

MANTECH INTERNATIONAL CORP

Form 10-Q

November 04, 2011

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2011

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> (State or other jurisdiction of incorporation or organization)	<b>22-1852179</b> (I.R.S. Employer Identification No.)
<b>12015 Lee Jackson Highway, Fairfax, VA</b> (Address of principal executive offices)	<b>22033</b> (Zip Code)
<b>(703) 218-6000</b> (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 31, 2011 there were outstanding 23,611,868 shares of our Class A common stock and 13,192,845 shares of our Class B common stock.

**Table of Contents**

**MANTECH INTERNATIONAL CORPORATION**

**FORM 10-Q**

**FOR THE QUARTER ENDED September 30, 2011**

**INDEX**

	<b>Page No.</b>
<b><u>PART I - FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets at September 30, 2011 and December 31, 2010</u>	3
<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2011 and 2010</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2011 and 2010</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2011 and 2010</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7-18
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risks</u>	27
Item 4. <u>Controls and Procedures</u>	27
<b><u>Part II - OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	28
Item 1A. <u>Risk Factors</u>	28
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
Item 6. <u>Exhibits</u>	29

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

**MANTECH INTERNATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In Thousands Except Share Amounts)

	(unaudited)	
	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 181,894	\$ 84,829
Receivables net	541,133	528,765
Prepaid expenses and other	21,575	16,642
<b>Total Current Assets</b>	<b>744,602</b>	<b>630,236</b>
Property and equipment net	65,828	27,086
Goodwill	747,000	729,558
Other intangibles net	163,361	168,487
Employee supplemental savings plan assets	22,658	24,415
Other assets	10,369	10,695
<b>TOTAL ASSETS</b>	<b>\$ 1,753,818</b>	<b>\$ 1,590,477</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 272,722	\$ 272,047
Accrued salaries and related expenses	82,760	64,575
Billings in excess of revenue earned	55,587	11,118
<b>Total Current Liabilities</b>	<b>411,069</b>	<b>347,740</b>
Long-term debt	200,000	200,000
Accrued retirement	24,003	25,789
Other long-term liabilities	7,493	7,495
Deferred income taxes non-current	42,880	43,110
<b>TOTAL LIABILITIES</b>	<b>685,445</b>	<b>624,134</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS EQUITY:</b>		
Common stock, Class A \$0.01 par value; 150,000,000 shares authorized; 23,801,419 and 23,396,549 shares issued at September 30, 2011 and December 31, 2010; 23,557,306 and 23,153,509 shares outstanding at September 30, 2011 and December 31, 2010	238	234
Common stock, Class B \$0.01 par value; 50,000,000 shares authorized; 13,192,845 and 13,275,345 shares issued and outstanding at September 30, 2011 and December 31, 2010	132	133

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Additional paid-in capital	402,032	385,407
Treasury stock, 244,113 and 243,040 shares at cost at September 30, 2011 and December 31, 2010	(9,158)	(9,114)
Retained earnings	677,256	589,838
Accumulated other comprehensive loss	(203)	(155)
Unearned Employee Stock Ownership Plan shares	(1,924)	0
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>1,068,373</b>	<b>966,343</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 1,753,818</b>	<b>\$ 1,590,477</b>

See notes to condensed consolidated financial statements.

**Table of Contents**

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

(In Thousands Except Per Share Amounts)

	(unaudited)		(unaudited)	
	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
<b>REVENUES</b>	\$ 734,607	\$ 656,954	\$ 2,188,144	\$ 1,906,122
Cost of services	629,181	555,318	1,873,595	1,617,190
General and administrative expenses	46,918	47,121	141,018	132,656
<b>OPERATING INCOME</b>	58,508	54,515	173,531	156,276
Interest expense	(3,857)	(3,970)	(11,806)	(8,565)
Interest income	107	51	230	236
Other income (expense), net	(20)	64	3,896	(268)
<b>INCOME FROM OPERATIONS BEFORE INCOME TAXES</b>	54,738	50,660	165,851	147,679
Provision for income taxes	(20,252)	(19,284)	(63,020)	(56,595)
<b>NET INCOME</b>	\$ 34,486	\$ 31,376	\$ 102,831	\$ 91,084
<b>BASIC EARNINGS PER SHARE:</b>				
<b>Class A basic earnings per share</b>	\$ 0.94	\$ 0.86	\$ 2.81	\$ 2.52
Weighted average common shares outstanding	23,513	23,010	23,360	22,768
<b>Class B basic earnings per share</b>	\$ 0.94	\$ 0.86	\$ 2.81	\$ 2.52
Weighted average common shares outstanding	13,193	13,276	13,246	13,398
<b>DILUTED EARNINGS PER SHARE:</b>				
<b>Class A diluted earnings per share</b>	\$ 0.94	\$ 0.86	\$ 2.80	\$ 2.50
Weighted average common shares outstanding	23,607	23,171	23,493	23,004
<b>Class B diluted earnings per share</b>	\$ 0.94	\$ 0.86	\$ 2.80	\$ 2.50
Weighted average common shares outstanding	13,193	13,276	13,246	13,398

See notes to condensed consolidated financial statements.

**Table of Contents**

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

(In Thousands)

	(unaudited)		(unaudited)	
	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
<b>NET INCOME</b>	\$ 34,486	\$ 31,376	\$ 102,831	\$ 91,084
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>				
Translation adjustment, net of tax	(17)	(18)	(48)	(50)
Actuarial gain (loss) on defined benefit pension plans, net of tax	0	0	0	14
<b>Total other comprehensive income (loss)</b>	(17)	(18)	(48)	(36)
<b>COMPREHENSIVE INCOME</b>	\$ 34,469	\$ 31,358	\$ 102,783	\$ 91,048

See notes to condensed consolidated financial statements.

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

	(unaudited)	
	Nine months ended	
	September 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 102,831	\$ 91,084
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	6,813	5,371
Excess tax benefits from the exercise of stock options	(244)	(519)
Gain on sale of investments	(3,745)	0
Deferred income taxes	(10,245)	743
Depreciation and amortization	28,700	21,416
Change in assets and liabilities net of effects from acquired businesses:		
Receivables net	(9,471)	(34,355)
Prepaid expenses and other	4,351	(518)
Accounts payable and accrued expenses	(2,605)	5,787
Accrued salaries and related expenses	17,079	12,042
Billings in excess of revenue earned	44,469	1,252
Accrued retirement	(1,786)	1,163
Other	1,975	(1,374)
<b>Net cash flow from operating activities</b>	<b>178,122</b>	<b>102,092</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(51,372)	(4,599)
Investment in capitalized software for internal use	(5,105)	(2,628)
Proceeds from sale of investments	3,255	0
Acquisition of businesses net of cash acquired	(20,300)	(236,052)
<b>Net cash flow from investing activities</b>	<b>(73,522)</b>	<b>(243,279)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from exercise of stock options	7,665	11,535
Excess tax benefits from the exercise of stock options	244	519
Dividends paid	(15,400)	0
Treasury stock acquired	(44)	0
Issuance of senior unsecured notes	0	200,000
Debt issuance costs	0	(4,920)
<b>Net cash flow from financing activities</b>	<b>(7,535)</b>	<b>207,134</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>97,065</b>	<b>65,947</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>84,829</b>	<b>86,190</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 181,894</b>	<b>\$ 152,137</b>



**SUPPLEMENTAL CASH FLOW INFORMATION**

Cash paid for income taxes	\$ 66,068	\$ 54,430
Cash paid for interest	\$ 7,798	\$ 1,399
Noncash financing activities:		
Employee Stock Ownership Plan Contributions	\$ 2,422	\$ 734

See notes to condensed consolidated financial statements.

