

MANTECH INTERNATIONAL CORP
Form 10-Q
October 30, 2009
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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 September 30, 2009

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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| | |
|---|--|
| 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 October 28, 2009 there were outstanding 22,292,138 shares of our Class A common stock and 13,605,345 shares of our Class B common stock.

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MANTECH INTERNATIONAL CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED September 30, 2009

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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) | |
|--|-----------------------|----------------------|
| | September 30, 2009 | December 31, 2008 |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 51,830 | \$ 4,375 |
| Receivables net | 363,972 | 407,248 |
| Prepaid expenses and other | 10,613 | 14,200 |
| Total Current Assets | 426,415 | 425,823 |
| Property and equipment net | 14,857 | 16,563 |
| Goodwill | 488,217 | 479,516 |
| Other intangibles net | 76,372 | 78,710 |
| Employee supplemental savings plan assets | 19,553 | 14,771 |
| Other assets | 5,709 | 6,329 |
| TOTAL ASSETS | \$ 1,031,123 | \$ 1,021,712 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current portion of debt | \$ | \$ 44,100 |
| Accounts payable and accrued expenses | 120,688 | 157,407 |
| Accrued salaries and related expenses | 60,148 | 75,121 |
| Billings in excess of revenue earned | 8,476 | 8,451 |
| Total Current Liabilities | 189,312 | 285,079 |
| Accrued retirement | 20,517 | 15,930 |
| Other long-term liabilities | 7,463 | 7,769 |
| Deferred income taxes non-current | 33,590 | 32,398 |
| TOTAL LIABILITIES | 250,882 | 341,176 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS EQUITY: | | |
| Common stock, Class A \$0.01 par value; 150,000,000 shares authorized; 22,505,771 and 21,765,004 shares issued at September 30, 2009 and December 31, 2008; 22,262,731 and 21,521,964 shares outstanding at September 30, 2009 and December 31, 2008 | 225 | 218 |
| Common stock, Class B \$0.01 par value; 50,000,000 shares authorized; 13,605,345 and 13,958,345 shares issued and outstanding at September 30, 2009 and December 31, 2008 | 136 | 140 |
| Additional paid-in capital | 356,545 | 336,454 |

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| | | |
|--|---------------------|---------------------|
| Treasury stock, 243,040 shares at cost at September 30, 2009 and December 31, 2008 | (9,114) | (9,114) |
| Retained earnings | 435,226 | 352,978 |
| Accumulated other comprehensive loss | (149) | (140) |
| Unearned Employee Stock Ownership Plan shares | (2,628) | |
| TOTAL STOCKHOLDERS EQUITY | 780,241 | 680,536 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 1,031,123 | \$ 1,021,712 |

See notes to condensed consolidated financial statements.

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MANTECH INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In Thousands Except Per Share Amounts)

| | (unaudited) Three months ended September 30, | | (unaudited) Nine months ended September 30, | |
|--|--|------------|---|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| REVENUES | \$ 514,630 | \$ 486,128 | \$ 1,478,268 | \$ 1,376,170 |
| Cost of services | 425,566 | 407,973 | 1,218,112 | 1,155,055 |
| General and administrative expenses | 42,627 | 37,831 | 128,488 | 109,127 |
| OPERATING INCOME | 46,437 | 40,324 | 131,668 | 111,988 |
| Interest expense | (214) | (962) | (921) | (3,573) |
| Interest income | 45 | 369 | 161 | 711 |
| Other income (expense), net | 151 | (223) | 259 | (355) |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 46,419 | 39,508 | 131,167 | 108,771 |
| Provision for income taxes | (17,181) | (15,644) | (48,919) | (43,078) |
| NET INCOME | \$ 29,238 | \$ 23,864 | \$ 82,248 | \$ 65,693 |
| BASIC EARNINGS PER SHARE: | | | | |
| Class A basic earnings per share | \$ 0.82 | \$ 0.68 | \$ 2.31 | \$ 1.88 |
| Weighted average common shares outstanding | 22,092 | 21,297 | 21,867 | 20,819 |
| Class B basic earnings per share | \$ 0.82 | \$ 0.68 | \$ 2.31 | \$ 1.88 |
| Weighted average common shares outstanding | 13,637 | 13,958 | 13,741 | 14,076 |
| DILUTED EARNINGS PER SHARE: | | | | |
| Class A diluted earnings per share | \$ 0.81 | \$ 0.67 | \$ 2.29 | \$ 1.86 |
| Weighted average common shares outstanding | 22,427 | 21,755 | 22,176 | 21,279 |
| Class B diluted earnings per share | \$ 0.81 | \$ 0.67 | \$ 2.29 | \$ 1.86 |
| Weighted average common shares outstanding | 13,637 | 13,958 | 13,741 | 14,076 |

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 September 30, | | (unaudited) Nine months ended September 30, | |
|---|--|-----------|---|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| NET INCOME | \$ 29,238 | \$ 23,864 | \$ 82,248 | \$ 65,693 |
| OTHER COMPREHENSIVE INCOME: | | | | |
| Translation adjustment | (8) | 41 | (9) | (5) |
| Total other comprehensive income | (8) | 41 | (9) | (5) |
| COMPREHENSIVE INCOME | \$ 29,230 | \$ 23,905 | \$ 82,239 | \$ 65,688 |

See notes to condensed consolidated financial statements.

