

# Section 1: 10-Q (10-Q)

[Table of Contents](#)

---

---

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

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

For the quarterly period ended June 28, 2019

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-36341

**Vectrus, Inc.**

(Exact name of registrant as specified in its charter)

Indiana

38-3924636

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

2424 Garden of the Gods Road, Colorado Springs, Colorado 80919

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code:

(719) 591-3600

Securities Registered Under Section 12(b) of the Act:

Title of each class	Trading symbol (s)	Name of each exchange on which registered
Common Stock, Par Value \$0.01 Per Share	VEC	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

[Table of Contents](#)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No

As of August 2, 2019, there were 11,506,228 shares of common stock (\$0.01 par value per share) outstanding.

**VECTRUS, INC.**  
**INDEX TO QUARTERLY REPORT ON FORM 10-Q**  
**TABLE OF CONTENTS**

	<u>Page No.</u>
	<b><u>PART I. FINANCIAL INFORMATION</u></b>
<u>Item 1.</u>	<u>1</u>
<u>Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Statements of Income</u>	<u>1</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>4</u>
<u>Condensed Consolidated Statements of Changes to Shareholders' Equity</u>	<u>5</u>
<u>Note 1. Description of Business and Summary of Significant Accounting Policies</u>	<u>6</u>
<u>Note 2. Recent Accounting Pronouncements</u>	<u>7</u>
<u>Note 3. Revenue</u>	<u>7</u>
<u>Note 4. SENTEL Acquisition</u>	<u>10</u>
<u>Note 5. Income Taxes</u>	<u>11</u>
<u>Note 6. Earnings Per Share</u>	<u>11</u>
<u>Note 7. Receivables</u>	<u>12</u>
<u>Note 8. Debt</u>	<u>12</u>
<u>Note 9. Derivative Instruments</u>	<u>13</u>
<u>Note 10. Leases</u>	<u>14</u>
<u>Note 11. Goodwill and Intangible Assets</u>	<u>15</u>
<u>Note 12. Stock-based Compensation</u>	<u>15</u>
<u>Note 13. Commitments and Contingencies</u>	<u>16</u>
<u>Note 14. Subsequent Events</u>	<u>17</u>
<u>Item 2.</u>	<u>17</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Item 3.</u>	<u>25</u>
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	
<u>Item 4.</u>	<u>26</u>
<u>Controls and Procedures</u>	
	<b><u>PART II. OTHER INFORMATION</u></b>
<u>Item 1.</u>	<u>26</u>
<u>Legal Proceedings</u>	
<u>Item 1A.</u>	<u>26</u>
<u>Risk Factors</u>	
<u>Item 2.</u>	<u>26</u>
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 3.</u>	<u>26</u>
<u>Defaults upon Senior Securities</u>	
<u>Item 4.</u>	<u>26</u>
<u>Mine Safety Disclosures</u>	
<u>Item 5.</u>	<u>26</u>
<u>Other Information</u>	
<u>Item 6.</u>	<u>27</u>
<u>Exhibits</u>	
<u>Signatures</u>	<u>27</u>

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****VECTRUS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

	Three Months Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
<i>(In thousands, except per share data)</i>				
Revenue	\$ 331,589	\$ 321,132	\$ 657,517	\$ 641,649
Cost of revenue	300,553	292,064	596,149	586,114
Selling, general and administrative expenses	19,843	16,070	39,762	33,865
Operating income	11,193	12,998	21,606	21,670
Interest expense, net	(1,329)	(1,140)	(2,904)	(2,305)
Income from operations before income taxes	9,864	11,858	18,702	19,365
Income tax expense	2,247	2,663	3,994	4,058
Net income	\$ 7,617	\$ 9,195	\$ 14,708	\$ 15,307
Earnings per share				
Basic	\$ 0.66	\$ 0.82	\$ 1.29	\$ 1.37
Diluted	\$ 0.66	\$ 0.81	\$ 1.28	\$ 1.35
Weighted average common shares outstanding - basic	11,455	11,235	11,376	11,191
Weighted average common shares outstanding - diluted	11,605	11,383	11,512	11,351

The accompanying notes are an integral part of these financial statements.

## VECTRUS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	June 28,	June 29,	June 28,	June 29,
	2019	2018	2019	2018
Net income	\$ 7,617	\$ 9,195	\$ 14,708	\$ 15,307
Other comprehensive income, net of tax				
Changes in derivative instruments:				
Net change in fair value of interest rate swap	(994)	360	(1,375)	881
Net change in fair value of foreign currency forward contracts	183	(156)	85	(161)
Net gain (loss) reclassified to interest expense	31	—	51	(1)
Tax benefit (expense)	169	(77)	268	(190)
Net change in derivative instruments	(611)	127	(971)	529
Foreign currency translation adjustments, net of tax	547	(1,388)	(276)	(900)
Accounting Standards Update (ASU) 2018-02 reclassification of certain tax effects to Retained Earnings	—	—	(259)	—
Other comprehensive (loss), net of tax	(64)	(1,261)	(1,506)	(371)
Total comprehensive income	\$ 7,553	\$ 7,934	\$ 13,202	\$ 14,936

The accompanying notes are an integral part of these financial statements.

**VECTRUS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

<i>(In thousands, except share information)</i>	June 28, 2019	December 31, 2018
<b>Assets</b>	<b>(unaudited)</b>	
Current assets		
Cash	\$ 70,329	\$ 66,145
Receivables	237,247	232,119
Other current assets	20,907	15,063
Total current assets	328,483	313,327
Property, plant, and equipment, net	16,253	13,419
Goodwill	233,619	233,619
Intangible assets, net	13,853	8,630
Right-of-use assets	17,987	—
Other non-current assets	4,233	3,248
Total non-current assets	285,945	258,916
<b>Total Assets</b>	<b>\$ 614,428</b>	<b>\$ 572,243</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable	\$ 157,486	\$ 156,393
Compensation and other employee benefits	45,577	41,790
Short-term debt	5,500	4,500
Other accrued liabilities	37,217	22,303
Total current liabilities	245,780	224,986
Long-term debt, net	66,338	69,137
Deferred tax liability	52,460	55,358
Other non-current liabilities	10,174	1,462
Total non-current liabilities	128,972	125,957
Total liabilities	374,752	350,943
Commitments and contingencies (Note 13)		
Shareholders' Equity		
Preferred stock; \$0.01 par value; 10,000,000 shares authorized; No shares issued and outstanding	—	—
Common stock; \$0.01 par value; 100,000,000 shares authorized; 11,506,228 and 11,266,906 shares issued and outstanding as of June 28, 2019 and December 31, 2018, respectively	115	113
Additional paid in capital	76,642	71,729
Retained earnings	167,583	152,616
Accumulated other comprehensive loss	(4,664)	(3,158)
Total shareholders' equity	239,676	221,300
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 614,428</b>	<b>\$ 572,243</b>

The accompanying notes are an integral part of these financial statements.

**VECTRUS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(In thousands)	Six Months Ended	
	June 28, 2019	June 29, 2018
<b>Operating activities</b>		
Net income	\$ 14,708	\$ 15,307
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	1,538	687
Amortization of intangible assets	1,277	937
Loss on disposal of property, plant, and equipment	2	51
Stock-based compensation	4,031	2,521
Amortization of debt issuance costs	201	213
Changes in assets and liabilities:		
Receivables	(224)	(8,820)
Other assets	(7,128)	(4,518)
Accounts payable	2,038	693
Deferred taxes	(2,579)	(1,274)
Compensation and other employee benefits	3,324	(1,950)
Other liabilities	(1,738)	325
<b>Net cash provided by operating activities</b>	<b>15,450</b>	<b>4,172</b>
<b>Investing activities</b>		
Purchases of capital assets and intangibles	(11,739)	(764)
Acquisition of business, net of cash acquired	—	(37,210)
<b>Net cash used in investing activities</b>	<b>(11,739)</b>	<b>(37,974)</b>
<b>Financing activities</b>		
Repayments of long-term debt	(2,000)	(2,000)
Proceeds from revolver	98,000	55,000
Repayments of revolver	(98,000)	(55,000)
Proceeds from exercise of stock options	3,467	1,358
Payments of employee withholding taxes on share-based compensation	(768)	(803)
<b>Net cash provided by (used in) financing activities</b>	<b>699</b>	<b>(1,445)</b>
<b>Exchange rate effect on cash</b>	<b>(226)</b>	<b>(1,248)</b>
Net change in cash	4,184	(36,495)
Cash-beginning of year	66,145	77,453
<b>Cash-end of period</b>	<b>\$ 70,329</b>	<b>\$ 40,958</b>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 2,818	\$ 2,119
Income taxes paid	\$ 4,198	\$ 7,891
Non-cash investing activities:		
Purchase of capital assets on account	\$ 301	\$ 481

The accompanying notes are an integral part of these financial statements.



VECTRUS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES TO SHAREHOLDERS' EQUITY

(In thousands)	Common Stock Issued		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount				
<b>Balance at December 31, 2017</b>	<b>11,121</b>	<b>\$ 111</b>	<b>\$ 67,526</b>	<b>\$ 117,415</b>	<b>\$ (1,680)</b>	<b>\$ 183,372</b>
Net income				6,111		6,111
Cumulative effects of adoption of Accounting Standards Codification (ASC) Topic 606 revenue recognition guidance				(77)		(77)
Foreign currency translation adjustments					487	487
Unrealized gain on cash flow hedge					403	403
Employee stock awards and stock options	101	1	522			523
Stock-based compensation			867			867
<b>Balance at March 30, 2018</b>	<b>11,222</b>	<b>\$ 112</b>	<b>\$ 68,915</b>	<b>\$ 123,449</b>	<b>\$ (790)</b>	<b>\$ 191,686</b>
Net income				9,195		9,195
Foreign currency translation adjustments					(1,388)	(1,388)
Unrealized gain on cash flow hedge					127	127
Employee stock awards and stock options	26		32			32
Stock-based compensation			908			908
<b>Balance at June 29, 2018</b>	<b>11,248</b>	<b>\$ 112</b>	<b>\$ 69,855</b>	<b>\$ 132,644</b>	<b>\$ (2,051)</b>	<b>\$ 200,560</b>
<b>Balance at December 31, 2018</b>	<b>11,267</b>	<b>\$ 113</b>	<b>\$ 71,729</b>	<b>\$ 152,616</b>	<b>\$ (3,158)</b>	<b>\$ 221,300</b>
Net income				7,091		7,091
Cumulative effects of adoption of Accounting Standards Update (ASU) 2018-02 reclassification of certain tax effects from AOCI				259	(259)	—
Foreign currency translation adjustments					(823)	(823)
Unrealized loss on cash flow hedge					(360)	(360)
Employee stock awards and stock options	85	1	(82)			(81)
Stock-based compensation			1,117			1,117
<b>Balance at March 29, 2019</b>	<b>11,352</b>	<b>\$ 114</b>	<b>\$ 72,764</b>	<b>\$ 159,966</b>	<b>\$ (4,600)</b>	<b>\$ 228,244</b>
Net income				7,617		7,617
Foreign currency translation adjustments					547	547
Unrealized loss on cash flow hedge					(611)	(611)
Employee stock awards and stock options	154	1	2,779			2,780
Stock-based compensation			1,099			1,099
<b>Balance at June 28, 2019</b>	<b>11,506</b>	<b>\$ 115</b>	<b>\$ 76,642</b>	<b>\$ 167,583</b>	<b>\$ (4,664)</b>	<b>\$ 239,676</b>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### NOTE 1

#### DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Description of Business and Basis of Presentation

###### Our Business

Vectrus, Inc. is a leading provider of services to the United States (U.S.) government worldwide. We operate as one segment and offer facility and logistics services and information technology and network communications services.

Vectrus was incorporated in the State of Indiana on February 4, 2014. On September 27, 2014, Exelis Inc. (Exelis) completed a spin-off (the Spin-off) of Vectrus, and Vectrus became an independent, publicly traded company. Unless the context otherwise requires, references in these notes to "Vectrus", "we," "us," "our," "the Company" and "our Company" refer to Vectrus, Inc. References in these notes to Exelis or "Former Parent" refer to Exelis Inc. and its consolidated subsidiaries (other than Vectrus).

###### Basis of Presentation

Our quarterly financial periods end on the Friday closest to the last day of the calendar quarter (June 28, 2019 for the second quarter of 2019 and June 29, 2018 for the second quarter of 2018), except for the last quarter of the fiscal year, which ends on December 31. For ease of presentation, the quarterly financial statements included herein are described as three months ended.

The unaudited interim Condensed Consolidated Financial Statements of Vectrus have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the U.S. (GAAP) have been omitted. These unaudited interim Condensed Consolidated Financial Statements should be read in conjunction with our audited Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018.

It is management's opinion that these financial statements include all normal and recurring adjustments necessary for a fair presentation of the Company's financial position and operating results. Net sales and net earnings for any interim period are not necessarily indicative of future or annual results.

###### Leases

Beginning with our January 1, 2019 adoption of the new lease accounting standard, operating leases are included on our Condensed Consolidated Balance Sheets as right-of-use ("ROU") assets, other accrued liabilities and other non-current liabilities.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit interest rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The incremental borrowing rate as of January 1, 2019 was applied to operating leases in effect as of that date. The operating lease ROU asset also includes any prepaid lease payments and excludes lease incentives. Many of our leases include one or more options to renew or terminate the lease, solely at our discretion. Such options are factored into the lease term when it is reasonably certain that we will exercise the option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

As allowed under ASC Topic 842, we elected the package of practical expedients permitted under the transition guidance which allowed us to carry forward the historical lease classification, assessment of whether a contract was or contained a lease and assessment of initial direct costs. In addition, we have made policy elections to apply the short-term leases practical expedient, whereby leases with a term of 12 months or less are not capitalized and recorded on our balance sheet, and the practical expedient to not separate lease components from non-lease components. The latter expedient is applied to all of our leases. We did not elect to apply the hindsight practical expedient in determining lease terms and assessing impairment of ROU assets. See Note 2, "Recent Accounting Pronouncements" and Note 10, "Leases" for further information.

## Reclassifications

Certain reclassifications have been made to the presentation of amounts in our Condensed Consolidated Statements of Cash Flows for the six months ended June 29, 2018 to conform to the current year presentation. Specifically, depreciation and amortization, which were combined and disclosed as one amount are now presented separately.

## NOTE 2

### RECENT ACCOUNTING PRONOUNCEMENTS

#### Accounting Standards Issued But Not Yet Effective

In August 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-15 to provide guidance on accounting for implementation costs incurred in a cloud computing arrangement (CCA) hosted by the vendor - that is a service contract. Under the new guidance, a customer will apply the same criteria for capitalizing implementation costs of a CCA as it would for an on-premises internal-use software license. Presentation of such costs, however, will vary from those required for licensed internal-use software. ASU 2018-15 is effective January 1, 2020 and can be adopted prospectively or retrospectively. Early adoption is permitted. The standard is not expected to have a material impact on our consolidated financial statements.

ASU 2016-13 was issued in June 2016 with the intent of providing financial statement users with more useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. Current treatment uses the incurred loss methodology for recognizing credit losses that delays the recognition until it is probable a loss has been incurred. The accounting update adds a new impairment model, known as the current expected credit loss model, which is based on expected losses rather than incurred losses. Under the new guidance, an entity will recognize as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The standard is not expected to have a material impact on our consolidated financial statements.

For a discussion of other accounting standards that have been issued by the FASB but are not yet effective, refer to the Accounting Standards Updates section in our Annual Report on Form 10-K for the year ended December 31, 2018. These standards are not expected to have a material impact on our results of operations or cash flows.

#### Accounting Standards That Were Adopted

In February 2018, the FASB issued ASU 2018-02, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (Tax Act). We adopted the provisions of ASU 2018-02 during the first quarter of 2019 and recorded a \$0.3 million decrease to accumulated other comprehensive income and a corresponding increase to beginning retained earnings to reflect the changes in the U.S. federal corporate income tax rate as a result of the Tax Act. As a result of the adoption of ASU 2018-02, our policy to release income tax effects in accumulated other comprehensive income is consistent with the underlying book method.

In February 2016, the FASB issued ASU 2016-02, with amendments issued in 2018. The objective of ASU 2016-02 is to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The standard requires lessees to recognize most leases on the Condensed Consolidated Balance Sheets but does not change the manner in which expenses are recorded in the income statement. We adopted the standard during the first quarter of 2019 using the cumulative-effect adjustment transition method, which applies the provisions of the standard at the effective date without adjusting comparative periods presented.

See Note 1, "Description of Business and Summary of Significant Accounting Policies" and Note 10, "Leases" for further information.

No other accounting standards newly issued or adopted as of January 1, 2019, had a material impact on our financial statements or disclosures.

## NOTE 3

### REVENUE

#### Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. To determine the proper revenue recognition method, consideration is given as to whether a single contract should be accounted for as more than one performance obligation. For most of our contracts, the customer contracts with us to perform an integrated set of tasks and deliverables as



a single service solution, whereby each service is not separately identifiable from other promises in the contract. As a result, when this integrated set of tasks exists, the contract is accounted for as one performance obligation. The vast majority of our contracts have a single performance obligation. Unexercised contract options and indefinite delivery and indefinite quantity (IDIQ) contracts are considered to be separate contracts when the option or IDIQ task order is exercised or awarded.

Contract modifications are routine in the performance of our contracts. Contracts are often modified to account for changes in contract specifications or requirements. In most instances, contract modifications are for goods or services that are not distinct, and therefore, are accounted for as part of the existing contract.

Our performance obligations are satisfied over time as services are provided throughout the contract term. We recognize revenue over time using the input method (e.g., costs incurred to date relative to total estimated costs at completion) to measure progress. Our over time recognition is reinforced by the fact that our customers simultaneously receive and consume the benefits of our services as they are performed. This continuous transfer of control requires that we track progress towards completion of performance obligations in order to measure and recognize revenue. Determining progress on performance obligations requires us to make judgments that affect the timing of revenue recognition. Remaining performance obligations represent firm orders by the customer and exclude potential orders under IDIQ contracts, unexercised contract options and contracts awarded to us that are being protested by competitors with the U.S. Government Accountability Office (GAO) or in the U.S. Court of Federal Claims. The level of order activity related to programs can be affected by the timing of government funding authorizations and their project evaluation cycles. Year-over-year comparisons could, at times, be impacted by these factors, among others.

