

MANTECH INTERNATIONAL CORP
Form 10-Q
April 29, 2011
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from _____ to _____

Commission File No. 000-49604

ManTech International Corporation

(Exact name of registrant as specified in its charter)

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Delaware (State or other jurisdiction of incorporation or organization)	22-1852179 (I.R.S. Employer Identification No.)
12015 Lee Jackson Highway, Fairfax, VA (Address of principal executive offices)	22033 (Zip Code)
(703) 218-6000 (Registrant's telephone number, including area code)	

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

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

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

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

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

As of April 27, 2011 there were outstanding 23,367,542 shares of our Class A common stock and 13,275,345 shares of our Class B common stock.

Table of Contents

MANTECH INTERNATIONAL CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED March 31, 2011

INDEX

	Page No.
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets at March 31, 2011 and December 31, 2010</u>	3
<u>Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2011 and 2010</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2011 and 2010</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7-17
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>	23
Item 4. <u>Controls and Procedures</u>	23
<u>Part II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	25
Item 1A. <u>Risk Factors</u>	25
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
Item 5. <u>Other Information</u>	25
Item 6. <u>Exhibits</u>	25

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

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

	(unaudited)	
	March 31, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 72,980	\$ 84,829
Receivables net	620,730	528,765
Prepaid expenses and other	12,140	16,642
Total Current Assets	705,850	630,236
Property and equipment net	38,928	27,086
Goodwill	744,364	729,558
Other intangibles net	168,831	168,487
Employee supplemental savings plan assets	23,878	24,415
Other assets	10,391	10,695
TOTAL ASSETS	\$ 1,692,242	\$ 1,590,477
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 305,592	\$ 272,047
Accrued salaries and related expenses	78,709	64,575
Billings in excess of revenue earned	26,454	11,118
Total Current Liabilities	410,755	347,740
Long-term debt	200,000	200,000
Accrued retirement	25,390	25,789
Other long-term liabilities	7,419	7,495
Deferred income taxes non-current	42,388	43,110
TOTAL LIABILITIES	685,952	624,134
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Common stock, Class A \$0.01 par value; 150,000,000 shares authorized; 23,581,835 and 23,396,549 shares issued at March 31, 2011 and December 31, 2010; 23,337,722 and 23,153,509 shares outstanding at March 31, 2011 and December 31, 2010	236	234
Common stock, Class B \$0.01 par value; 50,000,000 shares authorized; 13,275,345 shares issued and outstanding at March 31, 2011 and December 31, 2010	133	133
Additional paid-in capital	393,510	385,407
Treasury stock, 244,113 and 243,040 shares at cost at March 31, 2011 and December 31, 2010	(9,158)	(9,114)

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Retained earnings	621,741	589,838
Accumulated other comprehensive loss	(172)	(155)
TOTAL STOCKHOLDERS EQUITY	1,006,290	966,343
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 1,692,242	\$ 1,590,477

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	
	March 31,	
	2011	2010
REVENUES	\$ 700,864	\$ 587,557
Cost of services	599,767	499,566
General and administrative expenses	45,242	42,759
OPERATING INCOME	55,855	45,232
Interest expense	(3,970)	(997)
Interest income	64	128
Other income (expense), net	96	(62)
INCOME FROM OPERATIONS BEFORE INCOME TAXES	52,045	44,301
Provision for income taxes	(20,142)	(16,760)
NET INCOME	\$ 31,903	\$ 27,541
BASIC EARNINGS PER SHARE:		
Class A basic earnings per share	\$ 0.87	\$ 0.76
Weighted average common shares outstanding	23,206	22,415
Class B basic earnings per share	\$ 0.87	\$ 0.76
Weighted average common shares outstanding	13,275	13,605
DILUTED EARNINGS PER SHARE:		
Class A diluted earnings per share	\$ 0.87	\$ 0.76
Weighted average common shares outstanding	23,357	22,727
Class B diluted earnings per share	\$ 0.87	\$ 0.76
Weighted average common shares outstanding	13,275	13,605

See notes to condensed consolidated financial statements.

Table of Contents

MANTECH INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	(unaudited) Three months ended March 31,	
	2011	2010
NET INCOME	\$ 31,903	\$ 27,541
OTHER COMPREHENSIVE INCOME (LOSS):		
Translation adjustment, net of tax	(17)	(22)
Actuarial gain on defined benefit pension plans, net of tax	0	14
Total other comprehensive loss	(17)	(8)
COMPREHENSIVE INCOME	\$ 31,886	\$ 27,533

See notes to condensed consolidated financial statements.

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

	(unaudited) Three months ended March 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 31,903	\$ 27,541
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	2,202	2,684
Excess tax benefits from the exercise of stock options	(203)	(459)
Deferred income taxes	(1,092)	1,099
Depreciation and amortization	7,252	6,773
Change in assets and liabilities net of effects from acquired businesses:		
Receivables net	(88,998)	(30,581)
Prepaid expenses and other	4,877	(179)
Accounts payable and accrued expenses	25,434	35,870
Accrued salaries and related expenses	13,635	1,086
Billings in excess of revenue earned	15,336	(549)
Accrued retirement	(399)	(365)
Other	996	(133)
Net cash flow from operating activities	10,943	42,787
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,991)	(1,649)
Investment in capitalized software for internal use	(561)	(725)
Acquisition of businesses net of cash acquired	(21,640)	(236,689)
Net cash flow from investing activities	(28,192)	(239,063)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	5,241	6,891
Excess tax benefits from the exercise of stock options	203	459
Treasury stock acquired	(44)	0
Net borrowings under the revolving credit facility	0	108,300
Net cash flow from financing activities	5,400	115,650
NET CHANGE IN CASH AND CASH EQUIVALENTS	(11,849)	(80,626)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	84,829	86,190
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 72,980	\$ 5,564
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	\$ 564	\$ 1,450
Cash paid for interest	\$ 174	\$ 898

