

MANTECH INTERNATIONAL CORP  
Form 10-Q  
November 05, 2007  
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, 2007

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)

**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

**22-1852179**  
(I.R.S. Employer  
Identification No.)

**12015 Lee Jackson Highway, Fairfax, VA**  
(Address of principal executive offices)

**22033**  
(Zip Code)

**(703) 218-6000**

(Registrant's telephone number, including area code)

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

---

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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, 2007, there were outstanding 19,956,002 shares of our Class A Common Stock and 14,381,053 shares of our Class B Common Stock.

---

**Table of Contents**

**MANTECH INTERNATIONAL CORPORATION**

**FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2007**

**INDEX**

	<b>Page No.</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	3
Item 1. <u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets at September 30, 2007 and December 31, 2006</u>	3
<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2007 and 2006</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2007 and 2006</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2007 and 2006</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
Item 4. <u>Controls and Procedures</u>	26
<b><u>PART II OTHER INFORMATION</u></b>	27
Item 1. <u>Legal Proceedings</u>	27
Item 1A <u>Risk Factors</u>	27
Item 6. <u>Exhibits</u>	28

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

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

	(unaudited)	
	September 30, 2007	December 31, 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 3,538	\$ 41,510
Receivables net	286,693	236,445
Prepaid expenses and other	15,347	13,581
Assets of operations held for sale		3,373
<b>Total Current Assets</b>	<b>305,578</b>	<b>294,909</b>
Property and equipment net	14,188	13,881
Goodwill	389,062	238,322
Other intangibles net	74,779	40,180
Employee supplemental savings plan assets	17,521	15,427
Other assets	11,249	10,533
<b>TOTAL ASSETS</b>	<b>\$ 812,377</b>	<b>\$ 613,252</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of debt	\$ 75,700	\$
Accounts payable and accrued expenses	95,183	72,125
Accrued salaries and related expenses	53,957	47,356
Deferred income taxes-current		140
Billings in excess of revenue earned	7,259	5,284
Liabilities of operations held for sale		1,815
<b>Total Current Liabilities</b>	<b>232,099</b>	<b>126,720</b>
Debt- net of current portion	10,000	
Accrued retirement	18,363	16,750
Other long-term liabilities	7,190	3,302
Deferred income taxes non-current	24,259	7,464
<b>TOTAL LIABILITIES</b>	<b>291,911</b>	<b>154,236</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS EQUITY:</b>		
Common stock, Class A \$0.01 par value; 150,000,000 shares authorized; 20,136,275 and 19,020,181 shares issued at September 30, 2007 and December 31, 2006; 19,893,235 and 19,020,181 shares outstanding at September 30, 2007 and December 31, 2006	201	190
Common stock, Class B \$0.01 par value; 50,000,000 shares authorized; 14,381,053 and 15,032,293 shares issued and outstanding at September 30, 2007 and December 31, 2006	144	150

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Additional paid-in capital	288,721	263,409
Treasury stock, at cost	(9,114)	
Retained earnings	241,306	195,604
Accumulated other comprehensive loss	(115)	(120)
Unearned ESOP shares	(677)	(217)
Deferred compensation		640
Shares held in grantor trust		(640)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>520,466</b>	<b>459,016</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 812,377</b>	<b>\$ 613,252</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) Three months ended September 30,		(unaudited) Nine months ended September 30,	
	2007	2006	2007	2006
<b>REVENUES</b>	\$ 383,359	\$ 283,695	\$ 1,026,344	\$ 846,466
Cost of services	321,133	235,539	860,289	702,225
General and administrative expenses	31,804	25,142	88,791	76,058
<b>OPERATING INCOME</b>	30,422	23,014	77,264	68,183
Interest expense	1,887	430	3,423	2,123
Interest income	(153)	(139)	(1,106)	(439)
Other expense (income) , net	84	(21)	(262)	(8)
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	28,604	22,744	75,209	66,507
Provision for income taxes	(11,129)	(8,962)	(29,262)	(26,204)
<b>INCOME FROM CONTINUING OPERATIONS</b>	17,475	13,782	45,947	40,303
(Loss) from operations of discontinued component, net of taxes		(1,092)	(458)	(3,521)
Gain on sale of discontinued operation, net of taxes (sold to CEO)			338	
(Loss) from discontinued operations, net of taxes		(1,092)	(120)	(3,521)
<b>NET INCOME</b>	\$ 17,475	\$ 12,690	\$ 45,827	\$ 36,782
<b>BASIC EARNINGS (LOSS) PER SHARE:</b>				
<b>Class A common stock</b>				
Income from continuing operations	\$ 0.51	\$ 0.41	\$ 1.35	\$ 1.21
(Loss) from discontinued operations, net of taxes		(0.03)		(0.11)
<b>Class A basic earnings per share</b>	\$ 0.51	\$ 0.38	\$ 1.35	\$ 1.10
Weighted average common shares outstanding	19,779	18,534	19,555	18,325
<b>Class B common stock</b>				
Income from continuing operations	\$ 0.51	\$ 0.41	\$ 1.35	\$ 1.21
(Loss) from discontinued operations, net of taxes		(0.03)		(0.11)
<b>Class B basic earnings per share</b>	\$ 0.51	\$ 0.38	\$ 1.35	\$ 1.10
Weighted average common shares outstanding	14,382	15,064	14,459	15,065
<b>DILUTED EARNINGS (LOSS) PER SHARE:</b>				
<b>Class A common stock</b>				
Income from continuing operations	\$ 0.51	\$ 0.41	\$ 1.33	\$ 1.19
(Loss) from discontinued operations, net of taxes		(0.04)		(0.10)
<b>Class A diluted earnings per share</b>	\$ 0.51	\$ 0.37	\$ 1.33	\$ 1.09

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Weighted average common shares outstanding	20,181	18,906	19,966	18,743
<b>Class B common stock</b>				
Income from continuing operations	\$ 0.51	\$ 0.41	\$ 1.33	\$ 1.19
(Loss) from discontinued operations, net of taxes		(0.04)		(0.10)
<b>Class B diluted earnings per share</b>	\$ 0.51	\$ 0.37	\$ 1.33	\$ 1.09
Weighted average common shares outstanding	14,382	15,064	14,459	15,065

See notes to condensed consolidated financial statements.

Table of Contents

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

(Dollars in Thousands)

	(unaudited)		(unaudited)	
	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
<b>NET INCOME</b>	\$ 17,475	\$ 12,690	\$ 45,827	\$ 36,782
<b>OTHER COMPREHENSIVE INCOME:</b>				
Translation adjustments	5	(17)	31	42
<b>Total other comprehensive income</b>	5	(17)	31	42
<b>COMPREHENSIVE INCOME</b>	\$ 17,480	\$ 12,673	\$ 45,858	\$ 36,824

See notes to condensed consolidated financial statements.



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

	(unaudited)	
	Nine months ended September 30,	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 45,827	\$ 36,782
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operation, net of tax	458	3,521
Gain on sale of discontinued operation, net of tax	(338)	
Stock-based compensation	5,203	4,095
Excess tax benefits from the exercise of stock options	(1,277)	(1,573)
Deferred income taxes	(830)	(2,278)
Depreciation and amortization	10,647	7,495
Change in assets and liabilities net of effects from acquired and disposed businesses:		
Receivables-net	(5,968)	33,939
Prepaid expenses and other	3,380	(3,333)
Accounts payable and accrued expenses	12,014	5,797
Accrued salaries and related expenses	(5,220)	631
Billings in excess of revenue earned	(769)	(1,575)
Accrued retirement	1,510	2,343
Other	(493)	(1,741)
<b>Net cash flow from operating activities of continuing operations</b>	<b>64,144</b>	<b>84,103</b>
<b>Net cash flow from discontinued operations</b>	<b>(1,562)</b>	<b>(5,934)</b>
<b>Net cash flow from operating activities</b>	<b>62,582</b>	<b>78,169</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(1,760)	(3,585)
Investment in capitalized software for internal use	(1,556)	(2,126)
Proceeds from the sale of property and equipment	1,828	3
Exercise of GSE warrants	(133)	
Proceeds from sale of GSE shares	600	
Acquisition of business, net of cash acquired	(197,016)	
<b>Net investing cash flow from continuing operations</b>	<b>(198,037)</b>	<b>(5,708)</b>
<b>Net investing cash flow from discontinued operations</b>	<b>3,000</b>	<b>(125)</b>
<b>Net cash flow from investing activities</b>	<b>(195,037)</b>	<b>(5,833)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from exercise of stock options	9,447	10,255
Excess tax benefits from the exercise of stock options	1,277	1,573
Excess tax benefit from distribution of shares held in grantor trust	8,581	
Treasury stock acquired	(9,114)	
Borrowing under line of credit, non-current	10,000	
Net increase (decrease) in borrowing under lines of credit net of associated origination fees	74,292	(42,402)
Repayment of notes payable		(79)

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

<b>Net cash flow from financing activities</b>	94,483	(30,653)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(37,972)	41,683
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	41,510	5,678
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 3,538	\$ 47,361
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for income taxes	\$ 19,661	\$ 23,490
Cash paid for interest	\$ 3,340	\$ 2,181
Noncash financing activities:		
ESOP Contributions	\$ 503	\$ 2,319

See notes to condensed consolidated financial statements.