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

| | (unaudited) | |
|---|-------------------|-----------------|
| | Nine months ended | |
| | September 30, | |
| | 2009 | 2008 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 82,248 | \$ 65,693 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Stock-based compensation | 5,818 | 4,959 |
| Excess tax benefits from exercise of stock options | (830) | (5,990) |
| Deferred income taxes | 329 | 4,291 |
| Depreciation and amortization | 13,274 | 12,926 |
| Change in assets and liabilities net of effects from acquired businesses: | | |
| Receivables-net | 44,563 | (2,981) |
| Prepaid expenses and other | 4,432 | 1,558 |
| Accounts payable and accrued expenses | (35,984) | 32,070 |
| Accrued salaries and related expenses | (15,331) | 4,186 |
| Billings in excess of revenue earned | 25 | 142 |
| Accrued retirement | (195) | (1,374) |
| Other | 333 | 1,414 |
| Net cash flow from operating activities | 98,682 | 116,894 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (3,080) | (3,108) |
| Investment in capitalized software for internal use | (1,752) | (2,062) |
| Proceeds from note receivable | | 5,126 |
| Acquisition of businesses net of cash acquired | (13,775) | (24,608) |
| Net cash flow from investing activities | (18,607) | (24,652) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from exercise of stock options | 10,650 | 20,775 |
| Excess tax benefits from the exercise of stock options | 830 | 5,990 |
| Net repayment under the line of credit | (44,100) | (120,100) |
| Net cash flow from financing activities | (32,620) | (93,335) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 47,455 | (1,093) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 4,375 | 8,048 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 51,830 | \$ 6,955 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash paid for income taxes | \$ 51,389 | \$ 31,551 |

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| | | |
|---|----------|----------|
| Cash paid for interest | \$ 713 | \$ 3,370 |
| Noncash financing activities: | | |
| Employee Stock Ownership Plan Contributions | \$ 2,853 | \$ 1,792 |

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

UNAUDITED

1. Introduction and Overview

ManTech International Corporation (depending on the circumstances, ManTech Company we our ours or us) is a leading provider of information technologies and solutions for mission-critical national security programs for the Intelligence Community; the departments of Defense, State, Homeland Security and Justice; the Space Community; the National Oceanic and Atmospheric Administration; and other U.S. federal government customers. ManTech's expertise includes systems engineering, systems integration, software development services, 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, global logistics and supply chain management and service oriented architectures. The Company supports the advanced telecommunications systems that are used in Operation Iraqi Freedom, Operation Enduring Freedom and in other parts of the world; has developed a secure, collaborative communication system for the U.S. Department of Homeland Security; and builds and maintains secure databases that track terrorists. With approximately 8,000 highly qualified employees, we operate in approximately 40 countries.

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, 2008, 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. Management has evaluated subsequent events after the balance sheet date through the financial statement issuance date for appropriate accounting and disclosure.

3. Acquisitions

The DDK Technology Group, Inc. (DDK) acquisition has been accounted for using the acquisition method of accounting under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, *Business Combinations*. Acquisitions prior to January 1, 2009 have been accounted for using the purchase accounting method under Statement of Financial Accounting Standards No. 141, *Business Combinations*. Additional information related to our acquisitions can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, previously filed with the SEC.

DDK Technology Group Acquisition On March 13, 2009, we completed the acquisition of all outstanding equity interests of DDK. The results of DDK's operations have been included in our condensed consolidated financial statements since that date. The acquisition was consummated pursuant to a stock purchase agreement (DDK Purchase Agreement), dated March 13, 2009, by and among ManTech, DDK and the shareholders of DDK. DDK was a privately held company, providing information technology and cyber security for several Department of Defense agencies.

The final purchase price was \$14.0 million. The DDK Purchase Agreement does not contain provisions for contingent consideration. We primarily utilized borrowings under our credit agreement to finance the acquisition.

EWA Services Acquisition On November 28, 2008, we completed the acquisition of all outstanding equity interests of EWA Services, Inc. (EWA). EWA was a subsidiary of a privately-held company, providing information technology, threat analysis and test and evaluation services for several Department of Defense agencies. The acquisition of EWA has expanded our work in Department of Defense and Intelligence missions. The final purchase price was \$12.4 million, which included a \$0.4 million working capital adjustment.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

September 30, 2009

UNAUDITED

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 from time to time.

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Numerator for net income per Class A and Class B common stock: | | | | |
| Net income | \$ 29,238 | \$ 23,864 | \$ 82,248 | \$ 65,693 |
| Numerator for basic net income Class A common stock | \$ 18,078 | \$ 14,416 | \$ 50,508 | \$ 39,194 |
| Numerator for basic net income Class B common stock | \$ 11,160 | \$ 9,448 | \$ 31,740 | \$ 26,499 |
| Numerator for diluted net income Class A common stock | \$ 18,182 | \$ 14,537 | \$ 50,781 | \$ 39,538 |
| Numerator for diluted net income Class B common stock | \$ 11,056 | \$ 9,327 | \$ 31,467 | \$ 26,155 |
| Basic weighted average common shares outstanding | | | | |
| Class A common stock | 22,092 | 21,297 | 21,867 | 20,819 |
| Class B common stock | 13,637 | 13,958 | 13,741 | 14,076 |
| Effect of potential exercise of stock options | | | | |
| Class A common stock | 335 | 458 | 309 | 460 |
| Class B common stock | | | | |
| Diluted weighted average common shares outstanding - Class A | | | | |
| | 22,427 | 21,755 | 22,176 | 21,279 |
| Diluted weighted average common shares outstanding - Class B | | | | |
| | 13,637 | 13,958 | 13,741 | 14,076 |

For the three months ended September 30, 2009 and 2008, options to purchase 1.1 million and 0.1 million shares, respectively, weighted for the portion of the period for which they were outstanding, were outstanding but not included in the computation of diluted earnings per share because the options' effect would have been anti-dilutive. For the nine months ended September 30, 2009 and 2008, options to purchase 1.1 million and 0.4 million shares, respectively, weighted for the portion of the period for which they were outstanding, were outstanding but not

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included in the computation of diluted earnings per share because the options' effect would have been anti-dilutive. For the nine months ended September 30, 2009 and 2008, shares issued from the exercise of stock options were 322 thousand and 851 thousand, respectively.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2009****UNAUDITED****5. Receivables**

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

| | September 30, 2009 | December 31, 2008 |
|--|-------------------------------|------------------------------|
| Billed receivables | \$ 313,699 | \$ 342,619 |
| Unbilled receivables: | | |
| Amounts billable | 47,804 | 57,505 |
| Revenues recorded in excess of funding | 6,602 | 11,341 |
| Revenues recorded in excess of milestone billings on fixed price contracts | 234 | 929 |
| Retainage | 2,704 | 3,175 |
| Allowance for doubtful accounts | (7,071) | (8,321) |
| | \$ 363,972 | \$ 407,248 |