Our contracts are multi-year contracts and typically include an initial period of one year or less with annual one-year (or less) option periods. The number of option periods varies by contract, and there is no guarantee that an option period will be exercised. The right to exercise an option period is at the sole discretion of the U.S. government when we are the prime contractor or of the prime contractor when we are a subcontractor. We expect to recognize a substantial portion of our performance obligations as revenue within the next 12 months. However, the U.S. government or the prime contractor may cancel any contract at any time through a termination for convenience or for cause. Most of our contracts have terms that would permit us to recover all or a portion of our incurred costs and fees for work performed in the event of a termination for convenience.

Remaining performance obligations increased by \$302.3 million as of June 28, 2019 as compared to December 31, 2018. We expect to recognize approximately 47% of the remaining performance obligations as of June 28, 2019 as revenue in 2019, and the remaining 53% during 2020. Remaining performance obligations as of June 28, 2019 and December 31, 2018 are presented in the following table:

<i>(In millions)</i>	June 28, 2019	December 31, 2018
Performance Obligations	\$ 1,160	\$ 858

### Contract Estimates

Accounting for contracts and programs involves the use of various techniques to estimate total contract revenue and costs. For contracts, we estimate the profit on a contract as the difference between the total estimated revenue and expected costs to complete a contract and recognize that profit over the life of the contract.

Contract estimates are based on various assumptions to project the outcome of future events. These assumptions include labor productivity and availability; the complexity of the services being performed; the cost and availability of materials; the performance of subcontractors; and the availability and timing of funding from the customer.

The impact of adjustments in contract estimates on our operating income can be reflected in either revenue or cost of revenue. Cumulative adjustments for the three and six months ended June 28, 2019 and June 29, 2018 are presented in the following table:

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Favorable adjustments	\$ 2,660	\$ 6,282	\$ 5,162	\$ 10,435
Unfavorable adjustments	(783)	(2,573)	(4,368)	(3,884)
Net favorable adjustments	\$ 1,877	\$ 3,709	\$ 794	\$ 6,551

For the three and six months ended June 28, 2019, the net favorable adjustments to operating income increased revenue by \$0.6 million and \$0.2 million, respectively, and for the three and six months ended June 29, 2018, the net favorable adjustments to operating income increased revenue by \$3.3 million and \$6.6 million, respectively.

### Revenue by Category

Generally, the sales price elements for our contracts are cost-plus, cost-reimbursable or firm-fixed-price. We commonly have elements of cost-plus, cost-reimbursable and firm-fixed-price contracts on a single contract. On a cost-plus type contract, we are paid our allowable incurred costs plus a profit, which can be fixed or variable depending on the contract's fee arrangement, up to funding levels predetermined by our customers. On cost-plus type contracts, we do not bear the risks of unexpected cost overruns, provided that we do not incur costs that exceed the predetermined funded amounts. Most of our cost-plus contracts also contain a firm-fixed-price element. Cost-plus type contracts with award and incentive fee provisions are our primary variable contract fee arrangement. Award fees provide for a fee based on actual performance relative to contractually specified performance criteria. Incentive fees provide for a fee based on the relationship between total allowable and target cost. On most of our contracts, a cost-reimbursable element captures consumable materials required for the program. Typically, these costs do not bear fees.

On a firm-fixed-price type contract, we agree to perform the contractual statement of work for a predetermined contract price. A firm-fixed-price type contract typically offers higher profit margin potential than a cost-plus type contract, which is commensurate with the greater levels of risk we assume on a firm-fixed-price type contract. Although a firm-fixed-price type contract generally permits us to retain profits if the total actual contract costs are less than the estimated contract costs, we bear the risk that increased or unexpected costs may reduce our profit or cause us to sustain losses on the contract. Although the overall scope of work required under the contract may not change, profit may be adjusted as experience is gained and as efficiencies are realized or costs are incurred.

The following tables present our revenue disaggregated by several categories. Revenue by contract type for the three and six months ended June 28, 2019 and June 29, 2018 is as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
<i>(In thousands)</i>				
Cost-plus and cost-reimbursable <sup>1</sup>	\$ 256,737	\$ 242,742	\$ 508,215	\$ 472,951
Firm-fixed-price	74,852	78,390	149,302	168,698
Total revenue	\$ 331,589	\$ 321,132	\$ 657,517	\$ 641,649

<sup>1</sup> Includes time and material contracts

Revenue by geographic region in which the contract is performed for the three and six months ended June 28, 2019 and June 29, 2018 is as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
<i>(In thousands)</i>				
Middle East	\$ 223,588	\$ 219,218	\$ 450,004	\$ 439,098
United States	72,376	74,847	143,786	148,636
Europe	35,625	27,067	63,727	53,915
Total revenue	\$ 331,589	\$ 321,132	\$ 657,517	\$ 641,649

Revenue by contract relationship for the three and six months ended June 28, 2019 and June 29, 2018 is as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
<i>(In thousands)</i>				
Prime contractor	\$ 312,732	\$ 301,088	\$ 619,789	\$ 602,116
Subcontractor	18,857	20,044	37,728	39,533
Total revenue	\$ 331,589	\$ 321,132	\$ 657,517	\$ 641,649



Revenue by customer for the three and six months ended June 28, 2019 and June 29, 2018 is as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Army	\$ 225,867	\$ 238,381	\$ 452,559	\$ 476,228
Air Force	72,593	60,420	140,524	125,676
Navy	16,796	9,987	31,906	18,344
Other	16,333	12,344	32,528	21,401
<b>Total revenue</b>	<b>\$ 331,589</b>	<b>\$ 321,132</b>	<b>\$ 657,517</b>	<b>\$ 641,649</b>

### Contract Balances

The timing of revenue recognition, billings and cash collections results in billed and unbilled accounts receivable (contract assets) and customer advances and deposits (contract liabilities) on the Condensed Consolidated Balance Sheets. Amounts are billed as work progresses in accordance with agreed-upon contractual terms at periodic intervals (e.g., biweekly or monthly). Generally, billing occurs subsequent to revenue recognition, resulting in contract assets. However, we may receive advances or deposits from our customers, before revenue is recognized, resulting in contract liabilities. These advance billings and payments are not considered significant financing components because they are frequently intended to ensure that both parties are in conformance with the primary contract terms. These assets and liabilities are reported on the Condensed Consolidated Balance Sheets on a contract-by-contract basis at the end of each reporting period.

As of June 28, 2019, we had contract assets of \$190.8 million. Refer to Note 7, "Receivables" for additional information regarding the composition of our receivables balances. As of June 28, 2019, our contract liabilities were insignificant.

### NOTE 4

#### SENTEL ACQUISITION

On January 23, 2018, we acquired 100% of the outstanding common stock of SENTEL Corporation (SENTEL). In accordance with ASC Topic 805, Business Combinations, we accounted for this transaction using the acquisition method. We conducted valuations of certain acquired assets and liabilities for inclusion in our Condensed Consolidated Balance Sheets as of the date of acquisition. Assets that normally would not be recorded in ordinary operations (i.e., intangibles related to contractual relationships) were recorded at their estimated fair values. The excess of the purchase price over the estimated fair value of the net assets acquired was recorded as goodwill.

The total net consideration paid for the acquisition was \$36.9 million, consisting of the purchase price of \$36.0 million and \$0.9 million in excess of the working capital requirement agreed upon in the stock purchase agreement entered into among our wholly-owned subsidiary Vectrus Systems Corporation (VSC), SENTEL, R&R Enterprises, Inc. and Russell T. Wright. The acquisition was funded by utilizing cash on hand and available capacity from our Amended Revolver (as defined in Note 8, "Debt").

A breakdown of the purchase price allocation, net of cash acquired, is as follows:

(In thousands)	Allocation of Purchase Price
Receivables	\$ 23,339
Property, plant and equipment	810
Goodwill	16,689
Intangible assets	10,500
Other current assets	975
Accounts payable	(10,012)
Other current liabilities	(5,446)
<b>Purchase price, net of cash acquired</b>	<b>\$ 36,855</b>

With the acquisition of SENTEL, we recognized two intangible assets related to customer contracts, the backlog and the contract re-competes arising from the acquisition. The fair value of the backlog was \$6.5 million, and the fair value of the contract re-competes was \$4.0 million with an amortization period of 4.0 years and 8.0 years, respectively.





Additionally, we recognized goodwill of \$16.7 million arising from the acquisition, which relates primarily to growth opportunities based on a broader service offering in the converging physical and digital infrastructure market, and enhancing our information technology, technical solutions and logistics capabilities, while expanding our client base to customers in the U.S. intelligence community. The goodwill recognized for the SENTEL acquisition is fully deductible for income tax purposes.

SENTEL's operating results have been included in our reported results since the date of acquisition.

## NOTE 5

### INCOME TAXES

#### Effective Tax Rate

Our quarterly income tax expense is measured using an estimated annual effective income tax rate. The comparison of effective income tax rates between periods may be significantly affected by discrete items recognized during the periods, the level and mix of earnings by tax jurisdiction and permanent differences.

For the three months ended June 28, 2019 and June 29, 2018, we recorded income tax provisions of \$2.2 million and \$2.7 million, respectively, representing effective income tax rates of 22.8% and 22.5%, respectively. For the six months ended June 28, 2019 and June 29, 2018, we recorded income tax provisions of \$4.0 million and \$4.1 million, respectively, representing effective income tax rates of 21.4% and 21.0%, respectively. The higher effective income tax rates for the 2019 periods are the result of one-time discretionary items. The effective income tax rates vary from the federal statutory rate of 21.0% due to state taxes, required tax income exclusions, nondeductible expenses and available deductions not reflected in book income.

#### Uncertain Tax Provisions

As of June 28, 2019 and December 31, 2018, unrecognized tax benefits from uncertain tax positions were \$2.3 million and \$1.8 million, respectively.

## NOTE 6

### EARNINGS PER SHARE

Basic earnings per share (EPS) is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects potential dilution that could occur if securities to issue common stock were exercised or converted into common stock. Diluted EPS includes the dilutive effect of stock-based compensation outstanding after application of the treasury stock method.

	Three Months Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
<i>(In thousands, except per share data)</i>				
Net income	\$ 7,617	\$ 9,195	\$ 14,708	\$ 15,307
Weighted average common shares outstanding	11,455	11,235	11,376	11,191
Add: Dilutive impact of stock options	41	68	42	72
Add: Dilutive impact of restricted stock units	109	80	94	88
Diluted weighted average common shares outstanding	11,605	11,383	11,512	11,351
Earnings per share				
Basic	\$ 0.66	\$ 0.82	\$ 1.29	\$ 1.37
Diluted	\$ 0.66	\$ 0.81	\$ 1.28	\$ 1.35

The following table provides a summary of securities that could potentially dilute basic earnings per share in the future that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented:

	Three Months Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
<i>(In thousands)</i>				
Anti-dilutive stock options	—	1	1	1
Anti-dilutive restricted stock units	—	—	2	—
Total	—	1	3	1

**NOTE 7**

**RECEIVABLES**

Receivables were comprised of the following:

	June 28, 2019	December 31, 2018
<i>(In thousands)</i>		
Billed receivables	\$ 35,321	\$ 44,868
Unbilled receivables (contract assets)	190,802	181,009
Other	11,124	6,242
Total receivables	\$ 237,247	\$ 232,119

As of June 28, 2019 and December 31, 2018, all billed receivables are due from the U.S. government, either directly as prime contractor to the U.S. government or as subcontractor to another prime contractor to the U.S. government. Because our billed receivables are with the U.S. government, we do not believe they represent a material credit risk exposure.

Unbilled receivables are contract assets that represent revenue recognized on long-term contracts in excess of amounts billed as of the balance sheet date. We estimate that approximately \$5.2 million of our unbilled receivables as of June 28, 2019 may not be collected within the next 12 months. These amounts relate to the timing of the U.S. government review of indirect rates and contract line item realignments with our customers. Changes in the balance of receivables are primarily due to the timing differences between our performance and customers' payments.

**NOTE 8**

**DEBT**

**Senior Secured Credit Facilities**

*Term Loan and Revolver.* In September 2014, we and our wholly-owned subsidiary, VSC, entered into a credit agreement with a group of lenders, including JPMorgan Chase Bank, N.A. as administrative agent. The credit agreement was subsequently amended in November 2017 by the Amendment and Restatement Agreement (the Amendment Agreement) with a group of lenders, including JPMorgan Chase Bank, N.A., as administrative agent. The Amendment Agreement provides for \$200.0 million in senior secured financing, consisting of a \$80.0 million five-year term loan facility (the Amended Term Loan) and a \$120.0 million five-year senior secured revolving credit facility (the Amended Revolver, and together with the Amended Term Loan, the Amended Credit Facilities).

The Amended Revolver is available for working capital, capital expenditures, and other general corporate purposes. Up to \$25.0 million of the Amended Revolver is available for the issuance of letters of credit. There were no outstanding borrowings under the Amended Revolver at June 28, 2019. As of June 28, 2019, there were seven letters of credit outstanding in the aggregate amount of \$8.1 million, which reduced our borrowing availability to \$111.9 million under the Amended Revolver. The Amended Revolver will mature and the commitments thereunder will terminate on November 15, 2022.

The aggregate scheduled maturities of the Amended Term Loan are as follows:

<i>(In thousands)</i>	Payments due
2019 (excluding the six months ended June 28, 2019)	\$ 2,500
2020	6,500
2021	8,600

2022

55,400

Total

\$ 73,000

We may voluntarily prepay the Amended Term Loan in whole or in part at any time without premium or penalty, subject to the payment of customary breakage costs under certain conditions. Amounts borrowed under the Amended Term Loan that are repaid or prepaid may not be re-borrowed.

The Amended Credit Facilities contain customary covenants, including covenants that, under certain circumstances and subject to certain qualifications and exceptions: limit or restrict our ability to incur additional indebtedness; merge, dissolve, liquidate or consolidate; make acquisitions, investments, advances or loans; dispose of or transfer assets; pay dividends; redeem or repurchase certain debt; and enter into certain restrictive agreements. As of June 28, 2019, the maximum amount of dividends we could pay was \$19.3 million. For further discussion on dividends, please refer to "Liquidity and Capital Resources - Dividends" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

In addition, we are required to comply with (a) a maximum ratio of total consolidated indebtedness to consolidated earnings before interest, tax, depreciation and amortization (EBITDA) of 3.00 to 1.00 (3.25 to 1.00 for the 12 months following a qualified acquisition), and (b) a minimum ratio of consolidated EBITDA to consolidated interest expense (net of cash interest income) of 4.50 to 1.00. As of June 28, 2019, we had a ratio of total consolidated indebtedness to EBITDA of 1.17 to 1.00 and a ratio of consolidated EBITDA to consolidated interest expense of 10.84 to 1.00. We were in compliance with all covenants related to the Amended Credit Facilities as of June 28, 2019.

*Interest Rates and Fees.* Outstanding borrowings under the Amended Credit Facilities accrue interest, at our option, at a per annum rate of (i) LIBOR plus the applicable margin, which ranges from 1.75% to 2.50% depending on the leverage ratio, or (ii) a base rate plus the applicable margin, which ranges from 0.75% to 1.50% depending on the leverage ratio. The interest rate under the Amended Credit Facilities at June 28, 2019 was 4.41%.

*Carrying Value and Fair Value.* As of June 28, 2019 and December 31, 2018, the fair value of the Amended Credit Facilities approximated the carrying value because the debt bears interest at a floating rate of interest. The fair value is based on observable inputs of interest rates that are currently available to us for debt with similar terms and maturities for non-public debt.

## NOTE 9

### DERIVATIVE INSTRUMENTS

During the periods covered by this report, we have made no changes to our policies or strategies for the use of derivative instruments and there has been no change in our related accounting methods.

#### Interest Rate Derivative Instruments

Our interest rate swaps are designated and qualify as effective cash flow hedges. The contracts, with expiration dates through November 2022 and notional amounts totaling \$54.9 million at June 28, 2019, are recorded at fair value.

The following table summarizes the amount at fair value and location of the derivative instruments used for our interest rate hedges in the Condensed Consolidated Balance Sheets as of June 28, 2019:

(In thousands)	Fair Value	
	Balance sheet caption	Amount
Interest rate swap designated as cash flow hedge	Other accrued liabilities	\$ 207
Interest rate swap designated as cash flow hedge	Other non-current liabilities	\$ 891

The following table summarizes the amount at fair value and location of the derivative instruments used for our interest rate hedges in the Condensed Consolidated Balance Sheets as of December 31, 2018:

(In thousands)	Fair Value	
	Balance sheet caption	Amount
Interest rate swap designated as cash flow hedge	Other current assets	\$ 121
Interest rate swap designated as cash flow hedge	Other non-current assets	\$ 104

We regularly assess the creditworthiness of the counterparty. As of June 28, 2019, the counterparty to the interest rate swaps had performed in accordance with its contractual obligations. Both the counterparty credit risk and our credit risk were considered in the fair value determination.

#### Foreign Currency Derivative Instruments

The following table summarizes the amount at fair value and location of the derivative instruments used for our forward contract hedges in the Condensed Consolidated Balance Sheets as of June 28, 2019:



(In thousands)	Fair Value	
	Balance sheet caption	Amount
Foreign currency forward designated as cash flow hedge	Other accrued liabilities	\$ 285
Foreign currency forward designated as cash flow hedge	Other non-current assets	\$ 12

The following table summarizes the amount at fair value and location of the derivative instruments used for our forward contract hedges in the Condensed Consolidated Balance Sheets as of December 31, 2018:

(In thousands)	Fair Value	
	Balance sheet caption	Amount
Foreign currency forward designated as cash flow hedge	Other accrued liabilities	\$ 351
Foreign currency forward designated as cash flow hedge	Other non-current liabilities	\$ 7

At June 28, 2019, we had outstanding foreign currency forward contracts, for the exchange of U.S. dollars and Euros, with a notional amount of \$7.9 million and expiration dates through December 2020.

Counterparty default risk is considered low because the forward contracts that we entered into are over-the-counter instruments transacted with highly-rated financial institutions. We were not required to, and did not, post collateral as of June 28, 2019.

The current estimated value of net losses for the above derivative instruments anticipated to be transferred from accumulated other comprehensive income into earnings over the next 12 months is \$0.5 million.