**Table of Contents**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2007**

**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 U.S. government Intelligence Community; the departments of Defense, State, Homeland Security and Justice; the Space Community; and other federal government agencies. Our expertise includes systems engineering, systems integration, technology and software development, enterprise security architecture, information assurance, intelligence operations support, network and critical infrastructure protection, information technology, communications integration and engineering support. With approximately 6,800 qualified employees, we operate in the United States and approximately 40 countries worldwide.

**2. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in the annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to those rules and regulations. We recommend that you read these unaudited condensed consolidated financial statements in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K for the fiscal year ended December 31, 2006, previously filed with the SEC. We believe that the unaudited condensed consolidated financial statements in this Form 10-Q reflect all adjustments that are necessary to fairly present the financial position, results of operations and cash flows for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results that can be expected for the full year. Certain reclassifications have been made to previously reported balances to conform to the current period presentation.

**3. Earnings Per Share**

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

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

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

**Table of Contents**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
<b>Numerator for net income per Class A and Class B common stock:</b>				
Net income	\$ 17,475	\$ 12,690	\$ 45,827	\$ 36,782
Numerator for basic net income Class A common stock	\$ 10,118	\$ 7,000	\$ 26,346	\$ 20,187
Numerator for basic net income Class B common stock	\$ 7,357	\$ 5,690	\$ 19,481	\$ 16,595
Numerator for diluted net income Class A common stock	\$ 10,203	\$ 7,063	\$ 26,579	\$ 20,392
Numerator for diluted net income Class B common stock	\$ 7,272	\$ 5,627	\$ 19,248	\$ 16,390
<b>Basic weighted average common shares outstanding</b>				
Class A common stock	19,779	18,534	19,555	18,325
Class B common stock	14,382	15,064	14,459	15,065
<b>Effect of potential exercise of stock options</b>				
Class A common stock	402	372	411	418
Class B common stock				
<b>Diluted weighted average common shares outstanding - Class A</b>	<b>20,181</b>	<b>18,906</b>	<b>19,966</b>	<b>18,743</b>
<b>Diluted weighted average common shares outstanding - Class B</b>	<b>14,382</b>	<b>15,064</b>	<b>14,459</b>	<b>15,065</b>

For the three months ended September 30, 2007 and 2006, options to purchase 825 thousand and 720 thousand shares, respectively, weighted for the portion of the period for which they were outstanding, were outstanding but not included in the computation of diluted earnings per share because the options' effect would have been anti-dilutive. For the nine months ended September 30, 2007 and 2006, options to purchase 778 thousand and 561 thousand shares, respectively, weighted for the portion of the period for which they were outstanding, were outstanding but not included in the computation of diluted earnings per share because the options' effect would have been anti-dilutive. For the nine months ended September 30, 2007 and 2006, shares issued from the exercise of stock options were 449 thousand and 528 thousand, respectively.

#### 4. Stock-Based Compensation

**Stock Options** In June 2006, the Company's stockholders approved our 2006 Management Incentive Plan (the Plan), which was designed to enable us to attract, retain and motivate key employees. The Plan amended and restated the Company's Management Incentive Plan that was approved by the Company's stockholders prior to the initial public offering in 2002 (the 2002 Plan). In connection with the creation of the Plan, all options outstanding under the 2002 Plan and the ManTech International Corporation 1995 Long-Term Incentive Plan were assumed. Awards granted under the Plan are settled in shares of Class A common stock. At the beginning of each year, the Plan provides that the number of shares available for issuance automatically increases by an amount equal to one and one-half percent of the total number of shares of Class A and Class B common stock outstanding on December 31st of the previous year. On January 2, 2007, 510,795 additional shares were made available for issuance under the Plan. The Plan also authorized the issuance of an additional 1,500,000 shares in addition to the shares authorized under the 2002 Plan. Through September 30, 2007, the aggregate number of shares of our common stock authorized for issuance under the Plan was 6,794,982. Through September 30, 2007, 2,235,038 shares of our Class A common stock have been issued as a result of the exercise of the options granted under the Plan. The Plan expires in June 2016.

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

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

**Stock Compensation Expense** Effective January 1, 2006, we adopted the Financial Accounting Standards Board (FASB) SFAS No. 123 (revised 2004), *Share-Based Payment*, using the modified prospective method. Under this method, compensation costs for all awards granted after the date of adoption and the unvested portion of previously granted awards are measured at an estimated fair value and included in operating expenses or capitalized as appropriate over the vesting period during which an



**Table of Contents**

employee provides service in exchange for the award. For the nine months ended September 30, 2007 and 2006, total recognized tax benefits from the exercise of stock options were \$1.6 million and \$2.6 million, respectively. For the three months ended September 30, 2007 and 2006, we recorded \$1.8 million and \$1.3 million of stock-based compensation cost as general and administrative expense in our statement of operations, respectively. For the nine months ended September 30, 2007 and 2006, we recorded \$5.2 million and \$4.1 million of stock-based compensation cost, respectively. No compensation expense of employee's holding stock options, including stock-based compensation expense, was capitalized during the period. As of September 30, 2007, there was \$9.2 million of unrecognized compensation cost related to share-based compensation arrangements that we expect to vest. The weighted-average period over which expense is expected to be recognized is 1.7 years.

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

The following weighted-average assumptions were used for option grants during the nine months ended September 30, 2007 and 2006:

**Volatility.** The expected volatility of the options granted was estimated based upon historical volatility of the Company's share price through weekly observations of the Company's trading history. For the nine months ended September 30, 2007 and 2006 we used a volatility of 35.9% and 42.1%, respectively.

**Expected Term.** The expected term of options granted to employees during the nine months ended September 30, 2007 was determined from historical exercises of the grantee population. Due to a lack of historical exercise data, option grants to our board of directors during 2007 was determined under SEC's Staff Accounting Bulletin No. 107 ((vesting term + original contractual term)/2). Due to a lack of historical data prior to 2007, the expected term for all option grants during the nine months ended September 30, 2006 was determined under the simplified calculation provided in the SEC's Staff Accounting Bulletin No. 107. For all grants valued during the nine months ended September 30, 2007 and 2006, the options had graded vesting over 3 years (33.3% of the options in each grant vest annually) and the contractual term was 5 years. For the nine months ended September 30, 2007 and 2006, we used a weighted-average expected term of 3.15 years and 3.5 years, respectively.

**Risk-free Interest Rate.** The yield on zero-coupon U.S. Treasury strips was used to extrapolate a forward-yield curve. This term structure of future interest rates was then input into a numeric model to provide the equivalent risk-free rate to be used in the Black-Scholes-Merton model based on expected term of the underlying grants. For the nine months ended September 30, 2007 and 2006, the weighted-average risk-free interest rate used was 4.48% and 4.68%, respectively.

**Dividend Yield.** The Black-Scholes-Merton valuation model requires an expected dividend yield as an input. We have not issued dividends in the past nor do we expect to issue dividends in the future. As such, the dividend yield used in our valuations for the nine months ended September 30, 2007 and 2006 was zero, respectively.

**Stock Option Activity** During the nine months ended September 30, 2007, we granted stock options to purchase 651,500 shares of Class A common stock at a weighted-average exercise price of \$34.65 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, 2007 and 2006, as determined under the Black-Scholes-Merton valuation model, was \$11.47 and \$11.04, respectively. These options vest in 3 equal installments over 3 years and have a contractual term of 5 years. Option grants that vested during the nine months ended September 30, 2007 and 2006 had a combined fair value of \$5.0 million and \$4.0 million, respectively.

