

MANTECH INTERNATIONAL CORP  
Form 10-Q  
October 29, 2010

**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, 2010

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

|   |  |
|---|--|
| <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or organization)      | <b>22-1852179</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>12015 Lee Jackson Highway, Fairfax, VA</b><br>(Address of principal executive offices) | <b>22033</b><br>(Zip Code)                                   |
| <b>(703) 218-6000</b><br>(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 October 27, 2010 there were outstanding 23,101,009 shares of our Class A common stock and 13,275,345 shares of our Class B common stock.

MANTECH INTERNATIONAL CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED September 30, 2010

INDEX

|  | Page No. |
|--|----------|
| <b><u>PART I FINANCIAL INFORMATION</u></b>   |          |
| Item 1. <u>Financial Statements</u>  |          |
| <u>Condensed Consolidated Balance Sheets at September 30, 2010 and December 31, 2009</u>   | 3        |
| <u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2010 and 2009</u>               | 4        |
| <u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2010 and 2009</u> | 5        |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009</u>                     | 6        |
| <u>Notes to Condensed Consolidated Financial Statements</u>  | 7-16     |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                             | 17       |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>  | 24       |
| Item 4. <u>Controls and Procedures</u>   | 24       |
| <b><u>Part II OTHER INFORMATION</u></b>  |          |
| Item 1. <u>Legal Proceedings</u>   | 25       |
| Item 1A. <u>Risk Factors</u>   | 25       |
| Item 6. <u>Exhibits</u>  | 25       |

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|  | (unaudited)           |                      |
|--|-----------------------|----------------------|
|  | September 30,<br>2010 | December 31,<br>2009 |
| <b>ASSETS</b>  |                       |                      |
| <b>CURRENT ASSETS:</b>   |                       |                      |
| Cash and cash equivalents  | \$ 152,137            | \$ 86,190            |
| Receivables net  | 503,464               | 399,239              |
| Prepaid expenses and other   | 14,589                | 11,182               |
| <b>Total Current Assets</b>  | 670,190               | 496,611              |
| Property and equipment net   | 15,691                | 14,498               |
| Goodwill   | 631,989               | 488,217              |
| Other intangibles net  | 152,393               | 73,684               |
| Employee supplemental savings plan assets  | 22,365                | 21,065               |
| Other assets   | 11,376                | 6,672                |
| <b>TOTAL ASSETS</b>  | <b>\$ 1,504,004</b>   | <b>\$ 1,100,747</b>  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                       |                      |
| <b>CURRENT LIABILITIES:</b>  |                       |                      |
| Accounts payable and accrued expenses  | \$ 232,159            | \$ 157,358           |
| Accrued salaries and related expenses  | 70,558                | 55,429               |
| Billings in excess of revenue earned   | 8,989                 | 7,737                |
| <b>Total Current Liabilities</b>   | 311,706               | 220,524              |
| Debt   | 200,000               | 0                    |
| Accrued retirement   | 23,196                | 22,033               |
| Other long-term liabilities  | 7,029                 | 6,877                |
| Deferred income taxes non-current  | 36,484                | 33,848               |
| <b>TOTAL LIABILITIES</b>   | <b>578,415</b>        | <b>283,282</b>       |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                       |                      |
| <b>STOCKHOLDERS' EQUITY:</b>   |                       |                      |
| Common stock, Class A \$0.01 par value; 150,000,000 shares authorized; 23,297,532 and 22,602,110 shares issued at September 30, 2010 and December 31, 2009; 23,054,492 and 22,359,070 shares outstanding at September 30, 2010 and December 31, 2009 | 233                   | 226                  |
| Common stock, Class B \$0.01 par value; 50,000,000 shares authorized; 13,275,345 and 13,605,345 shares issued and outstanding at September 30, 2010 and December 31, 2009  | 133                   | 136                  |
| Additional paid-in capital   | 380,537               | 362,730              |
| Treasury stock, 243,040 shares at cost at September 30, 2010 and December 31, 2009   | (9,114)               | (9,114)              |

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

|  |                     |                     |
|--|---------------------|---------------------|
| Retained earnings                                | 555,826             | 464,742             |
| Accumulated other comprehensive loss             | (208)               | (172)               |
| Unearned Employee Stock Ownership Plan Shares    | (1,818)             | (1,083)             |
| <b>TOTAL STOCKHOLDERS EQUITY</b>                 | <b>925,589</b>      | <b>817,465</b>      |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b> | <b>\$ 1,504,004</b> | <b>\$ 1,100,747</b> |

See notes to condensed consolidated financial statements.

**MANTECH INTERNATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In Thousands Except Per Share Amounts)

|  | (unaudited)<br>Three months ended<br>September 30, |            | (unaudited)<br>Nine months ended<br>September 30, |              |
|--|--|------------|---|--------------|
|  | 2010   | 2009       | 2010  | 2009         |
| <b>REVENUES</b>  | \$ 656,954   | \$ 514,630 | \$ 1,906,122                                      | \$ 1,478,268 |
| Cost of services   | 555,318  | 425,566    | 1,617,190   | 1,218,112    |
| General and administrative expenses                          | 47,121   | 42,627     | 132,656   | 128,488      |
| <b>OPERATING INCOME</b>                                      | 54,515   | 46,437     | 156,276   | 131,668      |
| Interest expense   | (3,970)  | (214)      | (8,565)   | (921)        |
| Interest income  | 51   | 45         | 236   | 161          |
| Other income (expense), net                                  | 64   | 151        | (268)   | 259          |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b> | 50,660   | 46,419     | 147,679   | 131,167      |
| Provision for income taxes                                   | (19,284)   | (17,181)   | (56,595)  | (48,919)     |
| <b>NET INCOME</b>  | \$ 31,376  | \$ 29,238  | \$ 91,084   | \$ 82,248    |
| <b>BASIC EARNINGS PER SHARE:</b>                             |  |            |   |              |
| <b>Class A basic earnings per share</b>                      | \$ 0.86  | \$ 0.82    | \$ 2.52   | \$ 2.31      |
| Weighted average common shares outstanding                   | 23,010   | 22,092     | 22,768  | 21,867       |
| <b>Class B basic earnings per share</b>                      | \$ 0.86  | \$ 0.82    | \$ 2.52   | \$ 2.31      |
| Weighted average common shares outstanding                   | 13,276   | 13,637     | 13,398  | 13,741       |
| <b>DILUTED EARNINGS PER SHARE:</b>                           |  |            |   |              |
| <b>Class A diluted earnings per share</b>                    | \$ 0.86  | \$ 0.81    | \$ 2.50   | \$ 2.29      |
| Weighted average common shares outstanding                   | 23,171   | 22,427     | 23,004  | 22,176       |
| <b>Class B diluted earnings per share</b>                    | \$ 0.86  | \$ 0.81    | \$ 2.50   | \$ 2.29      |
| Weighted average common shares outstanding                   | 13,276   | 13,637     | 13,398  | 13,741       |

See notes to condensed consolidated financial statements.

**MANTECH INTERNATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Dollars in Thousands)

|  | (unaudited)        |           | (unaudited)       |           |
|--|--------------------|-----------|-------------------|-----------|
|  | Three months ended |           | Nine months ended |           |
|  | September 30,      |           | September 30,     |           |
|  | 2010               | 2009      | 2010              | 2009      |
| <b>NET INCOME</b>  | \$ 31,376          | \$ 29,238 | \$ 91,084         | \$ 82,248 |
| <b>OTHER COMPREHENSIVE INCOME:</b>                                 |                    |           |                   |           |
| Translation adjustment   | (18)               | (8)       | (50)              | (9)       |
| Actuarial gain (loss) on defined benefit pension plans, net of tax | 0                  | 0         | 14                | 0         |
| <b>Total other comprehensive loss</b>                              | (18)               | (8)       | (36)              | (9)       |
| <b>COMPREHENSIVE INCOME</b>  | \$ 31,358          | \$ 29,230 | \$ 91,048         | \$ 82,239 |

See notes to condensed consolidated financial statements.

