MANTECH INTERNATIONAL CORP
Form 10-Q
July 29, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

or

o 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 incorporation or organization)	(I.R.S. Employer 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. x Yes o 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). x Yes o 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	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

As of July 27, 2016 there were 25,043,888 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 June 30, 2016
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	(unaudited) June 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$40,117	$41,314
Receivables—net	299,090	304,253
Prepaid expenses and other	24,435	23,605
Total Current Assets	363,642	369,172
Goodwill	951,353	919,591
Other intangible assets—net	160,993	154,176
Employee supplemental savings plan assets	28,147	27,557
Property and equipment—net	21,935	22,439
Investments	11,008	10,853
Other assets	2,370	2,636
TOTAL ASSETS	$1,539,448	$1,506,424
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	$95,388	$106,271
Accrued salaries and related expenses	65,384	60,940
Billings in excess of revenue earned	15,304	12,685
Total Current Liabilities	176,076	179,896
Deferred income taxes—non-current	112,759	102,035
Accrued retirement	28,260	29,877
Other long-term liabilities	11,361	10,879
TOTAL LIABILITIES	328,456	322,687
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, Class A—$0.01 par value; 150,000,000 shares authorized; 25,270,296 and 24,731,584 shares issued at June 30, 2016 and December 31, 2015; 25,026,183 and 24,487,471 shares outstanding at June 30, 2016 and December 31, 2015	253	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 June 30, 2016 and December 31, 2015	132	132
Additional paid-in capital	453,332	438,168
Treasury stock, 244,113 and 244,113 shares at cost at June 30, 2016 and December 31, 2015	(9,158)	(9,158)
Retained earnings	766,538	754,457
Accumulated other comprehensive loss	(105)	(109)
TOTAL STOCKHOLDERS’ EQUITY	1,210,992	1,183,737
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$1,539,448	$1,506,424

See notes to condensed consolidated financial statements.

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

	(unaudited) Three months ended June 30,		(unaudited) Six months ended June 30,	
	2016	2015	2016	2015
REVENUES	$401,354	$384,378	$792,016	$754,708
Cost of services	341,511	326,243	675,025	640,392
General and administrative expenses	35,629	37,023	70,832	73,358
OPERATING INCOME	24,214	21,112	46,159	40,958
Interest expense	(306)	(329)	(595)	(604)
Interest income	19	24	63	91
Other income (expense), net	45	72	53	(69)
INCOME FROM OPERATIONS BEFORE INCOME TAXES AND EQUITY METHOD INVESTMENTS	23,972	20,879	45,680	40,376
Provision for income taxes	(9,250)	(8,544)	(17,810)	(16,283)
Equity in gains of unconsolidated subsidiaries	60	115	128	115
NET INCOME	$14,782	$12,450	$27,998	$24,208
BASIC EARNINGS PER SHARE:				
Class A common stock	$0.39	$0.33	$0.74	$0.65
Class B common stock	$0.39	$0.33	$0.74	$0.65
DILUTED EARNINGS PER SHARE:				
Class A common stock	$0.39	$0.33	$0.74	$0.64
Class B common stock	$0.39	$0.33	$0.74	$0.64

See notes to condensed consolidated financial statements.

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

	(unaudited) Three months ended June 30,		(unaudited) Six months ended June 30,	
	2016	2015	2016	2015
NET INCOME	$ 14,782	$ 12,450	$ 27,998	$ 24,208
OTHER COMPREHENSIVE INCOME (LOSS):				
Translation adjustments, net of tax	4	(8)	4	(33)
COMPREHENSIVE INCOME	$ 14,786	$ 12,442	$ 28,002	$ 24,175

See notes to condensed consolidated financial statements.

