

MANTECH INTERNATIONAL CORP
Form 10-Q
November 03, 2008
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 September 30, 2008

or

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

For the transition period from _____ to _____

Commission File No. 000-49604

ManTech International Corporation

(Exact name of registrant as specified in its charter)

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Delaware (State or other jurisdiction of incorporation or organization)	22-1852179 (I.R.S. Employer Identification No.)
12015 Lee Jackson Highway, Fairfax, VA (Address of principal executive offices)	22033 (Zip Code)
(703) 218-6000 (Registrant's telephone number, including area code)	

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 29, 2008 there were outstanding 21,450,830 shares of our Class A Common Stock and 13,958,345 shares of our Class B Common Stock.

Table of Contents

MANTECH INTERNATIONAL CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED September 30, 2008

INDEX

	Page No.
<u>PART I FINANCIAL INFORMATION</u>	3
Item 1. <u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets at September 30, 2008 and December 31, 2007</u>	3
<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2008 and 2007</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2008 and 2007</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2008 and 2007</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
Item 4. <u>Controls and Procedures</u>	27
<u>PART II OTHER INFORMATION</u>	28
Item 1. <u>Legal Proceedings</u>	28
Item 1A <u>Risk Factors</u>	28
Item 6. <u>Exhibits</u>	28

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

MANTECH INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands Except Per Share Amounts)

	(unaudited)	
	September 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,955	\$ 8,048
Receivables net	343,231	337,467
Prepaid expenses and other	13,952	19,104
Total Current Assets	364,138	364,619
Property and equipment net	14,703	14,170
Goodwill	470,386	451,832
Other intangibles net	79,136	82,976
Employee supplemental savings plan assets	16,496	17,999
Other assets	5,779	5,907
TOTAL ASSETS	\$ 950,638	\$ 937,503
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of debt	\$ 44,900	\$ 126,000
Accounts payable and accrued expenses	126,934	100,447
Accrued salaries and related expenses	66,621	61,429
Billings in excess of revenue earned	8,508	8,334
Total Current Liabilities	246,963	296,210
Debt-net of current portion		39,000
Accrued retirement	17,599	18,973
Other long-term liabilities	7,088	7,848
Deferred income taxes non-current	29,935	24,167
TOTAL LIABILITIES	301,585	386,198
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Common stock, Class A \$0.01 par value; 150,000,000 shares authorized; 21,685,195 and 20,474,379 shares issued at September 30, 2008 and December 31, 2007; 21,442,155 and 20,231,339 shares outstanding at September 30, 2008 and December 31, 2007, respectively	217	205
Common stock, Class B \$0.01 par value; 50,000,000 shares authorized; 13,958,345 and 14,279,813 shares issued and outstanding at September 30, 2008 and December 31, 2007	140	143

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Additional paid-in capital	331,670	297,827
Treasury stock, 243,040 shares at cost at September 30, 2008 and December 31, 2007	(9,114)	(9,114)
Retained earnings	328,379	262,686
Accumulated other comprehensive loss	(152)	(147)
Unearned ESOP shares	(2,087)	(295)
TOTAL STOCKHOLDERS EQUITY	649,053	551,305
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 950,638	\$ 937,503

See notes to condensed consolidated financial statements.

Table of Contents**MANTECH INTERNATIONAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In Thousands Except Per Share Amounts)

	(unaudited)		(unaudited)	
	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
REVENUES	\$ 486,128	\$ 383,359	\$ 1,376,170	\$ 1,026,344
Cost of services	407,973	321,133	1,155,055	860,289
General and administrative expenses	37,831	31,804	109,127	88,791
OPERATING INCOME	40,324	30,422	111,988	77,264
Interest expense	(962)	(1,887)	(3,573)	(3,423)
Interest income	369	153	711	1,106
Other (expense) income, net	(223)	(84)	(355)	262
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	39,508	28,604	108,771	75,209
Provision for income taxes	(15,644)	(11,129)	(43,078)	(29,262)
INCOME FROM CONTINUING OPERATIONS	23,864	17,475	65,693	45,947
(Loss) from operations of discontinued component, net of taxes				(458)
Gain on sale of discontinued operation, net of taxes (sold to CEO)				338
(Loss) from discontinued operations, net of taxes				(120)
NET INCOME	\$ 23,864	\$ 17,475	\$ 65,693	\$ 45,827
BASIC EARNINGS (LOSS) PER SHARE:				
Class A common stock				
Income from continuing operations	\$ 0.68	\$ 0.51	\$ 1.88	\$ 1.35
(Loss) from discontinued operations, net of taxes				
Class A basic earnings per share	\$ 0.68	\$ 0.51	\$ 1.88	\$ 1.35
Weighted average common shares outstanding	21,297	19,779	20,819	19,555
Class B common stock				
Income from continuing operations	\$ 0.68	\$ 0.51	\$ 1.88	\$ 1.35
(Loss) from discontinued operations, net of taxes				
Class B basic earnings per share	\$ 0.68	\$ 0.51	\$ 1.88	\$ 1.35
Weighted average common shares outstanding	13,958	14,382	14,076	14,459
DILUTED EARNINGS (LOSS) PER SHARE:				
Class A common stock				
Income from continuing operations	\$ 0.67	\$ 0.51	\$ 1.86	\$ 1.33
(Loss) from discontinued operations, net of taxes				

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Class A diluted earnings per share	\$	0.67	\$	0.51	\$	1.86	\$	1.33
Weighted average common shares outstanding		21,755		20,181		21,279		19,966
Class B common stock								
Income from continuing operations	\$	0.67	\$	0.51	\$	1.86	\$	1.33
(Loss) from discontinued operations, net of taxes								
Class B diluted earnings per share	\$	0.67	\$	0.51	\$	1.86	\$	1.33
Weighted average common shares outstanding		13,958		14,382		14,076		14,459

See notes to condensed consolidated financial statements.

Table of Contents

MANTECH INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in Thousands)

	(unaudited)		(unaudited)	
	Three months ended 2008	September 30, 2007	Nine months ended 2008	September 30, 2007
NET INCOME	\$ 23,864	\$ 17,475	\$ 65,693	\$ 45,827
OTHER COMPREHENSIVE INCOME:				
Translation adjustments	41	5	(5)	31
Total other comprehensive income	41	5	(5)	31
COMPREHENSIVE INCOME	\$ 23,905	\$ 17,480	\$ 65,688	\$ 45,858

See notes to condensed consolidated financial statements.

Table of Contents**MANTECH INTERNATIONAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in Thousands)

	(unaudited)	
	Nine months ended September 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 65,693	\$ 45,827
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operation, net of tax		458
Gain on sale of discontinued operation, net of tax		(338)
Stock-based compensation	4,959	5,203
Excess Tax benefits from exercise of stock options	(5,990)	(1,277)
Deferred income taxes	4,291	(830)
Depreciation and amortization	12,926	10,647
Change in assets and liabilities net of effects from acquired and disposed businesses:		
Receivables-net	(2,981)	(5,968)
Prepaid expenses and other	1,558	3,380
Accounts payable and accrued expenses	32,070	12,014
Accrued salaries and related expenses	4,186	(5,220)
Billings in excess of revenue earned	142	(769)
Accrued retirement	(1,374)	1,510
Other	1,414	(493)
Net cash flow from operating activities of continuing operations	116,894	64,144
Net cash flow from discontinued operations		(1,562)
Net cash flow from operating activities	116,894	62,582
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,108)	(1,760)
Investment in capitalized software for internal use	(2,062)	(1,556)
Proceeds from the sale of property and equipment		1,828
Proceeds from note receivable	5,126	
Exercise of GSE warrants		(133)
Proceeds from sale of GSE shares		600
Acquisition of businesses net of cash acquired	(24,608)	(197,016)
Net investing cash flow from continuing operations	(24,652)	(198,037)
Net investing cash flow from discontinued operations		3,000
Net cash flow from investing activities	(24,652)	(195,037)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	20,775	9,447
Excess tax benefits from the exercise of stock options	5,990	1,277
Excess tax benefit from distribution of shares held in grantor trust		8,581
Treasury stock acquired		(9,114)
Net borrowings under the line of credit, non-current		10,000
Net (repayments) borrowings under the line of credit	(120,100)	74,292

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Net cash flow from financing activities	(93,335)	94,483
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,093)	(37,972)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,048	41,510
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 6,955	\$ 3,538
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	\$ 31,551	\$ 19,661
Cash paid for interest	\$ 3,370	\$ 3,340
Noncash financing activities:		
ESOP Contributions	\$ 1,792	\$ 503

See notes to condensed consolidated financial statements.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

UNAUDITED

1. Introduction and Overview

ManTech International Corporation (depending on the circumstances, ManTech Company we our ours or us) is a provider of innovative technologies and solutions for mission-critical national security programs for the U.S. government Intelligence Community; the departments of Defense, State, Homeland Security and Justice; the Space Community; and other federal government agencies. Our expertise includes systems engineering, systems integration, software development, enterprise architecture, cyber security, information assurance, intelligence operations and analysis support, network and critical infrastructure protection, information operations and information warfare support, information technology, communications integration, logistics and supply chain management, and service oriented architectures. With approximately 7,600 highly qualified employees, we operate in the United States and over 40 countries worldwide.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in the annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to those rules and regulations. We recommend that you read these unaudited condensed consolidated financial statements in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K for the fiscal year ended December 31, 2007, previously filed with the SEC. We believe that the unaudited condensed consolidated financial statements in this Form 10-Q reflect all adjustments that are necessary to fairly present the financial position, results of operations and cash flows for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results that can be expected for the full year.

