

GLOBAL DEFENSE TECHNOLOGY & SYSTEMS, INC.

Form 10-Q

August 06, 2010

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from _____ to _____

Commission file number 001-34551

Global Defense Technology & Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware

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

20-4477465

(I.R.S. Employer Identification No.)

1501 Farm Credit Drive, Suite 2300

McLean, VA

(Address of principal executive offices)

22102-5011

(Zip Code)

Registrant's telephone number, including area code:

703-738-2840

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of the Registrant's common shares outstanding on August 5, 2010 was 9,071,812.

GLOBAL DEFENSE TECHNOLOGY & SYSTEMS, INC.

PART I: Financial Information

| | |
|--|----|
| <u>Item 1: Financial Statements</u> | 1 |
| <u>Consolidated Balance Sheets (unaudited) as of June 30, 2010 and December 31, 2009</u> | 1 |
| <u>Consolidated Statements of Operations (unaudited) for the three and six months ended June 30, 2010 and 2009</u> | 2 |
| <u>Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2010 and 2009</u> | 3 |
| <u>Notes to Consolidated Financial Statements (unaudited)</u> | 4 |
| <u>Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 9 |
| <u>Item 3: Quantitative and Qualitative Disclosures About Market Risk</u> | 17 |
| <u>Item 4: Controls and Procedures</u> | 17 |

PART II: Other Information

| | |
|----------------------------------|----|
| <u>Item 1: Legal Proceedings</u> | 18 |
| <u>Item 1A: Risk Factors</u> | 18 |
| <u>Item 5: Other Information</u> | 18 |
| <u>Item 6: Exhibits</u> | 18 |
| <u>Signatures</u> | 21 |
| <u>EX-31.1</u> | |
| <u>EX-31.2</u> | |
| <u>EX-32.1</u> | |
| <u>EX-32.2</u> | |

Table of Contents

PART I
FINANCIAL INFORMATION
ITEM 1. Financial Statements
GLOBAL DEFENSE TECHNOLOGY & SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except share and per share amounts)

| | As of June 30, 2010 | As of December 31, 2009 |
|--|------------------------------------|--|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,738 | \$ 7 |
| Accounts receivable, net | 49,254 | 50,691 |
| Due from affiliates | 364 | 1,109 |
| Prepaid expenses and other current assets | 1,240 | 1,238 |
| Deferred tax assets | 589 | 324 |
| Income taxes receivable | 308 | 3,543 |
| | | |
| Total current assets | 53,493 | 56,912 |
| | | |
| Property and equipment, net | 3,509 | 3,441 |
| Intangible assets, net | 19,140 | 21,268 |
| Goodwill | 24,373 | 24,373 |
| Deferred tax assets | 6,140 | 6,295 |
| Other assets | 442 | 222 |
| | | |
| Total assets | \$ 107,097 | \$ 112,511 |
| | | |
| Liabilities and Stockholders Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 10,286 | \$ 13,040 |
| Accrued expenses | 6,966 | 9,521 |
| Advance payments on contracts | 526 | 517 |
| Interest rate swap liability | | 106 |
| | | |
| Total current liabilities | 17,778 | 23,184 |
| | | |
| Deferred rent | 303 | 289 |
| Bank loans, net of current | | 3,686 |
| | | |
| Total liabilities | 18,081 | 27,159 |
| | | |
| Commitments and contingencies (Note 8) | | |

Stockholders Equity

| | | |
|--|------------|------------|
| Common stock, par value \$0.01 per share, 90,000,000 shares authorized and 9,071,812 and 9,051,812 shares issued and outstanding, respectively | 91 | 91 |
| Additional paid-in capital | 88,685 | 88,178 |
| Retained earnings (accumulated deficit) | 240 | (2,917) |
| | | |
| Total stockholders equity | 89,016 | 85,352 |
| | | |
| Total liabilities and stockholders equity | \$ 107,097 | \$ 112,511 |

(See Accompanying Notes)

Table of Contents

GLOBAL DEFENSE TECHNOLOGY & SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(in thousands, except share and per share amounts)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|---------------|----------------------------------|-----------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue | | | | |
| Products | \$ 25,232 | \$ 31,332 | \$ 46,486 | \$ 59,010 |
| Services | 23,990 | 22,095 | 48,629 | 44,030 |
| Total revenue | 49,222 | 53,427 | 95,115 | 103,040 |
| | | | | |
| Operating costs and expenses | | | | |
| Cost of revenue products | 18,917 | 26,777 | 36,546 | 49,229 |
| Cost of revenue services | 20,235 | 18,065 | 41,047 | 36,435 |
| Selling, general and administrative expenses | 5,813 | 4,807 | 10,425 | 9,253 |
| Amortization of intangible assets | 722 | 2,089 | 2,128 | 4,178 |
| Total operating costs and expenses | 45,687 | 51,738 | 90,146 | 99,095 |
| | | | | |
| Operating income | 3,535 | 1,689 | 4,969 | 3,945 |
| Other income (expense) | | | | |
| Interest income | 3 | 1 | 6 | 3 |
| Interest expense | (47) | (491) | (55) | (1,000) |
| Income before income taxes | 3,491 | 1,199 | 4,920 | 2,948 |
| Provision for income taxes | (1,428) | (558) | (1,763) | (1,388) |
| Net income | \$ 2,063 | \$ 641 | \$ 3,157 | \$ 1,560 |
| | | | | |
| Earnings per share | | | | |
| Basic | \$ 0.23 | \$ 0.11 | \$ 0.35 | \$ 0.26 |
| Diluted | \$ 0.23 | \$ 0.11 | \$ 0.34 | \$ 0.26 |
| Weighted average common shares outstanding | | | | |
| Basic | 9,036,432 | 6,000,000 | 9,036,432 | 6,000,000 |
| Diluted | 9,150,197 | 6,055,152 | 9,156,163 | 6,027,898 |

(See Accompanying Notes)

Table of Contents

GLOBAL DEFENSE TECHNOLOGY & SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

| | Six Months Ended June 30, | |
|--|----------------------------------|-------------|
| | 2010 | 2009 |
| Cash flows from operating activities | | |
| Net income | \$ 3,157 | \$ 1,560 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities | | |
| Depreciation and amortization | 500 | 497 |
| Amortization of intangible assets | 2,128 | 4,178 |
| Equity-based compensation | 507 | 153 |
| Gain from change in fair value of interest rate swap | (106) | (50) |
| Deferred income taxes | (110) | (818) |
| Change in operating assets and liabilities | | |
| Accounts receivable | 1,437 | (12,986) |
| Due to/from affiliates | 745 | (399) |
| Prepaid expenses and other assets | 5 | (184) |
| Income taxes receivable | 3,235 | 1,404 |
| Accounts payable | (2,754) | 9,218 |
| Accrued expenses | (2,555) | (4,624) |
| Accrued interest on loans from affiliates | | 597 |
| Advance payments on contracts | 9 | (4,001) |
| Deferred rent | 14 | 37 |
| | | |
| Net cash provided by (used in) operating activities | 6,212 | (5,418) |
| | | |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (481) | (681) |
| | | |
| Net cash used in investing activities | (481) | (681) |
| | | |
| Cash flows from financing activities | | |
| Proceeds from overline note | | 3,000 |
| Payments under term loan | | (1,800) |
| Net (payments) borrowings under revolving line of credit | (3,686) | 5,013 |
| Payments of financing costs | (314) | |
| Advances to affiliates | | (1,319) |
| | | |
| Net cash (used in) provided by financing activities | (4,000) | 4,894 |

| | | |
|--|----------|---------|
| Increase (decrease) in cash and cash equivalents | 1,731 | (1,205) |
| Cash and cash equivalents, beginning of period | 7 | 1,422 |
| Cash and cash equivalents, end of period | \$ 1,738 | \$ 217 |

Supplemental disclosure of cash flow information

| | | |
|---|------------|--------|
| Cash paid (received) during the year for: | | |
| Income taxes | \$ (1,362) | \$ 801 |
| Interest | \$ 55 | \$ 405 |

(See Accompanying Notes)

Table of Contents

Global Defense Technology & Systems, Inc.
Unaudited Notes to Consolidated Financial Statements
(in thousands, except share and per share amounts)

Except as otherwise indicated, or as the context otherwise requires, the Company, GTEC, we, us, and our refer Global Defense Technology & Systems, Inc., a Delaware corporation, and, where appropriate, its direct and indirect subsidiaries, Global Strategies Group (North America) Inc., our operating company, which we refer to as GNA, and The Analysis Corp.

