

MANTECH INTERNATIONAL CORP  
Form 10-K  
February 22, 2013

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

FORM 10-K  
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2012

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

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

(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)  
(703) 218-6000  
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Class A Common Stock, Par Value \$0.01 Per Share	Nasdaq Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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 (Check one):

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2012 was \$554,861,671 (based on the closing price of \$23.44 per share on June 29, 2012, as reported by the Nasdaq National Market).

There were the following numbers of shares outstanding of each of the registrant's classes of common stock as of February 20, 2013: ManTech International Corp. Class A Common Stock, \$0.01 par value per share, 23,849,719 shares; ManTech International Corp. Class B Common Stock, \$0.01 par value per share, 13,192,845 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain portions of the definitive Proxy Statement to be filed with the Securities Exchange Commission pursuant to Regulation 14A in connection with the registrant's 2013 Annual Meeting of Stockholders, to be filed subsequent to the date hereof, are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K. Such definitive Proxy Statement will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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## PART I

In this document, unless the context indicates otherwise, the terms “Company” and “ManTech” as well as the words “we”, “our”, “ours” and “us” refer to both ManTech International Corporation and its consolidated subsidiaries. The term “registrant” refers only to ManTech International Corporation, a Delaware corporation.

Industry and market data used throughout this Annual Report on Form 10-K were obtained through surveys and studies conducted by third parties, industry and general publications and internal company research. We have not independently verified any of the data from third-party sources nor have we ascertained any underlying economic assumptions relied upon therein. While we are not aware of any misstatements regarding the industry data presented herein, estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in Item 1A “Risk Factors.”

### Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements that involve substantial risks and uncertainties, many of which are outside of our control. We believe that these statements are within the definition of the Private Securities Litigation Reform Act of 1995. You can identify these statements by the use of words such as “may”, “will”, “expect”, “intend”, “anticipate”, “believe”, “estimate”, “continue”, or the negative of these terms or words of similar import. You should read statements that contain these words carefully because they discuss our future expectations, make projections of our future results of operations or financial condition or state other “forward-looking” information.

Although forward-looking statements in this Annual Report reflect our good faith judgment, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to predict accurately or control. Factors that could cause actual results to differ materially from the results we anticipate include, but are not limited to, those discussed in Item 1A “Risk Factors” below, as well as those discussed elsewhere in this Annual Report. We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to update any forward-looking statement herein after the date of this Annual Report, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise. We also suggest that you carefully review and consider the various disclosures made in this Annual Report that attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

### Item 1. Business

#### Business and Corporate Overview

ManTech is a leading provider of innovative technologies and solutions for mission-critical national security programs for the intelligence community; the departments of Defense, State, Homeland Security, Energy and Justice, including the Federal Bureau of Investigation (FBI); the healthcare and space communities; and other U.S. federal government customers.

We support critical national security programs for approximately 50 federal agencies through approximately 1,000 current contracts. ManTech supports major national missions, such as military readiness and wellness, terrorist threat detection, information security and border protection.

ManTech was founded in 1968 as a New Jersey corporation, and was reincorporated as a Delaware corporation in January 2002, just prior to our Initial Public Offering (IPO) in February 2002. We have grown substantially over the last decade, from revenues of \$0.43 billion at the end of 2001 to revenues of \$2.58 billion for the year ended December 31, 2012. We have approximately 9,700 employees. For additional financial information, see Item 8 “Financial Statements and Supplemental Data.”

#### Industry Background

Our primary customer is the U.S. federal government, the largest consumer of services and solutions in the United States. In 2012, the U.S. federal government spent about \$255 billion on contracted services.

Our principal focus is on national security and homeland defense customers, the largest of which, the Department of Defense (DoD), is the largest purchaser of services and solutions in the federal government. With a government fiscal year 2012

budget of \$646 billion, the DoD accounts for approximately 54% of the total discretionary budget and nearly 59% of contracted services. Currently, for government fiscal year 2013, the government is operating under a continuing resolution, which keeps spending other than for Overseas Contingency Operations essentially unchanged from 2012 levels, with the potential for reductions in the event of sequestration as part of the American Taxpayer Relief Act of 2012.

After a decade of uninterrupted growth, federal spending has come under pressure given continued budget deficits and mounting levels of debt. In addition, the operations and financial welfare of government contractors are impacted as uncertainty about funding levels has led certain customers to delay awards and spending. The government has also adopted policies adverse to our industry. We expect our customers to continue to be motivated by minimizing costs in this challenging environment, which we expect to lower margins across the whole industry. However, we believe this setting may provide opportunities for price competitive providers such as ManTech.

Moreover, we believe that the federal government's spending will remain robust in key areas for which ManTech is well positioned, including national and homeland security programs, sophisticated intelligence gathering and information sharing activities required in an increasingly dangerous world and implementation of new healthcare systems and policies. The U.S. is committed to maintaining its superiority in capabilities that we support, such as intelligence, surveillance and reconnaissance (ISR), cyber security and intelligence analysis and operations. With an increasing veteran population and an aging national population, investments in healthcare will continue. The government is actively looking for cloud-based solutions and data center consolidation to save money as well as systems integration and interoperability to enable better coordination and communication within and among agencies and departments. Based on these priorities, we believe that ManTech remains well positioned.

#### Our Strategy

We believe the Company is well positioned to compete in the current market. We aspire to be recognized by customers, employees, job applicants and investors as the premier provider of technology and engineering services and solutions to the federal government market. We are executing a multi-year strategy for achieving this objective, which is comprised of the following:

- Provide Direct Support to Our Customers' Most Critical Missions

When resources are constrained, we believe that our customers will increasingly focus on mission and rely on their most trusted prime contractors. Since our founding in 1968, we have focused on providing technology-based solutions and services for mission-critical national security programs. Most of our work centers around our customers' core mission as opposed to support functions. We have several long standing customer relationships; many of our early customers are still our customers today. Because our personnel are on-site with, or work in close proximity to, our customers, we understand their requirements and are often able to enhance their operations by rapidly identifying and developing solutions for customer-specific requirements.

The prime contractor position is increasingly important, and we have aggressively pursued new prime positions both organically and through acquisitions. In fiscal year 2012, we derived 89.9% of our revenues as a prime contractor, compared to 85.6% and 75.9% in fiscal years 2011 and 2010, respectively. As a prime contractor, we are able to enhance the relationship with our customers, ensure overall program success, foresee emerging requirements and manage project resources.

- Compete Aggressively on New Opportunities

We closely track our customers' requirements and funding and have built our capability and capacity to pursue the opportunities that arise. We intend to capitalize on our global footprint and long-term relationships with our customers and our reputation within the intelligence community, DoD and other government agencies to attract new customers and to cross-sell our broad array of solutions to our existing customers. Our successful track record and technical expertise give us credibility with our current customers and enhance our ability to gain follow-on contracts and compete for new programs. In 2012, we won a record \$4.8 billion in new business awards, and we finished the year with a pipeline of qualified opportunities of \$28.8 billion.

•Build Presence in New Growth Markets

We believe the projected growth in government technical services spending will offer opportunities for development and delivery of advanced technology solutions for enterprise applications and information systems. We intend to expand our service offerings in such high growth program areas. In particular, we intend to focus on providing new or improved solutions in cyber security, information assurance and command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) solutions and services, and health IT, and we have established plans around the potential growth area of border security.

