

MANTECH INTERNATIONAL CORP  
Form 10-Q  
August 01, 2008  
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**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, 2008

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)

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

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

Indicate by check mark whether the registrant 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.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" 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 July 29, 2008 there were outstanding 21,199,182 shares of our Class A Common Stock and 13,958,345 shares of our Class B Common Stock.

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**MANTECH INTERNATIONAL CORPORATION**

**FORM 10-Q**

**FOR THE QUARTER ENDED June 30, 2008**

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

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

	(unaudited)	
	June 30, 2008	December 31, 2007
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 10,014	\$ 8,048
Receivables net	354,102	337,467
Prepaid expenses and other	17,584	19,104
<b>Total Current Assets</b>	<b>381,700</b>	<b>364,619</b>
Property and equipment net	14,802	14,170
Goodwill	452,213	451,832
Other intangibles net	77,202	82,976
Employee supplemental savings plan assets	17,046	17,999
Other assets	5,802	5,907
<b>TOTAL ASSETS</b>	<b>\$ 948,765</b>	<b>\$ 937,503</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of debt	\$ 98,000	\$ 126,000
Accounts payable and accrued expenses	110,770	100,447
Accrued salaries and related expenses	66,136	61,429
Billings in excess of revenue earned	5,944	8,334
<b>Total Current Liabilities</b>	<b>280,850</b>	<b>296,210</b>
Debt-net of current portion		39,000
Accrued retirement	18,358	18,973
Other long-term liabilities	7,156	7,848
Deferred income taxes non-current	27,727	24,167
<b>TOTAL LIABILITIES</b>	<b>334,091</b>	<b>386,198</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS EQUITY:</b>		
Common stock, Class A \$0.01 par value; 150,000,000 shares authorized; 21,413,434 and 20,474,379 shares issued at June 30, 2008 and December 31, 2007; 21,170,394 and 20,231,339 shares outstanding at June 30, 2008 and December 31, 2007, respectively	214	205
Common stock, Class B \$0.01 par value; 50,000,000 shares authorized; 13,958,345 and 14,279,813 shares issued and outstanding at June 30, 2008 and December 31, 2007	140	143
Additional paid-in capital	320,576	297,827
Treasury stock, 243,040 shares at cost at June 30, 2008 and December 31, 2007	(9,114)	(9,114)

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Retained earnings	304,515	262,686
Accumulated other comprehensive loss	(193)	(147)
Unearned ESOP shares	(1,464)	(295)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>614,674</b>	<b>551,305</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 948,765</b>	<b>\$ 937,503</b>

See notes to condensed consolidated financial statements.

**Table of Contents****MANTECH INTERNATIONAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In Thousands Except Per Share Amounts)

	(unaudited)		(unaudited)	
	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
<b>REVENUES</b>	\$ 464,970	\$ 348,700	\$ 890,042	\$ 642,985
Cost of services	391,364	292,253	747,082	539,156
General and administrative expenses	36,496	30,968	71,296	56,987
<b>OPERATING INCOME</b>	37,110	25,479	71,664	46,842
Interest expense	(969)	(1,441)	(2,611)	(1,536)
Interest income	131	531	341	953
Other (expense) income, net	(12)	334	(132)	346
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	36,260	24,903	69,262	46,605
Provision for income taxes	(14,364)	(9,799)	(27,433)	(18,133)
<b>INCOME FROM CONTINUING OPERATIONS</b>	21,896	15,104	41,829	28,472
(Loss) from operations of discontinued component, net of taxes				(458)
Gain on sale of discontinued operation, net of taxes (sold to CEO)				338
(Loss) from discontinued operations, net of taxes				(120)
<b>NET INCOME</b>	\$ 21,896	\$ 15,104	\$ 41,829	\$ 28,352
<b>BASIC EARNINGS (LOSS) PER SHARE:</b>				
<b>Class A common stock</b>				
Income from continuing operations	\$ 0.63	\$ 0.44	\$ 1.21	\$ 0.84
(Loss) from discontinued operations, net of taxes				
<b>Class A basic earnings per share</b>	\$ 0.63	\$ 0.44	\$ 1.21	\$ 0.84
Weighted average common shares outstanding	20,835	19,575	20,577	19,441
<b>Class B common stock</b>				
Income from continuing operations	\$ 0.63	\$ 0.44	\$ 1.21	\$ 0.84
(Loss) from discontinued operations, net of taxes				
<b>Class B basic earnings per share</b>	\$ 0.63	\$ 0.44	\$ 1.21	\$ 0.84
Weighted average common shares outstanding	14,033	14,428	14,135	14,498
<b>DILUTED EARNINGS (LOSS) PER SHARE:</b>				
<b>Class A common stock</b>				
Income from continuing operations	\$ 0.62	\$ 0.44	\$ 1.19	\$ 0.83
(Loss) from discontinued operations, net of taxes				