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of GTEC have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. As a result, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all necessary adjustments (all of which are of a normal, recurring nature) that are necessary for a fair presentation of the results for such periods. The information disclosed in the notes to the financial statements for these periods is unaudited. For further information, refer to the financial statements and footnotes included in GTEC's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission (SEC). The current period's results of operations are not necessarily indicative of results that may be achieved for any future period.

2. Business Overview

GTEC is a diversified technology and engineering services firm that provides mission-critical technology-based systems, solutions and services for national security agencies and programs of the U.S. government. The Company's offerings include software engineering services, network and communications management technology, decision support systems for command and control, maritime navigation systems, counter-terrorism intelligence and analysis, data analysis and fusion tools, identifying management solutions and providing innovative expeditionary systems to support troop mobility and survivability worldwide. We derived 82% and 88% of our revenue as a prime contractor for the six months ended June 30, 2010 and year ended December 31, 2009, respectively. Department of Defense provided 69% and 75% of total revenue for the six months ended June 30, 2010 and year ended December 31, 2009, respectively.

3. Accounts Receivable

A summary of accounts receivable follows:

| | As of June 30, 2010 | As of December 31, 2009 |
|--|------------------------------------|--|
| Billed | \$ 8,294 | \$ 14,842 |
| Unbilled | | |
| Billable | 13,734 | 13,288 |
| Revenues in excess of billing milestones and other | 27,331 | 22,668 |
| Total unbilled | 41,065 | 35,956 |
| Total accounts receivable | 49,359 | 50,798 |
| Less: allowance for doubtful accounts | (105) | (107) |
| Total accounts receivable, net | \$ 49,254 | \$ 50,691 |

4. Bank Loans

On February 3, 2010, the Company together with its subsidiaries (collectively as Borrowers) and its existing lender replaced its existing credit facility of \$29,000 with a new credit facility of up to \$50,000, including the extension of letters of credit up to an aggregate of \$2,500. The new facility matures on January 31, 2013. All borrowings continue to be collateralized by substantially all of the Company's assets. Loans under the facility take the form of, at the Company's election, an index rate loan, a base rate loan, or a LIBOR loan, with the interest rate determined by the form of the loan. An index rate loan will bear interest at a rate equal to the one-month LIBOR plus the applicable margin. A base rate loan will bear interest at a rate equal to the highest of the prime rate, the federal funds rate plus 50 basis points, or the one-month LIBOR, each plus the applicable margin. A LIBOR loan will bear interest at a rate equal to the one-, two-, three- or six-month LIBOR plus the applicable margin. For all loans, the applicable margin adjusts quarterly based on the Borrowers' funded debt ratio. The maximum applicable margin is 3.00%. The funded debt ratio is the ratio of debt to EBITDA for the Borrowers and their subsidiaries on a consolidated basis. The Company is required to meet certain financial and other covenants, including but not limited to, a Minimum Net Worth test, a Fixed Charges Coverage Ratio and a Maximum Funded Debt Ratio, as defined in the agreement. The Company was in compliance with the affirmative and restrictive covenants at June 30, 2010. At December 31, 2009, we had \$3,686 outstanding on our revolving line of credit and we had no debt outstanding at June 30, 2010.

Table of Contents**5. Stock-Based Compensation Plans**

Effective November 25, 2009, the Company adopted the Global Defense Technology & Systems, Inc., 2009 Performance Incentive Plan, which we refer to as the Plan. The Plan authorizes the issuance of options to purchase shares of common stock and the grant of bonus stock awards, restricted common stock awards, stock appreciation rights, deferred shares, performance shares and performance units. Options previously granted by GNA under the SFA Inc. 2007 Stock Option Plan, which we refer to as the SFA Plan, have been assumed under the Plan.

As of June 30, 2010, the maximum number of shares of common stock that may be subject to awards is 1,125,000, including the 492,127 shares of common stock issuable upon exercise of options granted under the SFA Plan and assumed under the Plan. A compensation committee made up of members of the Company's Board of Directors administers the plan. As of June 30, 2010, the Plan had 271,308 shares available for future grants. The options generally vest on a straight-line basis over 4 years and expire after 10 years.

On January 4, 2010, the Company granted 20,000 shares of restricted stock to our Chief Executive Officer that vest over a three year period with a grant date fair value of \$327 based on the price of the stock at the date of grant. The weighted average remaining life of all outstanding restricted stock is 2.5 years as of June 30, 2010.

The following table reflects the restricted stock activity:

| | Shares | Weighted- Average Price |
|----------------------------------|---------------|------------------------------------|
| Shares granted | 15,380 | \$ 14.37 |
| Outstanding at December 31, 2009 | 15,380 | \$ 14.37 |
| Shares granted | 20,000 | \$ 16.37 |
| Outstanding at June 30, 2010 | 35,380 | \$ 15.50 |
| Vested at June 30, 2010 | | |

The following table summarizes stock option activity:

| | Options | Weighted- Average Exercise Price |
|--|----------------|---|
| Options outstanding at December 31, 2008 | 468,355 | \$ 9.75 |
| Options granted | 259,087 | \$ 14.46 |
| Options exercised | | |
| Options forfeited | (166,131) | 9.57 |
| Options outstanding at December 31, 2009 | 561,311 | \$ 10.18 |
| Options granted | 257,001 | \$ 14.35 |
| Options exercised | | |
| Options forfeited | | |

| | | | |
|--------------------------------------|---------|----|-------|
| Options outstanding at June 30, 2010 | 818,312 | \$ | 11.49 |
|--------------------------------------|---------|----|-------|

Table of Contents

The following table summarizes stock option vesting and unvested options:

| | Options | Weighted-Average Fair Value | Weighted Average Exercise Price |
|-------------------------------|----------------|------------------------------------|--|
| Unvested at December 31, 2008 | 385,016 | \$ 4.39 | \$ 9.88 |
| Vested at December 31, 2008 | 83,339 | \$ 4.49 | \$ 9.17 |
| Granted | 259,087 | \$ 4.86 | \$ 14.46 |
| Vested | (54,175) | 4.22 | 10.43 |
| Forfeited | (166,131) | 4.24 | 9.57 |
| Unvested at December 31, 2009 | 423,797 | \$ 4.64 | \$ 11.27 |
| Vested at December 31, 2009 | 137,514 | \$ 4.39 | \$ 6.82 |
| Granted | 257,001 | \$ 4.98 | \$ 14.35 |
| Vested | (89,282) | 4.76 | 13.37 |
| Forfeited | | | |
| Unvested at June 30, 2010 | 591,516 | \$ 4.77 | \$ 12.29 |
| Vested at June 30, 2010 | 226,796 | \$ 4.54 | \$ 9.40 |

Stock based compensation is recognized on a straight-line basis over the requisite vesting period using a Black-Scholes-Merton option pricing model. The Company recognizes the effect of expected forfeitures of equity awards by estimating an expected forfeiture rate. Amounts recognized for expected forfeitures are subsequently adjusted quarterly at major vesting dates to reflect actual forfeitures.

