Evolvent). The results of Evolvent's operations have been included in our consolidated financial statements since that date. The acquisition was completed through an equity purchase agreement dated January 6, 2012, by and among ManTech, shareholders and warrant holders of the parent of Evolvent, Evolvent, and Prudent Management, LLC in its capacity as the sellers' representative. Evolvent provides services in clinical IT, clinical business intelligence, imaging cyber security, behavioral health, tele-health, software development and systems integration. Its systems and processes enable better decision-making at the point of care and full integration of medical information across different platforms. This acquisition has enabled ManTech to expand its customer relationships and deliver IT solutions through Evolvent's existing relationships with the Department of Defense health organizations, the Veterans Administration and the Department of Health and Human Services. ManTech funded the acquisition with cash on hand. The equity purchase agreement did not contain provisions for contingent consideration.

During the three months ended March 31, 2012, the Company incurred \$0.2 million of acquisition costs associated with the Evolvent transaction, which are included in general and administrative expense in our condensed consolidated statement of income.

The purchase price of \$39.9 million was allocated to the underlying assets and liabilities based on their fair value at the date of acquisition. Total assets were \$46.9 million, including goodwill and intangible assets recognized in connection with the acquisition, and total liabilities were \$7.0 million. Included in total assets were \$3.7 million in acquisition related intangible assets. We recorded goodwill of \$33.2 million, which is not deductible for tax purposes. Recognition of goodwill is largely attributed to the highly skilled employees and the value paid for Evolvent's capabilities in providing IT services and solutions to the federal government healthcare sector.

In allocating the purchase price, we considered among other factors, analyses of historical performance and estimates of future performance of Evolvent's contracts. The components of other intangible assets associated with the acquisition were customer relationships and backlog valued at \$3.4 million and \$0.3 million, respectively. Customer contracts and related relationships represent the underlying relationships and agreements with Evolvent's existing customers. Customer relationships and backlog are amortized over their estimated useful lives of 20 years and 1 year, respectively, using the pattern of benefits method. The weighted-average amortization period for the intangible assets is 18.5 years.

#### 4. Earnings Per Share

Under 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 the Company's 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 periods ended March 31, 2013 and 2012, we declared and paid a dividend 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 common shares 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 has 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 ended March 31,	
	2013	2012
Distributed earnings	\$7,783	\$7,745
Undistributed earnings	12,397	17,897
Net income	\$20,180	\$25,642
Class A common stock:		
Basic net income available to common stockholders	\$12,989	\$16,458
Basic weighted average common shares outstanding	23,832	23,642
Basic earnings per share	\$0.55	\$0.70
Diluted net income available to common stockholders	\$12,998	\$16,476
Effect of potential exercise of stock options	44	74
Diluted weighted average common shares outstanding	23,876	23,716
Diluted earnings per share	\$0.54	\$0.69
Class B common shares:		
Basic net income available to common stockholders	\$7,191	\$9,184
Basic weighted average common shares outstanding	13,193	13,193
Basic earnings per share	\$0.55	\$0.70
Diluted net income available to common stockholders	\$7,182	\$9,166
Effect of potential exercise of stock options	—	—
Diluted weighted average common shares outstanding	13,193	13,193
Diluted earnings per share	\$0.54	\$0.69

For the three months ended March 31, 2013 and 2012, options to purchase 3.6 million and 2.7 million 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, 2013 and 2012, shares issued from the exercise of stock option were 25 thousand and 37 thousand, respectively.

### 5. Receivables

We deliver a broad array of information technology 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, 2013	December 31, 2012
Billed receivables	\$430,424	\$420,598
Unbilled receivables:		
Amounts billable	102,100	119,893
Revenues recorded in excess of funding	11,384	11,148
Retainage	7,506	6,119
Allowance for doubtful accounts	(9,418)	(9,449)
Receivables, net	\$541,996	\$548,309

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. Revenues recorded in excess of milestone billings on fixed price contracts consist of amounts not expected to be billed within the next month. The retainage is billable upon completion of contract performance and approval of final indirect expense rates by the government. Accounts receivable at March 31, 2013, are expected to be substantially collected within one year except for approximately \$1.6 million, of which amount 91.6% is related to receivables from direct sales to the U.S. government. The remainder is related to receivables from contracts in which we acted as a subcontractor to other contractors.