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<b>Class A diluted earnings per share</b>	\$	0.62	\$	0.44	\$	1.19	\$	0.83
Weighted average common shares outstanding		21,298		19,965		21,040		19,864
<b>Class B common stock</b>								
Income from continuing operations	\$	0.62	\$	0.44	\$	1.19	\$	0.83
(Loss) from discontinued operations, net of taxes								
<b>Class B diluted earnings per share</b>	\$	0.62	\$	0.44	\$	1.19	\$	0.83
Weighted average common shares outstanding		14,033		14,428		14,135		14,498

See notes to condensed consolidated financial statements.

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

(Dollars in Thousands)

	(unaudited) Three months ended June 30,		(unaudited) Six months ended June 30,	
	2008	2007	2008	2007
<b>NET INCOME</b>	\$ 21,896	\$ 15,104	\$ 41,829	\$ 28,352
<b>OTHER COMPREHENSIVE INCOME:</b>				
Translation adjustments	(48)	(27)	(46)	(25)
<b>Total other comprehensive income</b>	(48)	(27)	(46)	(25)
<b>COMPREHENSIVE INCOME</b>	\$ 21,848	\$ 15,077	\$ 41,783	\$ 28,327

See notes to condensed consolidated financial statements.



**Table of Contents****MANTECH INTERNATIONAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in Thousands)

	(unaudited)	
	Six months ended June 30,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 41,829	\$ 28,352
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operation, net of tax		458
Gain on sale of discontinued operation, net of tax		(338)
Stock-based compensation	3,363	3,422
Tax benefits from exercise of stock options	(3,301)	(755)
Deferred income taxes	3,121	(6,275)
Depreciation and amortization	8,311	6,170
Change in assets and liabilities net of effects from acquired and disposed businesses:		
Receivables-net	(16,635)	(7,414)
Prepaid expenses and other	(3,192)	4,705
Accounts payable and accrued expenses	13,897	(817)
Accrued salaries and related expenses	4,707	(5,654)
Billings in excess of revenue earned	(2,390)	703
Accrued retirement	(615)	604
Other	1,252	(118)
<b>Net cash flow from operating activities of continuing operations</b>	<b>50,347</b>	<b>23,043</b>
<b>Net cash flow from discontinued operations</b>		<b>(1,562)</b>
<b>Net cash flow from operating activities</b>	<b>50,347</b>	<b>21,481</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(3,076)	(1,553)
Investment in capitalized software for internal use	(1,001)	(1,508)
Proceeds from the sale of property and equipment		1,828
Proceeds from note receivable	5,126	
Acquisition of businesses	(381)	(198,236)
<b>Net investing cash flow from continuing operations</b>	<b>668</b>	<b>(199,469)</b>
<b>Net investing cash flow from discontinued operations</b>		<b>3,000</b>
<b>Net cash flow from investing activities</b>	<b>668</b>	<b>(196,469)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from exercise of stock options	14,650	4,898
Excess tax benefits from the exercise of stock options	3,301	755
Excess tax benefit from distribution of shares held in grantor trust		8,581
Treasury stock acquired		(9,114)
Net borrowings under the line of credit, non-current		60,000
Net (repayments) borrowings under the line of credit	(67,000)	71,992
<b>Net cash flow from financing activities</b>	<b>(49,049)</b>	<b>137,112</b>

