

MANTECH INTERNATIONAL CORP
Form 10-Q
November 04, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

or

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

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

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

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

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

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

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

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

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

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

As of November 2, 2016 there were 25,354,069 shares outstanding of our Class A common stock and 13,191,845 shares outstanding of our Class B common stock.

MANTECH INTERNATIONAL CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED September 30, 2016
INDEX

	Page No.
<u>PART I - FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (unaudited)</u>	
Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015	<u>3</u>
Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2016 and 2015	<u>4</u>
Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2016 and 2015	<u>5</u>
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015	<u>6</u>
Notes to Condensed Consolidated Financial Statements	<u>8</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>18</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>28</u>
Item 4. <u>Controls and Procedures</u>	<u>28</u>
<u>Part II - OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>29</u>
Item 1A. <u>Risk Factors</u>	<u>29</u>
Item 6. <u>Exhibits</u>	<u>29</u>

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, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	\$70,901	\$41,314
Receivables—net	292,292	304,253
Prepaid expenses and other	21,451	23,605
Total Current Assets	384,644	369,172
Goodwill	949,953	919,591
Other intangible assets—net	157,456	154,176
Employee supplemental savings plan assets	28,998	27,557
Property and equipment—net	22,213	22,439
Investments	11,061	10,853
Other assets	2,395	2,636
TOTAL ASSETS	\$1,556,720	\$1,506,424
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	\$96,201	\$106,271
Accrued salaries and related expenses	64,474	60,940
Billings in excess of revenue earned	14,012	12,685
Total Current Liabilities	174,687	179,896
Deferred income taxes—non-current	110,932	102,035
Accrued retirement	29,492	29,877
Other long-term liabilities	13,011	10,879
TOTAL LIABILITIES	328,122	322,687
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, Class A—\$0.01 par value; 150,000,000 shares authorized; 25,590,003 and 24,731,584 shares issued at September 30, 2016 and December 31, 2015; 25,345,890 and 24,487,471 shares outstanding at September 30, 2016 and December 31, 2015	256	247
Common stock, Class B—\$0.01 par value; 50,000,000 shares authorized; 13,191,845 and 13,191,845 shares issued and outstanding at September 30, 2016 and December 31, 2015	132	132
Additional paid-in capital	464,375	438,168
Treasury stock, 244,113 and 244,113 shares at cost at September 30, 2016 and December 31, 2015	(9,158)	(9,158)
Retained earnings	773,113	754,457
Accumulated other comprehensive loss	(120)	(109)
TOTAL STOCKHOLDERS' EQUITY	1,228,598	1,183,737
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,556,720	\$1,506,424

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,	
	2016	2015	2016	2015
REVENUES	\$415,402	\$393,008	\$1,207,418	\$1,147,716
Cost of services	356,294	334,991	1,031,319	975,383
General and administrative expenses	35,608	36,897	106,440	110,255
OPERATING INCOME	23,500	21,120	69,659	62,078
Interest expense	(263)	(429)	(858)	(1,033)
Interest income	36	44	99	135
Other income (expense), net	92	1,618	145	1,549
INCOME FROM OPERATIONS BEFORE INCOME TAXES AND EQUITY METHOD INVESTMENTS	23,365	22,353	69,045	62,729
Provision for income taxes	(8,630)	(9,199)	(26,440)	(25,482)
Equity in gains (losses) of unconsolidated subsidiaries	(71)	(126)	57	(11)
NET INCOME	\$14,664	\$13,028	\$42,662	\$37,236
BASIC EARNINGS PER SHARE:				
Class A common stock	\$0.38	\$0.35	\$1.12	\$0.99
Class B common stock	\$0.38	\$0.35	\$1.12	\$0.99
DILUTED EARNINGS PER SHARE:				
Class A common stock	\$0.38	\$0.35	\$1.12	\$0.99
Class B common stock	\$0.38	\$0.35	\$1.12	\$0.99

See notes to condensed consolidated financial statements.

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

	(unaudited)		(unaudited)	
	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
NET INCOME	\$ 14,664	\$ 13,028	\$ 42,662	\$ 37,236
OTHER COMPREHENSIVE LOSS:				
Translation adjustments, net of tax	(15)	(29)	(11)	(62)
COMPREHENSIVE INCOME	\$ 14,649	\$ 12,999	\$ 42,651	\$ 37,174

See notes to condensed consolidated financial statements.

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

	(unaudited)	
	Nine months ended	
	September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$42,662	\$37,236
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,582	22,345
Deferred income taxes	7,187	18,134
Stock-based compensation	2,266	4,187
Excess tax benefits from exercise of stock options	(1,024)	(59)
Equity in (gains) losses of unconsolidated subsidiaries	(57)	11
Gain on disposition of business	—	(1,692)
Gain on sale and retirement of property and equipment	—	(695)
Change in assets and liabilities—net of effects from acquired businesses:		
Receivables—net	11,823	83,659
Prepaid expenses and other	2,437	(205)
Contractual inventory	—	(3,726)
Employee supplemental savings plan asset	(1,441)	5,096
Accounts payable and accrued expenses	(8,918)	(41,728)
Accrued salaries and related expenses	2,814	13,641
Billings in excess of revenue earned	1,327	14,330
Accrued retirement	(385)	(4,426)
Other	1,878	667
Net cash flow from operating activities	83,151	146,775
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of businesses—net of cash acquired	(47,682)	(101,342)
Purchases of property and equipment	(5,666)	(3,188)
Investment in capitalized software for internal use	(1,390)	(809)
Payments to acquire investments	(474)	(4,500)
Transaction costs for disposition of business	—	(1,174)
Proceeds from sale of property and equipment	—	696
Net cash flow from investing activities	(55,212)	(110,317)

CASH FLOWS FROM FINANCING ACTIVITIES:

Dividends paid	(24,012)	(23,637)
Proceeds from exercise of stock options	24,636	4,530
Excess tax benefits from exercise of stock options	1,024	59
Borrowings under revolving credit facility	—	162,200
Repayments under revolving credit facility	—	(152,200)
Net cash flow from financing activities	1,648	(9,048)
NET CHANGE IN CASH AND CASH EQUIVALENTS	29,587	27,410
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	41,314	23,781
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$70,901	\$51,191

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest	\$739	\$939
Cash paid for income taxes, net	\$14,161	\$4,778
See notes to condensed consolidated financial statements.		