The Company does not believe it has 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 the Company's exposure to compliance issues, contractual issues and bad debt related to prime contractors.

### 6. Property and Equipment

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

	March 31, 2013	December 31, 2012
Furniture and equipment	\$95,523	\$94,934
Leasehold improvements	30,623	28,932
	126,146	123,866
Less: Accumulated depreciation and amortization	(97,445)	(95,278)
Total property and equipment, net	\$28,701	\$28,588

### 7. Goodwill and Other Intangible Assets

The changes in the carrying amounts of goodwill during the year ended December 31, 2012 and the period ended March 31, 2013 are as follows (in thousands):

	Goodwill Balance
Balance at December 31, 2011	\$808,455
Additional consideration for the acquisition of Worldwide Information Network Systems, Inc.	212
Acquisition-Evolvent	33,175
Acquisition-HBGary	20,070
Balance at December 31, 2012	\$861,912



Acquisition-ALTA	8,847
Balance at March 31, 2013	\$870,759

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

	March 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Other intangible assets:						
Contract and program intangibles	\$250,532	\$96,702	\$153,830	\$249,882	\$92,400	\$157,482
Capitalized software cost for internal use	31,465	21,470	9,995	30,985	20,637	10,348
Other	115	37	78	115	35	80
Total other intangible assets, net	\$282,112	\$118,209	\$163,903	\$280,982	\$113,072	\$167,910

Amortization expense relating to intangible assets for the three months ended March 31, 2013 and 2012 was \$5.1 million and \$4.8 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, 2013	\$15,055
For the year ending:	
December 31, 2014	\$17,904
December 31, 2015	\$15,302
December 31, 2016	\$13,300
December 31, 2017	\$11,582
December 31, 2018	\$10,637

#### 8. Long-term Debt

Long-term debt consisted of the following (in thousands):

	March 31, 2013	December 31, 2012
Revolving credit facility	\$—	\$—
7.25% senior unsecured notes	200,000	200,000
Long-term debt	\$200,000	\$200,000

Revolving Credit Facility-We maintain a credit agreement with a syndicate of lenders led by Bank of America, N.A., as administrative agent. The credit agreement provides for a \$500.0 million revolving credit facility, with a \$25.0 million letter of credit sublimit and a \$30.0 million swing line loan sublimit. The credit agreement also contains an accordion feature that permits the Company to arrange with the lenders for the provision of up to \$250.0 million in additional commitments. The maturity date for the credit agreement is October 12, 2016.

Borrowings under the credit agreement are collateralized by substantially all the assets of ManTech and its Material Subsidiaries (as defined in the credit agreement) and bear interest at one of the following variable rates as selected by the Company at the time of borrowing: a London Interbank Offer Rate (LIBOR) based rate plus market-rate spreads (1.25% to 2.25% based on the Company's consolidated total leverage ratio) or Bank of America's base rate plus market spreads (0.25% to 1.25% based on the Company's 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 the Company to comply with specified financial covenants, including the maintenance of certain leverage ratios and a certain fixed charge 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 March 31, 2013, we were in compliance with our financial covenants under the credit agreement.

There was no outstanding balance on our revolving credit facility at March 31, 2013 and December 31, 2012. The maximum available borrowing under the revolving credit facility at March 31, 2013 was \$499.8 million. As of March 31, 2013, we were contingently liable under letters of credit totaling \$0.2 million, which reduced our availability to borrow under our revolving credit facility.

The following table summarizes the activity under our revolving credit facility for the three months ended March 31, 2013 and 2012 (in thousands):

	Three months ended March 31,	
	2013	2012
Borrowing under revolving credit facility	\$—	\$8,000
Repayment of borrowings under revolving credit facility	\$—	\$(8,000)

7.25% Senior Unsecured Notes-We have \$200.0 million in aggregate principal amount of 7.25% senior unsecured notes that are registered under the Securities Act of 1933, as amended. The fair value of the 7.25% senior unsecured notes as of March 31, 2013 was approximately \$212.0 million based on quoted market prices.