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<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,966	(37,876)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	8,048	41,510
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 10,014	\$ 3,634
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for income taxes	\$ 26,056	\$ 14,006
Cash paid for interest	\$ 2,682	\$ 1,468
Noncash financing activities:		
ESOP Contributions	\$ 1,169	\$

See notes to condensed consolidated financial statements.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2008**

**UNAUDITED**

**1. Introduction and Overview**

ManTech International Corporation (depending on the circumstances, ManTech Company we our ours or us ) is a provider of innovative technologies and solutions for mission-critical national security programs for the U.S. government Intelligence Community; the departments of Defense, State, Homeland Security and Justice; the Space Community; and other federal government agencies. Our expertise includes systems engineering, systems integration, software development, enterprise architecture, cyber security, information assurance, intelligence operations and analysis support, network and critical infrastructure protection, information operations and information warfare support, information technology, communications integration, logistics and supply chain management, and service oriented architectures. With approximately 7,400 highly qualified employees, we operate in the United States and approximately 40 countries worldwide.

**2. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in the annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to those rules and regulations. We recommend that you read these unaudited condensed consolidated financial statements in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K for the fiscal year ended December 31, 2007, previously filed with the SEC. We believe that the unaudited condensed consolidated financial statements in this Form 10-Q reflect all adjustments that are necessary to fairly present the financial position, results of operations and cash flows for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results that can be expected for the full year.

**3. Acquisitions**

**McDonald Bradley Acquisition** On December 18, 2007, we completed the acquisition of all outstanding equity interests in McDonald Bradley, Inc. ( McDonald Bradley ). The results of McDonald Bradley s operations have been included in the consolidated financial statements since that date. The acquisition was consummated pursuant to an Agreement and Plan of Merger ( Merger Agreement ), dated November 15, 2007, by and among ManTech, McDonald Bradley, Spyglass Acquisition Corp., a newly formed and wholly owned subsidiary of the Company ( Merger Sub ), and a Shareholder Representative for the shareholders of McDonald Bradley. Pursuant to the terms of the Merger Agreement, Merger Sub merged with and into McDonald Bradley, with McDonald Bradley continuing as the surviving corporation and a wholly owned subsidiary of the Company. At December 18, 2007, McDonald Bradley had 264 employees of which approximately two-thirds held security clearances. For calendar year 2007, McDonald Bradley s revenues were \$49.5 million.

McDonald Bradley, was a privately-held company, doing business as a secure information sharing and IT solutions provider to the federal government with a focus on Department of Defense (DOD), Intelligence Community and Homeland Security markets. McDonald Bradley is a provider of high-end, mission-critical, technology-differentiated solutions primarily in areas of Service Oriented Architectures, data interoperability and information assurance.

Management believes the acquisition of McDonald Bradley has deepened our capabilities in the high-end defense, intelligence and homeland security marketplace, strengthens our position as a provider of secure information sharing and data interoperability solutions, and improves our position to bid as a prime contractor on larger information technology solutions opportunities.

The initial purchase price was \$78.8 million, which included \$0.4 million in transaction fees. The initial purchase price included a closing date working capital adjustment of \$1.9 million. Pursuant to the Merger Agreement, \$7.7 million of the purchase price was placed into an escrow account to satisfy potential indemnification liabilities of the Company, and to satisfy potential expenses of the Shareholder Representative. The escrow term is for a period of sixteen months. We utilized borrowings under our credit agreement (see Note 8) to finance the acquisition.

