

**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 **September 30, 2019**  
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.

**2251 Corporate Park Drive**  
Address of Principal Executive Offices

**Herndon Virginia**

**20171**  
Zip Code

**(703) 218-6000**

Registrant's Telephone Number, Including Area Code

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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock	MANT	Nasdaq

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

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

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

As of October 30, 2019 there were 26,913,779 shares outstanding of our Class A common stock and 13,188,045 shares outstanding of our Class B common stock.

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**MANTECH INTERNATIONAL CORPORATION**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED September 30, 2019**  
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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)	
	September 30, 2019	December 31, 2018
<b>ASSETS</b>		
Cash and cash equivalents	\$ 33,313	\$ 5,294
Receivables—net	367,042	405,378
Prepaid expenses	26,069	23,398
Other current assets	7,152	5,915
Total Current Assets	433,576	439,985
Goodwill	1,191,213	1,085,806
Other intangible assets—net	203,247	171,962
Operating lease right of use assets	116,236	—
Property and equipment—net	72,993	51,427
Employee supplemental savings plan assets	34,897	30,501
Investments	11,550	11,830
Other assets	14,127	12,360
<b>TOTAL ASSETS</b>	<b>\$ 2,077,839</b>	<b>\$ 1,803,871</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 161,404	\$ 126,066
Accrued salaries and related expenses	104,309	89,058
Contract liabilities	43,891	28,209
Operating lease liabilities—current	28,170	—
Total Current Liabilities	337,774	243,333
Long term debt	25,000	7,500
Deferred income taxes	126,048	108,956
Operating lease liabilities—long term	98,979	—
Accrued retirement	33,654	30,999
Other long-term liabilities	1,428	11,889
<b>TOTAL LIABILITIES</b>	<b>622,883</b>	<b>402,677</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, Class A—\$0.01 par value; 150,000,000 shares authorized; 27,149,693 and 26,817,513 shares issued at September 30, 2019 and December 31, 2018; 26,905,580 and 26,573,400 shares outstanding at September 30, 2019 and December 31, 2018	271	268
Common stock, Class B—\$0.01 par value; 50,000,000 shares authorized; 13,188,045 and 13,188,045 shares issued and outstanding at September 30, 2019 and December 31, 2018	132	132
Additional paid-in capital	519,835	506,970
Treasury stock, 244,113 and 244,113 shares at cost at September 30, 2019 and December 31, 2018	(9,158)	(9,158)
Retained earnings	943,969	903,084
Accumulated other comprehensive loss	(93)	(102)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>1,454,956</b>	<b>1,401,194</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 2,077,839</b>	<b>\$ 1,803,871</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 September 30,		(unaudited) Nine months ended September 30,	
	2019	2018	2019	2018
<b>REVENUE</b>	\$ 579,179	\$ 497,205	\$ 1,618,146	\$ 1,461,485
Cost of services	487,914	425,560	1,378,263	1,250,505
General and administrative expenses	52,863	42,246	139,652	126,831
<b>OPERATING INCOME</b>	38,402	29,399	100,231	84,149
Interest expense	(659)	(616)	(2,088)	(2,007)
Interest income	90	43	401	85
Other income (expense), net	(39)	1	(50)	63
<b>INCOME FROM OPERATIONS BEFORE INCOME TAXES AND EQUITY METHOD INVESTMENTS</b>	37,794	28,827	98,494	82,290
Provision for income taxes	(9,873)	(6,912)	(25,229)	(20,412)
Equity in earnings of unconsolidated subsidiaries	16	8	4	27
<b>NET INCOME</b>	\$ 27,937	\$ 21,923	\$ 73,269	\$ 61,905
<b>BASIC EARNINGS PER SHARE:</b>				
Class A common stock	\$ 0.70	\$ 0.55	\$ 1.84	\$ 1.57
Class B common stock	\$ 0.70	\$ 0.55	\$ 1.84	\$ 1.57
<b>DILUTED EARNINGS PER SHARE:</b>				
Class A common stock	\$ 0.69	\$ 0.55	\$ 1.82	\$ 1.55
Class B common stock	\$ 0.69	\$ 0.55	\$ 1.82	\$ 1.55

See notes to condensed consolidated financial statements.

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

	(unaudited) Three months ended September 30,		(unaudited) Nine months ended September 30,	
	2019	2018	2019	2018
<b>NET INCOME</b>	\$ 27,937	\$ 21,923	\$ 73,269	\$ 61,905
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>				
Cumulative-effect adjustment for adoption of Accounting Standards Update 2018-02	—	—	(24)	—
Translation adjustments, net of tax	4	(27)	9	(54)
<b>Total other comprehensive income (loss)</b>	4	(27)	(15)	(54)
<b>COMPREHENSIVE INCOME</b>	<u>\$ 27,941</u>	<u>\$ 21,896</u>	<u>\$ 73,254</u>	<u>\$ 61,851</u>

See notes to condensed consolidated financial statements.

**MANTECH INTERNATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(In Thousands)

	(unaudited) Three months ended September 30,		(unaudited) Nine months ended September 30,	
	2019	2018	2019	2018
<b>Common Stock, Class A</b>				
At beginning of period	\$ 270	\$ 266	\$ 268	\$ 263
Stock option exercises	1	2	2	4
Stock-based compensation expense	—	—	1	1
At end of period	271	268	271	268
<b>Common Stock, Class B</b>				
At beginning of period	132	132	132	132
At end of period	132	132	132	132
<b>Additional Paid-In Capital</b>				
At beginning of period	513,840	498,370	506,970	492,030
Stock option exercises	4,176	4,667	9,154	11,489
Stock-based compensation expense	1,938	1,341	5,187	3,582
Payment consideration to tax authority on employees' behalf	(119)	—	(1,476)	(2,723)
At end of period	519,835	504,378	519,835	504,378
<b>Treasury Stock, at cost</b>				
At beginning of period	(9,158)	(9,158)	(9,158)	(9,158)
At end of period	(9,158)	(9,158)	(9,158)	(9,158)
<b>Retained Earnings</b>				
At beginning of period	926,855	880,837	903,084	860,027
Net income	27,937	21,923	73,269	61,905
Dividends	(10,823)	(9,928)	(32,360)	(29,687)
Cumulative-effect adjustment for adoption of Accounting Standards Update 2018-02	—	—	(24)	—
Cumulative-effect adjustment for adoption of Accounting Standards Update 2014-09	—	—	—	587
At end of period	943,969	892,832	943,969	892,832
<b>Accumulated Other Comprehensive Loss</b>				
At beginning of period	(97)	(347)	(102)	(320)
Translation adjustments, net of tax	4	(27)	9	(54)
At end of period	(93)	(374)	(93)	(374)
<b>Total Stockholders' Equity</b>	<b>\$ 1,454,956</b>	<b>\$ 1,388,078</b>	<b>\$ 1,454,956</b>	<b>\$ 1,388,078</b>

See notes to condensed consolidated financial statements.