The 7.25% senior unsecured notes were issued on April 13, 2010 and mature on April 15, 2018 with interest payable semi-annually in April and October. The 7.25% senior unsecured notes were issued at 100% of the aggregate principal amount and are effectively subordinate to the Company's existing and future senior secured debt (to the extent of the value of the assets securing such debt), including debt outstanding under our revolving credit facility. The 7.25% senior unsecured notes may be redeemed, in whole or in part, at any time, at the option of the Company, subject to certain conditions specified in the indenture governing the 7.25% senior unsecured notes. The 7.25% senior unsecured notes are guaranteed, jointly and severally, on a senior unsecured basis by each of our 100% owned domestic subsidiaries that also guaranteed debt obligations under our prior revolving credit facility or that guarantees debt obligations under our revolving credit facility.

The issuance costs incurred by the Company are being amortized to interest expense over the contractual life of the 7.25% senior unsecured notes using the effective interest rate method, resulting in an effective rate of 7.67%.

The indenture governing the 7.25% senior unsecured notes contains customary events of default, as well as restrictive covenants, which, subject to important exceptions and qualifications specified in such indenture, will, among other things, limit our ability and the ability of our subsidiaries that guarantee the 7.25% senior unsecured notes to: pay dividends or distributions, repurchase equity, prepay subordinated debt or make certain investments; incur additional debt or issue certain disqualified stock and preferred stock; incur liens on assets; merge or consolidate with another company or sell all or substantially all assets; and allow to exist certain control provisions. An event of default under the indenture will allow either the trustee of the notes or the holders of at least 25% in principal amount of the then outstanding notes to accelerate, or in certain cases, will automatically cause the acceleration of, the amounts due under the notes. As of March 31, 2013, the Company was in compliance with all required covenants under the indenture.

#### 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 the Company's operations are conducted in accordance with these requirements and the terms of the relevant contracts. U.S. government investigations of the Company, whether related to the Company's U.S. government contracts or conducted for other reasons, could result in administrative, civil, or criminal liabilities, including repayment, fines or penalties being imposed upon the Company, 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 (DCAA) has completed our incurred cost audits through 2002 and the majority of audits for 2003, 2004 and 2005, which resulted in no material adjustments. The remaining audits for 2003 through 2012 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.

## 10. Stock-Based Compensation

Our 2011 Management Incentive Plan (the Plan) was designed to attract, retain and motivate key employees. 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, 2013, 555,638 additional shares were made available for issuance under the Plan. Through March 31, 2013, the remaining aggregate number of shares of our common stock authorized for issuance under the Plan was 3,435,229. Through March 31, 2013, there were 4,537,742 shares of our Class A common stock that were issued and remain outstanding as a result of equity awards granted under the Plan. The Plan expires in May 2021.

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.

**Stock Compensation Expense**-For the three months ended March 31, 2013 and 2012, we recorded \$1.4 million and \$2.4 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. For the three months ended March 31, 2013 and 2012, the total recognized tax deficiency from the exercise of stock options, vested cancellations and the vesting of restricted stock was \$0.7 million and \$0.3 million, respectively.

**Stock Options**-We typically issue options that vest over three years in equal annual 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, 2013 and 2012, 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 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, 2013 and 2012:

**Volatility**-The expected volatility of the options granted was estimated based upon historical volatility of the Company's share price through weekly observations of the Company's trading history.

**Expected Term**-The expected term of options granted to employees during the three months ended March 31, 2013 and 2012 was determined from historical exercises of the grantee population. For all grants valued during the three months ended March 31, 2013 and 2012, the options had graded vesting over three years in equal annual 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 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, 2013 and 2012:

	Three months ended March 31,			
	2013		2012	
Volatility	32.45	%	30.51	%
Expected life of options (in years)	3.14		3.04	
Risk-free interest rate	0.44	%	0.56	%
Dividend yield	3.00	%	2.25	%

Stock Option Activity-During the three months ended March 31, 2013, we granted stock options to purchase 488,850 shares of Class A common stock at a weighted-average exercise price of \$26.96 per share, which reflects the fair market value of the shares on the date of grant. The weighted-average fair value of options granted during the three months ended March 31, 2013

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and 2012, as determined under the Black-Scholes-Merton valuation model, was \$4.81 and \$6.00, respectively. These options vest over three years in equal annual installments beginning on the first anniversary of the date of the grant and have a contractual term of five years. Option grants that vested during the three months ended March 31, 2013 and 2012 had a combined fair value of \$3.8 million and \$5.4 million, respectively.