## MANTECH INTERNATIONAL CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

|   | (unaudited)<br>Nine months ended<br>September 30, |                  |
|---|---|------------------|
|   | 2010  | 2009             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |   |                  |
| Net income  | \$ 91,084   | \$ 82,248        |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |                  |
| Stock-based compensation  | 5,371   | 5,818            |
| Excess tax benefits from the exercise of stock options                            | (519)   | (830)            |
| Deferred income taxes   | 743   | 329              |
| Depreciation and amortization   | 21,416  | 13,274           |
| Change in assets and liabilities net of effects from acquired businesses:         |   |                  |
| Receivables net   | (34,355)  | 44,563           |
| Prepaid expenses and other  | (518)   | 4,432            |
| Accounts payable and accrued expenses   | 5,787   | (35,984)         |
| Accrued salaries and related expenses   | 12,042  | (15,331)         |
| Billings in excess of revenue earned  | 1,252   | 25               |
| Accrued retirement  | 1,163   | (195)            |
| Other   | (1,374)   | 333              |
| <b>Net cash flow from operating activities</b>                                    | <b>102,092</b>                                    | <b>98,682</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |   |                  |
| Purchases of property and equipment   | (4,599)   | (3,080)          |
| Investment in capitalized software for internal use                               | (2,628)   | (1,752)          |
| Acquisition of businesses net of cash acquired                                    | (236,052)   | (13,775)         |
| <b>Net cash flow from investing activities</b>                                    | <b>(243,279)</b>                                  | <b>(18,607)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |   |                  |
| Proceeds from exercise of stock options   | 11,535  | 10,650           |
| Excess tax benefits from the exercise of stock options                            | 519   | 830              |
| Net borrowings (repayment) under the revolving credit facility                    | 0   | (44,100)         |
| Issuance of senior unsecured notes  | 200,000   | 0                |
| Debt issuance costs   | (4,920)   | 0                |
| <b>Net cash flow from financing activities</b>                                    | <b>207,134</b>                                    | <b>(32,620)</b>  |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                  | <b>65,947</b>                                     | <b>47,455</b>    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                             | <b>86,190</b>                                     | <b>4,375</b>     |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                                   | <b>\$ 152,137</b>                                 | <b>\$ 51,830</b> |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>   |   |                  |
| Cash paid for income taxes  | \$ 54,430   | \$ 51,389        |
| Cash paid for interest  | \$ 1,399  | \$ 713           |



Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Noncash financing activities:

|   |    |     |    |       |
|---|----|-----|----|-------|
| Employee Stock Ownership Plan Contributions | \$ | 734 | \$ | 2,853 |
|---|----|-----|----|-------|

See notes to condensed consolidated financial statements.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2010**

**UNAUDITED**

**1. Introduction and Overview**

ManTech International Corporation (depending on the circumstances, ManTech, the Company, we, our, ours or us) is a leading provider of innovative technologies and solutions for mission-critical national security programs for the intelligence community; the departments of Defense, State, Homeland Security and Justice; the space community; the National Oceanic and Atmospheric Administration and other U.S. federal government customers. Our expertise includes systems engineering, systems integration, 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. At September 30, 2010, we had approximately 9,300 highly qualified employees operating 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 audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, 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.

**3. Acquisitions**

Our acquisitions have been accounted for using the acquisition method of accounting under the Accounting Standards Codification (ASC) 805, *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, 2009, previously filed with the SEC.

**Sensor Technologies Inc.**-On January 15, 2010, we completed the acquisition of all outstanding equity interests of Sensor Technologies Inc. (STI), a privately-held company. The results of STI's operations have been included in our consolidated financial statements since that date. The acquisition was consummated pursuant to a stock purchase agreement (STI Purchase Agreement), dated December 18, 2009, by and among ManTech, STI, certain shareholders of STI and certain persons acting as a representative for the shareholders of STI.

STI was a leading provider of mission-critical systems engineering and Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) services and solutions to the Department of Defense. STI's largest customer was the U.S. Army through its prime position on the Strategic Services Sourcing (S3) Indefinite Delivery/Indefinite Quantity contract. At January 15, 2010, STI had 252 employees of which nearly 100% held security clearances. In 2009, STI produced approximately \$336.8 million in revenues. STI contributed revenues of \$361.2 million and net income of \$4.8 million for the period from January 15, 2010 to September 30, 2010.

The acquisition of STI is consistent with our long-term strategy to broaden our footprint in the high-end defense and intelligence market and has expanded our work with the Department of Defense and our direct support of the U.S. Army.

ManTech funded the acquisition through a combination of cash on hand and borrowings under our revolving credit facility. The purchase price was \$241.4 million, which included a favorable \$0.6 million working capital adjustment. The STI Purchase Agreement did not contain provisions for contingent consideration. Pursuant to the STI Purchase Agreement, \$24.2 million was placed into an escrow account to satisfy potential indemnification liabilities of STI and its shareholders. The escrow claim period will expire 18 months after the purchase closing date. At September 30, 2010, the balance in the escrow account was \$23.2 million.

## Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

In the nine months ended September 30, 2010 and the three months ended December 31, 2009, the Company incurred \$0.2 million and \$0.6 million of acquisition related expenses, respectively. These expenses are included in general and administrative expense in the Company's statements of income for the related periods.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2010****UNAUDITED***Purchase Price Allocation*

The purchase price was allocated to underlying assets and liabilities based on their estimated fair values at the date of acquisition. The purchase price allocation included goodwill and other intangible assets. Recognition of goodwill was largely attributed to the highly skilled employees of STI, their presence in the high-end defense and intelligence market place and the value paid for companies in this business. Assuming adequate levels of taxable income, the goodwill is deductible for tax purposes over 15 years. The following table represents the purchase price allocation (in thousands):

|                                       |                   |
|---------------------------------------|-------------------|
| Cash and cash equivalents             | \$ 5,310          |
| Receivables-net of a \$340 allowance  | 69,870            |
| Prepaid expenses and other            | 1,033             |
| Property and equipment                | 357               |
| Other intangibles                     | 93,289            |
| Other assets                          | 65                |
| Goodwill                              | 143,772           |
| Accounts payable and accrued expenses | (69,185)          |
| Accrued salaries and related expenses | (3,087)           |
| Other long-term liabilities           | (62)              |
| <b>Purchase price</b>                 | <b>\$ 241,362</b> |

*Indemnification Assets*

Pursuant to the STI Purchase Agreement, the seller has agreed to indemnify the buyer for tax liabilities arising in connection with the operation of STI's business on or before January 15, 2010 or owing by any person for which STI may be liable as a result of the transactions or circumstances occurring or existing on or before January 15, 2010. As of January 15, 2010, STI's tax liabilities were estimated to be approximately \$0.8 million, resulting in related indemnification assets of \$0.8 million. We collected \$0.4 million from the escrow account for these indemnification assets.