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Noncash financing activities:

Employee Stock Ownership Plan Contributions	\$	498	\$	0
---	----	-----	----	---

See notes to condensed consolidated financial statements.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

UNAUDITED

1. Introduction and Overview

ManTech International Corporation (depending on the circumstances, ManTech, Company, we, our, ours or us) is a leading provider of innovative technologies and solutions for mission-critical national security programs for the intelligence community; departments of Defense, State and Homeland Security; the Department of Justice and the Federal Bureau of Investigations (FBI); the space community; the National Oceanic and Atmospheric Administration; and other U.S. federal government customers. Our expertise includes Command, Control, Computers, Communications, Intelligence, Surveillance and Reconnaissance (C4ISR) Lifecycle Support, Cyber Security, Global Logistics Support, Intelligence/Counter-Intelligence Support, Information Technology Modernization & Sustainment, Systems Engineering and Test & Evaluation. We support major national missions, such as military readiness, terrorist threat detection, information security and border protection. At March 31, 2011, we had approximately 10,300 highly qualified employees at various locations throughout the world depending on the customers requirements.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in the annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to those rules and regulations. We recommend that you read these unaudited condensed consolidated financial statements in conjunction with the audited consolidated financial statements and related notes included in our annual report on Form 10-K for the fiscal year ended December 31, 2010, previously filed with the SEC. We believe that the unaudited condensed consolidated financial statements in this Form 10-Q reflect all adjustments that are necessary to fairly present the financial position, results of operations and cash flows for the interim periods presented. The results of operations for such interim periods are not necessarily indicative of the results that can be expected for the full year.

3. Acquisitions

Our acquisitions have been accounted for using the acquisition method of accounting under the Accounting Standards Codification (ASC) 805, *Business Combinations*.

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

TranTech provides information technology, networking and cyber security services to the federal government. At February 11, 2011, TranTech had 57 employees. This acquisition is consistent with ManTech's long-term strategy to continue extending our presence in the defense, security and intelligence communities, allowing us to offer comprehensive solutions through a prime position on the Defense Information Systems Agency ENCORE II contract.

ManTech funded the acquisition with cash on hand. The initial purchase price of \$21.6 million was allocated to the underlying assets and liabilities based on their preliminary fair values at the date of acquisition. We are still working to identify potential adjustments related to the working capital adjustment to be included in the purchase price and the fair value of assets acquired and liabilities assumed.

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

MTCSC provides Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) systems, integration, cyber security network engineering solutions to U.S. government customers. At December 23, 2010, MTCSC had 366 employees of which approximately 90% held security clearances.

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

The acquisition is consistent with ManTech's long-term strategy to continue extending our presence in the defense and intelligence market, allowing us to expand our work and direct support to the United States Marine Corp.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2011

UNAUDITED

ManTech funded the acquisition with cash on hand. The initial purchase price was \$75.1 million, which may increase or decrease depending on the finalization of the post-closing working capital adjustment contemplated by MTCSC Purchase Agreement. The MTCSC Purchase Agreement did not contain provisions for contingent consideration. Pursuant to the MTCSC Purchase Agreement, \$11.3 million was placed into an escrow account to satisfy potential indemnification liabilities of MTCSC. The escrow period will expire 18 months after the purchase closing date.

The preliminary purchase price was allocated to the underlying assets and liabilities based on their fair values at the date of acquisition. The following information represents the preliminary purchase price allocation, as we are still in the process of working to identify potential adjustments related to the fair value of the working capital adjustment to be included in the purchase price and the fair value of the assets acquired and liabilities assumed. Total assets were \$91.8 million, including goodwill and intangible assets recognized in connection with the acquisition, and total liabilities were \$16.7 million. Included in total assets were \$8.7 million in acquired intangible assets. We have recorded goodwill of \$57.4 million, which will not be deductible for tax purpose. Recognition of goodwill is largely attributed to the highly skilled employees and the value paid for companies supporting high-end defense, intelligence and homeland security markets.

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

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

S&IS provides integrated security solutions to the Department of Defense and the intelligence community. At October 8, 2010, S&IS had 370 employees of which approximately 93% held security clearances. The majority of these employees were hired by ManTech as part of the acquisition.

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

ManTech funded the acquisition with cash on hand. The purchase price was \$60.0 million. The S&IS Purchase Agreement did not contain provisions for contingent consideration. Pursuant to the S&IS Purchase Agreement, \$1.0 million was placed into an escrow account to satisfy potential indemnification obligations of QNA. The escrow claim period expired 6 months after the purchase closing date. There is still \$0.4 million being held in the escrow account by mutual consent of the parties pending resolution of potential indemnification claims.

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

In allocating the purchase price, we consider among other factors, analyses of historical financial performance and estimates of future performance of S&IS's contracts. The components of other intangible assets associated with the acquisition were customer relationships and backlog at \$11.5 million and \$1.5 million, respectively. Customer contracts and related relationships represent the underlying relationships and

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

agreements with S&IS's existing customers. Customer relationships and backlog are amortized over their estimated useful lives of 20 years and 1 year, respectively, using the pattern of benefits method. The weighted-average amortization period for the intangible assets is 17.9 years.

Sensor Technologies Inc.-On January 15, 2010, we completed the acquisition of all outstanding equity interest of Sensor Technologies Inc. (STI), a privately-held company. The results of STI's operations have been included in our consolidated

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2011****UNAUDITED**

financial statements since that date. The acquisition was consummated pursuant to a stock purchase agreement (STI Purchase Agreement), dated December 18, 2009, by and among ManTech International Corporation, STI, certain shareholders of STI and certain persons acting as a representative for the shareholders of STI.