## NOTE 10

### Leases

We determine whether an arrangement contains a lease at inception. We have operating leases for office space, apartments, vehicles, and machinery and equipment. Our operating leases have lease terms of less than one year to ten years.

We do not separate lease components (e.g., fixed payments for rent) from non-lease components (e.g., common area maintenance) but account for the non-lease components and non-components (e.g., property taxes and insurance) in a contract as part of the single lease component to which they are related.

The components of lease expense are as follows:

(In thousands)	Three Months Ended	Six Months Ended
	June 28, 2019	June 28, 2019
Operating lease expense	\$ 3,647	\$ 7,063
Variable lease expense	225	398
Short-term lease expense	11,422	22,619
Total lease expense	\$ 15,294	\$ 30,080

Supplemental balance sheet information related to our operating leases is as follows:

(In thousands)	June 28, 2019
Right-of-use assets	\$ 17,987
Current lease liabilities (recorded in other accrued liabilities)	\$ 10,112
Long-term lease liabilities (recorded in other non-current liabilities)	8,658
Total operating lease liabilities	\$ 18,770

Initial ROU assets of \$19.2 million were recognized as non-cash asset additions when the new lease accounting standard was adopted on January 1, 2019. Additional ROU assets of \$5.2 million were recognized as non-cash asset additions that resulted from new operating lease liabilities during the first half of 2019.

The weighted average remaining lease term and discount rate for our operating leases at June 28, 2019 were 3.9 years and 6.0%, respectively.



Maturities of lease liabilities at June 28, 2019 were as follows:

(In thousands)	
2019 (excluding the six months ended June 28, 2019)	\$ 7,143
2020	5,511
2021	2,076
2022	1,248
2023	1,282
2024 and beyond	4,543
<b>Total lease payments</b>	<b>21,803</b>
Less: Imputed interest	3,033
<b>Total</b>	<b>\$ 18,770</b>

**NOTE 11**

**GOODWILL AND INTANGIBLE ASSETS**

As of both June 28, 2019 and December 31, 2018, the carrying amount of goodwill was \$233.6 million. There was no related activity during the first six months of 2019.

As of June 28, 2019 and December 31, 2018, the carrying amount of intangible assets was approximately \$13.9 million and \$8.6 million, respectively. The increase during the first six months of 2019 was due to \$6.5 million of new amortizable intangible assets purchased during the first quarter of 2019. This increase was offset by intangible amortization expense of approximately \$0.7 million and \$1.3 million for the three and six months ended June 28, 2019, respectively. Intangible amortization expense for the three and six months ended June 29, 2018 was \$0.5 million and \$0.9 million, respectively.

Amortizing intangible assets, which carry a remaining average life of approximately 6 years, are principally composed of customer contracts, related backlogs and re-competes.

**NOTE 12**

**STOCK-BASED COMPENSATION**

We maintain an equity incentive plan (the 2014 Omnibus Plan) to govern awards granted to Vectrus employees and directors, including nonqualified stock options (NQOs), restricted stock units (RSUs), total shareholder return (TSR) awards and other awards. We account for NQOs and stock-settled RSUs as equity-based compensation awards. TSR awards, described below, and cash-settled RSUs are accounted for as liability-based compensation awards.

Stock-based compensation expense and the associated tax benefits impacting our Condensed Consolidated Statements of Income were as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Compensation costs for equity-based awards	\$ 1,099	\$ 908	\$ 2,216	\$ 1,775
Compensation costs for liability-based awards	1,470	198	1,815	746
<b>Total compensation costs, pre-tax</b>	<b>\$ 2,569</b>	<b>\$ 1,106</b>	<b>\$ 4,031</b>	<b>\$ 2,521</b>
Future tax benefit	\$ 556	\$ 239	\$ 872	\$ 545

Liability-based awards are revalued at the end of each reporting period to reflect changes in fair value.

As of June 28, 2019, total unrecognized compensation costs related to equity-based awards and liability-based awards were \$6.4 million and \$4.1 million, respectively, which are expected to be recognized ratably over a weighted average period of 1.95 years and 2.15 years, respectively.

The following table provides a summary of the activities for NQOs and RSUs for the six months ended June 28, 2019:

<i>(In thousands, except per share data)</i>	NQOs		RSUs	
	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at January 1, 2019	251	\$ 23.00	257	\$ 28.90
Granted	—	—	195	\$ 29.40
Exercised	152	\$ 22.89	—	—
Vested	—	—	126	\$ 27.66
Forfeited or expired	14	\$ 24.18	20	\$ 29.12
Outstanding at June 28, 2019	85	\$ 23.00	306	\$ 29.73

During the six months ended June 28, 2019, we granted long term incentive awards to employees consisting of 170,361 RSUs with a weighted average grant date fair value per share of \$28.06 and to our directors consisting of 25,246 RSUs with a weighted average grant date fair value per share of \$38.42.

For employee RSUs, one-third of the award vests on each of the three anniversary dates following the grant date. Director RSUs are granted on the date of an annual meeting of shareholders and vest on the business day immediately prior to the next annual meeting. The fair value of each RSU grant was determined based on the closing price of Vectrus common stock on the date of grant. Stock compensation expense will be recognized ratably over the vesting period of the awards.

### Total Shareholder Return Awards

TSR awards are performance-based cash awards that are subject to a three-year performance period. Any payments earned are made in cash following completion of the performance period according to the achievement of specified performance goals. During the six months ended June 28, 2019, we granted TSR awards with an aggregate target TSR value of \$2.3 million. The fair value of TSR awards is measured quarterly and is based on the Company's performance relative to the performance of the Aerospace and Defense Companies in the S&P 1500 Index. Depending on the Company's performance during the three-year performance period, payments can range from 0% to 200% of the target value.

### NOTE 13

### COMMITMENTS AND CONTINGENCIES

#### General

From time to time, we are involved in legal proceedings that are incidental to the operation of our business. Some of these proceedings seek remedies relating to employment matters, matters in connection with our contracts and matters arising under laws relating to the protection of the environment. Additionally, U.S. government customers periodically advise the Company of claims and penalties concerning certain potential disallowed costs. When such findings are presented, Vectrus and the U.S. government representatives engage in discussions to enable Vectrus to evaluate the merits of these claims as well as to assess the amounts being claimed. Where appropriate, provisions are made to reflect probable losses related to the matters raised by the U.S. government representatives. Such assessments, along with any assessments regarding provisions for legal proceedings, are reviewed on a quarterly basis for sufficiency based on the most recent information available to us. We have estimated and accrued \$11.3 million and \$7.8 million as of June 28, 2019 and December 31, 2018, respectively, in "Other accrued liabilities" in the Condensed Consolidated Balance Sheets for legal proceedings and for claims with respect to our government contracts as discussed below, including open years subject to audit. Although the ultimate outcome of any legal matter or claim cannot be predicted with certainty, based on present information, including our assessment of the merits of the particular claim, we do not expect that any asserted or unasserted legal or contractual claims or proceedings, individually or in the aggregate, including the lawsuit discussed below, will have a material adverse effect on our cash flow, results of operations or financial condition.

#### U.S. Government Contracts, Investigations and Claims

We have U.S. government contracts that are funded incrementally on a year-to-year basis. Changes in government policies, priorities or funding levels through agency or program budget reductions by the U.S. Congress or executive agencies could have a material adverse effect on our financial condition or results of operations. Furthermore, our contracts with the U.S. government may be terminated or suspended by the U.S. government at any time, with or without cause. Such contract suspensions or terminations could result in unreimbursable expenses or charges or otherwise adversely affect our financial condition and results of operations.

Departments and agencies of the U.S. government have the authority to investigate various transactions and operations of the Company, and the results of such investigations may lead to administrative, civil or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory or treble damages. U.S. government regulations provide that certain findings against a contractor may lead to suspension or debarment from future U.S. government contracts or the loss of export privileges for a company or an operating division or subdivision. Suspension or debarment could have a material adverse effect on the Company because of its reliance on U.S. government contracts.

U.S. government agencies, including the Defense Contract Audit Agency, the Defense Contract Management Agency and others, routinely audit and review our performance on government contracts, indirect rates and pricing practices, and compliance with applicable contracting and procurement laws, regulations and standards. Accordingly, costs billed or billable to U.S. government customers are subject to potential adjustment upon audit by such agencies. The U.S. government agencies also review the adequacy of our compliance with government standards for our business systems, including our accounting, earned value management, estimating, materials management and accounting, purchasing, and property management systems.

As a result of final indirect rate negotiations between the U.S. government and our Former Parent, we may be subject to potential adjustments to costs previously allocated by our Former Parent to our business, which was formerly Exelis' Mission Systems Business, from 2007 through September 2014. Because we do not participate in indirect rate negotiations between the U.S. government and our Former Parent, we cannot reasonably predict the likelihood of such adjustments or the ultimate responsible party. We have recently been in discussions with our Former Parent regarding the negotiated adjustments for 2007-2014 and believe that our potential cumulative liability for these years is insignificant. In June 2019, the U.S. government provided us with the Contracting Officer's Final Decision for the years 2007 - 2010 related to Former Parent costs. We believe we are fully indemnified under our Distribution Agreement with our Former Parent. We have notified our Former Parent of the U.S. government's decision in this matter.

#### **NOTE 14**

#### **SUBSEQUENT EVENTS**

On July 8, 2019, we acquired Advantor Systems Corporation and Advantor Systems, LLC (collectively, "Advantor") from InfrSAFE Holding, Inc. and InfrSAFE, LLC (collectively, "InfrSAFE"). Advantor, a leading provider of integrated electronic security systems to the U.S. government, was acquired for cash consideration of \$44 million, subject to customary adjustments at and following the closing. The transaction was funded with cash on hand and from our credit facility.

#### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and notes thereto included in this Quarterly Report on Form 10-Q as well as the audited Consolidated Financial Statements and notes thereto and the information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2018. This Quarterly Report provides additional information regarding the Company, our services, industry outlook and forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements. Refer to "Forward-Looking Information" for further information regarding forward-looking statements. Amounts presented in and throughout this Item 2 are rounded and, as such, any rounding differences could occur in period over period changes and percentages reported.*

#### **Overview**

Vectrus is a leading provider of services to the U.S. government worldwide. We operate in one segment and offer facility and logistics services and information technology and network communications services.

Our primary customer is the U.S. Department of Defense (DoD), with a high concentration in the U.S. Army. For the six months ended June 28, 2019 and June 29, 2018, we had total revenue of \$657.5 million and \$641.6 million, respectively, all of which was derived from U.S. government customers. For the six months ended June 28, 2019 and June 29, 2018, we generated approximately 69% and 74%, respectively, of our total revenue from the U.S. Army.

#### **Executive Summary**

Our revenue increased by \$10.5 million, or 3.3%, for the three months ended June 28, 2019 compared to the three months ended June 29, 2018. The increase in revenue was attributable to increases from our European programs of \$8.6 million and our Middle East programs of \$4.4 million, offset by a decrease of \$2.5 million from our U.S. programs.

Operating income for the three months ended June 28, 2019, was \$11.2 million, a decrease of \$1.8 million, or 13.9%, compared to the three months ended June 29, 2018. This decrease was primarily due to a decrease of \$2.1 million from our U.S. programs and \$1.2 million from our Middle East programs, offset by an increase of \$1.5 million from our European programs.



During the performance of our contracts, we periodically review estimated final contract prices and costs and make revisions as required, which are recorded as changes in revenue and cost of revenue in the periods in which they are determined. Additionally, the fees under certain contracts may be increased or decreased in accordance with cost or performance incentive provisions which measure actual performance against established targets or other criteria. Such incentive fee awards or penalties are included in revenue when there is sufficient information to reasonably assess anticipated contract performance. Amounts representing contract change orders, claims, requests for equitable adjustment, or limitations in funding on contracts are recorded only if it is probable the claim will result in additional contract revenue and the amounts can be reliably estimated. Changes in estimated revenue, cost of revenue and the related effect to operating income are recognized using cumulative adjustments, which recognize in the current period the cumulative effect of the changes on current and prior periods based on a contract's percentage of completion. Cumulative adjustments due to aggregate changes in contract estimates increased operating income by \$1.9 million and \$3.7 million for the three months ended June 28, 2019 and June 29, 2018, respectively. Cumulative adjustments are driven by changes in contract terms, program performance, customer scope changes and changes to estimates in the reported period. These changes can increase or decrease operating income depending on the dynamics of each contract.

Further details related to our financial results for the three and six months ended June 28, 2019, compared to the three and six months ended June 29, 2018, are contained in the "Discussion of Financial Results" section.

### Recent Developments

On July 8, 2019, we acquired Advantor Systems Corporation and Advantor Systems, LLC (collectively, "Advantor") from InfrSAFE Holding, Inc. and InfrSAFE, LLC (collectively, "InfrSAFE"). Advantor, a leading provider of integrated electronic security systems to the U.S. government, was acquired for cash consideration of \$44 million, subject to customary adjustments at and following the closing. The transaction was funded with cash on hand and from our credit facility.

On April 12, 2019, the U.S. Army Contracting Command-Rock Island (ACC-RI) awarded four IDIQ, Multiple Award Task Order Contracts (MATOC), for the Logistics Civil Augmentation Program (LOGCAP) V support services in support of the U.S. military worldwide. The services are to support the Geographical Combatant Commands (GCCs) and Army Service Component Commands (ASCCs) throughout the full range of military operations. Each basic IDIQ contract Ordering Period will be an initial five-year ordering period and options for five additional one-year ordering periods.

Vectrus is one of the four award recipients of the basic IDIQ contract and received the following task orders: PACOM Setting the Theater Task Order and associated Performance Task Order; and CENTCOM Setting the Theater Task Order and associated Performance Task Order. Each task order has its own period of performance. Several protests of the LOGCAP V award have been filed with the GAO. We cannot predict the timing or outcome of the resolution of these or other protests of this award.

During the first quarter of 2019 we were awarded a new, five year, \$117 million, cost-plus fixed-fee award to provide defensive cyber operations and operational and maintenance IT to a U.S. government client.

Information regarding certain other significant contracts is discussed in "Significant Contracts" below.

### Significant Contracts

The following table reflects contracts that accounted for more than 10% of our total revenue for the six months ended June 28, 2019 and June 29, 2018:

Contract Name	% of Total Revenue	
	Six Months Ended	
	June 28, 2019	June 29, 2018
Kuwait Base Operations and Security Support Services (K-BOSSS)	36.6%	40.3%
Operations, Maintenance and Defense of Army Communications in Southwest Asia and Central Asia (OMDAC-SWACA)	15.9%	14.0%

Revenue associated with a contract will fluctuate based on increases or decreases in the work being performed on the contract, award fee payments, and other contract modifications within the term of the contract resulting in changes to the total contract value. See "Backlog" below.

The K-BOSSS contract currently is exercised through March 28, 2020, with an additional six-month option through September 28, 2020. K-BOSSS, our largest base operations support services contract, supports geographically-dispersed locations within the State of Kuwait, including several camps and a range training complex. K-BOSSS provides critical base operations support and security support services, including forms, publications, and reproduction services; U.S. Army postal operations; range operations and maintenance; logistics; information management; public works; environmental services; medical administrative support; morale, welfare and recreation; and security, fire and emergency services. The K-BOSSS contract was re-competed as a task order under the LOGCAP V contract vehicle, which was awarded April 12, 2019 (see "Recent Developments" above). The K-BOSSS contract contributed \$241 million and \$258 million of revenue for the six months ended June 28, 2019 and June 29, 2018, respectively.

The OMDAC-SWACA contract is currently exercised through November 30, 2019, with a one-month option and a two-month option through February 28, 2020. The contract provides for enterprise network capabilities and services support of the U.S. Central Command. Work is based in Kuwait with additional locations throughout Southwest Asia. Technical support activities include the Southwest Asia Regional Cyber-Center (RCC-SWA) operations, regional network operations and security centers (RNOSCs), local area and wide area network administration, systems administration, service desk administration, computer repair (ADPE), email administration, the Defense Red Switch Network, satellite communications, microwave communications, tower and antenna maintenance, technical control facilities, high frequency and ultra-high frequency radios, telephone switches, telephone operations, inside and outside cable plants, prime power and backup power generators, HVAC systems, uninterruptible power supplies, logistics support services, and other contingency requirements for the warfighter. The OMDAC-SWACA contract contributed \$104 million and \$90 million of revenue for the six months ended June 28, 2019 and June 29, 2018, respectively.

**Backlog**

Total backlog includes remaining performance obligations, consisting of funded backlog (firm orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which funding is not currently contractually obligated by the customer, and unexercised contract options). Total backlog excludes potential orders under IDIQ contracts and contracts awarded to us that are being protested by competitors with the GAO or in the U.S. Court of Federal Claims. The value of the backlog is based on anticipated revenue levels over the anticipated life of the contract. Actual values may be greater or less than anticipated. Total backlog is converted into revenue as work is performed. The level of order activity related to programs can be affected by the timing of government funding authorizations and their project evaluation cycles. Year-over-year comparisons could, at times, be impacted by these factors, among others.

Our contracts are multi-year contracts and typically include an initial period of one year or less with annual one-year (or less) option periods for the remaining contract period. The number of option periods vary by contract, and there is no guarantee that an option period will be exercised. The right to exercise an option period is at the sole discretion of the U.S. government when we are the prime contractor or of the prime contractor when we are a subcontractor. The U.S. government may also extend the term of a program by issuing extensions or bridge contracts, typically for periods of one year or less.

We expect to recognize a substantial portion of our funded backlog as revenue within the next 12 months. However, the U.S. government or the prime contractor may cancel any contract at any time through a termination for convenience. Most of our contracts have terms that would permit us to recover all or a portion of our incurred costs and fees for work performed in the event of a termination for convenience.

For the six months ended June 28, 2019, total backlog increased by \$209 million. As of June 28, 2019, total backlog (funded and unfunded) was \$3.2 billion as set forth in the following table:

(In millions)	June 28, 2019	December 31, 2018
Funded backlog	\$ 934	\$ 689
Unfunded backlog	2,287	2,323
<b>Total backlog</b>	<b>\$ 3,221</b>	<b>\$ 3,012</b>

Funded orders (different from funded backlog) represent orders for which funding was received during the period. We received funded orders of \$812.1 million during the six months ended June 28, 2019, which was an increase of \$27.4 million compared to the six months ended June 29, 2018.



