

SM&A
Form 10-Q
October 18, 2005

Table of Contents

**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 Quarter ended September 30, 2005
OR**

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

**Commission file number 0-23585
SM&A**

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

33-0080929
(I.R.S. Employer
Identification No.)

4695 MacArthur Court, 8th Floor, Newport Beach, California 92660

(Address of principal executive offices, including zip code)

(949) 975-1550

(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 an accelerated filer (as defined in Rule 12b of the Act). Yes ☐ No ☒

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common stock, no par value

Outstanding at September 30, 2005
20,409,668 shares

**SM&A
INDEX**

PART I. FINANCIAL INFORMATION

Page

Cautionary Statement Related to Forward Looking Statements

3

How to Obtain SM&A SEC Filings

3

Item 1.	Financial Statements:	
	<u>Consolidated Balance Sheets as of September 30, 2005 (unaudited) and December 31, 2004</u>	4
	<u>Consolidated Statements of Income for the three and nine months ended September 30, 2005 and 2004 (unaudited)</u>	5
	<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2005 and 2004 (unaudited)</u>	6
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	20
Item 4.	<u>Controls and Procedures</u>	20

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	21
Item 2.	<u>Changes in Securities, Use of Proceeds and Issuer Purchase of Equity Securities</u>	21
Item 3.	<u>Defaults Upon Senior Securities</u>	22
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	22
Item 5.	<u>Other Information</u>	22
Item 6.	<u>Exhibits</u>	23
<u>Signatures</u>		26
	<u>EXHIBIT 31.1</u>	
	<u>EXHIBIT 31.2</u>	
	<u>EXHIBIT 32.1</u>	
	<u>EXHIBIT 32.2</u>	

Table of Contents

CAUTIONARY STATEMENT RELATED TO FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes certain forward-looking statements as defined within Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, relating to revenue, revenue composition, earnings, projected plans, performance, contract procurement, demand trends, future expense levels, trends in average headcount and gross margins, and the level of expected capital expenditures. Such forward-looking statements are based on the beliefs of, estimates made by, and information currently available to SM&A management and are subject to certain risks, uncertainties and assumptions. Any statements contained herein (including without limitation statements to the effect that the Company or management estimates, expects, anticipates, plans, believes, projects, continues, may, will, could, or would or statements concerning opportunity or variations thereof or comparable terminology or the negative thereof) that are not statements of historical fact should be construed as forward-looking statements. The actual results of SM&A may vary materially from those expected or anticipated in these forward-looking statements. The realization of such forward-looking statements may be impacted by certain important unanticipated factors including those discussed in Risk Factors under Item 2, and Management's Discussion and Analysis of Financial Condition and Results of Operations, at pages 12-18. Because of these and other factors that may effect SM&A's operating results, past performance should not be considered as an indicator of future performance, and investors should not use historical results to anticipate results or trends in future periods. The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers should carefully review the risk factors described in this and other documents that SM&A files from time to time with the Securities and Exchange Commission (SEC), including subsequent Current Reports on Form 8-K, Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K.

HOW TO OBTAIN SM&A SEC FILINGS

All reports filed by SM&A with the SEC are available free of charge via EDGAR through the SEC website at www.sec.gov. In addition, the public may read and copy materials filed by the Company with the SEC at the SEC's public reference room located at 450 Fifth St., N.W., Washington, D.C. 20549. SM&A also provides copies of its Forms 8-K, 10-K, 10-Q, Proxy and Annual Report at no charge to investors upon request and makes electronic copies of its most recently filed reports available through its website at www.smawins.com as soon as reasonably practicable after filing such material with the SEC.