The following table includes information with respect to stock option activity and stock options outstanding for the year ended December 31, 2012 and the three months ended March 31, 2013:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Shares under option, December 31, 2011	2,886,110	\$41.14	\$1,096
Options granted	986,650	\$29.24	
Options exercised	(38,542)	) \$28.93	\$215
Options cancelled and expired	(413,022)	) \$39.27	
Shares under option, December 31, 2012	3,421,196	\$38.61	\$626
Options granted	488,850	\$26.96	
Options exercised	(25,000)	) \$21.33	\$132
Options cancelled and expired	(320,232)	) \$38.62	
Shares under option, March 31, 2013	3,564,814	\$37.14	\$950

The following table summarizes non-vested stock options for the three months ended March 31, 2013:

	Number of Shares	Weighted Average Fair Value
Non-vested stock options at December 31, 2012	1,697,992	\$7.37
Options granted	488,850	\$4.81
Vested during the period	(368,620)	) \$10.39
Options cancelled	(141,382)	) \$7.35
Non-vested stock options at March 31, 2013	1,676,840	\$5.96

The following table includes information concerning stock options exercisable and stock options expected to vest at March 31, 2013:

	Number of Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Stock options exercisable	1,887,974	2.0	\$43.10	\$574
Stock options expected to vest	1,441,435	4.2	\$30.61	\$321
Stock options exercisable and expected to vest	3,329,409			

Unrecognized compensation expense related to outstanding stock options expected to vest as of March 31, 2013 was \$7.6 million, which is expected to be recognized over a weighted-average period of 2.2 years and will be adjusted for any future changes in estimated forfeitures.

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 shares issued to employees vest over three years in equal annual installments beginning on the first anniversary of the grant date, contingent upon



employment with the Company on the vesting dates. Restricted shares issued to members of our Board of Directors vest 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.

Restricted Stock Activity-The following table summarizes the restricted stock activity for the year ended December 31, 2012 and the three months ended March 31, 2013:

	Number of Shares	Grant Date Fair Value (in thousands)
Non-vested at December 31, 2011	30,667	
Granted	24,000	\$576
Vested	(27,334	) \$1,237
Forfeited	—	
Non-vested at December 31, 2012	27,333	
Granted	—	
Vested	(3,333	) \$167
Forfeited	—	
Non-vested at March 31, 2013	24,000	

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

We have one reportable segment. We deliver a broad array of information technology and technical services solutions under contracts with the U.S. government, state and local governments and commercial customers. Our federal 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 99.0% and 99.3% of our total revenues for the three months ended March 31, 2013 and 2012, respectively. There were no sales to any customers within a single country (except for the United States) where the sales accounted for 10% or more of total revenues. We treat sales to U.S. government customers as sales within the United States regardless of where the services are performed. Substantially all assets of continuing operations were held in the United States for the periods ended March 31, 2013 and December 31, 2012. Revenues by geographic customer and the related percentages of total revenues for the three months ended March 31, 2013 and 2012 were as follows (dollars in thousands):

	Three months ended					
	March 31, 2013		2012			
United States	\$644,820	99.8	%	\$675,216	99.8	%
International	1,188	0.2	%	1,293	0.2	%
Total	\$646,008			\$676,509		

The following table includes contracts that exceeded 10% of our revenues for the three months ended March 31, 2013 and 2012 (dollars in thousands):

	Three months ended					
	March 31, 2013		2012			
Revenues:						
Contract A	\$137,913	21.3	%	\$141,305	20.9	%
All other contracts	508,095	78.7	%	535,204	79.1	%
Total	\$646,008			\$676,509		



The following table includes contracts that exceeded 10% of our operating income for the three months ended March 31, 2013 and 2012 (dollars in thousands):

	Three months ended					
	March 31, 2013			2012		
Operating Income:						
Contract A	\$6,112	16.8	%	\$9,376	20.5	%
All other contracts	30,259	83.2	%	36,319	79.5	%
Total	\$36,371			\$45,695		

The following table includes contracts that exceeded 10% of our receivables, net at March 31, 2013 and December 31, 2012 (dollars in thousands):