All issuances of stock options utilized an exercise price equal to the fair value of the Company's common stock on the grant date. Prior to our initial public offering, the fair value of the common stock was determined by management with requisite valuation expertise and was performed on a contemporaneous basis at or near the award grant date.

Determining the fair value of common stock requires making complex and subjective judgments. Management used the market approach to estimate the Company's enterprise value at each date at which options were granted. There is inherent uncertainty in market multiple estimates. The enterprise value was then used to determine the fair value of the Company's common stock and utilized in calculating stock-based compensation.

After completion of our initial public offering, the exercise price is equal to the closing price listed on Nasdaq Global Markets on the day of grant.

As of June 30, 2010, there was approximately \$2,175 of unrecognized stock-compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 2.9 years.

6. Earnings Per Share

Basic earnings per share, or EPS, exclude dilution and are computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflect potential dilution that could occur from potential common stock outstanding during the period. Potential common stock, for purposes of determining diluted EPS, includes the effects of dilutive restricted stock and stock options. The effect of such potential common stock is computed using the treasury stock method or the if-converted method, as applicable.

Table of Contents

The following table presents a reconciliation of the numerators and denominators of the basic and diluted EPS computations for net income. In the table below, income represents the numerator and weighted-average shares represent the denominator:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|-----------|---------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Net income | \$ 2,063 | \$ 641 | \$ 3,157 | \$ 1,560 |
| Weighted average basic shares outstanding | 9,036,432 | 6,000,000 | 9,036,432 | 6,000,000 |
| Effect of dilutive shares: | | | | |
| Assuming exercise of stock options | 110,415 | 55,152 | 106,638 | 27,898 |
| Restricted shares | 3,350 | | 13,093 | |
| Weighted average dilutive shares outstanding | 9,150,197 | 6,055,152 | 9,156,163 | 6,027,898 |
| Basic earnings per share | \$ 0.23 | \$ 0.11 | \$ 0.35 | \$ 0.26 |
| Diluted earnings per share | \$ 0.23 | \$ 0.11 | \$ 0.34 | \$ 0.26 |

In addition, employee stock options should have a dilutive effect only when the average market price of the common stock during the period exceeds the exercise price of the options. As such, 199,514 and 77,527 options for the six months ended June 30, 2010 and 2009, respectively, and 100,796 options for the three months ended June 30, 2009, were excluded from the Company's earnings per share calculations due to their anti-dilutive impact.

7. Related Party Transactions

GNA provides subcontracting services as well as support for security, information technology and other administrative services to its affiliate, Global Strategies Group Holding, S.A. and its subsidiaries (referred to collectively as GLOBAL).

Included in revenue are services rendered to GLOBAL for the six months ended June 30, 2010 and 2009 in the amount of \$786 and \$1,218, respectively. Included in due from affiliates related to these services at June 30, 2010 and December 31, 2009 are \$247 and \$350, respectively.

Also included in due from affiliates are amounts provided by GNA to Global Strategies Group (Integrated Security), Inc. (GIS), an affiliate of GLOBAL, as short-term advances for payroll and operating expenses. As of June 30, 2010 and December 31, 2009, accounts receivable from GIS for such advances were \$117 and \$759, respectively.

Included in selling, general and administrative expense are services rendered by GLOBAL for corporate management and certain administrative expenses to the Company for the six months ended June 30, 2009 in the amount of \$1,069. These services ceased upon completion of our initial public offering in November 2009.

8. Contingencies

From time to time, we are involved in legal proceedings arising in the ordinary course of business. Currently, we do not have any litigation pending the outcome of which, if unfavorable to us, would have a material adverse effect on our financial condition, results of operations and cash flows.

9. Income Taxes

The provision for income taxes amounted to \$1,763 and \$1,388 for the six months ended June 30, 2010 and 2009, respectively. For the six months ended June 30, 2010, the effective tax rate was 35.8% due to a \$190 increase in our deferred tax assets as a result of increases in our estimated 2010 federal and state tax rates from 2009. For the six months ended June 30, 2009, the effective tax rate was 47.1% due to interest and operating costs incurred in corporate

entities that previously did not file consolidated state income tax returns; thus we were unable to recognize state tax benefits related to these costs. These entities were merged in November 2009.

10. Information on Reportable Segments

The Company defines its operating segments based on the way the chief operating decision maker, CODM, manages the operations within the Company for the allocation of resources, decision making and performance assessment.

Table of Contents

The Company operates in two reportable segments: Technology and Intelligence Services, or TIS, and Force Mobility and Modernization Systems, or FMMS. The Company's operating segments are aggregated into two reportable segments based on the similarity of their economic and other characteristics, including the nature of the systems and services offered. The Company's TIS reportable segment provides technology-based solutions and services to the U.S. government while the Company's FMMS reportable segment provides mission-critical products to the U.S. government.

In the following table of financial data, the total of the operating results of these reportable segments is reconciled, as appropriate, to the corresponding consolidated amount. With respect to the caption "Operating Income," the reconciling item "Unallocated Corporate Expenses" includes the costs for items not considered in the CODM's evaluation of segment operating performance including amortization of intangible assets and other corporate expenses. With respect to the caption "Total Assets," the reconciling item "Unallocated Corporate Assets" includes assets not considered in the CODM's evaluation of segment operating performance. Corporate assets consist primarily of intangible assets, goodwill and deferred income taxes.

Summarized financial information concerning the Company's reportable segments is shown in the following table:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|-------------|----------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue from external customers | | | | |
| TIS Segment | \$ 23,990 | \$ 22,095 | \$ 48,629 | \$ 44,030 |
| FMMS Segment | 25,232 | 31,332 | 46,486 | 59,010 |
| Total revenue from external customers | \$ 49,222 | \$ 53,427 | \$ 95,115 | \$ 103,040 |
| Operating income | | | | |
| TIS Segment | \$ 1,976 | \$ 1,831 | \$ 3,917 | \$ 3,897 |
| FMMS Segment | 4,005 | 3,272 | 6,182 | 7,104 |
| Unallocated Corporate expenses | (2,446) | (3,414) | (5,130) | (7,056) |
| Total operating income | \$ 3,535 | \$ 1,689 | \$ 4,969 | \$ 3,945 |
| Interest income (expense), net | (44) | (490) | (49) | (997) |
| Income before income taxes | \$ 3,491 | \$ 1,199 | \$ 4,920 | \$ 2,948 |
| Depreciation of fixed assets | | | | |
| TIS Segment | \$ 131 | \$ 150 | \$ 264 | \$ 300 |
| FMMS Segment | 73 | 80 | 149 | 158 |
| Unallocated Corporate expenses | | | | 1 |
| Total | \$ 204 | \$ 230 | \$ 413 | \$ 459 |
| Capital expenditures | | | | |
| TIS Segment | \$ 197 | \$ 440 | \$ 420 | \$ 501 |
| FMMS Segment | 61 | 82 | 61 | 180 |