The following table summarizes the stock option activity for the year ended December 31, 2006 and the nine months ended September 30, 2007:

**Table of Contents**

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Shares under option, December 31, 2005	2,710,742	\$ 20.38	
Options granted	609,500	\$ 30.61	
Options exercised	(874,301)	\$ 19.20	\$ 12,666
Options cancelled and expired	(190,822)	\$ 24.92	
Shares under option, December 31, 2006	2,255,119	\$ 21.00	
Options granted	651,500	\$ 34.65	
Options exercised	(449,873)	\$ 21.05	\$ 6,718
Options cancelled and expired	(86,074)	\$ 26.70	
Shares under option, September 30, 2007	2,370,672	\$ 26.64	\$ 22,150

The following table summarizes nonvested stock options for the nine months ended September 30, 2007:

	Number of Shares	Weighted Average Fair Value
Nonvested stock options at December 31, 2006	1,376,057	\$ 8.91
Options granted	651,500	\$ 11.47
Vested during period	(641,159)	\$ 7.82
Options cancelled	(75,402)	\$ 9.66
Nonvested shares under option, September 30, 2007	1,310,996	\$ 10.65

Information concerning stock options outstanding and stock options expected to vest at September 30, 2007:

	Options Exercisable and Expected to Vest	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Stock options exercisable	1,059,676	6.0	\$ 21.10	\$ 13,961
Stock options expected to vest	1,168,818	4.8	\$ 30.87	\$ 5,975
Options exercisable and expected to vest	2,228,494			

**5. Goodwill and Other Intangibles**

Under SFAS 142, goodwill is to be reviewed at least annually for impairment; we have elected to perform this review annually during the second quarter each calendar year. Management utilized an independent valuation firm to assist in this analysis. These reviews indicated no impairment and therefore resulted in no adjustments in goodwill.

On May 7, 2007, we completed the acquisition of SRS Technologies, Inc. (see Note 9). At September 30, 2007, preliminary goodwill and preliminary other intangibles for SRS Technologies, Inc. totaled \$189.8 million, net of amortization.

The components of goodwill and other intangibles are as follows:





**Table of Contents**

	September 30,	December 31,
	2007	2006
Goodwill	\$ 399,169	\$ 248,429
Other intangibles	111,082	69,366
	510,251	317,795
Less: Accumulated amortization	(46,410)	(39,293)
	\$ 463,841	\$ 278,502

	September 30, 2007			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Contract rights	\$ 86,015	\$ 18,340	\$ 67,675	\$ 45,115	\$ 13,560	\$ 31,555
Capitalized software cost for sale	11,672	10,364	1,308	12,150	9,179	2,971
Capitalized software cost for internal use	13,395	7,599	5,796	12,101	6,447	5,654
	\$ 111,082	\$ 36,303	\$ 74,779	\$ 69,366	\$ 29,186	\$ 40,180

Aggregated amortization expense for the nine months ended September 30, 2007 and 2006 was \$7.6 million and \$4.9 million, respectively. Amortization expense for the period ending September 30, 2007 includes an immaterial write down of an acquisition related intangible asset for internally developed software of \$0.9 million. The write down was based on a change in the estimated net realizable value of the asset. 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, 2007	\$ 6,350
Year ending:	
December 31, 2008	\$ 10,195
December 31, 2009	\$ 9,633
December 31, 2010	\$ 7,940
December 31, 2011	\$ 5,257
December 31, 2012	\$ 4,221

**6. Business Segment and Geographic Area Information**

We operate as one segment, delivering a broad array of information technology and technical services solutions under contracts with the U.S. government, state and local governments, and commercial customers. Our federal government customers typically exercise independent contracting authority, and even offices or divisions within an agency or department may directly, or through a prime contractor, use our services as a separate customer so long as that customer has independent decision-making and contracting authority within its organization. Revenues from the U.S. government under prime contracts and subcontracts were approximately 97.6% and 97.8% of our total revenue for the nine months ended September 30, 2007 and 2006, 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, 2007 and December 31, 2006. Revenues by geographic customer and the related percentages of total revenues for the three and nine months ended September 30, 2007 and 2006, were as follows (in thousands):

Three Months Ended September 30,		Nine Months Ended September 30,	
2007	2006	2007	2006

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

United States	\$ 378,427	98.7%	\$ 281,026	99.1%	\$ 1,011,919	98.6%	\$ 838,881	99.1%
International	4,932	1.3	2,669	0.9	14,425	1.4	7,585	0.9
	\$ 383,359	100.0%	\$ 283,695	100.0%	\$ 1,026,344	100.0%	\$ 846,466	100.0%

During the three and nine months ended September 30, 2007 and 2006, one contract in continuing operations, Countermine Support, exceeded 10% of our revenue (in thousands):

**Table of Contents**

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007	%	2006	%	2007	%	2006	%
<b>Revenues from external customers:</b>								
Countermine Support	\$ 53,776	14%	\$ 36,548	13%	\$ 142,908	14%	\$ 63,865	8%
All other contracts	329,583	86%	247,147	87%	883,436	86%	782,601	92%
ManTech Consolidated	\$ 383,359	100%	\$ 283,695	100%	\$ 1,026,344	100%	\$ 846,466	100%
<b>Operating Income:</b>								
Countermine Support	\$ 1,655	5%	1,121	5%	\$ 3,936	5%	\$ 2,380	3%
All other contracts	28,767	95%	21,893	95%	73,328	95%	65,803	97%
ManTech Consolidated	\$ 30,422	100%	\$ 23,014	100%	\$ 77,264	100%	\$ 68,183	100%
<b>Receivables:</b>								
Countermine Support					\$ 24,072	8%	\$ 12,133	6%
All other contracts					262,621	92%	193,604	94%
ManTech Consolidated					\$ 286,693	100%	\$ 205,737	100%

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

**7. Revenues and 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. Revenues from the U.S. government under prime contracts and subcontracts were approximately 97.6% and 97.8% of our total revenue for the nine months ended September 30, 2007 and 2006, respectively. The components of contract receivables are as follows:

	September 30, 2007	December 31, 2006
Billed receivables	\$ 252,496	\$ 211,564
Unbilled receivables:		
Amounts billable	26,334	21,911
Revenues recorded in excess of estimated contract value or funding	4,329	2,832
Revenues recorded in excess of milestone billings on fixed price contracts	5,124	3,976
Retainage	3,093	1,680
Allowance for doubtful accounts	(4,683)	(5,518)
	\$ 286,693	\$ 236,445

Amounts billable consist principally of amounts to be billed within the next month. Revenues recorded in excess of contract value or funding are billable upon receipt of contractual amendments or other modifications. Revenues recorded in excess of milestone billings on fixed price contracts consist of amounts not expected to be billed within the next month. The retainage is billable upon completion of Defense Contract Audit Agency (DCAA) audit. At September 30, 2007, the amount of receivables that we expect to collect after one year is \$3.0 million.

**8. Commitments and Contingencies**

Payments to us on cost-reimbursable contracts with the U.S. government are provisional payments subject to adjustment upon audit by the DCAA or other government audit agencies. The majority of audits for 2002, 2003 and 2004 have been completed and resulted in no material

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

adjustments. The remaining audits for 2002 through 2006 are not expected to have a material effect on the results of future operations.

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

**Table of Contents****9. Acquisitions**

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

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

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

The initial purchase price was \$198.9 million, which includes \$1.0 million in transaction fees. The initial purchase price included a closing date working capital adjustment of \$2.9 million which is subject to further adjustment upon audit of the closing balance sheet. Pursuant to the Merger Agreement, and as security for the SRS shareholders' indemnification for unanticipated contingencies, an escrow account in the amount of \$36.1 million has been established for a period of three years from the date of acquisition. We utilized a combination of cash on hand and borrowings under our New Credit Agreement (see Note 10) to finance the acquisition.

*Preliminary Purchase Price Allocation*

The acquisition has been accounted for as a business combination. Under business combination accounting, the total purchase price was allocated to SRS's net tangible and identifiable intangible assets based on their estimated fair values as of May 7, 2007, as set forth below. The excess of the purchase price over the net tangible and identifiable intangible assets, as determined by management based upon a third party valuation, was recorded as goodwill. Recognition of goodwill is largely attributed to the highly skilled employees of SRS, their presence in the high-end security marketplace, and the value paid for companies in this business. The goodwill is not deductible for tax purposes. The aspects of the purchase price allocation, which are not yet finalized, relate to SRS shareholders' indemnification obligations of \$36.1 million and completion, including management's review, of the closing balance sheet audit, which may result in a purchase price adjustment. We expect to finalize the closing balance sheet audit in the fourth quarter of 2007.

