

MANTECH INTERNATIONAL CORP
Form 10-Q
July 31, 2009
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 July 29, 2009 there were outstanding 21,991,219 shares of our Class A common stock and 13,678,345 shares of our Class B common stock.

Table of Contents

MANTECH INTERNATIONAL CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED June 30, 2009

INDEX

	Page No.
<u>PART I - FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets at June 30, 2009 and December 31, 2008</u>	3
<u>Condensed Consolidated Statements of Income for the Three and Six Months Ended June 30, 2009 and 2008</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2009 and 2008</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2009 and 2008</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7-14
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	23
Item 4. <u>Controls and Procedures</u>	23
<u>PART II - OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	24
Item 1A. <u>Risk Factors</u>	24
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	24
Item 6. <u>Exhibits</u>	24

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)	
	June 30, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 33,441	\$ 4,375
Receivables net	378,677	407,248
Prepaid expenses and other	12,180	14,200
Total Current Assets	424,298	425,823
Property and equipment net	14,513	16,563
Goodwill	488,087	479,516
Other intangibles net	79,164	78,710
Employee supplemental savings plan assets	16,635	14,771
Other assets	5,891	6,329
TOTAL ASSETS	\$ 1,028,588	\$ 1,021,712
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of debt	\$ 20,000	\$ 44,100
Accounts payable and accrued expenses	129,926	157,407
Accrued salaries and related expenses	70,059	75,121
Billings in excess of revenue earned	8,470	8,451
Total Current Liabilities	228,455	285,079
Accrued retirement	17,621	15,930
Other long-term liabilities	7,881	7,769
Deferred income taxes non-current	34,478	32,398
TOTAL LIABILITIES	288,435	341,176
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Common stock, Class A \$0.01 par value; 150,000,000 shares authorized; 22,173,268 and 21,765,004 shares issued at June 30, 2009 and December 31, 2008; 21,930,228 and 21,521,964 shares outstanding at June 30, 2009 and December 31, 2008	222	218
Common stock, Class B \$0.01 par value; 50,000,000 shares authorized; 13,678,345 and 13,958,345 shares issued and outstanding at June 30, 2009 and December 31, 2008	137	140
Additional paid-in capital	344,527	336,454

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Treasury stock, 243,040 shares at cost at June 30, 2009 and December 31, 2008	(9,114)	(9,114)
Retained earnings	405,988	352,978
Accumulated other comprehensive loss	(141)	(140)
Unearned Employee Stock Ownership Plan shares	(1,466)	
TOTAL STOCKHOLDERS EQUITY	740,153	680,536
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 1,028,588	\$ 1,021,712

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 June 30,		Six months ended June 30,	
	2009	2008	2009	2008
REVENUES	\$ 514,068	\$ 464,970	\$ 963,638	\$ 890,042
Cost of services	422,242	391,364	792,546	747,082
General and administrative expenses	46,953	36,496	85,861	71,296
OPERATING INCOME	44,873	37,110	85,231	71,664
Interest expense	(404)	(969)	(707)	(2,611)
Interest income	47	131	116	341
Other income (expense), net	111	(12)	108	(132)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	44,627	36,260	84,748	69,262
Provision for income taxes	(16,095)	(14,364)	(31,738)	(27,433)
NET INCOME	\$ 28,532	\$ 21,896	\$ 53,010	\$ 41,829
BASIC EARNINGS PER SHARE:				
Class A basic earnings per share	\$ 0.80	\$ 0.63	\$ 1.49	\$ 1.21
Weighted average common shares outstanding	21,909	20,835	21,752	20,577
Class B basic earnings per share	\$ 0.80	\$ 0.63	\$ 1.49	\$ 1.21
Weighted average common shares outstanding	13,678	14,033	13,795	14,135
DILUTED EARNINGS PER SHARE:				
Class A diluted earnings per share	\$ 0.80	\$ 0.62	\$ 1.48	\$ 1.19
Weighted average common shares outstanding	22,146	21,298	22,055	21,040
Class B diluted earnings per share	\$ 0.80	\$ 0.62	\$ 1.48	\$ 1.19
Weighted average common shares outstanding	13,678	14,033	13,795	14,135

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 June 30, 2009	2008	Six months ended June 30, 2009	2008
NET INCOME	\$ 28,532	\$ 21,896	\$ 53,010	\$ 41,829
OTHER COMPREHENSIVE INCOME:				
Translation adjustment	4	(48)	(1)	(46)
Total other comprehensive income	4	(48)	(1)	(46)
COMPREHENSIVE INCOME	\$ 28,536	\$ 21,848	\$ 53,009	\$ 41,783

See notes to condensed consolidated financial statements.

Table of Contents**MANTECH INTERNATIONAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Dollars in Thousands)**

	(unaudited)	
	Six months ended June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 53,010	\$ 41,829
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	3,572	3,363
Excess tax benefits from exercise of stock options	(243)	(3,301)
Deferred income taxes	1,224	3,121
Depreciation and amortization	8,839	8,311
Change in assets and liabilities net of effects from acquired businesses:		
Receivables-net	29,858	(16,635)
Prepaid expenses and other	2,871	(3,192)
Accounts payable and accrued expenses	(27,311)	13,897
Accrued salaries and related expenses	(5,420)	4,707
Billings in excess of revenue earned	19	(2,390)
Accrued retirement	(173)	(615)
Other	639	1,252
Net cash flow from operating activities	66,885	50,347
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,553)	(3,076)
Investment in capitalized software for internal use	(1,353)	(1,001)
Proceeds from note receivable		5,126
Acquisition of businesses - net of cash acquired	(13,645)	(381)
Net cash flow from investing activities	(16,551)	668
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	2,589	14,650
Excess tax benefits from the exercise of stock options	243	3,301
Net repayment under the line of credit	(24,100)	(67,000)
Net cash flow from financing activities	(21,268)	(49,049)
NET INCREASE IN CASH AND CASH EQUIVALENTS	29,066	1,966
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,375	8,048
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 33,441	\$ 10,014
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	\$ 32,280	\$ 26,056
Cash paid for interest	\$ 528	\$ 2,682