Total \$ 258 \$ 522 \$ 481 \$ 681

| | As of June 30, 2010 | As of December 31, 2009 |
|------------------------------|------------------------------------|--|
| Total assets | | |
| TIS Segment | \$ 16,864 | \$ 19,407 |
| FMMS Segment | 38,652 | 36,140 |
| Unallocated Corporate assets | 51,581 | 56,964 |
| Total | \$ 107,097 | \$ 112,511 |

Table of Contents

ITEM 2. Management Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking statements

This Quarterly Report on Form 10-Q, including the section titled Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding our business, financial condition, results of operations, and prospects. There are statement made herein, which may not address historical facts and, therefore, could be interpreted to be forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such statements are subject to factors that could cause actual results to differ materially from anticipated results. The factors that could cause actual results to differ materially from those anticipated include, but are not limited to, the following:

Our dependence on our contracts with Federal Government agencies, particularly within the U.S. Department of Defense, for substantially all our revenue; a change in funding of our contracts due to bid protests; changes in spending patterns; changes in contract type, particularly changes from cost-plus or time-and-material type contracts to fixed-price type contracts; or changes in priorities due to the change in administration

Changes in Federal Government programs or requirements, including the increased use of small business providers or curtailment of Federal Government's use of professional service providers (insourcing)

Failure to achieve contract awards in connection with recompetes for present business and/or competition for new business

Competitive factors, such as pricing pressures and competition to hire and retain employees (particularly those with security clearances)

Failure to identify and successfully integrate future acquired companies or businesses into our operations or to realize any accretive or synergistic effects from such acquisitions

Current economic market conditions, specifically the credit and liquidity crisis, (i) has caused the interest rate on our outstanding debt to fluctuate and could increase significantly in the future; (ii) could cause our non-government business partners, prime or subcontractors, to default on contracts which may impact our ability to perform; and (iii) could impact the cost of future acquisitions significantly above our current cost of debt

Economic conditions in the United States, including conditions that result from terrorist activities or war; material changes in laws or regulations applicable to our businesses, particularly legislation affecting (i) Government contracts for services, (ii) outsourcing of activities that have been performed by the Government, (iii) delays related to agency specific funding freezes, and (iv) competition for task orders under Government Wide Acquisition Contracts (GWACs) and/or schedule contracts with the General Services Administration

Our own ability to achieve the objectives of near-term or long-range business plans.

Some of these important factors are outlined under Item 1A. Risk Factors and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC, and from time to time, in other filings with the SEC, such as our Forms 8-K and 10-Q. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee our future results, level of activity, or performance. We undertake no obligation to update publicly or revise any forward-looking statements. You should not place undue reliance on the forward-looking statements.

Overview

We provide mission-critical technology-based systems, solutions, and services for national security agencies and programs of the U.S. government. Our services and solutions are integral parts of mission-critical programs run by the Department of Defense, Intelligence Community, Department of Homeland Security, federal law enforcement agencies, and other parts of the federal government charged with national security responsibilities. The programs that we support are generally funded as part of the budgets and spending levels of U.S. government agencies entrusted with carrying out the U.S. government's defense, intelligence, and homeland security missions.

Our primary areas of expertise include:

- counter-terrorism intelligence and analysis;
- data analysis and intelligence fusion tools;
- force mobility, modernization, and survivability solutions;
- maritime domain awareness and navigation systems;
- systems and software engineering;
- network and communications management; and

decision support systems for command and control.

Table of Contents

We conduct our business through two reportable segments: Technology and Intelligence Services, or TIS, and Force Mobility and Modernization Systems, or FMMS. Through our TIS segment, we provide a broad range of technology-based services and solutions, including counter-terrorism and intelligence solutions and command, control and decision support solutions, to customers in the Department of Defense, the Intelligence Community and other U.S. agencies. Through our FMMS segment, we provide customers, primarily in the Department of Defense, with solutions that entail the design, engineering and integration of highly mobile mission support systems. The following table shows our revenue from the customer group as a percentage of total revenue for the period shown:

| | Six Months Ended June 30, | |
|----------------------------|----------------------------------|-------------|
| | 2010 | 2009 |
| Department of Defense | 68.5% | 73.8% |
| National security agencies | 31.5% | 26.2% |
| Total revenue | 100.0% | 100.0% |

In addition, we have four contracts, each of which, in one or more of the recently reported periods, individually comprised more than 10% of our consolidated revenue. The following table shows our revenue for each of these four contracts:

| | Six Months Ended June 30, | |
|--|----------------------------------|-------------|
| | 2010 | 2009 |
| | (in thousands) | |
| TIS Segment | | |
| Department of Justice counter-terrorism contract | \$ 12,488 | \$ 14,417 |
| FMMS Segment | | |
| U.S. Army TACOM contract | 12,619 | 26,123 |
| U.S. Army Aberdeen Test Center contract | 8,394 | 6,009 |
| U.S. Army field feeding system contract | 10,224 | 13,914 |
| Total FMMS Segment | \$ 31,237 | \$ 46,046 |
| Total | \$ 43,725 | \$ 60,463 |

As a percentage of total revenue 46% 59%

The Department of Justice counter-terrorism contract is a time-and-materials contract for analytical and information technology services in support of a critical counter-terrorism program. The original Department of Justice counter-terrorism contract ended on September 8, 2009. We received a new contract from the Department of Justice extending our work for an additional five years beginning on September 9, 2009, consisting of a base period of one year and options for four additional years. The ceiling of the new contract is \$200 million and provides the opportunity for expansion of our services above the current level. The estimated value of our current level of services on the contract over the five year contract period is approximately \$146 million. We believe that the \$200 million ceiling in the new contract provides the customer with the ability to expand the level of services to be procured from us over the term of the contract. The table above reflects revenue on the original contract and new contract for their respective periods.

The contract with U.S. Army TACOM (Tank-Automotive and Armaments Command) is a fixed-price contract for the delivery of Tactical Water Purification Systems, which we refer to as TWPS. The decrease in revenue for the six months ended June 30, 2010 as compared to the six months ended June 30, 2009 was partly the result of the contract

ending for ordering purposes on January 31, 2010 as well as a large order received in January 2009. While the demand for and revenue from TWPS currently being procured under the U.S. Army TACOM contract is declining, we may receive additional orders for TWPS under other contract vehicles in the future. We also believe that there will be demand to replace older TWPS with new, more technologically advanced water purification systems that may have greater capacity than the current TWPS we are delivering under the U.S. Army TACOM contract. On June 15, 2010 we were awarded a five year, \$45 million ID/IQ contract to provide Expeditionary Water Packaging Systems to the U.S. Marines and we continue to pursue other revenue opportunities related to our water purification technologies. The contract with the U.S. Army Aberdeen Test Center is a fixed-price/time-and-materials task order contract for a broad range of engineering, design, test and evaluation and integration services and ends for ordering purposes on August 31, 2014. The U.S. Army Aberdeen Test Center contract has been used to procure support from us on a number of our field support systems, as well as for engineering services unrelated to these systems. We believe that our customer will continue to use this contract to support our current systems, as well as new systems that will be required to meet the continuing demand for solutions to promote force mobility and modernization.

Table of Contents

The contract with the U.S. Army for a field feeding system is a fixed-price contract that ended for ordering purposes on April 15, 2010. In March and April 2010, we received an additional \$49 million in field feeding system orders from the U.S. Army. We continue to expect additional revenue on other variants of our field feeding systems from the U.S. Army and other branches of the military under other contracts.