<b>(in thousands)</b>	
Cash and cash equivalents	\$ 1,912
Receivables-net	44,280
Prepaid expenses and other	3,397
Property and equipment	2,922
Other assets	332
Intangible assets	40,958
Goodwill	150,539
Accounts payable and accrued expenses	(12,627)
Accrued salaries and related expenses	(11,821)
Deferred income taxes-current	(437)
Billings in excess of revenue earned	(2,744)
Deferred income taxes-non-current	(15,423)
Accrued retirement	(103)
Other long-term liabilities	(2,229)
Minority interest	(28)
 Total preliminary purchase price	 \$ 198,928



**Table of Contents***Intangible Assets*

In allocating the purchase price, we considered, among other factors, our intention for future use of acquired assets, analyses of historical financial performance and estimates of future performance of SRS's contracts. Our fair value of intangible assets was based, in part, on a valuation completed by independent appraisers using an income approach and estimates and assumptions provided by management. The following table sets forth the preliminary values for the components of intangible assets associated with the acquisition at May 7, 2007 (in thousands):

	Fair Value	Estimated Useful Life
Backlog	\$ 17,710	9 years
Customer relationships	23,060	20 years
Technology	130	6 years
Total	\$ 40,900	

Customer contracts and related relationships represent the underlying relationships and agreements with SRS's existing customers. Technology represents certain licenses, patents and software of SRS. Intangible assets are being amortized over their estimated useful life using the pattern of benefits method. The weighted-average amortization period for the intangibles is 17.7 years. We are currently reviewing the expected useful life of the customer relationships intangible asset.

*Pro Forma Financial Information*

The unaudited financial information in the table below summarizes the combined results of operations of ManTech and SRS, on a pro forma basis, as though the companies had been combined as of the beginning of each of the periods presented. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition and borrowings under our New Credit Agreement (see Note 10) had taken place at the beginning of each of the periods presented. The pro forma financial information for September 30, 2007 and 2006 includes the business combination accounting effect on historical ManTech for amortization charges from acquired intangible assets, interest expense at our current level of debt, removal of SRS's CEO salary and benefit related costs, and the related tax effects.

The unaudited pro forma financial information for the three and nine months ended September 30, 2007 and 2006 combines the historical results for ManTech and SRS for those periods (in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue	\$ 383,359	\$ 325,419	\$ 1,102,935	\$ 961,289
Income from continuing operations before taxes	\$ 28,604	\$ 21,697	\$ 76,570	\$ 65,855
Net income	\$ 17,475	\$ 12,042	\$ 46,599	\$ 36,335
Diluted earnings per share (Class A and B common stock)	\$ 0.51	\$ 0.35	\$ 1.37	\$ 1.07

**GRS Solutions, Inc.** On October 5, 2006, we completed the acquisition of all outstanding shares of GRS Solutions, Inc. (GRS) for \$20.0 million in cash, subject to certain shareholder indemnification obligations. The source of funds for the acquisition was our available cash.

GRS was a privately held company headquartered in Falls Church, VA providing specialized technical, operational and analytical services to the U.S. government Intelligence Community. The acquisition improves our strategic position within the Intelligence Community and strengthens our capabilities in supporting counterterrorism/counterintelligence missions around the world. For its fiscal year ended September 30, 2006, GRS had revenues of approximately \$10.4 million. For the nine months ended September 30, 2007, GRS added \$10.7 million to our consolidated revenues.

The purchase price was \$20.0 million, which includes a closing balance sheet adjustment of \$(0.2) million and contingent consideration of \$2.2 million based on a defined performance objective which was met subsequent to the initial purchase. As security for the GRS shareholders indemnification obligations, an escrow account in an amount of \$1.8 million was established to be used in satisfying certain indemnification

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

obligations of the former shareholders of GRS. The purchase price was allocated to the underlying assets and liabilities based on their estimated fair values. The assets, liabilities and result of operations were not material and thus pro forma information is not presented. We recorded goodwill of \$11.8 million, which, assuming adequate levels of taxable income, will be deductible for tax purposes over 15 years. Recognition of goodwill is largely attributed to the highly skilled employees and the value paid for companies supporting the Intelligence Community. In addition, we recorded \$7.9



**Table of Contents**

million in intangibles consisting of customer relationships and backlog. Intangible assets are being amortized straight-line over their estimated useful life. The weighted-average amortization period for the intangibles is 10.5 years.

**10. Debt**

On April 30, 2007, we terminated our credit facility with Citizens Bank and executed a new revolving credit agreement with a syndicate of lenders led by Bank of America, N.A., as administrative agent (the New Credit Agreement). We expensed the remaining unamortized deferred debt expense of \$0.2 million on April 30, 2007. The New Credit Agreement provides for a \$300.0 million revolving credit facility, with a \$25.0 million letter of credit sub limit and a \$30.0 million swing line loan sub limit. The New Credit Agreement also contains an accordion feature that permits the Company to arrange with the lenders for them to provide up to \$100.0 million in additional commitments. We incurred \$1.4 million in financing cost related to the New Credit Agreement, which has been deferred and will be amortized over the term of the agreement.

Borrowings under the New Credit Agreement are collateralized by our assets and bear interest at one of the following rates as selected by the Company: a LIBOR-based rate plus market-rate spreads that are determined based on a company leverage ratio calculation (0.875% to 1.5%), or the lender's base rate, which is the lower of the Federal Funds Rate plus 0.5% or Bank of America's prime lending rate. At September 30, 2007, the borrowing rate on our outstanding debt was 5.08%. The maturity date for the New Credit Agreement is April 30, 2012.

The terms of the New Credit Agreement permit prepayment and termination of the loan commitments at any time, subject to certain conditions. The New Credit Agreement requires the Company to comply with specified financial covenants, including the maintenance of a certain leverage ratio and fixed charge coverage ratio. The New Credit Agreement also contains various covenants, including affirmative covenants with respect to certain reporting requirements and maintaining certain business activities, and negative covenants that, among other things, may limit our ability to incur liens, incur additional indebtedness, make investments, make acquisitions, and undertake certain additional actions.

We had \$85.7 million outstanding on our credit facility at September 30, 2007 and nothing at December 31, 2006. The maximum additional available borrowing under the credit facility at September 30, 2007 was \$213.8 million. As of September 30, 2007, we were contingently liable under letters of credit totaling \$0.5 million, which reduces our availability to borrow under our credit facility.

**11. Discontinued Operations**

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

The Consolidated Financial Statements and related note disclosures reflect the ManTech MSM Security Services, Inc. (MSM) subsidiary as Long-Lived Assets to Be Disposed Of by Sale for all periods presented in accordance with SFAS No. 144; *Accounting for the Impairment or Disposal of Long-Lived Assets*. As such, MSM was classified as held for sale in the consolidated balance sheets and discontinued operations, net of applicable income taxes in the consolidated statements of income.

The following discloses the results of the discontinued operations of MSM for the three months ended September 30, 2007 and 2006 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2007	2006	2007	2006	
Revenue	\$	\$	4,118	\$ 1,829	\$ 11,095
Loss before income taxes	\$	\$	(1,807)	\$ (749)	\$ (5,825)
Net Loss	\$	\$	(1,092)	\$ (458)	\$ (3,521)

The following is a summary of the assets and liabilities held for sale related to MSM at December 31, 2006 (in thousands):



**Table of Contents**

	<b>December 31, 2006</b>
Receivables, net	\$ 2,674
Prepaid expenses and other	70
Property and equipment	629
Other assets	
<b>Total Assets</b>	<b>\$ 3,373</b>
Accounts payable and accrued expenses	\$ 724
Accrued salaries and related expenses	369
Billings in excess of revenue earned	670
Other liabilities	52
<b>Total Liabilities</b>	<b>\$ 1,815</b>

**12. Shares Held in Grantor Trust**

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

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

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

**13. Income Taxes**

Effective January 1, 2007, we adopted the provisions of Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - An interpretation of FASB Statement No. 109*. Previously, the Company had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards 5, *Accounting for Contingencies*. As required by FIN 48, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

At the adoption date, the Company applied FIN 48 to all tax positions for which the statute of limitations remained open. As a result of the implementation of FIN 48, the Company recognized an increase of approximately \$0.1 million in the liability for gross unrecognized tax benefits and interest and penalties, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

The total liability of gross unrecognized tax benefits as of January 1, 2007, was \$1.3 million. That amount includes \$0.3 million of unrecognized net tax benefits which, if ultimately recognized, would reduce the Company's annual effective tax rate in a future period. Since January 1, 2007, there have been changes in the liability for gross unrecognized tax benefits totaling \$60 thousand in gross unrecognized tax benefits. Additionally, the SRS acquisition added an additional liability for gross unrecognized tax benefits of \$1.0 million.