*Intangible Assets*

In allocating the purchase price, we considered among other factors, analyses of historical financial performance and estimates of future performance of STI's contracts. The components of other intangible assets associated with the acquisition were backlog, customer relationships and non-compete agreements valued at \$7.8 million, \$85.2 million and \$0.3 million, respectively. Customer contracts and related relationships represent the underlying relationships and agreements with STI's existing customers. Non-compete agreements represent the estimated value of the seller not competing with the Company for 4 years. Backlog, customer relationships and non-compete agreements are amortized over their estimated useful lives of 1 year, 20 years and 4 years, respectively, using the pattern of benefits method. The weighted-average amortization period for the intangible assets is 18.4 years.

*Pro Forma Financial Information*

The following unaudited pro forma summary presents consolidated information of the Company as if the acquisition had occurred at the beginning of the periods 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 senior credit facility had occurred at the beginning of the periods presented. The amounts have been calculated after applying the Company's accounting policies and adjusting the results

## Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

of STI to reflect the additional amortization expense resulting from recognizing intangible assets, the interest expense effect of the financing necessary to complete the acquisition and the consequential tax effects (in thousands):

|            | Nine months ended<br>September 30, |              |
|------------|------------------------------------|--------------|
|            | 2010                               | 2009         |
| Revenues   | \$ 1,919,792                       | \$ 1,698,673 |
| Net income | \$ 91,245                          | \$ 85,987    |

**DDK Technology Group Acquisition**-On March 13, 2009, we completed the acquisition of all outstanding equity interests of DDK Technologies Group (DDK). The results of DDK's operations have been included in our consolidated financial statements since that date. The acquisition was consummated pursuant to a 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.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2010

## UNAUDITED

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 revolving credit facility to finance the acquisition.

#### 4. Earnings Per Share

Under ASC 260, *Earnings per Share*, the two-class method is an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared (or accumulated) and participation rights in undistributed earnings. Under that method, basic and diluted earnings per share data are presented for each class of common stock.

In applying the two-class method, we determined that undistributed earnings should be allocated equally on a per share basis between Class A and Class B common stock. Under 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.

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<br>September 30, |               | Nine months ended<br>September 30, |               |
|---|-------------------------------------|---------------|------------------------------------|---------------|
|   | 2010                                | 2009          | 2010                               | 2009          |
| <b>Numerator for net income per Class A and Class B common stock:</b> |                                     |               |                                    |               |
| Net income  | \$ 31,376                           | \$ 29,238     | \$ 91,084                          | \$ 82,248     |
| Numerator for basic net income Class A common stock                   | \$ 19,896                           | \$ 18,078     | \$ 57,340                          | \$ 50,508     |
| Numerator for basic net income Class B common stock                   | \$ 11,480                           | \$ 11,160     | \$ 33,744                          | \$ 31,740     |
| Numerator for diluted net income Class A common stock                 | \$ 19,947                           | \$ 18,182     | \$ 57,559                          | \$ 50,781     |
| Numerator for diluted net income Class B common stock                 | \$ 11,429                           | \$ 11,056     | \$ 33,525                          | \$ 31,467     |
| <b>Basic weighted average common shares outstanding</b>               |                                     |               |                                    |               |
| Class A common stock  | 23,010                              | 22,092        | 22,768                             | 21,867        |
| Class B common stock  | 13,276                              | 13,637        | 13,398                             | 13,741        |
| <b>Effect of potential exercise of stock options</b>                  |                                     |               |                                    |               |
| Class A common stock  | 161                                 | 335           | 236                                | 309           |
| Class B common stock  | 0                                   | 0             | 0                                  | 0             |
| <b>Diluted weighted average common shares outstanding - Class A</b>   | <b>23,171</b>                       | <b>22,427</b> | <b>23,004</b>                      | <b>22,176</b> |
| <b>Diluted weighted average common shares outstanding - Class B</b>   | <b>13,276</b>                       | <b>13,637</b> | <b>13,398</b>                      | <b>13,741</b> |

For the three months ended September 30, 2010 and 2009, options to purchase 2.0 million and 1.1 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 nine months ended September 30, 2010 and 2009, options to purchase 2.2 million and 1.1 million shares, respectively, weighted for the portion of the period for which they were outstanding, were outstanding but not

## Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

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, 2010 and 2009, shares issued from the exercise of stock options were 322 thousand and 322 thousand, respectively.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2010

UNAUDITED

**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,<br>2010 | December 31,<br>2009 |
|--|-----------------------|----------------------|
| Billed receivables   | \$ 398,910            | \$ 346,984           |
| Unbilled receivables:  |                       |                      |
| Amounts billable   | 97,517                | 42,968               |
| Revenues recorded in excess of funding                                     | 11,869                | 13,311               |
| Revenues recorded in excess of milestone billings on fixed price contracts | 0                     | 141                  |
| Retainage  | 3,765                 | 3,955                |
| Allowance for doubtful accounts  | (8,597)               | (8,120)              |
| Total receivables, net   | \$ 503,464            | \$ 399,239           |

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, 2010, are expected to be substantially collected within one year except for approximately \$2.2 million.

**6. Property and Equipment**

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

|   | September 30,<br>2010 | December 31,<br>2009 |
|---|-----------------------|----------------------|
| Furniture and equipment                         | \$ 28,960             | \$ 28,725            |
| Leasehold improvements                          | 19,565                | 16,231               |
|   | 48,525                | 44,956               |
| Less: Accumulated depreciation and amortization | (32,834)              | (30,458)             |
| Total property and equipment, net               | \$ 15,691             | \$ 14,498            |

**7. Goodwill and Other Intangibles**

Under ASC 350, *Intangibles – Goodwill and Other*, goodwill is to be reviewed at least annually for impairment. We have elected to perform this review annually during the second quarter of each calendar year. The 2010 review indicated no impairment and therefore, resulted in no adjustment in goodwill.



## Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

The changes in the carrying amounts of goodwill during the year ended December 31, 2009 and the period ended September 30, 2010 are as follows (in thousands):

|  | <b>Goodwill<br/>Balance</b> |
|--|-----------------------------|
| <b>Net amount at December 31, 2008</b>                             | <b>\$ 479,516</b>           |
| Additional consideration for the acquisition of EWA Services, Inc. | (206)                       |
| Acquisition-DDK  | 8,907                       |
| <b>Net amount at December 31, 2009</b>                             | <b>488,217</b>              |
| Acquisition-STI  | 143,772                     |
| <b>Net amount at September 30, 2010</b>                            | <b>\$ 631,989</b>           |

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2010

UNAUDITED

Intangible assets consisted of the following (in thousands):

|                                       | September 30, 2010          |                             |                           | December 31, 2009           |                             |                           |
|---------------------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|                                       | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Amortized intangible assets:          |                             |                             |                           |                             |                             |                           |
| Contract and program intangibles      | \$ 200,630                  | \$ 55,250                   | \$ 145,380                | \$ 107,430                  | \$ 39,987                   | \$ 67,443                 |
| Capitalized software for sale         | 8,348                       | 8,348                       | 0                         | 10,138                      | 9,955                       | 183                       |
| Capitalized software for internal use | 20,977                      | 14,003                      | 6,974                     | 18,258                      | 12,242                      | 6,016                     |
| Other                                 | 58                          | 19                          | 39                        | 58                          | 16                          | 42                        |
| Total other intangibles, net          | \$ 230,013                  | \$ 77,620                   | \$ 152,393                | \$ 135,884                  | \$ 62,200                   | \$ 73,684                 |