	March 31, 2013			December 31, 2012		
	Receivables, net:					
Contract A	\$62,700	11.6	%	\$90,752	16.6	%
Contract B	16,797	3.1	%	62,709	11.4	%
All other contracts	462,499	85.3	%	394,848	72.0	%
Total	\$541,996			\$548,309		

Disclosure items required under ASC 280, Segment Reporting, including interest income, interest expense, depreciation and amortization expense, expenses for stock-based compensation programs, certain unallowable costs as determined under Federal Acquisition Regulations and expenditures for segment assets are not applicable as we review those items on a consolidated basis.

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

### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties, many of which are outside of our control. ManTech International Corporation (depending on the circumstances, "ManTech," "Company," "we," "our," "ours" or "us") believes these statements to be within the definition of the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as "may," "will," "expect," "intend," "anticipate," "believe," "estimate" and other similar words. You should read statements that contain these words carefully because they discuss our future expectations, make projections of our future results of operations or financial condition or state other "forward-looking" information.

Although forward-looking statements in this Quarterly Report reflect our good faith judgment, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to predict accurately or control. Factors that could cause actual results to differ materially from the results we anticipate include, but are not limited to, the following:

- adverse changes or delays in U.S. government spending for programs we support due to cost cutting and efficiency initiatives, changing mission priorities (including the expected withdrawal from Afghanistan) and other efforts to reduce federal government spending generally;
- uncertainty regarding the timing and nature of government action to complete the budget process and otherwise address budgetary constraints, sequestration or other factors;
- failure to compete effectively for new contract awards or to retain existing U.S. government contracts;
- failure to obtain option awards, task orders or funding under contracts;
- delays in the competitive bidding process caused by competitors' protests of contract awards received by us;
- failure to realize the full amount of our backlog or adverse changes in the timing of receipt of revenues under contracts included in backlog;
- adverse changes in our mix of contract types;
- renegotiation, modification or termination of our contracts, or failure to perform in conformity with contract terms or our expectations;
- failure to successfully integrate recently 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;
- failure to maintain strong relationship with other contractors;
- failure to successfully identify and execute future acquisitions;
- non-compliance with, or adverse changes in, complex U.S. government procurement laws and regulations;
- adverse results of U.S. government audits or other investigations of our government contracts;
- adverse changes in our financing arrangements, such as increases in interest rates and restrictions imposed by our outstanding indebtedness, including the ability to meet financial covenants, or inability to obtain new or additional financing; and
- disruption of our business resulting from internal systems or service failures or breaches in customer systems, including as a result of cyber or other security threats.

We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report. These and other risk factors are more fully described and discussed in the section titled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and under Item 1A. of Part II of our Quarterly Reports on Form 10-Q, and from time to time, in our other filings with the Securities and Exchange Commission (SEC). We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report. We also suggest that you carefully review and consider the various disclosures made in this Quarterly Report that attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.



## Introduction and Overview

ManTech is a leading provider of innovative technologies and solutions for mission-critical national security programs for the intelligence community; departments of Defense, State, Homeland Security, Energy and Justice, including the Federal Bureau of Investigations (FBI); the healthcare and space communities; and other U.S. federal government customers. We provide support to critical national security programs for approximately 50 federal agencies through approximately 1,000 current contracts. Our services include the following solution sets that are aligned with the long-term needs of our customers: command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) solutions and services; cyber security; global logistics support; IT modernization and sustainment; intelligence/counter-intelligence solutions and support; systems engineering; test and evaluation; environmental, range and sustainability services; healthcare analytics and IT. We support major national missions, such as military readiness and wellness, terrorist threat detection, information security and border protection. Our employees operate primarily in the United States, as well as numerous locations internationally.

We derive revenues primarily from contracts with U.S. government agencies that are focused on national security, and as a result, funding for our programs is generally linked to trends in U.S. government spending in areas of defense, intelligence and homeland security. While we believe that spending for our national security and other programs we support will continue to be a priority, federal spending levels generally have come under pressure given the effects of sequestration, mounting levels of debt, and planned withdraw from Southwest Asia. The uncertainty about funding levels has led certain of our customers to delay awards and spending and led the government to adopt policies adverse to our industry. We expect that our customers will continue to be motivated by minimizing costs, which we expect to lower margins across the industry. In addition, a significant portion of our business supports Overseas Contingency Operations (OCO), which will be negatively affected by the draw down of military forces over the next two years.