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

UNAUDITED

1. Description of the Business

ManTech International Corporation (depending on the circumstances, “ManTech,” “Company,” “we,” “our,” “ours” or “us”) provides innovative technologies and solutions for mission-critical national security programs for the intelligence community; the departments of Defense, State, Homeland Security, Health and Human Services, Veteran Affairs and Justice, including the Federal Bureau of Investigations (FBI); the space community; and other United States of America (U.S.) government customers. We provide support to critical national security programs for approximately 50 federal agencies through approximately 900 current contracts. Our expertise includes cybersecurity; software and systems development; enterprise information technology (IT); multi-disciplined intelligence; program protection and mission assurance; systems engineering; test and evaluation; command, control, communications, computers, intelligence, surveillance and reconnaissance; training; supply chain management and logistics; and management consulting. We support major national missions, such as military readiness and wellness, terrorist threat detection, information security and border protection. Our employees operate primarily in the U.S. as well as numerous locations internationally.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in the annual financial statements, prepared in accordance with accounting principles generally accepted in the U.S., have been condensed or omitted pursuant to those rules and regulations. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We recommend that you read these unaudited condensed consolidated financial statements in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, previously filed with the SEC. We believe that the unaudited condensed consolidated financial statements in this Form 10-Q reflect all adjustments that are necessary to fairly present the financial position, results of operations and cash flows for the interim periods presented. The results of operations for such interim periods are not necessarily indicative of the results that can be expected for the full year.

3. Acquisitions

Oceans Edge, Inc, Cyber Division—On June 10, 2016, we completed the acquisition of certain assets of Oceans Edge, Inc., Cyber Division (OEC). The results of OEC's operations have been included in our condensed consolidated financial statements since that date. The acquisition was completed through an asset purchase agreement dated June 10, 2016, by and among Oceans Edge, Inc., Oceans Edge Cyber, LLC, certain owners of Ocean's Edge, Inc., and ManTech Advanced Systems International, Inc. OEC provides technical and professional services under government contracts in the defense and intelligence industries, including turnkey system solutions in cyber offense and defense, mission operations support and operations assessment and analysis. The OEC team of computer network operations (CNO) professionals will enhance our advanced CNO tools and research and development offerings with new business across the Department of Defense (DoD) landscape, including US CYBERCOM. The acquisition strategically strengthens our capabilities to support our federal agency customers and, specifically, to engineer and develop new, advanced solutions for wireless devices, networks, and infrastructures. We funded the acquisition with cash on hand. The asset purchase agreement did not contain provisions for contingent consideration.

For the nine months ended September 30, 2016, we incurred approximately \$1.2 million of acquisition costs related to the OEC transaction, which are included in the general and administrative expenses in our condensed consolidated statement of income.

The purchase price of \$47.7 million was preliminarily allocated to the underlying assets and liabilities based on their estimated fair value at the date of acquisition. The goodwill recorded related to this transaction will be deductible for tax purposes over 15 years, assuming adequate levels of taxable income. Recognition of goodwill is largely attributed to the value paid for OEC's capabilities in adding additional vulnerability research, development, and analysis capabilities to our existing cyber intelligence business.

In preliminarily allocating the purchase price, we considered among other factors, analysis of historical financial performance and estimates of future performance of OEC's contracts. The components of other intangible assets associated with the acquisition were technology, customer relationships and backlog valued at \$3.0 million, \$14.0 million and \$1.0 million, respectively. Technology represents a suite of mobile analysis and exploitation offerings, which is used by customers in support of their missions.

Technology is amortized straight-line over its estimated useful life of 5 years. Customer contracts and related relationships represent the underlying relationships and agreements with OEC'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 16 years.

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

Goodwill	\$30,362
Other intangible assets	18,000
Property and equipment	69
Accounts payable and accrued expenses	(29)
Accrued salaries and related expenses	(720)
Net assets acquired and liabilities assumed	\$47,682

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

Knowledge Consulting Group, Inc.—On June 15, 2015, we completed the acquisition of Knowledge Consulting Group, Inc. (KCG). The results of KCG's operations have been included in our condensed consolidated financial statements since that date. The acquisition was completed through an agreement and plan of merger dated June 15, 2015, by and among ManTech Advanced Systems International, Inc., Knight Acquisitions Corporation and KCG. KCG provides comprehensive cyber security services including cloud security, certification and accreditation and various cyber defense solutions across federal and commercial markets. The acquisition strategically positions us to pursue additional cyber work in the Department of Homeland Security, FBI and the intelligence community by leveraging our enhanced cloud security expertise. We funded the acquisition through a combination of cash on hand and borrowings under our revolving credit facility. The agreement did not contain provisions for contingent consideration.

For the nine months ended September 30, 2015, we incurred approximately \$0.3 million of acquisition costs related to the KCG transaction, which are included in the general and administrative expenses in our condensed consolidated statement of income.

The purchase price of \$68.2 million was allocated to the underlying assets and liabilities based on their estimated fair value at the date of acquisition. The goodwill recorded related to this transaction will be deductible for tax purposes over 15 years, assuming adequate levels of taxable income. Recognition of goodwill is largely attributed to the value paid for KCG's capabilities in providing comprehensive cyber security services throughout the DoD and intelligence community.

In allocating the purchase price, we considered among other factors analysis of historical financial performance and estimates of future performance of KCG's contracts. The components of other intangible assets associated with the acquisition were customer relationships and backlog valued at \$12.4 million and \$0.8 million, respectively. Customer contracts and related relationships represent the underlying relationships and agreements with KCG's existing customers. Customer relationships are amortized using the pattern of benefits method over their estimated useful lives of approximately 15 years. Backlog is amortized straight-line over its estimated useful life of 1 year. The weighted-average amortization period for the intangible assets is 14 years.

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

Cash and cash equivalents	\$658
Receivables	6,532
Prepaid expenses and other	460
Goodwill	47,487
Other intangible assets	13,219
Property and equipment	1,419
Investments	15
Other assets	31
Accounts payable and accrued expenses	(1,269)
Accrued salaries and related expenses	(336)
Billings in excess of revenue earned	(2)
Net assets acquired and liabilities assumed	\$68,214

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

Welkin Associates, Ltd.—On April 27, 2015, we completed the acquisition of Welkin Associates, Ltd. (Welkin), formerly a wholly-owned subsidiary of Computer Sciences Corporation (CSC). The results of Welkin's operations have been included in our condensed consolidated financial statements since that date. The acquisition was completed through a stock purchase agreement dated April 27, 2015, by and among ManTech International Corporation, CSC and Welkin. Welkin delivers mission-centric services in high-end systems engineering and advanced national security technology and business services. The acquisition strategically positions us to pursue large engineering and support opportunities throughout the intelligence community and DoD. We funded the acquisition with cash on hand. The stock purchase agreement did not contain provisions for contingent consideration.