Aggregate amortization expense relating to intangible assets for the three months ended September 30, 2010 and 2009 was \$5.9 million and \$3.2 million, respectively. Aggregate amortization expense relating to intangible assets for the nine months ended September 30, 2010 and 2009 was \$17.3 million and \$9.4 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, 2010 | \$ 5,599  |
| Year ending:  |           |
| December 31, 2011                                       | \$ 16,933 |
| December 31, 2012                                       | \$ 14,799 |
| December 31, 2013                                       | \$ 13,258 |
| December 31, 2014                                       | \$ 11,577 |
| December 31, 2015                                       | \$ 10,056 |

**8. Long-term Debt**

Long-term debt consisted of the following (in thousands):

|                              | September 30,<br>2010 | December 31,<br>2009 |
|------------------------------|-----------------------|----------------------|
| Revolving credit facility    | \$ 0                  | \$ 0                 |
| 7.25% senior unsecured notes | 200,000               | 0                    |
| Long-term debt               | \$ 200,000            | \$ 0                 |

**Revolving Credit Facility**-We maintain a revolving credit agreement with a syndicate of lenders led by Bank of America, N.A, as administrative agent. On December 18, 2009, we amended our revolving credit agreement to allow for additional flexibility in negative covenants, and specifically to increase the allowable acquisition limitation, the amount of unsecured debt the Company may have and the amount of stock that

## Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

we may repurchase pursuant to a share repurchase program. The amended credit agreement provides for a revolving credit facility of up to \$350.0 million in loan commitments, with a \$25.0 million letter of credit sublimit and a \$30.0 million swing line loan sublimit. The maturity date for the credit agreement is April 30, 2012.

Borrowings under the amended credit agreement are collateralized by our assets and bear interest at one of the following rates as selected by the Company at the time of borrowing: a London Interbank Offer Rate (LIBOR) based rate plus market-rate spreads that are determined based on the Company's leverage ratio calculation (1.625% to 2.5%), or the lender's base rate (plus spreads of 0.75% up to 1.5%), which is the highest of the Prime Rate, the sum of 0.5% plus the Federal Funds Rate, and, except during a Eurodollar Unavailability Period, 1.00% plus the Eurodollar 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, 2010, we were in compliance with our financial covenants under the credit agreement.

---

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2010

UNAUDITED

We had no outstanding balance at September 30, 2010 and December 31, 2009. The maximum available borrowing under the credit facility at September 30, 2010 was \$348.7 million. As of September 30, 2010, we were contingently liable under letters of credit totaling \$1.3 million, which reduces our availability to borrow under our credit facility.

**7.25% Senior Unsecured Notes**-Effective April 13, 2010, the Company issued \$200.0 million of 7.25% senior unsecured notes in a private placement that were resold inside the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, and outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act of 1933. A portion of the proceeds was used to refinance existing funded debt incurred to pay for the STI acquisition.

Pursuant to the terms of a registration rights agreement entered into in connection with the issuance of the 7.25% senior unsecured notes, on August 19, 2010, ManTech completed the exchange of \$200.0 million in aggregate principal amount of 7.25% senior unsecured notes due 2018 that are registered under the Securities Act of 1933, as amended, for all of the then outstanding unregistered 7.25% senior unsecured notes due 2018.

The 7.25% senior unsecured notes mature on April 15, 2018 with interest payable semi-annually starting on October 15, 2010. The 7.25% senior unsecured notes were issued at 100% of the aggregate principal amount and are effectively subordinate to the Company's existing and future senior secured debt (to the extent of the value of the assets securing such debt), including debt outstanding under our senior revolving credit facility. The 7.25% senior unsecured notes may be redeemed, in whole or in part, at any time, at the option of the Company subject to certain conditions specified in the indenture governing the 7.25% senior unsecured notes. The 7.25% senior unsecured notes are guaranteed, jointly and severally, on a senior unsecured basis by each of our wholly-owned domestic subsidiaries that also guarantees debt obligations under our senior revolving credit facility.

The fair value of the 7.25% senior unsecured notes as of September 30, 2010 was approximately \$208.0 million based on quoted market prices.

The Company incurred approximately \$4.9 million in issuance costs, which are being amortized to interest expense over the contractual life of the 7.25% senior unsecured notes, resulting in an effective rate of 7.67%.

The indenture governing the 7.25% senior unsecured notes contains customary events of default, as well as restrictive covenants, which, subject to important exceptions and qualifications specified in such indenture, will, among other things, limit our ability and the ability of our subsidiaries that guarantee the 7.25% senior unsecured notes to: pay dividends or distributions, repurchase equity, prepay subordinated debt or make certain investments; incur additional debt or issue certain disqualified stock and preferred stock; incur liens on assets; merge or consolidate with another company or sell all or substantially all assets; allow to exist certain control provisions. An event of default under the indenture will allow either the trustee of the notes or the holders of at least 25% in principal amount of the then outstanding notes to accelerate, or in certain cases, will automatically cause the acceleration of, the amounts due under the notes. As of September 30, 2010, the Company was in compliance with all required covenants under the indenture.

## 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 2009 are not expected to have a material effect on our financial position, results of operations or cash flows.

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

## Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

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. 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 4, 2010, 539,466 additional shares were made available for issuance under the Plan. Through September 30, 2010, the remaining aggregate number of shares of our common stock authorized for issuance under the Plan was 1,767,786. Through September 30, 2010, 4,061,108 shares of our Class A common stock have been issued as a result of the awards granted under the Plan. The Plan expires in 2016.

---

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2010

UNAUDITED

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

**Stock Compensation Expense**-For the three months ended September 30, 2010 and 2009, we recorded \$2.1 million and \$2.2 million of stock-based compensation cost, respectively. For the nine months ended September 30, 2010 and 2009, we recorded \$5.4 million and \$5.8 million of stock-based compensation cost, respectively. No compensation expense of employees with stock awards, including stock-based compensation expense, was capitalized during the periods. For the nine months ended September 30, 2010 and 2009, the total recognized tax benefits from the exercise of stock options were \$0.2 million and \$0.8 million, respectively.

**Stock Options**-We typically issue options that vest in three equal installments, beginning on the first anniversary of the date of grant. Under the terms of the Plan, the contractual life of the option grants may not exceed eight years. During the nine months ended September 30, 2010 and 2009, we issued options that expire five years from the date of grant.

**Stock Option Fair Value Determination**-We have used the Black-Scholes-Merton option pricing model to determine the 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, 2010 and 2009:

**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, 2010 and 2009, we used a volatility of 39.2% and 40.3%, respectively.

**Expected Term.** The expected term of options granted to employees during the nine months ended September 30, 2010 and 2009 was determined from historical exercises of the grantee population. Due to the lack of historical exercise data, the expected term for option grants to our board of directors during 2009 was determined under SEC's Staff Accounting Bulletin No. 110 ((vesting term + original contractual term)/2). There were no grants to our board of directors in 2010. For all grants valued during the nine months ended September 30, 2010 and 2009, 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 nine months ended September 30, 2010 and 2009, the options had a weighted-average expected term of 2.95 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 nine months ended September 30, 2010 and 2009, the weighted-average risk-free interest rate used was 1.3% and 1.5%, 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 both the nine months ended September 30, 2010 and 2009 was zero.

**Stock Option Activity**-During the nine months ended September 30, 2010, we granted stock options to purchase 881,500 shares of Class A common stock at a weighted-average exercise price of \$46.88 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, 2010 and 2009, as determined under the Black-Scholes-Merton valuation model, was \$13.02 and \$13.79, respectively. These options vest in three equal installments over 3 years and have a contractual term of 5 years. Option grants that vested during the nine months ended September 30, 2010 and 2009 had a combined fair value of \$6.7 million and \$6.1 million, respectively.