We plan to pursue strategic acquisitions of businesses that can broaden our domain expertise and service offerings and allow us to establish relationships with new customers. We have successfully acquired 21 businesses since our IPO in February 2002. Since December 31, 2011, we completed the following acquisitions:

ALTA Systems, Inc. (ALTA) - On January 8, 2013, we acquired ALTA, a provider of IT and professional services with valuable applications in healthcare systems and capital planning. The acquisition will enable ManTech to deliver technology services through ALTA's prime position on the Centers for Medicare and Medicaid Services (CMS) Enterprise Systems Development (ESD) contract, an Indefinite Delivery/Indefinite Quantity (ID/IQ) contract vehicle with a \$4 billion ceiling and period of performance through May 2018.

HBGary, Inc. (HBGary) - On April 2, 2012, we acquired the business of HBGary, a provider of software products to detect, analyze and diagnose Advance Persistent Threat and targeted malware to customers for their cyber security needs in the financial services, energy, critical infrastructure and technology sectors.

Evolvent Technologies, Inc. (Evolvent) - On January 6, 2012, we acquired Evolvent, a provider of services in clinical IT, clinical business intelligence, imaging cyber security, behavioral health, tele-health, software development and systems integration to the DoD health organizations, the Veterans Administration and the Department of Health and Human Services.

We will continue to seek out new growth areas. Our balance sheet and \$500.0 million revolving credit facility provide us with ample capacity to expand our business through strategic acquisitions.

#### •Focus on Shareholder Returns

During fiscal year 2012, we generated \$126.3 million in operating cash flow and paid \$31.0 million in dividends to our shareholders. We believe that ManTech is a compelling investment due to our regular cash dividend program and our strong competitive positioning.

#### Our Solutions and Services

We combine deep domain understanding and technical capability to deliver comprehensive IT, systems engineering, technical and other services and solutions, primarily in support of mission critical national security programs for the intelligence community; DoD; and healthcare and space communities, including the National Aeronautic and Space Administration (NASA). We deploy our broad set of services in custom combinations to best address the requirements of our customers' long-term programs. The following solution sets that we provide are aligned with the long-term needs of our customers: C4ISR solutions and services; cyber security; global logistics support; IT modernization and sustainment intelligence/counter-intelligence solutions and support; systems engineering; test and evaluation; environmental, range and sustainability services; and healthcare analytics and IT.

#### C4ISR Solutions and Services

Military operations increasingly rely on communication and information architectures that offer global connectivity and interoperability between joint, interagency and multi-national forces. We provide the full-spectrum of C4ISR solutions and services in support of national defense, intelligence and homeland security missions. Our C4ISR solutions and services include systems engineering, systems integration and software engineering using the latest Agile methodologies. Our end-to-end lifecycle services enable our customers to accomplish critical, complex missions using the latest in technology. We integrate systems, sensors, multi-source intelligence information, data dissemination systems and applications to ensure the troops have the right information at the right time on the battlefield. Our support spans the entire lifecycle continuum, from initial requirements assessment and program

management support, through engineering, development and integration, test and evaluation, deployment and training to the ultimate operation and maintenance of C4ISR solutions. Our experience spans all of the military services, with support provided in the U.S. and in deployed locations worldwide. We are also engaged at Fort Bliss, TX in support of the Army's Network Integration Evaluation exercises and provide network engineering and other technical support to the C4ISR lifecycle.

Through various roles from program management and acquisition support to software development and integration, we have supported the delivery of C4ISR-related solutions for the U.S. Army Communications-Electronics Command (CECOM), the U.S. Navy Space & Naval Warfare Systems Command (SPAWAR) and the U.S. Marine Corps Systems Command (MARCORSYSCOM). Our experience in delivering new capabilities includes many critical systems such as the Joint Network Node (JNN), the Distributed Common Ground Systems-Army (DCGS-A), the Advanced Monitoring Display System (AMDS), the EQ-36 RADAR system and many others. ManTech has a proven record in successful post-development support for C4ISR

systems. For major systems like the Army's DCGS-A and Base Expeditionary Targeting and Surveillance Systems-Combined (BETSS-C), we provide training, fielding, logistics support and forward maintenance.

### Cyber Security

Ubiquitous security challenges threaten not just traditional IT, but also C4ISR and other national security systems; embedded electronics on ground, sea and aerospace platforms; classified and law enforcement networks & systems; health IT; and systems providing critical civilian services. Our team of security experts tackles some of the most challenging cyber security problems facing the nation, such as identifying and neutralizing external cyber attacks, engineering tailored defensive security solutions and controls, managing security operations centers (SOCs), developing robust insider threat detection programs and creating enterprise vulnerability management programs. We have provided computer network operations support to important national security customers for more than a decade, working across the three domains of computer network attack, defense and exploitation. We provide comprehensive cyber warfare and cyber defense security solutions and services to the DoD, agencies in the intelligence community, Department of State, Department of Justice, NASA and other federal agencies. We operate 24/7 SOC's for several key government customers, including the departments of Justice and Agriculture and the FBI.

We are also trusted partners in the area of information assurance (IA). Our understanding of IT security guidance and policy allows us to assist our customers in ensuring their programs are protected in accordance with that policy and in developing mitigation strategies to reduce the risks of cyber threats. Our vulnerability assessment and penetration testing capabilities allow us to emulate threats to information, whether from wired or wireless networks, software applications or through social engineering. If a customer is unfortunate enough to have experienced a compromise, we can deploy our incident response team, comprised in part of former cyber federal law enforcement agents, around the world to assist them.

We operate the DoD IA (Cyber) Range for the Defense Information Systems Agency (DISA) and the Office of the Secretary of Defense (OSD) under the operational control of the Marine Corps. In unclassified and classified venues, we provide a full range of services to train cyber warriors; test programs, systems and products; and exercise cyber warfighters and system operations/procedures in a low risk/highly realistic environment to prepare for cyber warfare. We develop operationally realistic, scalable and rapidly configurable environments that replicate or emulate the customer's environment. Our DOD IA (Cyber) Range customer interface includes: Cyber Range infrastructure design and hosting; Cyber Range operations development; Cyber exercise support; Immersive Cyber environments; and real and virtual Red Team activities for providing offensive challenges to cyber defenders.

Our solutions also support unique mission areas such as computer forensics, cyber threat analysis, computer crimes investigations, security operations center management and specialized cyber training. We perform advanced services in the areas of data mining analysis, atypical data recovery techniques and data extraction. For example, in support of a customer, we developed and staff a national level computer forensic laboratory and provide a broad spectrum of subject matter expertise, including reverse engineering and code analysis; forensic signature creation, detection and analysis; damaged media recovery; hidden data processing; protected data processing; forensic software development; and custom training development and implementation.

### Global Logistics Support

In recent years the DoD, Department of State and other federal agencies have experienced an increased need for logistics support worldwide. For decades, ManTech has provided a wide range of core services to meet such needs, including supply chain management support (such as warehousing, logistics management, shipping/receiving and property management), maintenance and reset of ground vehicles and electronics, transportation using contracted and government provided services and other field services support (including fielding, training and operations support).

We provide logistics, repair and maintenance services, unique system training and development curriculum support, resource management and inventory tracking technologies for complex, critical and specialized customer systems in deployed, isolated and remote locations worldwide. On behalf of the U.S. Army in Southwest Asia, we maintain critical and life-sustaining operational readiness levels for counter-improvised explosive device (IED) vehicles and systems, including Mine-Resistant Ambush-Protected (MRAP) vehicles and MRAP All-Terrain Vehicles (M-ATV). To that end, we develop and manage supply levels and the streamlined operation of supply-chain channels, including vendor partnerships with original equipment manufacturers to ensure the expedient, unencumbered delivery of systems and parts to forward operating theater locations.