## Economic Opportunities, Challenges and Risks

The U.S. government's investment in services and capabilities in response to changing security challenges creates a complex and fluid business environment for Vectrus and other firms in this market segment. The pace and depth of U.S. government acquisition reform and cost savings initiatives, combined with increased industry competitiveness to win long-term positions on key programs, could add pressure to revenue levels and profit margins going forward. However, we expect the U.S. government will continue to place a high priority on national security and will continue to invest in affordable solutions for its facilities, logistics, equipment and communication needs, which aligns with our services and strengths. Further, the DoD budget remains the largest in the world and management believes our addressable portion of the DoD budget offers substantial opportunity for growth.

We believe spending on operation and maintenance of defense assets, as well as civilian agency infrastructure and equipment, will continue to be a U.S. government priority. Our focus is on sustaining facilities, equipment and IT networks, which we believe aligns with our customers' intent to utilize existing equipment and infrastructure rather than executing new purchases. Many of the core functions we perform are mission-essential, including the following: (i) keeping communications networks operational; (ii) maintaining airfields; and (iii) providing emergency services. While customers may reduce the level of services required from us, we do not currently anticipate the complete elimination of these services.

The information provided above does not represent a complete list of trends and uncertainties that could impact our business in either the near or long-term and should be considered along with the risk factors identified under the caption "Risk Factors" identified in Part 1, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2018 and the matters identified under the caption "Forward-Looking Information" herein.

## DISCUSSION OF FINANCIAL RESULTS

### Three months ended June 28, 2019, compared to three months ended June 29, 2018

Selected financial highlights are presented in the following table:

<i>(In thousands, except for percentages)</i>	Three Months Ended		Change	
	June 28, 2019	June 29, 2018	\$	%
Revenue	\$ 331,589	\$ 321,132	\$ 10,457	3.3 %
Cost of revenue	300,553	292,064	8,489	2.9 %
% of revenue	90.6%	90.9%		
Selling, general and administrative expenses	19,843	16,070	3,773	23.5 %
% of revenue	6.0%	5.0%		
Operating income	11,193	12,998	(1,805)	(13.9)%
Operating margin	3.4%	4.0%		
Interest expense, net	(1,329)	(1,140)	(189)	16.6 %
Income before taxes	9,864	11,858	(1,994)	(16.8)%
% of revenue	3.0%	3.7%		
Income tax expense	2,247	2,663	(416)	(15.6)%
Effective income tax rate	22.8%	22.5%		
Net Income	\$ 7,617	\$ 9,195	\$ (1,578)	(17.2)%

### Revenue

Revenue for the three months ended June 28, 2019 was \$331.6 million, an increase of \$10.5 million, or 3.3%, as compared to the three months ended June 29, 2018. The increase in revenue was attributable to increases from our European programs of \$8.6 million and our Middle East programs of \$4.4 million, offset by a decrease of \$2.5 million from our U.S. programs.

### Cost of Revenue

Cost of revenue as a percentage of revenue was 90.6% compared to 90.9% for the three months ended June 28, 2019 and the three months ended June 29, 2018, respectively. The increase in cost of revenue of \$8.5 million, or 2.9%, for the three months ended June 28, 2019, as compared to the three months ended June 29, 2018, was primarily due to increased revenue as described above.

## Selling, General & Administrative (SG&A) Expenses

For the three months ended June 28, 2019, SG&A expenses of \$19.8 million increased by \$3.8 million, or 23.5%, as compared to the three months ended June 29, 2018. The increase was due primarily to increased M&A costs of \$0.7 million, stock-based compensation of \$1.5 million and legal fees of \$0.6 million.

## Operating Income

Operating income for the three months ended June 28, 2019 decreased by \$1.8 million, or 13.9%, as compared to the three months ended June 29, 2018. This decrease was due to lower operating income of \$2.1 million from our U.S. programs and \$1.2 million from our Middle East programs, offset by an increase of \$1.5 million from our European programs. Overall operating income decreased primarily as a result of increased SG&A expenses, as noted above.

Operating income as a percentage of revenue was 3.4% for the three months ended June 28, 2019, compared to 4.0% for the three months ended June 29, 2018.

Aggregate cumulative adjustments increased operating income by \$1.9 million and \$3.7 million for the three months ended June 28, 2019 and June 29, 2018, respectively. The aggregate cumulative adjustments for the three months ended June 28, 2019 related to higher margins associated with operational efficiencies related to labor and management of contract staffing. The aggregate cumulative adjustments for the three months ended June 29, 2018 related to approved extensions with higher margins associated with labor-related items and management of contract staffing, partially offset by higher subcontractor costs and seasonal costs. The gross aggregate effects of these favorable and unfavorable changes in estimates in the three months ended June 28, 2019 and June 29, 2018 were \$2.7 million and \$6.3 million favorable to operating income, respectively, and \$0.8 million and \$2.6 million unfavorable to operating income, respectively.

## Six months ended June 28, 2019, compared to six months ended June 29, 2018

Selected financial highlights are presented in the following table:

<i>(In thousands, except for percentages)</i>	Six Months Ended		Change	
	June 28, 2019	June 29, 2018	\$	%
Revenue	\$ 657,517	\$ 641,649	\$ 15,868	2.5 %
Cost of revenue	596,149	586,114	10,035	1.7 %
% of revenue	90.7%	91.3%		
Selling, general and administrative expenses	39,762	33,865	5,897	17.4 %
% of revenue	6.0%	5.3%		
Operating income	21,606	21,670	(64)	(0.3)%
Operating margin	3.3%	3.4%		
Interest expense, net	(2,904)	(2,305)	(599)	(26.0)%
Income before taxes	18,702	19,365	(663)	(3.4)%
% of revenue	2.8%	3.0%		
Income tax expense	3,994	4,058	(64)	(1.6)%
Effective income tax rate	21.4%	21.0%		
Net Income	\$ 14,708	\$ 15,307	\$ (599)	(3.9)%

## Revenue

Revenue for the six months ended June 28, 2019 was \$657.5 million, an increase of \$15.9 million, or 2.5%, as compared to the six months ended June 29, 2018. The increase in revenue was attributable to increases from our Middle East programs of \$10.9 million and our European programs of \$9.8 million, offset by a decrease of \$4.8 million from our U.S. programs.

## Cost of Revenue

Cost of revenue as a percentage of revenue was 90.7% compared to 91.3% for the six months ended June 28, 2019 and the six months ended June 29, 2018, respectively. The increase in cost of revenue of \$10.0 million, or 1.7%, for the six months ended June 28, 2019, as compared to the six months ended June 29, 2018, was primarily due to increased revenue as described above.

## SG&A Expenses

For the six months ended June 28, 2019, SG&A expenses of \$39.8 million increased by \$5.9 million, or 17.4%, as compared to



the six months ended June 29, 2018. The increase was due primarily to increased M&A costs of \$1.7 million, stock-based compensation of \$1.5 million, legal fees of \$0.6 million and various miscellaneous expenses of \$2.1 million.

## Operating Income

Operating income for the six months ended June 28, 2019 decreased by \$0.1 million, or 0.3%, as compared to the six months ended June 29, 2018. This decrease was primarily due to higher operating income of \$1.0 million from our Middle East programs and \$0.4 million from our European programs, offset by a decrease of \$1.5 million from our U.S. programs. Overall operating income decreased primarily as a result of increased SG&A expense, as noted above.

Operating income as a percentage of revenue was 3.3% for the six months ended June 28, 2019, compared to 3.4% for the six months ended June 29, 2018.

Aggregate cumulative adjustments increased operating income by \$0.8 million and \$6.6 million for the six months ended June 28, 2019 and June 29, 2018, respectively. The aggregate cumulative adjustments for the six months ended June 28, 2019 related to higher margins associated with operational efficiencies related to labor and management of contract staffing. The aggregate cumulative adjustments for the six months ended June 29, 2018 related to higher margins associated with labor-related items and management of contract staffing. The gross aggregate effects of these favorable and unfavorable changes in estimates in the six months ended June 28, 2019 and June 29, 2018 were \$5.2 million and \$10.4 million favorable to operating income, respectively, and \$4.4 million and \$3.9 million unfavorable to operating income, respectively.

## Interest (Expense) Income, Net

Interest (expense) income, net for the three and six months ended June 28, 2019 and June 29, 2018 was as follows:

<i>(In thousands, except for percentages)</i>	Three Months Ended		Change		Six Months Ended		Change	
	June 28, 2019	June 29, 2018	\$	%	June 28, 2019	June 29, 2018	\$	%
Interest income	\$ 69	\$ 23	\$ 46	200.6	\$ 108	\$ 39	\$ 69	176.9
Interest expense	(1,398)	(1,163)	(235)	(20.2)	(3,012)	(2,344)	(668)	(28.5)
Interest expense, net	\$ (1,329)	\$ (1,140)	\$ (189)	(16.6)	\$ (2,904)	\$ (2,305)	\$ (599)	(26.0)

Interest income is directly related to interest earned on our cash. Interest expense is directly related to borrowings under our senior secured credit facilities, with the amortization of debt issuance costs and derivative instruments used to hedge a portion of our exposure to interest rate risk. The increase in interest expense of \$0.2 million and \$0.6 million for the three and six months ended June 28, 2019 compared to the three and six months ended June 29, 2018, respectively, was due to increased use of our revolving credit facility in 2019 to finance short-term working capital requirements.

## Income Tax Expense

For the three months ended June 28, 2019 and June 29, 2018, we recorded income tax provisions of \$2.2 million and \$2.7 million respectively, representing effective income tax rates of 22.8% and 22.5%, respectively. For the six months ended June 28, 2019 and June 29, 2018, we recorded income tax provisions of \$4.0 million and \$4.1 million, respectively, representing effective income tax rates of 21.4% and 21.0%, respectively. The higher effective income tax rates in the 2019 periods are the result of one-time discretionary items.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

Historically, we have generated operating cash flow sufficient to fund our working capital, capital expenditure and financing requirements. We expect to fund our ongoing working capital, capital expenditure and financing requirements through cash flows from operations, cash on hand and access to capital markets. When necessary we will utilize our revolving credit facility to satisfy short-term working capital requirements.

If our cash flows from operations are less than we expect, we may need to access the long-term or short-term capital markets. Although we believe that our current financing arrangements will permit us to finance our operations on acceptable terms and conditions, our access to and the availability of financing on acceptable terms and conditions in the future will be impacted by many factors, including: (i) our credit ratings or absence of a credit rating, (ii) the liquidity of the overall capital markets and (iii) the current state of the economy. We cannot provide assurance that such financing will be available to us on acceptable terms or that such financing will be available at all.

The cash presented on our Condensed Consolidated Balance Sheets consists of U.S. and international cash from wholly owned subsidiaries. Approximately \$15.8 million of our total \$70.3 million in cash at June 28, 2019 is held by our foreign subsidiaries and is not

available to fund U.S. operations unless repatriated. We do not currently expect that we will be required to repatriate undistributed earnings of foreign subsidiaries. We expect our U.S. domestic cash resources will be sufficient to fund our U.S. operating activities and cash commitments for financing activities.

In September 2014, we and our wholly-owned subsidiary, VSC, entered into a credit agreement with a group of lenders, including JPMorgan Chase Bank, N.A. as administrative agent. The credit agreement was amended as of April 19, 2016, to modify certain financial and negative covenants (as so amended, the Credit Agreement). On November 15, 2017, we and VSC entered into an Amendment and Restatement Agreement (the Amendment Agreement) with a group of lenders, including JPMorgan Chase Bank, N.A., as administrative agent, which provides for the amendment and restatement of the Credit Agreement. The Amendment Agreement provides for \$200.0 million in senior secured financing, consisting of a \$80.0 million five-year term loan facility (the Amended Term Loan) and a \$120.0 million five-year senior secured revolving credit facility (the Amended Revolver, and together with the Amended Term Loan, the Amended Credit Facilities). We used \$74.6 million from the Amended Term Loan to repay principal and accrued but unpaid interest on the Credit Agreement. There were no outstanding borrowings under the Amended Revolver at June 28, 2019. At June 28, 2019, there were seven letters of credit outstanding in the aggregate amount of \$8.1 million, which reduced our borrowing availability under the Amended Revolver to \$111.9 million.

## Dividends

We do not currently plan to pay a regular dividend on our common stock. The declaration of any future cash dividends and if declared, the amount of any such dividends, will depend upon our financial condition, earnings, capital requirements, financial covenants and other contractual restrictions and the discretion of our Board of Directors. In deciding whether to pay future dividends on our common stock, our Board of Directors may consider such matters as general business conditions, industry practice, our financial condition and performance, our future prospects, our cash needs and capital investment plans, income tax consequences, applicable law and such other factors as our Board of Directors may deem relevant. As of June 28, 2019, the maximum amount of dividends we could pay was \$19.3 million based upon the limitations within our Amended Credit Facilities.

## Sources and Uses of Liquidity

Cash, accounts receivable, unbilled receivables, and accounts payable are the principal components of our working capital and are generally driven by our level of revenue with other short-term fluctuations related to payment practices by our customers and the timing of our billings. Our receivables reflect amounts billed to our customers, as well as the revenue that was recognized in the preceding month, which is normally billed the month following each balance sheet date.

The total amount of our accounts receivable can vary significantly over time and is sensitive to revenue levels and the timing of payments received from our customers. Days sales outstanding (DSO) is a metric used to monitor accounts receivable levels. Our DSO was 63 days as of both June 28, 2019 and December 31, 2018.

The following table sets forth net cash used in operating activities, investing activities and financing activities:

<i>(In thousands)</i>	Six Months Ended	
	June 28, 2019	June 29, 2018
Operating activities	\$ 15,450	\$ 4,172
Investing activities	(11,739)	(37,974)
Financing activities	699	(1,445)
Foreign exchange <sup>1</sup>	(226)	(1,248)
Net change in cash	\$ 4,184	\$ (36,495)

<sup>1</sup> Impact on cash balances due to changes in foreign exchange rates.

Trends in our operating cash flows tend to follow trends in operating income, excluding non-cash charges. Net cash provided by operating activities for the six months ended June 28, 2019 consisted of net income of \$14.7 million, increased by non-cash items of \$7.0 million and offset by unfavorable net working capital changes of \$1.9 million primarily due to the timing of cash payments as reflected in our increase in other assets. Unfavorable net changes in other long-term assets and liabilities contributed an additional \$4.3 million to operating cash outflows.

Net cash provided by operating activities during the six months ended June 29, 2018 consisted of net income of \$15.3 million, increased by non-cash items of \$4.4 million offset by unfavorable net working capital changes of \$15.5 million primarily due to the timing of cash collections, as reflected in an increase in receivables.

Net cash used in investing activities for the six months ended June 28, 2019 consisted of capital expenditures for the purchase of intangible assets, software and hardware, leasehold improvements, and vehicles and equipment related to ongoing operations. Net cash used in investing activities during the six months ended June 29, 2018 consisted of \$37.2 million for the acquisition of SENTEL and \$0.8 million for the purchase of hardware and software related to ongoing operations.

Net cash provided by financing activities during the six months ended June 28, 2019 consisted of \$3.5 million in cash received from the exercise of stock options offset by repayments of long-term debt of \$2.0 million and payments related to



employee withholding taxes on share-based compensation in the amount of \$0.8 million. During the six months ended June 28, 2019, we borrowed and repaid a total of \$98.0 million from the Amended Revolver to meet short-term working capital requirements.

Net cash used in financing activities for the six months ended June 29, 2018 consisted of repayments of long-term debt of \$2.0 million and payments related to employee withholding taxes on share-based compensation in the amount of \$0.8 million, offset by \$1.4 million in cash received from the exercise of stock options. During the six months ended June 29, 2018, we borrowed and repaid a total of \$55.0 million from the Amended Revolver to meet short-term working capital requirements and to fund a portion of the purchase price for the acquisition of SENTEL.

### **Capital Resources**

At June 28, 2019, we held cash of \$70.3 million, which included \$15.8 million held by foreign subsidiaries, and had \$111.9 million of available borrowing capacity under the Amended Revolver, which expires on November 15, 2022. We believe that our cash at June 28, 2019, as supplemented by cash flows from operations and the Amended Revolver, will be sufficient to fund our anticipated operating costs, capital expenditures and current debt repayment obligations for at least the next 12 months.

### **Contractual Obligations**

During the six months ended June 28, 2019, we paid \$2.0 million in quarterly installment payments on the Amended Term Loan. See Note 10, "Leases" for additional contractual obligation information.

### **Off-Balance Sheet Arrangements**

We have obligations relating to operating leases and outstanding letters of credit. Our Amended Revolver permits borrowings up to \$120.0 million, of which \$25.0 million is available for the issuance of letters of credit. At June 28, 2019, there were seven letters of credit outstanding in the aggregate amount of \$8.1 million, which reduced our borrowing availability under the Amended Revolver to \$111.9 million. These arrangements have not had, and management does not believe it is likely that they will in the future have, a material effect on our liquidity, capital resources, operations or financial condition. At June 28, 2019, we had no material off-balance sheet arrangements.

## **CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates are revised as additional information becomes available. Management believes that the accounting estimates employed and the resulting balances are reasonable; however, actual results in these areas could differ from management's estimates under different assumptions or conditions.

We believe that the assumptions and estimates associated with revenue recognition, goodwill impairment assessments and income taxes have the greatest potential impact on our financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

Beginning January 1, 2019, we adopted ASU 2016-02 related to lease accounting. Refer to Note 10, "Leases" for further discussion regarding the impact of the adoption of this standard. There have been no other material changes in our critical accounting policies and estimates from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2018.

### **New Accounting Pronouncements**

Refer to Part I, Item 1, Note 2, "Recent Accounting Pronouncements" in the notes to our unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for information regarding accounting pronouncements and accounting standards updates.

## **FORWARD-LOOKING INFORMATION**

This Quarterly Report on Form 10-Q and certain information incorporated herein by reference contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Section 27A of the Securities Act of 1933, as amended (the Securities Act), and the Private Securities Litigation Reform Act of 1995 and, as such, may involve risks and uncertainties. All statements included or incorporated by reference in this report, other than statements that are purely historical, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "could," "potential," "continue" or similar terminology. These statements are based on the beliefs and assumptions of the management of the Company based on information currently available to management. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements.