While budgetary pressures and limitations have created a challenging environment for companies in our industry, we believe that this situation may provide opportunities for price competitive providers such as ManTech. Moreover, we believe that the federal government's spending will remain robust in key areas for which ManTech is well positioned, including national and homeland security programs, sophisticated intelligence gathering and information sharing activities and implementation of new healthcare systems and policies. The U.S. is committed to maintaining its superiority in capabilities that we support, such as intelligence, surveillance and reconnaissance (ISR), cyber security and intelligence analysis and operations. With an increasing veteran population and an aging national population, investments in healthcare will continue. The government is actively looking for cloud-based solutions and data center consolidation to save money as well as systems integration and interoperability to enable better coordination and communication within and among agencies and departments.

We recommend that you read this discussion and analysis in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, previously filed with the SEC.

## Three Months Ended March 31, 2013 Compared to the Three Months Ended March 31, 2012

The following table sets forth certain items from our condensed consolidated statement 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, 2012 to March 31, 2013.

	Three months ended March 31,				Period-to-Period Change		
	2013 Dollars (dollars in thousands)	2012	2013 Percentage	2012	2012 to 2013 Dollars	Percentage	
REVENUES	\$646,008	\$676,509	100.0	% 100.0	% \$(30,501	) (4.5	)%
Cost of services	562,297	582,867	87.0	% 86.1	% (20,570	) (3.5	)%
General and administrative expenses	47,340	47,947	7.4	% 7.1	% (607	) (1.3	)%
OPERATING INCOME	36,371	45,695	5.6	% 6.8	% (9,324	) (20.4	)%
Interest expense	(4,051	) (4,148	) 0.6	% 0.6	% 97	(2.3	)%
Interest income	113	72	—	% —	% 41	56.9	%
Other income (expense), net	46	15	—	% —	% 31	206.7	%
INCOME FROM OPERATIONS BEFORE INCOME TAXES	32,479	41,634	5.0	% 6.2	% (9,155	) (22.0	)%
Provision for income taxes	(12,299	) (15,992	) 1.9	% 2.4	% 3,693	(23.1	)%
NET INCOME	\$20,180	\$25,642	3.1	% 3.8	% \$(5,462	) (21.3	)%

## Revenues

The primary driver of our decrease in revenues relates to reductions on our C4ISR support contracts and contracts that have ended, including a contract to provide mobile telecommunication services in Afghanistan. These reductions were partially offset by the revenues provided from contracts in the intelligence area including contracts for IT infrastructure modernization. The reduction in C4ISR work is primarily due to reduced demand for field service support to existing ISR systems. We expect these reductions in field service support to continue along with the eventual withdraw from Afghanistan.

## Cost of services

The decrease in cost of services was primarily due to lower revenues. As a percentage of revenues, direct labor costs remained stable at 35.7% for the three months ended March 31, 2013, compared to 35.5% for the same period in 2012. As a percentage of revenues, other direct costs, which include subcontractors and third party equipment and materials used in the performance of our contracts, was 51.3% for the three months ended March 31, 2013, compared to 50.6% for the same period in 2012. We expect cost of services as a percentage of revenues to remain the same or slightly decrease for the remainder of the year.

## Provision for income taxes

Our effective tax rate is affected by recurring items, such as tax rates and the relative amount of income we earn in jurisdictions. 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 37.9% and 38.4% for the three months ended March 31, 2013 and 2012, respectively. The decrease in the effective tax rate is attributed to provisions in the American Taxpayer Relief Act of 2012 (the Act) that took effect on January 2, 2013. The Act retroactively restored tax positions on the 2012 tax return, including the research and experimentation credit and the D.C. federal empowerment zone credit. We expect the effective tax rate to be in line with the first quarter 2012 rate for the remainder of the year.

## Net income



The decrease in net income was due to the reduction in revenues and margin pressure due to a shift to cost-reimbursable contracts awards as well as the competitive market place. Given the competitive market place and budgetary constraints of our customer, we expect continued pressure on net income.