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

	(unaudited) Nine months ended September 30,	
	2019	2018
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:</b>		
Net income	\$ 73,269	\$ 61,905
Adjustments to reconcile net income to net cash flow from (used in) operating activities:		
Depreciation and amortization	39,470	40,028
Noncash lease expense	20,949	—
Deferred income taxes	9,773	13,274
Stock-based compensation expense	5,188	3,583
Contract loss reserve	(881)	—
Equity in (earnings) of unconsolidated subsidiaries	(4)	(27)
Change in assets and liabilities—net of effects from acquired businesses:		
Receivables—net	60,182	(49,289)
Prepaid expenses	(5,609)	(8,448)
Other current assets	(1,067)	14,356
Employee supplemental savings plan asset	(4,396)	(1,899)
Accounts payable and accrued expenses	28,888	4,946
Accrued salaries and related expenses	9,830	5,907
Contract liabilities	15,682	10,256
Operating lease liabilities	(21,077)	—
Accrued retirement	2,655	965
Other	107	(1,343)
<b>Net cash flow from operating activities</b>	<b>232,959</b>	<b>94,214</b>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:</b>		
Acquisition of a business-net of cash acquired	(153,180)	(5,279)
Purchases of property and equipment	(38,455)	(25,029)
Deferred contract costs	(3,520)	(3,586)
Investment in capitalized software for internal use	(2,784)	(4,199)
Proceeds from equity method investment	283	—
Proceeds from corporate owned life insurance	—	1,300
<b>Net cash used in investing activities</b>	<b>(197,656)</b>	<b>(36,793)</b>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:</b>		
Borrowing under revolving credit facility	465,500	501,000
Repayments under revolving credit facility	(448,000)	(532,000)
Dividends paid	(32,365)	(29,691)
Proceeds from exercise of stock options	9,156	11,493
Payment consideration to tax authority on employees' behalf	(1,476)	(2,723)
Principal paid on financing leases	(99)	—
<b>Net cash used in financing activities</b>	<b>(7,284)</b>	<b>(51,921)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>28,019</b>	<b>5,500</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>5,294</b>	<b>9,451</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 33,313</b>	<b>\$ 14,951</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 1,938	\$ 1,961
Cash paid for income taxes, net of refunds	\$ 16,117	\$ (6,750)
Noncash investing and financing activities:		
Operating lease liabilities arising from obtaining right of use assets	\$ 18,527	\$ —
Finance lease liabilities arising from obtaining right of use assets	\$ 368	\$ —
Capital expenditures incurred but not yet paid	\$ 1,333	\$ 112

See notes to condensed consolidated financial statements.



**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2019**  
**UNAUDITED**

**1. Description of the Business**

ManTech International Corporation (depending on the circumstances, “ManTech” “Company” “we” “our” “ours” or “us”) provides mission-focused technology solutions and services for U.S. defense, intelligence community and federal civilian agencies. In business for more than 50 years, we excel in full-spectrum cyber, data collection & analytics, enterprise information technology (IT) and systems and software engineering solutions that support national and homeland security.

**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, revenue 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, 2018, 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. Revenue from Contracts with Customers**

On January 1, 2018, we adopted Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, using the modified retrospective method applied to those contracts that were not substantially complete as of January 1, 2018. ASC 606 outlines a five-step model whereby revenue is recognized as performance obligations within the contract are satisfied. ASC 606 also requires new, expanded disclosures regarding revenue recognition. We recognized the cumulative effect of adopting ASC 606 as an increase to the 2018 opening balance of retained earnings in the amount of \$0.8 million, with the impact primarily related to fixed-price contracts.

We derive revenue from contracts with customers primarily from contracts with the U.S. government in the areas of defense, intelligence, homeland security and other federal civilian agencies. Substantially all of our revenue is derived from services and solutions provided to the U.S. government or to prime contractors supporting the U.S. government, including services by our employees and our subcontractors, and solutions that include third-party hardware and software that we purchase and integrate as a part of our overall solutions. Customer requirements may vary from period-to-period depending on specific contract and customer requirements. We provide our services and solutions under three types of contracts: cost-reimbursable, fixed-price and time-and-materials. Under cost-reimbursable contracts, we are reimbursed for costs that are determined to be reasonable, allowable and allocable to the contract and paid a fee representing the profit margin negotiated between us and the contracting agency, which may be fixed or performance based. Under fixed-price contracts, we perform specific tasks for a fixed price. Fixed-price contracts may include either a product delivery or specific service performance over a defined period. Under time-and-materials contracts, we are reimbursed for labor at fixed hourly rates and are generally reimbursed separately for allowable materials and expenses at cost. We typically recognize revenue for time and material contracts under the "right to invoice" model.

For contracts that do not meet the criteria to measure performance as a right to invoice under the series guidance, we utilize an Estimate at Completion process to measure progress toward completion. We typically estimate progress towards completion based on cost incurred or direct labor incurred. As part of this process, we review information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities and the related changes in estimates of revenue and costs. The risks and opportunities include judgments about the ability and cost to achieve the contract milestones and other technical contract requirements. We make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the performance obligation, execution by our subcontractors, the availability and timing of funding from our customer and overhead cost rates, among other variables. A significant change in one or more of these estimates could affect the timing in which we recognize revenue on our contracts. For the three months ended September 30, 2019 and 2018, the aggregate impact of adjustments in contract estimates increased our revenue by \$5.9 million and \$4.5 million, respectively. For the nine months ended September 30, 2019 and 2018, the aggregate impact of adjustments in contract estimates increased our revenue by \$9.0 million and \$8.8 million, respectively.

We have one reportable segment. Our U.S. government customers typically exercise independent decision-making and contracting authority. Offices or divisions within an agency or department of the U.S. government may directly, or through a prime contractor, use our services as a separate customer as long as the customer has independent decision-making and contracting authority within its organization. We treat sales to U.S. government customers as sales within the U.S. regardless of where the services are performed.

The following tables disclose revenue (in thousands) by contract type, customer, prime or subcontractor and geography for the periods presented.

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Cost-reimbursable	\$ 397,921	\$ 337,105	\$ 1,129,538	\$ 970,647
Fixed-price	120,632	108,921	323,723	341,854
Time-and-materials	60,626	51,179	164,885	148,984
Revenue	<u>\$ 579,179</u>	<u>\$ 497,205</u>	<u>\$ 1,618,146</u>	<u>\$ 1,461,485</u>

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Department of Defense and intelligence agencies	\$ 443,253	\$ 365,044	\$ 1,241,609	\$ 1,055,911
Federal civilian agencies	124,243	121,543	341,880	371,767
State agencies, international agencies and commercial entities	11,683	10,618	34,657	33,807
Revenue	<u>\$ 579,179</u>	<u>\$ 497,205</u>	<u>\$ 1,618,146</u>	<u>\$ 1,461,485</u>

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Prime contractor	\$ 524,370	\$ 442,413	\$ 1,448,875	\$ 1,298,437
Subcontractor	54,809	54,792	169,271	163,048
Revenue	<u>\$ 579,179</u>	<u>\$ 497,205</u>	<u>\$ 1,618,146</u>	<u>\$ 1,461,485</u>

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
U.S.	\$ 571,923	\$ 490,098	\$ 1,596,365	\$ 1,439,293
International	7,257	7,107	21,781	22,192
Revenue	<u>\$ 579,179</u>	<u>\$ 497,205</u>	<u>\$ 1,618,146</u>	<u>\$ 1,461,485</u>

The following table discloses contract receivables (in thousands):

	September 30, 2019	December 31, 2018
Billed receivables	\$ 292,323	\$ 301,716
Unbilled receivables	82,054	109,895
Allowance for doubtful accounts	(7,335)	(6,233)
Receivables—net	<u>\$ 367,042</u>	<u>\$ 405,378</u>

Receivables at September 30, 2019 are expected to be substantially collected within one year except for approximately \$1.1 million, of which 100% is related to receivables from sales to the U.S. government or from contracts in which we acted as a subcontractor to other contractors selling to the U.S. government. We do not believe that we have significant exposure to credit

risk as billed receivables and unbilled receivables are primarily due from the U.S. government. The allowance for doubtful accounts represents our estimate for exposure due to compliance, contractual issues and bad debts related to prime contractors.