3. Acquisitions

Emerging Technologies Group Acquisition On August 29, 2008, we completed the acquisition of all outstanding equity interests in Emerging Technologies Group, USA, Inc. (ETG). The results of ETG s operations have been included in the consolidated financial statements since that date. The acquisition was consummated pursuant to an Agreement and Plan of Merger (Merger Agreement), dated August 15, 2008, by and among ManTech, ETG, certain shareholders of ETG, Project Eagle Inc., a newly formed and wholly owned subsidiary of the Company (Merger Sub), and a Rights Holder Representative for the shareholders and option holders of ETG. Pursuant to the terms of the Merger Agreement, Merger Sub merged with and into ETG, with ETG continuing as the surviving corporation and a wholly owned subsidiary of the Company.

ETG, was a privately-held company, providing computer and network forensics supporting the counterterrorism and counter intelligence mission around the world. ETG s customer base focused primarily in the Intelligence Community and the Department of Defense (DoD). At August 29, 2008, ETG had 58 employees of which nearly 100% held security clearances. For the twelve months ended June 30, 2008, ETG s revenue was approximately \$14.4 million.

Management believes the acquisition of ETG has deepened our capabilities in cyber security and positions us to develop additional work related to the Comprehensive National Cyber Initiative.

The initial purchase price was \$25.1 million, which included \$0.1 million in transaction fees. The initial purchase may be reduced if the closing working capital of ETG does not meet the target amount per the merger agreement. The Company and ETG have a specified period following the date of acquisition to finalize any purchase price adjustment, as defined in the agreement. Any potential purchase price adjustment will be based on the Company s calculation of the closing working capital which will be subject to review and approval by ETG. Pursuant to the Merger Agreement, \$3.8 million of the purchase price was placed into an escrow account to satisfy potential indemnification liabilities of ETG and its shareholders. The escrow claim period expires eighteen months after the purchase closing date. We primarily utilized borrowings under our credit agreement (see Note 8) to finance the acquisition.

The preliminary purchase price was allocated to the underlying assets and liabilities based on their estimated fair values at the date of acquisition. The fair value assigned to the assets and liabilities is still under review and could be adjusted upon completion of our assessment of fair value. Total assets were \$27.1 million, including goodwill and intangible assets recognized in connection with the acquisition, and total liabilities were \$2.0 million. Included in total assets were \$4.6 million in acquired intangible assets which are being amortized over their

respective estimated useful lives, ranging from one to twenty years, using

Table of Contents

the pattern of benefits method. Approximately \$0.4 million of the purchase price has been reserved in escrow for payment of certain compensation liabilities. These liabilities are expected to be settled in January 2009. We have recorded initial goodwill of \$18.2 million which will be deductible for tax purposes over 15 years, assuming adequate levels of taxable income. Recognition of goodwill is largely attributed to the highly skilled employees and the value paid for companies supporting high-end defense, intelligence and homeland security markets. The assets, liabilities and results of operations of ETG were not significant to the Company's condensed consolidated financial position or results of operations.

McDonald Bradley Acquisition On December 18, 2007, we completed the acquisition of all outstanding equity interests in McDonald Bradley, Inc. (McDonald Bradley or MBI). The results of McDonald Bradley's operations have been included in the consolidated financial statements since that date. The acquisition was consummated pursuant to an Agreement and Plan of Merger (Merger Agreement), dated November 15, 2007, by and among ManTech, McDonald Bradley, Spyglass Acquisition Corp., a newly formed and wholly owned subsidiary of the Company (Merger Sub), and a Shareholder Representative for the shareholders of McDonald Bradley. Pursuant to the terms of the Merger Agreement, Merger Sub merged with and into McDonald Bradley, with McDonald Bradley continuing as the surviving corporation and a wholly owned subsidiary of the Company. At December 18, 2007, McDonald Bradley had 264 employees of which approximately two-thirds held security clearances. For calendar year 2007, McDonald Bradley's revenues were \$49.5 million.

McDonald Bradley, was a privately-held company, doing business as a secure information sharing and IT solutions provider to the federal government with a focus on Department of Defense, Intelligence Community and Homeland Security markets. McDonald Bradley is a provider of high-end, mission-critical, technology-differentiated solutions primarily in areas of Service Oriented Architectures, data interoperability and information assurance.

Management believes the acquisition of McDonald Bradley has deepened our capabilities in the high-end defense, intelligence and homeland security marketplace, strengthens our position as a provider of secure information sharing and data interoperability solutions, and improves our position to bid as a prime contractor on larger information technology solutions opportunities.

The initial purchase price was \$78.9 million, which included \$0.4 million in transaction fees. The initial purchase price included a closing date working capital adjustment of \$1.9 million. Pursuant to the Merger Agreement, \$7.7 million of the purchase price was placed into an escrow account to satisfy potential indemnification liabilities of the Company, and to satisfy potential expenses of the Shareholder Representative. The escrow term is for a period of sixteen months. We utilized borrowings under our credit agreement (see Note 8) to finance the acquisition.

The purchase price was allocated to the underlying assets and liabilities based on their estimated fair values at the date of acquisition. Total assets were \$85.6 million, including goodwill and intangible assets recognized in connection with the acquisition, and total liabilities were \$6.7 million. Included in total assets were \$10.2 million in acquired intangible assets which are being amortized over their respective estimated useful lives, ranging from one to twenty years, using the pattern of benefits method. Other than goodwill and other intangible assets recognized in connection with the acquisition, the assets, liabilities and results of operations of McDonald Bradley were not significant to the Company's condensed consolidated financial position or results of operations. We have recorded goodwill of \$63.2 million which will be deductible for tax purposes over 15 years, assuming adequate levels of taxable income. Recognition of goodwill is largely attributed to the highly skilled employees and the value paid for companies supporting high-end defense, intelligence and homeland security markets.

SRS Acquisition On May 7, 2007, we completed the acquisition of all outstanding equity interests in SRS Technologies, (SRS). The results of SRS's operations have been included in the consolidated financial statements since that date. The acquisition was consummated pursuant to an Agreement and Plan of Merger (Merger Agreement), dated April 6, 2007, by and among ManTech, a wholly owned subsidiary of ManTech SRS, certain shareholders of SRS, and certain persons acting as a representative for the shareholders of SRS. The Merger Agreement provided for the merger of a wholly owned subsidiary of ManTech with and into SRS, with SRS surviving the merger and becoming a wholly owned subsidiary of ManTech (ManTech SRS).

SRS was a privately-held company with specialized domain knowledge in the areas of space-based radar and communications; chemical, biological, conventional and nuclear weapons detection and defeat programs; imagery intelligence; and aeronautic, space and information systems development. More than 85 percent of SRS's revenue has historically been derived from the U.S. government including Department of Defense, Intelligence Community and the Department of Homeland Security. SRS had over 800 employees, including highly-cleared and educated personnel, at May 7, 2007.

Management believes the acquisition of SRS has extended our presence in the high-end national security marketplace and enhances our presence in the US Defense Advanced Research Projects Agency (DARPA), Department of Homeland Security, Missile Defense Agency, National Reconnaissance Office, National Geospatial-Intelligence Agency, and other Department of Defense agencies.

Table of Contents

The purchase price was \$199.1 million, which included \$1.2 million in transaction fees. The purchase price also included a closing date working capital adjustment of \$2.9 million. Pursuant to the Merger Agreement, and as security for the SRS shareholders' indemnification for unanticipated contingencies, an escrow account in the amount of \$36.1 million was established for a period of three years from the date of acquisition. On May 8, 2008, \$11.4 million was paid out of the escrow account and distributed to the respective SRS shareholders. We utilized a combination of cash on hand and borrowings under our credit agreement (see Note 8) to finance the acquisition.

The purchase price was allocated to SRS's net tangible and identifiable intangible assets based on their estimated fair values at the date of acquisition. Total assets were \$245.9 million, including goodwill and intangible assets recognized in connection with the acquisition, and total liabilities were \$46.8 million. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill. The allocation of the purchase price resulted in acquired contract and program intangibles of \$40.9 million and goodwill of \$150.5 million. The intangible assets are being amortized over their respective estimated useful lives, ranging from six to twenty years, using the pattern of benefits method. Recognition of goodwill is largely attributed to the highly skilled employees of SRS, their presence in the high-end security marketplace, and the value paid for companies in this business. The goodwill is not deductible for tax purposes.

Pro Forma Financial Information

The unaudited financial information in the table below summarizes the combined results of operations of ManTech and SRS, on a pro forma basis, as though the companies had been combined as of the beginning of the period presented. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition and borrowings under our credit agreement (see Note 8) had taken place at the beginning of the period presented. The pro forma financial information for the nine months ended September 30, 2007 includes the business combination accounting effect on historical ManTech for amortization charges from acquired intangible assets, interest expense at our current level of debt, removal of SRS's CEO salary and benefit related costs, and the related tax effects.

The unaudited pro forma financial information for the nine months ended September 30, 2007 presented below combines the historical results for ManTech and SRS.