For the nine months ended September 30, 2015, we incurred approximately \$0.7 million of acquisition costs related to the Welkin transaction, which are included in the general and administrative expenses in our condensed consolidated statement of income.

The purchase price of \$34.0 million was allocated to the underlying assets and liabilities based on their estimated fair value at the date of acquisition. The goodwill recorded related to this transaction will be deductible for tax purposes over 15 years, assuming adequate levels of taxable income. Recognition of goodwill is largely attributed to the value paid for Welkin's capabilities in providing high-end systems engineering and support services throughout the intelligence community and DoD.

In allocating the purchase price, we considered among other factors, analysis of historical financial performance and estimates of future performance of Welkin's contracts. The components of other intangible assets associated with the acquisition were customer relationships and backlog valued at \$6.0 million and \$0.4 million, respectively. Customer contracts and related relationships represent the underlying relationships and agreements with Welkin's existing customers. Customer relationships are amortized using the pattern of benefits method over their estimated useful lives of approximately 15 years. Backlog is amortized straight-line over its estimated useful life of 1 year. The weighted-average amortization period for the intangible assets is 14 years.

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

Receivables	\$3,901
Prepaid expenses and other	141
Goodwill	24,436
Other intangible assets	6,350

Property and equipment	100
Accounts payable and accrued expenses	(436)
Accrued salaries and related expenses	(492)
Net assets acquired and liabilities assumed	\$34,000

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

4. Earnings Per Share

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

In applying the two-class method, we determined that undistributed earnings should be allocated equally on a per share basis between Class A and Class B common stock. Under our Certificate of Incorporation, the holders of the common stock are entitled to participate ratably, on a share-for-share basis as if all shares of common stock were of a single class, in such dividends as may be declared by the Board of Directors. During each of the nine months ended September 30, 2016 and 2015, we declared and paid quarterly dividends in the amount of \$0.21 per share on both classes of common stock.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Distributed earnings	\$8,089	\$7,887	\$24,007	\$23,632
Undistributed earnings	6,575	5,141	18,655	13,604
Net income	\$14,664	\$13,028	\$42,662	\$37,236
Class A common stock:				
Basic net income available to common stockholders	\$9,619	\$8,448	\$27,842	\$24,130
Basic weighted average common shares outstanding	25,164	24,341	24,784	24,291
Basic earnings per share	\$0.38	\$0.35	\$1.12	\$0.99
Diluted net income available to common stockholders				
Effect of potential exercise of stock options	265	65	188	106
Diluted weighted average common shares outstanding	25,429	24,406	24,972	24,397
Diluted earnings per share	\$0.38	\$0.35	\$1.12	\$0.99
Class B common stock:				
Basic net income available to common stockholders	\$5,045	\$4,580	\$14,820	\$13,106
Basic weighted average common shares outstanding	13,192	13,193	13,192	13,193
Basic earnings per share	\$0.38	\$0.35	\$1.12	\$0.99

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Diluted net income available to common stockholders	\$5,010	\$4,572	\$14,747	\$13,069
Effect of potential exercise of stock options	—	—	—	—
Diluted weighted average common shares outstanding	13,192	13,193	13,192	13,193
Diluted earnings per share	\$0.38	\$0.35	\$1.12	\$0.99

For the three months ended September 30, 2016 and 2015, options to purchase 13,481 shares and 1,906,961 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, 2016 and 2015, options to purchase 470,229 shares and 1,896,096 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, 2016 and 2015, there were 840,419 shares and 162,139 shares, respectively, issued from the exercise of stock options.

5. Receivables

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

	September 30, December 31,	
	2016	2015
Billed receivables	\$ 240,941	\$ 233,735
Unbilled receivables:		
Amounts billable	40,946	47,900
Revenues recorded in excess of funding	10,329	19,213
Retainage	8,903	11,878
Allowance for doubtful accounts	(8,827)	(8,473)
Receivables—net	\$ 292,292	\$ 304,253

Amounts billable consist principally of amounts to be billed within the next month. Revenues recorded in excess of funding are billable upon receipt of contractual amendments or other modifications. The retainage is billable upon completion of contract performance and approval of final indirect expense rates by the government. There is a contract with the U.S. government that represents 10.1% and 7.0% of receivables-net at September 30, 2016 and December 31, 2015, respectively. Accounts receivable at September 30, 2016 are expected to be substantially collected within one year except for approximately \$0.8 million, of which 91.0% is related to receivables from sales to the U.S. government. The remainder is related to receivables from contracts in which we acted as a subcontractor to other contractors.

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

6. Property and Equipment

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

	September 30, December 31,	
	2016	2015
Furniture and equipment	\$ 49,264	\$ 44,718
Leasehold improvements	36,319	35,733
Property and equipment—gross	85,583	80,451
Accumulated depreciation and amortization	(63,370)	(58,012)
Property and equipment—net	\$ 22,213	\$ 22,439

7. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill during the year ended December 31, 2015 and the period ended September 30, 2016 are as follows (in thousands):

	Goodwill Balance
Goodwill at December 31, 2014	\$851,640
Acquisitions	71,922
Divestiture	(3,971)
Goodwill at December 31, 2015	\$919,591
Acquisitions	30,362
Goodwill at September 30, 2016	\$949,953

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

	September 30, 2016		Net Carrying Amount	December 31, 2015		Net Carrying Amount
	Gross Carrying Amount	Accumulated Amortization		Gross Carrying Amount	Accumulated Amortization	
Other intangible assets:						
Contract and program intangible assets	\$282,905	\$ 137,029	\$145,876	\$281,682	\$ 140,163	\$141,519
Capitalized software cost for internal use	37,639	26,064	11,575	36,170	23,522	12,648
Other	58	53	5	58	49	9
Total other intangible assets—net	\$320,602	\$ 163,146	\$157,456	\$317,910	\$ 163,734	\$154,176

Amortization expense relating to intangible assets for both the three months ended September 30, 2016 and 2015 was \$5.5 million. Amortization expense relating to intangible assets for the nine months ended September 30, 2016 and 2015 was \$16.2 million and \$15.6 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, 2016 \$5,675

For the year ending:

December 31, 2017	\$21,665
December 31, 2018	\$19,877
December 31, 2019	\$17,376
December 31, 2020	\$14,630
December 31, 2021	\$11,500

8. Debt

Revolving Credit Facility—We maintain a credit facility with a syndicate of lenders led by Bank of America, N.A, as sole administrative agent. The credit agreement provides for a \$500 million revolving credit facility, with a \$50 million letter of credit sublimit and a \$30 million swing line loan sublimit. The credit agreement also includes an accordion feature that permits us to arrange with the lenders for the provision of additional commitments. The maturity date is June 13, 2019. On May 17, 2016, we amended the credit agreement, which among other things increased the letter of credit sublimit from \$25 million to \$50 million. We deferred \$1.8 million in debt issuance costs, cumulatively over the agreement, which are amortized over the term of the credit agreement.