**Table of Contents**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2011**

**UNAUDITED**

**1. Introduction and Overview**

ManTech International Corporation (depending on the circumstances, ManTech Company we our ours or us ) is a leading provider of information technologies and solutions for mission-critical national security programs for the intelligence community; the departments of Defense, State, Homeland Security, Energy and Justice, including the Federal Bureau of Investigation (FBI); the space community; the National Oceanic and Atmospheric Administration; and other U.S. federal government customers. Our expertise includes Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) Lifecycle Support, Cyber Security, Global Logistics Support, Intelligence/Counter-Intelligence Support, Information Technology Modernization & Sustainment, Systems Engineering and Test & Evaluation. We support major national missions, such as military readiness, terrorist threat detection, information security and border protection.

**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, 2010, 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 Combination*.

**TranTech, Inc.**-On February 11, 2011, we completed the acquisition of TranTech, Inc. (TranTech). The results of TranTech's operations have been included in our consolidated financial statements since that date. The acquisition was completed through a stock purchase agreement dated February 11, 2011, by and among ManTech International Corporation, TranTech and its sole shareholder.

TranTech provides information technology, networking and cyber security services to the federal government. At February 11, 2011, TranTech had 57 employees. The acquisition allows us to continue extending our presence in the defense, security and intelligence communities, and to offer comprehensive solutions through a prime position on the Defense Information Systems Agency ENCORE II contract.

ManTech funded the acquisition with cash on hand. The purchase price of \$21.5 million was allocated to the underlying assets and liabilities based on their fair values at the date of acquisition. Total assets were \$23.8 million, including goodwill and intangible assets recognized in connection with the acquisition, and total liabilities were \$2.3 million. Included in total assets were \$5.0 million in acquired intangible assets. We recorded goodwill of \$14.6 million, which will be deductible for tax purposes over 15 years, assuming adequate levels of taxable income.

**MTCSC, Inc.**-On December 23, 2010, we completed the acquisition of MTCSC, Inc. (MTCSC). The results of MTCSC's operations have been included in our consolidated financial statements since that date. The acquisition was consummated pursuant to a stock purchase agreement (MTCSC Purchase Agreement) dated November 19, 2010, by and among ManTech International Corporation and MTCSC.

MTCSC provides C4ISR systems, integration, and cyber security network engineering solutions to U.S. government customers. At December 23, 2010, MTCSC had 366 employees of which approximately 90% held security clearances. The acquisition allows us to expand our work and direct support to the United States Marine Corps.



## Table of Contents

ManTech funded the acquisition with cash on hand. The purchase price was \$76.7 million. The MTCSC Purchase Agreement did not contain provisions for contingent consideration. Pursuant to the MTCSC Purchase Agreement, \$11.3 million was placed into an escrow account to satisfy potential indemnification liabilities of the stockholders of MTCSC. The escrow period will expire 18 months after the purchase closing date. As of September 30, 2011, there was \$11.3 million that continued to be held in the escrow account.

The purchase price was allocated to the underlying assets and liabilities based on their fair values at the date of acquisition. Total assets were \$94.8 million, including goodwill and intangible assets recognized in connection with the acquisition, and total liabilities were \$18.0 million. Included in total assets were \$8.7 million in acquired intangible assets. We recorded \$60.1 million in goodwill, which will not be deductible for tax purposes. Recognition of goodwill is largely attributed to the highly skilled employees and the value paid for companies supporting high-end defense, intelligence and homeland security market.

In allocating the purchase price, we considered among other factors, analyses of historical financial performance and estimates of future performance of MTCSC's contracts. The components of other intangible assets associated with the acquisition were customer relationships and backlog valued at \$8.1 million and \$0.6 million, respectively. Customer contracts and related relationships represent the underlying relationships and agreements with MTCSC's existing customers. Customer relationships and backlog are amortized over their estimated useful lives of 20 years and 1 year, respectively, using the pattern of benefits method. The weighted-average amortization period for the intangible assets is 18.7 years.

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

S&IS provides integrated security solutions to the Department of Defense and the intelligence community. At October 8, 2010, S&IS had 370 employees of which approximately 93% held security clearances. The majority of these employees were hired by ManTech as part of the acquisition. The acquisition is consistent with ManTech's long-term strategy to extend 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 purchase price was \$60.0 million. The S&IS Purchase Agreement did not contain provisions for contingent consideration. Pursuant to the S&IS Purchase Agreement, \$1.0 million was placed into an escrow account to satisfy potential indemnification obligations of QNA. The escrow claim period expired 6 months after the purchase closing date. As of September 30, 2011, there was \$0.4 million that continued to be held in the escrow account by mutual consent of the parties pending resolution of potential indemnification claims.

For the nine months ended September 30, 2010, the Company incurred \$0.4 million of acquisition related expenses. These expenses are included in general and administrative expense in the Company's statement of income.

The purchase price was allocated to the underlying assets and liabilities based on their fair value at the date of acquisition. Total assets were \$62.0 million, including goodwill and intangible assets recognized in connection with the acquisition, and total liabilities were \$2.0 million. Included in total assets were \$13.0 million in acquired intangible assets. We have recorded goodwill of \$40.3 million, which will be deductible for tax purposes over 15 years, assuming adequate levels of taxable income. Recognition of goodwill is largely attributed to the highly skilled employees and the value paid for companies supporting high-end defense, intelligence and homeland security markets.

In allocating the purchase price, we considered among other factors, analyses of historical financial performance and estimates of future performance of S&IS's contracts. The components of other intangible assets associated with the acquisition were customer relationships and backlog at \$11.5 million and \$1.5 million, respectively. Customer contracts and related relationships represent the underlying relationships and agreements with S&IS's existing customers. Customer relationships and backlog are amortized over their estimated useful lives of 20 years and 1 year, respectively, using the pattern of benefits method. The weighted-average amortization period for the intangible assets is 17.9 years.

***Sensor Technologies Inc.***-On January 15, 2010, we completed the acquisition of all outstanding equity interest 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 International Corporation, STI, certain shareholders of STI and certain persons acting as a representative for the shareholders of STI.



**Table of Contents**

STI provides mission-critical systems engineering and 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. The acquisition of STI is consistent with our long-term strategy to broaden our footprint in the high-end defense and intelligence market, allowing us to expand our work with the Department of Defense and our direct support of the U.S. Army as it continues its overseas operations.

ManTech funded the acquisition through a combination of cash on hand and borrowings under our senior 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.

For the nine months ended September 30, 2010, the Company incurred \$0.2 million of acquisition related expenses. These expenses are included in general and administrative expense in the Company's statement of income.