(in thousands except per share amounts)	Nine months ended September 30, 2007
Revenue	\$ 1,102,935
Income from continuing operations-net of taxes	\$ 46,719
Net Income	\$ 46,599
Diluted earnings per share (Class A and B common stock)	\$ 1.37

4. Earnings Per Share

In Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings per Share (as amended)*, the two-class method is an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared (or accumulated) and participation rights in undistributed earnings. Under that method, basic and diluted earnings per share data are presented for each class of common stock.

In applying the two-class method, we determined that undistributed earnings should be allocated equally on a per share basis between Class A and Class B Common Stock. Under the Company's Certificate of Incorporation, the holders of the Common Stock shall be entitled to participate ratably, on a share-for-share basis as if all shares of Common Stock were of a single class, in such dividends, as may be declared by the Board of Directors from time to time.

Basic earnings per share has been computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during each period. Shares issued during the period and shares reacquired during the period are weighted for the portion of the period in which the shares were outstanding. Diluted earnings per share has been computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common shares that were outstanding during each period. The following table represents a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations (in thousands):

Table of Contents

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2007	
	2008	2007	2008	2007
Numerator for net income per Class A and Class B common stock:				
Net income	\$ 23,864	\$ 17,475	\$ 65,693	\$ 45,827
Numerator for basic net income Class A common stock	\$ 14,416	\$ 10,118	\$ 39,194	\$ 26,346
Numerator for basic net income Class B common stock	\$ 9,448	\$ 7,357	\$ 26,499	\$ 19,481
Numerator for diluted net income Class A common stock	\$ 14,537	\$ 10,203	\$ 39,538	\$ 26,579
Numerator for diluted net income Class B common stock	\$ 9,327	\$ 7,272	\$ 26,155	\$ 19,248
Basic weighted average common shares outstanding				
Class A common stock	21,297	19,779	20,819	19,555
Class B common stock	13,958	14,382	14,076	14,459
Effect of potential exercise of stock options				
Class A common stock	457	402	460	411
Class B common stock				
Diluted weighted average common shares outstanding - Class A	21,755	20,181	21,279	19,966
Diluted weighted average common shares outstanding - Class B	13,958	14,382	14,076	14,459

For the three months ended September 30, 2008 and 2007, options to purchase 122 thousand and 825 thousand shares, respectively, weighted for the portion of the period for which they were outstanding, were outstanding but not included in the computation of diluted earnings per share because the options' effect would have been anti-dilutive. For the nine months ended September 30, 2008 and 2007, options to purchase 421 thousand and 778 thousand shares, respectively, weighted for the portion of the period for which they were outstanding, were outstanding but not included in the computation of diluted earnings per share because the options' effect would have been anti-dilutive. For the nine months ended September 30, 2008 and 2007, shares issued from the exercise of stock options were 851 thousand and 449 thousand, respectively.

5. Receivables

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

	September 30, 2008	December 31, 2007
Billed receivables	\$ 280,096	\$ 298,059
Unbilled receivables:		
Amounts billable	57,634	32,194
Revenues recorded in excess of funding	8,242	7,792
Revenues recorded in excess of milestone billings on fixed price contracts	983	3,448
Retainage	3,089	2,127
Allowance for doubtful accounts	(6,813)	(6,153)
	\$ 343,231	\$ 337,467

Amounts billable consist principally of amounts to be billed within the next month. Revenues recorded in excess of funding are billable upon receipt of contractual amendments or other modifications. Revenues recorded in excess of milestone billings on fixed price contracts consist of amounts not expected to be billed within the next month. The retainage is billable upon completion of the contract performance and approval of final indirect expense rates by the government. Accounts receivable at September 30, 2008, are expected to be substantially collected within one year except for approximately \$3.0 million.

Table of Contents**6. Property and Equipment**

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

	September 30, 2008	December 31, 2007
Furniture and equipment	\$ 25,877	\$ 23,916
Leasehold improvements	13,578	13,543
	39,455	37,459
Less: Accumulated depreciation and amortization	(24,752)	(23,289)
	\$ 14,703	\$ 14,170

7. Goodwill and Other Intangibles

The changes in the carrying amounts of goodwill during the year ended December 31, 2007 and the period ended September 30, 2008 are as follows (in thousands):

	Goodwill Balance
Gross amount at December 31, 2006	\$ 248,429
Less: Accumulated amortization (pre adoption of SFAS 142)	(10,107)
Net amount at December 31, 2006	238,322
Acquisition-SRS Technologies	\$ 150,345
Acquisition-McDonald Bradley, Inc.	62,965
Additional consideration for the acquisition of GRS Solutions, Inc.	200
	213,510
Net amount at December 31, 2007	\$ 451,832
Acquisition-Emerging Technologies Group, USA, Inc.	\$ 18,158
Additional consideration / adjustment for the acquisition of McDonald Bradley, Inc.	224
Additional consideration / adjustment for the acquisition of SRS Technologies	172
	18,554
Net amount at September 30, 2008	\$ 470,386

Intangible assets consisted of the following (in thousands):

	September 30, 2008			December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Contract and program intangibles	\$ 100,840	\$ 27,486	\$ 73,354	\$ 96,240	\$ 20,265	\$ 75,975
Capitalized software cost for sale	10,138	9,829	309	11,672	10,430	1,242
Capitalized software cost for internal use	14,931	9,510	5,421	13,699	7,997	5,702
Other	58	6	52	57		57
	\$ 125,967	\$ 46,831	\$ 79,136	\$ 121,668	\$ 38,692	\$ 82,976

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Aggregate amortization expense for the three months ended September 30, 2008 and 2007 was \$3.6 million and \$3.4 million, respectively. During the periods ended September 30, 2008 and 2007, respectively, amortization expense included \$0.6 and \$0.9 million related to write downs of an acquisition related intangible asset for internally developed software due to a change in its estimated net realizable value. Aggregate amortization expense for the nine months ended September 30, 2008 and 2007 was \$9.6 million and \$7.6 million, respectively. We estimate that we will have the following amortization expense for the future periods indicated below (in thousands):

For the remaining three months ending December 31, 2008	\$ 2,796
Year ending:	
December 31, 2009	\$ 11,356
December 31, 2010	\$ 9,677
December 31, 2011	\$ 6,715
December 31, 2012	\$ 5,462
December 31, 2013	\$ 4,573

Table of Contents

8. Debt

We maintain a revolving credit agreement with a syndicate of lenders led by Bank of America, N.A, as administrative agent. The credit agreement provides for a \$300.0 million revolving credit facility, with a \$25.0 million letter of credit sub limit and a \$30.0 million swing line loan sub limit. The credit agreement also contains an accordion feature that permits the Company to arrange with the lenders for them to provide up to \$100.0 million in additional commitments. The maturity date for the credit agreement is April 30, 2012.

Borrowings under the credit agreement are collateralized by our assets and bear interest at one of the following rates as selected by the Company: a LIBOR-based rate plus market-rate spreads that are determined based on a company leverage ratio calculation (0.875% to 1.5%), or the lender's base rate, which is the lower of the Federal Funds Rate plus 0.5% or Bank of America's prime lending rate. At September 30, 2008, the borrowing rate on our outstanding debt was 2.53%.

The terms of the credit agreement permit prepayment and termination of the loan commitments at any time, subject to certain conditions. The credit agreement requires the Company to comply with specified financial covenants, including the maintenance of a certain leverage ratio and fixed charge coverage ratio. The credit agreement also contains various covenants, including affirmative covenants with respect to certain reporting requirements and maintaining certain business activities, and negative covenants that, among other things, may limit our ability to incur liens, incur additional indebtedness, make investments, make acquisitions, pay cash dividends, and undertake certain additional actions. As of September 30, 2008, we were in compliance with our financial covenants under the credit agreement.

We had \$44.9 million outstanding on our credit facility at September 30, 2008 down from \$165.0 million at December 31, 2007. The maximum additional available borrowing under the credit facility at September 30, 2008 was \$254.4 million. As of September 30, 2008, we were contingently liable under letters of credit totaling \$0.7 million, which reduces our availability to borrow under our credit facility.

9. Commitments and Contingencies

Payments to us on cost-reimbursable contracts with the U.S. government are provisional payments subject to adjustment upon audit by the DCAA or other government audit agencies. The majority of audits for 2002, 2003 and 2004 have been completed and resulted in no material adjustments. The remaining audits for 2002 through 2007 are not expected to have a material effect on the results of future operations.

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

10. Stock-Based Compensation

Stock Options In June 2006, the Company's stockholders approved our 2006 Management Incentive Plan (the Plan), which was designed to enable us to attract, retain and motivate key employees. The Plan amended and restated the Company's Management Incentive Plan that was approved by the Company's stockholders prior to the initial public offering in 2002 (the 2002 Plan). In connection with the creation of the Plan, all options outstanding under the 2002 Plan were assumed. Awards granted under the Plan are settled in shares of Class A common stock. At the beginning of each year, the Plan provides that the number of shares available for issuance automatically increases by an amount equal to one and one-half percent of the total number of shares of Class A and Class B common stock outstanding on December 31st of the previous year. On January 2, 2008, 517,667 additional shares were made available for issuance under the Plan. Through September 30, 2008, the aggregate number of shares of our common stock authorized for issuance under the Plan was 7,312,649. Through September 30, 2008, 3,272,599 shares of our Class A common stock have been issued as a result of the exercise of the options granted under the Plan. The Plan expires in June 2016.