Borrowings under our revolving credit facility are collateralized by substantially all the assets of ManTech and its Material Subsidiaries (as defined in the credit agreement) and bear interest at one of the following variable rates as selected by us at the time of borrowing: a London Interbank Offer Rate based rate plus market-rate spreads (1.25% to

2.25% based on our consolidated

13

total leverage ratio) or Bank of America's base rate plus market spreads (0.25% to 1.25% based on our consolidated total leverage ratio).

The terms of the credit agreement permit prepayment and termination of the loan commitments at any time, subject to certain conditions. The credit agreement requires us to comply with specified financial covenants, including the maintenance of certain leverage ratios and a certain consolidated coverage ratio. The credit agreement also contains various covenants, including affirmative covenants with respect to certain reporting requirements and maintenance of 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 September 30, 2016, we were in compliance with the financial covenants under the credit agreement.

There was no outstanding balance on our revolving credit facility at both September 30, 2016 and December 31, 2015. The maximum available borrowing under the revolving credit facility at September 30, 2016 was \$480.9 million. As of September 30, 2016, we were contingently liable under letters of credit totaling \$19.1 million, which reduced our availability to borrow under our revolving credit facility.

9. Commitments and Contingencies

Contracts with the U.S. government, including subcontracts, are subject to extensive legal and regulatory requirements and, from time-to-time, agencies of the U.S. government, in the ordinary course of business, investigate whether our operations are conducted in accordance with these requirements and the terms of the relevant contracts. U.S. government investigations of us, whether related to our U.S. government contracts or conducted for other reasons, could result in administrative, civil, or criminal liabilities, including repayments, fines or penalties being imposed upon us, or could lead to suspension or debarment from future U.S. government contracting activities. Management believes it has adequately reserved for any losses that may be experienced from any investigation of which it is aware. The Defense Contract Audit Agency has substantially completed our incurred cost audits through 2011 with no material adjustments. The remaining audits for 2012 through 2015 are not expected to have a material effect on our financial position, results of operations or cash flow and management believes it has adequately reserved for any losses.

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

We have an outstanding performance bond in the amount of \$19.0 million, which is in connection with a contract between ManTech MENA, LLC and Jadwalean International Operations and Management Company to fulfill technical support requirements for the Royal Saudi Air Force.

10. Stock-Based Compensation

Our 2016 Management Incentive Plan (the Plan) was designed to attract, retain and motivate key employees. The types of equity awards available under the Plan include stock options, restricted stock and restricted stock units (RSUs). Equity awards granted under the Plan are settled in shares of Class A common stock. At the beginning of each year, the Plan provides that the number of shares available for issuance automatically increases by an amount equal to 1.5% of the total number of shares of Class A and Class B common stock outstanding on December 31st of the previous year. On January 4, 2016, there were 565,190 additional shares made available for issuance under the Plan. Through September 30, 2016, the Board of Directors has authorized the issuance of up to 13,382,296 shares under this plan. Through September 30, 2016, the remaining aggregate number of shares of our common stock available for future grants under the Plan was 5,939,607. 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, 2016 and 2015, we recorded \$1.0 million and \$1.5 million of stock-based compensation expense, respectively. For the nine months ended September 30, 2016 and 2015, we recorded \$2.3 million and \$4.2 million of stock-based compensation expense, respectively. No compensation expense of employees with stock awards, including stock-based compensation expense, was capitalized during the periods. For the nine months ended September 30, 2016 and 2015, the total recognized tax deficiency from the exercise of stock options, vested cancellations and the vesting of restricted stock was \$0.7 million and \$2.6 million, respectively.

Stock Options—Under the Plan, we have issued stock options. A stock option granted gives the holder the right, but not the obligation to purchase a certain number of shares at a predetermined price for a specific period of time. We typically issue options that vest over three years in equal installments beginning on the first anniversary of the date of grant. Under the terms of the Plan, the contractual life of the option grants may not exceed eight years. During the nine months ended September 30, 2016 and 2015, 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, 2016 and 2015:

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 Term—The expected term of options granted to employees during the nine months ended September 30, 2016 and 2015 was determined from historical exercises of the grantee population. For all grants valued during the nine months ended September 30, 2016 and 2015, the options had graded vesting over three years in equal installments beginning on the first anniversary of the date of grant and a contractual term of five years.

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

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

The following table summarizes weighted-average assumptions used in our calculations of fair value for the nine months ended September 30, 2016 and 2015:

	Nine months ended			
	September 30,			
	2016		2015	
Volatility	23.74	%	26.95	%
Expected life of options	3 years		3 years	
Risk-free interest rate	1.16	%	1.13	%
Dividend yield	3.00	%	3.00	%

Stock Option Activity—The weighted-average fair value of options granted during the nine months ended September 30, 2016 and 2015, as determined under the Black-Scholes-Merton valuation model, was \$4.15 and \$4.89, respectively. Option grants that vested during the nine months ended September 30, 2016 and 2015 had a combined fair value of \$1.4 million and \$1.8 million, respectively.