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Noncash financing activities:

Employee Stock Ownership Plan Contributions	\$ 1,691	\$ 1,169
---	----------	----------

See notes to condensed consolidated financial statements.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

UNAUDITED

1. Introduction and Overview

ManTech International Corporation (depending on the circumstances, ManTech Company we our ours or us) is a provider of information technologies and solutions for mission-critical national security programs for the Intelligence Community; the departments of Defense, State, Homeland Security and Justice; the Space Community; the National Oceanic and Atmospheric Administration; and other U.S. federal government customers. ManTech's expertise includes systems engineering, systems integration, software development 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, global logistics and supply chain management and service oriented architectures. The Company supports the advanced telecommunications systems that are used in Operation Iraqi Freedom and in other parts of the world; has developed a secure, collaborative communication system for the U.S. Department of Homeland Security; and builds and maintains secure databases that track terrorists. With approximately 8,000 highly qualified employees, we operate in approximately 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, 2008, previously filed with the SEC. We believe that the unaudited condensed consolidated financial statements in this Form 10-Q reflect all adjustments that are necessary to fairly present the financial position, results of operations and cash flows for the interim periods presented. The results of operations for such interim periods are not necessarily indicative of the results that can be expected for the full year. Management has evaluated subsequent events after the balance sheet date through the financial statement issuance date for appropriate accounting and disclosure.

3. Acquisitions

The DDK Technology Group, Inc. (DDK) acquisition has been accounted for using the acquisition method of accounting under Statement of Financial Accounting Standards (SFAS) No. 141(R), *Business Combination* (SFAS 141(R)). Acquisitions prior to January 1, 2009 have been accounted for using the purchase accounting method under SFAS 141, *Business Combinations*. Additional information related to our acquisitions can be found in our annual report on Form 10-K for the fiscal year ended December 31, 2008, previously filed with the SEC.

DDK Technology Group Acquisition On March 13, 2009, we completed the acquisition of all outstanding equity interests of DDK. The results of DDK's operations have been included in our condensed consolidated financial statements since that date. The acquisition was consummated pursuant to stock purchase agreement (DDK Purchase Agreement), dated March 13, 2009, by and among ManTech, DDK and the shareholders of DDK. DDK was a privately held company, providing information technology and cyber security for several Department of Defense agencies.

The final purchase price was \$14.0 million. The DDK Purchase Agreement does not contain provisions for contingent consideration. We primarily utilized borrowings under our credit agreement to finance the acquisition.

EWA Services Acquisition On November 28, 2008, we completed the acquisition of all outstanding equity interests of EWA Services, Inc. (EWA). EWA was a subsidiary of a privately-held company, providing information technology, threat analysis and test and evaluation services for several Department of Defense agencies. The acquisition of EWA has expanded our work in Department of Defense and Intelligence missions.

The initial purchase price was \$12.3 million, which included a \$0.3 million estimated working capital adjustment. The initial purchase price may be increased or reduced if the final closing working capital differs from the estimated closing working capital pursuant to the EWA Purchase Agreement. The initial purchase price may be reduced based on the collection of certain accounts receivable and the settlement of certain contingent liabilities. We expect to conclude on the purchase accounting prior to year end. We primarily utilized borrowings under our credit agreement to finance the acquisition.

Table of Contents

Emerging Technologies Group Acquisition On August 29, 2008, we completed the acquisition of all outstanding equity interests in Emerging Technologies Group, USA, Inc. (ETG). ETG was privately-held company, providing computer and network forensics supporting the counterterrorism and counter-intelligence mission around the world. ETG's customer base is focused primarily in the Intelligence Community and the Department of Defense. The acquisition of ETG has deepened our capabilities in the 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 price may be reduced based on the collection of certain accounts receivable. We primarily utilized borrowings under our credit agreement to finance the acquisition.

4. Earnings Per Share

In SFAS 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 are entitled to participate ratably, on a share-for-share basis as if all shares of common stock were of a single class, in such dividends, as may be declared by the Board of Directors 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 weighted average number of common shares outstanding is computed as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2009	2008	June 30, 2009	2008
Numerator for net income per Class A and Class B common stock:				
Net income	\$ 28,532	\$ 21,896	\$ 53,010	\$ 41,829
Numerator for basic net income Class A common stock	\$ 17,566	\$ 13,084	\$ 32,439	\$ 24,796
Numerator for basic net income Class B common stock	\$ 10,966	\$ 8,812	\$ 20,571	\$ 17,033
Numerator for diluted net income Class A common stock	\$ 17,638	\$ 13,199	\$ 32,613	\$ 25,020
Numerator for diluted net income Class B common stock	\$ 10,894	\$ 8,697	\$ 20,397	\$ 16,809
Basic weighted average common shares outstanding				
Class A common stock	21,909	20,835	21,752	20,577
Class B common stock	13,678	14,033	13,795	14,135
Effect of potential exercise of stock options				
Class A common stock	237	463	303	463
Class B common stock				
Diluted weighted average common shares outstanding - Class A	22,146	21,298	22,055	21,040
Diluted weighted average common shares outstanding - Class B	13,678	14,033	13,795	14,135