The Plan is administered by the compensation committee of our board of directors, along with its delegates. Subject to the express provisions of the Plan, the committee has broad authority to administer and interpret the Plan, including the discretion to determine the exercise price, vesting schedule, contractual life and the number of shares to be issued.

We typically issue options that vest in three equal installments, beginning on the first anniversary of the date of grant. Prior to January 1, 2006, we typically issued options under the 2002 Plan that expired ten years after the date of grant. Under the terms of the Plan, the contractual life of the option grants may not exceed eight years. During the nine months ended September 30, 2008 and 2007, we issued options that expire five years from the date of grant. The Company expects that it will continue to issue options that expire five years from the date of grant for the foreseeable future.

Table of Contents

Stock Compensation Expense Effective January 1, 2006, we adopted the Financial Accounting Standards Board (FASB) SFAS No. 123 (revised 2004), *Share-Based Payment*, using the modified prospective method. Under this method, compensation costs for all awards granted after the date of adoption and the unvested portion of previously granted awards are measured at an estimated fair value and included in operating expenses or capitalized as appropriate over the vesting period during which an employee provides service in exchange for the award. For the nine months ended September 30, 2008 and 2007, total recognized tax benefits from the exercise of stock options were \$6.3 million and \$1.6 million, respectively. For the three months ended September 30, 2008 and 2007, we recorded \$1.6 million and \$1.8 million of stock-based compensation cost as general and administrative expense in our statement of operations, respectively. For the nine months ended September 30, 2008 and 2007, we recorded \$5.0 million and \$5.2 million of stock-based compensation cost, respectively. No compensation expense of employee's holding stock options, including stock-based compensation expense, was capitalized during the period. As of September 30, 2008, there was \$10.3 million of unrecognized compensation cost related to share-based compensation arrangements that we expect to vest. The weighted-average period over which expense is expected to be recognized is 1.9 years.

Fair Value Determination Under SFAS No. 123R, we have elected to continue using the Black-Scholes-Merton option pricing model to determine fair value of our awards on date of grant. We will reconsider the use of the Black-Scholes-Merton model if additional information becomes available in the future that indicates another model would be more appropriate, or if grants issued in future periods have characteristics that cannot be reasonably estimated under this model.

The following weighted-average assumptions were used for option grants during the nine months ended September 30, 2008 and 2007:

Volatility. The expected volatility of the options granted was estimated based upon historical volatility of the Company's share price through weekly observations of the Company's trading history. For the nine months ended September 30, 2008 and 2007 we used a volatility of 34.3% and 35.9%, respectively.

Expected Term. The expected term of options granted to employees during the nine months ended September 30, 2008 was determined from historical exercises of the grantee population. Due to a lack of historical exercise data, the expected term for option grants to our board of directors during 2008 was determined under the SEC's Staff Accounting Bulletin No. 110 ((vesting term + original contractual term)/2). For all grants valued during the nine months ended September 30, 2008 and 2007, the options had graded vesting over 3 years (33.3% of the options in each grant vest annually) and a contractual term of 5 years. For the nine months ended September 30, 2008 and 2007, the options had a weighted-average expected term of 2.97 years and 3.15 years, respectively.

Risk-free Interest Rate. The yield on zero-coupon U.S. Treasury strips was used to extrapolate a forward-yield curve. This term structure of future interest rates was then input into a numeric model to provide the equivalent risk-free rate to be used in the Black-Scholes-Merton model based on expected term of the underlying grants. For the nine months ended September 30, 2008 and 2007, the weighted-average risk-free interest rate used was 1.83% and 4.48%, respectively.

Dividend Yield. The Black-Scholes-Merton valuation model requires an expected dividend yield as an input. We have not issued dividends in the past nor do we expect to issue dividends in the future. As such, the dividend yield used in our valuations for the nine months ended September 30, 2008 and 2007 was zero, respectively.

Stock Option Activity During the nine months ended September 30, 2008 we granted stock options to purchase 650,250 shares of Class A common stock at a weighted-average exercise price of \$44.28 per share, which reflects the fair market value of the shares on the date of grant. The weighted-average fair value of options granted during the nine months ended September 30, 2008 and 2007, as determined under the Black-Scholes-Merton valuation model, was \$11.29 and \$11.47, respectively. These options vest in 3 equal installments over 3 years and have a contractual term of 5 years. Option grants that vested during the nine months ended September 30, 2008 and 2007 had a combined fair value of \$5.8 million and \$5.0 million, respectively.

Table of Contents

The following table summarizes the stock option activity for the year ended December 31, 2007 and the nine months ended September 30, 2008:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Shares under option, December 31, 2006	2,255,119	\$ 21.00	
Options granted	796,000	\$ 36.41	
Options exercised	(635,471)	\$ 20.57	\$ 14,772
Options cancelled and expired	(114,406)	\$ 27.33	
Shares under option, December 31, 2007	2,301,242	\$ 28.30	
Options granted	650,250	\$ 44.28	
Options exercised	(850,630)	\$ 24.42	\$ 22,578
Options cancelled and expired	(114,330)	\$ 35.83	
Shares under option, September 30, 2008	1,986,532	\$ 34.79	\$ 48,667

The following table summarizes nonvested stock options for the nine months ended September 30, 2008:

	Number of Shares	Weighted Average Fair Value
Nonvested stock options at December 31, 2007	1,308,494	\$ 11.04
Options granted	650,250	\$ 11.29
Vested during period	(558,539)	\$ 10.46
Options cancelled	(88,164)	\$ 11.27
Nonvested shares under option, September 30, 2008	1,312,041	\$ 11.40

Information concerning stock options outstanding and stock options expected to vest at September 30, 2008:

	Options Exercisable and Expected to Vest	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Stock options exercisable	674,491	4.6	\$ 25.35	\$ 22,895
Stock options expected to vest	1,159,059	3.8	\$ 39.43	\$ 23,017
Options exercisable and expected to vest	1,833,550			

11. Business Segment and Geographic Area Information

We operate as one segment, delivering a broad array of information technology and technical services solutions under contracts with the U.S. government, state and local governments, and commercial customers. Our federal government customers typically exercise independent contracting authority, and even offices or divisions within an agency or department may directly, or through a prime contractor, use our services as a separate customer so long as that customer has independent decision-making and contracting authority within its organization. Revenues from the U.S. government under prime contracts and subcontracts were approximately 98.0% and 97.6% of our total revenue for the nine

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

months ended September 30, 2008 and 2007, respectively. There were no sales to any customers within a single country (except for the United States) where the sales accounted for 10% or more of total revenue. We treat sales to U.S. government customers as sales within the United States regardless of where the services are performed. Substantially all assets were held in the United States for the periods ended September 30, 2008 and December 31, 2007. Revenues by geographic customer and the related percentages of total revenues for the three and nine months ended September 30, 2008 and 2007 were as follows (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
United States	\$ 481,135	99.0%	\$ 378,427	98.7%	\$ 1,359,815	98.8%	\$ 1,011,919	98.6%
International	4,993	1.0	4,932	1.3	16,355	1.2	14,425	1.4
	\$ 486,128	100.0%	\$ 383,359	100.0%	\$ 1,376,170	100.0%	\$ 1,026,344	100.0%

Table of Contents

During the three months ended September 30, 2008 one contract in continuing operations, Ground Systems Route Clearance, exceeded 10% of our revenue. During the nine months ended September 30, 2008, Ground Systems Route Clearance was 10% of our revenue. Our Ground Systems Route Clearance contract supplements the Countermine IED Maintenance contract although it was awarded and is funded separately from the Countermine IED Maintenance contract. During the three months and nine months ended September 30, 2007, Countermine IED Maintenance exceeded 10% of our revenue.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008	%	2007	%	2008	%	2007	%
(amounts in thousands)								
Revenues from external customers:								
Countermine IED Maintenance	\$ 8,528	2%	\$ 53,776	14%	\$ 97,985	7%	\$ 142,909	14%
Ground Systems Route Clearance	87,770	18%		0%	142,743	10%		0%
All other contracts	389,830	80%	329,583	86%	1,135,442	83%	883,435	86%
ManTech Consolidated	\$ 486,128	100%	\$ 383,359	100%	\$ 1,376,170	100%	\$ 1,026,344	100%
Operating Income:								
Countermine IED Maintenance	\$ 5	0%	\$ 1,655	5%	\$ 1,032	1%	\$ 3,936	5%
Ground Systems Route Clearance	2,969	7%		0%	3,337	3%		0%
All other contracts	37,350	93%	28,767	95%	107,619	96%	73,328	95%
ManTech Consolidated	\$ 40,324	100%	\$ 30,422	100%	\$ 111,988	100%	\$ 77,264	100%

	September 30,		December 31,	
	2008	%	2007	%
Receivables:				
Countermine IED Maintenance	\$ 2,145	1%	\$ 22,540	7%
Ground Systems Route Clearance	34,742	10%		0%
All other contracts	306,344	89%	314,927	93%
ManTech Consolidated	\$ 343,231	100%	\$ 337,467	100%

Disclosure items required under SFAS No. 131 including interest revenue, interest expense, depreciation and amortization, costs for stock-based compensation programs, certain unallowable costs as determined under Federal Acquisition Regulations, and expenditures for segment assets are not applicable as we review those items on a consolidated basis.