STI is a leading provider of mission-critical systems engineering and Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) services and solutions to the Department of Defense. STI's largest customer is the U.S. Army through its prime position on the Strategic Services Sourcing (S3) Indefinite Delivery/Indefinite Quantity contract. At January 15, 2010, STI had 252 employees of which nearly 100% held security clearances.

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

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

For the three months ended March 31, 2010, the Company incurred \$0.2 million of acquisition related costs. These costs are included in general and administrative expense in the Company's statements of income for the related period.

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

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

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

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

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

Pro Forma Financial Information-The following unaudited pro forma summary presents consolidated information of the Company as if the TranTech, MTCSC, S&IS and STI acquisitions had occurred on January 1, 2010. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2011****UNAUDITED**

achieved if the acquisition and borrowings under our senior credit facility had occurred at the beginning of the periods presented. These amounts have been calculated after applying the Company's accounting policies and adjusting the results of TranTech, MTCSC, S&IS and STI to reflect the additional amortization expense resulting from recognizing intangible assets, the interest expense effect of the financing necessary to complete the acquisitions and the consequential tax effects (in thousands).

	Three months ended March 31,	
	2011	2010
Revenues	\$ 702,467	\$ 637,622
Net income	\$ 32,211	\$ 28,589

4. Earnings Per Share

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

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

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

The weighted average number of common shares outstanding is computed as follows (in thousands):

	Three months ended March 31,	
	2011	2010
Numerator for net income per Class A and Class B common stock:		
Net income	\$ 31,903	\$ 27,541
Numerator for basic net income Class A common stock	\$ 20,294	\$ 17,138
Numerator for basic net income Class B common stock	\$ 11,609	\$ 10,403
Numerator for diluted net income Class A common stock	\$ 20,342	\$ 17,228
Numerator for diluted net income Class B common stock	\$ 11,561	\$ 10,313
Basic weighted average common shares outstanding		
Class A common stock	23,206	22,415
Class B common stock	13,275	13,605
Effect of potential exercise of stock options		
Class A common stock	151	312

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Class B common stock	0	0
Diluted weighted average common shares outstanding - Class A	23,357	22,727
Diluted weighted average common shares outstanding - Class B	13,275	13,605

For the three months ended March 31, 2011 and 2010, options to purchase 1.9 million and 1.5 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because the options' effect would have been

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2011****UNAUDITED**

anti-dilutive. For the three months ended March 31, 2011 and 2010, shares issued from the exercise of stock options were 173 thousand and 198 thousand, respectively.

5. Receivables

We deliver a broad array of information technology and technical services solutions under contracts with the U.S. government, state and local governments and commercial customers. The components of contract receivables are as follows (in thousands):

	March 31, 2011	December 31, 2010
Billed receivables	\$ 455,681	\$ 411,018
Unbilled receivables:		
Amounts billable	154,591	103,752
Revenues recorded in excess of funding	16,171	16,508
Retainage	3,469	6,433
Allowance for doubtful accounts	(9,182)	(8,946)
Total receivables net	\$ 620,730	\$ 528,765

Amounts billable consist principally of amounts to be billed within the next month. Revenues recorded in excess of funding are billable upon receipt of contractual amendments or other modifications. The retainage is billable upon completion of the contract performance and approval of final indirect expense rates by the government. Accounts receivable at March 31, 2011, are expected to be substantially collected within one year except for approximately \$2.5 million of which 94% is related to receivables from sales to the U.S. government. The remainder is related to receivables from contracts in which we acted as a subcontractor to other contractors.

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

6. Property and Equipment

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

	March 31, 2011	December 31, 2010
Furniture and equipment	\$ 52,629	\$ 39,271
Leasehold improvements	22,073	21,948
	74,702	61,219
Less: Accumulated depreciation and amortization	(35,774)	(34,133)
Total property and equipment net	\$ 38,928	\$ 27,086

7. Goodwill and Other Intangibles

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

	Goodwill Balance
Net amount at December 31, 2009	\$ 488,217
Acquisition-STI	143,772
Acquisition-S&IS	40,169
Acquisition-MTCSC	57,400
Net amount at December 31, 2010	\$ 729,558
Additional consideration for the acquisition of S&IS	148
Additional consideration for the acquisition of MTCSC	15
Acquisition-TranTech	14,643
Net amount at March 31, 2011	\$ 744,364

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2011****UNAUDITED**

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

	March 31, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Contract and program intangibles	\$ 224,382	\$ 62,396	\$ 161,986	\$ 219,382	\$ 57,754	\$ 161,628
Capitalized software cost for sale	3,729	3,729	0	3,729	3,729	0
Capitalized software cost for internal use	21,960	15,151	6,809	21,400	14,578	6,822
Other	58	22	36	58	21	37
Total other intangibles net	\$ 250,129	\$ 81,298	\$ 168,831	\$ 244,569	\$ 76,082	\$ 168,487

Aggregate amortization expense relating to intangible assets for the three months ended March 31, 2011 and 2010 was \$5.2 million and \$5.4 million, respectively. We estimate that we will have the following amortization expense for the future periods indicated below (in thousands):

For the remaining nine months ending December 31, 2011	\$ 14,526
Year ending:	
December 31, 2012	\$ 16,698
December 31, 2013	\$ 15,626
December 31, 2014	\$ 13,813
December 31, 2015	\$ 12,158
December 31, 2016	\$ 10,763

8. Long-term Debt

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

	March 31, 2011	December 31, 2010
Revolving credit facility	\$ 0	\$ 0
7.25% senior unsecured notes	200,000	200,000
Total long-term debt	\$ 200,000	\$ 200,000

Revolving Credit Facility-We maintain a revolving credit agreement with a syndicate of lenders led by Bank of America, N.A, as administrative agent. On December 18, 2009, we amended our revolving credit agreement to allow for additional flexibility in negative covenants, and specifically to increase the allowable acquisition limitation, the amount of unsecured debt the Company may have and the amount of stock that we may repurchase pursuant to a share repurchase program. The amended credit agreement provides for a revolving credit facility of up to \$350.0 million in loan commitments, with a \$25.0 million letter of credit sublimit and a \$30.0 million swing line loan sublimit. The maturity date for the credit agreement is April 30, 2012.