For the three months ended June 30, 2009 and 2008, options to purchase 1.6 million and 0.7 million 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 six months ended June 30, 2009 and

Table of Contents

2008, options to purchase 1.3 million and 0.8 million 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 six months ended June 30, 2009 and 2008, shares issued from the exercise of stock options were 0.1 million and 0.6 million, 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):

	June 30, 2009	December 31, 2008
Billed receivables	\$ 322,208	\$ 342,619
Unbilled receivables:		
Amounts billable	48,817	57,505
Revenues recorded in excess of funding	11,127	11,341
Revenues recorded in excess of milestone billings on fixed price contracts	688	929
Retainage	3,579	3,175
Allowance for doubtful accounts	(7,742)	(8,321)
	\$ 378,677	\$ 407,248

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 June 30, 2009, are expected to be substantially collected within one year except for approximately \$2.8 million.

6. Property and Equipment

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

	June 30, 2009	December 31, 2008
Furniture and equipment	\$ 26,964	\$ 27,196
Leasehold improvements	15,849	15,543
	42,813	42,739
Less: Accumulated depreciation and amortization	(28,300)	(26,176)
	\$ 14,513	\$ 16,563

7. Goodwill and Other Intangibles

SFAS 142, *Goodwill and Other Intangible Assets* requires, among other things, the discontinuance of goodwill amortization. Under SFAS 142, goodwill is to be reviewed at least annually for impairment; we have elected to perform this review annually during the second quarter each calendar year. These reviews indicated no impairment and therefore resulted in no adjustments in goodwill.

Table of Contents

The changes in the carrying amounts of goodwill during the year ended December 31, 2008 and the period ended June 30, 2009 are as follows (in thousands):

		Goodwill Balance
Net amount at December 31, 2007		\$ 451,832
Acquisition-ETG	\$ 18,349	
Additional consideration for the acquisition of MBI	223	
Additional consideration for the acquisition of SRS	120	
Acquisition-EWA	8,992	27,684
Net amount at December 31, 2008		\$ 479,516
Additional purchase adjustments related to EWA	\$ (336)	
Acquisition-DDK	8,907	8,571
Net amount at June 30, 2009		\$ 488,087

Intangible assets consisted of the following (in thousands):

	June 30, 2009			December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Contract and program intangibles	\$ 107,430	\$ 34,947	\$ 72,483	\$ 103,255	\$ 29,913	\$ 73,342
Capitalized software cost for sale	10,138	9,884	254	10,138	9,847	291
Capitalized software cost for internal use	17,630	11,251	6,379	15,119	10,093	5,026
Other	58	10	48	58	7	51
	\$ 135,256	\$ 56,092	\$ 79,164	\$ 128,570	\$ 49,860	\$ 78,710

Aggregate amortization expense relating to intangible assets for the three months ended June 30, 2009 and 2008 was \$3.1 million and \$3.0 million, respectively. Aggregate amortization expense relating to intangible assets for the six months ended June 30, 2009 and 2008 was \$6.2 million and \$6.0 million, respectively. We estimate that we will have the following amortization expense for the future periods indicated below (in thousands):

For the remaining six months ending December 31, 2009	\$ 6,257
Year ending:	
December 31, 2010	\$ 10,612
December 31, 2011	\$ 7,204
December 31, 2012	\$ 5,899
December 31, 2013	\$ 5,023
December 31, 2014	\$ 4,091

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 sublimit and a \$30.0 million swing line loan sublimit. 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.

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

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 London Interbank Offer Rate (LIBOR) based rate plus market-rate spreads that are determined based on the Company's 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 June 30, 2009, the borrowing rate on our outstanding debt was 1.19%.

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 June 30, 2009, we were in compliance with our financial covenants under the credit agreement.

Table of Contents

We had \$20.0 million outstanding on our credit facility at June 30, 2009 and \$44.1 million outstanding at December 31, 2008. As of June 30, 2009, we were contingently liable under letters of credit totaling \$0.7 million, which reduces our availability to borrow under our credit facility. The maximum additional available borrowing under the credit facility at June 30, 2009 was \$279.3 million.

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 Defense Contract Audit Agency (DCAA). The majority of audits for 2002, 2003 and 2004 have been completed and resulted in no material adjustments. The remaining audits for 2002 through 2008 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 1, 2009, 532,205 additional shares were made available for issuance under the Plan. Through June 30, 2009, the aggregate number of shares of our common stock authorized for issuance under the Plan was 1,972,473. Through June 30, 2009, 3,433,090 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 the Board of Directors' authority to administer and interpret the Plan, including the discretion to determine the exercise price, vesting schedule, contractual life and the number of shares to be issued.

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 six months ended June 30, 2009 and 2008, 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.

Stock Compensation Expense For the three months ended June 30, 2009 and 2008, we recorded \$1.8 million and \$1.6 million of stock-based compensation cost, respectively. For the six months ended June 30, 2009 and 2008, we recorded \$3.6 million and \$3.4 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 June 30, 2009, there was \$12.4 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 2.0 years. For the six months ended June 30, 2009 and 2008, the total recognized tax benefits from the exercise of stock options were \$0.2 million and \$3.6 million respectively.

Fair Value Determination We have used 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.

Table of Contents

The following weighted-average assumptions were used for option grants during the six months ended June 30, 2009 and 2008:

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 six months ended June 30, 2009 and 2008, we used a volatility of 40.3% and 34.3%, respectively.