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

The Company is subject to income taxes in the U.S., and various state and foreign jurisdictions. Tax statutes and regulations within each jurisdiction are subject to the interpretation and require significant judgment to apply. The Company is currently under examination by one state jurisdiction for years subsequent to 2003. Otherwise the Company is no longer subject to U.S., state, or non-U.S. income tax examinations by tax authorities for the years before 2003. The Company had recorded a liability for gross unrecognized tax benefits of \$0.4 million, relating primarily to pending state audits, as of January 1, 2007. Both audits

## Table of Contents

were finalized in the 2<sup>nd</sup> Quarter and this liability was paid, along with related interest. Additionally, the Company believes it is reasonably possible that another \$40 thousand of gross unrecognized tax benefits will be settled within the next twelve months.

The Company recognizes interest accrued related to net unrecognized tax benefits in interest expense and penalties in general and administrative expenses for all periods presented. The Company had accrued approximately \$0.2 million for the payment of interest and penalties at adoption. Subsequent changes to accrued interest and penalties have been a decrease of \$0.1 million.

### **14. Investments**

**GSE Systems, Inc.** In April 1994, GSE Systems, Inc. (GSE) was created by the merger of one of our majority-owned subsidiaries and two other entities. During the year ended December 31, 2001, we determined that we had obtained significant influence with respect to GSE. As a result, we began accounting for our investment in GSE using the equity method and recorded (\$1.2 million) and \$0.2 million in equity (losses) earnings for the years ended December 31, 2003 and 2002, respectively. At December 31, 2002, we held 914,784 shares of GSE common stock, \$3.8 million of GSE convertible preferred stock and a \$0.7 million demand note receivable from GSE. This note accrued interest at the prime rate plus 1.00% and interest was payable monthly.

In July 2003, we issued two letters of credit on behalf of GSE. Pursuant to FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, we recognized a liability and corresponding increase in our investment in GSE. In the first quarter 2005, we made an adjustment based on the fair value of the outstanding guarantee. In exchange for issuing the letters of credit, we received 100,000 warrants to purchase GSE's common stock at the market price of GSE's common stock as of the close of business on July 8, 2003. The warrants were set to expire in July 2008.

On October 21, 2003, we sold all of our equity interests in GSE, and a \$0.7 million note receivable from GSE, to GP Strategies Corporation (GP Strategies) in exchange for a note with a principal amount of \$5.3 million. The note from GP Strategies bears interest at 5% per annum and is payable quarterly in arrears. Each year during the term of the note, we have the option to convert up to 20% of the original principal amount of the note into common stock of GP Strategies, but only in the event that GP Strategies' common stock is trading at \$10 per share or more. As of September 30, 2007, we have not converted any of the note to common stock.

During 2007, George J. Pedersen, our Chairman of the Board and Chief Executive Officer, beneficially owned shares and options of GSE stock representing less than 5% of GSE. In 2007, Mr. Pedersen served on GSE's board of directors and compensation committee.

During the period ending September 30, 2007, we exercised all 100,000 warrants held in GSE at a price of \$1.33 per share. Additionally, we sold the converted shares at \$6.0 per share. The transactions result in an insignificant loss in the period due to the change in fair value of the warrants and subsequent sale of the converted securities.

## **Table of Contents**

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

We are a leading provider of innovative technologies and solutions for mission-critical national security programs for the U.S. government Intelligence Community; the departments of Defense, State, Homeland Security and Justice; the Space Community; and other U.S. federal government agencies. Our expertise includes systems engineering, systems integration, technology and software development, enterprise architecture, information assurance and security architecture, intelligence operations and analysis support, network and critical infrastructure protection, information operations and computer forensics, information technology, communications integration and engineering support. With approximately 6,800 highly qualified employees, we operate in the United States and approximately 40 countries worldwide.

We derive revenue primarily from contracts with U.S. government agencies that are focused on national security and as a result, funding for our programs is generally linked to trends in U.S. government spending in the areas of defense, intelligence and homeland security. Related to the terrorist events of 2001, the U.S. government has substantially increased its overall defense, intelligence and homeland security budgets.

We recommend that you read this discussion and analysis in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K for the fiscal year ended December 31, 2006, previously filed with the SEC.

### **Recent Developments**

**SRS Acquisition** On May 7, 2007, we completed the acquisition of all outstanding equity interests in SRS Technologies ( "SRS"). The acquisition was consummated pursuant to an Agreement and Plan of Merger ( "Merger Agreement"), dated April 6, 2007, by and among ManTech, a wholly owned subsidiary of ManTech SRS, certain shareholders of SRS, and certain persons acting as a representative for the shareholders of SRS. The Merger Agreement provided for the merger of a wholly owned subsidiary of ManTech with and into SRS, with SRS surviving the merger and becoming a wholly owned subsidiary of ManTech ( "ManTech SRS").

The initial purchase price was \$198.9 million in cash, which includes \$1.0 million in transaction fees. The initial purchase price also included a closing date working capital adjustment of \$2.9 million which is subject to further adjustment upon audit of their closing balance sheet. We utilized a combination of cash on hand and borrowings under our New Credit Agreement to finance the acquisition.

SRS was a privately-held company with specialized domain knowledge in the areas of space-based radar and communications; chemical, biological, conventional and nuclear weapons detection and defeat programs; imagery intelligence; and aeronautic, space and information systems development. More than 85 percent of SRS' revenue has historically been derived from the Department of Defense, Intelligence Community and the Department of Homeland Security. SRS' backlog as of May 6, 2007 was \$731.5 million, of which \$95.4 million was funded backlog. SRS had over 800 employees, including highly-cleared and educated personnel, at May 7, 2007.

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

**Credit Agreement** On April 30, 2007, we terminated our \$125.0 million credit facility with Citizens Bank and executed a new \$300.0 million secured revolving credit agreement with a syndicate of lenders led by Bank of America, N.A, as administrative agent. For more information, see "Liquidity and Capital Resources - New Credit Agreement" below.

**Table of Contents****Three Months Ended September 30, 2007 Compared to the Three Months Ended September 30, 2006**

	Condensed Consolidated Statements of Operations					
	Three Months Ended September 30,				Period to Period Change	
	2007	2006	2007	2006	2006 to 2007	
	Dollars		Percentages		Dollars	Percent
	(dollar amounts in thousands)					
<b>REVENUE</b>	\$ 383,359	\$ 283,695	100.0%	100.0%	\$ 99,664	35.1%
Cost of services	321,133	235,539	83.8%	83.0%	85,594	36.3%
General and administrative expenses	31,804	25,142	8.3%	8.9%	6,662	26.5%
<b>OPERATING INCOME</b>	30,422	23,014	7.9%	8.1%	7,408	32.2%
Interest expense	1,887	430	0.5%	0.2%	1,457	338.8%
Interest income	(153)	(139)	0.0%	0.0%	(14)	10.1%
Other expense (income), net	84	(21)	0.0%	0.0%	105	-500.0%
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	28,604	22,744	7.5%	8.0%	5,860	25.8%
Provision for income taxes	(11,129)	(8,962)	2.9%	3.2%	(2,167)	24.2%
<b>INCOME FROM CONTINUING OPERATIONS</b>	17,475	13,782	4.6%	4.9%	3,693	26.8%
(Loss) from operations of discontinued component, net of taxes		(1,092)	0.0%	0.3%	1,092	-100.0%
Gain on sale of discontinued operation, net of taxes			0.0%	0.0%		0.0%
<b>NET INCOME</b>	\$ 17,475	\$ 12,690	4.6%	4.5%	\$ 4,785	37.7%

*Revenues*

Revenues increased 35.1% to \$383.4 million for the three months ended September 30, 2007, compared to \$283.7 million for the same period in 2006. This increase is primarily attributable to forward deployment and countermines/counter improvised explosive devices (IED) support in Iraq and Afghanistan. The acquisition of SRS in May 2007 added \$54.2 million to our revenues for the three months ended September 30, 2007. One contract for the installation and repair of systems designed to support countermines and IED s accounted for \$53.8 million and \$36.5 million of revenues for the three months ended September 30, 2007 and 2006, respectively. Also contributing \$3.6 million to the increase in revenue was our acquisition of GRS in October 2006.