We also support the U.S. Department of State Global IT Modernization Program by centrally managing the worldwide modernization of their computer networks. We design, support the procurement of and integrate the latest system software and hardware technologies including servers, switches, workstations and network printers. Our installation teams travel to Department of State locations worldwide to complete each installation.

## IT Modernization and Sustainment

IT plays an increasingly central role in the missions of our defense, intelligence and federal civilian customers, and as a result, is an important part of many of our solution areas. We design, develop, deploy, modernize, operate and maintain IT systems and infrastructure as a stand-alone service offering to improve mission performance and lower costs for our government customers. For the Department of State, we modernize classified and unclassified networks and systems in locations around the world. The backbone of our global capabilities is a comprehensive ISO 9001:2000-certified management and control system designed to provide best value for our customers and to lower the total cost of ownership across the systems' lifecycles. For the Defense Commissary Agency, we provided Network Operations Center services to sustain its global network infrastructure and manage hardware and software at remote sites from headquarters.

We leverage our strong engineering discipline to aid our customers in moving their IT enterprise infrastructure and applications from disparate instances into cloud offerings. The migration towards customer private secure cloud architectures is compelling because it enables our customers to integrate their global IT infrastructure optimally, while still providing the geo-specific requirements where necessary. For a DoD customer we are consolidating multiple instances of stove-piped applications onto a single utility cloud backbone, allowing these legacy applications to continue supporting their mission while lowering the overall operations cost.

We also support the FBI's Criminal Justice Information Services (CJIS), where we are providing operations and maintenance support to one of the world's largest data centers. FBI CJIS equips the law enforcement, national security and intelligence community with the criminal justice information they need to protect the United States while preserving civil liberties. ManTech operates, maintains, refreshes and enhances FBI CJIS IT systems required to process and share mission-critical information for members of the law enforcement community in the United States and abroad. ManTech is sustaining systems that support millions of requests each day, including when police check vehicle license plates or look for a fingerprint match against the largest biometrics database in the world. The mission-critical systems we support must be operational and available 24x7; we understand that the impact to police officers, FBI agents, customs agents and government agencies nationwide would be significant, even life-threatening, if the systems were to go down. Specific functions supported include IT system operations and maintenance, database administration, cyber security and hardware and data center support.

## Intelligence/Counter-Intelligence Solutions and Support

We provide robust information technology solutions and mission support services that the national intelligence agencies and other classified program customers need to assure continuous operations, improve data gathering and analysis, collaborate securely and protect program security.

The ability to collaborate and share information across non-traditional boundaries in a trusted fashion has become critically important for national security. For example, we developed A-Space, a next-generation analytic sharing and collaboration program used by intelligence analysts, and the DoD Intelligence Information Systems (DoDIIS) service-oriented architecture (SOA) framework, which helps intelligence analysts comb through millions of intelligence reports to find relevant and meaningful answers to national security questions.

Our network architecture planning and implementation services and systems engineering services support enterprise-wide network infrastructures and components that include local area network/wide area network architectures, messaging architectures, network management solutions, directory services architecture and web hosting. These services are provided within secure environments requiring the application of multi-level security policies across the enterprise. For example, we developed a state-of-the-art analytic environment that provides access

to regional, national and international information with appropriate security level access controls, providing direct operational support to time-sensitive counterterrorism activities in support of an intelligence community customer.

We support strategic and tactical intelligence systems, networks and facilities across the intelligence community and DoD. We develop and integrate collection and analysis systems and techniques. We also provide support to the development and application of analytical techniques to counterintelligence, Human-Intelligence operations/training and counter-terrorist operations. For example, we support intelligence operations designed to counter narcotics trafficking along our nation's southwest border.

Highly-classified programs, including intelligence operations and military programs, require secrecy management and security infrastructure services. These services can include vulnerability assessment, exposure analysis, secrecy architecture design, security policy development and implementation, lifecycle acquisition program security, operations security, information

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assurance, Anti-Tamper, Export Compliance support, foreign disclosure, system security engineering, security awareness and training, comprehensive security support services and technical certification and accreditation services. We provide integrated security support for a number of programs, including the Joint Strike Fighter (JSF) Program, which presents one of the most complex security problem sets of any weapon system in our nation's history due to the numerous highly classified technologies incorporated in its design and international content in both its development and its usage.

### Systems Engineering

Since 1968, ManTech's scientists and engineers have provided disciplined systems engineering support to a wide range of customers that presently includes programs and offices within the Department of Homeland Security (DHS), DoD, intelligence community and NASA. For example, we perform comprehensive systems engineering services to analyze, develop and integrate solutions for U.S. Navy hardware and software requirements across subsurface, surface, ground, air and space domains; provide acquisition and program management support for the DHS's Customs and Border Protection (CBP) Office of Technology, Innovation and Acquisition; and support current and future space launch operations for the U.S. Air Force Launch and Range Systems Wing with systems engineering and integration services. We also provide scientific, engineering and technical support services to the Department of Energy's SunShot Initiative, which aims to reduce by 75% the cost of utility-scale electricity at the grid by the year 2020.

Our proprietary systems engineering toolset, the ManTech Enterprise Framework, provides a regimented and interdisciplinary approach to transition from a stated need to an operationally effective and suitable system, service or capability. Based in "Systems Thinking," the framework is an overarching and proven process that integrates the full spectrum of project management, systems engineering and acquisition practices necessary to effectively manage a project or system over its lifecycle. Through it, we address a full 360-degree perspective of a program, including disciplines of system, software, hardware, acoustics, communications, reliability, safety and test engineering, as well as modeling, simulation and analysis. Our long-term commitment to the systems engineering discipline is exemplified by our achievement of our Capability Maturity Model® Integration (CMMI) Level 3 rating for Software and Systems Engineering.

Moreover, because ManTech is not a major system developer, we provide systems engineering advisory services to our government customers without concerns about potential conflicts of interest. In fact, ManTech was one of the first companies to have sought and received certification as a "non-conflicted" services provider from the National Reconnaissance Office.

### Test and Evaluation

ManTech is a leading provider of test and evaluation services to a wide range of defense, intelligence, homeland security and space customers. Our test and evaluation services are tightly linked with our systems engineering capabilities and include specific competencies in test engineering, preparation and planning; modeling and simulation; test range operations and management; systems and cyber vulnerability; and Independent Validation & Verification (IV&V). Employing a technical staff with a wide range of practical experience and education, we provide our clients with the right skill sets to support and perform operational and developmental tests.

We test complex and mission-critical hardware and software systems used by the Army, Navy, Marine Corps and NASA, with many of these customer relationships spanning more than three decades. We have played key roles in improving the performance, reliability, maintainability, supportability and weapons effectiveness of all Navy in-service rotary and fixed wing platforms and their associated systems and ordnance. Likewise, we maintain a facility to support Marine Corps intelligence systems research and development providing the associated test and evaluation required to ensure these systems meet specified requirements for Marines in the field.

We perform independent tests to certify that new or upgraded systems operate in accordance with design requirements and interoperate with legacy systems. For example, for the past 24 years ManTech has installed, operated and maintained a large and complex joint test environment for the Joint Interoperability Test Command within DISA. Recently, we built a systems integration lab (SIL) for a DoD customer that enables engineers to test new hardware and software on a virtual copy of the enterprise architecture. Once per quarter, virtual snapshots are taken of the servers and placed in the SIL to create an accurate facsimile of the production environment. We have also performed certification services for aircraft weapon systems in support of U.S. Naval Air Systems Command programs.

Additionally, we are the prime contractor supporting the U.S. Army's Electronic Proving Ground at Fort Huachuca, AZ. ManTech provides support testing for command, control, communications, computers and intelligence, navigation and sensor systems for reliability, availability and maintainability, electromagnetic interference/electromagnetic compatibility and security. We provide a full spectrum of services including scientific, engineering, technical, administrative, maintenance and logistics.