Expected Term. The expected term of options granted to employees during the six months ended June 30, 2009 and 2008 was determined from historical exercises of the grantee population. For all grants valued during the six months ended June 30, 2009 and 2008, the options had graded vesting over 3 years (33.3% of the options in each grant vest annually) and the contractual term was 5 years. For the six months ended June 30, 2009 and 2008, the options had a weighted-average expected term of 2.85 years and 2.92 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 six months ended June 30, 2009 and 2008, the weighted-average risk-free interest rate used was 1.3% and 1.7%, 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 six months ended June 30, 2009 and 2008 was zero, respectively.

Stock Option Activity During the six months ended June 30, 2009, we granted stock options to purchase 667,000 shares of Class A common stock at a weighted-average exercise price of \$43.48 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 six months ended June 30, 2009 and 2008, as determined under the Black-Scholes-Merton valuation model, was \$12.19 and \$10.53, respectively. These options vest in three equal installments over three years and have a contractual term of 5 years. Option grants that vested during the six months ended June 30, 2009 and 2008 had a combined fair value of \$4.7 million and \$4.9 million, respectively.

Information with respect to stock option activity and stock options outstanding for the year ended December 31, 2008 and the six months ended June 30, 2009.

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Shares under option, December 31, 2007	2,301,242	\$ 28.30	
Options granted	724,250	\$ 45.27	
Options exercised	(922,014)	\$ 24.61	\$ 24,383
Options cancelled and expired	(142,329)	\$ 36.55	
Shares under option, December 31, 2008	1,961,149	\$ 35.75	\$ 36,164
Options granted	667,000	\$ 43.48	
Options exercised	(89,107)	\$ 29.08	\$ 1,244
Options cancelled and expired	(99,750)	\$ 40.87	
Shares under option, June 30, 2009	2,439,292	\$ 37.92	\$ 12,493

The following table summarizes nonvested stock options for the six months ended June 30, 2009:

	Number of Shares	Weighted Average Fair Value
Nonvested stock options at December 31, 2008	1,314,862	\$ 11.51

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Options granted	667,000	\$	12.19
Vested during period	(429,458)	\$	11.03
Options cancelled	(98,583)	\$	11.02
Nonvested shares under option, June 30, 2009	1,453,821	\$	12.02

Table of Contents

Information concerning stock options outstanding and stock options expected to vest at June 30, 2009:

	Options Exercisable and Expected to Vest	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Stock options exercisable	985,471	3.2	\$ 30.37	\$ 12,485
Stock options expected to vest	1,248,561	3.7	\$ 43.09	\$ (67)
Options exercisable and expected to vest	2,234,032			

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 98.1% and 98.0% of our total revenue for the six months ended June 30, 2009 and 2008, 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 June 30, 2009 and December 31, 2008. Revenues by geographic customer and the related percentages of total revenues for the three and six months ended June 30, 2009 and 2008 were as follows (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2009		2008		2009		2008	
United States	\$ 509,022	99.0%	\$ 459,236	98.8%	\$ 953,361	98.9%	\$ 878,680	98.7%
International	5,046	1.0	5,734	1.2	10,277	1.1	11,362	1.3
	\$ 514,068	100.0%	\$ 464,970	100.0%	\$ 963,638	100.0%	\$ 890,042	100.0%

During the three and six months ended June 30, 2009, our U.S. Army Tank-Automotive Command (TACOM) contract exceeded 10% of our revenue from external customers. During the three months ended June 30, 2008, our Countermine contract exceeded 10% of our revenue. During the six months ended June 30, 2008, there were no contracts that exceeded 10% of our revenue.

Table of Contents

	Three Months Ended June 30,				Six Months Ended June 30,			
	2009	%	2008	%	2009	%	2008	%
(amounts in thousands)								
Revenues from external customers:								
TACOM	\$ 107,130	21%	\$	0%	\$ 160,989	17%	\$	0%
Countertermine	14,176	3%	49,561	11%	46,063	5%	54,974	6%
All other contracts	392,762	76%	415,409	89%	756,586	78%	835,068	94%
ManTech Consolidated	\$ 514,068	100%	\$ 464,970	100%	\$ 963,638	100%	\$ 890,042	100%
Operating Income:								
TACOM	\$ 5,042	11%	\$	0%	\$ 9,111	11%	\$	0%
Countertermine	(66)	0%	2,213	6%	(40)	0%	3,337	5%
All other contracts	39,897	89%	34,897	94%	76,160	89%	68,327	95%
ManTech Consolidated	\$ 44,873	100%	\$ 37,110	100%	\$ 85,231	100%	\$ 71,664	100%
Receivables:								
					June 30, 2009	%	December 31, 2008	%
TACOM					\$ 48,444	13%	\$ 24,648	6%
Countertermine					4,214	1%	30,164	7%
All other contracts					326,019	86%	352,436	87%
ManTech Consolidated					\$ 378,677	100%	\$ 407,248	100%

Disclosure items required under SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, 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.

Table of Contents

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

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 recompetes;

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;

curtailment of the U.S. Government's outsourcing of mission-critical support and information technology services;

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;

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

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

risks related to an inability to obtain new or additional financing; 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, 2008, previously filed with the Securities and Exchange Commission (SEC), 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.

Introduction and Overview

ManTech International Corporation (depending on the circumstances, ManTech Company we our ours or us) is a provider of information technologies and solutions for mission-critical national security programs for the Intelligence Community; the departments of Defense, State, Homeland Security and Justice; the Space Community; the National Oceanic and Atmospheric Administration; and other U.S. federal government customers. ManTech's expertise includes systems engineering, systems integration, software development 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, global logistics and supply chain management and service oriented architectures. The Company supports the advanced telecommunications systems that are used in Operation Iraqi Freedom and in other parts of the world; has developed a secure, collaborative communication system for the U.S. Department of Homeland Security; and builds and maintains secure databases that track terrorists. With approximately 8,000 highly qualified employees, we operate in approximately 40 countries worldwide.