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	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>

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.

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 TranTech, MTCSC, S&IS and STI acquisitions had occurred on January 1, 2010. 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 acquisitions and related borrowings had occurred on January 1, 2010. The amounts have been calculated after applying the Company's accounting policies and adjusting the results of TranTech, MTCSC, S&IS and STI to reflect the additional amortization expense resulting from recognizing intangible assets, the interest expense effect of the financing necessary to complete the acquisitions and the consequential tax effects (in thousands).



**Table of Contents**

	Nine months ended September 30,	
	2011	2010
Revenues	\$ 2,189,747	\$ 2,034,475
Net income	\$ 103,499	\$ 95,188

**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. During the second quarter of 2011, we declared and paid a dividend of \$0.42 per share on both classes of common stock. This was the first dividend declared since the Company's initial public offering in 2002.

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 September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
<b>Numerator for net income per Class A and Class B common stock:</b>				
Distributed earnings	\$ 0	\$ 0	\$ 15,413	\$ 0
Undistributed earnings	34,486	31,376	87,418	91,084
Net income	\$ 34,486	\$ 31,376	\$ 102,831	\$ 91,084
Numerator for basic net income Class A common stock	\$ 22,091	\$ 19,896	\$ 65,621	\$ 57,340
Numerator for basic net income Class B common stock	\$ 12,395	\$ 11,480	\$ 37,210	\$ 33,744
Numerator for diluted net income Class A common stock	\$ 22,123	\$ 19,947	\$ 65,755	\$ 57,559
Numerator for diluted net income Class B common stock	\$ 12,363	\$ 11,429	\$ 37,076	\$ 33,525
<b>Basic weighted average common shares outstanding</b>				
Class A common stock	23,513	23,010	23,360	22,768
Class B common stock	13,193	13,276	13,246	13,398
<b>Effect of potential exercise of stock options</b>				
Class A common stock	94	161	133	236
Class B common stock	0	0	0	0
<b>Diluted weighted average common shares outstanding - Class A</b>	<b>23,607</b>	<b>23,171</b>	<b>23,493</b>	<b>23,004</b>
<b>Diluted weighted average common shares outstanding - Class B</b>	<b>13,193</b>	<b>13,276</b>	<b>13,246</b>	<b>13,398</b>

For the three months ended September 30, 2011 and 2010, options to purchase 2.3 million and 2.0 million shares, respectively, 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, 2011 and 2010, options to purchase 2.1 million and 2.2 million shares, respectively, 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,



2011 and 2010, shares issued from the exercise of stock options were 0.2 million and 0.3 million, respectively.

**Table of Contents****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, 2011	December 31, 2010
Billed receivables	\$ 432,937	\$ 411,018
Unbilled receivables:		
Amounts billable	105,233	103,752
Revenues recorded in excess of funding	7,273	16,508
Retainage	5,683	6,433
Allowance for doubtful accounts	(9,993)	(8,946)
<b>Total receivables net</b>	<b>\$ 541,133</b>	<b>\$ 528,765</b>

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. 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, 2011, are expected to be substantially collected within one year except for approximately \$2.1 million, of which amount 91.9% is related to receivables from sales to the U.S. government. The remainder is related to receivables from contracts in which we acted as a subcontractor to other contractors.

The Company does not believe it has significant exposure to credit risk as accounts receivable and the related unbilled amounts are primarily due from the U.S. government. The allowance for doubtful accounts represents the Company's exposure to compliance, contractual issues and bad debt related to prime contractors.

**6. Property and Equipment**

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

	September 30, 2011	December 31, 2010
Furniture and equipment	\$ 86,596	\$ 39,271
Leasehold improvements	23,937	21,948
	110,533	61,219
Less: Accumulated depreciation and amortization	(44,705)	(34,133)
<b>Total property and equipment net</b>	<b>\$ 65,828</b>	<b>\$ 27,086</b>

**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 each calendar year. The 2011 annual review indicated no impairment and therefore resulted in no adjustment in goodwill.

**Table of Contents**

The changes in the carrying amounts of goodwill during the year ended December 31, 2010 and the period ended September 30, 2011 are as follows (in thousands):

	<b>Goodwill Balance</b>
<b>Net amount at December 31, 2009</b>	<b>\$ 488,217</b>
Acquisition-STI	143,772
Acquisition-S&IS	40,169
Acquisition-MTCSC	57,400
<b>Net amount at December 31, 2010</b>	<b>\$ 729,558</b>
Additional consideration for the acquisition of S&IS	148
Additional consideration for the acquisition of MTCSC	2,693
Acquisition-TranTech	14,601
<b>Net amount at September 30, 2011</b>	<b>\$ 747,000</b>

Other intangible assets consisted of the following (in thousands):

	September 30, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Contract and program intangibles	\$ 224,382	\$ 71,170	\$ 153,212	\$ 219,382	\$ 57,754	\$ 161,628
Capitalized software cost for sale	3,729	3,729	0	3,729	3,729	0
Capitalized software cost for internal use	26,625	16,509	10,116	21,400	14,578	6,822
Other	58	25	33	58	21	37
Total other intangibles net	\$ 254,794	\$ 91,433	\$ 163,361	\$ 244,569	\$ 76,082	\$ 168,487

Aggregate amortization expense relating to intangible assets for the three months ended September 30, 2011 and 2010 was \$5.2 million and \$5.9 million, respectively. Aggregate amortization expense relating to intangible assets for the nine months ended September 30, 2011 and 2010 was \$15.5 million and \$17.3 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, 2011	\$ 4,979
Year ending:	
December 31, 2012	\$ 18,125
December 31, 2013	\$ 16,274
December 31, 2014	\$ 14,445
December 31, 2015	\$ 12,845
December 31, 2016	\$ 10,957

**8. Long-term Debt**

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

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

	September 30, 2011	December 31, 2010
Revolving credit facility	\$ 0	\$ 0
7.25% senior unsecured notes	200,000	200,000
<b>Total long-term debt</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>

**Revolving Credit Facility**-Through October 11, 2011, we maintained a revolving credit agreement with a syndicate of lenders led by Bank of America, N.A, as administrative agent. The credit agreement provided 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 was April 30, 2012.

Borrowings under the credit agreement were collateralized by our assets and bore 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

**Table of Contents**

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 permitted prepayment and termination of the loan commitments at any time, subject to certain conditions. The credit agreement required 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 contained various covenants, including affirmative covenants with respect to certain reporting requirements and maintaining certain business activities, and negative covenants that, among other things, might have limited our ability to incur liens, incur additional indebtedness, make investments, make acquisitions, make restricted payments and undertake certain additional actions. As of September 30, 2011, we were in compliance with our financial covenants under the credit agreement.

We had no outstanding balance on our credit facility at September 30, 2011 and December 31, 2010. The maximum additional available borrowing under the credit facility at September 30, 2011 was \$348.8 million. As of September 30, 2011, we were contingently liable under letters of credit totaling \$1.2 million, which reduced our availability to borrow under our credit facility.