*Cost of services*

Cost of services increased 36.3% to \$321.1 million for the three months ended September 30, 2007, compared to \$235.5 million for the same period in 2006. The increase in cost of services was due to larger purchases of equipment and materials directly for contracts and increased use of subcontractors in support of our contracts as well as our acquisition of SRS in May 2007. As a percentage of revenues, cost of services increased 0.8%, to 83.8% for the three months ended September 30, 2007 compared to 83.0% for the same period in 2006. Direct labor costs, which include applicable fringe benefits and overhead, increased by 26.0% primarily due the acquisitions of SRS and GRS. As a percentage of revenues, direct labor costs decreased 3.0% to 40.9% for the three months ended September 30, 2007 compared to 43.8% for the same period in 2006. Other direct costs increased by 48.0% over the same period in 2006, from \$111.2 million to \$164.5 million. The increase in other direct costs is due to the increase in purchases of equipment and materials, and increased use of subcontractors as noted above, as well as the acquisitions of SRS and GRS. As a percentage of revenues, other direct costs increased from 39.2% for the three months ended September 30, 2006 to 42.9% for the same period in 2007.

*General and administrative expenses*

General and administrative expenses increased 26.5% to \$31.8 million for the three months ended September 30, 2007, compared to \$25.1 million for the same period in 2006. The increase in expense resulted primarily from the acquisition of SRS, increased bid and proposal spending, a net realizable value adjustment related to an intangible asset of a previous acquisition, and share-based compensation. In addition, amortization of intangibles increased due to our acquisition of SRS in May 2007 as well as our acquisition of GRS Solutions in October 2006.

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

As a percentage of revenues, general and administrative expenses decreased to 8.3% from 8.9% for the three months ended September 30, 2007 and 2006, respectively. For the three months ended September 30, 2007 and 2006, we recognized \$1.8 million and \$1.3 million in share-based compensation expense under SFAS No. 123R, respectively.



**Table of Contents***Interest expense*

Interest expense increased 338.8% to \$1.9 million for the three months ended September 30, 2007, compared to \$0.4 million for the same period in 2006. The change in interest expense is a result of increased borrowing under our credit facility. For the three months ended September 30, 2007, we had an average debt balance of \$126.4 million compared to \$29.6 million for the same period in 2006. The relatively higher level of indebtedness in 2007 was due to our acquisition of SRS on May 7, 2007. As we intend to use our credit facility to finance our acquisition strategy, our interest expense could increase in the future.

*Net income*

Net income increased 37.7% to \$17.5 million for the three months ended September 30, 2007, compared to \$12.7 million for the same period in 2006. The increase is a result of higher revenue, increased income from continuing operations, and no loss on discontinued operations in 2007 versus a loss of \$1.1 million for the same period in 2006. We completed the sale of our discontinued operation in the first quarter of 2007. For additional information see Discontinued Operations, below. Our effective tax rate for the three months ended September 30, 2007 and 2006 was 38.9% and 39.4%, respectively.

*Nine Months Ended September 30, 2007 Compared to the Nine Months Ended September 30, 2006*

	Condensed Consolidated Statements of Operations					
	Nine Months Ended September 30,		2007		Period to Period Change	
	2007	2006	2007	2006	2006 to 2007	
	Dollars		Percentages	Dollars	Percent	
	(dollar amounts in thousands)					
<b>REVENUE</b>	\$ 1,026,344	\$ 846,466	100.0%	100.0%	\$ 179,878	21.3%
Cost of services	860,289	702,225	83.8%	83.0%	158,064	22.5%
General and administrative expenses	88,791	76,058	8.7%	9.0%	12,733	16.7%
<b>OPERATING INCOME</b>	77,264	68,183	7.5%	8.1%	9,081	13.3%
Interest expense	3,423	2,123	0.3%	0.3%	1,300	61.2%
Interest income	(1,106)	(439)	0.1%	0.1%	(667)	151.9%
Other (income) expense, net	(262)	(8)	0.0%	0.0%	(254)	3175.0%
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	75,209	66,507	7.3%	7.9%	8,702	13.1%
Provision for income taxes	(29,262)	(26,204)	2.9%	3.1%	(3,058)	11.7%
<b>INCOME FROM CONTINUING OPERATIONS</b>	45,947	40,303	4.5%	4.8%	5,644	14.0%
(Loss) from operations of discontinued component, net of taxes	(458)	(3,521)	0.0%	0.4%	3,063	-87.0%
Gain on sale of discontinued operation, net of taxes	338		0.0%	0.0%	338	100.0%
<b>NET INCOME</b>	\$ 45,827	\$ 36,782	4.5%	4.3%	\$ 9,045	24.6%

*Revenues*

Revenues increased 21.3% to \$1,026.3 million for the nine months ended September 30, 2007, compared to \$846.5 million for the same period in 2006. This increase is primarily attributable to forward deployment and countermeasure/counter improvised explosive devices (IED) support in Iraq and Afghanistan. One contract for the installation and repair of systems designed to support countermeasures and IED's accounted for \$142.9 million and \$63.9 million of revenues for the nine months ended September 30, 2007 and 2006, respectively. The acquisition of SRS in May 2007 added \$82.8 million to our revenues for the nine months ended September 30, 2007. Also contributing \$10.7 million to the increase in revenue was our acquisition of GRS in October 2006.

We expect the growth trend to continue through the rest of 2007 due to our two recent acquisitions and continued support of the global war on terrorism, including wars in Iraq and Afghanistan. Possible future changes in U.S. policy and tactics related to the wars may impact our future performance trend; however, we are not able to predict the impact at this time.



---

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

Cost of services increased 22.5% to \$860.3 million for the nine months ended September 30, 2007, compared to \$702.2 million for the same period in 2006. This increase was due to larger purchases of equipment and materials directly for contracts and increased use of subcontractors in support of our contracts as well as our acquisition of SRS in May 2007. As a percentage of revenues, cost of services increased 0.8%, to 83.8% for the nine months ended September 30, 2007 compared to 83.0% for the same period in 2006. Direct labor costs, which include applicable fringe benefits and overhead, increased by 11.1% primarily due the acquisition of SRS and GRS. As a percentage of revenues, direct labor costs decreased 3.9% to 41.7% for the nine months ended September 30, 2007 compared to 45.6% for the same period in 2006. Other direct costs increased by 36.5% over the same period in 2006, from \$316.5 million to \$431.9 million. The increase in other direct costs is due to the increase in purchases of equipment and materials, and increased use of subcontractors as noted above, as well as the acquisition of SRS. As a percentage of revenues, other direct costs increased from 37.4% for the nine months ended September, 2006 to 42.1% for the same period in 2007.

*General and administrative expenses*

General and administrative expenses increased 16.7% to \$88.8 million for the nine months ended September 30, 2007, compared to \$76.1 million for the same period in 2006. The increase in expense during the year resulted primarily from the acquisition of SRS, increased bid and proposal spending, a net realizable value adjustment related to an intangible asset of a previous acquisition, and share-based compensation. In addition, amortization of intangibles increased due to our acquisition of SRS in May 2007 as well as our acquisition of GRS Solutions in October 2006. As a percentage of revenues, general and administrative expenses decreased to 8.7% from 9.0% for the nine months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, we recognized \$5.2 million and \$4.0 million in share-based compensation expense under SFAS No. 123R, respectively.

*Interest expense*

Interest expense increased 61.2% to \$3.4 million for the nine months ended September 30, 2007, compared to \$2.1 million for the same period in 2006. For the nine months ended September 30, 2007, we had an average debt balance of \$74.0 million compared to \$38.0 million for the same period in 2006. The average debt balance in 2006 was primarily driven by the acquisition of Gray Hawk Systems in 2005. We expect to see an increased level of interest expense for the remainder of 2007 due to the use of our credit facility to finance a large portion of our SRS acquisition on May 7, 2007. As we intend to use our credit facility to finance our acquisition strategy, our interest expense could increase in the future.

*Interest income*

Interest income increased 151.9% to \$1.1 million for the nine months ended September 30, 2007, compared to \$0.4 million for the same period in 2006. The fluctuation is due to increased cash on hand for a majority of the nine months ended September 30, 2007 and collection of interest on an old receivable and income tax refund. As we used a combination of cash on hand and our new credit facility to finance the acquisition of SRS on May 7, 2007, our cash balance was reduced significantly midway through the period. For the remainder of 2007, we expect to see a reduction in interest income levels.

*Loss from discontinued operations*

Our MSM subsidiary, which we determined to sell in February 2005, is classified as held for sale in the consolidated balance sheets and discontinued operations, net of applicable income taxes in the consolidated statements of income. Loss from discontinued operations decreased 87.0% to \$0.5 million for the nine months ended September 30, 2007, compared with \$3.5 million for the same period in 2006. The reduced loss reflects two months of MSM operations in 2007 because of the sale on MSM on February 23, 2007 (as described below) versus a full nine months of MSM operations in the same period in 2006 as well as reduced direct costs as a percentage of revenues. For additional information see Discontinued Operations, below.