We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or

otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and

uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to: our ability to submit proposals for and/or win all potential opportunities in our pipeline; our ability to retain and renew our existing contracts; our ability to compete with other companies in our market; security breaches and other disruptions to our information technology and operation; our mix of cost-plus, cost-reimbursable, and firm-fixed-price contracts; maintaining our reputation and relationship with the U.S. government; protests of new awards; integration of acquisitions into our business; economic, political and social conditions in the countries in which we conduct our businesses; changes in U.S. or international government defense budgets; government regulations and compliance therewith, including changes to the DoD procurement process; changes in technology; intellectual property matters; governmental investigations, reviews, audits and cost adjustments; contingencies related to actual or alleged environmental contamination, claims and concerns; delays in completion of the U.S. government's budget; our success in extending, deepening, and enhancing our technical capabilities; our success in expanding our geographic footprint or broadening our customer base; our ability to realize the full amounts reflected in our backlog; impairment of goodwill; misconduct of our employees, subcontractors, agents, prime contractors and business partners; our ability to control costs; our level of indebtedness; and terms of our credit agreement; interest rate risk; subcontractor performance; economic and capital markets conditions; our ability to maintain safe work sites and equipment; our ability to retain and recruit qualified personnel; and to maintain good relationships with our workforce; our teaming relationships with contractors; changes in our accounting estimates; the adequacy of our insurance coverage; volatility in our stock price; changes in our tax provisions or exposure to additional income tax liabilities; risks and uncertainties relating to the Spin-off; changes in U.S. generally accepted accounting principles; and other factors described in Item 1A, "Risk Factors," and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2018 and described from time to time in our future reports filed with the SEC.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our earnings, cash flows and financial position are exposed to market risks relating to fluctuations in interest rates and foreign currency exchange rates. All of the potential changes noted below are based on information available at June 28, 2019.

#### **Interest Rate Risk**

Each one percentage point change associated with the variable rate Amended Term Loan would result in a \$0.7 million change in our annual cash interest expenses. However, we have interest rate swaps in place to hedge a portion of this risk. Refer to Note 9, "Derivative Instruments" for additional information regarding our interest rate swaps.

Assuming our Amended Revolver was fully drawn to a principal amount equal to \$120.0 million, each one percentage point change in interest rates would result in a \$1.2 million change in our annual cash interest expense.

As of June 28, 2019, the notional value of our interest rate swap agreements totaled \$54.9 million. The difference to be paid or received under the terms of the interest rate swap agreements is accrued as interest rates change and recognized as an adjustment to interest expense for the related debt in the period incurred. Changes in the variable interest rates to be paid pursuant to the terms of the interest rate swap agreements will have a corresponding effect on future cash flows.

#### **Foreign Currency Exchange Risk**

The majority of our business is conducted in U.S. dollars. However, we are required to transact in foreign currencies for some of our contracts, resulting in some assets and liabilities denominated in foreign currencies. Therefore, our earnings may experience some volatility related to movements in foreign currency exchange rates. We enter into forward foreign exchange contracts to buy or sell various foreign currencies to selectively protect against volatility in the value of non-functional currency denominated monetary assets and liabilities. Changes in the fair value of these forward contracts are recognized in earnings. As of June 28, 2019, the U.S. dollar notional value of our outstanding foreign currency forward contracts was approximately \$7.9 million. The net fair value of these contracts at June 28, 2019 was a liability of \$0.3 million.

We perform a sensitivity analysis to determine the effects that market risk exposures may have on the fair values of our foreign currency forward contracts. To perform the sensitivity analysis, we assess the risk of loss in fair values from the effect of hypothetical changes in foreign currency exchange rates. This analysis assumes a like movement by the foreign currencies in our hedge portfolio against the U.S. dollar. As of June 28, 2019, a 5% appreciation in the value of the U.S. dollar would result in a net decrease in the fair value of our derivative portfolio of approximately \$0.4 million.



## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Acting Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 28, 2019. Based on such evaluation, the Chief Executive Officer and Acting Chief Financial Officer concluded that, as of June 28, 2019, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in reports the Company files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) accumulated and communicated to management to allow timely decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

### **Changes in Internal Control over Financial Reporting**

Beginning January 1, 2019, we implemented ASC Topic 842. In connection with its adoption, we implemented changes to our processes and control activities related to lease accounting. These changes included updating policies and procedures to reflect the lease accounting and disclosure requirements.

There were no changes in our internal control over financial reporting that occurred during the quarter ended June 28, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

From time to time we are involved in legal proceedings that are incidental to the operation of our business. Some of these proceedings seek remedies relating to employment matters, matters in connection with our contracts and matters arising under laws relating to the protection of the environment.

As a result of final indirect rate negotiations between the U.S. government and our Former Parent, we may be subject to potential adjustments to costs previously allocated by our Former Parent to our business, which was formerly Exelis' Mission Systems Business, from 2007 through September 2014. Because we do not participate in indirect rate negotiations between the U.S. government and our Former Parent, we cannot reasonably predict the likelihood of such adjustments or the ultimate responsible party. We have recently been in discussions with our Former Parent regarding the negotiated adjustments for 2007-2014 and believe that our potential cumulative liability for these years is insignificant. In June 2019, the U.S. government provided us with the Contracting Officer's Final Decision for the years 2007 - 2010 related to Former Parent costs. We believe we are fully indemnified under our Distribution Agreement with our Former Parent. We have notified our former parent of the U.S. government's decision in this matter.

Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including our assessment of the merits of the particular claim, we do not expect that any asserted or unasserted legal claims or proceedings, individually or in the aggregate, will have a material adverse effect on our cash flow, results of operations or financial condition.

Refer to Note 13, "Commitments and Contingencies" in the notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for further information.

### **ITEM 1A. RISK FACTORS**

None.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not applicable.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

None.

### **ITEM 5. OTHER INFORMATION**

None.



## ITEM 6. EXHIBITS

- 3.1 [Amended and Restated Articles of Incorporation of Vectrus, Inc. \(incorporated by reference to Exhibit 3.1 to Vectrus, Inc.'s Current Report on Form 8-K filed on May 22, 2019\)](#)
- 3.2 [Amended and Restated By-Laws of Vectrus, Inc. \(incorporated by reference to Exhibit 3.2 to Vectrus, Inc.'s Current Report on Form 8-K filed on May 22, 2019\)](#)
- 31.1 [Certification pursuant to Rule 13a-14\(a\)/15d-14\(a\) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 +](#)
- 31.2 [Certification pursuant to Rule 13a-14\(a\)/15d-14\(a\) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 +](#)
- 32.1 [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601\(b\) \(32\) \(ii\) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference. +](#)
- 32.2 [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This Exhibit is intended to be furnished in accordance with Regulation S-K Item 601\(b\) \(32\) \(ii\) and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference. +](#)
- 101 The following materials from Vectrus, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 28, 2019, formatted in XBRL (Extensible Business Reporting Language): (i) Unaudited Condensed Consolidated Statements of Income, (ii) Unaudited Condensed Consolidated Statements of Comprehensive Income, (iii) Unaudited Condensed Consolidated Balance Sheets, (iv) Unaudited Condensed Consolidated Statements of Cash Flows, (v) Unaudited Condensed Consolidated Statements of Changes to Shareholders' Equity and (vi) Notes to Condensed Consolidated Financial Statements. #

+ Indicates this document is filed as an exhibit herewith.

# Submitted electronically with this report.

The Company's Commission File Number for Reports on Form 10-K, Form 10-Q and Form 8-K is 001-36341.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VECTRUS, INC.

\_\_\_\_\_  
/s/ William B. Noon

By: William B. Noon

Corporate Vice President, Acting Chief Financial Officer and Chief Accounting Officer

(Principal Accounting Officer)

Date: August 6, 2019

## Section 2: EX-3.1 (EXHIBIT 3.1)

## ARTICLE FIRST

The name of the corporation is Vectrus, Inc. (the "Corporation").

## ARTICLE SECOND

The address of the registered office of the Corporation in the State of Indiana is 150 West Market Street, Suite 800, Indianapolis, Indiana 46204. The name of the registered agent of the Corporation at such address is CT Corporation System.

## ARTICLE THIRD

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Indiana Business Corporation Law ("IBCL").

## ARTICLE FOURTH

(a) The aggregate number of shares of stock that the Corporation shall have authority to issue is 110,000,000 shares, consisting of 100,000,000 shares designated "Common Stock" and 10,000,000 shares designated "Preferred Stock". The shares of Common Stock shall have a par value of \$0.01 per share, and the shares of Preferred Stock shall not have any par or stated value, except that, solely for the purpose of any statute or regulation imposing any fee or tax based upon the capitalization of the Corporation, the shares of Preferred Stock shall be deemed to have a par value of \$.01 per share.

(b) The Board of Directors of the Corporation shall have the full authority permitted by law, at any time and from time to time, to divide the authorized and unissued shares of Preferred Stock into classes or series, or both, and to determine the preferences, limitations and relative voting and other rights of any such class or series of Preferred Stock, with such divisions and determinations to be accomplished by an amendment to these Amended and Restated Articles of Incorporation ("Articles of Incorporation") which amendment may, except as otherwise provided by law, be made solely by action of the Board of Directors, which shall have the full authority permitted by law to make such divisions and determinations.

(c) Each holder of shares of Common Stock shall be entitled to one vote for each share of Common Stock held of record on all matters on which the holders of shares of Common Stock are entitled to vote. No holder of shares of Common Stock will be permitted to cumulate votes at any election of directors.

(d) Subject to all the rights of the holders of the Preferred Stock, the holders of shares of Common Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available for the payment thereof, dividends payable in cash, stock or otherwise. Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, and subject to the rights of the holders of the Preferred Stock, the remaining assets of the Corporation available for distribution shall be distributed to the holders of the Common Stock ratably according to the number of shares of Common Stock held by such holder.

## ARTICLE FIFTH

(a) The number of directors constituting the Board of Directors of the Corporation shall be not less than three nor more than twenty-five, with the exact number to be fixed from time to time solely by resolution of the Board of Directors acting by not less than a majority of the directors in office. The Board of Directors shall be divided into three (3) classes, as nearly equal in number as possible, with the term of office of one class expiring each year. Directors of the first class are to be elected for a term expiring at the annual meeting of shareholders to be held in 2015, directors of the second class are to be elected for a term expiring at the annual meeting of shareholders to be held in 2016, and directors of the third class are to be elected for a term expiring at the annual meeting of shareholders to be held in 2017, with each director to hold office until his or her successor is elected and qualified. Commencing with the annual meeting of shareholders in 2015, each class of directors whose term shall then expire shall be elected to hold office for a three-year term.

(b) In the case of any vacancy on the Board of Directors, including a vacancy created by an increase in the number of directors, the vacancy shall be filled by the Board of Directors with the director so elected to serve for the remainder of the term of the director being replaced or, in the case of an additional director, for the remainder of the term of the class to which the director has been assigned. When the number of directors is changed, any newly created directorships or any decrease in directorships shall be so assigned among the classes by a majority of the directors then in office, though less than a quorum, as to make all classes as nearly equal in number as possible. No decrease in the number of directors shall have the effect of shortening the term of any incumbent director.

(c) In a contested election of directors (i.e. any election where the number of nominees exceeds the number of directors to be elected), directors shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. In an uncontested election of directors, directors shall be elected by a majority of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. Any director or directors may be removed from office at any time, but only for cause and only upon the affirmative vote of at least a majority of the shares then entitled to vote at a meeting called, and notice provided, in accordance with the IBCL, these Articles of Incorporation and the By-Laws of the Corporation.

(d) Special meetings of shareholders of the Corporation may be called only by the Chairman of the Board of Directors or by a majority vote of the entire Board of Directors.

(e) Holders of the Common Stock of the Corporation shall not have any preemptive rights to subscribe for additional issues of shares of Common Stock of the Corporation except as may be agreed from time to time by the Corporation and any such shareholder.

(f) Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation, if any, shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of such class or series of Preferred Stock.

#### **ARTICLE SIXTH**

To the fullest extent permitted by applicable law as then in effect, no director or officer shall be personally liable to the Corporation or any of its shareholders for damages for any action taken as a director or officer, or any failure or omission to take any action, regardless of the nature of the breach or alleged breach, including any breach or alleged breach of the duty of care, the duty of loyalty or the duty of good faith. Any repeal or modification of this ARTICLE SIXTH shall not adversely affect any right or protection of a director or officer of the Corporation existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification.

#### **ARTICLE SEVENTH**

The holders of the capital stock of the Corporation shall not be personally liable for the payment of the Corporation's debts and the private property of the holders of the capital stock of the Corporation shall not be subject to the payment of debts of the Corporation to any extent whatsoever.

#### **ARTICLE EIGHTH**

Subject to any express provision of the laws of the State of Indiana, these Articles of Incorporation or the By-laws of the Corporation, the By-laws of the Corporation may from time to time be supplemented, amended or repealed, or new By-laws may be adopted, by either (i) the Board of Directors at any regular or special meeting of the Board of Directors, if such supplement, amendment, repeal or adoption is approved by a majority of the entire Board of Directors; or (ii) the affirmative vote, at a meeting of the shareholders of the Corporation, of at least a majority of the votes entitled to be cast by the holders of the outstanding shares of all classes of stock of the Corporation entitled to vote generally in the election of directors, considered for purposes of this Article Eighth as a single voting group.

#### **ARTICLE NINTH**

The Corporation reserves the right to supplement, amend or repeal any provision contained in these Articles of Incorporation, in the manner now or hereafter prescribed by the laws of the State of Indiana, and all rights conferred on shareholders herein are granted subject to this reservation.

[\(Back To Top\)](#)

## **Section 3: EX-3.2 (EXHIBIT 3.2)**

### **AMENDED AND RESTATED BY-LAWS of Vectrus, Inc.**

#### **1. SHAREHOLDERS.**

1.1. *Place of Shareholders' Meetings.* All meetings of the shareholders of Vectrus, Inc. (the "Corporation") shall be held at such place or places, within or outside the state of Indiana, as may be fixed by the Corporation's Board of Directors (the "Board", and each member thereof a "Director") from time to time or as shall be specified in the respective notices thereof.

1.2. *Day and Time of Annual Meetings of Shareholders.* An annual meeting of shareholders shall be held at such place (within or outside the state of Indiana), date and hour as shall be determined by the Board and designated in the notice thereof. Failure to hold an annual meeting of shareholders at such designated time shall not affect otherwise valid corporate acts or work a forfeiture or dissolution of the Corporation.

1.3. *Purposes of Annual Meetings.* (a) At each annual meeting, the shareholders shall elect the members of the Board for the succeeding term. At any such annual meeting any business properly brought before the meeting may be transacted.

(b) To be properly brought before an annual meeting, business must be (i) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board, (ii) otherwise properly brought before the meeting by or at the direction of the Board or (iii) otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, the

shareholder must have given written notice thereof, either by personal delivery or by United States mail, postage prepaid, to the Secretary, received at the principal executive offices of the Corporation, not less than 90 calendar days nor more than 120 calendar days prior to the date of the Corporation's proxy statement released to shareholders in connection with the previous year's annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting was changed by more than 30 days from the anniversary date of the previous year's annual meeting, notice by the shareholder must be so received not earlier than 120 calendar days prior to such annual meeting and not later than 90 calendar days prior to such annual meeting or 10 calendar days following the date on which public announcement of the date of the meeting is first made. In no event shall the public announcement of an adjournment or postponement of a meeting commence a new time period, or extend any time period, for the giving of written notice. Any such notice shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting and, in the event that such business includes a proposal to amend either the Articles of Incorporation or By-laws of the Corporation, the language of the proposed amendment, (ii) the name and address of the shareholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made, (iii) a representation that the shareholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business, (iv) any material interest of the shareholder, and the beneficial owner, if any, on whose behalf the proposal is made, in such business, (v) if the shareholder or beneficial owner, if any, intends or is part of a group that intends to (x) deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or (y) otherwise solicit proxies or votes in support of such shareholder's proposal, a representation to that effect, (vi) any other information relating to such shareholder and beneficial owner, if any, required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for the proposal, pursuant to and in accordance with Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder, (vii) a description of any agreement, arrangement or understanding with respect to the proposal and/or the voting of shares of any class or series of stock of the Corporation between or among the shareholder giving the notice, the beneficial owner, if any, on whose behalf the proposal is made, any of their respective affiliates or associates and/or any others acting in concert with any of the foregoing (collectively, "Proponent Persons"), which term, for purposes of Section 2.2 herein, shall include each nominee (and his or her respective affiliates or associates and/or any others acting in concert with such nominee) and shall be defined as if the foregoing clause had, in each case, replaced the word "proposal" with the word "nomination"; and (viii) a description of any agreement, arrangement or understanding (including without limitation any swap or other derivative or short position, profits interest, hedging transaction, borrowed or loaned shares, any contract to purchase or sell, acquisition or grant of any option, right or warrant to purchase or sell, or other instrument) to which any Proponent Person is a party, the intent or effect of which may be (x) to transfer to or from any Proponent Person, in whole or in part, any of the economic consequences of ownership of any security of the Corporation, (y) to increase or decrease the voting power of any Proponent Person with respect to shares of any class or series of capital stock of the Corporation and/or (z) to provide any Proponent Person, directly or indirectly, with the opportunity to profit or share in any profit derived from, or to otherwise benefit economically from, or to mitigate any loss resulting from, the value (or any increase or decrease in the value) of any security of the Corporation. A shareholder providing notice of business proposed to be brought before a meeting shall update and supplement such notice from time to time to the extent necessary so that the information provided or required to be provided in such notice shall be true and correct as of the record date for the meeting and as of the date that is fifteen calendar days prior to the meeting or any adjournment or postponement thereof; such update and supplement shall be delivered in writing to the Secretary of the Corporation at the principal executive offices of the Corporation not later than five (5) days after the record date for the meeting (in the case of any update and supplement required to be made as of the record date), and not later than ten calendar days prior to the date for the meeting or any adjournment or postponement thereof (in the case of any

update and supplement required to be made as of fifteen calendar days prior to the meeting or any adjournment or postponement thereof). The foregoing notice requirements shall be deemed satisfied by a shareholder if the shareholder has notified the Corporation of his or her intention to present a proposal at an annual meeting and such shareholder's proposal has been included in a proxy statement that has been prepared by management of the Corporation to solicit proxies for such annual meeting; provided, however, that, if such shareholder does not appear or send a qualified representative to present such proposal at such annual meeting, the Corporation need not present such proposal for a vote at such meeting, notwithstanding that proxies in respect of such vote may have been received by the Corporation. No business shall be conducted at an annual meeting of shareholders except in accordance with this Section 1.3(b), and the chairman of any annual meeting of shareholders may refuse to permit any business to be brought before an annual meeting without compliance with the foregoing procedures or if the shareholder solicits proxies in support of such shareholder's proposal without such shareholder having made the representation required by clause (v) of the preceding sentence.