Other services include instrumentation and hardware/software-related development, as well as laboratory/test bed operations and special studies in Aberdeen Proving Ground, MD; Fort Huachuca; Yuma Proving Ground, AZ; Fort Hood and Fort Bliss, TX; Fort Lewis, WA; and White Sands Missile Range, NM.

#### Environmental, Range and Sustainability Services

ManTech is a leader in the fields of range, environmental and sustainability planning, regulatory compliance, biological resources and policy development. In an increasingly interconnected world with growing demands for limited resources, we provide trusted solutions that meet today's most pressing challenges while securing the future. Our multidisciplinary staff of planners, scientists, analysts and managers brings the education, experience and expertise to develop and execute comprehensive sustainability strategies and environmental compliance programs in support of government and industry. We work with our customer to manage and comply with the nation's most important environmental laws, including the National Environmental Policy Act, the Endangered Species Act, and the Marine Mammal Protection Act. We also provide ocean and coastal environmental planning, coastal zone management planning, biological surveys and monitoring, bioacoustics and noise analysis, habitat restoration, invasive species management and solid-waste compliance support.

For example, naval training and test ranges can require large areas and are often questioned for their potential impact on sensitive environments. In order to retain the ability to train personnel and test equipment, the Navy has developed an integrated program to assess the impact of its ranges and minimize impact on the environment, populated areas, shipping and navigation. Tactical Training Theater Assessment Program (TAP) is the Navy's comprehensive program focused on environmental planning and sustainability of training and test ranges worldwide. ManTech delivers critical planning solutions to complex environmental and regulatory challenges in order to preserve and enhance the capabilities of Navy and Marine Corps ranges.

Also, ManTech has supported Vandenberg Air Force Base to execute its environmental planning programs for nearly 25 years. ManTech has a diverse background in all aspects of launch-support operations and environmental planning for the 30th Civil Engineering Squadron Environmental Flight. We understand both the unique operational conditions and mission requirements of this installation and its tenant commands and the demands of sustaining and conserving the natural and cultural resources that are found at Vandenberg Air Force Base. Our support includes a team of highly experienced biologists, ecologists and National Environmental Policy Act (NEPA) specialists. ManTech's support under this program includes sensitive species management plans, threatened and endangered species surveys, marine mammal monitoring, invasive species control, construction monitoring, habitat restoration plans and implementation, predator control, biological and environmental assessments, mitigation monitoring, erosion control, storm water monitoring and solid waste environmental compliance.

#### Healthcare Analytics and IT

As a focused healthcare systems integrator with particular strength in federal healthcare systems, ManTech supports a wide range of programs that enable clinical intelligence, quality, patient and family centric care, chronic disease management, and comparative effectiveness research. We deliver domain-specific capabilities, including solutions that encompass health information sharing and clinical analytic solutions. Our technology solutions empower patients and providers with better, richer, and more timely data, care coordination solutions, and imaging management capabilities—all built on interoperable platforms to new national standards. For imaging, informatics, interoperability and integration challenges, our team provides a powerful ally in the transformation of health IT.

One area of particular emphasis is the creation of a seamless medical record across the DoD and the Department of Veterans Affairs (VA). The Bidirectional Health Information Exchange (BHIE) has been the primary interoperability platform between the DoD and the VA for many years. Used daily by thousands of providers, it is one of the world's

most comprehensive and highest volume Health Information Exchanges (HIEs). The legacy BHIE system was so successful that demands placed on the system outgrew its original design. ManTech helped migrate the system toward modern health IT standards by adopting the Nationwide Health Information Network and associated standards wherever possible. The Virtual Lifetime Electronic Record (VLER) effort, which is being carried out in conjunction with the BHIE upgrade project, enables sharing not only between DoD and VA, but also between the government and civilian provider networks and local HIEs. VLER relies on the Nationwide Health Information Network as the mechanism through which to share standards-based health data between DoD, VA and private sector partners. ManTech has developed VLER-Health on behalf of the DoD in conjunction with its work to upgrade the BHIE. Functional domain content for BHIE and VLER-Health overlaps significantly; ManTech is integrating these two projects to share data-access methods and use DoD's Nationwide Health Information Network gateway.

## Our Customers

Our primary customers are U.S. federal government intelligence, military, space and civilian agencies. In addition, we support some state and local governments and commercial customers. We derive most of our revenues from national security and homeland defense customers. We have successful, long-standing relationships with our customers, having supported many of them for over 40 years.

Fiscal Year	Percentage of Revenues from Federal Government Customers	Percentage of Revenues from National Security and Homeland Defense Customers
2012	99.2%	95.4%
2011	99.2%	96.6%
2010	98.7%	95.8%

Our customers include the departments of Defense, State, Homeland Security, Energy and Justice, including the FBI; the healthcare and space communities and other U.S. federal government customers.

To provide deep understanding of our customers' missions, we target candidates for employment who have served in the military or as civilian experts in the intelligence community and DoD, as well as those who are leading specialists in their technology disciplines. Since 2006, we have annually been ranked in the Top 10 in the nation on the G.I. Jobs Magazine Military-Friendly Employers list.

Our federal government customers typically exercise independent contracting authority, and even offices or divisions within an agency or department may directly, or through a prime contractor, use our services as a separate customer so long as that customer has independent decision-making and contracting authority within its organization. For example, under a contract with one of the Army's contracting agencies, program managers throughout the Army and from other services and defense agencies are able to purchase a wide range of our solutions. The U.S. Army Tank-Automotive Armament Command (TACOM) contract accounted for 22.2%, 17.0% and 12.2% of our revenues for the years ended December 31, 2012, 2011 and 2010, respectively. In addition, there were no sales to any customers within a single country (except for the United States) where such sales accounted for 10% or more of our total revenues.

## Foreign Operations

We treat sales to U.S. government customers as sales within the United States, regardless of where services are performed. North Atlantic Treaty Organization is the Company's largest international customer. The percentages of total revenues by geographic customer for the last three years were as follows:

	Year Ended December 31,			
	2012	2011	2010	
United States	99.8	% 99.7	% 99.2	%
International	0.2	% 0.3	% 0.8	%
Total	100.0	% 100.0	% 100.0	%

## Backlog

At December 31, 2012, our backlog was \$6.5 billion, of which \$1.8 billion was funded backlog. At December 31, 2011, our backlog was \$4.7 billion, of which \$1.3 billion was funded backlog. Backlog represents estimates that we calculate on the basis described below. We expect that approximately 37% of our total backlog will be recognized as

revenues prior to December 31, 2013.

We define backlog as our estimate of the remaining future revenues from existing signed contracts, assuming the exercise of all options relating to such contracts and including executed task orders issued under indefinite delivery/indefinite quantity (ID/IQ) contracts. We also include an estimate of revenues for solutions that we believe we will be asked to provide in the future under the terms of ID/IQ contracts for which we have an established pattern of revenues.

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

Changes in the amount of our backlog and funded backlog result from potential future revenues following the execution of new contracts or the extension of existing contracts, reductions from contracts that end or are not renewed, reductions from the early termination of contracts and adjustments to estimates for previously included contracts. Changes in the amount of our funded backlog also are affected by the funding cycles of the government. Our estimates of future revenues are inexact and the receipt and timing of any of these revenues is subject to various contingencies, many of which are beyond our control. The actual accrual of revenues on programs included in backlog and funded backlog may never occur or may change because a program schedule could change, a program could be canceled, a contract could be modified or canceled, an option that we have assumed would be exercised is not exercised or initial estimates regarding the amount of services that we may provide could prove to be wrong. For the same reason, we believe that period-to-period comparisons of backlog and funded backlog are not necessarily indicative of future revenues that we may receive.