12. Discontinued Operations

On February 23, 2007, we sold ManTech MSM Security Services, Inc. (MSM) to MSM Security Services Holdings, LLC for \$3.0 million in cash. The sale resulted in a pre-tax gain of \$0.6 million recorded in the first quarter of 2007. MSM Security Services Holdings LLC is solely owned by George J. Pedersen, ManTech's Chairman and Chief Executive Officer. Mr. Pedersen presented an offer to the ManTech Board of Directors to purchase our MSM subsidiary. Mr. Pedersen's offer exceeded the value of any other definitive offer extended to the Company. The transaction was approved by ManTech's independent directors after receiving unanimous recommendation for approval of the transaction from a special committee of the Board, comprised solely of independent directors. The special committee had retained the services of independent legal counsel and independent financial advisors to advise the committee and assist it in connection with its duties.

During 2007, the condensed consolidated financial statements and related note disclosures reflected the MSM subsidiary as Long-Lived Assets to be Disposed of by Sale in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. As such in 2007, MSM was classified as held for sale in the condensed consolidated balance sheets and discontinued operations, net of applicable income taxes in the condensed consolidated statements of income.

The following discloses the results of the discontinued operations of MSM for the nine months ended September 30, 2007 (in thousands):

Revenue	\$ 1,829
Loss before income taxes	\$ (749)
Net Loss	\$ (458)

Table of Contents

13. Retirement Plan Distribution and Treasury Stock Acquisition

At December 31, 2006 there were 609,296 shares of Class B common stock, with a cost value of \$0.6 million, reflected in equity in accordance with EITF 97-14, *Accounting for Deferred Compensation Arrangements where Amounts Earned are Held in a Rabbi Trust and Invested*. These shares were held in a Rabbi Trust to satisfy a defined contribution pension obligation, to be paid in stock for the benefit of Mr. Pedersen.

On January 8, 2007, Mr. Pedersen received a distribution of 609,296 shares of Class B Common Stock, which had been held by the ManTech International Corporation Supplemental Executive Retirement Plan for the benefit of George J. Pedersen (GJP SERP). The Class B Common Stock is convertible into Class A Common Stock at any time on a one-for-one basis, and has no expiration date. On January 8, 2007, Mr. Pedersen converted 243,040 shares of Class B Common Stock to 243,040 shares of Class A Common Stock to satisfy tax withholding requirements.

The converted shares were surrendered to the Company to pay taxes applicable to the distribution of all GJP SERP shares on Mr. Pedersen's behalf. The shares have been accounted for as treasury stock on our condensed consolidated balance sheet, using the cost method, at a value of \$9.1 million. In addition, at June 30, 2007 we recognized an \$8.6 million tax benefit on the distribution from the trust. The tax benefit was recorded to additional paid-in capital and was reported as a cash inflow from financing activities on our condensed statement of cash flows for the nine months ended September 30, 2007.

14. Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The principal market, as prescribed by SFAS 157, is the market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability. If there is no principal market, the most advantageous market is used. This is the market in which the reporting entity would sell the asset or transfer the liability with the price that maximizes the amount that would be received for the asset or minimizes the amount that would be paid to transfer the liability. SFAS 157 clarifies that fair value should be based on assumptions market participants would make in pricing the asset or liability. Where available, fair value is based on observable quoted market prices or derived from observable market data. Where observable prices or inputs are not available, valuation models are used (e.g. Black-Scholes-Merton or a binomial model).

Effective January 1, 2008, financial and non-financial assets and liabilities recorded at fair value on a recurring basis on our condensed consolidated balance sheet were categorized based on the priority of the inputs used in the valuation technique to measure fair value. SFAS 157 established a three level fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

As of September 30, 2008, our financial assets measured at fair value consisted of items such as money market investments, mutual funds, and corporate owned variable universal life insurance policies (COLI). The assets underlying the life insurance are money market investments and mutual funds. All assets are held in a rabbi trust for the benefit of the COLI participants. Our financial assets are all valued based on observable quoted market prices for similar assets.

Table of Contents

The following table summarizes the financial assets measured at fair value on a recurring basis as of September 30, 2008 and the level they fall within the fair value hierarchy (in thousands):

	At September 30, 2008 Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)	
Assets:				
Employee deferred compensation plan assets	\$ 270	\$	\$	\$ 270
Employee supplemental savings plan assets	\$	\$ 15,803	\$	\$ 15,803

At September 30, 2008, the Employee Deferred Compensation Plan and Employee Supplemental Savings Plan liabilities totaled approximately \$0.3 million and \$15.9 million, respectively. The assets listed above at fair value are directly related to these respective liabilities.

On February 12, 2008, the FASB issued FASB Staff Position (FSP) No. 157-2 which delays the effective date of SFAS 157 for nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008, although early adoption is permitted. We do not expect the adoption of FSP 157-2 to have a material impact on our consolidated financial statements.

15. Investments

GSE Systems, Inc. On October 21, 2003, we sold all of our equity interests in GSE Systems, Inc. (GSE), and a \$0.7 million note receivable from GSE, to GP Strategies Corporation (GP Strategies) in exchange for a note with a principal amount of \$5.3 million which was due in October 2008. The note from GP Strategies bore interest at 5% per annum and was payable quarterly in arrears. In May 2008, GP Strategies repaid the principal amount of the note receivable, less an amount deducted for early payment, plus all accrued interest through the date of repayment for a total payment amount of \$5.2 million.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**
Introduction and Overview

We are a provider of innovative technologies and solutions for mission-critical national security programs for the U.S. government Intelligence Community, the departments of Defense, State, Homeland Security and Justice; the Space Community; and other federal government agencies. Our expertise includes systems engineering, systems integration, software services, enterprise architecture, cyber security, information assurance, intelligence operations and analysis support, network and critical infrastructure protection, information operations and information warfare support, information technology, communications integration, logistics and supply chain management, and service oriented architectures. With approximately 7,600 highly qualified employees, we operate in the United States and over 40 countries worldwide.

We derive revenue primarily from contracts with U.S. government agencies that are focused on national security and as a result, funding for our programs is generally linked to trends in U.S. government spending in the areas of defense, intelligence, homeland security and other federal government agencies. Related to the evolving terrorist threats and world events, the U.S. government has continued to increase its overall defense, intelligence and homeland security budgets.

We recommend that you read this discussion and analysis in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K for the fiscal year ended December 31, 2007, previously filed with the SEC.

Three Months Ended September 30, 2008 Compared to the Three Months Ended September 30, 2007

	Condensed Consolidated Statements of Income					
	Three Months Ended September 30,				Period to Period Change	
	2008	2007	2008	2007	2007 to 2008	
	Dollars		Percentages		Dollars	Percent
	(dollars in thousands)					
REVENUES	\$ 486,128	\$ 383,359	100.0%	100.0%	\$ 102,769	26.8%
Cost of services	407,973	321,133	83.9%	83.8%	86,840	27.0%
General and administrative expenses	37,831	31,804	7.8%	8.3%	6,027	19.0%
OPERATING INCOME	40,324	30,422	8.3%	7.9%	9,902	32.5%
Interest expense	(962)	(1,887)	0.2%	0.5%	925	-49.0%
Interest income	369	153	0.1%	0.0%	216	141.2%
Other (expense) income, net	(223)	(84)	0.0%	0.0%	(139)	165.5%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	39,508	28,604	8.1%	7.5%	10,904	38.1%
Provision for income taxes	(15,644)	(11,129)	3.2%	2.9%	(4,515)	40.6%
NET INCOME	\$ 23,864	\$ 17,475	4.9%	4.6%	\$ 6,389	36.6%

Revenues

Revenues increased 26.8% to \$486.1 million for the three months ended September 30, 2008, compared to \$383.4 million for the same period in 2007. The increase was primarily due to our contracts supporting forward deployments in Iraq, Afghanistan and other areas around the world and our acquisitions of MBI in December 2007 and ETG in August 2008. Approximately \$69.3 million of our increase in revenue was attributable to field engineering technical support contracts, including contracts for the installation and repair of systems designed to counter or clear mines and improvised explosive devices (IEDs). For the three months ending September 30, 2008, revenue increases related to our recent acquisitions, ETG and MBI, totaled \$12.0 million.

Cost of services

Cost of services increased 27.0% to \$408.0 million for the three months ended September 30, 2008, compared to \$321.1 million for the same period in 2007. The increase in cost of services was primarily due to larger purchases of equipment and materials directly for contracts and our acquisitions of MBI in December 2007 and ETG in August 2008. As a percentage of

Table of Contents

revenues, cost of services increased 0.1% to 83.9% for the three months ended September 30, 2008 as compared to 83.8% for the same period in 2007. Direct labor costs, which include applicable fringe benefits and overhead, increased by 15.6% primarily due to escalations on our global property management and our counter mine and route clearance contracts as well as the acquisitions of MBI and ETG. Other direct costs, which include subcontractors and third party equipment and materials used in the performance of our contracts, increased by 37.9% over the same period in 2007. The increase in other direct costs was primarily due to an increase in purchases of equipment and materials on our contracts for installation and repair of systems designed to counter or clear mines and IEDs, as noted above. As a percentage of revenues, other direct costs increased from 42.9% for the three months ended September 30, 2007 to 46.7% for the same period in 2008.