The following table discloses contract liabilities (in thousands):

	September 30, 2019	December 31, 2018
Contract liabilities	\$ 43,891	\$ 28,209

For the three months ended and nine months ended September 30, 2019, the amount of revenue that was included in the opening contract liabilities balance were \$0.9 million and \$23.4 million, respectively.

The remaining performance obligation as of September 30, 2019 is \$3.1 billion. The following table discloses when we expect to recognize the remaining performance obligation as revenue (in billions):

For the remaining three months ending December 31, 2019	For the year ending		
	December 31, 2020	December 31, 2021	Thereafter
\$ 0.6	\$ 1.5	\$ 0.5	\$ 0.5

#### 4. Leases

We adopted ASC 842, *Leases*, on January 1, 2019. We elected to apply the provisions of the standard as of the date of adoption, and, therefore, have not restated prior comparative periods. Upon adoption, we recorded operating lease liabilities of \$129.6 million and operating lease right of use (ROU) assets of \$118.7 million. We elected the practical expedient to recognize the lease payments related to short-term leases as profit or loss on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments are incurred. We also elected the following transition related practical expedients: not to reassess whether expired or existing contracts are or contain leases, not to reassess lease classification as determined under ASC 840 and not to reassess initial direct costs from any existing lease. We elected the practical expedient as an accounting election not to separate nonlease components from lease components on all classes of underlying assets. Our leases include nonlease components such as common area maintenance (CAM), utilities and operating expenses. Additionally, we implemented internal controls and key system functionality to enable the preparation of financial information upon adoption. ASC 842 had a material impact on our condensed consolidated balance sheet, but did not have an impact on our condensed consolidated income statement. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, while our accounting for finance leases remained substantially unchanged.

We determine if a contract is or contains a lease at inception. A contract is or contains a lease if the contract conveys the right to control the use of identified property or equipment (an identified asset) for a period of time in exchange for consideration. We have the right to control the use of the identified asset when we have both of the following: the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. In making this determination, we consider all relevant facts and circumstances. We reassess whether a contract is or contains a lease only if the terms and conditions of the contract are changed. We account for lease components and nonlease components associated with a lease as a single lease component.

Our ROU asset is recognized as the lease liability, any initial indirect costs and any prepaid lease payments, less any lease incentives. Our lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. Our lease payments consist of amounts relating to the use of the underlying asset during the lease term, specifically fixed payments, payment to be made in optional periods when we are reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease and the amounts probable of being owned by us under residual guarantees. Our variable lease payments are excluded in measuring ROU assets and lease liabilities because they do not depend on an index or a rate or are not in substance fixed payments. We exclude lease incentives and initial direct costs incurred from our lease payments. Our leases typically do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments.

Our operating leases are primarily made up of real estate. Our variable lease payments do not depend on an index or a rate or are not in substance fixed payments. Our leases have remaining lease terms of 1 day to 11 years, some of which include options to extend the leases for up to 14 years, and some of which include options to terminate the leases within 1 year. Our transportation vehicles and equipment leases include a residual value guarantee, which is a guarantee made to the lessor that the value of the underlying asset returned to the lessor at the end of the lease will be at least a specific amount. We sublease some of our real estate

space. Sublease income is immaterial and is presented net with the corresponding lease expense. We do not have any leases that have not yet commenced due to construction or design of the underlying asset. We recognize payments related to short-term leases (less than one year) as expense on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments were incurred. As such, our short-term lease expense for the three and nine months ended September 30, 2019 was \$1.4 million and \$4.2 million, respectively. For the three and nine months ended September 30, 2019, we incurred variable lease costs of \$0.5 million and \$1.9 million, respectively.

In our condensed consolidated statement of income, we recognize lease expense within general and administrative expense or cost of goods sold depending on the use of the underlying lease. For leases classified as financing, the interest on lease liabilities is classified within interest expense.

The balance sheet information related to our leases was as follows (dollars in thousands):

	<b>September 30, 2019</b>
<b>Operating Leases</b>	
Operating lease right of use assets	\$ 116,236
Operating lease liabilities—current	\$ 28,170
Operating lease liabilities—long term	98,979
Total operating lease liabilities	<u>\$ 127,149</u>
<b>Finance Leases</b>	
Property and equipment—gross	\$ 669
Accumulated depreciation	(194)
Property and equipment—net	<u>\$ 475</u>
Accounts payable and other accrued expenses	\$ 143
Other long-term liabilities	332
Total finance lease liabilities	<u>\$ 475</u>

The components of lease expense were as follows (in thousands):

	<b>Three months ended September 30, 2019</b>	<b>Nine months ended September 30, 2019</b>
Operating lease expenses	<u>\$ 8,412</u>	<u>\$ 24,727</u>
Depreciation of right of use assets	\$ 45	\$ 194
Interest on lease liabilities	19	33
Finance lease expenses	<u>\$ 64</u>	<u>\$ 227</u>

The weighted average information related to leases was as follows:

	<b>September 30, 2019</b>
<b>Weighted Average Remaining Lease Term</b>	
Operating leases	5 years
Finance leases	3 years
<b>Weighted Average Discount Rate</b>	
Operating leases	3%
Finance leases	5%

Future minimum lease payments under non-cancellable leases as of September 30, 2019 were as follows (in thousands):

	<b>Operating Leases</b>	<b>Financing Leases</b>
For the three months ended December 31, 2019	\$ 6,437	\$ 31
2020	33,859	176
2021	31,033	156
2022	27,272	150
2023	22,666	41
Thereafter	16,759	—
Total future minimum lease payments	138,026	554
Less imputed interest	(10,877)	(79)
Total	\$ 127,149	\$ 475

## 5. Acquisitions

**H2M Group (H2M)**—On August 8, 2019, we completed the acquisition of H2M through a membership interest purchase agreement by and among H2M Group, HHM Holding LLC, and the Members and ManTech International Corporation. The results of H2M's operations have been included in our condensed consolidated financial statements since that date. We funded the acquisition with cash on hand and borrowings on our revolving credit facility. H2M is a provider of intelligence and analysis services and solutions primarily to the National Geospatial-Intelligence Agency (NGA). This acquisition strengthens our ability to help key government agencies implement new automation techniques that enable intelligence analysts to more effectively navigate large amounts of data and to distill the critical information that informs actionable intelligence necessary to make mission-critical decisions.

For the nine months ended September 30, 2019, we incurred approximately \$0.3 million of acquisition costs related to the H2M transaction, which are included in general and administrative expenses in our condensed consolidated statement of income.

The preliminary purchase price of \$38.8 million, which includes an estimated working capital adjustment, was preliminarily allocated to the underlying assets and liabilities based on their estimated fair value at the date of acquisition. As we are still in the process of reviewing the fair value of the assets acquired and liabilities assumed and in finalizing the closing working capital adjustment, the purchase price allocation for H2M is not complete as of September 30, 2019. Recognition of goodwill is largely attributed to the value paid for H2M's capabilities to support government agencies in the implementation of high-quality geospatial and professional services. The goodwill recorded for this transaction will be deductible for tax purposes over 15 years.

In preliminarily allocating the purchase price, we considered, among other factors, analysis of historical performance and estimates of future performance of H2M's contracts. The components of other intangible assets associated with the acquisition were customer relationships and backlog valued at \$9.6 million and \$2.3 million, respectively. Customer contracts and related relationships represent the underlying relationships and agreements with H2M's existing customers. Customer relationships are amortized using the pattern of benefits method over their estimated useful lives of approximately 20 years. Backlog is amortized using the pattern of benefits method over its estimated useful life of 2 years. The weighted-average amortization period for the intangible assets is 17 years.