Table of Contents

SM&A
CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30, 2005 (Unaudited)	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,413	\$ 22,148
Accounts receivable, net	15,473	13,198
Prepaid expenses and other current assets	758	252
Deferred income taxes	356	539
Total current assets	44,000	36,137
Fixed assets, net	2,331	1,037
Other assets	170	209
	\$ 46,501	\$ 37,383
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 892	\$ 1,192
Accrued compensation and related benefits	3,847	1,793
Income taxes payable	439	565
Net liabilities of discontinued operations	422	727
Total current liabilities	5,600	4,277
Deferred income taxes	442	242
Other liabilities	531	173
Total liabilities	6,573	4,692
Commitments and contingencies		
Shareholders' equity:		
Preferred stock		
Common stock	50,387	50,781
Accumulated deficit	(10,459)	(18,090)
Total shareholders' equity	39,928	32,691
	\$ 46,501	\$ 37,383

See accompanying notes to consolidated financial statements

4

Table of Contents

SM&A
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005 (Unaudited)	2004 (Unaudited)	2005 (Unaudited)	2004 (Unaudited)
Revenue	\$ 19,678	\$ 16,078	\$ 60,184	\$ 50,724
Cost of revenue	11,471	9,003	34,577	27,817
Gross margin	8,207	7,075	25,607	22,907
Selling, general and administrative expenses	4,438	4,359	14,017	11,937
Operating income	3,769	2,716	11,590	10,970
Interest income, net	158	39	361	117
Income before income taxes	3,927	2,755	11,951	11,087
Income tax expense	1,369	1,088	4,320	4,197
Net income	\$ 2,558	\$ 1,667	\$ 7,631	\$ 6,890
Net income per share:				
Basic	\$ 0.13	\$ 0.08	\$ 0.37	\$ 0.34
Diluted	\$ 0.12	\$ 0.08	\$ 0.36	\$ 0.32
Shares used in calculating net income per share:				
Basic	20,432	20,512	20,356	20,484
Diluted	20,870	21,492	20,942	21,638

See accompanying notes to consolidated financial statements.

Table of Contents

SM&A
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended September 30,	
	2005	2004
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 7,631	\$ 6,890
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	449	297
Deferred income taxes	383	
Income tax effect from exercise of stock options	1,643	73
Changes in operating assets and liabilities:		
Accounts receivable	(2,275)	(3,797)
Prepaid expense and other assets	(467)	(128)
Accounts payable	(300)	(91)
Accrued compensation and related benefits	2,054	(534)
Income taxes payable	(126)	(542)
Other liabilities	358	(23)
Net cash provided by operating activities	9,350	2,145
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(1,743)	(397)
Net cash used in investing activities	(1,743)	(397)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	(3,675)	(2,485)
Proceeds from issuance of common stock	1,638	1,621
Net cash used in financing activities	(2,037)	(864)
Net increase in cash from continuing operations	5,570	884
Net cash used in discontinued operations	(305)	(457)
Net increase in cash	5,265	427
Cash at beginning of period	22,148	17,712
Cash at end of period	\$ 27,413	\$ 18,139

See accompanying notes to consolidated financial statements

Table of Contents

SM&A
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine months Ended September 30, 2005 and 2004
(unaudited)

Note 1. Basis of Presentation and Significant Accounting Policies

The consolidated financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly the consolidated financial position of SM&A at September 30, 2005, the consolidated results of operations for the three and nine months ended September 30, 2005 and 2004, and cash flows for the nine months ended September 30, 2005 and 2004. Comprehensive income is equivalent to net income for the three and nine month periods ended September 30, 2005 and 2004, respectively.

It should be understood that accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of the results to be expected for the full fiscal year.

The accompanying unaudited consolidated financial statements do not include footnotes and certain financial presentations normally required under generally accepted accounting principles. Therefore, these financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2004, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2005.

Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154 Accounting Changes and Error Corrections (SFAS 154), which is a replacement of APB 20 and FASB 3. This statement changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This Statement is the result of a broader effort by the FASB to improve the comparability of cross-border financial reporting by working with the International Accounting Standards Board (IASB) toward development of a single set of high-quality accounting standards. Under the provisions of Opinion 20, most accounting changes were recognized by including in net income of the period of the change the cumulative effect of changing to the newly adopted accounting principle. This Statement improves financial reporting because its requirement to report voluntary changes in accounting principles via retrospective application, unless impracticable enhances the consistency of financial information between periods. That improved consistency enhances the usefulness of the financial information, especially by facilitating analysis and understanding of comparative accounting data. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company s will adopt SFAS 154 in the first quarter of 2006 and does not expect adoption to have a material effect on its results of operations, financial position or cash flows.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004) Share Based Payment (SFAS 123R), which is a revision to SFAS 123 and supersedes APB 25 and SFAS 148. This statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. This statement establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans. SFAS 123R applies to all awards granted after the required effective date (the beginning of the first annual reporting period that begins after June 15, 2005) and to awards modified, repurchased, or cancelled after that date. As of the required effective date, all public entities that used the fair-value-based method for either recognition or disclosure under Statement 123 will apply this Statement using a modified version of prospective application. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards, for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under Statement 123 for either recognition or pro forma disclosures. For periods before the required

Table of Contents**Note 1. Basis of Presentation and Significant Accounting Policies (cont d)**

effective date, those entities may elect to apply a modified version of the retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by Statement 123. As a result, beginning in the first quarter of 2006, the Company will adopt SFAS 123R and begin reflecting the stock option expense determined under fair value based methods in its statement of operations rather than as pro-forma disclosure in the notes to the financial statements. The Company has not yet determined whether the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123 and it is evaluating the requirements under SFAS 123R. Such adoption may have a substantial impact on its consolidated statements of income and earnings per share.

Significant Accounting Policies

Revenue Recognition. We recognize revenue from services rendered when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable, and collection is reasonably assured. The majority of our services are provided under time and expenses billing arrangements and revenue is recognized on the basis of hours worked, plus other reimbursable contract costs incurred during the period. Revenue is directly related to the total number of hours billed to clients and the associated hourly billing rates. A limited amount of revenue is also derived from success fees, offered to clients as a pricing option, and recorded as revenue only upon attainment of the specified incentive criteria. Success fees are not billable and revenue is not recorded until the client wins a contract.

Cash and Cash Equivalents. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Note 2. Net Income Per Share

The following table illustrates the number of shares used in the computation of basic and diluted net income per share (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Denominator for basic income per share: weighted average shares outstanding during the period	20,432	20,512	20,356	20,484
Incremental shares attributable to dilutive outstanding stock options	438	980	586	1,154
Denominator for diluted income per share:	20,870	21,492	20,942	21,638

Note 3. Stock-Based Compensation

The Company has elected to follow APB Opinion No. 25, Accounting for Stock Issued to Employees, to account for options to purchase common stock of the Company issued pursuant to the Company's stock-based compensation plans. Under APB Opinion No. 25, no compensation cost is recognized because the exercise price of options granted under the Company's stock-based compensation plans is at least equal to at least the market price of the underlying stock on the date of grant. Had compensation costs for these plans been determined at the grant dates for awards under the alternative accounting method provided for in SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-an Amendment to FASB Statement No. 123, net income and earnings per share, on a pro forma basis, would have been (in thousands except for per share information):

Table of Contents**Note 3. Stock-Based Compensation (Cont d)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income as reported	\$ 2,558	\$ 1,667	\$ 7,631	\$ 6,890
Less: stock compensation expense net of tax	(177)	(250)	(1,668)	(820)
Net income SFAS No. 123 pro forma	\$ 2,381	\$ 1,417	\$ 5,963	\$ 6,070
Basic income per share as reported	\$ 0.13	\$ 0.08	\$ 0.37	\$ 0.34
Basic income per share SFAS No. 123 pro forma	\$ 0.12	\$ 0.07	\$ 0.29	\$ 0.30
Diluted income per share as reported	\$ 0.12	\$ 0.08	\$ 0.36	\$ 0.32
Diluted income per share SFAS No. 123 pro forma	\$ 0.11	\$ 0.07	\$ 0.28	\$ 0.28

On June 8, 2005, the Board of Directors (the Board) of SM&A (the Company), upon recommendation of the Board's Audit and Compensation Committees, approved the accelerated vesting of certain unvested and out-of-the-money options held by current employees, officers and directors (the Acceleration). The options accelerated were granted under the Company's Second Amended and Restated Equity Incentive Plan (the Plan).