1.4. *Special Meetings of Shareholders.* (a) Except as otherwise expressly required by applicable law, special meetings of the shareholders or of any class or series entitled to vote may be called for any purpose or purposes by the Chairman or by a majority vote of the entire Board in accordance with these By-Laws and the Corporation's Articles of Incorporation to be held at such place (within or outside the state of Indiana), date and hour as shall be determined by the Board and designated in the notice thereof. Only such business as is specified in the notice of any special meeting of the shareholders shall come before such meeting.

(b) Special meetings shall be held at such date, time and place as may be fixed by the Board in accordance with these by-laws.

1.5. *Notice of Meetings of Shareholders.* Except as otherwise expressly required or permitted by applicable law, not less than ten days nor more than sixty days before the date of every shareholders' meeting the Secretary shall give to each shareholder of record entitled to vote at such meeting written notice stating the place, day and time of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called and indication that notice is being issued by or at the direction of the person or persons calling the meeting. Except as provided in Section 1.6(d) or as otherwise expressly required by applicable law, notice of any adjourned meeting of shareholders need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken. Any notice, if mailed, shall be deemed to be given when deposited in the United States mail, postage prepaid, addressed to the shareholder at the address for notices to such shareholder as it appears on the records of the Corporation.

1.6. *Quorum of Shareholders.* (a) Unless otherwise expressly required by applicable law, at any meeting of the shareholders, the presence in person or by proxy of shareholders entitled to cast a majority of votes thereat shall constitute a quorum. Shares of the Corporation's stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in an election of the directors of such other corporation is held by the Corporation, shall neither be counted for the purpose of determining the presence of a quorum nor entitled to vote at any meeting of the shareholders.

(b) At any meeting of the shareholders at which a quorum shall be present, a majority of those present in person or by proxy may adjourn the meeting from time to time without notice other than announcement at the meeting. In the absence of a quorum, the officer presiding thereat shall have power to adjourn the meeting from time to time until a quorum shall be present. Notice of any adjourned meeting other than announcement at the meeting shall not be required to be given, except as provided in Section 1.6(d) below and except where expressly required by applicable law.

(c) At any adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting originally called, but only those shareholders entitled to vote at the meeting as originally noticed shall be entitled to vote at any adjournment or adjournments thereof unless a new record date is fixed by the Board.

(d) If a new date, time and place of an adjourned meeting is not announced at the original meeting before adjournment, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given in the manner specified in Section 1.5 to each shareholder of record entitled to vote at the meeting.

1.7. *Chairman and Secretary of Meeting.* The Chairman or, in his or her absence, another officer of the Corporation designated by the Chairman, shall preside at meetings of the shareholders. The Secretary shall act as secretary of the meeting, or in the absence of the Secretary, an Assistant Secretary shall so act, or if neither is present, then the presiding officer may appoint a person to act as secretary of the meeting.

1.8. *Voting by Shareholders.* (a) Except as otherwise expressly required by applicable law, at every meeting of the shareholders each shareholder shall be entitled to the number of votes specified in the Articles of Incorporation, in person or by proxy, for each share of stock standing in his or her name on the books of the Corporation on the date fixed pursuant to the provisions of Section 5.6 of these By-laws as the record date for the determination of the shareholders who shall be entitled to receive notice of and to vote at such meeting.

(b) When a quorum is present at any meeting of the shareholders, action on a matter (other than the election of directors) by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless express provision of law, the Articles of Incorporation or these By-Laws require a greater number of affirmative votes.

(c) Except as required by applicable law, the vote at any meeting of shareholders on any question need not be by ballot, unless so directed by the chairman of the meeting. On a vote by ballot, each ballot shall be signed by the shareholder voting, or by his or her proxy, if there be such proxy, and shall state the number of shares voted.

1.9. *Proxies.* Any shareholder entitled to vote at any meeting of shareholders may vote either in person or by proxy. A shareholder may authorize a person or persons to act for the shareholder as proxy by (i) the shareholder or the shareholder's designated officer, director, employee or agent executing a writing by signing it or by causing the shareholder's signature or the signature of the designated officer, director, employee or agent of the shareholder to be affixed to the writing by any reasonable means, including by facsimile signature; (ii) the shareholder transmitting or authorizing the transmission of an electronic submission which may be by any electronic means, including data and voice telephonic communications and computer network to (a) the person who will be the holder of the proxy; (b) a proxy solicitation firm; or (c) a proxy support service organization or similar agency authorized by the person who will be the holder of the proxy to receive the electronic submission, which electronic submission must either contain or be accompanied by information from which it can be determined that the electronic submission was transmitted by or authorized by the shareholder; or (iii) any other method allowed by law.

1.10. *Inspector.* (a) The election of Directors and any other vote by ballot at any meeting of the shareholders shall be supervised by an inspector of election. Such inspector may be appointed by the Chairman before or at the meeting. If the Chairman shall not have so appointed such inspector or if the inspector so appointed shall refuse to serve or shall not be present, such appointment shall be made by the officer presiding at the meeting. The inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability.

(b) The inspector shall (i) ascertain the number of shares of the Corporation outstanding and the voting power of each, (ii) determine the shares represented at any meeting of shareholders and the validity of the proxies and ballots, (iii) count all proxies and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspector, and (v) certify his or her determination of the number of shares represented at the meeting, and his or her count of all proxies and ballots. The inspector may appoint or retain other persons or entities to assist the inspector in the performance of his or her duties.

1.11. *List of Shareholders.* (a) At least five business days before every meeting of shareholders, the Corporation shall cause to be prepared and made a complete list of the shareholders entitled to vote at the meeting, arranged in alphabetical order by voting group, if any, and showing the address of each shareholder and the number of shares registered in the name of each shareholder.

(b) During ordinary business hours for a period of at least five business days prior to the meeting, such list shall be open to examination by any shareholder for any purpose germane to the meeting, either at the Corporation's principal office or a place identified in the meeting notice in the city where the meeting will be held.

(c) The list shall also be produced and kept at the time and place of the meeting, and it may be inspected during the meeting by any shareholder or the shareholder's agent or attorney authorized in writing.

(d) The stock ledger shall be the only evidence as to who are the shareholders entitled to examine the stock ledger, the list required by this Section 1.11 or the books of the Corporation, or to vote in person or by proxy at any meeting of shareholders.

1.12. *Confidential Voting.* (a) Proxies and ballots that identify the votes of specific shareholders shall be kept in confidence by the tabulators and the inspector of election unless (i) there is an opposing solicitation with respect to the election or removal of Directors, (ii) disclosure is required by applicable law, (iii) a shareholder expressly requests or otherwise authorizes disclosure, or (iv) the Corporation concludes in good faith that a bona fide dispute exists as to the authenticity of one or more proxies, ballots or votes, or as to the accuracy of any tabulation of such proxies, ballots or votes.

(b) The tabulators and inspector of election and any authorized agents or other persons engaged in the receipt, count and tabulation of proxies and ballots shall be advised of this By-law and instructed to comply herewith.

(c) The inspector of election shall certify, to the best of his or her knowledge based on due inquiry, that proxies and ballots have been kept in confidence as required by this Section 1.12.

## 2. **DIRECTORS.**

2.1. *Powers of Directors.* The business and affairs of the Corporation shall be managed by or under the direction of the Board, which may exercise all the powers of the Corporation except such as are by applicable law, the Articles of Incorporation or these By-laws required to be exercised or performed by the shareholders.



2.2. *Number, Method of Election, Terms of Office of Directors.* The number of Directors which shall constitute the whole Board shall be such as set forth in, and as determined in accordance with, the Articles of Incorporation. The directors shall be divided into three classes as nearly equal in number as possible as provided in the Articles of Incorporation. Except as provided in Article Fifth of the Articles of Incorporation fixing one, two, and three year terms for the initial classified board, each class of directors shall be elected for a term of three (3) years and until his or her successor is elected and qualified or until his or her earlier death, retirement, resignation or removal. Directors need not be shareholders of the Corporation or citizens of the United States of America.

Nominations of persons for election as Directors may be made by the Board or by any shareholder who is a shareholder of record at the time of giving of the notice of nomination provided for in this Section 2.2 and who is entitled to vote for the election of Directors. Any shareholder of record entitled to vote for the election of Directors at a meeting may nominate a person or persons for election as Directors only if written notice of such shareholder's intent to make such nomination is given in accordance with the procedures for bringing business before the meeting set forth in Section 1.3(b) of these By-Laws, either by personal delivery or by United States mail, postage prepaid, to the Secretary, received at the principal executive offices of the Corporation, not later than (i) with respect to an election to be held at an annual meeting of shareholders, not less than 90 calendar days nor more than 120 calendar days prior to the date of the Corporation's proxy statement released to shareholders in connection with the previous year's annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting was changed by more than 30 days from the anniversary date of the previous year's annual meeting, notice by the shareholder must be so received not earlier than 120 calendar days prior to such annual meeting and not later than 90 calendar days prior to such annual meeting or 10 calendar days following the date on which public announcement of the date of the meeting is first made, and (ii) with respect to an election to be held at a special meeting of shareholders for the election of Directors, not earlier than 120 calendar days prior to such special meeting and not later than 90 calendar days prior to such special meeting or 10 calendar days following the date on which public announcement of the date of the special meeting is first made and of the nominees to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a meeting commence a new time period, or extend any time period, for the giving of written notice. Any such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and the beneficial owner, if any, on whose behalf the nomination is made and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder, any beneficial owner on whose behalf the nomination is made and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each shareholder, the beneficial owner, if any, on whose behalf the nomination is made and nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission in connection with solicitations of proxies for the election of directors in an election contest; (e) the consent of each nominee to serve as a Director if so elected; (f) if the shareholder or beneficial owner, if any, intends to (x) deliver a proxy statement and/or form of proxy to the holders of at least the percent of the Corporation's outstanding capital stock required to elect the nominee and/or (y) otherwise solicit proxies of votes from shareholders in support of such shareholder's nominee(s), a representation to that effect; (g) a description of any agreement, arrangement or understanding with respect to the nomination and/or the voting of shares of any class or series of stock of the Corporation between or among the Proponent Persons; and (viii) a description of any agreement, arrangement or understanding (including without limitation any swap or other derivative or short position, profits interest, hedging transaction, borrowed or loaned shares, any contract to purchase or sell, acquisition or grant of any option, right or warrant to purchase or sell or other instrument) to which any Proponent Person is a party, the intent or effect of which may be (x) to transfer to or from any Proponent Person, in whole or in part, any of the economic consequences of ownership of any security of the Corporation, (y) to increase or decrease the voting power of any Proponent Person with respect to shares of any class or series of capital stock of the Corporation and/or (z) to provide any Proponent Person, directly or indirectly, with the opportunity to profit or share in any profit derived from, or to otherwise benefit economically from, or to mitigate any loss resulting from, the value (or any increase or decrease in the value) of any security of the Corporation. A shareholder providing notice of a proposed nomination shall update and supplement such notice from time to time to the extent necessary so that the information provided or required to be provided in such notice shall be true and correct as of the record date for the meeting and as of the date that is fifteen calendar days prior to the meeting or any adjournment or postponement thereof; such update and supplement shall be delivered in writing to the Secretary of the Corporation at the principal executive offices of the Corporation not later than five calendar days after the record date for the meeting (in the case of any update and supplement required to be made as of the record date), and not later than ten calendar days prior to the date for the meeting or any adjournment or postponement thereof (in the case of any update and supplement required to be made as of fifteen calendar days prior to the meeting or any adjournment or postponement thereof). The chairman of any meeting of shareholders to elect Directors and the Board may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedures or if the shareholder solicits proxies in support of such shareholder's nominee(s) without such shareholder having made the representation required by (f) of the preceding sentence. The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

In an uncontested election (i.e. any election in which the number of nominees does not exceed the number of Directors to be elected), Directors shall be elected by a majority of the votes cast by the shares entitled to vote in the election at a meeting at

which a quorum is present. Any Director nominee that does not receive the requisite votes shall not be elected. Any Director nominee who fails to be elected but who is a Director at the time of the election shall promptly provide a written resignation to the Chairman or the Secretary and remain a Director until a successor shall have been elected and qualified (a "Holdover Director").

The Nominating and Governance Committee (or the equivalent committee then in existence) shall promptly consider the resignation and all relevant facts and circumstances concerning the vote and the best interests of the Corporation and its shareholders. After consideration, the Nominating and Governance Committee shall make a recommendation to the Board whether to accept or reject the tendered resignation, or whether other action should be taken.

The Board will act on the Nominating and Governance Committee's recommendation no later than its next regularly scheduled Board Meeting or within 90 days after certification of the shareholder vote, whichever is earlier.

The Board will promptly publicly disclose its decision (by a press release, a filing with the Securities and Exchange Commission or other broadly disseminated means of communication) and the reasons for its decision.

Any Holdover Director who tenders a resignation shall not participate in the Nominating and Governance Committee's recommendation or Board action regarding whether to accept the resignation offer. If a Holdover Director's resignation is not accepted, such Holdover Director shall continue to serve until his or her successor is duly elected and qualified or his or her earlier resignation or removal. If a Holdover Director's resignation is accepted, then the Board may fill the resulting vacancy, or decrease the size of the Board, pursuant to the provisions of Article Fifth of the Articles of Incorporation.

If each member of the Nominating and Governance Committee receives less than a majority of the votes cast at the same election, then the Board shall appoint a committee composed of three independent Directors (with an independent Director being a Director that has been determined by the Board to be "independent" under such criteria as it deems applicable, including, without limitation, applicable New York Stock Exchange rules and regulations and other applicable law) who received more than a majority of the votes cast to consider the resignation offers and recommend to the Board whether to accept the offers. However, if there are fewer than three independent Directors who receive a majority or more of the votes cast in the same election then the Board will promptly consider the resignation and all relevant facts and circumstances concerning the vote and the best interests of the Corporation and its shareholders and act no later than its next regularly scheduled Board Meeting or within 90 days after certification of the shareholder vote, whichever is earlier. If all Directors receive less than a majority of the votes cast at the same election, the election shall be treated as a contested election and the majority vote requirement shall be inapplicable.

2.3. *Vacancies on Board.* (a) Any Director may resign from office at any time by delivering a written resignation to the Chairman or the Secretary. The resignation will take effect at the time specified therein, or, if no time is specified, at the time of its receipt by the Corporation. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

(b) Any vacancy resulting from the death, retirement, resignation, or removal of a Director and any newly created Directorship resulting from any increase in the authorized number of Directors may be filled by vote of a majority of the Directors then in office, though less than a quorum, and any Director so chosen shall hold office for the balance of the term of the class of the director he or she succeeds or, in the event of an increase in the number of directors, of the class to which he or she is assigned and until a successor is duly elected and qualified or until his or her earlier death, retirement, resignation or removal. If there are no Directors in office, then an election of Directors may be held in the manner provided by applicable law.

2.4. *Meetings of the Board.* (a) The Board may hold its meetings, both regular and special, either within or outside the state of Indiana, at such places as from time to time may be determined by the Board or as may be designated in the respective notices or waivers of notice thereof.

(b) Regular meetings of the Board shall be held at such times and at such places as from time to time shall be determined by the Board.

(c) The first meeting of each newly elected Board shall be held as soon as practicable after the annual meeting of the shareholders and shall be for the election of officers and the transaction of such other business as may come before it.

(d) Special meetings of the Board shall be held whenever called by direction of the Chairman or at the request of Directors constituting one-third of the number of Directors then in office.

(e) Members of the Board or any Committee of the Board may participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person at such meeting.

(f) The Secretary shall give notice to each Director of any meeting of the Board by mailing the same at least two days before the meeting or by telegraphing, sending by "electronic transmission" (as defined in IC 23-1-20-8.5) or delivering the same not later than the day before the meeting. Such notice need not include a statement of the business to be transacted at, or the purpose of, any

such meeting. Any and all business may be transacted at any meeting of the Board. No notice of any adjourned meeting need be given. No notice to or waiver by any Director shall be required with respect to any meeting at which the Director is present.

2.5. *Quorum and Action.* Except as otherwise expressly required by applicable law, the Articles of Incorporation or these By-laws, at any meeting of the Board, the presence of at least one-third of the entire Board shall constitute a quorum for the transaction of business; but if there shall be less than a quorum at any meeting of the Board, a majority of those present may adjourn the meeting from time to time. Unless otherwise provided by applicable law, the Articles of Incorporation or these By-laws, the vote of a majority of the Directors present (and not abstaining) at any meeting at which a quorum is present shall be necessary for the approval and adoption of any resolution or the approval of any act of the Board.

2.6. *Presiding Officer and Secretary of Meeting.* The Chairman or, in the absence of the Chairman, a member of the Board selected by the members present, shall preside at meetings of the Board. The Secretary shall act as secretary of the meeting, but in the Secretary's absence the presiding officer may appoint a secretary of the meeting.

2.7. *Action by Consent without Meeting.* Any action required or permitted to be taken at any meeting of the Board or of any Committee thereof may be taken without a meeting if all members of the Board or Committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of their proceedings.

2.8. *Standing Committees.* By resolution adopted by a majority of the entire Board, the Board may, from time to time, establish such Standing Committees (including, without limitation, an Audit Committee, a Compensation and Personnel Committee and a Nominating and Governance Committee) with such powers of the Board as it may consider appropriate, consistent with applicable law, the Articles of Incorporation and these By-laws and which are specified by resolution or by committee charter approved by a majority of the entire Board. By resolution adopted by a majority of the entire Board, the Board shall elect, from among its members, individuals to serve on such Standing Committees established by this Section 2.8.