The following table represents the preliminary purchase price allocation for H2M (in thousands):

Cash and cash equivalents	\$	15
Receivables		4,011
Prepaid expenses		199
Other current assets		2
Goodwill		25,382
Other intangible assets		11,900
Operating lease ROU asset		145
Property and equipment		57
Other assets		7
Accounts payable and accrued expenses		(1,775)
Accrued salaries and related expenses		(1,000)
Operating lease liabilities - current		(86)
Operating lease liabilities - non current		(60)
Net assets acquired and liabilities assumed	\$	<u>38,797</u>

**Kforce Government Solutions (KGS)**—On April 1, 2019, we completed the acquisition of KGS. KGS was a wholly owned subsidiary of the publicly traded commercial technology and staffing company KForce, Inc. The results of KGS's operations have been included in our condensed consolidated financial statements since that date. The acquisition was completed through an equity purchase agreement dated February 28, 2019, by and among Kforce Government Solutions, Inc and other beneficiaries and ManTech International Corporation. We funded the acquisition with cash on hand and borrowings on our revolving credit facility. KGS provides services, IT solutions, transformation and management consulting and data analytics - most notably in the healthcare IT market. This acquisition will expand our presence with important customers such as the Department of Veteran Affairs (VA).

For the nine months ended September 30, 2019, we incurred approximately \$1.0 million of acquisition costs related to the KGS transaction, which are included in general and administrative expenses in our condensed consolidated statement of income.

The purchase price of \$114.6 million, which includes the finalized working capital adjustment, was preliminarily allocated to the underlying assets and liabilities based on their estimated fair value at the date of acquisition. As we are still in the process of reviewing the fair value of the assets acquired and liabilities assumed, the purchase price allocation for KGS is not complete as of September 30, 2019. Recognition of goodwill is largely attributed to the value paid for KGS's capabilities to support customers in IT solutions, transformation and management consulting and data analytics. A majority of the goodwill recorded will not be deductible for tax purposes.

In preliminarily allocating the purchase price, we considered, among other factors, analysis of historical financial performance and estimates of future performance of KGS's contracts. The components of other intangible assets associated with the acquisition were customer relationships and backlog valued at \$33.1 million and \$1.6 million, respectively. Customer contracts and related relationships represent the underlying relationships and agreements with KGS's existing customers. Customer relationships are amortized using the pattern of benefits method over their estimated useful lives of approximately 20 years. Backlog is amortized straight-line over its estimated useful life of 1 year. The weighted-average amortization period for the intangible assets is 19 years.

The following table represents the preliminary purchase price allocation for KGS (in thousands):

Cash and cash equivalents	\$	154
Receivables		17,835
Prepaid expenses		368
Other current assets		168
Goodwill		80,025
Other intangible assets		34,839
Property and equipment		361
Accounts payable and accrued expenses		(6,887)
Accrued salaries and related expenses		(4,421)
Deferred income taxes		(7,319)
Other long-term liabilities		(571)
Net assets acquired and liabilities assumed	\$	<u>114,552</u>

## 6. 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 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 the nine months ended September 30, 2019 and 2018, we declared and paid quarterly dividends in the amount of \$0.27 per share and \$0.25 per share, respectively, 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 ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Distributed earnings	\$ 10,823	\$ 9,928	\$ 32,360	\$ 29,687
Undistributed earnings	17,114	11,995	40,909	32,218
Net income	\$ 27,937	\$ 21,923	\$ 73,269	\$ 61,905

*Class A common stock:*

Basic net income available to common stockholders	\$ 18,729	\$ 14,623	\$ 49,048	\$ 41,226
Basic weighted average common shares outstanding	26,822	26,421	26,706	26,293
Basic earnings per share	\$ 0.70	\$ 0.55	\$ 1.84	\$ 1.57
Diluted net income available to common stockholders	\$ 18,798	\$ 14,682	\$ 49,203	\$ 41,402
Effect of potential exercise of stock options	306	322	257	340
Diluted weighted average common shares outstanding	27,128	26,743	26,963	26,633
Diluted earnings per share	\$ 0.69	\$ 0.55	\$ 1.82	\$ 1.55

*Class B common stock:*

Basic net income available to common stockholders	\$ 9,208	\$ 7,300	\$ 24,221	\$ 20,679
Basic weighted average common shares outstanding	13,188	13,189	13,188	13,189
Basic earnings per share	\$ 0.70	\$ 0.55	\$ 1.84	\$ 1.57
Diluted net income available to common stockholders	\$ 9,139	\$ 7,241	\$ 24,066	\$ 20,503
Diluted weighted average common shares outstanding	13,188	13,189	13,188	13,189
Diluted earnings per share	\$ 0.69	\$ 0.55	\$ 1.82	\$ 1.55

For the three months ended September 30, 2019 and 2018, options to purchase 7,641 shares and 242,789 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 nine months ended September 30, 2019 and 2018, options to purchase 331,994 shares and 268,013 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 nine months ended September 30, 2019 and 2018, there were 255,376 shares and 387,926 shares, respectively, issued from the exercise of stock options. For the nine months ended September 30, 2019 and 2018 there were 76,346 shares and 86,233 shares, respectively, issued from the vesting of restricted stock units.

## 7. Property and Equipment

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

	September 30, 2019	December 31, 2018
Furniture and equipment	\$ 131,114	\$ 97,577
Leasehold improvements	48,421	43,065
Finance leases	669	—
Property and equipment—gross	180,204	140,642
Accumulated depreciation and amortization	(107,211)	(89,215)
Property and equipment—net	\$ 72,993	\$ 51,427



Depreciation and amortization expense related to property and equipment for the three months ended September 30, 2019 and 2018 was \$6.9 million and \$6.4 million, respectively. Depreciation and amortization expense related to property and equipment for the nine months ended September 30, 2019 and 2018 was \$19.4 million and \$19.1 million, respectively.

## 8. Goodwill and Other Intangible Assets

The change in the carrying amount of goodwill during the year ended December 31, 2018 and nine months ended September 30, 2019 are as follows (in thousands):

	<b>Goodwill Balance</b>
Goodwill at December 31, 2017	\$ 1,084,560
Acquisition fair value adjustment	1,246
Goodwill at December 31, 2018	1,085,806
Acquisitions	105,407
Goodwill at September 30, 2019	<u>\$ 1,191,213</u>

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

	<b>September 30, 2019</b>			<b>December 31, 2018</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Other intangible assets:						
Contract and program intangible assets	\$ 402,532	\$ 215,942	\$ 186,590	\$ 355,932	\$ 201,298	\$ 154,634
Capitalized software cost for internal use	53,322	36,665	16,657	50,925	33,597	17,328
Total other intangible assets—net	<u>\$ 455,854</u>	<u>\$ 252,607</u>	<u>\$ 203,247</u>	<u>\$ 406,857</u>	<u>\$ 234,895</u>	<u>\$ 171,962</u>

Amortization expense relating to intangible assets for the three months ended September 30, 2019 and 2018 was \$6.1 million and \$6.8 million, respectively. Amortization expense relating to intangible assets for the nine months ended September 30, 2019 and 2018 was \$18.0 million and \$20.3 million, respectively. We estimate that we will have the following amortization expense for the future periods indicated below (in thousands):

For the remaining three months ending December 31, 2019	\$ 6,710
For the year ending:	
December 31, 2020	\$ 25,301
December 31, 2021	\$ 23,072
December 31, 2022	\$ 20,139
December 31, 2023	\$ 16,858
December 31, 2024	\$ 15,151

## 9. 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 \$75 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 August 17, 2022.

Borrowings under our credit agreement are collateralized by substantially all of our assets and those of 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 base 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 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 nine months ended September 30, 2019 and 2018, we were in compliance with the financial covenants under the credit agreement.