Table of Contents

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 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, 2008, previously filed with the SEC as well as the quarterly financial statements and notes contained within this Form 10-Q filing.

Three Months Ended June 30, 2009 Compared to the Three Months Ended June 30, 2008

	Three Months Ended June 30,		2009		2008		Period-to-Period Change	
	2009	2008	2009	2008	2008	2008	2008 to 2009	
	Dollars		Percentages		Dollars	Percent	Dollars	Percent
			(dollars in thousands)					
REVENUES	\$ 514,068	\$ 464,970	100.0%	100.0%	\$ 49,098	10.6%		
Cost of services	422,242	391,364	82.1%	84.2%	30,878	7.9%		
General and administrative expenses	46,953	36,496	9.1%	7.8%	10,457	28.7%		
OPERATING INCOME	44,873	37,110	8.8%	8.0%	7,763	20.9%		
Interest expense	(404)	(969)	0.1%	0.2%	565	-58.3%		
Interest income	47	131	0.0%	0.0%	(84)	-64.1%		
Other expense, net	111	(12)	0.0%	0.0%	123	-1025.0%		
INCOME FROM CONTINUING OPERATIONS BEFORE								
INCOME TAXES	44,627	36,260	8.7%	7.8%	8,367	23.1%		
Provision for income taxes	(16,095)	(14,364)	3.1%	3.1%	(1,731)	12.1%		
NET INCOME	\$ 28,532	\$ 21,896	5.6%	4.7%	\$ 6,636	30.3%		

Revenues

Revenues increased 10.6% to \$514.1 million for the three months ended June 30, 2009, compared to \$465.0 million for the same period in 2008. The increase was primarily due to our contracts supporting forward deployments in Iraq, Afghanistan and other areas around the world and our acquisitions of Emerging Technologies Group, USA, Inc. (ETG) in August 2008, EWA Services, Inc. (EWA) in November 2008 and DDK Technology Services, Inc. (DDK) in March 2009. Revenue growth of \$50.1 million came from global logistics and supply chain management contracts; specifically contracts for the installation, sustainment and repair of communication systems and heavily armored vehicles designed to counter or clear mines and improvised explosive devices (IED), such as the Route Clearance (Countermine) family of vehicles supporting the U.S. Army Tank-Automotive Command (TACOM). Revenue growth of \$14.3 million came from our cyber security related contracts. These increases were partially offset by a decline in certain Space related work.

Cost of services

Cost of services increased 7.9% to \$422.2 million for the three months ended June 30, 2009, compared to \$391.4 million for the same period in 2008. The increase in cost of services is primarily due to direct labor costs, which include applicable fringe benefits and overhead related to our IED and cyber security contracts and our recent acquisitions of ETG, EWA and DDK. As a percentage of revenues, cost of services decreased 2.1% to 82.1% for the three months ended June 30, 2009 as compared to 84.2% for the same period in 2008 primarily due to the relative mix of materials costs to direct labor costs. Direct labor costs increased by 10.7% over the same period in 2008 primarily due to acquisitions and growth in staff supporting global logistics, supply chain management and cyber security. Other direct costs, which include subcontractors and third party equipment as well as materials used in the performance of our contracts, increased by 5.5% over the same period in 2008. 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 a percentage of revenues, other direct costs decreased by 2.1% from 45.7% for the three months ended June 30, 2008 to 43.6% for the same period in 2009.

General and administrative expenses

General and administrative expenses increased 28.7% to \$47.0 million for the three months ended June 30, 2009, compared to \$36.5 million for the same period in 2008. As a percentage of revenues, general and administrative expenses increased to 9.1% from 7.8% for the three months ended June 30, 2009 and 2008, respectively. The increase as a percentage of revenues was

Table of Contents

largely due to systems and staff requirements needed to support increased demands for materials and services. In addition, increased expense came from system improvements and business development costs. We have also experienced an increase in compliance monitoring and improvement costs due to the current industry trend of amplified government regulation and review.

Interest expense

Interest expense decreased \$0.6 million to \$0.4 million for the three months ended June 30, 2009, compared to \$1.0 million for the same period in 2008. The decrease in interest expense is due to a decline in the interest rate we pay related to our credit facility, as well as a decrease in our average outstanding debt balance. Our average outstanding debt balance for the three months ended June 30, 2009 was \$74.4 million compared to \$144.5 million for the same period in 2008. The interest rate we incur on our credit facility is impacted by changes in the Federal Funds Rate or London Interbank Offer Rate (LIBOR). Changes in this lending rate could lead to fluctuations in our interest expense in future periods. For additional information, see Credit Agreement, below.

Interest income

Interest income decreased less than \$0.1 million to less than \$0.1 million for the three months ended June 30, 2009, compared to \$0.1 million for the same period in 2008. The fluctuation is due to a reduction in the interest rate related to our cash accounts for the three months ended June 30, 2009 as compared to the three months ended June 30, 2008.

Net income

Net income increased 30.3% to \$28.5 million for the three months ended June 30, 2009, compared to \$21.9 million for the same period in 2008. The increase is a result of higher revenue with improved margins, primarily driven by higher demand for direct labor based projects. Our effective tax rates for the three months ended June 30, 2009 and 2008 were 36.1% and 39.6%, respectively. The decrease in our effective tax rate from our June 30, 2008 results was partially due to the impact of deductible gains related to our Employee Supplemental Savings Plan.