The following table summarizes the activity under our revolving credit facility for the nine months ended September 30, 2011 and 2010:

	For the nine months ended September 30,	
	2011	2010
Borrowings under revolving credit facility	\$ 0	\$ 287,700
Repayment of borrowings under revolving credit facility	\$ 0	(\$ 287,700)

**New Revolving Credit Facility**-On October 12, 2011, we entered into a new Credit Agreement with a syndicate of lenders led by Bank of America, N.A., as Administrative Agent. See Note 13 for additional information.

**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 pay down the balance on the revolving credit facility 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 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 guaranteed debt obligations under our prior revolving credit facility or will guarantee debt obligations under our new revolving credit facility.

The fair value of the 7.25% senior unsecured notes as of September 30, 2011 was approximately \$200.0 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 using the effective interest rate method, 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, that among other things, limit our ability and the ability of our subsidiaries that guarantee the 7.25% senior unsecured



**Table of Contents**

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. 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, 2011, the Company was in compliance with all required covenants under the indenture.

**9. Commitments and Contingencies**

Contracts with the U.S. government including subcontracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of the U.S. government, in the ordinary course of business, investigate whether the Company's operations are conducted in accordance with these requirements and the terms of the relevant contracts. U.S. government investigations of the Company, whether related to the Company's U.S. government contracts or conducted for other reasons, could result in administrative, civil, or criminal liabilities, including repayment, fines, or penalties being imposed upon the Company, or could lead to suspension or debarment from future U.S. government contracting. Management believes it has adequately reserved for any losses that may be experienced from any investigation of which it is aware. The Defense Contract Audit Agency (DCAA) has completed the majority of incurred cost audits through 2003, 2004 and 2005, which resulted in no material adjustments. The remaining audits for 2003 through 2010 are not expected to have a material effect on our financial position, results of operations or cash flow, and management believes it has adequately reserved for any losses.

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**

In May 2011, the Company's stockholders approved our 2011 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. The 2011 restatement of the Plan increased the base number of shares of our Class A common stock reserved for issuance under the Plan to 6,000,000 shares, an increase of 1,500,000 shares compared to the 2006 plan. 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 31<sup>st</sup> of the previous year. On January 1, 2011, 546,433 additional shares were made available for issuance under the Plan. Through September 30, 2011, the remaining aggregate number of shares of our common stock authorized for issuance under the Plan was 3,390,304. Through September 30, 2011, 4,371,923 shares of our Class A common stock have been issued as a result of the exercise of options granted under the Plan. The Plan expires in May 2021.

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, 2011 and 2010, we recorded \$2.3 million and \$2.1 million of stock-based compensation cost, respectively. For the nine months ended September 30, 2011 and 2010, we recorded \$6.8 million and \$5.4 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, 2011 and 2010, the total recognized tax (deficiency)/benefit from the exercise of stock options, vested cancellations and the vesting of restricted stock was (\$0.3) million and \$0.2 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, 2011 and 2010, we issued options that expire five years from the date of grant.

**Fair Value Determination**-We have used the Black-Scholes-Merton option pricing model to determine fair value of our awards on date of grant. We will reconsider the use of the Black-Scholes-Merton model if additional information becomes available in the future that indicates another model would be more appropriate or if grants issued in future periods have characteristics that cannot be reasonably estimated under this model.

**Table of Contents**

The following weighted-average assumptions were used for option grants during the nine months ended September 30, 2011 and 2010:

*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.

*Expected Term*-The expected term of options granted to employees during the nine months ended September 30, 2011 and 2010 was determined from historical exercises of the grantee population. For all grants valued during the nine months ended September 30, 2011 and 2010, the options had graded vesting over 3 years (equal annual installments beginning on the first anniversary of the date of the grant) and a contractual term of 5 years.

*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 numeric model to provide the equivalent risk-free rate to be used in the Black-Scholes-Merton model based on the expected term of the underlying grants.

*Dividend Yield*-The Black-Scholes-Merton valuation model requires an expected dividend yield as an input. In May 2011, we initiated a cash dividend program. For option grants made subsequent to May 2011, we used an expected dividend yield of 2% based on an expected semi-annual cash dividend of \$0.42 per share.

The following table summarizes weighted-average assumptions used in our calculation of fair value for the nine months ended September 30, 2011 and 2010:

	Nine months ended September 30,	
	2011	2010
Volatility	36.0%	39.2%
Expected life of options (in years)	2.95	2.95
Risk-free interest rate	1.04%	1.30%
Dividend yield	0.1%	0.0%

*Stock Option Activity*-During the nine months ended September 30, 2011, we granted stock options to purchase 639,000 shares of Class A common stock at a weighted-average exercise price of \$41.45 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, 2011 and 2010, as determined under the Black-Scholes-Merton valuation model, was \$10.50 and \$13.02, respectively. These options vest in three equal installments over three years and have a contractual term of five years. Option grants that vested during the nine months ended September 30, 2011 and 2010 had a combined fair value of \$6.8 million and \$6.7 million, respectively.

The following table includes information with respect to stock option activity and stock options outstanding for the year ended December 31, 2010 and the nine months ended September 30, 2011:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Shares under option, December 31, 2009	2,718,183	\$ 41.85	
Options granted	944,500	\$ 46.50	
Options exercised	(391,176)	\$ 35.30	\$ 4,224
Options cancelled and expired	(798,250)	\$ 49.42	
Shares under option, December 31, 2010	2,473,257	\$ 42.22	\$ 7,731
Options granted	639,000	\$ 41.45	
Options exercised	(241,815)	\$ 30.68	\$ 2,633



Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Options cancelled and expired	(251,915)	\$	45.98
Shares under option, September 30, 2011	2,618,527	\$	1,550

**Table of Contents**

The following table summarizes nonvested stock options for the nine months ended September 30, 2011:

	Number of Shares	Weighted Average Fair Value
Non-vested stock options at December 31, 2010	1,459,008	\$ 12.77
Options granted	639,000	\$ 12.82
Vested during period	(527,419)	\$ 12.38
Options cancelled (non-vested)	(189,166)	\$ 11.64
<b>Non-vested shares under option, September 30, 2011</b>	<b>1,381,423</b>	

The following table includes information concerning stock options exercisable and stock options expected to vest at September 30, 2011:

	Number of Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Stock options exercisable	1,237,104	2.3	\$ 40.82	\$ 1,550
Stock options expected to vest	1,231,224	3.8	\$ 44.00	\$ 0
<b>Options exercisable and expected to vest</b>	<b>2,468,328</b>			

Unrecognized compensation expense related to outstanding stock options expected to vest as of September 30, 2011 was \$10.7 million. The expense is expected to be recognized over a weighted-average period of 1.8 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 members of 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.