There was \$25.0 million and \$7.5 million outstanding on our revolving credit facility at September 30, 2019 and December 31, 2018, respectively. The maximum available borrowing under the revolving credit facility at September 30, 2019 was \$467.3 million. As of September 30, 2019, we were contingently liable under letters of credit totaling \$7.7 million, which reduces our availability to borrow under our revolving credit facility.

#### **10. 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 2016 with no material adjustments. The remaining audits for 2017 through 2018 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. Current legal matters are individually immaterial and we believe that the ultimate resolution of these items will not have a material effect on our financial position, results of operations or cash flows. Management believes it has adequately reserved for any losses that may be experienced from legal proceedings, claims and disputes and pending litigations of which it is aware.

An officer of our Company was party to an arbitration proceeding with a former employer relating to a breach of a contract claim. Pursuant to indemnification arrangements we have with this officer, we were exposed to a loss related to this claim. In the period ending September 30, 2019, we settled the claim. The settlement amount was not material to our condensed consolidated financial statements.

We have \$7.7 million outstanding on our letter of credit, of which \$7.6 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.

#### **11. 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, among others, 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, 2019, there were 596,422 additional shares made available for issuance under the Plan. Through September 30, 2019, the Board of Directors has authorized the issuance of up to 15,148,321 shares under this Plan. Through September 30, 2019, the remaining aggregate number of shares of our common stock available for future grants under the Plan was 6,727,002. 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.

**Stock Compensation Expense**—For the three months ended September 30, 2019 and 2018, we recorded \$2.0 million and \$1.3 million of stock-based compensation expense. For the nine months ended September 30, 2019 and 2018, we recorded \$5.2 million and \$3.6 million of stock-based compensation expense. No compensation expense of employees with stock awards,

including stock-based compensation expense, was capitalized during the periods. For the three months ended September 30, 2019 and 2018, we recorded \$(0.9) million and \$(1.2) million, respectively, to income tax expense (benefit) related to the exercise of stock options, vested cancellations and the vesting of restricted stock and restricted stock units. For the nine months ended September 30, 2019 and 2018, we recorded \$(1.6) million and \$(2.9) million, respectively, to income tax expense (benefit) related to the exercise of stock options, vested cancellations and the vesting of restricted stock and restricted stock units.

**Stock Options**—Under the Plan, we have issued stock options. A stock option 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 nine months ended September 30, 2019 and 2018, 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 nine months ended September 30, 2019 and 2018:

- **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 \$1.08 per share.

The following table summarizes weighted-average assumptions used in our calculations of fair value for the nine months ended September 30, 2019 and 2018:

	Nine months ended September 30,	
	2019	2018
Volatility	27.00%	26.34%
Expected life of options	3 years	3 years
Risk-free interest rate	2.38%	2.46%
Dividend yield	2.00%	2.00%

**Stock Option Activity**—The weighted-average fair value of options granted during the nine months ended September 30, 2019 and 2018, as determined under the Black-Scholes-Merton valuation model, was \$10.10 and \$9.98, respectively. Option grants that vested during the nine months ended September 30, 2019 and 2018 had a combined fair value of \$1.2 million and \$0.7 million, respectively.

The following table summarizes stock option activity for the year ended December 31, 2018 and the nine months ended September 30, 2019:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Weighted Average Remaining Contractual Life
Stock options outstanding at December 31, 2017	1,169,408	\$ 35.88	\$ 16,731	
Granted	466,828	\$ 54.87		
Exercised	(420,524)	\$ 30.05	\$ 12,411	
Cancelled and expired	(122,312)	\$ 43.85		
Stock options outstanding at December 31, 2018	1,093,400	\$ 45.34	\$ 8,776	
Granted	256,006	\$ 53.81		
Exercised	(255,376)	\$ 35.82	\$ 7,038	
Cancelled and expired	(97,005)	\$ 50.89		
Stock options outstanding at September 30, 2019	<u>997,025</u>	\$ 49.42	\$ 21,927	3 years
Stock options exercisable at September 30, 2019	221,597	\$ 41.09	\$ 6,719	2 years

The following table summarizes non-vested stock options for the nine months ended September 30, 2019:

	Number of Shares	Weighted Average Fair Value
Non-vested stock options at December 31, 2018	774,402	\$ 8.77
Granted	256,006	\$ 10.10
Vested	(161,114)	\$ 7.38
Cancelled	(93,866)	\$ 9.23
Non-vested stock options at September 30, 2019	<u>775,428</u>	\$ 9.44

Unrecognized compensation expense related to non-vested awards was \$5.1 million as of September 30, 2019, 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 vest on the one year anniversary of the grant date. The related compensation expense is recognized over the service period and is based on the grant date fair value of the stock. 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**—The following table summarizes the restricted stock activity during the year ended December 31, 2018 and the nine months ended September 30, 2019.

	Number of Shares	Weighted Average Fair Value
Non-vested restricted stock at December 31, 2017	24,000	\$ 37.90
Granted	24,000	\$ 52.83
Vested	(28,000)	\$ 40.03
Non-vested restricted stock at December 31, 2018	20,000	\$ 52.83
Granted	24,000	\$ 62.66
Vested	(20,000)	\$ 52.83
Non-vested restricted stock at September 30, 2019	<u>24,000</u>	\$ 62.66

**RSUs**—Under the Plan, we have issued restricted stock units (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 have no voting rights until the RSUs vest. Employees who are granted RSUs do not receive dividend payments during the vesting period. Our employees have been granted performance-based RSUs and time-based RSUs. Performance-based RSUs 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. Time-based RSUs vest in one-third increments on the first, second and third anniversaries of 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**—For performance-based RSUs that vested in 2019 and 2018, each RSU awarded resulted in the issuance of 1.5 shares, which were issued net of applicable payroll tax withholdings. The following table summarizes the non-vested RSU activity during the year ended December 31, 2018 and the nine months ended September 30, 2019:

	Number of Units	Weighted Average Fair Value
Non-vested RSUs at December 31, 2017	161,343	\$ 31.36
Granted	76,713	\$ 53.97
Vested	(87,200)	\$ 28.40
Forfeited	(13,260)	\$ 38.98
Non-vested RSUs at December 31, 2018	137,596	\$ 45.11
Granted	99,675	\$ 53.27
Vested	(59,452)	\$ 42.46
Forfeited	(10,677)	\$ 51.88
Non-vested RSUs at September 30, 2019	167,142	\$ 50.48

## 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, 2018.

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:

- Inability to recruit and retain a sufficient number of employees with specialized skill sets or necessary security clearances who are in great demand and limited supply;
- 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;
- 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;
- 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 constraints generally;
- Failure to realize the full amount of our backlog, or adverse changes in the timing of receipt of revenue under contracts included in backlog;
- Adverse results of U.S. government audits or other investigations of our 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;
- Failure to obtain option awards, task orders or funding under contracts;
- Renegotiation, modification or termination of our contracts, or failure to perform in conformity with contract terms or our expectations;
- Failure to successfully integrate acquired companies or businesses into our operations or to realize any accretive or synergistic effects from such acquisitions;
- Non-compliance with, or adverse changes in, complex U.S. government laws, procurement regulations or processes;
- Adverse change in business conditions that may cause our investments in recorded goodwill to become impaired; and
- Increased exposure to risks associated with conducting business internationally.

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 mission-focused technology solutions and services for U.S. defense, intelligence community and federal civilian agencies. We excel in full-spectrum cyber, data collection & analytics, enterprise information technology (IT), systems and software engineering solutions that support national and homeland security.