The preliminary purchase price was allocated to the underlying assets and liabilities based on their estimated fair values at the date of acquisition. Total assets were \$85.5 million, including goodwill and intangible assets recognized in connection with the acquisition, and total liabilities were \$6.7 million. Included in total assets were \$10.2 million in acquired intangible assets which are being amortized over their respective estimated useful lives, ranging from one to twenty years, using the pattern of



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benefits method. Other than goodwill and other intangible assets recognized in connection with the acquisition, the assets, liabilities and results of operations of McDonald Bradley were not significant to the Company's condensed consolidated financial position or results of operations. We have recorded goodwill of \$63.2 million, which, assuming adequate levels of taxable income, will be deductible for tax purposes over 15 years. Recognition of goodwill is largely attributed to the highly skilled employees and the value paid for companies supporting high-end defense, intelligence and homeland security markets.

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

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

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

The purchase price was \$199.1 million, which included \$1.2 million in transaction fees. The purchase price also included a closing date working capital adjustment of \$2.9 million. Pursuant to the Merger Agreement, and as security for the SRS shareholders' indemnification for unanticipated contingencies, an escrow account in the amount of \$36.1 million was established for a period of three years from the date of acquisition. On May 8, 2008, \$11.4 million was paid out of the escrow account and distributed to the respective SRS shareholders. We utilized a combination of cash on hand and borrowings under our credit agreement (see Note 8) to finance the acquisition.

The purchase price was allocated to SRS's net tangible and identifiable intangible assets based on their estimated fair values at the date of acquisition. Total assets were \$245.9 million, including goodwill and intangible assets recognized in connection with the acquisition, and total liabilities were \$46.8 million. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill. The allocation of the purchase price resulted in acquired contract and program intangibles of \$40.9 million and goodwill of \$150.5 million. The intangible assets are being amortized over their respective estimated useful lives, ranging from six to twenty years, using the pattern of benefits method. Recognition of goodwill is largely attributed to the highly skilled employees of SRS, their presence in the high-end security marketplace, and the value paid for companies in this business. The goodwill is not deductible for tax purposes.

*Pro Forma Financial Information*

The unaudited financial information in the table below summarizes the combined results of operations of ManTech and SRS, on a pro forma basis, as though the companies had been combined as of the beginning of the period presented. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition and borrowings under our credit agreement (see Note 8) had taken place at the beginning of the period presented. The pro forma financial information for the three and six months ended June 30, 2007 includes the business combination accounting effect on historical ManTech for amortization charges from acquired intangible assets, interest expense at our current level of debt, removal of SRS's CEO salary and benefit related costs, and the related tax effects.

The unaudited pro forma financial information for the three and six months ended June 30, 2007 presented below combines the historical results for ManTech and SRS.

(in thousands except per share amounts)	Three months ended June 30, 2007	Six months ended June 30, 2007
Revenue	\$ 374,837	\$ 719,891
Income from continuing operations-net of taxes	\$ 17,068	\$ 33,381

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Net Income	\$	15,269	\$	29,296
Diluted earnings per share (Class A and B common stock)	\$	0.44	\$	0.85

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Numerator for net income per Class A and Class B common stock:</b>				
Net income	\$ 21,896	\$ 15,104	\$ 41,829	\$ 28,352
Numerator for basic net income Class A common stock	\$ 13,084	\$ 8,695	\$ 24,796	\$ 16,241
Numerator for basic net income Class B common stock	\$ 8,812	\$ 6,409	\$ 17,033	\$ 12,111
Numerator for diluted net income Class A common stock	\$ 13,199	\$ 8,768	\$ 25,020	\$ 16,390
Numerator for diluted net income Class B common stock	\$ 8,697	\$ 6,336	\$ 16,809	\$ 11,962
<b>Basic weighted average common shares outstanding</b>				
Class A common stock	20,835	19,575	20,577	19,441
Class B common stock	14,033	14,428	14,135	14,498
<b>Effect of potential exercise of stock options</b>				
Class A common stock	463	390	463	423
Class B common stock				
<b>Diluted weighted average common shares outstanding - Class A</b>				
	21,298	19,965	21,040	19,864
<b>Diluted weighted average common shares outstanding - Class B</b>				
	14,033	14,428	14,135	14,498