The following table summarizes stock option activity for the year ended December 31, 2015 and the nine months ended September 30, 2016:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Stock options at December 31, 2014	3,391,032	\$ 32.76	\$ 4,722
Granted	237,853	\$ 30.87	
Exercised	(284,320)	\$ 27.51	\$ 1,348
Cancelled and expired	(849,255)	\$ 39.56	
Stock options at December 31, 2015	2,495,310	\$ 30.86	\$ 3,583
Granted	101,717	\$ 31.22	
Exercised	(840,419)	\$ 29.31	\$ 6,241
Cancelled and expired	(434,182)	\$ 38.83	
Stock options at September 30, 2016	1,322,426	\$ 29.25	\$ 11,182

The following table summarizes non-vested stock options for the nine months ended September 30, 2016:

	Number of Shares	Weighted Average Fair Value
Non-vested stock options at December 31, 2015	991,290	\$ 4.74
Granted	101,717	\$ 4.15
Vested	(287,790)	\$ 4.86
Cancelled	(60,433)	\$ 4.64
Non-vested stock options at September 30, 2016	744,784	\$ 4.62

The following table includes information concerning stock options exercisable and stock options expected to vest at September 30, 2016:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Stock options vested and expected to vest	1,238,385	\$ 29.22	3 years	\$ 10,513
Stock options exercisable	577,642	\$ 28.88	2 years	\$ 5,086

Unrecognized compensation expense related to outstanding stock options expected to vest was \$1.6 million as of September 30, 2016, which is expected to be recognized over a weighted-average period of 1 year and will be adjusted for any future changes in estimated forfeitures.

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

Restricted Stock Activity—The following table summarizes the restricted stock activity during the year ended December 31, 2015 and the nine months ended September 30, 2016:

	Number of Shares	Weighted Average Fair Value
Non-vested restricted stock at December 31, 2014	21,000	\$ 30.61
Granted	21,000	\$ 28.98
Vested	(21,000)	\$ 30.61
Non-vested restricted stock at December 31, 2015	21,000	\$ 28.98
Granted	18,000	\$ 33.84
Vested	(21,000)	\$ 28.98
Non-vested restricted stock at September 30, 2016	18,000	\$ 33.84

RSUs—Under the Plan, we have issued RSUs. RSUs are not actual shares, but rather a right to receive shares in the future based on the level of achievement of performance criteria. The shares are not issued and the employee cannot sell or transfer shares prior to vesting and has no voting rights until the RSUs vest. Employees who are granted RSUs do not receive dividend payments during the service period. The employees' RSUs will result in the delivery of shares if (a) performance criteria is met and (b) the employee remains employed, in good standing, through the date of the performance period. The performance period is two years. The grant date fair value of the RSUs is equal to the closing market price of our common stock on the grant date less the present value of dividends expected to be awarded during the service period. We recognize the grant date fair value of RSUs of shares we expect to issue as compensation expense ratably over the requisite service period.

RSU Activity—The following table summarizes the nonvested RSU activity during the year ended December 31, 2015 and the nine months ended September 30, 2016:

	Number of Units	Weighted Average Fair Value
Non-vested RSUs at December 31, 2014	—	\$ —
Granted	105,900	\$ 30.85
Forfeited	(12,450)	\$ 30.92
Non-vested RSUs at December 31, 2015	93,450	\$ 30.84
Granted	106,200	\$ 28.38
Forfeited	(15,250)	\$ 29.52
Non-vested RSUs at September 30, 2016	184,400	\$ 29.53

11. Business Segment and Geographic Area Information

We have one reportable segment. We deliver a broad array of IT and technical services solutions under contracts with the U.S. government. Our U.S. government customers typically exercise independent contracting authority, and even offices or divisions within an agency or department may directly, or through a prime contractor, use our services as a separate customer so long as that customer has independent decision-making and contracting authority within its organization. Revenues from the U.S. government under prime contracts and subcontracts were approximately 98% and 99% of our revenues for the nine months ended September 30, 2016 and 2015, respectively. We treat sales to U.S. government customers as sales within the U.S. regardless of where the services are performed. U.S. revenues are approximately 99% and 100% of our total revenues for the three months ended September 30, 2016 and 2015, respectively. U.S. revenues are approximately 99% and 100% of our total revenues for the nine months ended

September 30, 2016 and 2015, respectively. International revenues were approximately 1% and 0% of our total revenues for the three months ended September 30, 2016 and 2015, respectively. International revenues were approximately 1% and 0% of our total revenues for the nine months ended September 30, 2016 and 2015, respectively. Furthermore, substantially all assets from continuing operations were held in the U.S. for the nine months ended September 30, 2016 and year ended December 31, 2015.

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

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, 2015.

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

• Failure to compete effectively for new contract awards or to retain existing U.S. government contracts;

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

• Delays in the competitive bidding process caused by competitors' protest of contract awards received by us;

• Adverse changes or delays in U.S. government spending for programs we support, due to the failure to complete the budget and appropriations process in a timely manner, changing mission priorities, the implementation of cost reduction and efficiency initiatives by our customers, or federal budget contracts generally;

• 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;

• Increased exposure to risks associated with conducting business internationally;

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

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

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

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

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; and

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

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

Overview

ManTech provides innovative technologies and solutions for mission-critical national security programs for the intelligence community; the departments of Defense, State, Homeland Security, Health and Human Services, Veterans Affairs and Justice, including the FBI; the space community; and other U.S. government customers.

We derive revenues primarily from contracts with U.S. government agencies that are focused on national security and consequently our operational results are affected by U.S. government spending levels in the areas of defense, federal health IT, intelligence and homeland security. Over the last few years, financial performance in our industry has been adversely impacted by public and political pressure regarding government funding levels, uncertainty about the appropriations process and delays in contract awards and spending. The delays in awards and competitive pressures in 2014 and 2015 have impacted our historical financial results. Currently, industry conditions are improving and award activity is returning to a more normal pace.

Our strategy includes a focus on business development and bid and proposal spending on larger contract award opportunities, many in excess of \$100 million. We believe our strong position as a prime contractor and our broad array of service offerings are a competitive advantage. We continue to focus on indirect spending levels to maintain competitively priced offerings. We have expanded our service offerings internationally, supporting allied governments with services similar to our federal government support. Additionally, leveraging our strong balance sheet, we will continue to pursue acquisitions that broaden our domain expertise and service offerings and/or establish relationships with new customers.

We recommend that you read this discussion and analysis in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, previously filed with the SEC.

Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015

The following table sets forth certain items from our condensed consolidated statements of income and the relative percentage that certain items of expenses and earnings bear to revenues, as well as the period-to-period change from September 30, 2015 to September 30, 2016.