Approximately 98% of our revenues are generated through contracts with the U.S. federal government. As such, our business is impacted by the overall U.S. government budget and our ability to match our capabilities and offerings to the U.S. government's spending priorities. Through legislation passed in September 2018 and February 2019, all agencies of the U.S. federal government were funded through Government fiscal year (GFY) 2019. In August 2019, Congress passed and the president signed a new two-year budget deal, the Bipartisan Budget Act of 2019. The Act effectively ended the threat of sequestration by increasing spending for GFY 2020 and 2021 above caps previously in place under the Budget Control Act. The GFY 2020 and 2021 budgets include increases for areas supporting national security. Despite the passage of a two year budget, Congress has not yet passed full year appropriations and as of October 1st, began operating under a Continuing Resolution (CR). If Congress is unable to approve appropriations by November 21st, the U.S. Government and its agencies may be subjected to funding restrictions through a CR or, if there is a failure to pass interim funding, a government shutdown.

We classify indirect costs incurred as cost of services and general and administrative expenses in the same manner as such costs are defined in our disclosure statements under U.S. Government Cost Accounting Standards. Effective January 1, 2019, we updated our disclosure statements with the Defense Contract Management Agency, resulting in certain costs being classified differently either as cost of services or as general and administrative expenses on a prospective basis. This change has caused a net increase in the reported cost of services and a net decrease in reported general and administrative expenses in 2019 as compared to 2018; however, total operating costs were not affected by this change.

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, 2018, previously filed with the Securities and Exchange Commission.

### Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

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 revenue, as well as the period-to-period change from September 30, 2018 to September 30, 2019.

	Three months ended September 30,				Period-to-Period Change	
	2019	2018	2019	2018	2018 to 2019	
	Dollars		Percentage		Dollars	Percentage
	(dollars in thousands)					
<b>REVENUE</b>	\$ 579,179	\$ 497,205	100.0%	100.0%	\$ 81,974	16.5 %
Cost of services	487,914	425,560	84.3%	85.6%	62,354	14.7 %
General and administrative expenses	52,863	42,246	9.1%	8.5%	10,617	25.1 %
<b>OPERATING INCOME</b>	38,402	29,399	6.6%	5.9%	9,003	30.6 %
Interest expense	(659)	(616)	0.1%	0.1%	43	7.0 %
Interest income	90	43	—%	—%	47	109.3 %
Other income (expense), net	(39)	1	—%	—%	(40)	(4,000.0)%
<b>INCOME FROM OPERATIONS BEFORE INCOME TAXES AND EQUITY METHOD INVESTMENTS</b>	37,794	28,827	6.5%	5.8%	8,967	31.1 %
Provision for income taxes	(9,873)	(6,912)	1.7%	1.4%	2,961	42.8 %
Equity in earnings of unconsolidated subsidiaries	16	8	—%	—%	8	100.0 %
<b>NET INCOME</b>	\$ 27,937	\$ 21,923	4.8%	4.4%	\$ 6,014	27.4 %

### *Revenue*

The primary driver of our increase in revenues relates to revenue from new contract awards, growth on certain existing contracts and our recent acquisitions, which were offset by contracts and tasks that ended and reduced scope of work or lower material purchases on some contracts.

### *Cost of services*

The increase in cost of services was primarily due to increases in revenue. As a percentage of revenue, direct labor costs were 46% for both the three months ended September 30, 2019 and 2018. As a percentage of revenues, other direct costs, which include subcontractors and third party equipment and materials used in the performance of our contracts, were 38% for the three months ended September 30, 2019, compared to 39% for the same period in 2018.

### *General and administrative expenses*

The increase in general and administrative expenses was primarily due to additional infrastructure spending to support the growth of our business, bid and proposal expenditures and additional expenses related to legal matters. These increases were partially offset by the reclassification of certain allocable expenses from general and administrative expenses to cost of services.

### *Interest expense*

The increase in interest expense was due to increased borrowings on our revolving line of credit to fund our acquisitions.

### *Provision for income taxes*

Our effective tax rate is affected by recurring items, such as the 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 26% and 24% for the three months ended September 30, 2019 and 2018, respectively. The primary driver of the increase in our effective tax rate was the impact of discrete items recognized in the third quarter of 2018, which were more favorable than discrete items recognized in the third quarter of 2019.



## Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018

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 revenue, as well as the period-to-period change from September 30, 2018 to September 30, 2019.

	Nine months ended September 30,				Period-to-Period Change	
	2019	2018	2019	2018	2018 to 2019	
	Dollars		Percentage		Dollars	Percentage
	(dollars in thousands)					
<b>REVENUE</b>	\$ 1,618,146	\$ 1,461,485	100.0 %	100.0%	\$ 156,661	10.7 %
Cost of services	1,378,263	1,250,505	85.2 %	85.6%	127,758	10.2 %
General and administrative expenses	139,652	126,831	8.6 %	8.7%	12,821	10.1 %
<b>OPERATING INCOME</b>	100,231	84,149	6.2 %	5.7%	16,082	19.1 %
Interest expense	(2,088)	(2,007)	0.1 %	0.1%	81	4.0 %
Interest income	401	85	— %	—%	316	371.8 %
Other income (expense), net	(50)	63	— %	—%	(113)	(179.4)%
<b>INCOME FROM OPERATIONS BEFORE INCOME TAXES AND EQUITY METHOD INVESTMENTS</b>	98,494	82,290	6.1 %	5.6%	16,204	19.7 %
Provision for income taxes	(25,229)	(20,412)	1.6 %	1.4%	4,817	23.6 %
Equity in earnings of unconsolidated subsidiaries	4	27	— %	—%	(23)	(85.2)%
<b>NET INCOME</b>	<u>\$ 73,269</u>	<u>\$ 61,905</u>	<u>4.5 %</u>	<u>4.2%</u>	<u>\$ 11,364</u>	<u>18.4 %</u>

### *Revenue*

The primary driver of our increase in revenues was revenue from new contract awards and growth on certain existing contracts and our recent acquisitions, which was 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 revenue. As a percentage of revenue, direct labor costs were 47% and 48% for the nine months ended September 30, 2019 and 2018, respectively. As a percentage of revenues, other direct costs, which include subcontractors and third party equipment and materials used in the performance of our contracts, were 38% for both the nine months ended September 30, 2019 and 2018.

### *General and administrative expenses*

The increase in general and administrative expenses was primarily due to increased expenditures on support infrastructure improvements, expenditures related to our recent acquisitions and other legal matters. These increases were partially offset by reduced bid and proposal spending, lower amortization on acquired intangibles and the reclassification of certain allocable expenses from general and administrative expenses to cost of services. We expect general and administrative expenses as a percent of revenue to increase slightly during the remainder of 2019 due to increased bid and proposal spending in the last quarter of 2019.

### *Interest expense*

The increase in interest expense was due to increased borrowing on our revolving line of credit to fund the acquisitions of Kforce Government Solutions (KGS) and H2M Group (H2M). We expect interest expense to decrease slightly for the remainder of 2019 due to increased cash on hand.

### *Provision for income taxes*

Our effective tax rate is affected by recurring items, such as the 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 26% and 25% for the nine months ended September 30, 2019 and 2018, respectively. We have been engaged in a project to review and improve the method by which we identify expenditures that qualify for the research and development tax credit. This project is ongoing, however, we expect to complete the review and implement changes in our methodology in the fourth quarter of 2019. After completion, we expect to amend our prior year tax returns and record a tax benefit in our tax provision, which could potentially have a material impact on our condensed consolidated financial statements. Assuming adequate levels of taxable income, our improved methodology for identifying expenditures that qualify for the research and development tax credit could provide tax benefits in future years that are expected to lower our future effective tax rate.

### **Backlog**

Backlog represents estimates that we calculate on a consistent basis. We define backlog as our estimates of the remaining revenue from existing signed contracts, assuming the exercise of all options relating to such contracts and including executed task orders issued under Indefinite Delivery/Indefinite Quantity contracts.