We derive our revenue from contracts directly with the U.S. government or as a subcontractor to other providers of services to the U.S. government. The following table shows our revenue as prime contractor and as subcontractor as a percentage of our total revenue:

| | Six Months Ended June 30, | |
|------------------------|----------------------------------|-------------|
| | 2010 | 2009 |
| Prime contract revenue | 82.0% | 88.8% |
| Subcontract revenue | 18.0% | 11.2% |
| Total revenue | 100.0% | 100.0% |

We provide our services and solutions under three types of contracts: fixed-price, time-and-materials and cost-plus. Our product revenue, which is included in our FMMS segment, is primarily derived from fixed-price contracts. Our service revenue, which is included in our TIS segment, is primarily derived from cost-plus and time-and-materials contracts. Our contract mix varies from year to year due to numerous factors, including our business strategies and U.S. government procurement objectives. The following table shows our revenue from each of these types of contracts as a percentage of our total revenue:

| | Six Months Ended June 30, | |
|--------------------|----------------------------------|-------------|
| | 2010 | 2009 |
| Fixed-price | 50.6% | 57.0% |
| Time-and-materials | 35.7% | 30.5% |
| Cost-plus | 13.7% | 12.5% |
| Total revenue | 100.0% | 100.0% |

Fixed-price contracts. Under fixed-price contracts, we perform specific tasks for a fixed price. Revenue for fixed-price contracts is recognized on the percentage-of-completion method using costs incurred in relation to total estimated costs, because these contracts require design, engineering and manufacturing performed to the customer's specifications. Profits on fixed-price contracts result from the difference between the incurred costs and the revenue earned.

Time-and-materials contracts. Under time-and-materials contracts, we are reimbursed for labor at fixed hourly rates and generally reimbursed separately for allowable materials, costs and expenses. Revenue for time-and-materials contracts is recognized as services are performed, generally, on the basis of contract-allowable labor hours worked multiplied by the contract-defined billing rates, plus the direct costs and indirect cost burdens associated with materials and other direct expenses used in performance of the contract. Profits on time-and-material contracts result from the difference between the cost of services performed and the contract-defined billing rates for these services.

Cost-plus contracts. Under cost-plus contracts, we are reimbursed for costs that are determined to be reasonable, allowable and allocable to the contract and paid a fee representing the profit. Revenue on cost-plus contracts is recognized as services are performed, generally, based on the allowable costs incurred during the period, plus any recognizable earned fee.

Table of Contents**Results of Operations****Three Months Ended June 30, 2010 Compared to the Three Months Ended June 30, 2009**

The following table summarizes our results of operations on a consolidated basis:

| | Three Months Ended June 30, | |
|--|------------------------------------|-------------|
| | 2010 | 2009 |
| | (in thousands) | |
| Revenue | \$ 49,222 | \$ 53,427 |
| Operating costs and expenses | | |
| Cost of revenue | 39,152 | 44,842 |
| Selling, general and administrative expenses | 5,813 | 4,807 |
| Amortization of intangible assets | 722 | 2,089 |
| | | |
| Total operating costs and expenses | 45,687 | 51,738 |
| | | |
| Operating income | 3,535 | 1,689 |
| Other income (expense) | | |
| Interest income | 3 | 1 |
| Interest expense | (47) | (491) |
| | | |
| Income before income taxes | 3,491 | 1,199 |
| Provision for income taxes | (1,428) | (558) |
| | | |
| Net income | \$ 2,063 | \$ 641 |

Revenue. Revenue for the three months ended June 30, 2010 decreased \$4.2 million, or 7.9%, to \$49.2 million, compared to \$53.4 million for the same period in 2009.

The following table summarizes revenue by reportable segment:

| | Three Months Ended June 30, | |
|---|------------------------------------|--------------|
| | 2010 | 2009 |
| | (in thousands) | |
| TIS Segment | \$ 23,990 | \$ 22,095 |
| <i>As a percentage of total revenue</i> | <i>48.7%</i> | <i>41.4%</i> |
| FMMS Segment | 25,232 | 31,332 |
| <i>As a percentage of total revenue</i> | <i>51.3%</i> | <i>58.6%</i> |
| | | |
| Total revenue | \$ 49,222 | \$ 53,427 |

TIS segment revenue for the three months ended June 30, 2010 increased \$1.9 million, or 8.6%, to \$24.0 million, compared to \$22.1 million for the same period in 2009. Two counter-terrorism contracts awarded in the latter half of 2009 increased revenue by \$2.2 million in the three months ended June 30, 2010.

FMMS segment revenue for the three months ended June 30, 2010 decreased \$6.1 million, or 19.5%, to \$25.2 million, compared to \$31.3 million for the same period in 2009. Our FMMS revenue has decreased in the quarter due to a slowdown in contract orders over the last few quarters. This resulted from delays in contract awards as a result of the

delayed passage of the federal government fiscal year 2010 defense appropriations bill and the timing of the decision to increase troop levels in Afghanistan which caused our customers to defer major purchasing decisions until later in 2010.

Table of Contents

Cost of Revenue. The following table summarizes cost of revenue by reportable segments:

| | Three Months Ended June 30, | |
|---|------------------------------------|--------------|
| | 2010 | 2009 |
| | (in thousands) | |
| TIS Segment | \$ 20,235 | \$ 18,065 |
| <i>As a percentage of related revenue</i> | <i>84.3%</i> | <i>81.8%</i> |
| FMMS Segment | 18,917 | 26,777 |
| <i>As a percentage of related revenue</i> | <i>75.0%</i> | <i>85.5%</i> |
| Total cost of revenue | \$ 39,152 | \$ 44,842 |
| <i>As a percentage of revenue</i> | <i>79.5%</i> | <i>83.9%</i> |

The increase in cost of revenue for the TIS segment was primarily due to higher purchases of labor, equipment and materials and to other direct costs. The decrease in our cost of revenue for the FMMS segment was due to lower revenue and the completion of more profitable contracts.

SG&A Expenses. The following table summarizes total SG&A expenses for the following periods:

| | Three Months Ended June 30, | |
|---|------------------------------------|-------------|
| | 2010 | 2009 |
| | (in thousands) | |
| Total segment SG&A expenses | \$ 4,089 | \$ 3,482 |
| <i>As a percentage of total revenue</i> | <i>8.3%</i> | <i>6.5%</i> |
| Corporate SG&A expenses: | | |
| Stock-based compensation expense | 262 | 123 |
| Management fees paid to GLOBAL | | 614 |
| Other corporate expenses | 1,462 | 588 |
| Total Corporate SG&A expenses | 1,724 | 1,325 |
| <i>As a percentage of total revenue</i> | <i>3.5%</i> | <i>2.5%</i> |
| Total SG&A expenses | \$ 5,813 | \$ 4,807 |
| <i>As a percentage of total revenue</i> | <i>11.8%</i> | <i>9.0%</i> |

Segment SG&A expenses were higher in the three months ended June 30, 2010 compared to the same period in 2009 as management and marketing activities have grown to support the underlying business and capitalize on growth opportunities.

Corporate SG&A expenses include expenses that are not under control of our segment managers and generally are not allowable as costs that can be charged against our government contracts.

Stock-based compensation expense increased due to additional stock option and restricted stock grants.

During the three months ended June 30, 2009, we paid management fees to an affiliate of GLOBAL of \$0.6 million. Subsequent to the November 2009 initial public offering, we no longer pay any management fees to such affiliate or any other affiliate of GLOBAL.