**Restricted Stock Activity**-During the nine months ended September 30, 2011, we granted 24,000 shares of restricted stock. The following table summarizes the restricted stock activity for the year ended December 31, 2010 and the nine months ended September 30, 2011:

	Number of Shares	Weighted Average Grant Date Fair Value (in thousands)
Nonvested, December 31, 2009	0	
Granted	51,000	\$ 2,447
Vested	0	
Forfeited	(25,000)	\$ 1,196

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Nonvested, December 31, 2010	26,000		
Granted	24,000	\$	1,070
Vested	(19,333)	\$	695
Forfeited	0		
Nonvested, September 30, 2011	30,667		

**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

**Table of Contents**

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 99.2% and 98.7% of our total revenue for the nine months ended September 30, 2011 and 2010, 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, 2011 and December 31, 2010. Revenues by geographic customer and the related percentages of total revenues for the three and nine months ended September 30, 2011 and 2010 were as follows (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
United States	\$ 733,160	99.8%	\$ 652,000	99.2%	\$ 2,180,909	99.7%	\$ 1,890,995	99.2%
International	1,447	0.2%	4,954	0.8%	7,235	0.3%	15,127	0.8%
	\$ 734,607	100.0%	\$ 656,954	100.0%	\$ 2,188,144	100.0%	\$ 1,906,122	100.0%

The following table includes contracts that exceeded 10% of our revenue for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011	%	2010	%	2011	%	2010	%
(dollars in thousands)								
<b>Revenues:</b>								
U.S. Army contract	\$ 137,411	19%	\$ 74,708	11%	\$ 343,134	16%	\$ 241,054	13%
All other contracts	597,196	81%	582,246	89%	1,845,010	84%	1,665,068	87%
ManTech Consolidated	\$ 734,607	100%	\$ 656,954	100%	\$ 2,188,144	100%	\$ 1,906,122	100%

The following table includes contracts that exceeded 10% of our operating income for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011	%	2010	%	2011	%	2010	%
(dollars in thousands)								
<b>Operating Income:</b>								
U.S. Army contract	\$ 11,406	19%	\$ 5,514	10%	\$ 28,539	16%	\$ 15,893	10%
All other contracts	47,102	81%	49,001	90%	144,992	84%	140,383	90%
ManTech Consolidated	\$ 58,508	100%	\$ 54,515	100%	\$ 173,531	100%	\$ 156,276	100%

There were no contracts that exceeded 10% of our receivables at September 30, 2011 and December 31, 2010.

Disclosure items required under ASC 280, *Segment Reporting*, including interest income, 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. Sale of Investment**

On April 8, 2011, ManTech received approximately \$3.2 million in proceeds, with an additional \$0.5 million held in escrow to be distributed no later than December 15, 2012, for the sale of our investment of less than 5% in NetWitness Corporation (NetWitness). The transaction was

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

consummated on April 1, 2011 pursuant to an agreement and plan of merger dated March 12, 2011 by and among EMC Corporation, NetWitness, and certain persons acting as the representative for the shareholders of NetWitness. The sale of our investment resulted in a pre-tax gain of approximately \$3.7 million, which was recorded in other income in the Company's statement of income for the second quarter of 2011.

## **Table of Contents**

### **13. Subsequent Event**

#### ***New Revolving Credit Facility***

On October 12, 2011, we entered into a credit agreement with a syndicate of lenders led by Bank of America, N.A., as Administrative Agent. The credit agreement provides for a \$500.0 million revolving credit facility, with a \$25.0 million letter of credit sublimit and a \$30.0 million swing line loan sublimit. The credit agreement also contains an accordion feature that permits the Company to arrange with the lenders for the provision of up to \$250.0 million in additional commitments.

Under the credit agreement, the interest rate for all borrowings under the facility will be a variable rate (LIBOR based rate plus market spreads or the lender's base rate plus market spreads) that may change based on the Company's consolidated total leverage ratio. The maturity date for the credit agreement is October 12, 2016.

The terms of the credit agreement permit prepayment and termination of the loan commitments at any time, subject to certain conditions. The credit facility requires the Company to comply with specified financial covenants, including the maintenance of a certain consolidated total leverage ratio, senior secured 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 or impose restriction on our ability to incur liens, incur additional indebtedness, make investments, make acquisitions and undertake certain other actions.

On October 12, 2011, in connection with the entry of the Company into the credit agreement, we terminated the commitments under our prior credit agreement, dated as of April 30, 2007.

#### ***Acquisition of Worldwide Information Network Systems, Inc.***

On October 26, 2011, we entered into a definitive agreement by and among ManTech, Worldwide Information Network Systems, Inc. (WINS) and its shareholder to purchase all of the outstanding stock of WINS. The acquisition is subject to various closing conditions and approvals, including the expiration of the waiting period under the Hart-Scott-Rodino Act, and is expected to be completed in November 2011.

WINS is a leading provider of information technology solutions with network engineering and cyber security technical expertise to the Department of Defense, Department of State and other agencies. WINS' largest customer is the Defense Intelligence Agency (DIA) through its prime position on the Solutions for the Information Technology Enterprise (SITE) Indefinite Delivery/Indefinite Quantity contract vehicle. At October 26, 2011, WINS had approximately 250 employees.

This acquisition, consistent with our long-term strategy, will allow us to broaden our footprint in the high-end defense and intelligence market. The addition of WINS' IT capabilities, prime position on the DIA SITE and other contracts will enhance our positioning with important customers and further our growth prospects.

ManTech expects to fund the acquisition with cash on hand. The preliminary purchase price is expected to be \$90.0 million and may decrease depending on the finalization of the post-closing working capital adjustment.

## **Table of Contents**

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties, many of which are outside of our control. ManTech International Corporation (depending on the circumstances, ManTech, 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;

adverse changes in future levels of expenditures for programs we support caused by budgetary pressures facing the federal government and changing mission priorities;

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

failure to maintain strong relationships with other contractors;

adverse changes in our mix of contract types;

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

risk of contract performance, modification or termination;

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

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

failure to successfully integrate recently acquired companies or businesses into our operations or 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 the section titled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and under Item 1.A. of Part II of our Quarterly Reports on Form 10-Q, and from time to time, in our other filings with the Securities and Exchange Commission (SEC). We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report. We also suggest that you carefully review and consider the various disclosures made in this Quarterly Report that attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.



**Table of Contents****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, Energy and Justice, including the Federal Bureau of Investigations (FBI); the space community; the National Oceanic and Atmospheric Administration; and other U.S. federal government customers. Our expertise includes Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) Lifecycle Support, Cyber Security, Global Logistics Support, Intelligence/Counter-Intelligence Support, Information Technology Modernization & Sustainment, Systems Engineering and Test & Evaluation. We support major missions, such as military readiness, terrorist threat detection, information security and border protection.

We derive revenues primarily from contracts with U.S. government agencies that are focused on national security, and as a result, funding for our programs is generally linked to trends in U.S. government spending in the areas of defense, intelligence, homeland security and other federal government agencies. As it relates to evolving terrorist threats and world events, the U.S. government has continued to increase its overall defense, intelligence and homeland security budgets. However this trend may not continue due to changing mission priorities, the mounting deficit of the U.S. government and public pressure to reduce U.S. government spending.

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, 2010, previously filed with the SEC.

**Three Months Ended September 30, 2011 Compared to the Three Months Ended September 30, 2010**

The following table sets forth certain items from our condensed consolidated statement of income and the relative percentage that certain items of expenses and earnings bear to revenues, as well as the period-to-period change from September 30, 2010 to September 30, 2011.