*Gain on sale of discontinued operation*

On February 23, 2007, we sold MSM to MSM Security Services Holdings, LLC (an entity that is solely owned by George J. Pedersen, our Chairman and Chief Executive Officer) for \$3.0 million in cash. We recorded a \$0.3 million net gain on the transaction. For additional information see Discontinued Operations, below.

*Net income*

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

Net income increased 24.6% to \$45.8 million for the nine months ended September 30, 2007, compared to \$36.8 million for the same period in 2006. The increase is a result of higher revenue, increased income from continuing operations, and a reduced net loss on discontinued operations of \$0.1 million in 2007 versus a loss of \$3.5 million for the same period in 2006. Our effective tax rate for the nine months ended September 30, 2007 and 2006 was 38.9% and 39.4%, respectively.

**Table of Contents****Backlog**

At September 30, 2007 and December 31, 2006, our backlog was \$3.5 billion and \$2.9 billion, respectively, of which \$0.8 billion and \$0.6 billion, respectively, was funded backlog. At September 30, 2006, our backlog was \$2.7 billion, of which \$0.5 billion was funded backlog. The acquisition of SRS added \$0.7 billion to our backlog, of which \$0.1 billion was funded backlog, at September 30, 2007. Backlog and funded backlog represent estimates that we calculate on a consistent basis. Additional information on how we determine backlog is included in our annual report on Form 10-K for the fiscal year ended December 31, 2006, previously filed with the SEC.

**Effects of Inflation**

We generally have been able to price our contracts in a manner to accommodate the rates of inflation experienced in recent years. Under our time and materials contracts, labor rates are usually adjusted annually by predetermined escalation factors. Our cost reimbursable contracts automatically adjust for changes in cost. Under our fixed-price contracts, we include a predetermined escalation factor, but generally, we have not been adversely affected by inflation.

**Liquidity and Capital Resources**

Our primary liquidity needs are the financing of working capital, capital expenditures and acquisitions. Our primary source of liquidity is cash provided by operations and our revolving credit facility. On April 30, 2007, we executed a New Credit Agreement with Bank of America N.A. The New Credit Agreement initially provides for up to \$300.0 million in available borrowings. See [New Credit Agreement](#) below for additional information. At September 30, 2007, we had \$85.7 million outstanding under our credit facility. At September 30, 2007, we were contingently liable under letters of credit totaling \$0.5 million, which reduces our ability to borrow under our credit facility. The maximum available borrowing under our credit facility at September 30, 2007 was \$213.8 million. Generally, cash provided by operating activities is adequate to fund our operations. Due to fluctuations in our cash flows and the growth in our operations, it is necessary from time to time to increase borrowings under our credit facility to meet cash demands. In the future, we may borrow greater amounts in order to finance acquisitions or new contract start ups.

**Net cash flows from operating activities**

(in thousands)	Nine months ended September 30,	
	2007	2006
Net cash flow from operating activities of continuing operations:	\$ 64,144	\$ 84,103
Net cash flow from discontinued operations:	(1,562)	(5,934)
<b>Net cash flow from operating activities:</b>	<b>\$ 62,582</b>	<b>\$ 78,169</b>

Cash provided by operating activities from continuing operations for the nine months ended September 30, 2007 was \$64.1 million, compared to \$84.1 million provided in operating activities for the nine months ended September 30, 2006. The higher cash inflow during 2006 was primarily the result of a significant collection of receivables under a management collection initiative. For the nine months ended September 30, 2007, discontinued operations used \$1.6 million of cash versus a net use of cash of \$5.9 million for the nine months ended September 30, 2006. The reduced cash outflow from discontinued operations is the result of the sale of our MSM subsidiary on February 23, 2007.

**Net cash flows from investing activities**

(in thousands)	Nine months ended September 30,	
	2007	2006
Net investing cash flow from continuing operations:	\$ (198,037)	\$ (5,708)
Net investing cash flow from discontinued operations:	3,000	(125)
<b>Net cash flow from investing activities:</b>	<b>\$ (195,037)</b>	<b>\$ (5,833)</b>

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

Cash used in investing activities from continuing operations was \$198.0 million for the nine months ended September 30, 2007, compared to \$5.7 million for the same period in 2006. The cash outflows from continuing operations in 2007 are primarily the result of our acquisition of SRS on May 7, 2007 and our investment in equipment and internally used software. These were partially offset by a \$1.8 million cash inflow from the sale of office buildings and land that we acquired in 2005. The 2006 cash outflow was the result of investments in property, plant, and equipment and internal-use software to support our business. For the

**Table of Contents**

nine months ended September 30, 2007, we had an investing cash inflow from discontinued operations of \$3.0 million from the sale of our MSM subsidiary. For additional information see [Discontinued Operations](#), below. Cash flow from investing activities can fluctuate significantly with the execution of our acquisition strategy.

***Net cash flows from financing activities***

(in thousands)	Nine months ended September 30,	
	2007	2006
Net cash flow from financing activities:	\$ 94,483	\$ (30,653)

Cash provided by financing activities was \$94.5 million for the nine months ended September 30, 2007, compared to cash used by financing activities of \$30.7 million for the nine months ended September 30, 2006. The net cash provided in the first nine months of 2007 resulted primarily from the use of our credit facility to support the acquisition of SRS and proceeds from the exercise of stock options. In addition, we acquired treasury stock with a cost of \$9.1 million related to the distribution of a supplemental executive retirement plan (SERP) for our Chairman and Chief Executive Officer (for additional information, see note 12 [Shares Held in Grantor Trust](#) to our condensed consolidated financial statements). The cash outflow for the acquisition of treasury stock was offset by the excess tax benefits generated by stock option exercises and the SERP transaction. For the nine months ended September 30, 2006, the cash outflow from financing activities was primarily due to repayment of our credit facility of \$42.4 million and proceeds from stock option exercises and their related excess tax benefit.

Cash from financing activities is driven primarily from the proceeds on the exercise of stock options and their associated excess tax benefits as well as our use of our credit facility to fund operations and/or acquisitions. In the second quarter of 2007, we refinanced our credit facility to support the acquisition of SRS and future liquidity requirements. To complete the purchase of SRS, we utilized approximately \$170.0 million of the available \$300.0 million under the New Credit Agreement.

***New Credit Agreement***

On April 30, 2007, we terminated our \$125.0 million credit facility with Citizens Bank and executed the 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 \$300.0 million revolving credit facility, with a \$25.0 million letter of credit sub limit and a \$30.0 million swing line loan sub limit. The New Credit Agreement also contains an accordion feature that permits the Company to arrange with the lenders for them to provide up to \$100.0 million in additional commitments.

Borrowings under the New Credit Agreement are collateralized by our assets and bear interest at one of the following rates as selected by the Company: a LIBOR-based rate plus market-rate spreads that are determined based on a company leverage ratio calculation (0.875% to 1.5%), or the lender's base rate, which is the lower of the Federal Funds Rate plus 0.5% or Bank of America's prime lending rate. The maturity date for the New Credit Agreement is April 30, 2012.

The terms of the Credit Agreement permit prepayment and termination of the loan commitments at any time, subject to certain conditions. The New Credit Agreement requires the Company to comply with specified financial covenants, including the maintenance of a certain leverage ratio and fixed charge coverage ratio. The New Credit Agreement also contains various covenants, including affirmative covenants with respect to certain reporting requirements and maintaining certain business activities, and negative covenants that, among other things, may limit our ability to incur liens, incur additional indebtedness, make investments, make acquisitions, and undertake certain additional actions.

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

**Discontinued Operations**

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





## **Table of Contents**

After Mr. Pedersen presented a formal offer to the Company to purchase our MSM subsidiary, the Board formed a special committee comprised solely of independent directors to review, evaluate and determine the advisability of the transaction. The special committee retained the services of independent legal counsel and independent financial advisor to advise the special committee and assist it in connection with its duties. The special committee received a fairness opinion from the independent financial advisor. The special committee of the Board considered the opinions received from its advisors and unanimously recommended approval of the transaction to the independent members of the board, and the transaction was approved by ManTech's independent directors.

Our Consolidated Financial Statements and related note disclosures reflect our ManTech MSM Security Services, Inc. (MSM) subsidiary as Long-Lived Assets to Be Disposed of by Sale for all periods presented in accordance with Statement of Financial Accounting Standards No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*. As such, MSM was classified as held for sale in the consolidated balance sheets and discontinued operations, net of applicable income taxes in the consolidated statements of income.