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 September 30, 2009, 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):

| | September 30, 2009 | December 31, 2008 |
|---|-------------------------------|------------------------------|
| Furniture and equipment | \$ 28,012 | \$ 27,196 |
| Leasehold improvements | 16,194 | 15,543 |
| | 44,206 | 42,739 |
| Less: Accumulated depreciation and amortization | (29,349) | (26,176) |
| | \$ 14,857 | \$ 16,563 |

7. Goodwill and Other Intangibles

The changes in the carrying amounts of goodwill during the year ended December 31, 2008 and the period ended September 30, 2009 are as follows (in thousands):

| | | Goodwill Balance |
|---|-----------|-----------------------------|
| Net amount at December 31, 2007 | | \$ 451,832 |
| Acquisition-ETG | \$ 18,349 | |
| Additional consideration for the acquisition of MBI | 223 | |
| Additional consideration for the acquisition of SRS | 120 | |
| Acquisition-EWA | 8,992 | 27,684 |
| Net amount at December 31, 2008 | | \$ 479,516 |
| Additional purchase adjustments related to EWA | \$ (206) | |
| Acquisition-DDK | 8,907 | 8,701 |
| Net amount at September 30, 2009 | | \$ 488,217 |

Intangible assets consisted of the following (in thousands):

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| | September 30, 2009 | | | December 31, 2008 | | |
|--|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Amortized intangible assets: | | | | | | |
| Contract and program intangibles | \$ 107,430 | \$ 37,484 | \$ 69,946 | \$ 103,255 | \$ 29,913 | \$ 73,342 |
| Capitalized software cost for sale | 10,138 | 9,932 | 206 | 10,138 | 9,847 | 291 |
| Capitalized software cost for internal use | 17,948 | 11,775 | 6,173 | 15,119 | 10,093 | 5,026 |
| Other | 58 | 11 | 47 | 58 | 7 | 51 |
| | \$ 135,574 | \$ 59,202 | \$ 76,372 | \$ 128,570 | \$ 49,860 | \$ 78,710 |

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2009****UNAUDITED**

Aggregate amortization expense relating to intangible assets for the three months ended September 30, 2009 and 2008 was \$3.2 million and \$3.6 million, respectively. Aggregate amortization expense relating to intangible assets for the nine months ended September 30, 2009 and 2008 was \$9.4 million and \$9.6 million, respectively. We estimate that we will have the following amortization expense for the future periods indicated below (in thousands):

| | |
|---|-----------|
| For the remaining three months ending December 31, 2009 | \$ 3,151 |
| Year ending: | |
| December 31, 2010 | \$ 10,314 |
| December 31, 2011 | \$ 7,478 |
| December 31, 2012 | \$ 6,164 |
| December 31, 2013 | \$ 5,341 |
| December 31, 2014 | \$ 4,473 |

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 sublimit and a \$30.0 million swing line loan sublimit. The credit agreement also contains an accordion feature that permits the Company to arrange with the lenders for 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 London Interbank Offer Rate (LIBOR) based rate plus market-rate spreads that are determined based on the Company's leverage ratio calculation (0.875% to 1.5%), or the lender's base rate, which is the lower of the Federal Funds Rate plus 0.5% or Bank of America's prime lending rate. At September 30, 2009, the borrowing rate on our outstanding debt was 0.67%.

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 September 30, 2009, we were in compliance with our financial covenants under the credit agreement.

We had no outstanding balance on our credit facility at September 30, 2009 and \$44.1 million outstanding at December 31, 2008. As of September 30, 2009, we were contingently liable under letters of credit totaling \$0.7 million, which reduces our availability to borrow under our credit facility. The maximum available borrowing under the credit facility at September 30, 2009 was \$299.3 million.

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 Defense Contract Audit Agency (DCAA). The majority of audits for 2002, 2003 and 2004 have been completed and resulted in no material adjustments. The remaining audits for 2002 through 2008 are not expected to have a material effect on the results of future operations.

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

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. 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, 2009, 532,205 additional shares were made available for issuance under the Plan. Through September 30, 2009, the aggregate number of shares of our common stock authorized for issuance under the Plan was 1,498,407. Through September 30, 2009, 3,665,600 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 2016.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2009****UNAUDITED**

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.

We typically issue options that vest in three equal installments, beginning on the first anniversary of the date of grant. Prior to January 1, 2006, we typically issued options under the 2002 Plan that expired ten years after the date of grant. Under the terms of the Plan, the contractual life of the option grants may not exceed eight years. During the nine months ended September 30, 2009 and 2008, 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 For the three months ended September 30, 2009 and 2008, we recorded \$2.2 million and \$1.6 million of stock-based compensation cost, respectively. For the nine months ended September 30, 2009 and 2008, we recorded \$5.8 million and \$5.0 million of stock-based compensation cost, respectively. No compensation expense of employee's holding stock options, including stock-based compensation expense, was capitalized during the period. As of September 30, 2009, there was \$18.0 million of unrecognized compensation cost related to share-based compensation arrangements that we expect to vest. The weighted-average period over which expense is expected to be recognized is 2.1 years. For the nine months ended September 30, 2009 and 2008, the total recognized tax benefits from the exercise of stock options were \$0.8 million and \$6.3 million, respectively.

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 nine months ended September 30, 2009 and 2008:

Volatility. The expected volatility of the options granted was estimated based upon historical volatility of the Company's share price through weekly observations of the Company's trading history. For the nine months ended September 30, 2009 and 2008, we used a weighted-average volatility of 40.3% and 34.3%, respectively.

Expected Term. The expected term of options granted to employees during the nine months ended September 30, 2009 and 2008 was determined from historical exercises of the grantee population. Due to the lack of historical exercise data, the expected term for option grants to our board or directors during 2009 and 2008 was determined under SEC's Staff Accounting Bulletin No. 110 ((vesting term + original contractual term)/2). For all grants valued during the nine months ended September 30, 2009 and 2008, the options had graded vesting over 3 years (33.3% of the options in each grant vest annually) and the contractual term was 5 years. For the nine months ended September 30, 2009 and 2008, the options had a weighted-average expected term of 2.92 years and 2.97 years, respectively.