2.9. *Other Committees.* By resolution passed by a majority of the entire Board, the Board may also appoint from among its members such other Committees as it may from time to time deem desirable and may delegate to such Committees such powers of the Board as it may consider appropriate, consistent with applicable law, the Articles of Incorporation and these By-laws. Except to the extent inconsistent with the resolutions creating a Committee, Sections 2.4, 2.5, 2.7, 2.12 and 10 of these By-laws, which govern meetings, action without meetings, notice and waiver of notice, electronic actions, quorum and voting requirements and telephone participation in meetings of the Board, shall apply to each Committee (including any Standing Committee) and its members as well.

2.10. *Compensation of Directors.* Unless otherwise restricted by the Articles of Incorporation or these By-laws, Directors shall receive for their services on the Board or any Committee thereof such compensation and benefits, including the granting of options, together with expenses, if any, as the Board may from time to time determine. The Directors may be paid a fixed sum for attendance at each meeting of the Board or Committee thereof and/or a stated annual sum as a Director, together with expenses, if any, of attendance at each meeting of the Board or Committee thereof. Nothing herein contained shall be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

2.11. *Mandatory Classified Board Structure.* The provisions of IC 23-1-33-6(c) shall not apply to the Corporation.

2.12 *Electronic Action.* Subject to any limitations or requirements contained in applicable law or in any policy adopted by the Board of Directors, any notice or consent required or permitted to be given in writing by the Corporation to a Director or by a Director to the Corporation may be in the form of an "electronic record" and may be signed with an "electronic signature" (as those terms are defined in IC 26-2-8-102). Any electronic record to be sent by the Corporation to a Director is properly sent if it is sent in the manner and to the electronic address or other means of receipt designated by the Director to receive the electronic record as shown in the Corporation's current records. Any electronic record to be sent by a Director to the Corporation is properly sent if it is sent in the manner and to the electronic address or other means of receipt designated by the Corporation. The Corporation or a Director may revoke or change any instruction applicable to him or her regarding the manner, electronic address or means of receipt required for electronic records by sending notice of the change and the corresponding new information.

Notwithstanding the foregoing,

(i) resignations pursuant to Section 2.3(a), (ii) statements, including any required affirmations or undertakings, requesting advances pursuant to Section 4.4(a) and (iii) requests for indemnification pursuant to Section 4.4(b) must be in writing, but may not be in the form of electronic records, and must not be sent by electronic transmission or signed by electronic signature.

### 3. OFFICERS.

3.1. *Officer, Titles, Elections, Terms.* (a) The Board may from time to time elect a Chairman, a Chief Executive, a Vice Chairman, a President, a Chief Operating Officer, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Corporate Vice Presidents, a Chief Financial Officer, a Chief Accounting Officer, a Controller, a Treasurer, a Secretary, a Chief Legal Officer, one or more Assistant Controllers, one or more Assistant Treasurers, and one or more Assistant Secretaries, to serve at the pleasure of the Board or otherwise as shall be specified by the Board at the time of such election and until their successors are elected and qualified or until their earlier death, retirement, resignation or removal.

(b) The Board may elect or appoint at any time such other officers or agents with such duties as it may deem necessary or desirable. Such other officers or agents shall serve at the pleasure of the Board or otherwise as shall be specified by the Board at the time of such election or appointment and, in the case of such other officers, until their successors are elected and qualified or until their earlier death, retirement, resignation or removal. Each such officer or agent shall have such authority and shall perform such duties as may be provided herein or as the Board may prescribe. The Board may from time to time authorize any officer or agent to appoint and remove any other such officer or agent and to prescribe such person's authority and duties.

(c) No person may be elected or appointed an officer who is not a citizen of the United States of America if such election or appointment is prohibited by applicable law or regulation.

(d) Any vacancy in any office may be filled for the unexpired portion of the term by the Board. Each officer elected or appointed during the year shall hold office until the next annual meeting of the Board at which officers are regularly elected or appointed and until his or her successor is elected or appointed and qualified or until his or her earlier death, retirement, resignation or removal.

(e) Any officer or agent elected or appointed by the Board may be removed at any time by the affirmative vote of a majority of the entire Board.

(f) Any officer may resign from office at any time. Such resignation shall be made in writing and given to the President or the Secretary. Any such resignation shall take effect at the time specified therein, or, if no time is specified, at the time of its receipt by the Corporation. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

3.2. *General Powers of Officers.* Except as may be otherwise provided by applicable law or in Article 6 or Article 7 of these By-laws, the Chairman, any Vice Chairman, the President, any Executive Vice President, any Senior Vice President, any Corporate Vice President, the Chief Financial Officer, the Chief Legal Officer, the Chief Accounting Officer, the Controller, the Treasurer and the Secretary, or any of them, may (i) execute and deliver in the name of the Corporation, in the name of any Division of the Corporation or in both names any agreement, contract, instrument, power of attorney or other document pertaining to the business or affairs of the Corporation or any Division of the Corporation, including without limitation agreements or contracts with any government or governmental department, agency or instrumentality, and (ii) delegate to any employee or agent the power to execute and deliver any such agreement, contract, instrument, power of attorney or other document.

3.3. *Powers of the Chairman or Chief Executive.* The Chairman shall be the Chief Executive (as defined in Section 3.12) of the Corporation unless the Board specifically elects the President to be Chief Executive of the Corporation, in which case the President shall be the Chief Executive. If either the Chairman or the President is the Chief Executive, then he or she shall report directly to the Board. Except in such instances as the Board may confer powers in particular transactions upon any other officer, and subject to the control and direction of the Board, the Chief Executive shall manage and direct the business and affairs of the Corporation and shall communicate to the Board and any Committee thereof reports, proposals and recommendations for their respective consideration or action. He or she may do and perform all acts on behalf of the Corporation. The Chairman (whether or not the Chief Executive) shall preside at meetings of the Board and the shareholders.

3.4. *Powers and Duties of a Vice Chairman.* A Vice Chairman shall have such powers and perform such duties as the Board or the Chairman may from time to time prescribe or as may be prescribed in these By-laws.

3.5. *Powers and Duties of the President.* Unless the President is Chief Executive, the President shall have such powers and perform such duties as the Board or the Chairman may from time to time prescribe or as may be prescribed in these By-laws. If the President is the Chief Executive, then Section 3.3 shall be applicable.

3.6. *Powers and Duties of the Chief Operating Officer.* The Chief Operating Officer shall have such powers and perform such duties as the Board, the Chairman, the Chief Executive, or the President may from time to time prescribe or as may be prescribed in these By-laws.

3.7. *Powers and Duties of Executive Vice Presidents, Senior Vice Presidents and Corporate Vice Presidents.* Executive Vice Presidents, Senior Vice Presidents and Corporate Vice Presidents shall have such powers and perform such duties as the Board, the Chairman, or the Chief Executive may from time to time prescribe or as may be prescribed in these By-laws.

3.8. *Powers and Duties of the Chief Financial Officer.* The Chief Financial Officer shall have such powers and perform such duties as the Board, the Chairman, Chief Executive, or any Vice Chairman may from time to time prescribe or as may be prescribed in these By-laws. The Chief Financial Officer shall cause to be prepared and maintained (i) a stock ledger containing the names and addresses of all shareholders and the number of shares of each class and series held by each and (ii) the list of shareholders for each meeting of the shareholders as required by Section 1.11 of these By-laws. The Chief Financial Officer shall be responsible for the custody of all stock books and of all unissued stock certificates.

3.9. *Powers and Duties of the Chief Accounting Officer, Controller and Assistant Controllers.* (a) The Chief Accounting Officer, Controller or the Corporate Vice President, Finance, as determined by the Chief Financial Officer, shall be responsible for the maintenance of adequate accounting records of all assets, liabilities, capital and transactions of the Corporation. The Chief Accounting Officer, Controller, or the Corporate Vice President, Finance as determined by the Chief Financial Officer, shall prepare and render such balance sheets, income statements, budgets and other financial statements and reports as the Board or the Chairman or the Chief Executive may require, and shall perform such other duties as may be prescribed or assigned pursuant to these By-laws and all other acts incident to the position of the Chief Accounting Officer, Controller, or the Corporate Vice President, Finance.

(b) Each Assistant Controller shall perform such duties as from time to time may be assigned by the Controller or by the Board. In the event of the absence, incapacity or inability to act of the Controller, then any Assistant Controller may perform any of the duties and may exercise any of the powers of the Controller.

3.10. *Powers and Duties of the Treasurer and Assistant Treasurers.* (a) The Treasurer shall have the care and custody of all the funds and securities of the Corporation except as may be otherwise ordered by the Board, and shall cause such funds (i) to be invested or reinvested from time to time for the benefit of the Corporation as may be designated by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer or (ii) to be deposited to the credit of the Corporation in such banks or depositories as may be designated by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer, and shall cause such securities to be placed in safekeeping in such manner as may be designated by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer.

(b) The Treasurer, any Assistant Treasurer or such other person or persons as may be designated for such purpose by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer may endorse in the name and on behalf of the Corporation all instruments for the payment of money, bills of lading, warehouse receipts, insurance policies and other commercial documents requiring such endorsement.

(c) The Treasurer, any Assistant Treasurer or such other person or persons as may be designated for such purpose by the Board, the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer (i) may sign all receipts and vouchers for payments made to the Corporation, (ii) shall render a statement of the cash account of the Corporation to the Board as often as it shall require the same; and (iii) shall enter regularly in books to be kept for that purpose full and accurate account of all moneys received and paid on account of the Corporation and of all securities received and delivered by the Corporation.

(d) The Treasurer shall perform such other duties as may be prescribed or assigned pursuant to these By-laws and all other acts incident to the position of Treasurer. Each Assistant Treasurer shall perform such duties as may from time to time be assigned by the Treasurer or by the Board. In the event of the absence, incapacity or inability to act of the Treasurer, then any Assistant Treasurer may perform any of the duties and may exercise any of the powers of the Treasurer.

3.11. *Powers and Duties of the Secretary and Assistant Secretaries.* (a) The Secretary shall keep the minutes of all proceedings of the shareholders, the Board and the Committees of the Board. The Secretary shall attend to the giving and serving of all notices of the Corporation, in accordance with the provisions of these By-laws and as required by applicable law. The Secretary shall be the custodian of the seal of the Corporation. The Secretary shall affix or cause to be affixed the seal of the Corporation to such contracts, instruments and other documents requiring the seal of the Corporation, and when so affixed may attest the same and shall perform such other duties as may be prescribed or assigned pursuant to these By-laws and all other acts incident to the position of Secretary.

(b) Each Assistant Secretary shall perform such duties as may from time to time be assigned by the Secretary or by the Board. In the event of the absence, incapacity or inability to act of the Secretary, then any Assistant Secretary may perform any of the duties and may exercise any of the powers of the Secretary.

3.12. *Applicable Definition.* As used in these By-laws, the term "Chief Executive" shall refer to the Chairman unless the President is elected to be the Chief Executive, pursuant to Section 3.3, in which case the term "Chief Executive" shall refer to the President.

#### 4. INDEMNIFICATION.

4.1.(a) *Right to Indemnification.* The Corporation, to the fullest extent permitted by applicable law as then in effect, shall indemnify any person who is or was a Director or officer of the Corporation and who is or was involved in any manner (including, without limitation, as a party or a witness) or is threatened to be made so involved in any threatened, pending or completed investigation, claim, action, suit or proceeding, whether civil, criminal, administrative or investigative (including, without limitation, any action, suit or proceeding by or in the right of the Corporation to procure a judgment in its favor) (a "Proceeding") by reason of the fact that such person is or was a Director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee, fiduciary or agent of another corporation, partnership, joint venture, trust or other enterprise (including, without limitation, any employee benefit plan) (a "Covered Entity"), against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding; provided, however, that the foregoing shall not apply to a Director or officer of the Corporation with respect to a

Proceeding that was commenced by such Director or officer prior to a Change in Control (as defined in Section 4.4(e)(i) of this Article 4). Any Director or officer of the Corporation entitled to indemnification as provided in this Section 4.1(a) is hereinafter called an “Indemnitee”. Any right of an Indemnitee to indemnification shall be a contract right and shall include the right to receive, prior to the conclusion of any Proceeding, payment of any expenses incurred by the Indemnitee in connection with such Proceeding, consistent with the provisions of applicable law as then in effect and the other provisions of this Article 4.

(b) *Effect of Amendments.* Neither the amendment or repeal of, nor the adoption of a provision inconsistent with, any provision of this Article 4 (including, without limitation, this Section 4.1(b)) shall adversely affect the rights of any Director or officer under this Article 4 (i) with respect to any Proceeding commenced or threatened prior to such amendment, repeal or adoption of an inconsistent provision or (ii) after the occurrence of a Change in Control, with respect to any Proceeding arising out of any action or omission occurring prior to such amendment, repeal or adoption of an inconsistent provision, in either case without the written consent of such Director or officer.

4.2. *Insurance, Contracts and Funding.* The Corporation may purchase and maintain insurance to protect itself and any indemnified person against any expenses, judgments, fines and amounts paid in settlement as specified in Section 4.1(a) or Section 4.5 of this Article 4 or incurred by any indemnified person in connection with any Proceeding referred to in such Sections, to the fullest extent permitted by applicable law as then in effect. The Corporation may enter into contracts with any Director, officer, employee or agent of the Corporation or any director, officer, employee, fiduciary or agent of any Covered Entity in furtherance of the provisions of this Article 4 and may create a trust fund or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article 4.

4.3. *Indemnification; Not Exclusive Right.* The right of indemnification provided in this Article 4 shall not be exclusive of any other rights to which any indemnified person may otherwise be entitled, and the provisions of this Article 4 shall inure to the benefit of the heirs and legal representatives of any indemnified person under this Article 4 and shall be applicable to Proceedings commenced or continuing after the adoption of this Article 4, whether arising from acts or omissions occurring before or after such adoption.

4.4. *Advancement of Expenses; Procedures; Presumptions and Effect of Certain Proceedings; Remedies.* In furtherance, but not in limitation, of the foregoing provisions, the following procedures, presumptions and remedies shall apply with respect to the advancement of expenses and the right to indemnification under this Article 4:

(a) *Advancement of Expenses.* All reasonable expenses incurred by or on behalf of the Indemnitee in connection with any Proceeding shall be advanced to the Indemnitee by the Corporation within 20 days after the receipt by the Corporation of a statement or statements from the Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Any such statement or statements shall reasonably evidence the expenses incurred by the Indemnitee and shall include any written affirmation or undertaking required by applicable law in effect at the time of such advance.

(b) *Procedures for Determination of Entitlement to Indemnification.* (i) To obtain indemnification under this Article 4, an Indemnitee shall submit to the Secretary of the Corporation a written request, including such documentation and information as is reasonably available to the Indemnitee and reasonably necessary to determine whether and to what extent the Indemnitee is entitled to indemnification (the “Supporting Documentation”). The determination of the Indemnitee’s entitlement to indemnification shall be made not later than 60 days after receipt by the Corporation of the written request for indemnification together with the Supporting Documentation. The Secretary of the Corporation shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that the Indemnitee has requested indemnification.

(ii) The Indemnitee’s entitlement to indemnification under this Article 4 shall be determined in one of the following ways: (A) by a majority vote of the Disinterested Directors (as hereinafter defined), if they constitute a quorum of the Board; (B) by a written opinion of Independent Counsel (as hereinafter defined) if (x) a Change in Control (as hereinafter defined) shall have occurred and the Indemnitee so requests or (y) a quorum of the Board consisting of Disinterested Directors is not obtainable or, even if obtainable, a majority of such Disinterested Directors so directs; (C) by the shareholders of the Corporation (but only if a majority of the Disinterested Directors, if they constitute a quorum of the Board, presents the issue of entitlement to indemnification to the shareholders for their determination); or (D) as provided in Section 4.4(c) of this Article 4.

(iii) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 4.4 (b)(ii), a majority of the Disinterested Directors shall select the Independent Counsel, but only an Independent Counsel to which the Indemnitee does not reasonably object; provided, however, that if a Change in Control shall have occurred, the Indemnitee shall select such Independent Counsel, but only an Independent Counsel to which a majority of the Disinterested Directors does not reasonably object.

(c) *Presumptions and Effect of Certain Proceedings.* Except as otherwise expressly provided in this Article 4, if a Change in Control shall have occurred, the Indemnitee shall be presumed to be entitled to indemnification under this Article 4 (with respect to actions or failures to act occurring prior to such Change in Control) upon submission of a request for indemnification together with

the Supporting Documentation in accordance with Section 4.4(b) of this Article 4, and thereafter the Corporation shall have the burden of proof to overcome that presumption in reaching a contrary determination. In any event, if the person or persons empowered under Section 4.4(b) of this Article 4 to determine entitlement to indemnification shall not have been appointed or shall not have made a determination within 60 days after receipt by the Corporation of the request therefor together with the Supporting Documentation, the Indemnitee shall be deemed to be, and shall be, entitled to indemnification unless (A) the Indemnitee misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (B) such indemnification is prohibited by law. The termination of any Proceeding described in Section 4.1 of this Article 4, or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, adversely affect the right of the Indemnitee to indemnification or create a presumption that the Indemnitee did not act in good faith and in a manner which the Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation or, with respect to any criminal Proceeding, that the Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

(d) *Remedies of Indemnitee.* (i) In the event that a determination is made pursuant to Section 4.4(b) of this Article 4 that the Indemnitee is not entitled to indemnification under this Article 4, (A) the Indemnitee shall be entitled to seek an adjudication of his or her entitlement to such indemnification either, at the Indemnitee's sole option, in (x) an appropriate court of the state of Indiana or any other court of competent jurisdiction or (y) an arbitration to be conducted by a single arbitrator pursuant to the rules of the American Arbitration Association; (B) any such judicial proceeding or arbitration shall be *de novo* and the Indemnitee shall not be prejudiced by reason of such adverse determination; and (C) if a Change in Control shall have occurred, in any such judicial proceeding or arbitration the Corporation shall have the burden of proving that the Indemnitee is not entitled to indemnification under this Article 4 (with respect to actions or failures to act occurring prior to such Change in Control).