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2010

## UNAUDITED

Information with respect to stock option activity and stock options outstanding for the year ended December 31, 2009 and the nine months ended September 30, 2010:

|   | Number of<br>Shares | Weighted<br>Average<br>Exercise Price | Aggregate<br>Intrinsic<br>Value<br>(in thousands) |
|---|---------------------|---------------------------------------|---|
| Shares under option, December 31, 2008  | 1,961,149           | \$ 35.75                              |   |
| Options granted                         | 1,359,500           | \$ 47.65                              |   |
| Options exercised                       | (394,949)           | \$ 31.81                              | \$ 6,529  |
| Options cancelled and expired           | (207,517)           | \$ 42.34                              |   |
| Shares under option, December 31, 2009  | 2,718,183           | \$ 41.85                              | \$ 17,643   |
| Options granted                         | 881,500             | \$ 46.88                              |   |
| Options exercised                       | (322,176)           | \$ 35.80                              | \$ 3,747  |
| Cancelled and expired                   | (731,580)           | \$ 49.69                              |   |
| Shares under option, September 30, 2010 | 2,545,927           | \$ 42.10                              | \$ 6,835  |

The following table summarizes non-vested stock options for the nine months ended September 30, 2010:

|   | Number of<br>Shares | Weighted<br>Average<br>Fair<br>Value |
|---|---------------------|--------------------------------------|
| Nonvested stock options at December 31, 2009      | 1,871,749           | \$ 13.05                             |
| Options granted                                   | 881,500             | \$ 13.02                             |
| Vested during period                              | (553,251)           | \$ 12.06                             |
| Options cancelled (non-vested)                    | (673,494)           | \$ 14.25                             |
| Nonvested shares under option, September 30, 2010 | 1,526,504           | \$ 12.87                             |

Information concerning stock options outstanding and stock options expected to vest at September 30, 2010:

|                           | Options<br>Exercisable<br>and Expected<br>to Vest | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(years) | Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value<br>(in thousands) |
|---------------------------|---|--|--|---|
| Stock options exercisable | 1,019,423   | 2.5  | \$ 35.74                                 | \$ 6,789  |



# Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

|  |           |     |          |      |
|--|-----------|-----|----------|------|
| Stock options expected to vest           | 1,344,625 | 4.0 | \$ 46.37 | \$ 0 |
| Options exercisable and expected to vest | 2,364,048 |     |          |      |

Unrecognized compensation expense related to outstanding stock options expected to vest as of September 30, 2010 was \$13.5 million. The expense is expected to be recognized over a weighted-average period of 2.0 years and will be adjusted for any future changes in estimated forfeitures.

**Restricted Stock**-Under the Plan, we have issued restricted stock. A restricted stock award is an issuance of shares that cannot be sold or transferred by the recipient until the vesting period lapses. Restricted shares issued to employees vest over three years in one-third increments on the first, second and third anniversaries of the grant date, contingent upon employment with the Company on the vesting dates. Restricted shares issued to our Board of Directors vest in one year. The related compensation expense is recognized over the service period and is based on the grant date fair value of the stock and the number of shares expected to vest.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2010

## UNAUDITED

**Restricted Stock Activity**-During the nine months ended September 30, 2010, we granted 51,000 shares of restricted stock. The following table summarizes the restricted stock activity during the nine months ended September 30, 2010:

|                               | Number of<br>Shares | Grant Date Fair<br>Value<br>(in thousands) |
|-------------------------------|---------------------|--|
| Nonvested, December 31, 2009  | 0                   |  |
| Granted                       | 51,000              | \$ 2,447                                   |
| Vested                        | 0                   |  |
| Forfeited                     | (25,000)            |  |
| Nonvested, September 30, 2010 | 26,000              | \$ 1,196                                   |

## 11. Business Segment and Geographic Area Information

We have one reportable segment. 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. 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 98.7% and 98.2% of our total revenue for the nine months ended September 30, 2010 and 2009, 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 of continuing operations were held in the United States for the periods ended September 30, 2010 and December 31, 2009. Revenues by geographic customer and the related percentages of total revenues for the three and nine months ended September 30, 2010 and 2009 were as follows (in thousands):

|               | Three Months Ended September 30, |        |            |        | Nine Months Ended September 30, |        |              |        |
|---------------|----------------------------------|--------|------------|--------|---------------------------------|--------|--------------|--------|
|               | 2010                             |        | 2009       |        | 2010                            |        | 2009         |        |
| United States | \$ 652,000                       | 99.2%  | \$ 509,624 | 99.0%  | \$ 1,890,995                    | 99.2%  | \$ 1,462,985 | 99.0%  |
| International | 4,954                            | 0.8%   | 5,006      | 1.0%   | 15,127                          | 0.8%   | 15,283       | 1.0%   |
|               | \$ 656,954                       | 100.0% | \$ 514,630 | 100.0% | \$ 1,906,122                    | 100.0% | \$ 1,478,268 | 100.0% |

During the three and nine months ended September 30, 2010 and 2009, our U.S. Army Tank-Automotive Command (TACOM) contract exceeded 10% of our revenue and other income from external customers.

|                                   | Three Months Ended September 30, |     |            |     | Nine Months Ended September 30, |     |            |     |
|-----------------------------------|----------------------------------|-----|------------|-----|---------------------------------|-----|------------|-----|
|                                   | 2010                             | %   | 2009       | %   | 2010                            | %   | 2009       | %   |
|                                   | (dollars in thousands)           |     |            |     |                                 |     |            |     |
| Revenues from external customers: |                                  |     |            |     |                                 |     |            |     |
| U.S. Army TACOM                   | \$ 74,708                        | 11% | \$ 113,386 | 22% | \$ 241,054                      | 13% | \$ 274,374 | 19% |
| All other contracts               | 582,246                          | 89% | 401,244    | 78% | 1,665,068                       | 87% | 1,203,894  | 81% |

# Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

|                          |            |      |            |      |              |      |              |      |
|--------------------------|------------|------|------------|------|--------------|------|--------------|------|
| ManTech Consolidated     | \$ 656,954 | 100% | \$ 514,630 | 100% | \$ 1,906,122 | 100% | \$ 1,478,268 | 100% |
| <b>Operating Income:</b> |            |      |            |      |              |      |              |      |
| U.S. Army TACOM          | \$ 5,514   | 10%  | \$ 5,447   | 12%  | \$ 15,893    | 10%  | \$ 14,558    | 11%  |
| All other contracts      | 49,001     | 90%  | 40,990     | 88%  | 140,383      | 90%  | 117,110      | 89%  |
| ManTech Consolidated     | \$ 54,515  | 100% | \$ 46,437  | 100% | \$ 156,276   | 100% | \$ 131,668   | 100% |

At September 30, 2010, our Communications-Electronics Command (CECOM) contract exceeded 10% of our receivables. At December 31, 2009, our U.S. Army TACOM contract exceeded 10% of our receivables.

|                        | September 30,<br>2010 | %    | December 31,<br>2009 | %    |
|------------------------|-----------------------|------|----------------------|------|
| (dollars in thousands) |                       |      |                      |      |
| <b>Receivables:</b>    |                       |      |                      |      |
| CECOM                  | \$ 57,628             | 11%  | \$ 0                 | 0%   |
| U.S. Army TACOM        | 33,029                | 7%   | 57,230               | 14%  |
| All other contracts    | 412,807               | 82%  | 342,009              | 86%  |
| ManTech Consolidated   | \$ 503,464            | 100% | \$ 399,239           | 100% |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2010

UNAUDITED

Disclosure items required under ASC 280, *Segment Reporting*, including interest revenue, interest expense, depreciation and amortization expense, 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. Subsequent Event**

Management has evaluated subsequent events after the balance sheet date through the financial statements issuance date for appropriate accounting and disclosure.