	Three Months Ended September 30,				Period-to-Period Change	
	2011	2010	2011	2010	2010 to 2011	
	Dollars		Percentages		Dollars	Percent
	(dollars in thousands)					
<b>REVENUES</b>	\$ 734,607	\$ 656,954	100.0%	100.0%	\$ 77,653	11.8%
Cost of services	629,181	555,318	85.6%	84.5%	73,863	13.3%
General and administrative expenses	46,918	47,121	6.4%	7.2%	(203)	-0.4%
<b>OPERATING INCOME</b>	58,508	54,515	8.0%	8.3%	3,993	7.3%
Interest expense	(3,857)	(3,970)	0.5%	0.6%	113	-2.8%
Interest income	107	51	0.0%	0.0%	56	109.8%
Other income (expense), net	(20)	64	0.0%	0.0%	(84)	-131.3%
<b>INCOME FROM OPERATIONS BEFORE INCOME TAXES</b>	54,738	50,660	7.5%	7.7%	4,078	8.0%
Provision for income taxes	(20,252)	(19,284)	2.8%	2.9%	(968)	5.0%
<b>NET INCOME</b>	\$ 34,486	\$ 31,376	4.7%	4.8%	\$ 3,110	9.9%

*Revenues*

Revenues increased 11.8% to \$734.6 million for the three months ended September 30, 2011, compared to \$657.0 million for the same period in 2010. Revenue growth of \$53.1 million came from organic growth due to significant wins and expansion on prime positions in our C4ISR Support business, including the Strategic Services Sourcing (S3) contract vehicle. Our acquisitions of S&IS, MTCSC and TranTech contributed revenue growth of \$30.4 million. These increases were partially offset by a decrease in our global logistics services contracts.

---

**Table of Contents***Cost of services*

Cost of services increased 13.3% to \$629.2 million for the three months ended September 30, 2011, compared to \$555.3 million for the same period in 2010. The increase in cost of services is primarily due to our acquisitions and continued expansion. As a percentage of revenues, cost of services increased to 85.6% for the three months ended September 30, 2011 as compared to 84.5% for the same period in 2010. Direct labor costs, which include applicable fringe benefits and overhead, increased 6.2% for the three months ended September 30, 2011 over the same period in 2010 primarily due to our acquisitions. As a percentage of revenue, direct labor costs decreased to 32.8% for the three months ended September 30, 2011, compared to 34.5% for the same period in 2010. Other direct costs, which include subcontractors and third party equipment and materials used in the performance of our contracts, increased by 18.2% for the three months ended September 30, 2011 over the same period in 2010. The increase in other direct costs was primarily due to our acquisitions, continued expansion and increased use of subcontractors on our S3 contract. As a percentage of revenues, other direct costs increased from 50.0% for the three months ended September 30, 2010 to 52.8% for the same period in 2011.

*General and administrative expenses*

General and administrative expenses remained stable at \$46.9 million for the three months ended September 30, 2011, compared to \$47.1 million for the same period in 2010. As a percentage of revenues, general and administrative expenses was 6.4% and 7.2% for the three months ended September 30, 2011 and 2010, respectively, due to leveraging of our general and administrative expense over a larger base.

*Interest expense*

Interest expense decreased to \$3.9 million for the three months ended September 30, 2011, compared to \$4.0 million for the same period in 2010. Interest expense in both 2011 and 2010 were primarily due to our 7.25% senior unsecured notes issued in April 2010. We had no borrowings under our credit facility for the three months ended September 30, 2011 and 2010.

*Provision for income taxes*

The provision for income taxes increased to \$20.3 million for the three months ended September 30, 2011, compared to \$19.3 million for the same period in 2010. Our effective tax rates were 37.0% and 38.1% for the three months ended September 30, 2011 and 2010, respectively. The decrease in the rate was due to the statute of limitation expiration of some uncertain tax positions balances as well as state statutory changes.

*Net income*

Net income increased 9.9% to \$34.5 million for the three months ended September 30, 2011, compared to \$31.4 million for the same period in 2010. The increase in net income was due to higher revenues, which are primarily driven by our continued expansion, our acquisitions and a more favorable effective tax rate.

***Nine Months Ended September 30, 2011 Compared to the Nine Months Ended September 30, 2010***

The following table sets forth certain items from our condensed consolidated statement of income and the relative percentage that certain items of expenses and earnings bear to revenue, as well as the period-to-period change from September 30, 2011 to September 30, 2010.

**Table of Contents**

	Nine Months Ended September 30,				Period-to-Period Change	
	2011	2010	2011	2010	2010 to 2011	
	Dollars		Percentages		Dollars	Percent
	(dollars in thousands)					
<b>REVENUES</b>	\$ 2,188,144	\$ 1,906,122	100.0%	100.0%	\$ 282,022	14.8%
Cost of services	1,873,595	1,617,190	85.6%	84.8%	256,405	15.9%
General and administrative expenses	141,018	132,656	6.4%	7.0%	8,362	6.3%
<b>OPERATING INCOME</b>	173,531	156,276	8.0%	8.2%	17,255	11.0%
Interest expense	(11,806)	(8,565)	0.5%	0.5%	(3,241)	37.8%
Interest income	230	236	0.0%	0.0%	(6)	-2.5%
Other income (expense), net	3,896	(268)	0.1%	0.0%	4,164	1553.7%
<b>INCOME FROM OPERATIONS BEFORE INCOME TAXES</b>	165,851	147,679	7.6%	7.7%	18,172	12.3%
Provision for income taxes	(63,020)	(56,595)	2.9%	3.0%	(6,425)	11.4%
<b>NET INCOME</b>	\$ 102,831	\$ 91,084	4.7%	4.7%	\$ 11,747	12.9%

*Revenues*

Revenues increased 14.8% to \$2,188.1 million for the nine months ended September 30, 2011, compared to \$1,906.1 million for the same period in 2010. Revenue growth of \$215.1 million came from organic growth due to significant wins and expansion on prime positions in our C4ISR Support business, including the S3 contract vehicle. Our acquisitions of S&IS, MTCSC and TranTech contributed revenue growth of \$95.6 million. These increases were partially offset by a decrease in our global logistics services contracts.

The President of the United States has announced a complete withdrawal of U.S. troops from Iraq by the end of 2011. We currently have over 300 employees on contracts in Iraq supporting U.S. operations with the Department of Defense and the Department of State. We expect some level of requirements to continue beyond 2011 in Iraq. This decision will continue a change in mission priorities that has included reassignment of contractor personnel to other regions, a change in support rolls, and the withdrawal of many of these positions.

*Cost of services*

Cost of services increased 15.9% to \$1,873.6 million for the nine months ended September 30, 2011, compared to \$1,617.2 million for the same period in 2010. The increase in cost of services is primarily due to our acquisitions and continued expansion. As a percentage of revenues, cost of services increased to 85.6% for the nine months ended September 30, 2011 as compared to 84.8% for the same period in 2010. Direct labor costs, which includes applicable fringe benefits and overhead, increased by 13.3% for the nine months ended September 30, 2011 over the same period in 2010 primarily due to growth in staff, as well as our acquisitions. As a percentage of revenues, direct labor costs decreased to 34.5% for the nine months ended September 30, 2011, compared to 35.0% for the same period in 2010. Other direct costs, which include subcontractors and third party equipment and materials used in the performance of our contracts, increased by 17.7% for the nine months ended September 30, 2011 over the same period in 2010. As a percentage of revenues, other direct costs increased from 49.8% for the nine months ended September 30, 2010 to 51.1% for the same period in 2011.