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

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

The terms of the credit agreement permit prepayment and termination of the loan commitments at any time, subject to certain conditions. The credit agreement requires the Company to comply with specified financial covenants, including the maintenance of a certain leverage ratio and fixed charge coverage ratio. The credit agreement also contains various covenants, including affirmative covenants with respect to certain reporting requirements and maintaining certain business activities, and negative covenants that, among other things, may limit our ability to incur liens, incur additional indebtedness, make investments, make acquisitions, pay cash dividends and undertake certain additional actions. As of March 31, 2011, we were in compliance with our financial covenants under the credit agreement.

We had \$0 and \$108.3 million outstanding on our credit facility at March 31, 2011 and 2010, respectively. The maximum additional available borrowing under the credit facility at March 31, 2011 was \$348.7 million. As of March 31, 2011, we were contingently liable under letters of credit totaling \$1.3 million, which reduces our availability to borrow under our credit facility.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2011****UNAUDITED**

The following table summarizes the activity under our revolving credit facility for the three months ended March 31, 2011 and 2010:

	For the three months ended March 31,	
	2011	2010
Borrowing under revolving credit facility	\$ 0	\$ 244,000
Repayment of borrowings under revolving credit facility	\$ 0	(\$ 135,700)

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

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

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

The fair value of the 7.25% senior unsecured notes as of March 31, 2011 was approximately \$210.5 million based on quoted market prices.

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

The indenture governing the 7.25% senior unsecured notes contains customary events of default, as well as restrictive covenants, that among other things, limit our ability and the ability of our subsidiaries that guarantee the 7.25% senior unsecured notes to: pay dividends or distributions, repurchase equity, prepay subsidiaries, debt or make certain investments; incur additional debt or issue certain disqualified stock and preferred stock; incur liens on assets; or merge or consolidate with another company or sell all or substantially all assets. An event of default under the indenture will allow either the trustee of the notes or the holders of at least 25% in principal amount of the then outstanding notes to accelerate, or in certain cases, will automatically cause the acceleration of, the amounts due under the notes. As of March 31, 2011, the Company was in compliance with all required covenants under the indenture.

9. Commitments and Contingencies

Contracts with the U.S. government including subcontracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of the U.S. government, in the ordinary course of business, investigate whether the Company's operations are conducted in accordance with these requirements and the terms of the relevant contracts. U.S. government investigations of the Company, whether related to the Company's U.S. government contracts or conducted for other reasons, could result in administrative, civil, or criminal liabilities, including repayments, fines, or penalties being imposed upon the Company, or could lead to suspension or debarment from future U.S. government

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

contracting. Management believes it has adequately reserved for any losses that may be experienced from any investigation of which it is aware. The Defense Contract Audit Agency (DCAA) has completed the majority of incurred cost audits through 2002, 2003 and 2004, which resulted in no material adjustments. The remaining audits for 2002 through 2010 are not expected to have a material effect on our financial position, results of operations or cash flow, and management believes it has adequately reserved for any losses.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2011

UNAUDITED

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

10. Stock-Based Compensation

In June 2006, the Company's stockholders approved our 2006 Management Incentive Plan (the Plan), which was designed to enable us to attract, retain and motivate key employees. Awards granted under the Plan are settled in shares of Class A common stock. At the beginning of each year, the Plan provides that the number of shares available for issuance automatically increases by an amount equal to one and one-half percent of the total number of shares of Class A and Class B common stock outstanding on December 31st of the previous year. On January 1, 2011, 546,433 additional shares were made available for issuance under the Plan. Through March 31, 2011, the remaining aggregate number of shares of our common stock authorized for issuance under the Plan was 1,749,472. Through March 31, 2011, 4,303,340 shares of our Class A common stock have been issued as a result of the exercise of options granted under the Plan. The Plan expires in June 2016.

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

Stock Compensation Expense-For the three months ended March 31, 2011 and 2010, we recorded \$2.2 million and \$2.7 million of stock-based compensation cost, respectively. No compensation expense for employees with stock options, including stock-based compensation expense, was capitalized during the periods. For the three months ended March 31, 2011 and 2010, the total recognized tax benefits from the exercise of stock options were \$0.2 million and \$0.4 million, respectively.

Stock Options-We typically issue options that vest in three equal installments, beginning on the first anniversary of the date of grant. Under the terms of the Plan, the contractual life of the option grants may not exceed eight years. During the three months ended March 31, 2011 and 2010, we issued options that expire five years from the date of grant.

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

The following weighted-average assumptions were used for option grants during the three months ended March 31, 2011 and 2010:

Volatility-The expected volatility of the options granted was estimated based upon historical volatility of the Company's share price through weekly observations of the Company's trading history.

Expected Term-The expected term of options granted to employees during the three months ended March 31, 2011 and 2010 was determined from historical exercises of the grantee population. For all grants valued during the three months ended March 31, 2011 and 2010, 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.

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.