Other corporate expenses include other costs that are not allocable to our reportable segments. Generally, these are corporate costs that are not allowed to be allocated to government contracts, or costs which management has decided to not recover from our government customers. We incurred \$0.5 million in merger and acquisition related expenses

during the three months ended June 30, 2010.

Total SG&A expenses for the three months ended June 30, 2010 also reflect the additional expenses associated with being a public company since the completion of our initial public offering in November 2009.

Amortization of Intangible Assets. Amortization expense for the three months ended June 30, 2010 decreased \$1.4 million to \$0.7 million, as compared to \$2.1 million for the same period in 2009. The decrease year over year was the effect of certain intangible assets reaching the end of their useful lives.

Table of Contents

Operating Income. The following table reconciles segment operating income to total operating income:

| | Three Months Ended June 30, | |
|---|------------------------------------|--------------|
| | 2010 | 2009 |
| | (in thousands) | |
| TIS Segment | \$ 1,976 | \$ 1,831 |
| <i>As a percentage of related segment</i> | <i>8.2%</i> | <i>8.3%</i> |
| FMMS Segment | 4,005 | 3,272 |
| <i>As a percentage of related segment</i> | <i>15.9%</i> | <i>10.4%</i> |
| | | |
| Total segment operating income | 5,981 | 5,103 |
| <i>As a percentage of total revenue</i> | <i>12.2%</i> | <i>9.6%</i> |
| Unallocated Corporate expenses: | | |
| Corporate SG&A expenses | (1,724) | (1,325) |
| Amortization of intangible assets | (722) | (2,089) |
| | | |
| Total operating income | \$ 3,535 | \$ 1,689 |
| | | |
| <i>As a percentage of total revenue</i> | <i>7.2%</i> | <i>3.2%</i> |

TIS segment operating income increased for the period due to the increase in revenue. FMMS segment operating income increased as we continued to perform on higher margin contracts with a decrease in revenue. Operating margins in FMMS increased significantly to 15.9% of revenue in the three months ended June 30, 2010. The increase reflects a higher concentration of small contracts completed in the period with above average margins. This high operating margin is not expected in future periods when we have a more normal mix of contract revenue. Total operating income benefited from lower amortization of intangibles due to the certain assets reaching the end of their useful lives.

Interest Expense, net. Interest expense for the three months ended June 30, 2010 was nearly zero, compared to \$0.5 million for the same period in 2009, representing a decrease of \$0.5 million. The decrease in interest expense was due to paying off the balance of the credit facility during the first quarter of 2010.

Provision for Income Taxes. The provision for income taxes amounted to \$1.4 million and \$0.6 million for the three months ended June 30, 2010 and 2009, respectively. For the three months ended June 30, 2010, the effective tax rate was 40.9%. For the three months ended June 30, 2009, the effective tax rate was 46.5% due to interest and operating costs incurred in corporate entities that previously did not file consolidated state income tax returns; thus we were unable to recognize state tax benefits related to these costs. These entities were merged in November 2009.

Six Months Ended June 30, 2010 Compared to the Six Months Ended June 30, 2009

The following table summarizes our results of operations on a consolidated basis:

| | Six Months Ended June 30, | |
|--|----------------------------------|-------------|
| | 2010 | 2009 |
| | (in thousands) | |
| Revenue | \$ 95,115 | \$ 103,040 |
| Operating costs and expenses | | |
| Cost of revenue | 77,593 | 85,664 |
| Selling, general and administrative expenses | 10,425 | 9,253 |
| Amortization of intangible assets | 2,128 | 4,178 |
| | | |
| Total operating costs and expenses | 90,146 | 99,095 |

| | | |
|----------------------------|----------|----------|
| Operating income | 4,969 | 3,945 |
| Other income (expense) | | |
| Interest income | 6 | 3 |
| Interest expense | (55) | (1,000) |
| Income before income taxes | 4,920 | 2,948 |
| Provision for income taxes | (1,763) | (1,388) |
| Net income | \$ 3,157 | \$ 1,560 |

Revenue. Revenue for the six months ended June 30, 2010 decreased \$7.9 million, or 7.7%, to \$95.1 million, compared to \$103.0 million for the same period in 2009.

Table of Contents

The following table summarizes revenue by reportable segment:

| | Six Months Ended June 30, | |
|---|----------------------------------|--------------|
| | 2010 | 2009 |
| | (in thousands) | |
| TIS Segment | \$ 48,629 | \$ 44,030 |
| <i>As a percentage of total revenue</i> | <i>51.1%</i> | <i>42.7%</i> |
| FMMS Segment | 46,486 | 59,010 |
| <i>As a percentage of total revenue</i> | <i>48.9%</i> | <i>57.3%</i> |
| Total revenue | \$ 95,115 | \$ 103,040 |

TIS segment revenue for the six months ended June 30, 2010 increased \$4.6 million, or 10.4%, to \$48.6 million, compared to \$44.0 million for the same period in 2009. Two counter-terrorism contracts awarded in the latter half of 2009 increased revenue by \$5.2 million in the six months ended June 30, 2010.

FMMS segment revenue for the six months ended June 30, 2010 decreased \$12.5 million, or 21.2%, to \$46.5 million, compared to \$59.0 million for the same period in 2009. Our FMMS revenue has decreased in the quarter due to a slowdown in contract orders over the last few quarters. This resulted from delays in contract awards as a result of the delayed passage of the federal government fiscal year 2010 defense appropriations bill and the timing of the decision to increase troop levels in Afghanistan which caused our customers to defer major purchasing decisions until later in 2010.

Cost of Revenue. The following table summarizes cost of revenue by reportable segments:

| | Six Months Ended June 30, | |
|---|----------------------------------|--------------|
| | 2010 | 2009 |
| | (in thousands) | |
| TIS Segment | \$ 41,047 | \$ 36,435 |
| <i>As a percentage of related revenue</i> | <i>84.4%</i> | <i>82.8%</i> |
| FMMS Segment | 36,546 | 49,229 |
| <i>As a percentage of related revenue</i> | <i>78.6%</i> | <i>83.4%</i> |
| Total cost of revenue | \$ 77,593 | \$ 85,664 |
| <i>As a percentage of revenue</i> | <i>81.6%</i> | <i>83.1%</i> |

The increase in cost of revenue for the TIS segment was primarily due to higher purchases of labor, equipment and materials and to other direct costs. The decrease in our cost of revenue for the FMMS segment was due to lower revenue and the completion of more profitable contracts.

SG&A Expenses. The following table summarizes total SG&A expenses for the following periods:

| | Six Months Ended June 30, | |
|---|----------------------------------|-------------|
| | 2010 | 2009 |
| | (in thousands) | |
| Total segment SG&A expenses | \$ 7,423 | \$ 6,375 |
| <i>As a percentage of total revenue</i> | <i>7.8%</i> | <i>6.2%</i> |
| Corporate SG&A expenses: | | |
| Stock-based compensation expense | 507 | 153 |

| | | |
|---|-----------|----------|
| Management fees paid to GLOBAL | | 1,069 |
| Other corporate expenses | 2,495 | 1,656 |
| Total Corporate SG&A expenses | 3,002 | 2,878 |
| <i>As a percentage of total revenue</i> | 3.2% | 2.8% |
| Total SG&A expenses | \$ 10,425 | \$ 9,253 |
| <i>As a percentage of total revenue</i> | 11.0% | 9.0% |

Segment SG&A expenses were higher in the six months ended June 30, 2010 compared the same period in 2009 as management and marketing activities have grown to support the underlying business and capitalize on growth opportunities.