	Three months ended September 30,				Period-to-Period Change		
	2016 Dollars	2015 Dollars	2016 Percentage	2015 Percentage	2015 to 2016 Dollars	Percentage	
	(dollars in thousands)						
REVENUES	\$415,402	\$393,008	100.0%	100.0%	\$22,394	5.7	%
Cost of services	356,294	334,991	85.8 %	85.2 %	21,303	6.4	%
General and administrative expenses	35,608	36,897	8.5 %	9.4 %	(1,289)	(3.5)	%
OPERATING INCOME	23,500	21,120	5.7 %	5.4 %	2,380	11.3	%
Interest expense	(263)	(429)	0.1 %	0.1 %	(166)	(38.7)	%
Interest income	36	44	— %	— %	(8)	(18.2)	%
Other income (expense), net	92	1,618	— %	0.4 %	(1,526)	(94.3)	%
INCOME FROM OPERATIONS BEFORE INCOME TAXES AND EQUITY METHOD INVESTMENTS	23,365	22,353	5.6 %	5.7 %	1,012	4.5	%
Provision for income taxes	(8,630)	(9,199)	2.1 %	2.4 %	(569)	(6.2)	%
Equity in losses of unconsolidated subsidiaries	(71)	(126)	— %	— %	(55)	(43.7)	%
NET INCOME	\$14,664	\$13,028	3.5 %	3.3 %	\$1,636	12.6	%

Revenues

The primary driver of our increase in revenues during the three months ended September 30, 2016 as compared to the same period in 2015 relates to revenues from new contract awards, our acquisitions and growth on existing contracts. These increases were offset by contracts and tasks that ended.

Cost of services

The increase in cost of services was primarily due to increases in revenues. As a percentage of revenues, direct labor costs decreased to 46.0% for the three months ended September 30, 2016, compared to 49.5% for the same period in 2015. As a percentage of revenues, other direct costs, which include subcontractors and third party equipment and materials used in the performance of our contracts, increased to 39.8% for the three months ended September 30, 2016, compared to 35.7% for the same period in 2015, primarily due to the increased levels of materials and other direct costs.

General and administrative expenses

The decrease in general and administrative expenses was due to cost reduction measures. As a percentage of revenues, general and administrative expenses decreased for the three months ended September 30, 2016 when compared to the same period in 2015 due to the increase in revenues and lower spending levels.

Other income (expense), net

The decrease in other income (expense), net was due to the \$1.7 million gain on the sale of ManTech Cyber Solutions International (MCSI) during the three months ended September 30, 2015.

Provision for income taxes

Our effective tax rate is affected by recurring items, such as tax rates and the relative amount of income we earn in 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 37.0% and 41.4% for the three months ended September 30, 2016 and 2015, respectively. The decrease in our effective tax rate is primarily due to favorable performance in our executive deferred compensation plan and changes in our state tax apportionments.

Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015

The following table sets forth certain items from our consolidated statement of income and the relative percentage that certain items of expenses and earnings bear to revenues, as well as the period-to-period change from September 30, 2015 to September 30, 2016.

	Nine months ended September 30,		2016		2015		Period-to-Period Change 2015 to 2016	
	2016 Dollars (dollars in thousands)	2015 Dollars (dollars in thousands)	2016 Percentage	2015 Percentage	2015 to 2016 Dollars	2015 to 2016 Percentage		
REVENUES	\$1,207,418	\$1,147,716	100.0%	100.0%	\$59,702	5.2	%	
Cost of services	1,031,319	975,383	85.4 %	85.0 %	55,936	5.7	%	
General and administrative expenses	106,440	110,255	8.8 %	9.6 %	(3,815)	(3.5)	%	
OPERATING INCOME	69,659	62,078	5.8 %	5.4 %	7,581	12.2	%	
Interest expense	(858)	(1,033)	0.1 %	0.1 %	(175)	(16.9)	%	
Interest income	99	135	— %	— %	(36)	(26.7)	%	
Other income (expense), net	145	1,549	— %	0.2 %	(1,404)	(90.6)	%	
INCOME FROM OPERATIONS BEFORE INCOME TAXES AND EQUITY METHOD INVESTMENTS	69,045	62,729	5.7 %	5.5 %	6,316	10.1	%	
Provision for income taxes	(26,440)	(25,482)	2.2 %	2.3 %	958	3.8	%	
Equity in gains (losses) of unconsolidated subsidiaries	57	(11)	— %	— %	68	618.2	%	
NET INCOME	\$42,662	\$37,236	3.5 %	3.2 %	\$5,426	14.6	%	

Revenues

The primary driver of our increase in revenues during the nine months ended September 30, 2016 as compared to the same period in 2015 relates to revenues from new contract awards, our acquisitions and growth on existing contracts. These increases were offset by contracts and tasks that ended during 2015.

Cost of services

The increase in cost of services was primarily due to increases in revenues. As a percentage of revenues, direct labor and related costs decreased to 48.0% for the nine months ended September 30, 2016, compared to 49.0% for the same period in 2015. As a percentage of revenues, other direct costs, which include subcontractors and third party equipment and materials used in the performance of our contracts, increased to 37.4% for the nine months ended September 30, 2016, compared to 36.0% for the same period in 2015. We expect cost of services as a percentage of revenues to remain relatively stable for the remainder of 2016.

General and administrative expenses

The decrease in general and administrative expenses was due to cost reduction measures. As a percentage of revenues, general and administrative expenses decreased for the nine months ended September 30, 2016 when compared to the same period in 2015 due to the increase in revenues and reduced spending. We expect general and administrative expenses as a percentage of revenues to remain relatively stable through 2016.

Other income (expense), net

The decrease in other income (expense), net was due to the \$1.7 million gain on the sale of MCSI during the nine months ended September 30, 2015.

Provision for income taxes

Our effective tax rate is affected by recurring items, such as tax rates and the relative amount of income we earn in various

21

taxing jurisdictions and their tax rates. It is also affected by discrete items that may occur in any given year, but are not consistent from year-to-year. Our effective income tax rates were 38.3% and 40.6% for the nine months ended September 30, 2016 and 2015, respectively. The decrease in our effective tax rate is primarily due to favorable performance in our executive deferred compensation plan and changes in our state tax apportionments. We expect our effective tax rate to remain relatively consistent for the remainder of 2016.

Backlog

At September 30, 2016 and December 31, 2015, our backlog was \$4.6 billion and \$4.1 billion, respectively, of which \$1.0 billion and \$1.0 billion, respectively, was funded backlog. The increase in our backlog is due to our receipt of new awards. There is a trend towards contract awards that are longer in tenure which increases the time over which backlog will be recognized as revenue. Backlog represents estimates that we calculate on a consistent basis. For additional information on how we compute backlog, see our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, previously filed with the SEC.