Dividend Yield-The Black-Scholes-Merton valuation model requires an expected dividend yield as an input. We assumed 0% since we have not issued dividends in the past.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2011****UNAUDITED**

The following table summarizes weighted-average assumptions used in our calculations of fair value for the three months ended March 31, 2011 and 2010:

	Three months ended March 31,	
	2011	2010
Dividend yield	0.0%	0.0%
Volatility	36.0%	39.2%
Risk-free interest rate	1.06%	1.46%
Expected life of options (in years)	2.95	2.96

Stock Option Activity-During the three months ended March 31, 2011, we granted stock options to purchase 619,000 shares of Class A common stock at a weighted-average exercise price of \$41.45 per share, which reflects the fair market value of the shares on the date of grant. The weighted-average fair value of options granted during the three months ended March 31, 2011 and 2010, as determined under the Black-Scholes-Merton valuation model, was \$10.57 and \$13.96, respectively. These options vest in three equal installments over three years and have a contractual term of five years. Option grants that vested during the three months ended March 31, 2011 and 2010 had a combined fair value of \$4.8 million and \$5.0 million, respectively.

Information with respect to stock option activity and stock options outstanding for the year ended December 31, 2010 and the three months ended March 31, 2011:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Shares under option, December 31, 2009	2,718,183	\$ 41.85	
Options granted	944,500	\$ 46.50	
Options exercised	(391,176)	\$ 35.30	\$ 4,224
Options cancelled and expired	(798,250)	\$ 49.42	
Shares under option, December 31, 2010	2,473,257	\$ 42.22	\$ 7,731
Options granted	619,000	\$ 41.45	
Options exercised	(173,232)	\$ 29.24	\$ 2,154
Options cancelled and expired	(67,083)	\$ 47.44	
Shares under option, March 31, 2011	2,851,942	\$ 42.47	\$ 6,333

The following table summarizes non-vested stock options for the three months ended March 31, 2011:

	Number of Shares	Weighted Average Fair Value
Non-vested stock options at December 31, 2010	1,459,008	\$ 12.77
Options granted	619,000	\$ 10.57

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Vested during period	(374,826)	\$ 12.69
Options cancelled (non-vested)	(47,083)	\$ 13.17
Non-vested shares under option, March 31, 2011	1,656,099	\$ 11.96

Information concerning stock options exercisable and stock options expected to vest at March 31, 2011:

	Options Exercisable	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Stock options exercisable	1,195,843	2.7	\$ 39.98	\$ 4,975
Stock options expected to vest	1,422,602	4.2	\$ 44.36	\$ 1,158
Options exercisable and expected to vest	2,618,445			

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2011****UNAUDITED**

Unrecognized compensation expense related to outstanding stock options expected to vest as of March 31, 2011 was \$15.3 million. This expense is expected to be recognized over a weighted-average period of 2.2 years and will be adjusted for any future changes in estimated forfeitures.

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

Restricted Stock Activity-During the three months ended March 31, 2011, we did not grant shares of restricted stock. The following table summarizes the restricted stock activity during the three months ended March 31, 2011:

	Number of Shares	Weighted Average Grant Date Fair Value (in thousands)
Nonvested, December 31, 2009	0	
Granted	51,000	\$ 2,447
Vested	0	
Forfeited	(25,000)	\$ 1,196
Nonvested, December 31, 2010	26,000	
Granted	0	
Vested	(3,333)	
Forfeited	0	
Nonvested, March 31, 2011	22,667	

11. Business Segment and Geographic Area Information

We have one reportable segment. We deliver a broad array of information technology and technical services solutions under contracts with the U.S. government, state and local governments and commercial customers. Our federal government customers typically exercise independent contracting authority, and even offices or divisions within an agency or department may directly, or through a prime contractor, use our services as a separate customer so long as that customer has independent decision-making and contracting authority within its organization. Revenues from the U.S. government under prime contracts and subcontracts were approximately 99.1% and 98.7% of our total revenues for the three months ended March 31, 2011 and 2010, respectively. There were no sales to any customers within a single country (except for the United States) where the sales accounted for 10% or more of total revenues. 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 March 31, 2011 and December 31, 2010. Revenues by geographic customer and the related percentages of total revenues for the three months ended March 31, 2011 and 2010 were as follows (dollars in thousands):

Three Months Ended March 31,	
2011	2010

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

United States	\$ 697,773	99.6%	\$ 582,721	99.2%
International	3,091	0.4%	4,836	0.8%
	\$ 700,864	100.0%	\$ 587,557	100.0%

During the three months ended March 31, 2011 there were no contracts that exceeded 10% of our revenues from external customers. During the three months ended March 31, 2010, our U.S. Army Tank-Automotive Armaments Command (TACOM) contract exceeded 10% of our revenues from external customers.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2011****UNAUDITED**

	Three Months Ended March 31,			
	2011	%	2010	%
	(dollars in thousands)			
Revenues from external customers:				
U.S. Army TACOM	\$ 37,443	5%	\$ 88,516	15%
All other contracts	663,421	95%	499,041	85%
ManTech Consolidated	\$ 700,864	100%	\$ 587,557	100%

During the three months ended March 31, 2011, there were no contracts that exceeded 10% of our operating income. During the three months ended March 31, 2010, our U.S. Army TACOM contract exceeded 10% of our operating income.

	Three Months Ended March 31,			
	2011	%	2010	%
	(dollars in thousands)			
Operating Income:				
U.S. Army TACOM	\$ 1,583	3%	\$ 5,057	11%
All other contracts	54,272	97%	40,175	89%
ManTech Consolidated	\$ 55,855	100%	\$ 45,232	100%

During the three months ended March 31, 2011 and 2010, there were no contracts that exceeded 10% of our receivables.

Disclosure items required under ASC 280, *Segment Reporting*, including interest income, interest expense, depreciation and amortization expense, costs for stock-based compensation programs, certain unallowable costs as determined under Federal Acquisition Regulations and expenditures for segment assets are not applicable as we review those items on a consolidated basis.