***QinetiQ North America's Security and Intelligence Solutions Business***-On October 8, 2010, ManTech completed the acquisition of certain assets of QinetiQ North America's Security and Intelligence Solutions (S&IS) unit. The acquisition was completed through an asset purchase agreement dated September 29, 2010, by and among ManTech International Corporation, QinetiQ North America, Inc. and certain subsidiaries.

S&IS provides integrated security solutions to the Department of Defense and the intelligence community. At October 8, 2010, S&IS had approximately 370 employees of which approximately 93% held security clearance. The majority of these employees were hired by ManTech as part of the acquisition. S&IS expects to produce approximately \$60 million of annual revenues in 2010.

This acquisition is consistent with ManTech's long-term strategy to continue extending our presence in the defense and intelligence market, allowing us to offer comprehensive solutions for the full range of security threats from physical through cyber.

ManTech funded the acquisition with cash on hand. The initial purchase price was for \$59.9 million in cash. The initial purchase price may increase up to \$60.0 million or decrease depending on the completion of the working capital adjustment contemplated by S&IS asset purchase agreement.

In 2010, the Company incurred approximately \$0.3 million of acquisition related costs. These costs are included in general and administrative expense in the Company's condensed consolidated statements of income for the three months and nine months ended September 30, 2010.

**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 International Corporation (depending on the circumstances, ManTech, the Company, we, our, ours or us) 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, continue and other 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;

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

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

adverse changes in our mix of contract types;

risk of contract performance, modification or termination;

curtailment of the U.S. Government's outsourcing of certain services that we provide;

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

risks of financing, such as increases in interest rates, restrictions imposed by our outstanding indebtedness, including the ability to meet existing financial covenants, and risks related to an inability to obtain new or additional financing;

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; 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, 2009, previously filed with the Securities and Exchange Commission (SEC) and Item 1.A of Part II of our Quarterly Reports filed for the interim periods ended March 31, 2010 and June 30, 2010, 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 is a leading provider of innovative technologies and solutions for mission-critical national security programs for the intelligence community; the departments of Defense, State, Homeland Security and Justice; the space community; the National Oceanic and Atmospheric Administration and other U.S. federal government customers. Our expertise includes systems engineering, systems integration, 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. We currently have approximately 9,800 highly qualified employees operating in approximately 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 agencies. As it relates 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, 2009, previously filed with the SEC as well as the quarterly financial statements and notes contained within this Form 10-Q filing.

**Three Months Ended September 30, 2010 Compared to the Three Months Ended September 30, 2009**

|  | Three Months Ended September 30, |            |             |        | Period-to-Period Change |         |
|--|----------------------------------|------------|-------------|--------|-------------------------|---------|
|  | 2010                             | 2009       | 2010        | 2009   | 2009 to 2010            |         |
|  | Dollars                          |            | Percentages |        | Dollars                 | Percent |
|  | (dollars in thousands)           |            |             |        |                         |         |
| <b>REVENUES</b>  | \$ 656,954                       | \$ 514,630 | 100.0%      | 100.0% | \$ 142,324              | 27.7%   |
| Cost of services   | 555,318                          | 425,566    | 84.5%       | 82.7%  | 129,752                 | 30.5%   |
| General and administrative expenses                          | 47,121                           | 42,627     | 7.2%        | 8.3%   | 4,494                   | 10.5%   |
| <b>OPERATING INCOME</b>                                      | 54,515                           | 46,437     | 8.3%        | 9.0%   | 8,078                   | 17.4%   |
| Interest expense   | (3,970)                          | (214)      | 0.6%        | 0.0%   | (3,756)                 | 1755.1% |
| Interest income  | 51                               | 45         | 0.0%        | 0.0%   | 6                       | 13.3%   |
| Other income, net  | 64                               | 151        | 0.0%        | 0.0%   | (87)                    | -57.6%  |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b> | 50,660                           | 46,419     | 7.7%        | 9.0%   | 4,241                   | 9.1%    |
| Provision for income taxes                                   | (19,284)                         | (17,181)   | 2.9%        | 3.3%   | (2,103)                 | 12.2%   |
| <b>NET INCOME</b>  | \$ 31,376                        | \$ 29,238  | 4.8%        | 5.7%   | \$ 2,138                | 7.3%    |

*Revenues*

Revenues increased 27.7% to \$657.0 million for the three months ended September 30, 2010, compared to \$514.6 million for the same period in 2009. The increase was primarily due to our acquisition of Sensor Technologies Inc. (STI) on January 15, 2010. Intelligence, Surveillance and Reconnaissance (ISR) systems infrastructure services contributed revenue growth of \$151.2 million, including \$141.9 million from contracts obtained through the acquisition of STI. Revenue growth of \$6.6 million came from our cyber security related contracts. These increases were partially offset by a decrease due to lower procurement of materials on our 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 family of vehicles supporting the U.S. Army Tank-Automotive Armaments Command (TACOM).

*Cost of services*

## Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Cost of services increased 30.5% to \$555.3 million for the three months ended September 30, 2010, compared to \$425.6 million for the same period in 2009. The increase in cost of services is primarily due to the acquisition of STI. As a percentage of revenues, cost of services increased to 84.5% for the three months ended September 30, 2010 as compared to 82.7% for the same period in 2009. Direct labor costs, which include applicable fringe benefits and overhead, increased 14.4% over the same period in 2009 primarily due to the growth in staff supporting global logistics, supply chain management and ISR programs, as well as the acquisition of STI. As a percentage of revenues, direct labor costs decreased to 34.5% for the three months ended September 30, 2010, compared to 38.6% for the same period in 2009. The decrease 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 to \$328.2 million for the three months ended September 30, 2010 compared to \$227.0 million for the same period in 2009. As a percentage of revenues, other direct costs increased from 44.1% for the three months ended September 30, 2009 to 50.0% for the same period in 2010. The increase in other direct costs as a percentage of revenues is primarily due to the acquisition of STI.

#### General and administrative expenses

General and administrative expenses increased 10.5% to \$47.1 million for the three months ended September 30, 2010, compared to \$42.6 million for the same period in 2009. The increase is primarily due to the amortization of intangible assets from the acquisition of STI. As a percentage of revenues, general and administrative expenses decreased to 7.2% from 8.3% for the three months ended September 30, 2010 and 2009, due to the leveraging of our general and administrative costs over a larger base.

#### Interest expense

Interest expense increased \$3.8 million to \$4.0 million for the three months ended September 30, 2010, compared to \$0.2 million for the same period in 2009. We incurred \$3.7 million of interest expense for the three months ended September 30, 2010 related to our 7.25% senior unsecured notes issued in April 2010. We utilized proceeds from the note issuance to pay off all outstanding borrowings under our credit facility, which were used to finance the acquisition of STI. The interest rate on the 7.25% senior unsecured notes is higher than the interest currently available to us under our credit facility. We expect to incur approximately \$3.7 million in interest expense per quarter until the notes are retired.

#### Net income

Net income increased 7.3% to \$31.4 million for the three months ended September 30, 2010, compared to \$29.2 million for the same period in 2009. The increase in net income was primarily driven by our revenue growth. The increase was partially offset by an increase in interest expense and an increase in our effective tax rate. Our effective tax rates for the three months ended September 30, 2010 and 2009 were 38.1% and 37.0%, respectively. The increase in our effective tax rate is largely attributable to our deferred compensation plan.