Six Months Ended June 30, 2009 Compared to the Six Months Ended June 30, 2008

	Six Months Ended June 30,		Six Months Ended June 30,		Period-to-Period Change	
	2009	2008	2009	2008	2008 to 2009	
	Dollars		Percentages		Dollars	Percent
	(dollars in thousands)					
REVENUES	\$ 963,638	\$ 890,042	100.0%	100.0%	\$ 73,596	8.3%
Cost of services	792,546	747,082	82.2%	83.9%	45,464	6.1%
General and administrative expenses	85,861	71,296	8.9%	8.0%	14,565	20.4%
OPERATING INCOME	85,231	71,664	8.9%	8.1%	13,567	18.9%
Interest expense	(707)	(2,611)	0.1%	0.3%	1,904	-72.9%
Interest income	116	341	0.0%	0.0%	(225)	-66.0%
Other (expense) income, net	108	(132)	0.0%	0.0%	240	-181.8%
INCOME FROM CONTINUING OPERATIONS BEFORE						
INCOME TAXES	84,748	69,262	8.8%	7.8%	15,486	22.4%
Provision for income taxes	(31,738)	(27,433)	3.3%	3.1%	(4,305)	15.7%
NET INCOME	\$ 53,010	\$ 41,829	5.5%	4.7%	\$ 11,181	26.7%

Revenues

Revenues increased 8.3% to \$963.6 million for the six months ended June 30, 2009, compared to \$890.0 million for the same period in 2008. The increase was primarily due to our contracts supporting forward deployments in Iraq, Afghanistan and other areas around the world and our acquisitions of ETG, EWA and DDK. Revenue growth of \$85.1 million came from global logistics and supply chain management contracts; specifically contracts for the installation, sustainment and repair of communication systems and heavily armored vehicles designed to counter or clear mines and IEDs, such as the Route Clearance family of vehicles supporting TACOM. Revenue growth of \$28.1 million came from our

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

cyber security related contracts. These increases were partially offset by a decline in certain Space related work.

For the remainder of 2009, we expect our revenue to increase, relative to the first six months of 2009, primarily due to our contracts in global logistics and supply chain management as well as cyber security. While we believe there will be continued growth in our global logistics and supply chain management contracts, we recognize the uncertainty in the U.S. mission and priority of funding for combat operations in Iraq and Afghanistan. We expect continued growth in our cyber security contracts as a result of Government's Comprehensive National Cyber Initiative funding.

Table of Contents

	Year to Date June 30,	
	2009	2008
Prime contract revenue	62.3%	48.3%
Subcontract revenue	37.7%	51.7%
Total Revenue	100.0%	100.0%

Our percentage of revenue derived as a prime contractor has increased for the six months ended June 30, 2009 compared to 2008. This increase is largely due to our sole source prime contract award in 2008 to continue and expand our support for the Route Clearance family of contract vehicles. Customers have increased their purchases through larger, more consolidated contract vehicles. We do not believe this industry trend will have a materially adverse affect on our revenues for the remainder of fiscal year 2009.

Cost of services

Cost of services increased 6.1% to \$792.5 million for the six months ended June 30, 2009, compared to \$747.1 million for the same period in 2008. The increase in cost of services is primarily due to direct labor costs, which include applicable fringe benefits and overhead related to our IED and cyber security contracts and our recent acquisitions of ETG, EWA and DDK. As a percentage of revenues, cost of services decreased 1.7% to 82.2% for the six months ended June 30, 2009 as compared to 83.9% for the same period in 2008. Direct labor costs increased by 9.0% over the same period in 2008 primarily due to acquisitions and growth in staff supporting global logistics and supply chain management. As a percentage of revenues, direct labor costs increased 0.3% to 40.1% for the six months ended June 30, 2009, compared to 39.8% for the same period in 2008. The increase in direct labor as a percentage of revenues is primarily due to the relative mix of direct labor and other direct costs. Other direct costs, which include subcontractors and third party equipment and materials used in the performance of our contracts, increased by 3.4% over the same period in 2008. 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 a percentage of revenues, other direct costs decreased by 2.0% from 44.1% for the six months ended June 30, 2008 to 42.1% for the same period in 2009. We expect cost of services to increase, consistent with revenue, for the remainder of fiscal year 2009. We expect the relative mix of direct labor to other direct costs to remain consistent for the remainder of fiscal year 2009.

General and administrative expenses

General and administrative expenses increased 20.4% to \$85.9 million for the six months ended June 30, 2009, compared to \$71.3 million for the same period in 2008. As a percentage of revenues, general and administrative expenses increased 0.9% from 8.0% to 8.9% for the six months ended June 30, 2009 and 2008, respectively. The increase as a percentage of revenues was largely due to systems and staff requirements needed to support increased demands for materials and services as well as increased business development costs. We have also experienced an increase in compliance monitoring and improvement costs due to the current industry trend of amplified government regulation and review.

Interest expense

Interest expense decreased \$1.9 million to \$0.7 million for the six months ended June 30, 2009, compared to \$2.6 million for the same period in 2008. The decrease in interest expense is due to a decline in the interest rate we pay related to our credit facility, as well as a decrease in our average outstanding debt balance. Our average outstanding debt balance for the six months ended June 30, 2009, was \$82.1 million compared to \$160.1 million for the same period in 2008. The interest rate we incur on our credit facility is impacted by changes in the Federal Funds Rate or London Interbank Offer Rate (LIBOR). Changes in this lending rate could lead to fluctuations in our interest expense in future periods. In addition, if we were to make a significant acquisition, our interest expense would increase, depending upon the size of the acquisition. For additional information, see Credit Agreement, below.