Table of Contents

Corporate SG&A expenses include expenses that are not under control of our segment managers and generally are not allowable as costs that can be charged against our government contracts.

Stock-based compensation expense increased due to additional stock option and restricted stock grants.

During the six months ended June 30, 2009, we paid management fees to an affiliate of GLOBAL of \$1.1 million.

Subsequent to the November 2009 initial public offering, we no longer pay any management fees to such affiliate or any other affiliate of GLOBAL.

Other corporate expenses include other costs that are not allocable to our reportable segments. Generally, these are corporate costs that are not allowed to be allocated to government contracts, or costs which management has decided to not recover from our government customers. We incurred \$0.5 million in merger and acquisition related expenses during the six months ended June 30, 2010.

Total SG&A expenses for the six months ended June 30, 2010 also reflect the additional expenses associated with being a public company since the completion of our initial public offering in November 2009.

Amortization of Intangible Assets. Amortization expense for the six months ended June 30, 2010 decreased \$2.1 million to \$2.1 million, as compared to \$4.2 million for the same period in 2009. The decrease year over year was the effect of certain intangible assets reaching the end of their useful lives.

Operating Income. The following table reconciles segment operating income to total operating income:

| | Six Months Ended June 30, | |
|---|----------------------------------|--------------|
| | 2010 | 2009 |
| | (in thousands) | |
| TIS Segment | \$ 3,917 | \$ 3,897 |
| <i>As a percentage of related segment</i> | <i>8.1%</i> | <i>8.9%</i> |
| FMMS Segment | 6,182 | 7,104 |
| <i>As a percentage of related segment</i> | <i>13.3%</i> | <i>12.0%</i> |
| Total segment operating income | 10,099 | 11,001 |
| <i>As a percentage of total revenue</i> | <i>10.6%</i> | <i>10.7%</i> |
| Unallocated Corporate expenses: | | |
| Corporate SG&A expenses | (3,002) | (2,878) |
| Amortization of intangible assets | (2,128) | (4,178) |
| Total operating income | \$ 4,969 | \$ 3,945 |
| <i>As a percentage of total revenue</i> | <i>5.2%</i> | <i>3.8%</i> |

TIS segment operating income for the six months ended June 30, 2010 of \$3.9 million was unchanged from the same period in 2009. TIS segment operating margin declined to 8.1% of revenue as a result of increased spending for business development. FMMS segment operating income increased as we continued to perform on higher margin contracts with a decrease in revenue. Total operating income benefited from lower amortization of intangibles due to the certain assets reaching the end of their useful lives.

Interest Expense, net. Interest expense for the six months ended June 30, 2010 was nearly zero, compared to \$1.0 million for the same period in 2009. The decrease in interest expense was due to paying off the balance of the credit facility during the first quarter of 2010.

Provision for Income Taxes. The provision for income taxes amounted to \$1.8 million and \$1.4 million for the six months ended June 30, 2010 and 2009, respectively. For the six months ended June 30, 2010, the effective tax rate was 35.8% due to a \$190 increase in our deferred tax assets as a result of increases in our estimated 2010 federal and state tax rates from 2009. For the six months ended June 30, 2009, the effective tax rate was 47.1% due to interest and operating costs incurred in corporate entities that previously did not file consolidated state income tax returns; thus we were unable to recognize state tax benefits related to these costs. These entities were merged in November 2009.

Contract Backlog

We define total backlog as the amount of revenue we expect to realize (i) over the remaining base contract performance period and (ii) from the exercise of option periods that we reasonably believe will be exercised, in each case from signed contracts in existence as of the measurement date. We also include in backlog our estimates of revenue from future delivery orders on requirements and ID/IQ contracts. At times, our estimates of future revenue on such contracts are less than the contract ceiling. We define funded backlog as the portion of our total backlog for which funding is currently appropriated and obligated to us under a signed contract or task order by the purchasing agency, or otherwise authorized for payment to us by a customer upon completion of a specified portion of work. Our funded backlog does not include the full potential value of our contracts, because the Congress often appropriates funds to be used by an agency for a particular program or contract only on a yearly or quarterly basis, even though the contract may call for performance over a number of years. As a result, contracts typically are only partially funded at any point during their term, and all or some of the work to be performed under the contracts may remain unfunded unless and until the Congress makes subsequent appropriations and the procuring agency allocates funding to the contract. Total backlog may fluctuate from period to period depending on our success in winning new contracts and the timing of contract awards, renewals, modifications and cancellations.

Table of Contents

The following table depicts our backlog as of the end of the respective periods:

| | June 30, 2010 | December 31, 2009 |
|---------------|--------------------------|------------------------------|
| | (in thousands) | |
| TIS Segment | | |
| Funded | \$ 33,566 | \$ 37,411 |
| Unfunded | 352,477 | 417,721 |
| Total | \$ 386,043 | \$ 455,132 |
| FMMS Segment | | |
| Funded | \$ 86,043 | \$ 65,658 |
| Unfunded | 117,754 | 118,823 |
| Total | \$ 203,797 | \$ 184,481 |
| Company | | |
| Funded | \$ 119,609 | \$ 103,069 |
| Unfunded | 470,231 | 536,544 |
| Total Backlog | \$ 589,840 | \$ 639,613 |

Liquidity and Capital Resources

Our primary liquidity needs are for financing working capital, capital expenditures, and making strategic acquisitions. Our \$50 million revolving line of credit, current cash balance, and cash flow from operations are sufficient to continue to meet our normal working capital and capital expenditure requirements. As part of our growth strategy, we may pursue acquisitions that could require us to obtain additional debt or issue equity. As of June 30, 2010, we had no outstanding balance on our revolving credit facility. Refer to Note 4 for more information on our credit facility.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Critical Accounting Policies

There have been no significant changes to our Critical Accounting Policies during 2010. Refer to our Critical Accounting Policies section in our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC.

Item 3. Qualitative and Quantitative Disclosures About Market Risk

As of June 30, 2010, we had no debt outstanding related to our credit facility which could be subject to interest rate risk.

Additionally, we are subject to credit risks associated with our cash and accounts receivable. The credit risk associated with our cash is limited as it is held with highly rated financial institutions. We also believe that our credit risk associated with accounts receivable is limited as they are primarily with the Federal Government or prime contractors working with the Federal Government.

Item 4. Controls and Procedures*Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Based on that evaluation, our Chief Executive Officer and Chief Financial

Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports that we file or submit under the Securities Exchange Act are: (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Table of Contents

Changes in Internal Control Over Financial Reporting

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

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in legal proceedings arising in the ordinary course of business. Currently, we do not have any litigation pending the outcome of which, if unfavorable to us, would have a material adverse effect on our financial condition and results of operations.

Item 1A. Risk Factors

There have been no significant changes from those discussed in Item 1A. Risk Factors included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC.

Item 5. Other Information

None.