Significant wins for the year ended December 31, 2012 include contracts from:

The National Institute of Health (NIH) Chief Information Officer-Solutions and Partners (CIOSP-3) multiple award ID/IQ contract, to provide information technology services and solutions for the NIH Health Information Technology Acquisition and Assessment Center (NITAAC).

The U.S. Army Communications-Electronics Command Life Cycle Management Command (CECOM) Software and Systems Engineering Services multiple award ID/IQ contract, to provide comprehensive software and systems engineering services to CECOM LCMC's Software Engineering Center.

The U.S. Army's Tank-Automotive and Armaments Command (TACOM) to continue providing logistics sustainment and support for the U.S. Military's Mine Resistant Ambush Protected (MRAP) Family of Vehicles.

The U.S. Department of the Air Force Consultants Advisory and Technical Services (CATS) multiple award ID/IQ contract, to provide management and professional support services for Air Force Medical Services (AFMS).

The Defense Information Systems Agency (DISA) Joint Interoperability Test Command (JITC) Support Services multiple award ID/IQ, to provide testing, scientific, engineering, logistics, administrative and ancillary support to DISA test and evaluation missions.

The Defense Information Systems Agency (DISA) United States Government Omnibus Network Enterprise (USG ONE) multiple award ID/IQ contract, to provide information and communications support to various federal agencies.

The Space and Naval Warfare Systems Center Atlantic (SPAWAR SSC-ATL), to perform systems engineering, analysis, development, acquisition, integration, installation, software development and maintenance, testing and integrated logistical support for anti-terrorism/force protection systems for high-value Navy and other government activities in the National Capital Region.

The U.S. Army Communications-Electronic Command Life Cycle Management Command's Field Support Division, Software Engineering Center, to continue providing information technology support for C4ISR systems, including

communications, networks, database, strategic and tactical video-teleconferencing systems, secure network sustainment support and web-based applications used by warfighters and supporting organizations, as well as provide direct unit operations support for all applicable software and systems.

The Defense Advanced Research Project Agency (DARPA) Tactical Technology Office (TTO) Integrated Systems Engineering Support Services multiple award ID/IQ contract, to continue to provide integrated systems engineering, technical analysis and program management solutions to equip future warfighters with tactical, mobile and responsive technologies for advanced weapon systems, platforms and space systems.

## Patents, Trademarks, Trade Secrets and Licenses

We own a limited number of patents. We also maintain a number of trademarks and service marks to identify and distinguish the goods and services we offer. While we believe protecting our patents, marks, trade secrets and vital confidential information is important, we do not consider our business to be dependent on the existence or protection of such intellectual property.

## Seasonality

Our business is not seasonal. However, it is not uncommon for federal government agencies to award extra tasks or complete other contract actions in the weeks before the end of the federal government's fiscal year (which is September 30) in order to avoid the loss of unexpended fiscal year funds. Additionally, our quarterly results are impacted by the number of working days in a given quarter. There are generally fewer working days for our employees to generate revenues in the first and fourth quarters of our fiscal year.

## Competition

Our key competitors currently include divisions of large defense contractors, as well as a number of mid-size U.S. government contractors with specialized capabilities. Because of the diverse requirements of U.S. government customers and the highly competitive nature of large procurements, we frequently collaborate with these and other companies to compete for large contracts and bid against these team members in other situations. Major differentiators for ManTech in our markets include our distinctive technical competencies, extensive experience supporting mission-critical national security programs, successful past contract performance, reputation for quality at a competitive price and key management with domain expertise.

## Company Information Available on the Internet

Our Internet address is [www.mantech.com](http://www.mantech.com). Through a link to the Investor Relations section of our website, we make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC).

## Item 1A. Risk Factors

### Forward-Looking and Cautionary Statements

Set forth below are the risks that we believe are material to investors who purchase our common stock. You should carefully consider the following risks together with the other information contained in or incorporated by reference into this Annual Report on Form 10-K, including our consolidated financial statements and notes thereto. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us, or those we currently deem to be immaterial, may also materially and adversely affect our business, financial condition or results of operations. This section contains forward-looking statements. You should refer to the explanation of the qualification and limitations of forward-looking statements set forth at the beginning of this Annual Report.

### Risks Related to Our Business

We depend on contracts with the U.S. federal government for substantially all of our revenues. If our relationships with the federal government were harmed, our business, future revenues and growth prospects could be adversely affected.

We derive the vast majority of our revenues from our federal government customers. We expect that federal government contracts will continue to be the primary source of our revenues for the foreseeable future. Our business, prospects, financial condition or operating results could be materially harmed if:

• We are suspended or debarred from contracting with the federal government or a significant government agency;

• Our reputation or relationship with government agencies is impaired; or

• The government ceases to do business with us, or significantly decreases the amount of business it does with us.

Among the key factors in maintaining our relationships with federal government agencies are our performance on individual contracts and task orders, the strength of our professional reputation and the relationships of our senior management with our customers.

Federal government spending levels for programs we support may change or be delayed in a manner that adversely affects our future results and limits our growth prospects.

Our business depends upon continued federal government expenditures on intelligence, defense and other programs that we support. These expenditures have not remained constant over time. Today, in the face of growing national debt, and long-term fiscal challenges facing the nation, spending levels for federal government programs generally, and in particular the U.S. defense budget, have come under pressure. We expect that the focus on minimizing costs will continue for the foreseeable future. This focus may affect future levels or timing of expenditures, place pressure on operating margins in our industry, and shift authorizations to programs in areas where we do not currently provide services, thereby adversely impacting our future results of operations. The possibility that automatic spending reductions mandated by the American Tax Payer Relief Act of 2012 may still be triggered and uncertainty about how these automatic reductions may be applied, heightens the risk that spending levels for programs we support will change in a manner that is adverse to us. A reduction in the amount of services that we are contracted to provide, or incorporation of less favorable terms in existing or future contracts, could cause an adverse impact on our business and future results of operations.

The failure by Congress to approve budgets on a timely basis for the federal agencies we support could delay procurement of our services and solutions and cause us to lose future revenues.

On an annual basis, Congress must approve budgets that govern spending by the federal agencies that we support. In years when Congress is not able to complete its budget process before the end of the federal government's fiscal year on September 30, Congress typically funds government operations pursuant to a continuing resolution. A continuing resolution allows federal government agencies to operate at spending levels approved in the previous budget cycle. When the U.S. government operates under a continuing resolution, it may delay funding we expect to receive from customers on work we are already performing and will likely result in new initiatives being delayed or in some cases canceled. The federal government's failure to complete its budget process, or to fund government operations pursuant to a continuing resolution, may result in a federal government shutdown, such as that which occurred during the 1996 fiscal year.

The competitive bidding process can impose substantial constraints and costs upon us and we may lose revenues, or our earnings and profitability may be adversely impacted, if we fail to compete effectively, if we are required to minimize our price in order to compete effectively, or if there are delays caused by protests or challenges of contract awards.