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

	(unaudited) Six months ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$27,998	$24,208
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,150	14,547
Deferred income taxes	9,090	7,493
Stock-based compensation	1,291	2,697
Excess tax benefits from exercise of stock options	(421)	(58)
Equity in gains of unconsolidated subsidiaries	(128)	(115)
Gain on sale and retirement of property and equipment	—	(695)
Change in assets and liabilities—net of effects from acquired businesses:		
Receivables—net	5,149	32,105
Prepaid expenses and other	(830)	2,287
Employee supplemental savings plan asset	(590)	3,241
Accounts payable and accrued expenses	(10,679)	(37,375)
Accrued salaries and related expenses	3,724	(4,215)
Billings in excess of revenue earned	2,619	1,353
Accrued retirement	(1,617)	(2,193)
Other	430	686
Net cash flow from operating activities	51,186	43,966
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of businesses—net of cash acquired	(47,682)	(101,342)
Purchases of property and equipment	(3,346)	(2,240)
Investment in capitalized software for internal use	(740)	(359)
Payments to acquire investments	(201)	(750)
Net cash flow from investing activities	(51,969)	(104,691)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(15,927)	(15,754)
Proceeds from exercise of stock options	15,092	4,352
Excess tax benefits from exercise of stock options	421	58
Borrowings under revolving credit facility	—	89,000
Repayments under revolving credit facility	—	(36,400)
Net cash flow from financing activities	(414)	41,256
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,197)	(19,469)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	41,314	23,781
CASH AND CASH EQUIVALENTS, END OF PERIOD	$40,117	$4,312
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$490	$537
Cash paid for income taxes, net	$5,618	$3,171

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 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 1,000 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.

We reclassified Employee supplemental savings plan asset from the Other line item in Cash Flows from Operating Activities of the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2015 to conform to current period presentation.

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 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 six months ended June 30, 2016, we incurred approximately $0.9 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 $4.5 million, $11.3 million and $0.8 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 15 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	$31,762
Other intangible assets	16,600
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 six months ended June 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 Department of Defense (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 six months ended June 30, 2015, we incurred approximately $0.8 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 six months ended June 30, 2016 and 2015, we declared and paid two 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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Distributed earnings	$8,004	$7,885	$15,918	$15,745
Undistributed earnings	6,778	4,565	12,080	8,463
Net income	$14,782	$12,450	$27,998	$24,208
Class A common stock:				
Basic net income available to common stockholders	$9,635	$8,072	$18,223	$15,682
Basic weighted average common shares outstanding	24,707	24,325	24,591	24,266
Basic earnings per share	$0.39	$0.33	$0.74	$0.65
Diluted net income available to common stockholders	$9,662	$8,084	$18,261	$15,711
Effect of potential exercise of stock options	209	101	150	127
Diluted weighted average common shares outstanding	24,916	24,426	24,741	24,393
Diluted earnings per share	$0.39	$0.33	$0.74	$0.64
Class B common stock:				
Basic net income available to common stockholders	$5,147	$4,378	$9,775	$8,526
Basic weighted average common shares outstanding	13,192	13,193	13,192	13,193
Basic earnings per share	$0.39	$0.33	$0.74	$0.65
Diluted net income available to common stockholders	$5,120	$4,366	$9,737	$8,497
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	$0.39	$0.33	$0.74	$0.64

For the three months ended June 30, 2016 and 2015, options to purchase 0.1 million and 1.8 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because the options' effect would have been anti-dilutive. For the six months ended June 30, 2016 and 2015, options to purchase 0.7 million and 1.9 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because the options' effect would have been anti-dilutive. For the six months ended June 30, 2016 and 2015, there were 525,212 and 155,639 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):

	June 30, 2016	December 31, 2015
Billed receivables	$228,272	$ 233,735
Unbilled receivables:		
Amounts billable	47,849	47,900
Revenues recorded in excess of funding	22,342	19,213
Retainage	10,235	11,878
Allowance for doubtful accounts	(9,608)	(8,473)
Receivables—net	$299,090	$ 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. Accounts receivable at June 30, 2016 are expected to be substantially collected within one year except for approximately $0.8 million, of which 91.7% 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.

The Company does not believe it has significant exposure to credit risk as accounts receivable and the related unbilled amounts are primarily due from the U.S. government. The allowance for doubtful accounts represents 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):

	June 30, 2016	December 31, 2015
Furniture and equipment	$47,802	$ 44,718
Leasehold improvements	35,971	35,733
Property and equipment—gross	83,773	80,451
Accumulated depreciation and amortization	(61,838)	(58,012)
Property and equipment—net	$21,935	$ 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 June 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	31,762
Goodwill at June 30, 2016	$951,353

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

	June 30, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Other intangible assets:						
Contract and program intangible assets	$298,282	$ 148,922	$149,360	$281,682	$ 140,163	$141,519
Capitalized software cost for internal use	37,061	25,434	11,627	36,170	23,522	12,648
Other	58	52	6	58	49	9
Total other intangible assets—net	$335,401	$ 174,408	$160,993	$317,910	$ 163,734	$154,176