Interest income

Interest income decreased \$0.2 million to \$0.1 million for the six months ended June 30, 2009, compared to \$0.3 million for the same period in 2008. The fluctuation is due to a reduction in the interest rate related to our cash accounts for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008.

Table of Contents*Net income*

Net income increased 26.7% to \$53.0 million for the six months ended June 30, 2009, compared to \$41.8 million for the same period in 2008. The increase is a result of higher revenue and improved margins, primarily driven by increased demand for direct labor based projects. Our effective tax rates for the six months ended June 30, 2009 and 2008 were 37.5% and 39.6%, respectively. The decrease in our effective tax rate from our June 30, 2008 results was partially due to the impact of deductible gains related to our Employee Supplemental Savings Plan.

Backlog

At June 30, 2009 and December 31, 2008, our backlog was \$3.9 billion and \$4.0 billion, respectively, of which \$1.0 billion and \$1.2 billion, respectively, 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, 2008, previously filed with the SEC.

Effects of Inflation

Inflation and uncertainties in the macroeconomic environment, such as conditions in the 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 near-term 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.

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 June 30, 2009, we had \$20.0 million outstanding under our credit facility. At June 30, 2009, 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 June 30, 2009 was \$279.3 million. Generally, cash provided 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 or seek alternative sources of financing in order to finance acquisitions or new contract start ups.

Net cash flows from operating activities

(in thousands)	Six months ended June 30,	
	2009	2008
Net cash flow from operating activities	\$ 66,885	\$ 50,347

Our operating cash flow is primarily affected by the overall profitability of our contracts, our ability to invoice and collect from our clients in a timely manner and our ability to manage our vendor payments. We bill most of our customers and prime contractors monthly after services are rendered. Increased cash flow from operations during the six months ended June 30, 2009 compared to the same period in 2008 was positively impacted primarily by the timing of the collection of customer receivables. Our receivables days sales outstanding were 66 and 69 for the periods ended June 30, 2009 and 2008, respectively. The timing and amounts of cash collections from our customers can vary significantly based primarily on the procedures requested by the U.S. government to approve such payments.

Net cash flows from investing activities

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

(in thousands)	Six months ended June 30,	
	2009	2008
Net cash flow from investing activities	\$ (16,551)	\$ 668

Table of Contents

Cash flow from investing activities consists primarily of capital expenditures and business acquisitions. Cash outflows during the six months ended June 30, 2009 were primarily due to the acquisition of DDK on March 13, 2009 for \$14.0 million as well as purchases of equipment and software for internal use. The cash outflows from operations in 2008 were primarily the result of our investment in property, equipment and internally used software to support our business. The cash flows in 2008 were partially offset by proceeds from the payment of a note receivable in connection with the sale of an equity investment.

Net cash flows from financing activities

(in thousands)	Six months ended June 30,	
	2009	2008
Net cash flow from financing activities	\$ (21,268)	\$ (49,049)

Cash flow from financing during the six months ended June 30, 2009 resulted primarily from payments under our credit facility of \$24.1 million partially offset by proceeds from the exercise of stock options of \$2.6 million. The net cash used in financing activities for the six months ended June 30, 2008 resulted from net payments on our credit facility of \$67.0 million partially offset by proceeds from the exercise of stock options along with the related tax benefits of \$18.0 million.

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 sublimit and a \$30.0 million swing line loan sublimit. 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 the Company's 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 June 30, 2009, 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; use of the existing revolving facility, a refinancing of our credit agreement, additional borrowing or issuance of equity.

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 of America. 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 and practices listed below, are more fully described and discussed in the notes to consolidated financial statements for the fiscal year 2008 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the SEC on February 27, 2009.

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 SEC Topic 13, *Revenue Recognition*, 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 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. No adjustments were necessary as a result of this review during the quarter ended June 30, 2009.

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.

Recent Accounting Pronouncements

In June 2009, SFAS 168, *The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*, was issued. The *FASB Accounting Standards Codification*TM (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative.

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Following SFAS 168, the Board will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates. SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*, which became effective on November 13, 2008, identified the sources of accounting principles and the

Table of Contents

framework for selecting the principles used in preparing the financial statements that are presented in conformity with GAAP. SFAS 162 arranged these sources of GAAP in a hierarchy for users to apply accordingly. Once the Codification is in effect, all of its content will carry the same level of authority, effectively superseding SFAS 162. In other words, the GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and nonauthoritative. As a result, SFAS 168 replaces SFAS 162 to indicate this change to the GAAP hierarchy. We are contemplating the potential effects, if any, this pronouncement will have on the Company's financial position and results of operations.

In June 2009, SFAS 167, *Amendments to FASB Interpretation No. 46(R)*, was issued. The objective of SFAS 167 is to amend certain requirements of FIN 46 (revised December 2003), *Consolidation of Variable Interest Entities*, or FIN 46(R) to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. SFAS 167 carries forward the scope of FIN 46(R), with the addition of entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated in SFAS 166, *Accounting for Transfers of Financial Assets*. SFAS 167 nullifies FASB Staff Position FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*. The principal objectives of these new disclosures are to provide financial statement users with an understanding of:

- a. The significant judgments and assumptions made by an enterprise in determining whether it must consolidate a variable interest entity and/or disclose information about its involvement in a variable interest entity;
- b. The nature of restrictions on a consolidated variable interest entity's assets and on the settlement of its liabilities reported by an enterprise in its statement of financial position, including the carrying amounts of such assets and liabilities;
- c. The nature of, and changes in, the risks associated with an enterprise's involvement with the variable interest entity; and
- d. How an enterprise's involvement with the variable interest entity affects the enterprise's financial position, financial performance and cash flows.