We define funded backlog to be the portion of backlog for which funding currently is appropriated and allocated to the contract by the purchasing agency or otherwise authorized for payment by the customer upon completion of a specific portion of work. Our funded backlog does not include the full value of our contracts because Congress often appropriates funds for a particular program or contract on a yearly or quarterly basis, even though the contract may call for performance over a much longer period of time.

A variety of circumstances or events may cause changes in the amount of our backlog and funded backlog, including the execution of new contracts, the extension of existing contracts, the non-renewal or completion of current contracts, the early termination of contracts and adjustment to estimates for previously included contracts. Changes in the amount of our funded backlog also are affected by the funding cycles of the U.S. government.

At September 30, 2019 and December 31, 2018, our backlog was \$9.5 billion and \$8.4 billion, respectively. Our funded backlog was \$1.5 billion and \$1.3 billion as of September 30, 2019 and December 31, 2018, respectively.

The following table reconciles our backlog to our remaining performance obligations as disclosed in Note 3 to our condensed consolidated financial statements in Item 1 (in billions):

	<b>September 30, 2019</b>	
Backlog	\$	9.5
Unexercised contract options		6.4
Remaining performance obligation	\$	3.1

### **Liquidity and Capital Resources**

Our primary liquidity needs relate to managing working capital, financing acquisitions, making cash dividend payments, 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 September 30, 2019, our cash and cash equivalents balance was \$33.3 million. There were outstanding borrowings of \$25.0 million under our revolving credit facility at September 30, 2019. The maximum available borrowings under our revolving credit facility at September 30, 2019 were \$467.3 million. As of September 30, 2019, we were contingently liable under letters of credit totaling \$7.7 million, which reduces our availability to borrow under our revolving credit facility.

#### *Cash Flows From (Used In) 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 57 and 67 for the nine months ended September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019 and 2018, our net cash from operating activities was \$233.0

million and \$94.2 million, respectively. The increase in net cash flows from operating activities during the nine months ended September 30, 2019 when compared to the same period in 2018 was primarily due to the timing of receivables collection.

#### *Cash Flows From (Used In) Investing Activities*

For the nine months ended September 30, 2019 our net cash used in investing activities was \$197.7 million, which was primarily due to the acquisitions of KGS and H2M and the purchase of equipment to support managed IT service contracts, infrastructure investments and capitalized software for internal use. For the nine months ended September 30, 2018 our net cash used in investing activities was \$36.8 million, which was primarily used for the purchase of equipment to support a managed IT service contract, infrastructure investments, closing working payments related to the purchase of InfoZen and capitalized software for internal use.

#### *Cash Flows From (Used in) Financing Activities*

For the nine months ended September 30, 2019, our net cash used in financing activities was \$7.3 million, which was primarily due to dividends paid, offset by net borrowings under our revolving credit facility and proceeds from the exercise of stock options. For the nine months ended September 30, 2018, our net cash used in financing activities were \$51.9 million, which was primarily due to dividends paid partially 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 \$75 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 August 17, 2022. 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 base 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 outstanding borrowings of \$25.0 million on our revolving credit facility at September 30, 2019. As of and during the nine months ended September 30, 2019, 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 the nine months ended September 30, 2019 and 2018, we declared and paid quarterly dividends in the amount of \$0.27 per share and \$0.25 per share, respectively, 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 September 30, 2019, \$7.7 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 \$7.6 million.

## 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, revenue and expenses. Actual results may differ from these estimates under different assumptions or conditions. Our significant accounting policies for 2018 are described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, previously filed with the SEC. There have been no material changes to our critical accounting estimates and policies from those discussed in our 2018 Annual Report on Form 10-K, other than lease accounting associated with the implementation of ASC 842, which is described below.

### *Lease Accounting*

We determine if a contract is or contains a lease at inception. A contract is or contains a lease if the contract conveys the right to control the use of identified property or equipment (an identified asset) for a period of time in exchange for consideration. We have the right to control the use of the identified asset when we have both of the following: the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. In making this determination, we consider all relevant facts and circumstances. We reassess whether a contract is or contains a lease only if the terms and conditions of the contract are changed. We account for lease components and nonlease components associated with a lease as a single lease component. Operating leases are included in Operating lease ROU assets, Operating lease liabilities—current and Operating lease liabilities—long term on our condensed consolidated balance sheets. Finance leases are included in Property and equipment—net, Accounts payable and other accrued expenses and Other long-term liabilities on our condensed consolidated balance sheets.

Our ROU asset is recognized as the lease liability, any initial indirect costs and any prepaid lease payments, less any lease incentives. Our lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. Our lease payments consist of amounts relating to the use of the underlying asset during the lease term, specifically fixed payments, payments to be made in optional periods when we are reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease and the amounts probable of being owed by us under residual guarantees. Our variable lease payments are excluded in measuring ROU assets and lease liabilities because they do not depend on an index or a rate or are not in substance fixed payments. We exclude lease incentives and initial direct costs incurred from our lease payments. Our leases typically do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments.

For operating leases, after lease commencement, we measure our lease liability for each period at the present value of any remaining lease payments, discounted by using the rate determined at lease commencement. In our condensed consolidated statement of income, we recognize a single operating lease expense calculated on a straight-line basis over the remaining lease term. The depreciation of the ROU asset increases each year as a result of the declining lease liability balance. Variable lease payments are not recognized in the measurement of the lease liability; they are recognized in the period in which the related obligation has been incurred.

For finance leases, after lease commencement, we measure our lease liability by using the effective interest rate method. In each period, the lease liability will be increased to reflect the interest that is accrued on the related lease liability by using the appropriate discount rate, offset by a decrease in the lease liability resulting from the periodic lease payments. We recognize the ROU asset at cost, reduced by any accumulated depreciation. The ROU asset is depreciated on a straight-line basis. Together, the interest expense and depreciation expense result in a front-loaded expense profile. We will present interest expense and depreciation expense separately on our condensed consolidated statement of income.

## Recently Adopted Accounting Standards Updates

The FASB has issued ASU 2019-07, *Codification Updates to SEC Sections—Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates*, to align SEC paragraphs in the Codification with changes made in the above-referenced SEC rules (primarily to Regulation S-X, which sets forth the form and content of financial statements). By way of background, in August 2018, the SEC issued Final Rulemaking Release No. 33-10532, *Disclosure Update and Simplification*, amending certain of its disclosure requirements that were duplicative, overlapping or outdated in light of the SEC's other disclosure requirements, U.S. GAAP or International Financial Reporting Standards (IFRS). We adopted the requirements of ASU 2019-17, which had no effect on our condensed consolidated financial statements.

ASU 2016-02, *Leases* (Topic 842) supersedes the leases requirements in Topic 840, *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. We elected to adopt using the modified retrospective method at the beginning of the period of adoption, January 1, 2019, through the recognition of a lease liability and corresponding right of use asset. We elected the following transition related practical expedients: not to reassess whether any expired or existing contracts are or contain leases, not to reassess lease classification as determined under ASC 840 and, not to reassess initial direct costs for any existing lease. We have also elected not to apply the recognition and measurement requirements to short-term leases (less than 1 year). Additional details are included in Note 4 in our condensed consolidated financial statements in Item 1.

ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which helps organizations reclassify certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017 (TCJA), enacted on December 22, 2017. We elected to adopt this ASU at the beginning of the period of adoption, January 1, 2019. We recorded an adjustment to the 2019 opening retained earnings in the amount of \$24 thousand related to the change in the U.S. federal corporate tax rate.