*General and administrative expenses*

General and administrative expenses increased 6.3% to \$141.0 million for the nine months ended September 30, 2011, compared to \$132.7 million for the same period in 2010. The increase is primarily due to our acquisitions, higher bid and proposal expenses driven by a few large proposals, higher expenses for non-recurring legal services related to a case in which the Company is the plaintiff, as well as lower stock-based compensation expenses in the prior year due to higher forfeiture estimates resulting from the resignation of the Company's former Chief Operating Officer. As a percentage of revenues, general and administrative expenses decreased to 6.4% from 7.0% for the nine months ended September 30, 2011 and 2010, respectively due to leveraging of our general and administrative expense over a larger base.

## **Table of Contents**

### *Interest expense*

Interest expense increased to \$11.8 million for the nine months ended September 30, 2011, compared to \$8.6 million for the same period in 2010. For the nine months ended September 30, 2011 and 2010, we have incurred \$11.2 million and \$6.9 million of interest expense related to our 7.25% senior unsecured notes issued in April 2010, respectively. We had no borrowings under our revolving credit facility in 2011. For the nine months ended September 30, 2010, our average credit facility balance was \$51.1 million with a related weighted average interest rate of 0.81%.

### *Other income (expense), net*

Other income was \$3.9 million for the nine months ended September 30, 2011, compared to other expense of \$0.3 million for the same period in 2010. The increase is primarily due to the sale of our investment in NetWitness Corporation, which resulted in a gain of \$3.7 million.

### *Provision for income taxes*

The provision for income taxes increased to \$63.0 million for the nine months ended September 30, 2011, compared to \$56.6 million for the same period in 2010. Our effective income tax rate was 38.0% and 38.3% for the nine months ended September 30, 2011 and 2010, respectively.

### *Net income*

Net income increased 12.9% to \$102.8 million for the nine months ended September 30, 2011, compared to \$91.1 million for the same period in 2010. The increase in net income was due to higher revenues, which are primarily driven by our continued expansion and our acquisitions, as well as a gain we recorded due to the sale of an investment.

## **Backlog**

At September 30, 2011 and December 31, 2010, our backlog was \$4.4 billion and \$4.9 billion, respectively, of which \$1.5 billion and \$1.6 billion, respectively, was funded backlog. Backlog represents estimates that we calculate on a consistent basis. For additional information on how we compute backlog, see our annual report on Form 10-K for the fiscal year ended December 31, 2010, previously filed with the SEC.

## **Effects of Inflation**

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

## **Liquidity and Capital Resources**

Historically, our primary liquidity needs are the financing of acquisitions, working capital and capital expenditures. Our primary source of liquidity is cash provided by operations and our revolving credit facility. At September 30, 2011, we had \$0 outstanding under our revolving credit facility. At September 30, 2011, we were contingently liable under letters of credit totaling \$1.2 million, which reduced our ability to borrow under our prior credit facility. The maximum available borrowing under our credit facility at September 30, 2011 was \$348.8 million.

On October 12, 2011, we entered into a new credit agreement with a syndicate of lenders led by Bank of America, N.A., as Administrative Agent. The new credit agreement initially provides up to \$500.0 million in available borrowings. See New Revolving Credit Facility below.

Generally, cash provided by operating activities is adequate to fund our operations. Due to fluctuations in our cash flows and the growth in our operations, it is necessary from time to time to increase borrowings under our credit facility to meet cash demands.

**Table of Contents***Cash flows from operating activities*

(in thousands)	Nine Months Ended September 30,	
	2011	2010
Net cash flow from operating activities	\$ 178,122	\$ 102,092

Our operating cash flow is primarily affected by the overall profitability of our contracts, our ability to invoice and collect from our clients in a timely manner and our ability to manage our vendor payments. We bill most of our customers monthly after services are rendered. Increased cash flow from operations during the nine months ended September 30, 2011 compared to the same period in 2010 was due to increased billings in excess of revenues earned and depreciation expense primarily related to a contract to provide mobile telecommunication services in Afghanistan, and receivables. Our accounts receivable days sales outstanding (DSO) ratio was 66 and 69 for the quarters ended September 30, 2011 and 2010, respectively.

*Cash flows from investing activities*

(in thousands)	Nine Months Ended September 30,	
	2011	2010
Net cash flow from investing activities	(\$ 73,522)	(\$ 243,279)

Our cash flow from investing activities consists primarily of business acquisitions, expenditures for equipment, leasehold improvements and software. Cash outflows during the nine months ended September 30, 2011 were due to capital expenditures of \$56.5 million primarily related to a mobile telecommunication network build out that will be used on one of our contracts and the acquisition of TranTech for \$20.2 million net, partially offset by \$3.2 million in cash proceeds from the sale of an investment. 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.

*Cash flows from financing activities*

(in thousands)	Nine Months Ended September 30,	
	2011	2010
Net cash flow from financing activities	(\$ 7,535)	\$ 207,134

Cash outflow from financing activities during the nine months ended September 30, 2011 resulted primarily from the dividend paid for \$15.4 million, offset by the proceeds from the exercise of stock options for \$7.7 million. Cash flow 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.

*New Revolving Credit Facility*

On October 12, 2011, we entered into a new credit agreement with a syndicate of lenders led by Bank of America, N.A., as Administrative Agent. The new credit agreement provides for a \$500.0 million revolving credit facility, with a \$25.0 million letter of credit sublimit and a \$30.0 million swing line loan sublimit. The new credit agreement also contains an accordion feature that permits the Company to arrange with the lenders for the provision of up to \$250.0 million in additional commitments.

Borrowings under our new revolving credit facility are collateralized by substantially all the assets of ManTech and its Material Subsidiaries (as defined in the credit agreement) and bear interest at one of the following variable rate as selected by the Company at the time of the borrowing: a LIBOR based rate plus market spreads (initially 1.50%, then 1.25% to 2.25% based on the Company's consolidated total leverage ratio) or the

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

lender's base rate plus market spreads (initially 0.50%, then 0.25% to 1.25% based on the Company's consolidated total leverage ratio). The maturity date for the credit agreement is October 12, 2016.

The terms of the new credit agreement permit prepayment and termination of the loan commitments at any time, subject to

**Table of Contents**

certain conditions. The credit facility requires the Company to comply with specified financial covenants, including the maintenance of a certain consolidated total leverage ratio, senior secured 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 or impose restriction on our ability to incur liens, incur additional indebtedness, make investments, make acquisitions and undertake certain other actions.

On October 12, 2011, in connection with the entry of the Company into the new revolving credit facility, we terminated the commitments under our prior credit agreement, dated April 30, 2007.