12. Subsequent Events

Sale of the NetWitness Investment-On April 8, 2011, ManTech received \$3.2 million in proceeds, with an additional \$0.5 million held in escrow to be distributed no later than December 15, 2012, for our investment of less than 5% in NetWitness Corporation (NetWitness). The transaction was consummated on April 1, 2011 pursuant to an agreement and plan of merger dated March 12, 2011 by and among EMC Corporation, NetWitness, and certain persons acting as the representative for the shareholders of NetWitness. The sale of our investment resulted in a pre-tax gain of approximately \$3.7 million that will be recorded in the second quarter of 2011.

Table of Contents

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

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

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

adverse changes in U.S. government spending priorities;

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

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

risk of contract performance, modifications or termination;

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

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

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

failure to maintain strong relationships with other contractors;

adverse changes in our mix of contract types;

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

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

failure to identify, execute or effectively integrate future acquisitions; and

competition.

We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report. These and other risk factors are more fully described and discussed in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and under Item 1A. of Part II of our Quarterly Reports on Form 10-Q, and from time to time, in our other filings with the SEC. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report. We also suggest that you carefully review and consider the various disclosures made in this Quarterly Report that attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Introduction and Overview

With over 10,000 employees at various locations throughout the world depending on the customers' requirements, ManTech is a leading provider of innovative technologies and solutions for mission-critical national security programs for the intelligence community; departments of Defense, State and Homeland Security; the Department of Justice and the Federal Bureau of Investigations (FBI); the space community; the National Oceanic and Atmospheric Administration; and other U.S. federal government customers. Our expertise includes Command, Control, Computers, Communications, Intelligence, Surveillance and Reconnaissance (C4ISR) Lifecycle Support, Cyber Security, Global Logistics Support, Intelligence/Counter-Intelligence Support, Information Technology Modernization & Sustainment, Systems Engineering and Test & Evaluation. We support major national missions, such as military readiness, terrorist threat detection, information security and border protection.

Table of Contents

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

We recommend that you read this discussion and analysis in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K for the fiscal year ended December 31, 2010, previously filed with the SEC.

Three Months Ended March 31, 2011 Compared to the Three Months Ended March 31, 2010

The following table sets forth certain items from our condensed consolidated statement of income and the relative percentage that certain items of expenses and earnings bear to revenues, as well as the period-to-period change from March 31, 2010 to March 31, 2011.

	Three Months Ended March 31,		2010		Period-to-Period Change	
	2011	2010	2011	2010	2010 to 2011	
	Dollars		Percentages		Dollars	Percent
			(dollars in thousands)			
REVENUES	\$ 700,864	\$ 587,557	100.0%	100.0%	\$ 113,307	19.3%
Cost of services	599,767	499,566	85.6%	85.0%	100,201	20.1%
General and administrative expenses	45,242	42,759	6.4%	7.3%	2,483	5.8%
OPERATING INCOME	55,855	45,232	8.0%	7.7%	10,623	23.5%
Interest expense	(3,970)	(997)	0.6%	0.2%	(2,973)	298.2%
Interest income	64	128	0.0%	0.0%	(64)	-50.0%
Other income (expense), net	96	(62)	0.0%	0.0%	158	-254.8%
INCOME FROM OPERATIONS BEFORE INCOME TAXES	52,045	44,301	7.4%	7.5%	7,744	17.5%
Provision for income taxes	(20,142)	(16,760)	2.8%	2.8%	(3,382)	20.2%
NET INCOME	\$ 31,903	\$ 27,541	4.6%	4.7%	\$ 4,362	15.8%

Revenues

Revenues increased 19.3% to \$700.9 million for the three months ended March 31, 2011, compared to \$587.6 million for the same period in 2010. Revenue growth of \$86.7 million came from organic growth due to significant wins in our C4ISR Support business. Our recent acquisitions of S&IS, MTCSC and TranTech contributed revenue growth of \$33.5 million. These increases were partially offset by a decrease in procurement of materials on some of our contracts for global logistics services.

We expect the growth in revenues to continue for the remainder of 2011 as a result of our recent acquisitions and continued expansion. However, we recognize that the government has expressed its intention to decrease its budgets related to professional and technical services contracts in the coming years. Also, the failure by Congress to approve budgets on a timely basis for the federal agencies we support could result in delays in future revenues for 2011.

Cost of services

Cost of services increased 20.1% to \$599.8 million for the three months ended March 31, 2011, compared to \$499.6 million for the same period in 2010. The increase in cost of services is primarily due to our recent acquisitions and continued expansion. As a percentage of revenues, cost of services increased to 85.6% for the three months ended March 31, 2011 as compared to 85.0% for the same period in 2010. Direct labor costs, which include applicable fringe benefits and overhead, increased 21.7% over the same period in 2010 primarily due to growth in staff, as well as our acquisitions. As a percentage of revenues, direct labor costs increased to 36.9% for the three months ended March 31, 2011, compared to 36.1% for the same period in 2010. Other direct costs, which include subcontractors and third party equipment and materials used in the performance of our contracts, increased by 18.8% over the same period in 2010. The increase in other direct costs was primarily due to

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

subcontractors costs. As a percentage of revenues, other direct costs decreased from 48.9% for the three months ended March 31, 2010 to 48.7% for the same period in 2011.

Table of Contents

General and administrative expenses

General and administrative expenses increased 5.8% to \$45.2 million for the three months ended March 31, 2011, compared to \$42.8 million for the same period in 2010. The increase is primarily due to support functions for our recent acquisitions. As a percentage of revenues, general and administrative expenses decreased to 6.4% from 7.3% for the three months ended March 31, 2011 and 2010, respectively, due to the leveraging of our general and administrative expense over a larger base. We expect general and administrative expenses, as a percentage of revenues, to continue to decline as we complete the integration of the back office functions from our recent acquisitions and revenues continue to grow.