For the three months ended June 30, 2008 and 2007, options to purchase 690 thousand and 850 thousand shares, respectively, weighted for the portion of the period for which they were outstanding, were outstanding but not included in the computation of diluted earnings per share because the options' effect would have been anti-dilutive. For the six months ended June 30, 2008 and 2007, options to purchase 750 thousand and 685 thousand shares, respectively, weighted for the portion of the period for which they were outstanding, were outstanding but not included in the computation of diluted earnings per share because the options' effect would have been anti-dilutive. For the six months ended June 30, 2008 and 2007, shares issued from the exercise of stock options were 592 thousand and 245 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):

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	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Billed receivables	\$ 308,153	\$ 298,059
Unbilled receivables:		
Amounts billable	41,484	32,194
Revenues recorded in excess of funding	6,698	7,792
Revenues recorded in excess of milestone billings on fixed price contracts	1,030	3,448
Retainage	3,383	2,127
Allowance for doubtful accounts	(6,646)	(6,153)
	\$ 354,102	\$ 337,467



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Amounts billable consist principally of amounts to be billed within the next month. Revenues recorded in excess of funding are billable upon receipt of contractual amendments or other modifications. Revenues recorded in excess of milestone billings on fixed price contracts consist of amounts not expected to be billed within the next month. The retainage is billable upon completion of the contract performance and approval of final indirect expense rates by the government. Accounts receivable at June 30, 2008, are expected to be substantially collected within one year except for approximately \$2.7 million.

**6. Property and Equipment**

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

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Furniture and equipment	\$ 25,740	\$ 23,916
Leasehold improvements	13,285	13,543
	39,025	37,459
Less: Accumulated depreciation and amortization	(24,223)	(23,289)
	\$ 14,802	\$ 14,170

**7. Goodwill and Other Intangibles**

SFAS No. 142, *Goodwill and Other Intangible Assets* requires, among other things, the discontinuance of goodwill amortization. Under SFAS 142, goodwill is to be reviewed at least annually for impairment; we have elected to perform this review annually during the second quarter each calendar year. These reviews indicated no impairment and therefore resulted in no adjustments in goodwill.

The changes in the carrying amounts of goodwill during the year ended December 31, 2007 and the period ended June 30, 2008 are as follows (in thousands):

	<b>Goodwill Balance</b>
<b>December 31, 2006</b>	<b>\$ 248,429</b>
Less: Accumulated amortization (pre adoption of SFAS 142)	(10,107)
<b>Net amount at December 31, 2006</b>	<b>238,322</b>
Acquisition-SRS Technologies, Inc.	\$ 150,345
Acquisition-McDonald Bradley, Inc.	62,965
Additional consideration for the acquisition of GRS Solutions, Inc.	200
	213,510
<b>Net amount at December 31, 2007</b>	<b>\$ 451,832</b>
McDonald Bradley, Inc.-additional consideration for the acquisition and purchase accounting adjustments	\$ 224
SRS Technologies, Inc.-additional consideration for the acquisition and purchase accounting adjustments	157
	381
<b>Net amount at June 30, 2008</b>	<b>\$ 452,213</b>

Intangible assets consisted of the following (in thousands):

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	June 30, 2008			December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortized intangible assets:</b>						
Contract and program intangibles	\$ 96,240	\$ 25,093	\$ 71,147	\$ 96,240	\$ 20,265	\$ 75,975
Capitalized software cost for sale	10,138	9,198	940	11,672	10,430	1,242
Capitalized software cost for internal use	14,107	9,046	5,061	13,699	7,997	5,702
Other	58	4	54	57		57
	\$ 120,543	\$ 43,341	\$ 77,202	\$ 121,668	\$ 38,692	\$ 82,976

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Aggregate amortization expense for the three months ended June 30, 2008 and 2007 was \$3.0 million and \$2.4 million, respectively. Aggregate amortization expense for the six months ended June 30, 2008 and 2007 was \$6.0 million and \$4.2 million, respectively. We estimate that we will have the following amortization expense for the future periods indicated below (in thousands):