Backlog

At March 31, 2013 and December 31, 2012, our backlog was \$6.1 billion and \$6.5 billion, respectively, of which \$1.4 billion and \$1.8 billion, respectively, was funded backlog. 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, 2012, previously filed with the SEC.

#### Liquidity and Capital Resources

Historically, our primary liquidity needs have been the financing of acquisitions, working capital, payment under our cash dividend program and capital expenditures. Our primary sources of liquidity are cash provided by operations and our revolving credit facility.

On March 31, 2013, the Company's cash and cash equivalents balance was \$172.3 million. At March 31, 2013, there were no outstanding borrowings under our revolving credit facility. At March 31, 2013, we were contingently liable under letters of credit totaling \$0.2 million, which reduced our ability to borrow under our revolving credit facility by that amount. The maximum available borrowing under our revolving credit facility at March 31, 2013 was \$499.8 million. At March 31, 2013, we had \$200.0 million outstanding of our 7.25% senior unsecured notes. For additional information concerning our revolving credit facility and 7.25% senior unsecured notes, see Note 8 to our consolidated financial statements in Item 1.

Generally, cash provided by operating activities is adequate to fund our operations, including payments under our regular cash dividend program. Due to fluctuations in our cash flows and level of operations, it is necessary from time to time to increase borrowings under our revolving credit facility to meet cash demands.

#### Cash Flows from Operating Activities

Our operating cash flows are primarily affected by our ability to invoice and collect from our clients in a timely manner, our ability to manage our vendor payments and the overall profitability of our contracts. We bill most of our customers monthly after services are rendered. For the three months ended March 31, 2013 and 2012, our net cash flows from operating activities were \$57.6 million and \$52.2 million, respectively. Increased cash flows from operations during the three months ended March 31, 2013 compared to the same period in 2012 were due to the sale of contractual inventory, the timing of the collection of our receivables and payment of salaries to our employees; offset by the timing of vendor payments and decreases in depreciation expense and net income. Our accounts receivable days sales outstanding (DSO) was 76 for both the three months ended March 31, 2013 and 2012.

#### Cash Flows from Investing Activities

Our cash flows from investing activities consist primarily of business acquisitions, purchases of property and equipment and investments in capitalized software for internal use. For the three months ended March 31, 2013 and 2012, our net cash outflows from investing activities were \$13.0 million and \$40.9 million, respectively. During the three months ended March 31, 2013, our net cash outflows from investing activities were due to the acquisition of ALTA Systems, Inc. and purchases of property and equipment. During the three months ended March 31, 2012, our net cash outflows from investing activities were primarily due to the acquisition of Evolvent Technologies, Inc.

#### Cash Flows from Financing Activities

For the three months ended March 31, 2013 and 2012, our net cash outflows from financing activities were \$7.2 million and \$6.6 million, respectively. During the three months ended March 31, 2013, our net cash outflows from financing activities resulted primarily from dividends paid. During the three months ended March 31, 2012, our net cash outflows from financing were due to dividends paid, partially offset by the proceeds from the exercise of stock options.

#### Capital Resources

We believe the capital resources available to us from our cash on hand of \$172.3 million at March 31, 2013, our \$500.0 million 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, including payments under our regular cash dividend program. We anticipate financing our external growth from acquisitions and our longer-term internal growth through one or more of the following sources: cash from operations, use of our revolving credit facility, additional senior unsecured notes, additional borrowings or issuances of equity.

### Short-term Borrowings

From time to time, we borrow funds against our revolving credit facility for working capital requirements and funding of operations, as well as acquisitions. Borrowings under our revolving credit facility bear interest at one of the following variable rate as selected by the Company at the time of the borrowing: a LIBOR based rate plus market spreads (1.25% to 2.25% based on the Company's consolidated total leverage ratio) or Bank of America's base rate plus market spreads (0.25% to 1.25% based on the Company's consolidated total leverage ratio). In the next year we may use, as needed, our revolving credit facility or additional sources of borrowings in order to fund our anticipated cash requirements.