Amortization expense relating to intangible assets for the three months ended June 30, 2016 and 2015 was $5.3 million and $5.2 million, respectively. Amortization expense relating to intangible assets for the six months ended June 30, 2016 and 2015 was $10.7 million and $10.1 million, respectively. We estimate that we will have the following amortization expense for the future periods indicated below (in thousands):

For the remaining six months ending December 31, 2016	$11,659
For the year ending:	
December 31, 2017	$21,832
December 31, 2018	$20,066
December 31, 2019	$17,567
December 31, 2020	$14,613
December 31, 2021	$11,418

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 the Company 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 the Company at the time of borrowing: a London Interbank Offer Rate based rate plus market-rate spreads

(1.25% to 2.25% based on our

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

The terms of the credit agreement permit prepayment and termination of the loan commitments at any time, subject to certain conditions. The credit agreement requires the Company 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 June 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 June 30, 2016 and December 31, 2015. The maximum available borrowing under the revolving credit facility at June 30, 2016 was $480.9 million. As of June 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 the Company, 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 the Company, or could lead to suspension or debarment from future U.S. government contracting activities. Management believes it has adequately reserved for any losses that may be experienced from any investigation of which it is aware. The Defense Contract Audit Agency 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 of 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 June 30, 2016, the Board of Directors has authorized the issuance of up to 13,382,296 shares under this plan. Through June 30, 2016, the remaining aggregate number of shares of our common stock available for future grants under the Plan was 5,903,016. 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 June 30, 2016 and 2015, we recorded $0.2 million and $1.5 million of stock-based compensation expense, respectively. For the six months ended June 30, 2016 and 2015, we recorded $1.3 million and $2.7 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 six months ended June 30, 2016 and 2015, the total recognized tax deficiency from the exercise of stock options, vested cancellations and the vesting of restricted stock was $1.2 million and $1.8 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 six months ended June 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 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 six months ended June 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 six months ended June 30, 2016 and 2015 was determined from historical exercises of the grantee population. For all grants valued during the six months ended June 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 six months ended June 30, 2016 and 2015:

	Six months ended June 30,			
	2016		2015	
Volatility	23.66	%	27.16	%
Expected life of options	3 years		3 years	
Risk-free interest rate	1.20	%	1.16	%
Dividend yield	3.00	%	3.00	%

Stock Option Activity—The weighted-average fair value of options granted during the six months ended June 30, 2016 and 2015, as determined under the Black-Scholes-Merton valuation model, was $3.99 and $5.02, respectively. Option grants that vested during the six months ended June 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 six months ended June 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	89,217	$ 30.03	
Exercised	(525,212)	$ 29.02	$ 3,050
Cancelled and expired	(385,091)	$ 39.64	
Stock options at June 30, 2016	1,674,224	$ 29.37	$ 14,170

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

	Number of Shares	Weighted Average Fair Value
Non-vested stock options at December 31, 2015	991,290	$ 4.74
Granted	89,217	$ 3.99
Vested	(278,457)	$ 4.88
Cancelled	(35,592)	$ 4.68
Non-vested stock options at June 30, 2016	766,458	$ 4.60

The following table includes information concerning stock options exercisable and stock options expected to vest at June 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	1,586,716	$ 29.37	3 years	$ 13,439
Stock options exercisable	907,766	$ 29.37	2 years	$ 7,698

Unrecognized compensation expense related to outstanding stock options expected to vest as of June 30, 2016 was $2.1 million, 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.

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Restricted Stock Activity—The following table summarizes the restricted stock activity during the year ended December 31, 2015 and the six months ended June 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 June 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 six months ended June 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	104,900	$ 28.26
Forfeited	(9,950)	$ 29.68
Non-vested RSUs at June 30, 2016	188,400	$ 29.47

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 97.6% and 99.0% of our revenues for the six months ended June 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 98.0% and 99.8% of our total revenues for the three months ended June 30, 2016 and 2015, respectively. U.S. revenues are approximately 98.5% and 99.8% of our total revenues for the six months ended

June 30, 2016 and 2015, respectively. International revenues were approximately 2.0% and 0.2% of our total revenues for the three months ended June 30, 2016 and 2015, respectively. International revenues were approximately 1.5% and 0.2% of our total revenues for the six months ended June 30, 2016 and 2015, respectively. Furthermore, substantially all assets from continuing operations were held in the U.S. for the six months ended June 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;
- Delays in the competitive bidding process caused by competitors' protest of contract awards received by us;
- Inability to recruit and retain a sufficient number of employees with specialized skill sets who are in great demand and limited supply;
- Adverse changes 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;