## Recently Issued But Not Yet Adopted ASUs

The FASB has issued ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*, which resolves the diversity in practice concerning the manner in which entities account for transactions on the basis of their view of the economics of the collaborative arrangement. A collaborative arrangement, as defined by the guidance in Topic 808, is a contractual arrangement under which two or more parties actively participate in a joint operating activity and are exposed to significant risks and rewards that depend on the activity's commercial success. In particular, the amendments in ASU 2018-18 (1) clarify that certain transactions between collaborative participants should be accounted for as revenue under Topic 606 when the collaborative participant is a customer in the context of the unit of account, and that, in those situations, all the guidance in Topic 606 should be applied, including recognition, measurement, presentation and disclosure requirements; (2) add unit-of-account guidance in Topic 808 to align with the guidance in Topic 606 (i.e., a distinct good or service), limited to when an entity is assessing whether the collaborative arrangement or a part of the arrangement is within the scope of Topic 606; and (3) clarify that in a transaction that is not directly related to sales to third parties, presenting the transaction as revenue would be precluded if the collaborative participant counterparty was not a customer. The amendments are effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years. Note that early adoption is permitted, including adoption in any interim period for public business entities for periods for which financial statements have not yet been issued. We are currently evaluating the effect on our condensed consolidated financial statements.

The FASB has issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which focuses on improving the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity's financial statements. The amendments in ASU 2018-13 modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*. Specifically, the amendments in this ASU remove disclosure requirements in Topic 820 related to (1) the amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy; (2) the policy for timing of transfers between levels; (3) the valuation processes for Level 3 fair value measurements; and (4) for non-public entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The ASU also modifies disclosure requirements such that (1) in place of a rollforward for Level 3 fair value measurements, a non-public entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities; (2) for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date that restrictions from redemption might lapse, only if the investee has communicated the timing to the entity or announced the timing publicly; and (3) it is clear that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. Additionally, the ASU adds disclosure requirements for public entities about (1) the changes in unrealized gains and losses for the

period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period, and (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments are effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. The amendments regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Note that early application is permitted for all entities; moreover, an entity is allowed to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. We are currently evaluating when we will adopt this standard as well as its effect on our condensed consolidated financial statements.

As part of its disclosure framework project, the FASB has issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, which modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Specifically, certain disclosure requirements are removed from Subtopic 715-20, *Compensation—Retirement Benefits—Defined Benefit Plans—General*, including, among others, (1) the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year; (2) the disclosures related to the June 2001 amendments to the Japanese Welfare Pension Insurance Law; and (3) related party disclosures concerning the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan. Certain other disclosure requirements are added to Subtopic 715-20, including (1) the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates; and (2) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. Finally, the amendments in this ASU clarify disclosure requirements in Paragraph 715-20-50-3. The amendments are effective for fiscal years ending after December 15, 2020. We are currently evaluating the effect on our condensed consolidated financial statements.

The FASB has issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)*, which aims to reduce complexity in the accounting for costs of implementing a cloud computing service arrangement. In fact, ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments in this ASU require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40, *Intangibles—Goodwill and Other—Internal-Use Software*, in order to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. Costs to develop or obtain internal-use software that cannot be capitalized under Subtopic 350-40 (e.g., training costs and certain data conversion costs) also cannot be capitalized for a hosting arrangement that is a service contract. Additionally, the amendments in this ASU require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement (i.e., the noncancellable period of the arrangement plus periods covered by (1) an option to extend the arrangement if the customer is reasonably certain to exercise that option, (2) an option to terminate the arrangement if the customer is reasonably certain not to exercise the termination option and (3) an option to extend (or not to terminate) the arrangement in which exercise of the option is in the control of the vendor). The amendments in this ASU also require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement, and to classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. Note that the accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this ASU. The amendments are effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years. We are currently evaluating methods of adoption as well as the effect on our condensed consolidated financial statements.

The FASB has issued ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*, which reduces the cost and complexity of financial reporting associated with consolidation of variable interest entities (VIEs). Specially, the indirect interests held through related parties in common control arrangements should be considered on a proportional basis (as opposed to a direct interest in its entirety) for determining whether fees paid to decision makers and service providers are variable interests. This is consistent with how indirect interests held through related parties under common control are considered for determining whether a reporting entity must consolidate a VIE. The amendments are effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years. We do not expect the adoption of this ASU to have a material effect on our condensed consolidated financial statements.

The FASB has issued ASU 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* which supersedes the guidance in Subtopic 505-50, *Equity—Equity-Based Payments to Non-*

*Employees*. In particular, ASU 2018-07 expands the scope of Topic 718, *Compensation—Stock Compensation* (which previously only included payments to employees), to include share-based payment transactions for acquiring goods and services from nonemployees. In fact, an entity should now apply the requirements of Topic 718 to non-employee awards, except for specific guidance on inputs to an option pricing model and the attribution of cost (i.e., the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). Additionally, the amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in the grantor's own operations by issuing share-based payment awards, and clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, *Revenue from Contracts with Customers*. The amendments are effective for fiscal years beginning after December 15, 2019, and for interim periods with fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. We do not expect the adoption of this ASU to have a material effect on our condensed consolidated financial statements.

The FASB has issued 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 2019. We do not expect the adoption of this ASU to have a material effect on our condensed consolidated financial statements.

The FASB has issued ASU 2019-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Prior GAAP included multiple credit impairment objectives that generally delayed recognition of the full amount of credit losses until it was probable that the loss would occur. The new guidance eliminates the probable initial recognition threshold and, instead, reflects an entity's current estimate of all expected credit losses. The new guidance broadens the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually to include forecasted information, as well as past events and current conditions. There is no specified method for measuring expected credit losses, and an entity is allowed to apply methods that reasonably reflect its expectations of the credit loss estimate. Although an entity may still use its current systems and methods for recording the allowance for credit losses, under the new rules, the inputs used to record the allowance for credit losses generally will need to change to appropriately reflect an estimate of all expected credit losses and the use of reasonable and supportable forecasts. The accounting for purchased credit impaired financial assets under the amendments will make the allowance for credit losses more comparable between originated assets and purchased financial assets, as well as reduce complexity with the accounting for interest income. Additionally, credit losses on available-for-sale debt securities will now have to be presented as an allowance rather than as a write-down. This approach is an improvement to current GAAP, because unlike current GAAP, which prohibits reflecting reversals of credit losses, an entity will be able to record reversals of credit losses in current-period net income in situations in which the estimate of credit losses declines, thereby aligning the income statement recognition of credit losses with the reporting period in which the changes occur. For public business entities that are SEC filers, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all other public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. We do not expect the adoption of this ASU to have a material effect on our condensed consolidated financial statements.

Other ASUs effective after September 30, 2019 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 September 30, 2019, we had an outstanding balance of \$25.0 million 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 a \$0.2 million effect on our interest expense for the three months ended September 30, 2019.

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 September 30, 2019, 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 U.S. 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, 2018.

### Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K:

Exhibit	Description of Exhibit
<a href="#">31.1†</a>	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.</a>
<a href="#">31.2†</a>	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.</a>
<a href="#">32†</a>	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.</a>
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).
†	Filed herewith.



## CERTIFICATION

I, Kevin M. Phillips, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ManTech International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2019

By: \_\_\_\_\_ /s/ KEVIN M. PHILLIPS

**Name:** Kevin M. Phillips  
**Title:** President and  
Chief Executive Officer

## CERTIFICATION

I, Judith L. Bjornaas, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ManTech International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2019

By: \_\_\_\_\_ /s/ JUDITH L. BJORNAAS

**Name:** Judith L. Bjornaas  
**Title:** Chief Financial Officer