The following table summarizes the activity under our revolving credit facility for the three months ended March 31, 2013 and 2012 (in thousands):

	Three months ended	
	March 31,	
	2013	2012
Borrowing under revolving credit facility	\$—	\$8,000
Repayment of borrowings under revolving credit facility	\$—	\$(8,000)

### 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 periods ended March 31, 2013 and 2012, we declared and paid a dividend in the amount of \$0.21 per share on all issued and outstanding shares of common stock. While we expect to continue the regular 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.

### 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 consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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, including the critical accounting policies and practices listed below, are more fully described and discussed in the notes to the consolidated financial statements for the fiscal year 2012 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the SEC on February 22, 2013.

### 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, firm-fixed-price or time-and-materials contracts. Revenues for cost reimbursement 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 that are subject to the

provisions of Accounting Standards Codification (ASC) 605-35, Construction-Type and Certain Production-Type 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. For cost reimbursable contracts with performance-based fee incentives that are subject to the provisions of SEC Topic 13, Revenue Recognition, we recognize the relevant portion of the fee upon customer approval. For time-and-material contracts, revenues are recognized to the extent of billable rates times hours delivered plus material 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 is 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 ASC 605-35, 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 revenue 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. Both the individual changes in contract estimates and aggregate net changes in the contract estimates recognized using the cumulative catch-up method of accounting were not material to the consolidated statement of operations for all periods presented. 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 one reportable segment. 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 amount (including goodwill). If the first step of the impairment test does not indicate an impairment, performance of the second step is not required.

The fair values of the reporting units are determined based on a weighting of the income approach, market approach and the market transaction approach. The income approach is a valuation technique in which fair value is derived from 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 is 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 the company. Valuation ratios, which relate market prices to selected financial statistics derived from comparable companies, are selected and applied to the company 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 provided a reasonable basis for comparison to the company. Valuation ratios, which relate market prices to selected financial statistics derived from comparable companies, are selected and applied to the company 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 the Company's 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). We compare our implied control premium to the control premiums in comparable transactions to assess the reasonableness of our calculations.

We have elected to perform our annual review during the second quarter 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 or circumstances that could cause the fair value of our long-lived assets to decrease include changes in our business environment or market conditions. For example, the U.S.

government is currently under pressure to decrease its spending, and reductions across our industry may be mandated in connection with sequestration. The impact of reduced government spending on our programs and industry could materially affect our financial outlook. A significant adverse impact to our financial outlook could result in impairments to our long-term assets, such as goodwill and other intangible assets. Additionally, deteriorating market conditions for comparable public companies in our industry, or a material decline in the market price for the Company's stock, could result in a reduction in the fair value of our assets. 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 the Company's recorded goodwill, differences in assumptions may have a material effect on the results of the Company's impairment analysis.

#### Accounting Standards Updates

Accounting Standards Updates issued but not yet effective are not expected to have a material effect on the Company's financial statements.

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

Our exposure to market risks relates to changes in interest rates for borrowing under our revolving credit facility. At March 31, 2013, 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, 2013.

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. 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, 2013, 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 the Company's 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 Auditing Agency. In addition to these routine audits, we are subject from time to time to audits and investigations by other agencies of the federal 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 federal government or a particular agency, or civil or criminal proceedings seeking penalties and/or fines. Audits and investigations conducted by the federal 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, operating results or cash flows.

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, 2012.

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K:

Exhibit	Description of Exhibit
10.1*	ManTech International Corporation 2013 Executive Incentive Compensation Plan, adopted on March 7, 2013, in which our executive officers participate (incorporate herein by reference from registrant's Current Report on Form 8-K filed with the SEC on March 11, 2013).
12.1‡	Ratio of Earnings to Fixed Charges.
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, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at March 31, 2013 and December 31, 2012; (ii) Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2013 and 2012; (iii) Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2013 and 2012; (iv) Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2013 and

2012; and (v) Notes to Condensed Consolidated Financial Statements.

\*Management contract or compensatory plan or arrangement.

Filed herewith.

SIGNATURES

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

MANTECH INTERNATIONAL CORPORATION

Date: May 3, 2013  
By: /s/ GEORGE J. PEDERSEN  
Name: George J. Pedersen  
Title: Chairman of the Board of Directors and  
Chief Executive Officer

Date: May 3, 2013  
By: /s/ KEVIN M. PHILLIPS  
Name: Kevin M. Phillips  
Title: Chief Financial Officer