#### Nine Months Ended September 30, 2010 Compared to the Nine Months Ended September 30, 2009

|  | Nine Months Ended September 30, |              |                        |        | Period-to-Period Change |         |
|--|---------------------------------|--------------|------------------------|--------|-------------------------|---------|
|  | 2010                            | 2009         | 2010                   | 2009   | 2009 to 2010            |         |
|  | Dollars                         |              | Percentages            |        | Dollars                 | Percent |
|  |                                 |              | (dollars in thousands) |        |                         |         |
| <b>REVENUES</b>                          | \$ 1,906,122                    | \$ 1,478,268 | 100.0%                 | 100.0% | \$ 427,854              | 28.9%   |
| Cost of services                         | 1,617,190                       | 1,218,112    | 84.8%                  | 82.4%  | 399,078                 | 32.8%   |
| General and administrative expenses      | 132,656                         | 128,488      | 7.0%                   | 8.7%   | 4,168                   | 3.2%    |
| <b>OPERATING INCOME</b>                  | 156,276                         | 131,668      | 8.2%                   | 8.9%   | 24,608                  | 18.7%   |
| Interest expense                         | (8,565)                         | (921)        | 0.5%                   | 0.0%   | (7,644)                 | 830.0%  |
| Interest income                          | 236                             | 161          | 0.0%                   | 0.0%   | 75                      | 46.6%   |
| Other (expense) income, net              | (268)                           | 259          | 0.0%                   | 0.0%   | (527)                   | -203.5% |
| <b>INCOME FROM CONTINUING OPERATIONS</b> |                                 |              |                        |        |                         |         |
| <b>BEFORE INCOME TAXES</b>               | 147,679                         | 131,167      | 7.7%                   | 8.9%   | 16,512                  | 12.6%   |
| Provision for income taxes               | (56,595)                        | (48,919)     | 3.0%                   | 3.3%   | (7,676)                 | 15.7%   |
| <b>NET INCOME</b>                        | \$ 91,084                       | \$ 82,248    | 4.7%                   | 5.6%   | \$ 8,836                | 10.7%   |

#### Revenues

Revenues increased 28.9% to \$1,906.1 million for the nine months ended September 30, 2010, compared to \$1,478.3 million for the same period in 2009. The increase was primarily due to our acquisition of STI on January 15, 2010. Intelligence, Surveillance and Reconnaissance (ISR) systems infrastructure services contributed revenue growth of \$400.1 million, including \$361.2 million from contracts obtained through the acquisition of STI. Revenue growth of \$32.2 million came from our cyber security related contracts. These increases were partially offset by a decrease due to lower procurement of materials on our 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 family of

vehicles supporting the U.S. Army Tank-Automotive Armaments Command (TACOM).

We are expecting the growth in revenues to continue for the remainder of 2010 as a result of our acquisition of STI and continued expansion in areas of cyber security, ISR systems infrastructure maintenance and repair, System Engineering and Technical Assistance. While we believe our global logistics and supply chain management contracts will remain strong, we recognize the uncertainty in the U.S. mission and priority of funding for combat operations in Iraq and Afghanistan. The continued growth in our cyber security contracts is expected as a result of funding under the Government's Comprehensive National Cyber Initiative.

#### *Cost of services*

Cost of services increased 32.8% to \$1,617.2 million for the nine months ended September 30, 2010, compared to \$1,218.1 million for the same period in 2009. The increase in cost of services is primarily due to our acquisition of STI. As a percentage of revenues, cost of services increased to 84.8% for the nine months ended September 30, 2010 as compared to 82.4% for the same period in 2009. Direct labor costs, which include applicable fringe benefits and overhead, increased 14.0% over the same period in 2009 primarily due to growth in staff supporting global logistics, supply chain management and ISR programs, as well as our acquisition of STI. As a percentage of revenues, direct labor costs decreased to 35.0% for the nine months ended September 30, 2010, compared to 39.6% for the same period in 2009. The decrease 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 50.1% over the same period in 2009. The increase in other direct costs was primarily due to subcontractors related to STI contracts. As a percentage of revenues, other direct costs increased from 42.8% for the nine months ended September 30, 2009 to 49.8% for the same period in 2010. The increase in other direct costs as a percentage of revenues is primarily due to the relative mix of direct labor and other direct costs. We expect cost of services to increase, consistent with revenue, for the remainder of 2010.

#### *General and administrative expenses*

General and administrative expenses increased 3.2% to \$132.7 million for the nine months ended September 30, 2010, compared to \$128.5 million for the same period in 2009. The increase is primarily due to the amortization of intangible assets from the acquisition of STI partially offset by various cost cutting efforts by management and the final consolidation of SRS Technologies back office function into our centralized functions in late 2009. As a percentage of revenues, general and administrative expenses decreased from 8.7% for the nine months ended September 30, 2009 to 7.0% for the same period in 2010 due to the leveraging of our general and administrative costs over a larger base.

#### *Interest expense*

Interest expense increased \$7.7 million to \$8.6 million for the nine months ended September 30, 2010, compared to \$0.9 million for the same period in 2009. We incurred \$6.9 million of interest expense for the nine months ended September 30, 2010 related to our 7.25% senior unsecured notes issued in April 2010. We utilized proceeds from the note issuance to pay off all outstanding borrowings under our credit facility. Borrowings under our credit facility were used to finance the acquisition of STI. The interest rate on the 7.25% senior unsecured notes is higher than interest currently available to us under our credit facility.

#### *Net income*

Net income increased 10.7% to \$91.1 million for the nine months ended September 30, 2010, compared to \$82.2 million for the same period in 2009. The increase was primarily driven by our revenue growth. The increase was partially offset by an increase in interest expense and an increase in our effective tax rate. Our effective tax rates for the nine months ended September 30, 2010 and 2009 were 38.3% and 37.3%, respectively.

#### **Backlog**

At September 30, 2010 and December 31, 2009, our backlog was \$4.9 billion and \$3.8 billion, respectively, of which \$1.7 billion and \$1.1 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, 2009, 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

## Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

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.

**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, our 7.25% senior unsecured notes and our revolving credit facility. At September 30, 2010, we had no outstanding balance under our credit facility. At September 30, 2010, we were contingently liable under letters of credit totaling \$1.3 million, which reduced our ability to borrow under our credit facility. The maximum available borrowing under our credit facility at September 30, 2010 was \$348.7 million. At September 30, 2010, we had \$200.0 million of our 7.25% senior unsecured notes outstanding.

In April 2010, we utilized the proceeds from the 7.25% senior unsecured notes issuance to pay off the outstanding balance under our credit facility and the remainder will be utilized to fund future acquisitions.

Generally, cash provided by operating activities is adequate to fund our operations. Due to fluctuations in our cash flows and the growth in operations, it is necessary from time to time to borrow against our credit facility to meet cash demands. Our credit facility could also be used to fund future acquisitions.

***Cash flows from operating activities***

| (in thousands)                          | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2010                               | 2009      |
| Net cash flow from operating activities | \$ 102,092                         | \$ 98,682 |

Our operating cash flows are 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 flows from operations during the nine months ended September 30, 2010 compared to the same period in 2009 was a result of the timing of accrued salaries and increased net income, partially offset by the timing of receivables. Our accounts receivable days sales outstanding ratio was 69 and 64 for the periods ended September 30, 2010 and 2009, respectively.