*Capital Resources*

We believe the capital resources available to us from our cash on hand of \$181.9 million at September 30, 2011 and under our new revolving credit facility, with up to \$500.0 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 our new revolving facility, additional senior unsecured notes, additional borrowings or issuances of equity. At September 30, 2011, we had \$0 outstanding under our revolving credit facility.

*Short-term Borrowings*

From time-to-time, we borrow funds against our revolving credit facility for working capital requirements and funding of operations as well as acquisitions. Borrowings under our new revolving credit facility bear interest at one of the following variable rate as selected by the Company at the time of the borrowing: a LIBOR based rate plus market spreads (initially 1.50%, then 1.25% to 2.25% based on the Company's consolidated total leverage ratio) or the lender's base rate plus market spreads (initially 0.50%, then 0.25% to 1.25% based on the Company's consolidated total leverage ratio). In April 2010, we used the proceeds from the issuance of the 7.25% senior unsecured notes to repay all outstanding borrowings under our previous revolving credit facility. Since then, we have not drawn any funds against the revolving credit facility. In the next twelve months we may use, as needed, our new revolving credit facility or additional sources of borrowings in order to fund our ongoing operations and support our internal and external growth.

The following table summarized the activity under our revolving credit facility for the nine months ended September 30, 2011 and 2010 (in thousands):

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>
Borrowing under revolving credit facility	\$ 0	\$ 287,700
Repayment of borrowings under revolving credit facility	\$ 0	(\$ 287,700)

*Cash Management*

To the extent possible, we invest our available cash in short-term, investment grade securities in accordance with our investment policy. Under our investment policy, we manage our investments in accordance with the priorities of maintaining the safety of our principal, maintaining the liquidity of our investments, maximizing the yield on our investments and investing our cash to the fullest extent possible. Our investment policy provides that no investment security can have a final maturity that exceeds six months and that the weighted average maturity of the portfolio cannot exceed 60 days. Cash and cash equivalents include cash on hand, amounts due from banks and short-term investments with maturity dates of three months or less at the date of purchase.

*Dividend*

In May 2011, our Board of Directors approved the initiation of a regular cash dividend program. On May 16, 2011, our Board of Directors declared an initial dividend payment in the amount of \$0.42 per share on all issued and outstanding shares of common stock. As a result, dividends in the amount of \$15.4 million were paid to our stockholders on June 15, 2011.

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

On November 1, 2011, a dividend payment was declared in the amount of \$0.42 per share on all issued and outstanding shares of common stock. As a result, dividends in the amount of approximately \$15.5 million will be paid to our shareholders in December 2011.



---

## **Table of Contents**

We expect to continue our regular dividend program, however, all future declarations of dividends will be subject to the approval of our Board of Directors.

### **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 condensed 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 accounting policies and practices listed below, are more fully described and discussed in the notes to consolidated financial statements for the fiscal year 2010 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC on February 25, 2011.

#### *Revenue Recognition and Cost Estimation*

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

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

We derive the majority of our revenue from cost-plus-fixed-fee, cost-plus-award-fee, firm-fixed-price or time-and-materials contracts. Revenues for cost-reimbursement contracts are recorded as reimbursable costs are incurred, including an estimated share of the applicable contractual fees earned. For performance-based fees under cost reimbursable contracts that are subject to the 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. Revenues from other long-term fixed-price contracts is recognized ratably over the contract period or by other appropriate methods to measure services provided. Contract costs are expensed as incurred except for certain limited long-term contracts noted below. For long-term contracts specifically described in the 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 and Other Intangible Assets*

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.

## **Table of Contents**

We review goodwill at least annually for impairment. We have elected to perform this review during the second quarter of each calendar year. No adjustments were necessary as a result of this review during the quarter ended June 30, 2011.

Whenever events or 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 the carrying amount of the assets. If any impairment were indicated as a result of this review, we recognize a loss based on the amount by which the carrying amount exceeds the estimated fair value.

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

## **Accounting Standard Updates**

Accounting Standards Updates issued but not yet effective are not expected to have a material effect on the Company's financial statements.

## **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, 2011, 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, 2011, by \$0.

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

## **Item 4. Controls and Procedures**

Management is responsible for establishing and maintaining adequate disclosure controls and procedures. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act, such as this Quarterly Report on Form 10-Q, is accurately recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. As a result, our disclosure controls and procedures are designed to provide reasonable assurance that such disclosure controls and procedures will meet their objectives.

As of September 30, 2011, 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 at the reasonable assurance level described above.

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

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings**

We are subject to certain legal proceedings, government audits, investigations, claims and disputes that arise in the ordinary course of our business. Like most large government defense contractors, our contract costs are audited and reviewed on a continual basis by an in-house staff of auditors from the Defense Contract Auditing Agency. In addition to these routine audits, we are subject from time to time to audits and investigations by other agencies of the federal government. These audits and investigations are conducted to determine if our performance and administration of our government contracts are compliant with contractual requirements and applicable federal statutes and regulations. An audit or investigation may result in a finding that our performance, systems and administration are 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 risks factors described in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2010 and in subsequent quarterly reports filed with the SEC.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) None.

(b) None.

**(c) Purchase of Equity Securities**

The following table provides information on a monthly basis for the nine months ended September 30, 2011, with respect to the Company's purchase of equity securities:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
January 1 to January 28, 2011	0	\$ 0.00	0	0

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

January 29 to February 25, 2011	0	\$ 0.00	0	0
February 26 to March 31, 2011	1,073	\$ 41.45	0	0
April 1 to June 30, 2011	0	\$ 0.00	0	0
July 1, 2011 to September 30, 2011	0	\$ 0.00	0	0

- <sup>(1)</sup> As allowed under the terms of our 2011 Management Incentive Plan, ManTech accepted shares of its common stock in the quarter ended March 31, 2011 from employees for tax withholdings in connection with the vesting of restricted stock. Such shares of common stock are stated at cost and held as treasury shares to be used for general corporate purposes.

**Table of Contents**

**Item 6. Exhibits**

Exhibits required by Item 601 of Regulation S-K:

<b>Exhibit</b>	<b>Description of Exhibit</b>
10.1	Credit Agreement, dated October 12, 2011, by and among the registrant and a syndicate of lenders, including Bank of America, N.A., acting as administrative agent for the lenders (incorporated herein by reference from the registrant's Current Report on Form 8-K filed with the SEC on October 13, 2011).
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, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2011 and December 31, 2010; (ii) Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2011 and 2010; (iii) Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2011 and 2010; (iv) Condensed Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2011 and 2010; and (v) Notes to Condensed Consolidated Financial Statements.**

\* Management contract or compensatory plan or arrangement.  
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 Sections 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.

**Table of Contents**

**SIGNATURES**

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

**MANTECH INTERNATIONAL CORPORATION**

Date: November 4, 2011

By: /s/ GEORGE J. PEDERSEN

Name: **George J. Pedersen**

Title: **Chairman of the Board of Directors and**

**Chief Executive Officer**

Date: November 4, 2011

By: /s/ KEVIN M. PHILLIPS

Name: **Kevin M. Phillips**

Title: **Chief Financial Officer**