Risk-free Interest Rate. The yield on zero-coupon U.S. Treasury strips was used to extrapolate a forward-yield curve. This term structure of future interest rates was then input into a numeric model to provide the equivalent risk-free rate to be used in the Black-Scholes-Merton model based on expected term of the underlying grants. For the nine months ended September 30, 2009 and 2008, the weighted-average risk-free interest rate used was 1.5% and 1.8%, respectively.

Dividend Yield. The Black-Scholes-Merton valuation model requires an expected dividend yield as an input. We have not issued dividends in the past nor do we expect to issue dividends in the future. As such, the dividend yield used in our valuations for both the nine months ended September 30, 2009 and 2008 was zero.

Stock Option Activity During the nine months ended September 30, 2009, we granted stock options to purchase 1,187,000 shares of Class A common stock at a weighted-average exercise price of \$48.16 per share, which reflects the fair market value of the shares on the date of grant. The weighted-average fair value of options granted during the nine months ended September 30, 2009 and 2008, as determined under the Black-Scholes-Merton valuation model, was \$13.79 and \$11.29, respectively. These options vest in three equal installments over three years and

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have a contractual term of 5 years. Option grants that vested during the nine months ended September 30, 2009 and 2008 had a combined fair value of \$6.1 million and \$5.8 million, respectively.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2009****UNAUDITED**

Information with respect to stock option activity and stock options outstanding for the year ended December 31, 2008 and the nine months ended September 30, 2009.

| | Number of Shares | Weighted Average Exercise Price | Aggregate Intrinsic Value (in thousands) |
|---|-----------------------------|--|---|
| Shares under option, December 31, 2007 | 2,301,242 | \$ 28.30 | |
| Options granted | 724,250 | \$ 45.27 | |
| Options exercised | (922,014) | \$ 24.61 | \$ 24,383 |
| Options cancelled and expired | (142,329) | \$ 36.55 | |
| Shares under option, December 31, 2008 | 1,961,149 | \$ 35.75 | \$ 36,164 |
| Options granted | 1,187,000 | \$ 48.16 | |
| Options exercised | (321,617) | \$ 33.12 | \$ 4,496 |
| Options cancelled and expired | (145,684) | \$ 41.73 | |
| Shares under option, September 30, 2009 | 2,680,848 | \$ 41.30 | \$ 15,555 |

The following table summarizes nonvested stock options for the nine months ended September 30, 2009:

| | Number of Shares | Weighted Average Fair Value |
|---|-----------------------------|--|
| Nonvested stock options at December 31, 2008 | 1,314,862 | \$ 11.51 |
| Options granted | 1,187,000 | \$ 13.79 |
| Vested during period | (541,954) | \$ 11.31 |
| Options cancelled | (140,664) | \$ 10.92 |
| Nonvested shares under option, September 30, 2009 | 1,819,244 | |

Information concerning stock options outstanding and stock options expected to vest at September 30, 2009:

| | Options Exercisable and Expected to Vest | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Aggregate Intrinsic Value (in thousands) |
|--------------------------------|---|--|--|---|
| Stock options exercisable | 861,604 | 3.2 | \$ 30.64 | \$ 14,183 |
| Stock options expected to vest | 1,655,094 | 4.1 | \$ 46.46 | \$ 1,063 |

| | |
|--|-----------|
| Options exercisable and expected to vest | 2,516,698 |
|--|-----------|

11. Business Segment and Geographic Area Information

We operate as one segment, delivering a broad array of information technology and technical services solutions under contracts with the U.S. government, state and local governments and commercial customers. Our federal government customers typically exercise independent contracting authority, and even offices or divisions within an agency or department may directly, or through a prime contractor, use our services as a separate customer so long as that customer has independent decision-making and contracting authority within its organization. Revenues from the U.S. government under prime contracts and subcontracts were approximately 98.2% and 98.0% of our total revenue for the nine months ended September 30, 2009 and 2008, respectively. There were no sales to any customers within a single country (except for the United States) where the sales accounted for 10% or more of total revenue. We treat sales to U.S. government customers as sales within the United States regardless of where the services are performed. Substantially all assets were held in the United States for the periods ended September 30, 2009 and December 31, 2008. Revenues by geographic customer and the related percentages of total revenues for the three and nine months ended September 30, 2009 and 2008 were as follows (dollars in thousands):

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---------------|----------------------------------|--------|------------|--------|---------------------------------|--------|--------------|--------|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| United States | \$ 509,624 | 99.0% | \$ 481,135 | 99.0% | \$ 1,462,985 | 99.0% | \$ 1,359,815 | 98.8% |
| International | 5,006 | 1.0 | 4,993 | 1.0 | 15,283 | 1.0 | 16,355 | 1.2 |
| | \$ 514,630 | 100.0% | \$ 486,128 | 100.0% | \$ 1,478,268 | 100.0% | \$ 1,376,170 | 100.0% |

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****September 30, 2009****UNAUDITED**

During the three and nine months ended September 30, 2009, our U.S. Army Tank-Automotive Command (TACOM) contract exceeded 10% of our revenue from external customers. During the three and nine months ended September 30, 2008, our Countermine contract exceeded 10% of our revenue.