***Cash flows from investing activities***

| (in thousands)                          | Nine Months Ended<br>September 30, |             |
|---|------------------------------------|-------------|
|   | 2010                               | 2009        |
| Net cash flow from investing activities | (\$ 243,279)                       | (\$ 18,607) |

Cash flows from investing activities consist primarily of capital expenditures, leasehold improvements, software and business acquisitions. Cash outflows during the nine months ended September 30, 2010 were primarily due to the acquisition of STI on January 15, 2010 for approximately \$236.1 million, net of cash acquired. Cash outflows during the nine months ended September 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.

***Cash flows from financing activities***

| (in thousands)                          | Nine Months Ended<br>September 30, |             |
|---|------------------------------------|-------------|
|   | 2010                               | 2009        |
| Net cash flow from financing activities | \$ 207,134                         | (\$ 32,620) |

## Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Cash flows from financing during the nine months ended September 30, 2010 resulted primarily from the issuance of 7.25% senior unsecured notes for \$200.0 million and the proceeds from the exercise of stock options, offset by debt issuance costs. The proceeds from our notes issuance were utilized to payoff outstanding amounts under our credit facility. We utilized \$200.0 million in borrowings under our credit facility to finance our acquisition of STI. Cash flows from financing during the nine months ended September 30, 2009 resulted primarily from payments under our credit facility of \$44.1 million partially offset by proceeds from the exercise of stock options of \$10.7 million.

### ***Credit Agreement***

We believe the capital resources available to us under our credit agreement with up to \$350.0 million in loan commitments 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, 7.25% senior unsecured notes and additional borrowing or issuance of equity. At September 30, 2010, we had no outstanding balance under our credit facility.

For a more fulsome discussion of our credit agreement, including certain financial and other covenants with which we must comply, please see Note 8 to our Financial Statements included herein. As of September 30, 2010, the Company was in compliance with the financial covenants under the credit agreement.

### ***7.25% Senior Unsecured Notes***

Effective April 13, 2010, the Company issued \$200.0 million of 7.25% senior unsecured notes in a private placement that were resold inside the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, and outside the United States to non-U.S. persons in reliance on Regulation S under Securities Act of 1933. A portion of the proceeds from the issuance was used to pay-off the outstanding balance under our credit agreement.

Pursuant to the terms of the registration rights agreement entered into in connection with the issuance of the 7.25% senior unsecured notes, on August 19, 2010 ManTech completed the exchange of \$200.0 million in aggregate principal amount of 7.25% senior unsecured notes due 2018 that are registered under the Securities Act of 1933, as amended, for all of the then outstanding unregistered 7.25% senior unsecured notes due 2018.

For a more fulsome discussion of our 7.25% senior unsecured notes, including certain covenants contained in the indenture governing the notes, please see Note 8 to our Financial Statements included herein. As of September 30, 2010, the Company was in compliance with all covenants required by the indenture.

### ***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 2009 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed with the SEC on February 26, 2010.

#### ***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 revenues 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 Accounting Standards Codification (ASC) 605-35, *Construction-Type and Certain Production-Type Contracts*, 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 as described in ASC 605-35, 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, 2010.

Whenever events and changes in circumstances indicate that the carrying amount of long-lived assets may be fully recoverable, we evaluate the probability that future undiscounted net cash flows, without interest charges, will be less than carrying amount of assets. If any impairment were indicated as a result of this review, we recognize a loss based on the amount by which that carrying amount exceeds the estimated fair value.

#### **Accounting Standards Updates**

In February 2010, Accounting Standards Update No. 2010-09, *Subsequent Events (Topics 855): Amendments to Certain Recognition and Disclosure Requirements*, was issued. This Update addresses both the interaction of the requirements of ASC 885, *Subsequent Events*, with the SEC's reporting requirements and the intended breadth of the reissuance disclosures provision related to subsequent events. The amendments in this Update affect all entities. The amendments remove the requirement for an SEC filer to disclose a date in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. Generally Accepted Accounting Principles (GAAP). Additionally, the Financial Accounting Standards Board (FASB) has clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. All of the amendments in this Update are effective upon issuance of the final Update, except for the use of the issued date for conduit debt obligors. The amendment was effective for interim or annual periods ending after June 15, 2010. The adoption of Accounting Standard Update No. 2010-09 did not have a significant impact on the company's results of operations or financial position.

In January 2010, Accounting Standards Update No. 2010-02, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of Subsidiaries – a Scope Clarification*, was issued. The objective of this Update is to address implementation issues related to the changes in ownership provisions in ASC 810-10, *Consolidation – Overall*. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is business or non-profit. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or non-profit activity for an equity interest in another entity. The amendments affect entities that have previously adopted the decrease in ownership provisions of ASC 810-10 but have applied the guidance in that Subtopic differently from the guidance provided in the Update. This Update provides amendments to ASC 810-10 and related guidance within U.S. GAAP to clarify the scope of the decrease in ownership provisions of the Subtopic and related guidance applies to a subsidiary or group of assets that is a business or non-profit activity; a subsidiary that is a business or non-profit activity that is transferred to an equity method investee or joint venture; and an exchange of a group of assets that constitutes a business or

non-profit activity for a noncontrolling interest in an entity. The amendments in this Update expand the disclosures about the deconsolidation of a subsidiary or derecognition of a group of assets within the scope of ASC 810-10. In addition to the existing disclosures, an entity should disclose the valuation techniques used to measure the fair value of any retained investment in the former subsidiary or group of assets and information that enables users of its financial statements to assess the input used to develop the measurement; the nature of continuing involvement with the subsidiary or entity the group of assets after it has been deconsolidated or derecognized; and whether the transaction that resulted in the deconsolidation of the subsidiary or the derecognition of the group of assets was with a related party or whether the former subsidiary or entity acquiring the group of assets will be a related party after deconsolidation. An entity also should disclose the valuation techniques used to measure an entity interest in an acquiree held by the entity immediately before the acquisition date in a business combination achieved in stages. The amendments in this Update are effective beginning in the period that an entity adopts Statement of Financial Accounting Standard (SFAS) 160, which was codified in July 2009 in ASC 810-10. If an entity has previously adopted SFAS 160 as of the date the amendments in this Update are included in the ASC, the amendments in this Update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this Update should be applied retrospectively to the first period that an entity adopted SFAS 160. The adoption of Accounting Standard Update No. 2010-02 did not have a significant impact on the company's results of operations or financial position.

**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 September 30, 2010, we had no outstanding balance 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 nine months ended September 30, 2010, 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 nine months and the weighted average maturity of the portfolio cannot exceed 60 days.

**Item 4. Controls and Procedures**

As of September 30, 2010, 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.

## 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, 2009 and in subsequent quarterly reports filed with the SEC.

### Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K:

#### Exhibit

| No.   | Description   |
|-------|---|
| 10.1* | Form Special Compensation Agreement by and between ManTech International Corporation and certain of its executive officers (incorporated herein by reference from registrant's Current Report on Form 8-K filed with the SEC on September 14, 2010).  |
| 12.1  | Ratio of Earnings to Fixed Charges  |
| 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.   |
| 101   | The following materials from ManTech International Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2010 and December 31, 2009; (ii) Condensed Consolidated Statement of Income for the Three and Nine Months Ended September 30, 2010 and 2009; (iii) Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2010 and 2009; (iv) Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009; and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocked text.** |

\* Management contract or compensatory plan or arrangement required to be filed as an Exhibit to this report pursuant to item 14(c).

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Filed herewith

\*\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

**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: October 29, 2010

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

Date: October 29, 2010

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