### **Critical Accounting Estimates and Policies**

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. Application of these policies is particularly important to the portrayal of our financial condition and results of operations. The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses. Actual results may differ from these estimates under different assumptions or conditions. Our significant accounting policies, including the critical policies listed below, are described in the notes to the condensed consolidated financial statements included in this report.

#### *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 collectibility 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 to a lesser extent, the pass through of costs for materials and subcontract efforts under contracts with our customers. Cost of services consists primarily of compensation expenses for program personnel, the fringe benefits associated with this compensation, and other direct expenses incurred to complete programs, including cost of materials and subcontract efforts.

We derive the majority of our revenue from cost-plus-fixed-fee, cost-plus-award-fee, firm-fixed-price, or time-and-materials contracts. Revenues for cost-reimbursement contracts are recorded as reimbursable costs are incurred, including an estimated share of the applicable contractual fees earned. For performance-based fees under cost reimbursable contracts, that are subject to the provisions of Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (SOP 81-1), we recognize the relevant portion of the expected fee to be awarded by the client at the time such fee can be reasonably estimated, based on factors such as our prior award experience and communications with the client regarding performance. For cost reimbursable contracts with performance-based fee incentives that are subject to the provisions of U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 104, *Revenue Recognition (SAB104)*, we recognize the relevant portion of the fee upon customer approval. For time-and-material contracts, revenue is recognized to the extent of billable rates times hours delivered plus material and other reimbursable costs incurred. For long-term fixed-price production contracts, revenue is recognized at a rate per unit as the units are delivered, or by other methods to measure services provided. Revenue from other long-term fixed-price contracts is recognized ratably over the contract period or by other appropriate methods to measure services provided. Contract costs are expensed as incurred except for certain limited long-term contracts noted below. For long-term contracts which are specifically described in the scope section of American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 81-1, *Accounting for Performance of Construction Type and Certain Production-Type Contracts*, or other appropriate accounting literature we apply the percentage of completion method. Under the percentage of completion method, income is recognized at a consistent profit margin over the period of performance based on estimated profit margins at completion of the contract. This method of accounting requires estimating the total revenues and total contract cost at completion of the contract. During the performance of long-term contracts, these estimates are periodically reviewed and revisions are made as required. The impact on revenue and contract profit as a result of these revisions is included in the periods in which the revisions are made. This method can result in the deferral of costs or the deferral of profit on these contracts. Because we assume the risk of performing a fixed-price contract at a set price, the failure to accurately estimate ultimate costs or to control costs during performance of the work could result, and in some instances has resulted, in



---

## **Table of Contents**

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.

### *Goodwill*

Goodwill represents the excess of cost over the fair value of net tangible and identifiable intangible assets of acquired companies. Effective January 1, 2002, we adopted SFAS No. 142, and no longer amortize goodwill; rather, we review goodwill at least annually for impairment. We have elected to perform this review annually during second quarter of each calendar year and have determined no adjustments are necessary at this time. For acquisitions completed prior to the adoption of SFAS No. 141 and SFAS No. 142 on January 1, 2002, goodwill was amortized on a straight-line basis over periods ranging from two to twenty years.

### *Other Matters*

Our significant accounting policies, including the critical policies listed above, are described in the notes to the consolidated financial statements for the year ended December 31, 2006, included in our Annual Report on Form 10-K filed with the SEC on March 9, 2007.

## **Recent Accounting Pronouncements**

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - An interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN 48 seeks to reduce the diversity in accounting practices used in regards to uncertain tax positions by prescribing a recognition threshold and measurement criteria for benefits related to income taxes. The provisions of FIN 48 are effective for all reporting periods beginning after December 15, 2006. Effective January 1, 2007, we have applied the provisions of FIN 48 to all tax positions with cumulative effects resulting in an adjustment of \$0.1 million to retained earnings.

In September 2006, the FASB issued Statement No. 157 (SFAS 157), *Fair Value Measurements*, which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. SFAS 157 is effective for fiscal years beginning after November 15, 2007. At this time, we are assessing the impact the adoption of SFAS 157 will have on our consolidated financial statements.

In February 2007, the FASB issued Statement No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Liabilities - Including an amendment of FASB Statement No. 115*, which permits entities to measure eligible items at fair value. For items where the fair value election is made, the company will be required to report unrealized gains or losses in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. At this time, we are assessing the impact the adoption of SFAS 159 will have on our consolidated financial statements.

## **Forward-Looking Statements**

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

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

adverse changes in U.S. government spending priorities;

failure to retain existing U.S. government contracts, win new contracts or win recompetes;

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

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

**Table of Contents**

adverse effect of contract consolidations;

risk of contract performance or termination;

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

adverse changes in our mix of contract types;

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

failure to identify, execute or effectively integrate future acquisitions;

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

competition.

We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report. These and other risk factors are more fully described and discussed in our annual report on Form 10-K for the fiscal year ended December 31, 2006, previously filed with the SEC, those referenced in Item 1A of Part II below, and from time to time, in our other filings with the SEC. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report. We also suggest that you carefully review and consider the various disclosures made in this Quarterly Report that attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

**Item 3. Quantitative and Qualitative Disclosure about Market Risk**

Our exposure to market risk relates to changes in interest rates for borrowings under our senior term loan and revolving credit facility. These borrowings bear interest at variable rates. As of September 30, 2007, we had \$85.7 million outstanding under our revolving credit facility. A hypothetical 10% increase in interest rates would have increased our interest expense by \$0.2 million for the nine months ended September 30, 2007.

We do not use derivative financial instruments for speculative or trading purposes. We invest our excess cash in short-term, investment grade, interest-bearing securities. Our investments are made in accordance with an investment policy approved by the board of directors. Under this policy, no investment securities can have maturities exceeding one year, and the average maturity of the portfolio cannot exceed 90 days.

**Item 4. Controls and Procedures**

As of September 30, 2007, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), management evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report, such that the information relating to us that is required to be disclosed in our reports filed with the SEC (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

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

---

**Table of Contents**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

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

**Item 1A. Risk Factors**

Other than as set forth below, there have been no material changes from the risk factors disclosed in the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2006. The risk factor stated below was disclosed on our Form 10-K and has been updated to reflect our new credit agreement.

***Covenants in our credit facility may restrict our financial and operating flexibility.***

We maintain a credit agreement with Bank of America N.A. The agreement provides for up to \$300.0 million, with an option to increase an additional \$100.0 million, in available borrowings through April 2012. Under the agreement, we are required to maintain specific financial covenants related to a leverage ratio and fixed charge coverage. The agreement also places limitations on additional borrowings, mergers, and related-party transactions, payment of dividends, and contains limitations with respect to capital expenditures. Borrowings under the agreement are collateralized by our assets and bear interest at the Eurodollar Rate, or the lender's base rate, plus market-rate spreads that are determined based on a company leverage ratio calculation. At inception, we paid initialization fees of \$1.4 million, including associate legal costs. Our ability to satisfy these financial ratios can be affected by events beyond our control, and we cannot assure you that we will meet these ratios. Default under our credit facility could allow the lenders to declare all amounts outstanding to be immediately due and payable. We have pledged substantially all of our assets to secure the debt under our credit facility. If the lenders declare amounts outstanding under the credit facility to be due, the lenders could proceed against those assets. Any event of default, therefore, could have a material adverse effect on our business if the creditors determine to exercise their rights. We also may incur future debt obligations that might subject us to restrictive covenants that could affect our financial and operational flexibility, restrict our ability to pay dividends on our common stock or subject us to other events of default.

From time to time we may require consents or waivers from our lenders to permit actions that are prohibited by our credit facility. If our lenders refuse to provide waivers of our credit facility's restrictive covenants and/or financial ratios, then we may be in default under our credit facility, and we may be prohibited from undertaking actions that are necessary or desirable to maintain and expand our business.

**Table of Contents**

**Item 6. Exhibits**

Exhibits required by Item 601 of Regulation S-K:

The following lists certain exhibits either filed herewith or filed with the SEC during the fiscal quarter ended September 30, 2007.

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.

---

Filed herewith



**Table of Contents**

**SIGNATURES**

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

**MANTECH INTERNATIONAL CORPORATION**

Date: November 5, 2007

By: /s/ GEORGE J. PEDERSEN

Name: **George J. Pedersen**

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

**Chief Executive Officer**

Date: November 5, 2007

By: /s/ KEVIN M. PHILLIPS

Name: **Kevin M. Phillips**

Title: **Chief Financial Officer**