Interest expense

Interest expense increased to \$4.0 million for the three months ended March 31, 2011, compared to \$1.0 million for the same period in 2010. We incurred \$3.7 million of interest expense for the three months ended March 31, 2011 related to our 7.25% senior unsecured notes issued in April 2010.

Provision for Income Taxes

The provision for income taxes increased to \$20.1 million for the three months ended March 31, 2011, compared to \$16.8 million for the same period in 2010. Our effective income tax rates were 38.7% and 37.8% for the three months ended March 31, 2011 and 2010, respectively. The increase in our effective tax rate from the three months ended March 31, 2010 was primarily due to increased state income taxes as a result of our recent acquisitions.

Net income

Net income increased 15.8% to \$31.9 million for the three months ended March 31, 2011, compared to \$27.5 million for the same period in 2010. The increase in net income was due to higher revenues, which are primarily driven by our recent acquisitions.

Backlog

At March 31, 2011 and December 31, 2010, our backlog was \$4.7 billion and \$4.9 billion, respectively, of which \$1.6 billion and \$1.6 billion, respectively, was funded backlog. Backlog represents estimates that we calculate on a consistent basis. For additional information on how to compute backlog, see our annual report on Form 10-K for the fiscal year ended December 31, 2010, previously filed with the SEC.

Effects of Inflation

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

In addition, inflation or inflationary concerns could prompt the Federal Reserve to begin increasing the Federal Funds Rate. As one of the borrowing rates in our credit facility is tied to the Federal Funds Rate, increases in this rate, given similar levels of debt, could lead to higher interest expense.

Liquidity and Capital Resources

Historically, our primary liquidity needs have been the financing of acquisitions, working capital and capital expenditures. Our primary source of liquidity is cash provided by operations and our revolving credit facility. At March 31, 2011, we had \$0 outstanding under our revolving credit facility. At March 31, 2011, we were contingently liable under letters of credit totaling \$1.3 million, which reduces our ability to borrow under our credit facility. The maximum available borrowing under our revolving credit facility at March 31, 2011 was \$348.7 million.

Table of Contents

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.

Cash flows from operating activities

(in thousands)	Three Months Ended March 31,	
	2011	2010
Net cash flow from operating activities	\$ 10,943	\$ 42,787

Our operating cash flow is primarily affected by the overall profitability of our contracts, our ability to invoice and collect from our clients in a timely manner and our ability to manage our vendor payments. We bill most of our customers and prime contractors monthly, after services are rendered. Decreased cash flow from operations during the three months ended March 31, 2011 as compared to the same period in 2010 was due to the timing of the collection of customer receivables, partially offset by billings in excess of revenues earned and accrued salaries. Our accounts receivable days sales outstanding (DSO) ratio was 80 days and 75 days at March 31, 2011 and March 31, 2010, respectively. The increase in customer receivables was due to delays in collections related to a new contract start-up, delays related to government continuing resolution, and delays in billing and collection of subcontractors work on a few programs. A significant portion of the invoices driving the increase in DSO have been subsequently collected and we expect the delays to be resolved in the second quarter of 2011.

Cash flows from investing activities

(in thousands)	Three Months Ended March 31,	
	2011	2010
Net cash flow from investing activities	(\$ 28,192)	(\$ 239,063)

Our cash flow from investing activities consists primarily of business acquisitions, expenditures for equipment, leasehold improvements and software. Cash outflows during the three months ended March 31, 2011 were due to the acquisition of TranTech for \$21.5 million and capital expenditures of \$6.6 million. Cash outflows during the three months ended March 31, 2010 were primarily from our acquisition of STI on January 15, 2010 for \$236.7 million.

Cash flows from financing activities

(in thousands)	Three Months Ended March 31,	
	2011	2010
Net cash flow from financing activities	\$ 5,400	\$ 115,650

Cash flow from financing activities during the three months ended March 31, 2011 resulted primarily from the proceeds from the exercise of stock options for \$5.2 million. Cash flow from financing activities during the three months ended March 31, 2010 resulted primarily from borrowings under our credit facility to finance the acquisition of STI and proceeds from the exercise of stock options.

Capital Resources

We believe the capital resources available to us under our revolving credit facility with up to \$350.0 million in loan commitments and cash from our operations are adequate to fund our ongoing operations and to support the internal growth we expect to achieve for at least the next twelve months. We anticipate financing our external growth from acquisitions and our longer-term internal growth through one or more of the following sources: cash from operations, use of the existing revolving facility, additional senior secured notes and additional borrowing or issuance of equity. At March 31, 2011, we had \$0 outstanding under our credit facility.

Table of Contents*Short-term Borrowings*

From time-to-time, we borrow funds against our revolving credit facility for working capital requirements and funding of operations as well as acquisitions. Borrowings under our revolving credit facility bear interest at one of the following rates as selected by the Company: a LIBOR-based rate plus market-rate spreads that are determined based on the Company's leverage ratio calculation (1.625% to 2.5%), or the lender's base rate (plus spreads of 0.75% up to 1.5%). In April 2010, we used the proceeds from the issuance of the 7.25% senior unsecured notes to repay all outstanding borrowings under our revolving credit facility. Since then, we have not drawn any funds against the revolving credit facility. In the next twelve months we may use, as needed, our revolving credit facility in order to fund our ongoing operations and support our internal and external growth.