Item 6. Exhibits

| Number | Description |
|---------------|--|
| 3.1 | Amended and Restated Certificate of Incorporation of the Registrant (2) |
| 3.2 | Amended and Restated Bylaws of the Registrant (2) |
| 4.1+ | SFA, Inc. 2007 Stock Option Plan (1) |
| 4.2+ | Form of SFA, Inc. 2007 Stock Option Plan Agreement (1) |
| 4.3+ | 2009 Performance Incentive Plan (3) |
| 4.4+ | Form of 2009 Performance Incentive Option Plan Agreement (1) |
| 4.5+ | Form of 2009 Performance Incentive Restricted Stock Agreement (1) |
| 10.1 | GSA Schedule Contract No. GS-35F-0344L awarded to The Analysis Corp., with related purchase orders for the Department of Justice contract (1) |
| 10.2 | TWPS Contract No. DAAE07-02-DT001, dated February 6, 2002, by and between SFA, Inc. and U.S. Army TACOM, as amended (1) |
| 10.3 | Aberdeen Contract No. W91CRB06D0054, dated August 31, 2006, by and between SFA, Inc. and U.S. Army, as amended (1) |
| 10.4 | Field Feeding System Contract No. W911QY-05-D0004, dated April 15, 2005, by and between SFA, Inc. and the U.S. Army, as amended (4) |
| 10.5 | Preferred Supplier Services Framework Agreement, dated June 24, 2009 by and between Global Strategies Group (North America) Inc. and Global Strategies Group (Middle East) FZE (1) |
| 10.6+ | Form of Director and Officer Indemnification Agreement (1) |
| 10.7+ | |

Executive Employment Agreement, dated April 21, 2009, by and between Global Strategies Group (North America) Inc. and Kevin Kissner (1)

10.8+ Executive Employment Agreement, dated June 21, 2009, by and between Global Strategies Group (North America) Inc. and Kirk Herdman (1)

10.9 Deed of Lease for 1501 Farm Credit Drive, Suites 1900 and 2300, McLean, Virginia, by and between SFA, Inc., The Analysis Corp. and the FCS Building Association, dated as of February 28, 2006, as amended (1)

10.10 Office Lease Agreement for Crofton Business Centre, 2200 Defense Highway, Crofton, Maryland, by and between SFA, Inc. and William F. Chesley, dated July 18, 2004 (1)

Table of Contents

| Number | Description |
|---------------|---|
| 10.11 | Sub-Lease for 28712 Glebe Road, Easton, Maryland, by and between SFA, Inc. s Frederick Manufacturing Division and Queensbury Village, Inc., dated July 1, 2003 (1) |
| 10.12 | Redemption Agreement dated September 3, 2009, by and among the Registrant, Contego Systems LLC, Kende Holding kft, and Ronald Jones (1) |
| 10.13 | Services Agreement dated June 17, 2009 by and between GSG Holding (United Kingdom) Limited and Contego Newco Company (1) |
| 10.14 | Subcontract No. GMS-2117-08-02-001, dated December 13, 2008 by and between Global Strategies Group (Integrated Securities), Inc. and Global Strategies Group North America) Inc. (1) |
| 10.15 | Trademark License Agreement dated September 29, 2009 by and between Global Strategies Group Holding, S.A. and Global Defense Technology & Systems, Inc. (1) |
| 10.16 | Promissory Note dated February 8, 2007 in the amount of \$25,980,000 by Global Technology Strategies, Inc. in favor of Kende Holding kft (1) |
| 10.17 | Loan Agreement dated April 3, 2006 in the amount of \$1,000,000 by and between Kende Holding kft and Contego Systems Inc. (1) |
| 10.18 | Loan and Security Agreement, dated February 9, 2007, by and between SFA, Inc., The Analysis Corp. and SunTrust Bank (1) |
| 10.19 | First Amendment to the Loan and Security Agreement, dated October 3, 2007, by and between SFA, Inc., The Analysis Corp. and SunTrust Bank (1) |
| 10.20 | Second Amendment to the Loan and Security Agreement, dated May 23, 2008, by and between SFA, Inc., The Analysis Corp. and SunTrust Bank (1) |
| 10.21 | Third Amendment to the Loan and Security Agreement, dated July 22, 2008, by and between SFA, Inc., The Analysis Corp. and SunTrust Bank (1) |
| 10.22 | Fourth Amendment to the Loan and Security Agreement, dated March 25, 2009, by and between Global Strategies Group (North America) Inc., The Analysis Corp. and SunTrust Bank (1) |
| 10.23 | Fifth Amendment to the Loan and Security Agreement, dated September 3, 2009, by and between Global Defense Technology & Systems, Inc., Global Strategies Group (North America) Inc., The Analysis Corp. and SunTrust Bank (1) |
| 10.24 | Revolving Note, dated September 3, 2009, in the amount of \$29,000,000 by Global Strategies Group (North America) Inc. and The Analysis Corp. in favor of SunTrust Bank (1) |
| 10.25 | Amended and Restated Special Security Agreement, dated February 22, 2010, by and among Global Strategies Group Holding SA, Kende Holding kft, Contego Systems, LLC, Global |

Strategies Group (North America) Inc., and Global Defense Technology and System, Inc., SFA, Inc. and the U.S. Department of Defense (7)

- 10.26 Loan and Security Agreement, dated as of February 3, 2010, by and among Global Defense Technology & Systems, Inc., Global Strategies Group (North America) Inc. and The Analysis Corp., as Borrowers, SunTrust Bank as Administrative Agent and Lender, and SunTrust Robinson Humphrey as Lead Arranger and Book Manager (5)
- 10.27 Revolving Note, dated February 3, 2010, in the amount of \$50,000,000 by Global Defense Technology & Systems, Inc. Global Strategies Group (North America) Inc. and The Analysis Corp. in favor of SunTrust Bank (2)
- 10.28 Registration Rights Agreement to be entered into by and among Global Defense Technology & Systems, Inc., Contego Systems LLC and Ronald Jones (2)
- 10.29+ Employment Agreement, dated March 26, 2010, by and among Global Defense Technology & Systems, Inc., Global Strategies Group (North America) Inc. and John F. Hillen, III (6)

Table of Contents

| Number | Description |
|---------------|--|
| 10.30+ | Employment Agreement, dated March 26, 2010, by and among Global Defense Technology & Systems, Inc., Global Strategies Group (North America) Inc. and James P. Allen (6) |
| 10.31+ | Employment Agreement, dated March 26, 2010, by and among Global Defense Technology & Systems, Inc., Global Strategies Group (North America) Inc. and Ronald C. Jones (6) |
| 31.1 | Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (8) |
| 31.2 | Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (8) |
| 32.1 | Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (8) |
| 32.2 | Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (8) |

(1) Incorporated by reference to the Exhibits filed with Amendment No. 1 to the Company's Registration Statement on Form S-1, filed October 7, 2009 (File No. 333-161719).

(2) Incorporated by reference to the Exhibits filed with the Company's Annual Report on Form 10-K, filed March 5, 2010 (File No. 001-34551).

(3) Incorporated by reference to the Exhibits filed with the Company's Registration

Statement on
Form S-8, filed
November 25,
2009 (File
No. 333-163346).

- (4) Incorporated by reference to the Exhibits filed with Amendment No. 4 to the Company's Registration Statement on Form S-1, filed November 5, 2009 (File No. 333-161719).
- (5) Incorporated by reference to the Exhibits filed with the Company's Current Report on Form 8-K, filed February 9, 2010 (File No. 001-34551).
- (6) Incorporated by reference to the Exhibit filed with the Company's Current Report on Form 8-K, filed April 1, 2010 (File No. 001-34551).
- (7) Incorporated by reference to the Exhibit filed with the Company's Quarterly Report on Form 10-Q, filed May 11, 2010 (File No. 001-34551).
- (8) Included with this filing.

- + Management contract or compensatory plan.

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 hereunto duly authorized.

**Global Defense Technology & Systems,
Inc.**

Date: August 6, 2010

/s/ John Hillen
John Hillen
Chief Executive Officer, President
(Principal Executive Officer)

Date: August 6, 2010

/s/ James P. Allen
James P. Allen
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)