General and administrative expenses

General and administrative expenses increased 19.0% to \$37.8 million for the three months ended September 30, 2008, compared to \$31.8 million for the same period in 2007. The increase in expense resulted primarily from the acquisition of MBI and ETG and increased spending to support the growth of our business. As a percentage of revenues, general and administrative expenses decreased to 7.8% from 8.3% for the three months ended September 30, 2008 and 2007, respectively. The reduction as a percentage of revenues was largely due to the leveraging of our administrative expenses over a larger revenue base. For the three months ended September 30, 2008 and 2007, we recognized \$1.6 million and \$1.8 million in share-based compensation expense under Statement of Financial Accounting Standards (SFAS) No. 123R, respectively.

Interest expense

Interest expense decreased \$0.9 million to \$1.0 million for the three months ended September 30, 2008, compared to \$1.9 million for the same period in 2007. The decrease in interest expense is a result of more favorable interest rates on our borrowings as well as lower debt levels. For the three months ended September 30, 2008, we had an average debt balance of \$93.5 million compared to \$126.4 million for the same period in 2007. The interest rate we incur on our credit facility is impacted by changes in the Federal Funds or LIBOR rates. Changes in these lending rates could lead to fluctuations in our interest expense in future periods. For additional information, see Credit Agreement, below.

Interest income

Interest income increased slightly from \$0.2 million to \$0.4 million for the three months ended September 30, 2008, compared to \$0.2 million for the same period in 2007.

Net income

Net income increased 36.6% to \$23.9 million for the three months ended September 30, 2008, compared to \$17.5 million for the same period in 2007. The increase is a result of higher revenue and increased income from continuing operations as well improved margins primarily driven by the leveraging our administrative expenses over a larger revenue base. Our effective tax rates for the three months ended September 30, 2008 and 2007 were 39.6% and 38.9%, respectively.

Table of Contents*Nine Months Ended September 30, 2008 Compared to the Nine Months Ended September 30, 2007*

	Condensed Consolidated Statements of Income					
	Nine Months Ended September 30,				Period to Period Change	
	2008	2007	2008	2007	2007 to 2008	
	Dollars		Percentages		Dollars	Percent
	(dollars in thousands)					
REVENUES	\$ 1,376,170	\$ 1,026,344	100.0%	100.0%	\$ 349,826	34.1%
Cost of services	1,155,055	860,289	83.9%	83.8%	294,766	34.3%
General and administrative expenses	109,127	88,791	7.9%	8.7%	20,336	22.9%
OPERATING INCOME	111,988	77,264	8.1%	7.5%	34,724	44.9%
Interest expense	(3,573)	(3,423)	0.3%	0.3%	(150)	4.4%
Interest income	711	1,106	0.1%	0.1%	(395)	-35.7%
Other (expense) income, net	(355)	262	0.0%	0.0%	(617)	-235.5%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	108,771	75,209	7.9%	7.3%	33,562	44.6%
Provision for income taxes	(43,078)	(29,262)	3.1%	2.9%	(13,816)	47.2%
INCOME FROM CONTINUING OPERATIONS	65,693	45,947	4.8%	4.5%	19,746	43.0%
(Loss) from operations of discontinued component, net of taxes		(458)	0.0%	0.0%	458	-100.0%
Gain on sale of discontinued operation, net of taxes		338	0.0%	0.0%	(338)	-100.0%
NET INCOME	\$ 65,693	\$ 45,827	4.8%	4.5%	\$ 19,866	43.3%

Revenues

Revenues increased 34.1% to \$1,376.2 million for the nine months ended September 30, 2008, compared to \$1,026.3 million for the same period in 2007. The increase was primarily due to our contracts supporting forward deployments in Iraq, Afghanistan and other areas around the world and our acquisitions of SRS in May 2007, MBI in December 2007 and ETG in August 2008. Revenue growth of \$188.0 million came from field engineering technical support contracts, including contracts for the installation and repair of systems designed to counter or clear mines and IEDs. For the nine months ending September 30, 2008, our recent acquisitions, ETG, MBI and SRS, contributed revenue increases of \$116.0 million.

Due to our recent acquisitions and continued support of the global war on terrorism, including wars in Iraq and Afghanistan, we expect our growth trend to continue for the remainder of 2008. However, events that we are unable to predict, such as changes in U.S. policy and tactics related to the wars, may impact our future performance trend.

Cost of services

Cost of services increased 34.3% to \$1,155.1 million for the nine months ended September 30, 2008, compared to \$860.3 million for the same period in 2007. The increase in cost of services is primarily due to larger purchases of equipment and materials directly for contracts and our acquisitions of SRS, MBI and ETG. As a percentage of revenues, cost of services increased \$294.8 to 83.9% for the nine months ended September 30, 2008 as compared to 83.8% for the same period in 2007. Direct labor costs, which include applicable fringe benefits and overhead, increased by 25.0% primarily due the acquisitions of SRS, MBI and ETG and growth in staff supporting field engineering and maintenance activities. As a percentage of revenues, direct labor costs decreased 2.8% to 38.9% for the nine months ended September 30, 2008 compared to 41.7% for the same period in 2007. The decrease in direct labor as a percentage of revenues is primarily due to an increase in other direct costs in relation to revenues. Other direct costs, which include subcontractors and third party equipment and materials used in the performance of our contracts, increased by 43.5% over the same period in 2007. The increase in other direct costs was primarily due to an increase in purchases of equipment and materials on our contracts for installation and repair of systems designed to counter or clear mines and IEDs, as noted above, as well as our recent acquisitions. As a percentage of revenues, other direct costs increased from 42.1% for the nine months ended September 30, 2007 to 45.0% for the same period in 2008.

General and administrative expenses

General and administrative expenses increased 22.9% to \$109.1 million for the nine months ended September 30, 2008, compared to \$88.8 million for the same period in 2007. The increase in expense resulted primarily from the acquisitions of SRS, MBI and ETG and increased spending to support the growth of our business. As a percentage of revenues, general and

Table of Contents

administrative expenses decreased to 7.9% from 8.7% for the nine months ended September 30, 2008 and 2007, respectively. The reduction as a percentage of revenues was largely due to the benefit of a management cost cutting initiative in 2007 and leveraging our administrative expenses over a larger revenue base. For the nine months ended September 30, 2008 and 2007, we recognized \$5.0 million and \$5.2 million, respectively, in share-based compensation expense under Statement of Financial Accounting Standards (SFAS) No. 123R, respectively.

Interest expense

Interest expense increased \$0.2 million to \$3.6 million for the nine months ended September 30, 2008, compared to \$3.4 million for the same period in 2007. The increase in interest expense is a result of borrowings under our credit facility during the latter parts of 2007 to support our acquisitions. For the nine months ended September 30, 2008, we had an average debt balance of \$93.5 million compared to \$74.0 million for the same period in 2007. The interest rate we incur on our credit facility is impacted by changes in the Federal Funds Rate or LIBOR. Changes in these lending rates could lead to fluctuations in our interest expense in future periods. For additional information, see Credit Agreement, below.

Interest income

Interest income decreased \$0.4 million to \$0.7 million of the nine months ended September 30, 2008, compared to \$1.1 million for the same period in 2007. During the first four months of 2007, we did not have any outstanding borrowings. As a result we had cash on hand which generated interest income during that period. We have utilized our credit facility to fund our recent acquisitions and have generated less interest income for the remaining months of 2007 and the nine months ended September 30, 2008.

Net income

Net income increased 43.3% to \$65.7 million for the nine months ended September 30, 2008, compared to \$45.8 million for the same period in 2007. The increase is a result of higher revenue and increased income from continuing operations as well improved margins primarily driven by the leveraging our administrative expenses over a larger revenue base. Our effective tax rates for the nine months ended September 30, 2008 and 2007 were 39.6% and 38.9%, respectively.

Backlog

At September 30, 2008 and December 31, 2007, our backlog was \$4.3 billion and \$3.2 billion, respectively, of which \$1.2 billion and \$0.8 billion, respectively, was funded backlog. Approximately \$0.8 billion of the increase in our backlog from December 31, 2007 was due to a contract related to IED detection, removal and route clearance support which was awarded in the third quarter. At September 30, 2007, our backlog was \$3.5 billion, of which \$0.8 billion was funded backlog. Backlog represents estimates that we calculate on a consistent basis. Additional information on how we determine backlog is included in our annual report on Form 10-K for the fiscal year ended December 31, 2007, previously filed with the SEC.

Effects of Inflation

Inflation and uncertainties in the macroeconomic environment, such as conditions in financial markets could impact our labor rates beyond the predetermined escalation factors. However, we generally have been able to price our contracts in a manner to accommodate the rates of inflation experienced in recent years. Under our time and materials contracts, labor rates are usually adjusted annually by predetermined escalation factors. Our cost reimbursable contracts automatically adjust for changes in cost. Under our fixed-price contracts, we include a predetermined escalation factor, but generally, we have not been adversely affected by inflation. Purchases of equipment and materials directly for contracts are usually cost reimbursable.