Liquidity and Capital Resources

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

On September 30, 2016, our cash and cash equivalents balance was \$70.9 million. There were no outstanding borrowings under our revolving credit facility at September 30, 2016. At September 30, 2016, we were contingently liable under letters of credit totaling \$19.1 million, which reduced our ability to borrow under our revolving credit facility by that amount. The maximum available borrowings under our revolving credit facility at September 30, 2016 were \$480.9 million.

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

Cash Flows from Operating Activities

Our operating cash flows are primarily affected by our ability to invoice and collect from our clients in a timely manner, our ability to manage our vendor payments and the overall profitability of our contracts. We bill most of our customers monthly after services are rendered. Our accounts receivable days sales outstanding (DSO) were 63 and 69 as of September 30, 2016 and 2015, respectively. This improvement is due to efficiencies made in our billing processes and a greater focus on collections. We expect DSO levels to remain in the mid to upper 60's to low 70's throughout 2016. For the nine months ended September 30, 2016 and 2015, our net cash flows from operating activities were \$83.2 million and \$146.8 million, respectively. The decrease in net cash flows from operating activities during the nine months ended September 30, 2016 when compared to the same period in 2015 was primarily due to the timing of receivables and of accrued salaries and related expenses as well as a change in deferred taxes, offset by timing of vendor payments.

Cash Flows from Investing Activities

Our cash flows from investing activities consist primarily of business acquisitions, purchases of property and equipment and investments in capitalized software for internal use. For the nine months ended September 30, 2016 and 2015, our net cash outflows from investing activities were \$55.2 million and \$110.3 million, respectively. During

the nine months ended September 30, 2016, our net cash outflows from investing activities were primarily due to the acquisition of OEC. During the nine months ended September 30, 2015, our net cash outflows from investing activities were primarily due to the acquisitions of KCG and Welkin, our investment in CounterTack Inc. and capital expenditures.

Cash Flows from Financing Activities

Our cash flows from financing activities consist primarily of dividends paid, proceeds from the exercise of stock options as well as borrowings and repayments under our revolving credit facility. For the nine months ended September 30, 2016 our net cash inflows from financing activities were \$1.6 million and for the nine months ended September 30, 2015 our net cash outflows from financing activities were \$9.0 million. During the nine months ended September 30, 2016, net cash inflows from financing activities were primarily due to the proceeds from the exercise of stock options and the excess tax benefits from exercise of stock options offset by dividends paid. During the nine months ended September 30, 2015, net cash outflows from financing activities were primarily due to our quarterly dividend payments, partially offset by net borrowings under our revolving credit facility to finance the acquisition of KCG.

Capital Resources

We believe the capital resources available to us from cash on hand of \$70.9 million at September 30, 2016, our \$500.0 million revolving credit facility and cash from our operations are adequate to fund our anticipated cash requirements for at least the next year, including payments under our regular cash dividend program. We anticipate financing our external growth from acquisitions and our longer-term internal growth through one or more of the following sources: cash from operations, use of our revolving credit facility; and additional borrowings of debt or issuance of equity.

Short-term Borrowings

From time-to-time, we borrow funds against our revolving credit facility for working capital requirements and funding of operations, as well as acquisitions. Borrowings bear interest at one of the following variable rates as selected by us at the time of borrowing: a London Interbank Offer Rate based rate plus market 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). In the next year we may use, as needed, our revolving credit facility or additional sources of borrowings in order to fund our anticipated cash requirements.

Cash Management

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

Dividend

During each of the nine months ended September 30, 2016 and 2015, we declared and paid quarterly dividends in the amount of \$0.21 per share on both classes of our common stock. While we expect to continue the regular cash dividend program, any future dividends declared will be at the discretion of our Board of Directors and will depend, among other factors, upon our results of operations, financial condition and cash requirements, as well as such other factors that our Board of Directors deems relevant.

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, 2016, \$19.1 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 \$19.0 million. We have off-balance sheet arrangements related to operating leases. For a description of our operating leases, see Note 9 to our consolidated financial statements for the fiscal year 2015 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on February 19, 2016.

Critical Accounting Estimates and Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. Application of these policies is particularly important to the portrayal of our financial condition and results of operations. The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles (GAAP) in the U.S. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates under different assumptions or conditions. Our significant accounting policies, including the critical policies listed below, are more fully described in the notes to our consolidated financial statements for the fiscal year 2015 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on February 19, 2016.

Revenue Recognition and Cost Estimation

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

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

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

Accounting for Business Combinations and Goodwill and Other Intangible Assets

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

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

In reviewing goodwill for impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the estimated fair value of a reporting unit is less than its carrying amount. If we elect to perform a qualitative assessment and determine that an impairment is more likely

than not, the entity is then required to perform the existing two-step quantitative impairment test (described below), otherwise no further analysis is required. We also may elect not to perform the qualitative assessment and, instead, proceed directly to the two-step quantitative impairment test.

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

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

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

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

Accounting Standards Updates

On August 26, 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments in this ASU apply to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. The amendments in ASU 2016-15 become effective for fiscal years that start after December 15, 2017. We do not plan to early adopt this ASU. We plan to apply it retrospectively to all periods presented in our quarterly and annual reports on Form 10-Q and Form 10-K. We plan to apply the equity method of accounting for applicable investments. Therefore, we will make an accounting policy election to classify distributions received from equity method investees using the cumulative earnings approach. Distributions received are

considered returns on investment and classified as cash inflows from operating activities, unless the investor's cumulative distributions received less distributions received in prior periods that were determined to be returns of investment exceed cumulative equity in earnings recognized by the investor (as adjusted for amortization of basis differences). When such an excess occurs, the current-period distribution up to this excess is considered a return of investment and should be classified as cash inflows from investing. We do not expect this ASU to have a material effect on our condensed consolidated financial statements.

On May 9, 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, to provide a limited number of changes to its revenue recognition standard. The amendments clarify the assessment of the likelihood that revenue will be collected from a contract, the guidance for presenting sales taxes and similar taxes and the timing for measuring customer payments that are not in cash. The amendments provide what the FASB calls a practical expedient for recognizing revenue from contracts that have been modified prior to the transition period to the new standard. ASU 2016-12 also says that a contract should be considered complete if all, or substantially all, of its revenue has been collected prior to making the transition to the new standard. In addition, this ASU clarifies the disclosure requirements for businesses and other organizations that make the transition to the new standard by adjusting amounts from prior reporting periods via what is called retrospective application by the accounting board. The amendments in ASU 2016-12 become effective for fiscal years that start after December 15, 2017. We are currently evaluating the effect of adoption on our consolidated financial statements.