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|--|---|-------------|-------------------|-------------|--|-------------|---------------------|-------------|
| | 2009 | % | 2008 | % | 2009 | % | 2008 | % |
| (dollars in thousands) | | | | | | | | |
| Revenues from external customers: | | | | | | | | |
| TACOM | \$ 113,386 | 22% | \$ 1,026 | 0% | \$ 274,374 | 19% | \$ 1,026 | 0% |
| Countermine | 1,717 | 0% | 87,770 | 18% | 47,780 | 3% | 142,744 | 10% |
| All other contracts | 399,527 | 78% | 397,332 | 82% | 1,156,114 | 78% | 1,232,400 | 90% |
| ManTech Consolidated | \$ 514,630 | 100% | \$ 486,128 | 100% | \$ 1,478,268 | 100% | \$ 1,376,170 | 100% |
| Operating Income: | | | | | | | | |
| TACOM | \$ 5,447 | 12% | \$ 231 | 1% | \$ 14,558 | 11% | \$ 231 | 0% |
| Countermine | 40 | 0% | 2,969 | 7% | | 0% | 6,306 | 6% |
| All other contracts | 40,950 | 88% | 37,124 | 92% | 117,110 | 89% | 105,451 | 94% |
| ManTech Consolidated | \$ 46,437 | 100% | \$ 40,324 | 100% | \$ 131,668 | 100% | \$ 111,988 | 100% |

| | September 30, | | December 31, | |
|-----------------------------|----------------------|-------------|---------------------|-------------|
| | 2009 | % | 2008 | % |
| Receivables: | | | | |
| TACOM | \$ 57,163 | 16% | \$ 24,648 | 6% |
| Countermine | 789 | 0% | 30,164 | 7% |
| All other contracts | 306,020 | 84% | 352,436 | 87% |
| ManTech Consolidated | \$ 363,972 | 100% | \$ 407,248 | 100% |

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

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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 believes these statements to be within the definition of the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as may, will, expect, intend, anticipate, believe, estimate, similar words. You should read statements that contain these words carefully because they discuss our future expectations, make projections of our future results of operations or financial condition or state other forward-looking information.

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

adverse changes in U.S. government spending priorities;

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

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

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

adverse effect of contract consolidations;

risk of contract performance or termination;

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

curtailment of the U.S. Government's outsourcing of mission-critical support and information technology services;

adverse changes in our mix of contract types;

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

failure to identify, execute or effectively integrate future acquisitions;

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

risks related to an inability to obtain new or additional financing; and

competition.

We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report. These and other risk factors are more fully described and discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, previously filed with the Securities and Exchange Commission (SEC), 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

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; the departments of Defense, State, Homeland Security and Justice; the Space Community; the National Oceanic and Atmospheric Administration; and other U.S. federal government customers. ManTech's expertise includes systems engineering, systems integration, software development services, 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, global logistics and supply chain management and service oriented architectures. The Company supports the advanced telecommunications systems that are used in Operation Iraqi Freedom, Operation Enduring Freedom and in other parts of the world; has developed a secure, collaborative communication system for the U.S. Department of Homeland Security; and builds and maintains secure databases that track terrorists. With approximately 8,000 highly qualified employees, we operate in approximately 40 countries.

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

We recommend that you read this discussion and analysis in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, previously filed with the SEC as well as the quarterly financial statements and notes contained within this Form 10-Q filing.

Three Months Ended September 30, 2009 Compared to the Three Months Ended September 30, 2008

| | Three Months Ended September 30, | | 2009 | | 2008 | | Period-to-Period Change | |
|---|----------------------------------|------------|------------------------|--------|-----------|---------|-------------------------|--|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 to 2008 | |
| | Dollars | | Percentages | | Dollars | Percent | | |
| | | | (dollars in thousands) | | | | | |
| REVENUES | \$ 514,630 | \$ 486,128 | 100.0% | 100.0% | \$ 28,502 | 5.9% | | |
| Cost of services | 425,566 | 407,973 | 82.7% | 83.9% | 17,593 | 4.3% | | |
| General and administrative expenses | 42,627 | 37,831 | 8.3% | 7.8% | 4,796 | 12.7% | | |
| OPERATING INCOME | 46,437 | 40,324 | 9.0% | 8.3% | 6,113 | 15.2% | | |
| Interest expense | (214) | (962) | 0.0% | 0.2% | 748 | -77.8% | | |
| Interest income | 45 | 369 | 0.0% | 0.0% | (324) | -87.8% | | |
| Other expense, net | 151 | (223) | 0.0% | 0.0% | 374 | -167.7% | | |
| INCOME FROM CONTINUING OPERATIONS BEFORE | | | | | | | | |
| INCOME TAXES | 46,419 | 39,508 | 9.0% | 8.1% | 6,911 | 17.5% | | |
| Provision for income taxes | (17,181) | (15,644) | 3.3% | 3.2% | (1,537) | 9.8% | | |
| NET INCOME | \$ 29,238 | \$ 23,864 | 5.7% | 4.9% | \$ 5,374 | 22.5% | | |

Revenues

Revenues increased 5.9% to \$514.6 million for the three months ended September 30, 2009, compared to \$486.1 million for the same period in 2008. The increase was primarily due to our contracts supporting forward deployments in Iraq, Afghanistan and other areas around the world and our acquisitions of EWA Services, Inc. (EWA) in November 2008 and DDK Technology Services, Inc. (DDK) in March 2009. Revenue growth of \$27.3 million came from contracts for the installation, sustainment and repair of communication systems and heavily armored vehicles designed to counter or clear mines and improvised explosive devices (IED), such as the Route Clearance (Countermine) family of vehicles supporting the U.S. Army Tank-Automotive Command (TACOM). Significant cyber security contracts contributed revenue growth of \$10.7 million. These increases were partially offset by a decline in certain Space related work.

Cost of services

Cost of services increased 4.3% to \$425.6 million for the three months ended September 30, 2009, compared to \$408.0 million for the same period in 2008. The increase in cost of services is primarily due to direct labor costs, which include applicable fringe benefits and overhead related to our IED and cyber security contracts and our recent acquisitions of EWA and DDK. As a percentage of revenues, cost of services decreased 1.2% to 82.7% for the three months ended September 30, 2009 as compared to 83.9% for the same period in 2008 primarily due to the relative mix of materials costs to direct labor costs. Direct labor costs increased by 9.6% over the same period in 2008 primarily due to acquisitions and growth in staff supporting global logistics, supply chain management and cyber security. Other direct costs, which include subcontractors and third party equipment as well as materials used in the performance of our contracts, increased by 0.1% over the same period in 2008. As a percentage of revenues, other direct costs decreased by 2.6% from 46.7% for the three months ended September 30, 2008 to 44.1% for the same period in 2009.