In addition, inflation or inflationary concerns could prompt the Federal Reserve to begin increasing the federal funds rate. As the borrowing rate in our credit facility is tied to the federal funds rate, increases in this rate, given similar levels of debt, could lead to higher interest expense. However, the Federal Reserve recently cut this rate because the pace of U.S. economic activity appears to have slowed and inflation is expected to moderate as a result of lower energy and commodities prices.

Liquidity and Capital Resources

Our primary liquidity needs are the financing of acquisitions, working capital, and capital expenditures. Our primary source of liquidity is cash provided by operations and our revolving credit facility. At September 30, 2008, we had \$44.9 million outstanding under our credit facility. At September 30, 2008, we were contingently liable under letters of credit totaling \$0.7 million, which reduces our ability to borrow under our credit facility. The maximum available borrowing under our credit facility at September 30, 2008 was \$254.4 million. Generally, cash provided

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

by operating activities is adequate to fund our operations. Due to fluctuations in our cash flows and the growth in our operations, it is necessary from time to time to increase borrowings under our credit facility to meet cash demands. In the future, we may borrow greater amounts in order to finance acquisitions or new contract start ups.

Table of Contents*Net cash flows from operating activities*

(in thousands)	Nine months ended September 30,	
	2008	2007
Cash provided by operating activities from continuing operations:	\$ 116,894	\$ 64,144
Cash used by discontinued operations:		(1,562)
Cash provided by operating activities:	\$ 116,894	\$ 62,582

Cash provided by operating activities from continuing operations for the nine months ended September 30, 2008 was \$116.9 million, compared to \$64.1 million for the nine months ended September 30, 2007. The increase in cash provided by operating activities for the nine months ended September 30, 2008 compared to the same period in 2007 of \$52.8 million was primarily due to a \$22.2 million increase in earnings (adjusted for non cash items), an increase in accounts payable and accrued expenses and accrued salaries and related expenses of \$29.5 million. The increase in accounts payable and accrued expenses is due to higher costs accrued for project related direct costs. The reduced cash outflow from discontinued operations is the result of the sale of our ManTech MSM Security Services, Inc. (MSM) subsidiary on February 23, 2007.

Net cash flows from investing activities

(in thousands)	Nine months ended September 30,	
	2008	2007
Cash used in investing activities from continuing operations:	\$ (24,652)	\$ (198,037)
Cash provided by investing activities from discontinued operations:		3,000
Cash used in investing activities:	\$ (24,652)	\$ (195,037)

Cash used in investing activities from continuing operations was \$24.7 million for the nine months ended September 30, 2008, compared to cash used in investing activities from continuing operations of \$198.0 million for the same period in 2007. The cash outflows from continuing operations in 2008 are primarily the result of our purchase of ETG, investments in property, plant, and equipment and internally used software to support our business. The cash outflows in 2008 were partially offset by proceeds from the payment of a note receivable in connection with the sale of an equity investment. For additional information, see Note 15 to the Condensed Consolidated Financial Statements in Part I, Item 1. The cash outflows from continuing operations in 2007 were primarily the result of our acquisition of SRS on May 7, 2007 and our investment in equipment and internally used software. Also in 2007, we had a cash inflow of \$1.8 million from the sale of office buildings and land that we acquired in 2005. For the nine months ended September 30, 2007, we had an investing cash inflow from discontinued operations of \$3.0 million from the sale of our MSM subsidiary. For additional information see Discontinued Operations below. Cash flow from investing activities can fluctuate significantly with the execution of our acquisition strategy.

Net cash flows from financing activities

(in thousands)	Nine months ended September 30,	
	2008	2007
Cash (used in) provided by financing activities:	\$ (93,335)	\$ 94,483

Cash used in financing activities was \$93.3 million for the nine months ended September 30, 2008, compared to cash provided by financing activities of \$94.5 million for the same period in 2007. The net cash used in financing activities for the nine months ended September 30, 2008 resulted from net payments on our credit facility of \$120.1 million partially offset by proceeds from the exercise of stock options along with the related tax benefits of \$26.8 million. For the nine months ended September 30, 2007 cash provided by financing activities primarily resulted from the use of our credit facility to support the acquisition of SRS and proceeds from the exercise of stock options and the related tax benefits. In addition, we acquired treasury stock with a cost of \$9.1 million related to the distribution of a supplemental executive retirement plan (SERP) for our Chairman and Chief Executive Officer (for additional information, see Note 13 Retirement Plan Distribution and Treasury Stock Acquisition to our Condensed Consolidated Financial Statements in Part I, Item 1). The cash outflow for the acquisition of treasury stock was

partially offset by the excess tax benefits generated by the SERP transaction of \$8.6 million.

Cash from financing activities is driven primarily from the proceeds on the exercise of stock options and their associated excess tax benefits as well as the use of our credit facility to fund operations and/or acquisitions.

Table of Contents

Credit Agreement

We maintain a revolving credit agreement with a syndicate of lenders led by Bank of America, N.A, as administrative agent. The credit agreement provides for a \$300.0 million revolving credit facility, with a \$25.0 million letter of credit sub limit and a \$30.0 million swing line loan sub limit. The credit agreement also contains an accordion feature that permits the Company to arrange with the lenders for them to provide up to \$100.0 million in additional commitments. The maturity date for the credit agreement is April 30, 2012.

Borrowings under the credit agreement are collateralized by our assets and bear interest at one of the following rates as selected by the Company: a LIBOR-based rate plus market-rate spreads that are determined based on a company leverage ratio calculation (0.875% to 1.5%), or the lender's base rate, which is the lower of the Federal Funds Rate plus 0.5% or Bank of America's prime lending rate.

The terms of the credit agreement permit prepayment and termination of the loan commitments at any time, subject to certain conditions. The credit agreement requires the Company to comply with specified financial covenants, including the maintenance of a certain leverage ratio and fixed charge coverage ratio. The credit agreement also contains various covenants, including affirmative covenants with respect to certain reporting requirements and maintaining certain business activities, and negative covenants that, among other things, may limit our ability to incur liens, incur additional indebtedness, make investments, make acquisitions, pay cash dividends, and undertake certain additional actions. As of September 30, 2008, we were in compliance with our financial covenants under the credit agreement.

We believe the capital resources available to us under our credit agreement and cash from our operations are adequate to fund our ongoing operations and to support the internal growth we expect to achieve for at least the next twelve months. We anticipate financing our external growth from acquisitions and our longer-term internal growth through one or more of the following sources: cash from operations; additional borrowing; issuance of equity; use of the credit agreement; or a refinancing of our credit agreement.

Discontinued Operations

On February 23, 2007, we sold ManTech MSM Security Services, Inc. (MSM) to MSM Security Services Holdings, LLC for \$3.0 million in cash. The sale resulted in a pre-tax gain of \$0.6 million recorded in the first quarter of 2007. MSM Security Services Holdings LLC is solely owned by George J. Pedersen, ManTech's Chairman and Chief Executive Officer. Mr. Pedersen presented an offer to the ManTech Board of Directors to purchase our MSM subsidiary. Mr. Pedersen's offer exceeded the value of any other definitive offer extended to the Company.

The transaction was approved by ManTech's independent directors after receiving unanimous recommendation for approval of the transaction from a special committee of the Board, comprised solely of independent directors. The special committee had retained the services of independent legal counsel and independent financial advisors to advise the committee and assist it in connection with its duties.

During 2007, the condensed consolidated financial statements and related note disclosures reflected the MSM subsidiary as Long-Lived Assets to Be Disposed of by Sale in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. As such in 2007, MSM was classified as held for sale in the condensed consolidated balance sheets and discontinued operations, net of applicable income taxes in the condensed consolidated statements of income.

Critical Accounting Estimates and Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. Application of these policies is particularly important to the portrayal of our financial condition and results of operations. The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses. Actual results may differ from these estimates under different assumptions or conditions. Our significant accounting policies, including the critical policies listed below, are fully described and discussed in our annual report on Form 10-K for the fiscal year ended December 31, 2007, previously filed with the SEC.

Table of Contents

Revenue Recognition and Cost Estimation

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

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

We derive the majority of our revenue from cost-plus-fixed-fee, cost-plus-award-fee, firm-fixed-price, or time-and-materials contracts. Revenues for cost-reimbursement contracts are recorded as reimbursable costs are incurred, including an estimated share of the applicable contractual fees earned. For performance-based fees under cost reimbursable contracts, that are subject to the provisions of American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (SOP 81-1), we recognize the relevant portion of the expected fee to be awarded by the client at the time such fee can be reasonably estimated, based on factors such as our prior award experience and communications with the client regarding performance. For cost reimbursable contracts with performance-based fee incentives that are subject to the provisions of U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104), we recognize the relevant portion of the fee upon customer approval. For time-and-material contracts, revenue is recognized to the extent of billable rates times hours delivered plus material and other reimbursable costs incurred. For long-term fixed-price production contracts, revenue is recognized at a rate per unit as the units are delivered, or by other methods to measure services provided. Revenue from other long-term fixed-price contracts is recognized ratably over the contract period or by other appropriate methods to measure services provided. Contract costs are expensed as incurred except for certain limited long-term contracts noted below. For long-term contracts which are specifically described in the scope section of SOP 81-1 or other appropriate accounting literature we apply the percentage of completion method. Under the percentage of completion method, income is recognized at a consistent profit margin over the period of performance based on estimated profit margins at completion of the contract. This method of accounting requires estimating the total revenues and total contract cost at completion of the contract. During the performance of long-term contracts, these estimates are periodically reviewed and revisions are made as required. The impact on revenue and contract profit as a result of these revisions is included in the periods in which the revisions are made. This method can result in the deferral of costs or the deferral of profit on these contracts. Because we assume the risk of performing a fixed-price contract at a set price, the failure to accurately estimate ultimate costs or to control costs during performance of the work could result, and in some instances has resulted, in reduced profits or losses for such contracts. Estimated losses on contracts at completion are recognized when identified. In certain circumstances, revenues are recognized when contract amendments have not been finalized.