We derive significant revenues from federal government contracts that are awarded through a competitive bidding process. We expect that a significant portion of our future business will also be awarded through competitive bidding. Competitive bidding presents a number of risks, including:

Incurring expense and delays due to competitor's protest or challenge of contract awards made to us, including the risk that any such protest or challenge could result in the resubmission of bids on modified specifications, or in the termination, reduction or modification of the awarded contract, which may result in reduced profitability;

Bidding on programs in advance of the completion of their design, this may result in unforeseen difficulties in execution, cost overruns, or, in the case of unsuccessful competition, the loss of committed costs;

- Spending substantial cost and managerial time and effort to prepare bids and proposals for contracts that may not be awarded to us, which may result in reduced profitability;

• Failing to accurately estimate the resources and cost structure that will be required to service any contract we are awarded;

- Changes to customer bidding practices or government reform of its procurement practices, which may alter the prescribed contract requirements relating to contract vehicles, contract types and consolidations; and

• Changes in policy and goals by the government providing set-aside funds to small business, disadvantaged businesses and other socio-economic requirements in the allocation of contracts.

Additionally, the current federal government budget environment has led an increasing number of our customers to focus on cost as a key component of the procurement evaluation process. This focus has increased competitive pricing pressures and resulted in a reduction to the profits we expect to earn on our federal government contracts. Continuation of the constrained budgetary environment for our customers may lead to additional pricing pressures, which may require us to further minimize our price in order for us to successfully bid for contracts, thereby adversely affecting our earnings and profitability.

If we are unable to win particular contracts that are awarded through the competitive bidding process, in addition to the risk that our operating results may be adversely affected, we may be unable to operate in the market for services that are provided under those contracts for a number of years. Even if we win a particular contract through competitive bidding, our profit margins may be depressed as a result of the costs incurred through the procurement process. Additionally, the competitive bidding process, and increased use by the federal government of a lowest price/technically acceptable standard for contract awards, may require us to decrease the margin by which we expect our bid price to exceed our costs.

Our earnings and profitability may vary based on the mix of type of contracts we perform and may be adversely affected if we do not accurately estimate the expenses, time and resources necessary to satisfy some of our contractual obligations.

We enter into three types of federal government contracts for our services: cost-reimbursable, time-and-materials and fixed-price. Recently, our customers have increasingly procured our services under cost-reimbursable contracts, which tend to offer lower margin opportunities than other contract types. For our last three fiscal years, we derived revenues from such contracts as follows:

	Year Ended December 31,			
	2012	2011	2010	
Cost-reimbursable	51.0	% 33.6	% 20.9	%
Time-and-materials	32.8	% 50.5	% 63.7	%
Fixed-price	16.2	% 15.9	% 15.4	%
Total Revenues	100.0	% 100.0	% 100.0	%

Each of these types of contracts, to varying degrees, involves some risk that we could underestimate our cost of fulfilling the contract, which may reduce the profit we earn or lead to a financial loss on the contract.

Under cost-reimbursable contracts, we are reimbursed for allowable costs and paid a fee, which may be fixed or performance-based. To the extent that the actual costs incurred in performing a cost-reimbursable contract are within the contract ceiling and allowable under the terms of the contract and applicable regulations, we are entitled to reimbursement of our costs, plus a profit. However, if our costs exceed the ceiling or are not allowable under the terms of the contract or applicable regulations, we may not be able to recover those costs. In particular, there is increasing focus by the federal government on the extent to which contractors are able to receive reimbursement for employee compensation.

Under time-and-material contracts, we are reimbursed for labor at negotiated hourly billing rates and for certain expenses. We assume financial risk on time-and-material contracts because we assume the risk of performing those contracts at negotiated hourly rates.

Under fixed-price contracts, we perform specific tasks for a fixed price. Compared to cost-plus contracts, fixed-price contracts generally offer higher margin opportunities, but involve greater financial risk because we bear the impact of cost overruns, which could result in increased costs and expenses. Because we assume such risk, an increase in the

percentage of fixed-price contracts in our contract mix, whether caused by a shift by the federal government toward a preference for fixed-price contracts or otherwise, could increase the risk that we suffer losses if we underestimate the level of effort required to perform the contractual obligations.

Our profits could be adversely affected if our costs under any of these contracts exceed the assumptions we used in bidding for the contract.

Many of our federal government customers execute their procurement budgets through multiple award contracts under which we are required to compete for post-award orders, or for which we may not be eligible to compete, potentially limiting our ability to win new contracts and increase revenues.

Budgetary pressures and reforms in the procurement process have caused many U.S. federal government customers to purchase goods and services through multiple award ID/IQ contracts and other multiple award and/or government wide acquisition contract vehicles. These contract vehicles require that we make sustained post-award efforts to obtain task orders under the relevant contract. There can be no assurance that we will obtain revenues or otherwise sell successfully under these contract vehicles. Our failure to compete effectively in this procurement environment could harm our operating results.

Federal government contracts contain provisions giving government customers a variety of rights that are unfavorable to us, including the ability to terminate a contract at any time for convenience.

Federal government contracts contain provisions and are subject to laws and regulations that give the government rights and remedies not typically found in commercial contracts. These provisions may allow the government to:

• Terminate existing contracts for convenience, as well as for default;

• Reduce orders under, or otherwise modify contracts or subcontracts;

• Cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;

• Decline to exercise an option to renew multi-year contracts or issue task orders in connection with multiple award contracts;

• Suspend or debar us from doing business with the federal government or with a government agency;

• Prohibit future procurement awards with a particular agency as a result of a finding of an organizational conflict of interest based upon prior related work performed for the agency that would give a contractor an unfair advantage over competing contractors;

• Subject the award of contracts to protest by competitors, which may require the contracting federal agency or department to suspend our performance pending the outcome of the protest and may also result in a requirement to resubmit offers for the contract or in the termination, reduction or modification of the awarded contract;

• Terminate our facility security clearances and thereby prevent us from receiving classified contracts;

• Claim rights in products and systems produced by us; and

• Control or prohibit the export of our products and services.

If the government terminates a contract for convenience, we may recover only our incurred or committed costs, settlement expenses and profit on work completed prior to the termination. If the government terminates a contract for default, we may not even recover those amounts and instead may be liable for excess costs incurred by the government in procuring undelivered items and services from another source. If one of our government customers were to unexpectedly terminate, cancel or decline to exercise an option to renew one or more of our significant contracts or programs, our revenues and operating results would be materially harmed.

We may not receive the full amount authorized under our contracts and we may not accurately estimate our backlog, which could adversely affect our future revenues and growth prospects.

As of December 31, 2012, our estimated contract backlog totaled approximately \$6.5 billion, of which approximately \$1.8 billion was funded. Backlog is our estimate of the remaining future revenues from existing signed contracts, assuming the exercise of all options relating to such contracts and including executed task orders issued under ID/IQ contracts. Backlog also includes estimates of revenues for solutions that we believe we will be asked to provide in the future under the terms of ID/IQ contracts for which we have an established pattern of revenues. Our estimates are based on our experience using such vehicles and similar contracts; however, we cannot assure that all, or any, of such estimated contract revenues will be recognized as revenues.

We historically have not realized all of the revenue included in our total backlog, and we may not realize all of the revenue included in our total backlog in the future. There is a somewhat higher degree of risk in this regard with respect to unfunded backlog, since it contains management's estimate of amounts expected to be realized on unfunded contract work that may never be realized as revenues. In addition, there can be no assurance that our backlog will result in actual revenue in any particular period, or at all, because the actual receipt, timing, and amount of revenue under contracts included in backlog are subject to numerous uncertainties, including congressional appropriations, many of which are beyond our control. In particular, delays in the completion of the U.S. government's budgeting process and the use of continuing resolutions could adversely affect our ability to timely recognize revenue under our contracts included in backlog. Furthermore, the actual receipt of revenue from contracts included in backlog may never occur or may be delayed because: a program schedule could change or the program could be canceled; a contract's funding or scope could be reduced, modified, delayed, or terminated early, including as a result of a lack of appropriated funds or as a result of cost cutting initiatives and other efforts to reduce federal government spending. If we fail to realize as revenues those amounts included in our backlog, our future revenues and growth prospects may be adversely affected.