General and administrative expenses

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General and administrative expenses increased 12.7% to \$42.6 million for the three months ended September 30, 2009, compared to \$37.8 million for the same period in 2008. As a percentage of revenues, general and administrative expenses increased to 8.3% from 7.8% for the three months ended September 30, 2009 and 2008, respectively. The increase as a percentage of revenues was largely due to systems and staff requirements needed to support increased demands for materials and services. In addition, increased expense came from system improvements and business development costs. We have also experienced an increase in compliance monitoring and improvement costs due to the current industry trend of amplified government regulation and review.

Table of Contents*Interest expense*

Interest expense decreased \$0.8 million to \$0.2 million for the three months ended September 30, 2009, compared to \$1.0 million for the same period in 2008. The decrease in interest expense is due to a decline in the interest rate we pay related to our credit facility, as well as a decrease in our average outstanding debt balance. Our average outstanding debt balance for the three months ended September 30, 2009 was \$12.5 million compared to \$93.5 million for the same period in 2008. The interest rate we incur on our credit facility is impacted by changes in the Federal Funds Rate or London Interbank Offer Rate (LIBOR). Changes in this lending rate could lead to fluctuations in our interest expense in future periods. For additional information, see Credit Agreement, below.

Interest income

Interest income decreased \$0.3 million to \$0.1 million for the three months ended September 30, 2009, compared to \$0.4 million for the same period in 2008. The fluctuation is due to a reduction in the interest rate related to our cash accounts for the three months ended September 30, 2009 as compared to the three months ended September 30, 2008.

Net income

Net income increased 22.5% to \$29.2 million for the three months ended September 30, 2009, compared to \$23.9 million for the same period in 2008. The increase is a result of higher revenue with improved margins, primarily driven by higher demand for direct labor based projects. Our effective tax rates for the three months ended September 30, 2009 and 2008 were 37.0% and 39.6%, respectively. The decrease in our effective tax rate from our September 30, 2008 results was largely due to the impact of deductible gains related to our Employee Supplemental Savings Plan.

Nine Months Ended September 30, 2009 Compared to the Nine Months Ended September 30, 2008

| | Nine Months Ended September 30, | | | | Period-to-Period Change | |
|--|---------------------------------|--------------|-------------|--------|-------------------------|---------|
| | 2009 | 2008 | 2009 | 2008 | 2009 to 2008 | |
| | Dollars | | Percentages | | Dollars | Percent |
| | (dollars in thousands) | | | | | |
| REVENUES | \$ 1,478,268 | \$ 1,376,170 | 100.0% | 100.0% | \$ 102,098 | 7.4% |
| Cost of services | 1,218,112 | 1,155,055 | 82.4% | 83.9% | 63,057 | 5.5% |
| General and administrative expenses | 128,488 | 109,127 | 8.7% | 7.9% | 19,361 | 17.7% |
| OPERATING INCOME | 131,668 | 111,988 | 8.9% | 8.2% | 19,680 | 17.6% |
| Interest expense | (921) | (3,573) | 0.0% | 0.3% | 2,652 | -74.2% |
| Interest income | 161 | 711 | 0.0% | 0.0% | (550) | -77.4% |
| Other (expense) income, net | 259 | (355) | 0.0% | 0.0% | 614 | -173.0% |
| INCOME FROM CONTINUING OPERATIONS | | | | | | |
| BEFORE INCOME TAXES | 131,167 | 108,771 | 8.9% | 7.9% | 22,396 | 20.6% |
| Provision for income taxes | (48,919) | (43,078) | 3.3% | 3.1% | (5,841) | 13.6% |
| NET INCOME | \$ 82,248 | \$ 65,693 | 5.6% | 4.8% | \$ 16,555 | 25.2% |

Revenues

Revenues increased 7.4% to \$1,478.3 million for the nine months ended September 30, 2009, compared to \$1,376.2 million for the same period in 2008. The increase was primarily due to our contracts supporting forward deployments in Iraq, Afghanistan and other areas around the world and our acquisitions of EWA and DDK. Revenue growth of \$113.5 million came from contracts for the installation, sustainment and repair of communication systems and heavily armored vehicles designed to counter or clear mines and IEDs, such as the Route Clearance family of vehicles supporting TACOM. Significant cyber security contracts contributed revenue growth of \$36.0 million. These increases were partially offset by a decline in certain Space related work.

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For the remainder of 2009, we expect our revenue to increase, relative to the first nine months of 2009, primarily due to our contracts in global logistics and supply chain management as well as cyber security. While we believe there will be continued growth in our global logistics and supply chain management contracts, we recognize the uncertainty in the U.S. mission and priority of funding for combat operations in Iraq and Afghanistan. We expect continued growth in our cyber security contracts as a result of Government's Comprehensive National Cyber Initiative funding.

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| | Year to Date September 30, | |
|------------------------|----------------------------|---------------|
| | 2009 | 2008 |
| Prime contract revenue | 63.8% | 46.8% |
| Subcontract revenue | 36.2% | 53.2% |
| Total Revenue | 100.0% | 100.0% |

Our percentage of revenue derived as a prime contractor has increased for the nine months ended September 30, 2009 compared to 2008. This increase is largely due to our sole source prime contract award in 2008 to continue and expand our support for the Route Clearance family of contract vehicles. Customers have increased their purchases through larger, more consolidated contract vehicles. We do not believe this industry trend will have a materially adverse affect on our revenues for the remainder of fiscal year 2009.