Accounting for Business Combinations and Goodwill

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

We review goodwill at least annually for impairment. We have elected to perform this review annually during the second quarter of each calendar year and no adjustments were necessary for our continuing operations.

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

Other Matters

Our significant accounting policies, including the critical policies listed above, are described in the notes to the consolidated financial statements for the year ended December 31, 2007, included in our Annual Report on Form 10-K filed with the SEC on March 17, 2008.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, (SFAS 157) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. A fair value hierarchy was established to

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

classify the inputs used in measuring fair value. Disclosure requirements require disclosure of the level in the fair value hierarchy in which the fair value measurements in their entirety fall. On February 12,

Table of Contents

2008, the FASB deferred the effective date for nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008. For fiscal years beginning after November 15, 2007, the Company was required to implement SFAS 157 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in the financial statements. Effective January 1, 2008 we categorized our financial assets and liabilities measured at fair value by level in the hierarchy based on the priority of the inputs used in the valuation technique to measure fair value. See Note 14 to the Condensed Consolidated Financial Statements in Item 1 for expanded disclosure requirements. We do not believe the adoption of SFAS 157 for nonfinancial assets and liabilities will have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities Including an amendment of FASB Statement No. 115*, (SFAS 159) which permits entities to measure eligible items at fair value. For items where the fair value election is made, we will be required to report unrealized gains or losses in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. As of September 30, 2008, our financial assets and liabilities currently held are excluded from the provisions of SFAS 159. In the event that we acquire a significant qualifying investment or liability, or our debt currently held is modified we would reevaluate the options available to us under the provisions of SFAS 159.

In March 2007, the FASB Emerging Issues Task Force ratified Issue 06-10 (EITF 06-10), *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements*, which clarifies the treatment of split dollar life insurance arrangements in regards to SFAS 106 and Accounting Principles Board Opinion No. 12 (APB 12). An employer should recognize a liability for future benefits in accordance with SFAS 106 (if, in substance, a postretirement benefit plan exists) or APB 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee.

EITF 06-10 is effective for fiscal years beginning after December 15, 2007. We have evaluated EITF 06-10 and have determined that it does not have a material impact on our results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, (SFAS 141R). The new standard moves closer to a fair value model by requiring the acquirer to measure all assets acquired and all liabilities assumed at their respective fair values at the date of acquisition, including the measurement of noncontrolling interests at fair value. The Statement also establishes principles and requirements as to how the acquirer recognizes and measures goodwill acquired in a business combination or a gain from a bargain purchase and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. In addition, SFAS 141R significantly changes the accounting for business combinations in a number of areas, including the treatment of contingent consideration, preacquisition contingencies, in-process research and development, restructuring costs, and requires the expensing of acquisition-related costs as incurred.

The effective date of SFAS 141R is for fiscal years beginning after December 15, 2008. For transactions consummated after the effective date of SFAS 141R, prospective application of the new standard is applied. For business combinations consummated prior to the effective date of SFAS 141R, the guidance in SFAS 141 is applied.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, (SFAS 160) which amends Accounting Research Bulletin No. 51 and provides accounting and reporting standards for the noncontrolling interest in a subsidiary, commonly referred to as minority interest, and for the deconsolidation of a subsidiary. The new standard requires noncontrolling interests to be presented separately within equity in the consolidated statement of financial position. Consolidated net income attributable to the parent and noncontrolling interests will be clearly identified and presented on the face of the statement of operations. When a change in control of a subsidiary occurs it will either be accounted for as an equity transaction, when control is maintained, or a gain or loss will be recognized when control is not maintained. The remaining noncontrolling interest will be remeasured to fair value when control is lost. SFAS 160 requires that the noncontrolling interest continue to be attributed its share of losses and thus is no longer limited to the original carrying amount of the noncontrolling interest. This may result in a negative carrying balance.

The effective date of SFAS 160 is for fiscal years beginning after December 15, 2008. The Statement will be applied prospectively as of the beginning of the year in which the Statement is adopted except for presentation and disclosure requirements which will be applied retrospectively for all periods presented. We do not expect the adoption of SFAS 160 to have a material impact on our consolidated financial statements.

On April 25, 2008, the FASB issued FASB Staff Position (FSP) No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, (FSP 142-3). This FSP addresses determining the useful life of an intangible asset when the intangible asset has renewal or extension options. FSP 142-3 amends Statement 142 useful life assessment criteria in regards to developing

Table of Contents

assumptions about renewal or extension options to allow entities to consider its own historical experience in renewing or extending similar arrangements adjusted for entity-specific factors. Statement 142 requires entities to determine whether the renewal or extension can be accomplished without substantial cost or material modifications of the existing terms and conditions in connection with the asset. FSP 142-3 removes the criteria to consider whether an intangible asset can be renewed without substantial cost or material modification. The guidance in FSP 142-3 applies prospectively to intangible assets acquired after December 15, 2008, the effective date of the FSP. The new disclosure requirements of FSP 142-3 apply to all intangible assets recognized as of, and subsequent to December 15, 2008. We do not believe the adoption of FSP 142-3 will have a material impact on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, (SFAS 162) which establishes the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles (GAAP). The current GAAP hierarchy is set forth in the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards N0. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. In issuing SFAS 162, the GAAP hierarchy now resides in accounting literature established by the FASB versus the AICPA. The adoption of SFAS 162 will not impact our current practice of preparing financial statements in conformity with GAAP.

Forward-Looking Statements

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

Although forward-looking statements in this Quarterly Report reflect the good faith judgment of management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to predict accurately or control. Factors that could cause actual results to differ materially from the results we anticipate include, but are not limited to, the following:

adverse changes in U.S. government spending priorities;

failure to retain existing U.S. government contracts, win new contracts or win re-completes;

adverse results of U.S. government audits of our government contracts;

risks associated with complex U.S. government procurement laws and regulations;

adverse effect of contract consolidations;

risk of contract performance or termination;

failure to obtain option awards, task orders or funding under contracts;

adverse changes in our mix of contract types;

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

failure to identify, execute or effectively integrate future acquisitions;

risks of financing, such as increases in interest rates and restrictions imposed by our credit agreement, including our ability to meet existing financial covenants; and

competition.

We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report. These and other risk factors are more fully described and discussed in our annual report on Form 10-K for the fiscal year ended December 31, 2007, previously filed with the SEC, those referenced in Item 1A of Part II below, and from time to time, in our other filings with the SEC. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report. We also suggest that you carefully review and consider the various disclosures made in this Quarterly Report that attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Table of Contents

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Our exposure to market risk relates to changes in interest rates for borrowings under our revolving credit facility. These borrowings bear interest at variable rates. As of September 30, 2008, we had \$44.9 million outstanding under our revolving credit facility. A hypothetical 10% increase in interest rates would have increased our interest expense by \$0.2 million for the nine months ended September 30, 2008.

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

Item 4. Controls and Procedures

As of September 30, 2008, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), management evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report, such that the information relating to us that is required to be disclosed in our reports filed with the SEC (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to certain legal proceedings, government audits, investigations, claims and disputes that arise in the ordinary course of our business. Like most large government defense contractors, our contract costs are audited and reviewed on a continual basis by an in-house staff of auditors from the Defense Contract Auditing Agency. In addition to these routine audits, we are subject from time to time to audits and investigations by other agencies of the federal government. These audits and investigations are conducted to determine if our performance and administration of our government contracts are compliant with contractual requirements and applicable federal statutes and regulations. An audit or investigation may result in a finding that our performance, systems and administration is compliant or, alternatively, may result in the government initiating proceedings against us or our employees, including administrative proceedings seeking repayment of monies, suspension and/or debarment from doing business with the federal government or a particular agency, or civil or criminal proceedings seeking penalties and/or fines. Audits and investigations conducted by the federal government frequently span several years.

Although we cannot predict the outcome of these and other legal proceedings, investigations, claims and disputes, based on the information now available to us, we do not believe the ultimate resolution of these matters, either individually or in the aggregate, will have a material adverse effect on our business, prospects, financial condition, operating results, or cash flows.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K:

The following lists certain exhibits either filed herewith or filed with the SEC during the fiscal quarter ended September 30, 2008.

Exhibit No. Description

- | | |
|------|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended. |

Filed herewith

Table of Contents

SIGNATURES

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

MANTECH INTERNATIONAL CORPORATION

Date: November 3, 2008

By: /s/ GEORGE J. PEDERSEN
Name: **George J. Pedersen**
Title: **Chairman of the Board of Directors and Chief Executive Officer**

Date: November 3, 2008

By: /s/ KEVIN M. PHILLIPS
Name: **Kevin M. Phillips**
Title: **Chief Financial Officer**