We face aggressive competition that can impact our ability to obtain contracts and therefore affect our future revenues and growth prospects.

We operate in highly competitive markets and generally encounter intense competition to win contracts. We compete with larger companies that have greater name recognition, financial resources and larger technical staffs. We also compete with smaller, more specialized companies that are able to concentrate their resources on particular areas. To remain competitive, we must provide superior service and performance on a cost-effective basis to our customers. Our competitors may be able to provide our customers with different or greater capabilities or better contract terms than we can provide, including technical qualifications, past contract experience, geographic presence, price and the availability of qualified professional personnel. In particular, increased efforts by our competitors to meet federal government requirements for efficiency and cost reduction may necessitate that we become more competitive with respect to price, and thereby potentially reduce our profit margins, in order to win or maintain contracts. In addition, our competitors may consolidate or establish teaming or other relationships among themselves or with third parties to increase their ability to address customers' needs.

Failure to maintain strong relationships with other contractors could result in a decline in our revenues.

For the years ended December 31, 2012 and 2011, we derived 10.1% and 14.4% of our revenues, respectively, from contracts in which we acted as a subcontractor to other contractors. Additionally, where we are named as a prime contractor, we may sometimes enlist other companies to perform some services under the contract as subcontractors. We expect to continue to depend on such relationships with other contractors for a portion of our revenues for the foreseeable future. Our business, prospects, financial condition or operating results could be harmed if other contractors eliminate or reduce their contracts or joint venture relationships with us because they choose to establish relationships with our competitors; they choose to directly offer services that compete with our business; we choose to directly compete with them for services; the government terminates or reduces these other contractors' programs; or the government does not award them new contracts.

Acquisitions could result in operating difficulties, dilution or other adverse consequences to our business.

One of our key operating strategies is to selectively pursue acquisitions. We have made a number of acquisitions in the past and we expect that a portion of our future revenues will continue to come from such transactions. We evaluate potential acquisitions on an ongoing basis. Our acquisitions strategy poses many risks, including:

✦ We may not be able to identify suitable acquisition candidates at prices we consider attractive;

• We may not be able to compete successfully for identified acquisition candidates, complete future acquisitions or accurately estimate the financial effect of acquisitions on our business;

• Future acquisitions may require us to issue common stock or spend significant cash, resulting in dilution of ownership or additional leverage;

• We may have difficulty retaining an acquired company's key employees or customers;

• We may have difficulty integrating acquired businesses, resulting in unforeseen difficulties, such as incompatible accounting, information management or other control systems;

• Acquisitions may disrupt our business or distract our management from other responsibilities; and

As a result of an acquisition, we may need to record write-downs from future impairments of intangible assets, which could reduce our future reported earnings.

In connection with any acquisition that we make, there may be liabilities that we fail to discover or that we inadequately assess. Acquired entities may not operate profitably or result in improved operating performance. Additionally, we may not realize anticipated synergies. If our acquisitions perform poorly, our business and financial results could be adversely affected.

We have substantial investments in recorded goodwill and changes in future business conditions could cause these investments to become impaired, requiring substantial write-downs that would reduce our operating income and impact our financial position.

As of December 31, 2012, our goodwill was \$861.9 million. The amount of our recorded goodwill may substantially increase in the future as a result of any acquisitions that we make. We evaluate the recoverability of recorded goodwill amounts annually, or when evidence of potential impairment exists. During the second quarter, we completed our annual goodwill impairment test and no impairment losses were identified. However, impairment analysis is based on several factors requiring judgment and the use of estimates, which are inherently uncertain and based on assumptions that may prove to be inaccurate. Additionally, events outside of our control, such as deteriorating market conditions for companies in our industry, may indicate a potential impairment. If there is an impairment, we would be required to write down the recorded amount of goodwill, which would be reflected as a charge against operating income.

If we fail to comply with complex procurement laws and regulations, we could lose business and be liable for various penalties or sanctions.

We must comply with laws and regulations relating to the formation, administration and performance of federal government contracts. These laws and regulations affect how we conduct business with our federal government customers. In complying with these laws and regulations, we may incur additional costs. Non-compliance could result in the imposition of fines and penalties, including contractual damages. Among the more significant laws and regulations affecting our business are the following:

• The Federal Acquisition Regulation, which comprehensively regulates the formation, administration and performance of federal government contracts;

• The Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with contract negotiations;

• The Cost Accounting Standards and Cost Principles, which impose accounting requirements that govern our right to reimbursement under certain cost-based federal government contracts;

• Laws, regulations and executive orders restricting the use and dissemination of information classified for national security purposes and the export of certain products, services and technical data;

• U.S. export controls, which apply when we engage in international work; and

• The Foreign Corrupt Practices Act.

Failure to comply with these laws and regulations can lead to severe penalties, both civil and criminal, and can include debarment from contracting with the U.S. government.

Our contracting agency customers periodically review our compliance with procurement laws and regulations, as well as our performance under the terms of our federal government contracts. If a government review or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties or administrative sanctions, including:

Termination of contracts;

Forfeiture of profits;

Cost associated with triggering of price reduction clauses;

Suspension of payments;

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Fines; and

Suspension or debarment from doing business with federal government agencies.

Additionally, the civil False Claims Act provides for potentially substantial civil penalties where, for example, a contractor presents a false or fraudulent claim to the government for payment or approval. Actions under the civil False Claims Act may be brought by the government or by other persons on behalf of the government (who may then share a portion of any recovery).

If we fail to comply with these laws and regulations, we may also suffer harm to our reputation, which could impair our ability to win awards of contracts in the future or receive renewals of existing contracts. If we are subject to civil and criminal penalties and administrative sanctions or suffer harm to our reputation, our current business, future prospects, financial condition or operating results could be materially harmed.

The federal government may change its procurement or other practices in a manner adverse to us.

The federal government may change its procurement practices or adopt new contracting laws, rules or regulations, such as cost accounting standards. For example, it could change its preference for procurement methods and/or contract type in a manner that is unfavorable to contractors in our industry generally. Any such change could potentially place greater pressure on our profit margins, and could materially harm our operating results. Additionally, aspects of the federal government's procurement system, such as the number of acquisition personnel available to support the workload imposed by an increasing number of protests, could exacerbate delays in the procurement decision making process, thus delaying our ability to generate revenues from proposals and awards. The federal government could also adopt new socio-economic requirements, which could reduce our revenues opportunities. Any new contracting methods could be costly or administratively difficult for us to satisfy and, as a result, could cause actual results to differ materially and adversely from those anticipated.

Unfavorable federal government audits or results of other investigations could subject us to penalties or sanctions, adversely affect our profitability, harm our reputation and relationships with our customers or impair our ability to win new contracts.

The Defense Contract Audit Agency (DCAA) and other government agencies routinely audit and investigate government contracts and contractor systems. These agencies review a contractor's performance on its contract, cost structure and compliance with applicable laws, regulations and standards. The DCAA also reviews the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's accounting, purchasing, estimating, compensation and management information systems. Allegations of impropriety or deficient controls could harm our reputation or influence the award of new contracts. Any costs found to be improperly allocated to a specific contract will not be reimbursed, while such costs already reimbursed must be refunded. Recently, U.S. government contractors, including our Company, have seen a trend of increased scrutiny by the DCAA and other U.S. government agencies. For example, among other matters, the DCAA has begun to focus on the strict adherence by technology support contractors to labor qualification requirements contained in the terms of federal government contracts that we support. The DCAA has also generally increased its examination of U.S. government contractors that, like our Company, perform services outside the United States, particularly in Southwest Asia. If any of our internal control systems or policies is found non-compliant or inadequate, payments may be withheld or suspended under our contracts or we may be subjected to increased government scrutiny and approval requirements that could delay or adversely affect our ability to invoice and receive timely payment on our contracts, perform contracts or compete for contracts with the U.S. government. As a result, a DCAA audit could materially affect our competitive position and result in a substantial adjustment to our revenues. DCAA has completed our incurred cost

audits through 2002 and the majority of the audits for 2003, 2004 and 2005, with no material adjustments. While we believe that the vast majority of incurred costs will be approved upon final audit, we do not know the outcome of any future audits and adjustments and, if any future audit adjustments exceed our estimates, our profitability could be adversely affected.