Cost of services

Cost of services increased 5.5% to \$1,218.1 million for the nine months ended September 30, 2009, compared to \$1,155.1 million for the same period in 2008. The increase in cost of services is primarily due to direct labor costs, which include applicable fringe benefits and overhead related to our IED and cyber security contracts and our recent acquisitions of EWA and DDK. As a percentage of revenues, cost of services decreased 1.5% to 82.4% for the nine months ended September 30, 2009 as compared to 83.9% for the same period in 2008. Direct labor costs increased by 9.2% over the same period in 2008 primarily due to acquisitions and growth in staff supporting global logistics and supply chain management. As a percentage of revenues, direct labor costs increased 0.7% to 39.6% for the nine months ended September 30, 2009, compared to 38.9% for the same period in 2008. Other direct costs, which include subcontractors and third party equipment and materials used in the performance of our contracts, increased by 2.2% over the same period in 2008. The increase in other direct costs was primarily due to an increase in purchases of equipment and materials on our contracts for installation and repair of systems designed to counter or clear mines and IEDs. As a percentage of revenues, other direct costs decreased by 2.2% from 45.0% for the nine months ended September 30, 2008 to 42.8% for the same period in 2009. The decrease of other direct costs as a percentage of revenue can be attributed to the gradual transition of procurement related to IED programs to a government supply chain. We expect cost of services to increase, consistent with revenue, for the remainder of fiscal year 2009. We expect the relative mix of direct labor to other direct costs to remain consistent for the remainder of fiscal year 2009.

General and administrative expenses

General and administrative expenses increased 17.7% to \$128.5 million for the nine months ended September 30, 2009, compared to \$109.1 million for the same period in 2008. As a percentage of revenues, general and administrative expenses increased 0.8% to 8.7% for the nine months ended September 30, 2009, as compared to 7.9% for the same period in 2008. The increase as a percentage of revenues was largely due to systems and staff requirements needed to support increased demands for materials and services. In addition, increased expense came from business development and system improvements costs. We have also experienced an increase in compliance monitoring and improvement costs due to the current industry trend of amplified government regulation and review.

Interest expense

Interest expense decreased \$2.7 million to \$0.9 million for the nine months ended September 30, 2009, compared to \$3.6 million for the same period in 2008. The decrease in interest expense is due to a decline in the interest rate we pay related to our credit facility, as well as a decrease in our average outstanding debt balance. Our average outstanding debt balance for the nine months ended September 30, 2009, was \$58.7 million compared to \$137.8 million for the same period in 2008. The interest rate we incur on our credit facility is impacted by changes in the Federal Funds Rate or LIBOR. Changes in this lending rate could lead to fluctuations in our interest expense in future periods. In addition, if we were to make a significant acquisition, our interest expense would increase, depending upon the size of the acquisition. For additional information, see Credit Agreement, below.

Interest income

Interest income decreased \$0.5 million to \$0.2 million for the nine months ended September 30, 2009, compared to \$0.7 million for the same period in 2008. The fluctuation is due to a reduction in the interest rate related to our cash accounts for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008.

Net income

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Net income increased 25.2% to \$82.2 million for the nine months ended September 30, 2009, compared to \$65.7 million for the same period in 2008. The increase is a result of higher revenue and improved margins, primarily driven by increased demand

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for direct labor based projects. Our effective tax rates for the nine months ended September 30, 2009 and 2008 were 37.3% and 39.6%, respectively. The decrease in our effective tax rate from our September 30, 2008 results was largely due to the impact of deductible gains related to our Employee Supplemental Savings Plan.

Backlog

At September 30, 2009 and December 31, 2008, our backlog was \$3.8 billion and \$4.0 billion, respectively, of which \$1.3 billion and \$1.2 billion, respectively, was funded backlog. Backlog represents estimates that we calculate on a consistent basis. Additional information on how we determine backlog is included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, previously filed with the SEC.

Effects of Inflation

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

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

Liquidity and Capital Resources

Our primary liquidity needs are the financing of acquisitions, working capital and capital expenditures. Our primary source of liquidity is cash provided by operations and our revolving credit facility. At September 30, 2009, we had no outstanding balance under our credit facility. At September 30, 2009, we were contingently liable under letters of credit totaling \$0.7 million, which reduces our ability to borrow under our credit facility. The maximum available borrowing under our credit facility at September 30, 2009 was \$299.3 million. Generally, cash provided by operating activities is adequate to fund our operations. Due to fluctuations in our cash flows and the growth in our operations, it is necessary from time to time to increase borrowings under our credit facility to meet cash demands. In the future, we may borrow greater amounts or seek alternative sources of financing in order to finance acquisitions or new contract start ups.

Net cash flows from operating activities

| (in thousands) | Nine months ended September 30, | |
|---|------------------------------------|------------|
| | 2009 | 2008 |
| Net cash flow from operating activities | \$ 98,682 | \$ 116,894 |

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 nine months ended September 30, 2009 compared to the same period in 2008 was due to payments to vendors and offset by the timing of the collection of customer receivables. The timing and amounts of cash collections from our customers can vary significantly based primarily on the procedures requested by the U.S. government to approve such payments.

Net cash flows from investing activities

| (in thousands) | Nine months ended September 30, | |
|----------------|------------------------------------|------|
| | 2009 | 2008 |

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| | | |
|---|-------------|-------------|
| Net cash flow from investing activities | \$ (18,607) | \$ (24,652) |
|---|-------------|-------------|

Cash flow from investing activities consists primarily of capital expenditures and business acquisitions. Cash outflows during the nine months ended September 30, 2009 were primarily due to the acquisition of DDK on March 13, 2009 for \$14.0 million as well as purchases of equipment and software for internal use. The cash outflows from investing activities in 2008 were

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primarily the result of our investment in property, equipment and internally used software to support our business. Cash outflows during the nine months ended September 30, 2008 were primarily due to the acquisition of Emerging Technologies Group USA, Inc. (ETG) on August 29, 2008 for \$25.1 million. The cash flows in 2008 were partially offset by proceeds from the payment of a note receivable in connection with the sale of an equity investment.

Net cash flows from financing activities

| (in thousands) | Nine months ended September 30, | |
|---|------------------------------------|-------------|
| | 2009 | 2008 |
| Net cash flow from financing activities | \$ (32,620) | \$ (93,335) |

Cash flow from financing during the nine months ended September 30, 2009 resulted primarily from payments under our credit facility of \$44.1 million partially offset by proceeds from the exercise of stock options of \$10.7 million. The net cash used in financing activities for the nine months ended September 30, 2008 resulted from net payments on our credit facility of \$120.1 million partially offset by proceeds from the exercise of stock options of \$20.8 million along with the related tax benefits.