The following table summarizes the activity under our revolving credit facility for the three months ended March 31, 2011 and 2010 (in thousands):

	Three months ended March 31,	
	2011	2010
Borrowing under revolving credit facility	\$ 0	\$ 244,000
Repayment of borrowings under revolving credit facility	\$ 0	(\$ 135,700)

Cash Management

To the extent possible, we invest our available cash in short-term, investment grade securities in accordance with our investment policy. Under our investment policy, we manage our investments, in accordance with the priorities of maintaining the safety of our principal, maintaining the liquidity of our investments, maximizing the yield on our investments and investing our cash to the fullest extent possible. Our investment policy provides that no investment security can have a final maturity that exceeds six months, that the weighted average maturity of the portfolio cannot exceed 60 days, and that a minimum of 10 percent of our investment must be readily convertible into cash.

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 condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses. Actual results may differ from these estimates under different assumptions or conditions. Our significant accounting policies, including the critical accounting policies and practices listed below, are more fully described and discussed in the notes to our consolidated financial statements for fiscal year 2010 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC on February 25, 2011.

Revenue Recognition and Cost Estimation

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

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

We derive the majority of our revenues from cost-plus-fixed-fee, cost-plus-award-fee, and firm-fixed-price or time-and-materials contracts. Revenues for cost-reimbursement contracts are recorded as reimbursable costs are incurred, including an estimated share of the applicable contractual fees earned. For performance-based fees under cost reimbursable contracts that are subject to the Accounting Standards Codification (ASC) 605-35, *Construction-Type and Certain Production-Type Contracts*, we recognize the relevant portion of the expected fee to be awarded by the client at the time such fee can be reasonably estimated, based on factors such as our prior award experience and communications with the client regarding performance. For cost reimbursable contracts with performance-based fee incentives that are subject to the provisions of SEC

Edgar Filing: MANTECH INTERNATIONAL CORP - Form 10-Q

Topic 13, *Revenue Recognition*, we recognize the relevant portion of the fee upon customer approval. For time-and-material contracts, revenues are recognized to the extent of billable rates times hours delivered plus material and other reimbursable costs incurred. For long-term

Table of Contents

fixed-price production contracts, revenues are recognized at a rate per unit as the units are delivered, or by other methods to measure services provided. Revenues from other long-term fixed-price contracts is recognized ratably over the contract period or by other appropriate methods to measure services provided. Contract costs are expensed as incurred except for certain limited long-term contracts noted below. For long-term contracts specifically described in ASC 605-35, we apply the percentage of completion method. Under the percentage of completion method, income is recognized at a consistent profit margin over the period of performance based on estimated profit margins at completion of the contract. This method of accounting requires estimating the total revenues and total contract cost at completion of the contract. During the performance of long-term contracts, these estimates are periodically reviewed and revisions are made as required. The impact on revenue and contract profit as a result of these revisions is included in the periods in which the revisions are made. This method can result in the deferral of costs or the deferral of profit on these contracts. Because we assume the risk of performing a fixed-price contract at a set price, the failure to accurately estimate ultimate costs or to control costs during performance of the work could result, and in some instances has resulted, in reduced profits or losses for such contracts. Estimated losses on contracts at completion are recognized when identified. In certain circumstances, revenues are recognized when contract amendments have not been finalized.

Accounting for Business Combinations and Goodwill and Other Intangible Assets

The purchase price of an acquired business is allocated to the tangible assets, financial assets and separately recognized intangible assets acquired less liabilities assumed based upon their respective fair values, with the excess recorded as goodwill. Such fair value assessments require judgments and estimates that can be affected by contract performance and other factors over time, which may cause final amounts to differ materially from original estimates.

We review goodwill at least annually for impairment. We have elected to perform this review during the second quarter of each calendar year.

Whenever events or changes in circumstances indicate that the carrying amount of long-lived assets may not be fully recoverable, we evaluate the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. If any impairment were indicated as a result of this review, we would recognize a loss based on the amount by which the carrying amount exceeds the estimated fair value.

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

Accounting Standards Updates

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

Item 3. Quantitative and Qualitative Disclosure about Market Risks

Our exposure to market risks relates to changes in interest rates for borrowing under our revolving credit facility. At March 31, 2011, we had no outstanding balance on our revolving credit facility. Borrowings under our revolving credit facility bear interest at variable rates. A hypothetical 10% increase in interest rates would increase our annual interest expense for the three months ended March 31, 2011 by \$0.

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

Item 4. Controls and Procedures

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

Table of Contents

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

As of March 31, 2011, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), management evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level described above.

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

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

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

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

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

(a) None.

(b) None.

(c) **Purchases of Equity Securities**

The following table provides information on a monthly basis for the quarter ended March 31, 2011, with respect to the Company's purchase of equity securities:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
January 1 to January 28, 2011	0	\$ 0.00		
January 29 to February 25, 2011	0	\$ 0.00		
February 26 to March 31, 2011	1,073	\$ 41.45		

⁽¹⁾ As allowed under the provision of our 2006 Management Incentive Plan, ManTech has accepted shares of its common stock in the quarter ended March 31, 2011, from employees for tax withholdings in connection with the vesting of restricted stock. Such shares of common stock are stated at cost and held as treasury shares to be used for general corporate

purposes.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K:

Table of Contents

Exhibit	Description of Exhibit
10.1*	ManTech International Corporation 2011 Executive Incentive Compensation Plan, adopted on March 10, 2011, in which our executive officers and certain other key senior executives participate (incorporated herein by reference from registrant's Current Report on Form 8-K filed with the SEC on March 15, 2011).
12.1	Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.
101	The following materials from ManTech International Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at March 31, 2011 and December 31, 2010; (ii) Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2011 and 2010; (iii) Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2011 and 2010; (iv) Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010; and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocked text.**

Filed Herewith

* Management contract or compensatory plan or arrangement

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

Table of Contents

SIGNATURES

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

MANTECH INTERNATIONAL CORPORATION

Date: April 29, 2011

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

Chief Executive Officer

Date: April 29, 2011

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