SFAS 167 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. Earlier application is prohibited. The provisions of SFAS 167 need not be applied to immaterial items. We are contemplating the potential effects, if any, this pronouncement will have on the Company's financial position and results of operations.

In June 2009, Staff Accounting Bulletin (SAB) 112 was issued. SAB 112 amends or rescinds portions of the interpretive guidance included in the Staff Accounting Bulletin Series in order to make the relevant interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. Specifically, the staff is updating the Series in order to bring existing guidance into conformity with recent pronouncements by the FASB, namely, SFAS No. 141 (revised 2007), *Business Combinations*, or SFAS 141(R), and SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*.

In May 2009, SFAS 165, *Subsequent Events*, was issued. The objective of SFAS 165 is to establish principles and requirements for subsequent events. In particular, SFAS 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements. In addition, it establishes the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements. Furthermore, SFAS 165 states the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 should be applied to the accounting for and disclosure of subsequent events not addressed in other applicable GAAP. An entity should recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. An entity should not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date but before financial statements are issued or are available to be issued. An entity should disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. Some nonrecognized subsequent events may be of such a nature that they must be disclosed to keep the financial statements from being misleading. For such events, an entity should disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009 and should be applied prospectively. The provisions of SFAS 165 need not be applied to immaterial items. We do not believe the adoption of this pronouncement will have a material effect on the Company's financial position or results of operations.

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

In April 2009, FASB Staff Position (FSP) No.141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*, or FSP 141(R)-1, was issued. FSP 141(R)-1 amends and clarifies SFAS 141(R) to address application issues raised by preparers, auditors and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in a

Table of Contents

business combination. FSP 141(R)-1 applies to all assets acquired and liabilities assumed in a business combination that arise from contingencies that would be within the scope of SFAS 5, *Accounting for Contingencies*, if not acquired or assumed in a business combination, except for assets or liabilities arising from contingencies that are subject to specific guidance in SFAS 141(R). An acquirer should recognize at fair value, at the acquisition date, an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. An acquirer should disclose information that enables users of its financial statements to evaluate the nature and financial effects of a business combination that occurs either during the current reporting period or after the reporting period but before the financial statements are issued. FSP 141(R)-1 is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We do not believe the adoption of this pronouncement will have a material effect on the Company's financial position or results of operations unless we were to make a significant acquisition. In that instance, the transaction costs may be material to the results of operations of the Company.

In November 2008, the SEC issued for comment a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with IFRS. IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (IASB). Under the proposed roadmap, we could be required in fiscal 2014 to prepare financial statements in accordance with IFRS. The SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. We are currently assessing the impact that this potential change would have on our condensed consolidated financial statements and we will continue to monitor the development of the potential implementation of IFRS.

Item 3. Quantitative and Qualitative Disclosure about Market Risks

Our exposure to market risks relates to changes in interest rates for borrowing under our revolving credit facility. At June 30, 2009, we had \$20.0 million outstanding on our revolving credit facility. Borrowings under our revolving credit facility bear interest at variable rates. A hypothetical 10% increase in interest rates would increase our annual interest expense for the six months ended June 30, 2009, by less than \$0.1 million.

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

Item 4. Controls and Procedures

As of June 30, 2009, 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, 2008 and in subsequent quarterly reports filed with the SEC.

Item 4. Submission of Matters to a Vote of Security Holders

On May 14, 2009, we held our 2009 Annual Meeting of Stockholders. At the Annual Meeting, our stockholders elected nine persons to serve as directors until the 2010 annual meeting of stockholders. The following table states the votes cast for or withheld with respect to the election of directors. There were no broker non-votes or abstentions on this matter. Holders of Class B common stock are entitled to cast 10 votes for each share of Class B common stock held.

Director Name	For		Withheld	
	Class A	Class B	Class A	Class B
George J. Pedersen	19,770,082	13,678,345	523,181	
Richard L. Armitage	19,849,056	13,678,345	444,209	
Mary K. Bush	18,243,727	13,678,345	2,049,537	
Barry G. Campbell	20,101,071	13,678,345	192,193	
Walter R. Fatzinger, Jr.	20,113,237	13,678,345	180,027	
David E. Jeremiah	20,160,719	13,678,345	132,545	
Richard J. Kerr	20,110,707	13,678,345	182,557	
Kenneth A. Minihan	20,194,704	13,678,345	98,560	
Stephen W. Porter	19,945,069	13,678,345	348,195	

At the Annual Meeting, our stockholders also ratified the appointment of Deloitte & Touche LLP to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2009. The following table states the votes cast for and against the ratification of the appointment of Deloitte & Touche LLP, as well as the number of abstentions with respect to the ratification of the appointment of Deloitte & Touche LLP. There were no broker non-votes on this matter. Holders of Class B common stock are entitled to cast 10 votes for each share of Class B common stock held.

For

Against

Abstain

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Class A	Class B	Class A	Class B	Class A	Class B
19,806,367	13,678,345	479,981		6,915	

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 June 30, 2009.

Table of Contents

Exhibit No.	Description
10.1 *	Employment Agreement, dated as of June 3, 2009, by and between the Company and Lawrence B. Prior, III
10.2 *	Changes in Control Protection Agreement, dated as of June 3, 2009, by and between the Company and Lawrence B. Prior, III
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
* Management contract

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: July 31, 2009

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

Date: July 31, 2009

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