Credit Agreement

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 sublimit and a \$30.0 million swing line loan sublimit. The credit agreement also contains an accordion feature that permits the Company to arrange with the lenders for 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 the Company's leverage ratio calculation (0.875% to 1.5%), or the lender's base rate, which is the lower of the Federal Funds Rate plus 0.5% or Bank of America's prime lending rate.

The 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 September 30, 2009, we were in compliance with our financial covenants under the credit agreement.

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

Critical Accounting Estimates and Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. Application of these policies is particularly important to the portrayal of our financial condition and results of operations. The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses. Actual results may differ from these estimates under different assumptions or conditions. Our significant accounting policies, including the critical policies and practices listed below, are more fully described and discussed in the notes to consolidated financial statements for the fiscal year 2008 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the SEC on February 27, 2009.

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Revenue Recognition and Cost Estimation

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

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

We derive the majority of our revenue from cost-plus-fixed-fee, cost-plus-award-fee, firm-fixed-price or time-and-materials contracts. Revenues for cost-reimbursement contracts are recorded as reimbursable costs are incurred, including an estimated share of the applicable contractual fees earned. For performance-based fees under cost reimbursable contracts that are subject to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605-35, *Construction-Type and Certain Production-Type Contracts*, we recognize the relevant portion of the expected fee to be awarded by the client at the time such fee can be reasonably estimated, based on factors such as our prior award experience and communications with the client regarding performance. For cost reimbursable contracts with performance-based fee incentives that are subject to the provisions of SEC Topic 13, *Revenue Recognition*, we recognize the relevant portion of the fee upon customer approval. For time-and-material contracts, revenue is recognized to the extent of billable rates times hours delivered plus material and other reimbursable costs incurred. For long-term fixed-price production contracts, revenue is recognized at a rate per unit as the units are delivered, or by other methods to measure services provided. Revenue from other long-term fixed-price contracts is recognized ratably over the contract period or by other appropriate methods to measure services provided. Contract costs are expensed as incurred except for certain limited long-term contracts noted below. For long-term contracts as 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

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 annually during the second quarter of each calendar year. No adjustments were necessary as a result of this review during the quarter ended June 30, 2009.

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

September 2009, Accounting Standard Update No. 2009-07, *Accounting for Various Topics: Technical Corrections to SEC Paragraphs*, was issued. This Codification Update represents technical corrections to various Topics containing SEC guidance based on external comments received.

August 2009, Accounting Standard Update No. 2009-03, *SEC Update An Amendment of the FASB Accounting Standards CodificationTM No. 2009-03 August 2009 Amendments to Various Topics Containing SEC Staff Accounting Bulletins*, was issued. This Codification Update represents technical corrections to various Topics containing SEC Staff Accounting Bulletins to update cross-references to Codification text.

On June 30, 2009, Accounting Standard Update No. 2009-02, *Omnibus Update Amendments to Various Topics for Technical Corrections*, was issued. This Accounting Standard Update updates various topics for the ASC for technical corrections.

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On June 30, 2009, Accounting Standard Update No. 2009-01, *Topic 105 Generally Accepted Accounting Principles amendments based on Statement of Financial Accounting Standards No. 168 The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles*, was issued. This Accounting Standards Update amends the FASB Accounting Standards Codification for the issuance of SFAS 168, *The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles*. This Accounting Standards Update includes Statement 168 in its entirety, including the accounting standards update instructions contained in Appendix B of the Statement. The Codification is the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Following SFAS 168, the Board will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates. The GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and nonauthoritative.

In June 2009, SFAS 167, *Amendments to FASB Interpretation No. 46(R)*, (ASC 810) was issued. The objective of SFAS 167 is to amend certain requirements of FIN 46 (revised December 2003), *Consolidation of Variable Interest Entities*, or FIN 46(R) to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. SFAS 167 carries forward the scope of FIN 46(R), with the addition of entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated in SFAS 166, *Accounting for Transfers of Financial Assets* (ASC 860). SFAS 167 nullifies ASC 860-10-50 (FASB Staff Position FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*). The principal objectives of these new disclosures are to provide financial statement users with an understanding of:

- a. The significant judgments and assumptions made by an enterprise in determining whether it must consolidate a variable interest entity and/or disclose information about its involvement in a variable interest entity;
- b. The nature of restrictions on a consolidated variable interest entity's assets and on the settlement of its liabilities reported by an enterprise in its statement of financial position, including the carrying amounts of such assets and liabilities;
- c. The nature of, and changes in, the risks associated with an enterprise's involvement with the variable interest entity; and
- d. How an enterprise's involvement with the variable interest entity affects the enterprise's financial position, financial performance and cash flows.

SFAS 167 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. Earlier application is prohibited. The provisions of SFAS 167 need not be applied to immaterial items. We are contemplating the potential effects, if any; this pronouncement will have on the Company's financial position and results of operations.

In November 2008, the SEC issued for comment a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (IFRS). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (IASB). Under the proposed roadmap, we could be required in fiscal 2014 to prepare financial statements in accordance with IFRS. The SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. We are currently assessing the impact that this potential change would have on our condensed consolidated financial statements and we will continue to monitor the development of the potential implementation of IFRS.

Item 3. Quantitative and Qualitative Disclosure about Market Risks

Our exposure to market risks relates to changes in interest rates for borrowing under our revolving credit facility. At September 30, 2009, we had no outstanding balance on our revolving credit facility. Borrowings under our revolving credit facility bear interest at variable rates. A hypothetical 10% increase in interest rates would increase our annual interest expense for the nine months ended September 30, 2009, by less

than \$0.1 million.

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 nine months and the weighted average maturity of the portfolio cannot exceed 60 days.

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Item 4. Controls and Procedures

As of September 30, 2009, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), management evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report, such that the information relating to us that is required to be disclosed in our reports filed with the SEC (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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 the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2008 and in subsequent quarterly reports filed with the SEC.

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K:

The following lists certain exhibits either filed herewith or filed with the SEC during the fiscal quarter ended September 30, 2009.

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

Filed herewith

* Management contract

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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.

Date: October 30, 2009

MANTECH INTERNATIONAL CORPORATION

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

Date: October 30, 2009

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