U.S. government contractors are subject to a greater risk of investigation, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities than companies with solely commercial customers. In addition to increased investigation by the DCAA, contractors that provide support services to U.S. forces in Southwest Asia have also come under increasing scrutiny by agency inspectors general, other government auditors and congressional committees. If a government audit or other investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or debarment from doing business with federal government agencies. More generally, increased scrutiny and investigation into business practices and into major programs supported by contractors may lead to increased legal costs and may harm our reputation and profitability if we are among the targeted companies, regardless of the underlying merit of the allegations being investigated.

Covenants in the instruments governing our indebtedness may restrict our financial and operating flexibility.

We maintain a credit agreement with a syndicate of lenders led by Bank of America, N.A., as administrative agent. The credit agreement provides for a \$500.0 million revolving credit facility. The maturity date for the credit agreement is October 12, 2016. The terms of the credit agreement permit prepayment and termination at any time, subject to certain conditions. The credit agreement requires the Company to comply with specified financial covenants, including the maintenance of certain consolidated total leverage ratios and a certain fixed charge coverage ratio. The credit agreement also contains various covenants, including affirmative covenants with respect to certain reporting requirements and maintaining certain business activities, and negative covenants that, among other things, may limit or impose restriction on ability to incur liens, incur additional indebtedness, make investments, make acquisitions and undertake certain other actions.

We have \$200.0 million in aggregate principal amount of 7.25% senior unsecured notes due April 15, 2018. These 7.25% senior unsecured notes were issued at 100% of the aggregate principal amount and are effectively subordinate to the Company's existing and future senior secured debt (to the extent of the value of the assets securing such debt), including any debt outstanding under our revolving credit facility. The indenture governing these notes contains customary events of default, as well as restrictive covenants, which, subject to important exceptions and qualifications specified in the indenture, will, among other things, limit our ability and the ability of our subsidiaries that guarantee the 7.25% senior unsecured notes to: pay dividends and distributions; repurchase equity; prepay subordinated debt or make certain investments; incur additional debt or issue certain disqualified stock and preferred stock; incur liens on assets; merge or consolidate with another company or sell all or substantially all assets; and allow to exist certain control provisions.

As a result of such covenants and restrictions in the instruments governing our indebtedness, we will be limited in how we conduct our business and we may be unable to raise additional debt or equity financing to take advantage of new business opportunities. In addition, our ability to satisfy the financial ratios required by our instruments of indebtedness can be affected by events beyond our control and we cannot assure you that we will meet these ratios. We cannot assure you that we will be able to maintain compliance with these covenants in the future and, if we fail to do so, we may be in default under our revolving credit facility or the indenture, and we may be prohibited from undertaking actions that are necessary or desirable to maintain and expand our business.

Default under our revolving credit facility could allow the lenders to declare all amounts outstanding to be immediately due and payable. We have pledged substantially all of our assets to secure the debt under our revolving credit facility. If the lenders declare amounts outstanding under the revolving credit facility to be due, the lenders could proceed against those assets. Any event of default, therefore, could have a material adverse effect on our business if the creditors determine to exercise their rights.

Default under the indenture governing our 7.25% senior unsecured notes will allow either the trustee or the holders of at least 25% in principal amount of the then outstanding 7.25% senior unsecured notes to accelerate, or in certain cases, will automatically cause the acceleration of, the amounts due under the 7.25% senior unsecured notes. Any event of default, therefore, could have a material adverse effect on our business if the amounts due are accelerated.

Our level of indebtedness could materially adversely affect our ability to generate sufficient cash to fulfill our obligations under our outstanding indebtedness, our ability to react to changes in our business and our ability to incur additional indebtedness to fund future needs.

Our level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness. Our indebtedness, combined with our other financial obligations and contractual commitments, could:

make it more difficult for us to satisfy our obligations with respect to our indebtedness, including our 7.25% senior unsecured notes and indebtedness under our credit agreement, and any failure to comply with the obligations under any of our debt instruments, including restrictive covenants, could result in an event of default under the indenture governing the notes, our revolving credit facility or any agreements governing other indebtedness;

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing funds available for working capital, capital expenditures, acquisitions, research and development and other corporate purposes;

increase our vulnerability to adverse economic and industry conditions, which could place us at a competitive disadvantage compared to competitors that have relatively less indebtedness;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

- limit the rights of the holders of our 7.25% senior unsecured notes to receive payments under the notes if secured creditors have not been paid;

limit our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for working capital, capital expenditures, acquisitions, research and development and other corporate purposes; and

prevent us from raising the funds necessary to repurchase all of our 7.25% senior unsecured notes tendered to us upon the occurrence of certain changes of control, which would constitute a default under the indenture governing the notes.

Subject to the restrictions in our revolving credit facility and the indenture governing our senior notes, we may incur significant additional indebtedness. If we incur a substantial amount of additional indebtedness, the related risks that we face could become more significant. Additionally, the terms of any future debt that we may incur may impose requirements or restrictions that further affect our financial and operating flexibility or subject us to other events of default.

If we fail to recruit and retain skilled employees or employees with the necessary skill sets or security clearances, we might not be able to perform under our contracts or win new business and our growth may be limited.

To be competitive, we must have employees who have advanced information technology and technical services skills and who work well with our customers in a government or defense-related environment. Often, these employees must have some of the highest security clearances in the United States. These employees are in great demand and are likely to remain a limited resource in the foreseeable future. Recruiting, training and retention costs can place significant demands on our resources. If we are unable to recruit and retain a sufficient number of these employees, our ability to maintain and grow our business could be negatively impacted. If we are required to engage larger numbers of contracted personnel, our profit margins could be adversely affected. In addition, some of our contracts contain provisions requiring us to commit to staff a program with certain personnel the customer considers key to our successful performance under the contract. In the event we are unable to provide these key personnel or acceptable substitutions, the customer may terminate the contract and we may not be able to recover certain incurred costs.

Security breaches in customer systems could adversely affect our business.

Many of the programs we support and systems we develop, install and maintain involve managing and protecting information involved in intelligence, national security and other classified or sensitive customer functions. While we have programs designed to comply with relevant security laws, regulations and restrictions, a security breach in one of these systems could cause serious harm to our business, damage our reputation and prevent us from being eligible for further work on critical systems for our current customers or for other federal government customers generally. Losses that we could incur from such a security breach could exceed the policy limits that we have for errors and omissions and product liability insurance coverage. Damage to our reputation or limitations on our eligibility for additional work resulting from a security breach in one of the systems we develop, install and maintain could materially reduce our revenues.

Internal system or service failures, including those resulting from cyber or other security threats, could disrupt our business and impair our ability to effectively provide our services to our customers, which could damage our

reputation and have a material adverse effect on our business and results of operations.

We create, implement and maintain information technology and engineering systems, and provide services that are often critical to our customers' operations, some of which involve classified or