(ii) If a determination shall have been made or deemed to have been made, pursuant to Section 4.4(b) or (c) of this Article 4, that the Indemnitee is entitled to indemnification, the Corporation shall be obligated to pay the amounts constituting such indemnification within five days after such determination has been made or deemed to have been made and shall be conclusively bound by such determination unless (A) the Indemnitee misrepresented or failed to disclose a material fact in making the request for indemnification or in the Supporting Documentation or (B) such indemnification is prohibited by law. In the event that (x) advancement of expenses is not timely made pursuant to Section 4.4(a) of this Article 4 or (y) payment of indemnification is not made within five days after a determination of entitlement to indemnification has been made or deemed to have been made pursuant to Section 4.4(b) or (c) of this Article 4, the Indemnitee shall be entitled to seek judicial enforcement of the Corporation's obligation to pay to the Indemnitee such advancement of expenses or indemnification. Notwithstanding the foregoing, the Corporation may bring an action, in an appropriate court in the state of Indiana or any other court of competent jurisdiction, contesting the right of the Indemnitee to receive indemnification hereunder due to the occurrence of an event described in Subclause (A) or (B) of this Clause (ii) (a "Disqualifying Event"); provided, however, that in any such action the Corporation shall have the burden of proving the occurrence of such Disqualifying Event.

(iii) The Corporation shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 4.4(d) that the procedures and presumptions of this Article 4 are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Corporation is bound by all the provisions of this Article 4.

(iv) In the event that the Indemnitee, pursuant to this Section 4.4(d), seeks a judicial adjudication of or an award in arbitration to enforce his or her rights under, or to recover damages for breach of, this Article 4, the Indemnitee shall be entitled to recover from the Corporation, and shall be indemnified by the Corporation against, any expenses actually and reasonably incurred by the Indemnitee if the Indemnitee prevails in such judicial adjudication or arbitration. If it shall be determined in such judicial adjudication or arbitration that the Indemnitee is entitled to receive part but not all of the indemnification or advancement of expenses sought, the expenses incurred by the Indemnitee in connection with such judicial adjudication or arbitration shall be prorated accordingly.

(e) *Definitions.* For purposes of this Article 4:

(i) "Change in Control" means a change in control of the Corporation of a nature that would be required to be reported in response to Item 6 (e) (or any successor provision) of Schedule 14A of Regulation 14A (or any amendment or successor provision thereto) promulgated under the Securities Exchange Act of 1934 (the "Act"), whether or not the Corporation is then subject to such reporting requirement; provided that, without limitation, such a change in control shall be deemed to have occurred if (A) any "person" (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Corporation representing 20% or more of the voting power of all outstanding shares of stock of the Corporation entitled to vote generally in an election of Directors without the prior approval of at least two-thirds of the members of the Board in office immediately prior to such acquisition; (B) the Corporation is a party to any merger or consolidation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of the Corporation's common stock would be converted into cash, securities or other property, other than a merger of the Corporation in which the holders of the Corporation's common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, (C) there is a sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Corporation, or liquidation or dissolution of the Corporation; (D) the Corporation is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board in office immediately prior to such transaction or event constitute

less than a majority of the Board thereafter; or (E) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board (including for this purpose any new Director whose election or nomination for election by the shareholders was approved by a vote of at least two-thirds of the Directors then still in office who were Directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board.

(ii) “Disinterested Director” means a Director who is not or was not a party to the proceeding in respect of which indemnification is sought by the Indemnitee.

(iii) “Independent Counsel” means a law firm or a member of a law firm that neither presently is, nor in the past five years has been, retained to represent: (a) the Corporation or the Indemnitee in any matter material to either such party or (b) any other party to the Proceeding giving rise to a claim for indemnification under this Article 4. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under applicable standards of professional conduct, would have a conflict of interest in representing either the Corporation or the Indemnitee in an action to determine the Indemnitee’s rights under this Article 4.

4.5. *Indemnification of Employees and Agents.* Notwithstanding any other provision of this Article 4, the Corporation, to the fullest extent permitted by applicable law as then in effect, may indemnify any person other than a Director or officer of the Corporation who is or was an employee or agent of the Corporation and who is or was involved in any manner (including, without limitation, as a party or a witness) or is threatened to be made so involved in any threatened, pending or completed Proceeding by reasons of the fact that such person is or was an employee or agent of the Corporation or, at the request of the Corporation, a director, officer, employee, fiduciary or agent of a Covered Entity against all expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding. The Corporation may also advance expenses incurred by such employee, fiduciary or agent in connection with any such Proceeding, consistent with the provisions of applicable law as then in effect.

4.6. *Severability.* If any of this Article 4 shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (i) the validity, legality and enforceability of the remaining provisions of this Article 4 (including, without limitation, all portions of any Section of this Article 4 containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (ii) to the fullest extent possible, the provisions of this Article 4 (including, without limitation, all portions of any Section of this Article 4 containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

## 5. CAPITAL STOCK.

5.1. *Stock Certificates.* (a) Shares of stock of each class of the Corporation may be issued in book-entry form or evidenced by certificates. Every certificate shall state on its face (or in the case of book-entry shares, the statement evidencing ownership of such shares shall state) the name of the Corporation and that it is organized under the laws of the State of Indiana, the name of the person to whom the certificate (or bookentry statement) was issued, and the number and class of shares and the designation of the series, if any, the certificate (or book-entry statement) represents, and shall state conspicuously on its front or back that the Corporation will furnish the shareholder, upon his written request and without charge, a summary of the designations, relative rights, preferences, and limitations applicable to each class and the variations in rights, preferences, and limitations determined for each series (and the authority of the Board of Directors to determine variations for future series), which certificate, if any, shall otherwise be in such form as the Board shall prescribe and as provided in Section 5.1(d).

(b) If a certificate is countersigned by a transfer agent other than the Corporation or its employee, or by a registrar other than the Corporation or its employee, the signatures of the officers of the Corporation may be facsimiles, and, if permitted by applicable law, any other signature on the certificate may be a facsimile.

(c) In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer at the date of issue.

(d) Any certificates of stock shall be issued in such form not inconsistent with the Articles of Incorporation. They shall be numbered and registered in the order in which they are issued. No certificate shall be issued until fully paid.

(e) All certificates surrendered to the Corporation shall be cancelled (other than treasury shares) with the date of cancellation and shall be retained by or under the control of the Chief Financial Officer, together with the powers of attorney to transfer and the assignments of the shares represented by such certificates, for such period of time as such officer shall designate.

5.2. *Record Ownership.* A record of the name of the person, firm or corporation and address of each holder of stock, the number of shares of each class and series represented thereby and the date of issue thereof shall be made on the Corporation’s books. The Corporation shall be entitled to treat the holder of record of any share of stock as the holder in fact thereof, and accordingly shall not be bound to recognize any equitable or other claim to or interest in any share on the part of any person, whether or not it shall have express or other notice thereof, except as required by applicable law.



5.3. *Transfer of Record Ownership.* Transfers of stock shall be made on the books of the Corporation only by direction of the person named in the certificate (or book-entry statement) or such person's attorney, lawfully constituted in writing, and only upon the surrender of the certificate, if any, therefor and a written assignment of the shares evidenced thereby. Whenever any transfer of stock shall be made for collateral security, and not absolutely, it shall be so expressed in the entry of the transfer if, when the certificates, if any, are presented to the Corporation for transfer, both the transferor and transferee request the Corporation to do so.

5.4. *Lost, Stolen or Destroyed Certificates.* New certificates or uncertificated shares representing shares of the stock of the Corporation shall be issued in place of any certificate alleged to have been lost, stolen or destroyed in such manner and on such terms and conditions as the Board from time to time may authorize in accordance with applicable law.

5.5. *Transfer Agent; Registrar; Rules Respecting Certificates.* The Corporation shall maintain one or more transfer offices or agencies where stock of the Corporation shall be transferable. The Corporation shall also maintain one or more registry offices where such stock shall be registered. The Board may make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of stock certificates (or book-entry statements) in accordance with applicable law.

5.6. *Fixing Record Date for Determination of Shareholders of Record.* (a) The Board may fix, in advance, a date as the record date for the purpose of determining the shareholders entitled to notice of, or to vote at, any meeting of the shareholders or any adjournment thereof, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date shall not be more than sixty days nor less than ten days before the date of a meeting of the shareholders. If no record date is fixed by the Board, the record date for determining the shareholders entitled to notice of or to vote at a shareholders' meeting shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting and shall fix a new record date if such adjourned meeting is more than 120 days after the date of the original meeting. (b) The Board may fix, in advance, a date as the record date for the purpose of determining the shareholders entitled to receive payment of any dividend or other distribution or the allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or in order to make a determination of the shareholders for the purpose of any other lawful action, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which record date shall not be more than sixty days prior to such action. If no record date is fixed by the Board, the record date for determining the shareholders for any such purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

## 6. SECURITIES HELD BY THE CORPORATION.

6.1. *Voting.* Unless the Board shall otherwise order, the Chairman, any Vice Chairman, the President, any Executive Vice President, any Senior Vice President, any Corporate Vice President, the Chief Financial Officer, the Chief Accounting Officer, the Controller, the Treasurer or the Secretary shall have full power and authority, on behalf of the Corporation, (i) to attend, act and vote at any meeting of the shareholders of any corporation in which the Corporation may hold stock and at such meeting to exercise any or all rights and powers incident to the ownership of such stock, and to execute on behalf of the Corporation a proxy or proxies empowering another or others to act as aforesaid, and (ii) to delegate to any employee or agent such power and authority.

6.2. *General Authorization to Transfer Securities Held by the Corporation.* (a) Any of the following officers, to wit: the Chairman, any Vice Chairman, the President, any Executive Vice President, any Senior Vice President, any Corporate Vice President, the Chief Financial Officer, the Chief Accounting Officer, the Controller, the Treasurer, any Assistant Controller, any Assistant Treasurer, and each of them, hereby is authorized and empowered (i) to transfer, convert, endorse, sell, assign, set over and deliver any and all shares of stock, bonds, debentures, notes, subscription warrants, stock purchase warrants, evidences of indebtedness, or other securities now or hereafter standing in the name of or owned by the Corporation and to make, execute and deliver any and all written instruments of assignment and transfer necessary or proper to effectuate the authority hereby conferred, and (ii) to delegate to any employee or agent such power and authority.

(b) Whenever there shall be annexed to any instrument of assignment and transfer executed pursuant to and in accordance with the foregoing Section 6.2(a), a certificate of the Secretary or any Assistant Secretary in office at the date of such certificate setting forth the provisions hereof, stating that they are in full force and effect, setting forth the names of persons who are then officers of the corporation, and certifying as to the employees or agents, if any, to whom any such power and authority have been delegated, all persons to whom such instrument and annexed certificate shall thereafter come shall be entitled, without further inquiry or investigation and regardless of the date of such certificate, to assume and to act in reliance upon the assumption that (i) the shares of stock or other securities named in such instrument were theretofore duly and properly transferred, endorsed, sold, assigned, set over and delivered by the Corporation, and (ii) with respect to such securities, the authority of these provisions of these Bylaws and of such officers, employees and agents is still in full force and effect.

## **7. DEPOSITARIES AND SIGNATORIES.**

7.1. *Depositaries.* The Chairman, any Vice Chairman, the President, the Chief Financial Officer, and the Treasurer are each authorized to designate depositaries for the funds of the Corporation deposited in its name or that of a Division of the Corporation, or both, and the signatories with respect thereto in each case, and from time to time, to change such depositaries and signatories, with the same force and effect as if each such depositary and the signatories with respect thereto and changes therein had been specifically designated or authorized by the Board; and each depositary designated by the Board or by the Chairman, any Vice Chairman, the President, the Chief Financial Officer, or the Treasurer shall be entitled to rely upon the certificate of the Secretary or any Assistant Secretary of the Corporation or of a Division of the Corporation setting forth the fact of such designation and of the appointment of the officers of the Corporation or of the Division or of both or of other persons who are to be signatories with respect to the withdrawal of funds deposited with such depositary, or from time to time the fact of any change in any depositary or in the signatories with respect thereto.

7.2. *Signatories.* Unless otherwise designated by the Board or by the Chairman, any Vice Chairman, the President, the Chief Financial Officer or the Treasurer, each of whom is authorized to execute any of such items individually, all notes, drafts, checks, acceptances, orders for the payment of money and all other negotiable instruments obligating the Corporation for the payment of money, including any form of guaranty by the Corporation with respect to any such item entered into by any direct or indirect subsidiary of the Corporation, shall be (a) signed by any Assistant Treasurer and (b) countersigned by the Chief Accounting Officer, Controller or any Assistant Controller, or (c) either signed or countersigned by any Executive Vice President, any Senior Vice President or any Corporate Vice President in lieu of either the officers designated in Clause (a) or the officers designated in Clause (b) of this Section 7.2.

## **8. SEAL.**

The seal of the Corporation shall be in such form and shall have such content as the Board shall from time to time determine.

## **9. FISCAL YEAR.**

The fiscal year of the Corporation shall end on December 31 in each year, or on such other date as the Board shall determine.

## **10. WAIVER OF OR DISPENSING WITH NOTICE.**

(a) Whenever any notice of the time, place or purpose of any meeting of the shareholders is required to be given by applicable law, the Articles of Incorporation or these By-laws, a written waiver of notice, signed by a shareholder entitled to notice of a shareholders' meeting (which may be by electronic signature), whether by pdf, facsimile, telegraph, cable, electronic transmission or other form of recorded communication, whether signed before or after the time set for a given meeting, shall be deemed equivalent to notice of such meeting. The waiver must be included in the minutes or filed with the corporate records. Attendance of a shareholder in person or by proxy at a shareholders' meeting shall constitute a waiver of notice to such shareholder of such meeting, except when

(i) the shareholder attends the meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting was not lawfully called or convened, or (ii) the shareholder objects to consideration of a particular matter at the meeting at the time such matter is presented because it is not within the purpose or purposes described in the meeting notice.

(b) Whenever any notice of the time or place of any meeting of the Board or Committee of the Board is required to be given by applicable law, the Articles of Incorporation or these By-laws, a written waiver of notice signed by a Director, whether by pdf, facsimile, telegraph, cable, electronic transmission or other form of recorded communication, whether signed before or after the time set for a given meeting, shall be deemed equivalent to notice of such meeting. Unless the Director is deemed to have waived notice by attending the meeting, the waiver must be in writing, signed by the Director entitled to the notice (which may be by electronic signature) and filed with the minutes or corporate records. Attendance of a Director at a meeting shall constitute a waiver of notice to such Director of such meeting, unless the Director at the beginning of the meeting (or promptly upon the Director's arrival) objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

(c) No notice need be given to any person with whom communication is made unlawful by any law of the United States or any rule, regulation, proclamation or executive order issued under any such law.

## **11. POLITICAL NONPARTISANSHIP OF THE CORPORATION.**

The Corporation shall not make, directly or indirectly, any contributions or expenditures in connection with the election of any candidate for federal, state or local political office, or any committee campaigning for such a candidate, except to the extent

necessary to permit in the United States the expenditure of corporate assets for the payment of expenses for establishing, registering and administering any political action committee and of soliciting contributions thereto, all as may be authorized by federal or state laws.

## 12. AMENDMENT OF BY-LAWS.

These By-laws, or any of them, may from time to time be supplemented, amended or repealed, or new By-laws may be adopted, by either (i) the Board at any regular or special meeting of the Board, if such supplement, amendment, repeal or adoption is approved by a majority of the entire Board; or (ii) the affirmative vote, at a meeting of the shareholders of the Corporation, of at least a majority of the votes entitled to be cast by the holders of the outstanding shares of all classes of stock of the Corporation entitled to vote generally in the election of directors, considered for purposes of this Section 12 as a single voting group.

## 13. OFFICES AND AGENT.

(a) *Registered Office and Agent.* The registered office of the Corporation in the State of Indiana shall be 150 West Market Street, Suite 800, Indianapolis, Indiana 46204. The name of the registered agent is CT Corporation System.

(b) *Other Offices.* The Corporation may also have offices at other places, either within or outside the State of Indiana, as the Board of Directors may from time to time determine or as the business of the Corporation may require.

## 14. EXCLUSIVE FORUM FOR ADJUDICATION OF CERTAIN DISPUTES.

Unless the Corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any action asserting a claim of breach of a fiduciary duty owed by any Director, officer, employee or agent of the Corporation to the Corporation, (ii) any action asserting a claim arising pursuant to any provision of the Indiana Business Corporation Law or the Corporation's articles of incorporation or by-laws, or (iii) any action asserting a claim otherwise relating to the internal affairs of the Corporation including, but not limited to, any derivative action brought on behalf of the Corporation, shall be a Circuit or Superior Court of Marion County, Indiana or the United States District Court for the Southern District of Indiana, in all cases subject to the court's having personal jurisdiction over the indispensable parties named as defendants. Any person or entity purchasing or otherwise acquiring any interest in shares of the Corporation shall be deemed to have notice of and consent to the provisions of this Section 14.

[\(Back To Top\)](#)

# Section 4: EX-31.1 (EXHIBIT 31.1)

EXHIBIT 31.1

## CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Charles L. Prow, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vectrus, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Charles L. Prow

Charles L. Prow  
President and Chief Executive Officer

[\(Back To Top\)](#)

## Section 5: EX-31.2 (EXHIBIT 31.2)

EXHIBIT 31.2

### CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William B. Noon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vectrus, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the

registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ William B. Noon

---

William B. Noon

Corporate Vice President, Acting Chief Financial Officer and Chief Accounting Officer

(Principal Accounting Officer)

[\(Back To Top\)](#)

## **Section 6: EX-32.1 (EXHIBIT 32.1)**

Exhibit 32.1

Certification of President and Chief Executive Officer

**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report on Form 10-Q of Vectrus, Inc. (the "Company") for the period ended June 28, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2019

/s/ Charles L. Prow

---

Charles L. Prow

President and Chief Executive Officer

[\(Back To Top\)](#)

## **Section 7: EX-32.2 (EXHIBIT 32.2)**

Certification of Corporate Vice President and Chief Accounting Officer

**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report on Form 10-Q of Vectrus, Inc. (the “Company”) for the period ended June 28, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2019

/s/ William B. Noon

---

William B. Noon

Corporate Vice President, Acting Chief Financial Officer and Chief Accounting Officer

(Principal Accounting Officer)

[\(Back To Top\)](#)