On April 14, 2016, the FASB issued ASU 2016-10—Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This ASU finalizes Proposed ASU 2015-250 and suggests guidance for stakeholders on identifying performance obligations and licenses in customer contracts. The amendments in this ASU impact entities with transactions that include contracts with customers to transfer goods or services (that are an output of the entity's ordinary activities) in exchange for consideration. They require entities to recognize revenue by following certain steps including (1) identifying the contract(s) with a customer; (2) identifying the performance obligations in a contract; (3) determining the transaction price; (4) allocating the transaction price to performance obligations in the contract and (5) recognizing revenue when, or as, the entity satisfies a performance obligation. This ASU does not impact the core revenue recognition principles in Topic 606, but clarifies the following two aspects of Topic 606—the identification of performance obligations and the licensing implementation guidance—while retaining the related principles for those areas. With respect to the identification of performance obligations, the amendments in this ASU are expected to (1) reduce the cost and complexity of applying the guidance on identifying promised goods or services and (2) provide guidance on assessing whether promises to transfer goods or services are distinct by evaluating the separately-identifiable-promises criterion. As for the licensing guidance, the amendments seek to improve its operability and understandability with respect to determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property or a right to access the entity's intellectual property. For public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. We do not plan on early adopting this ASU. We are currently evaluating the effect of adoption on our consolidated financial statements.

On March 30, 2016, the FASB issued ASU 2016-09—Compensation-Stock Compensation (Topic 718). The FASB is issuing this ASU as part of its Simplification Initiative. The amendments in this ASU affect all entities that issue share-based payment awards to their employees. The areas for simplification in this ASU involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liability and classification on the statement of cash flows. Specifically, all excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity

also should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Excess tax benefits should be classified along with other income tax cash flows as an operating activity. An entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The threshold to qualify for equity classifications permits withholding up to the maximum statutory tax rates in the applicable jurisdiction. Cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity. For public business entities, the amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. We do not plan on early adopting this ASU. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using

either a prospective transition method or a retrospective transition method. We do not expect this ASU to have a material effect on our condensed consolidated financial statements.

On March 17, 2016, the FASB issued ASU 2016-08—Revenue from Contracts with Customers (Topic 606)—Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which finalizes Proposed ASU 2015-290 of the same name, and clarifies the implementation guidance on principal versus agent considerations. In particular, ASU 2016-08 requires an entity to determine whether the nature of its promise is to provide the specified good or service itself (i.e., the entity is a principal) or to arrange for that good or service to be provided by the other party (i.e., the entity is an agent) when another party is involved in providing goods or services to a customer. Additionally, the amendments in this ASU require an entity that is a principal to recognize revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred to the customer, and require an entity that is an agent to recognize revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified good or service to be provided by the other party. Notably, an entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. The guidance includes indicators to assist in determining whether an entity controls a specified good or service before it is transferred to the customer, but the indicators do not override the assessment of control, should not be viewed in isolation, do not constitute a separate or additional evaluation, and should not be considered a checklist of criteria to be met in all scenarios. Because the amendments in this ASU affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective, ASU 2016-08 will become effective when the guidance in ASU 2014-09 becomes effective. Public business entities should apply the guidance in ASU 2016-08 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are currently evaluating the effect of adoption on our consolidated financial statements.

On March 15, 2016, the FASB issued ASU 2016-07—Investments—Equity Method and Joint Ventures (Topic 323). The Update simplifies the accounting for equity method investments. The amendments in the Update eliminate the requirement in Topic 323 that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The amendments in this ASU affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments in this ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. No additional disclosures are required at transition. We do not expect this ASU to have a material effect on our condensed consolidated financial statements.

On February 25, 2016, the FASB issued ASU 2016-02—Leases (Topic 842). The amendments in this ASU create Topic 842, Leases, and supersede the leases requirements in Topic 840, Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from a lease. This ASU is the final version of Proposed ASU (Revised) 2013-270—Leases (Topic 842), which has been deleted. ASU 2016-02 includes Section A—Summary and Amendments to the ASC, Section B—Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables and Section C—Background Information and Basis for Conclusions. This ASU is effective for public entities for annual periods after December 15, 2018, and interim periods therein. Early adoption is permitted for all entities. We are currently evaluating methods of adoption as well as the effect on our consolidated financial statements.

On May 28, 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 supersedes existing revenue recognition guidance, including ASC 605-35, Revenue Recognition - Construction-Type and Production-Type Contracts. ASU 2014-09 outlines a single set of comprehensive principles for recognizing revenue under GAAP. Among other things, it requires companies to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time. These concepts, as well as other aspects of ASU 2014-09, may change the method and/or timing of revenue recognition for certain of our contracts. ASU 2014-09 may be applied either retrospectively or through the use of a modified-retrospective method. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Public business entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are currently evaluating methods of adoption as well as the effect on our consolidated financial statements.

Other ASUs effective after September 30, 2016, 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, 2016, there was no outstanding balance on our revolving credit facility. Borrowings under our revolving credit facility bear interest at variable rates. A hypothetical 10% increase in interest rates would have no effect on our interest expense for the nine months ended September 30, 2016.

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

Item 4. Controls and Procedures

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

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

As of September 30, 2016, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), management evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level described above.

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to certain legal proceedings, government audits, investigations, claims and disputes that arise in the ordinary course of our business. Like most large government defense contractors, our contract costs are audited and reviewed on a continual basis by an in-house staff of auditors from the Defense Contract Audit Agency. In addition to these routine audits, we are subject from time-to-time to audits and investigations by other agencies of the United States of America (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, 2015.

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K:

Exhibit Description of Exhibit

- | | |
|------|--|
| 31.1 | ‡ Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| 31.2 | ‡ Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| 32 | ‡ Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. |
| 101 | The following materials from the ManTech International Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015; (ii) Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2016 and 2015; (iii) Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2016 and 2015; (iv) Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015; and (v) Notes to Condensed Consolidated Financial Statements. |

‡ Filed herewith.

SIGNATURES

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

MANTECH INTERNATIONAL
CORPORATION

By: /s/ GEORGE J. PEDERSEN

Date: November 4, 2016 Name: George J. Pedersen

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

By: /s/ KEVIN M. PHILLIPS

Date: November 4, 2016 Name: Kevin M. Phillips

Title: Chief Financial Officer