For the remaining six months ending December 31, 2008	\$ 5,924
Year ending:	
December 31, 2009	\$ 11,122
December 31, 2010	\$ 9,062
December 31, 2011	\$ 6,303
December 31, 2012	\$ 5,112
December 31, 2013	\$ 4,211

**8. Debt**

We maintain a revolving credit agreement with a syndicate of lenders led by Bank of America, N.A, as administrative agent. The credit agreement provides for a \$300.0 million revolving credit facility, with a \$25.0 million letter of credit sub limit and a \$30.0 million swing line loan sub limit. The credit agreement also contains an accordion feature that permits the Company to arrange with the lenders for them to provide up to \$100.0 million in additional commitments. The maturity date for the credit agreement is April 30, 2012.

Borrowings under the credit agreement are collateralized by our assets and bear interest at one of the following rates as selected by the Company: a LIBOR-based rate plus market-rate spreads that are determined based on a company leverage ratio calculation (0.875% to 1.5%), or the lender's base rate, which is the lower of the Federal Funds Rate plus 0.5% or Bank of America's prime lending rate. At June 30, 2008, the borrowing rate on our outstanding debt was 2.97%.

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 June 30, 2008, we were in compliance with our financial covenants under the credit agreement.

We had \$98.0 million outstanding on our credit facility at June 30, 2008 and \$165.0 million at December 31, 2007. The maximum additional available borrowing under the credit facility at June 30, 2008 was \$201.3 million. As of June 30, 2008, we were contingently liable under letters of credit totaling \$0.7 million, which reduces our availability to borrow under our credit facility.

**9. Commitments and Contingencies**

Payments to us on cost-reimbursable contracts with the U.S. government are provisional payments subject to adjustment upon audit by the DCAA or other government audit agencies. The majority of audits for 2002, 2003 and 2004 have been completed and resulted in no material adjustments. The remaining audits for 2002 through 2007 are not expected to have a material effect on the results of future operations.

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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**

**Stock Options** In June 2006, the Company's stockholders approved our 2006 Management Incentive Plan (the Plan), which was designed to enable us to attract, retain and motivate key employees. The Plan amended and restated the Company's Management Incentive Plan that was approved by the Company's stockholders prior to the initial public offering in 2002 (the 2002 Plan). In connection with the creation of the Plan, all options outstanding under the 2002 Plan were assumed. Awards granted under the Plan are settled in shares of Class A common stock. At the beginning of each year, the Plan provides that the number of shares available for issuance automatically increases by an amount equal to one and one-half percent of the total number of shares of Class A and Class B common stock outstanding on December 31st of the previous year. On January 2, 2008, 517,667 additional shares were made available for issuance under the Plan. Through June 30, 2008, the aggregate number of shares of our common stock authorized for issuance under the Plan was 7,312,649. Through June 30, 2008, 3,013,790 shares of our Class A common stock have been issued as a result of the exercise of the options granted under the Plan. The Plan expires in June 2016.

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

We typically issue options that vest in three equal installments, beginning on the first anniversary of the date of grant. Prior to January 1, 2006, we typically issued options under the 2002 Plan that expired ten years after the date of grant. Under the terms of the Plan, the contractual life of the option grants may not exceed eight years. During the six months ended June 30, 2008 and 2007, we issued options that expire five years from the date of grant. The Company expects that it will continue to issue options that expire five years from the date of grant for the foreseeable future.

**Stock Compensation Expense** Effective January 1, 2006, we adopted the Financial Accounting Standards Board (FASB) SFAS No. 123 (revised 2004), *Share-Based Payment*, using the modified prospective method. Under this method, compensation costs for all awards granted after the date of adoption and the unvested portion of previously granted awards are measured at an estimated fair value and included in operating expenses or capitalized as appropriate over the vesting period during which an employee provides service in exchange for the award. For the six months ended June 30, 2008 and 2007, total recognized tax benefits from the exercise of stock options were \$3.6 million and \$0.9 million, respectively. For the three months ended June 30, 2008 and 2007, we recorded \$1.6 million and \$1.9 million of stock-based compensation cost as general and administrative expense