As a result of the Acceleration, the affected unvested options are those that had exercise prices of greater than \$8.87 per share. The closing sales price of the Company's common stock on the NASDAQ National market on June 8, 2005, the effective date of the Acceleration, was \$8.87. Pursuant to the Acceleration, options granted under the Plan to purchase approximately 403,000 shares of the Company's common stock that would otherwise have vested at various times within the next four years became fully vested. Of the 403,000 options, 200,000 options were granted to current Directors, 100,000 were granted to current Officers, and the remaining 103,000 options were granted to current employees. The options have a range of exercise prices of \$9.07 to \$12.66. As a result of the Board's decision to approve the Acceleration, each agreement for options subject to the Acceleration is deemed to be amended to reflect the Acceleration as of the effective date, but all other terms and conditions of each such option agreement remain in full force and effect.

The decision to initiate the Acceleration under the Plan, which the Company believes to be in the best interest of the Company and its shareholders, was made primarily to reduce compensation expense that would be expected to be recorded in future periods following the Company's adoption of Financial Accounting Standards Board (FASB) Statement no. 123, Share-Based Payment (revised 2004) (SFAS 123(R)). The Company currently accounts for stock-based compensation using the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. The SFAS 123(R) will require the Company to record compensation expense equal to the fair value of all equity-based compensation over the vesting period of each such award. As a result of the Acceleration under the Plan, the Company expects to reduce its aggregate compensation expense related to the accelerated options by a total of approximately \$1.8 million before taxes over the next four years (the remaining vesting period for the accelerated options). This estimate is subject to change, but is based on approximated value calculations using the Black-Scholes methodology. The Company will disclose the pro forma effect of this compensation expense in the pro forma footnote disclosure in its fiscal year 2005 annual report, as permitted under the transition guidance provided by the FASB.

Note 4. Revolving Line of Credit

The Company has a revolving credit agreement which allows for borrowings up to \$10.0 million at the prime rate minus one half of one percent (-0.50%) per annum or LIBOR plus two and one quarter percent (2.25%) per annum. The revolving credit agreement is renewable annually on April 30th of each year. Borrowings under the revolving credit agreement are unsecured. The agreement requires the Company to comply with certain financial

Table of Contents

Note 4. Revolving Line of Credit (cont d)

covenants pertaining to its tangible net worth, ratio of total liabilities to tangible net worth, and ratio of current assets to current liabilities (as defined in the agreement). The agreement also contains certain negative covenants which, among other things, restricts the Company's ability to incur additional indebtedness of more than \$1.0 million in excess of the \$10.0 million limit set forth in the credit agreement and make capital expenditures in excess of \$2.0 million without the prior written approval of the lender. At September 30, 2005, the Company had no outstanding borrowings under the line of credit, the bank had issued a letter of credit for \$64,000 and we had \$9.9 million in availability.

Note 5. Income Taxes

The Company's effective income tax rates for the three and nine months ended September 30, 2005 and 2004 were 35%, 36%, 39% and 38%, respectively. In the first quarter ended March 31, 2005, the Company completed and filed its federal and state income tax returns for the calendar year ended December 31, 2004. Based on the income tax returns filed, the Company recorded an adjustment to its effective tax rate in the first quarter of 2005 resulting in a reduction of income tax expense of approximately \$208,000, or \$0.01 per diluted share. In the third quarter ended September 30, 2005, the Company recorded a tax adjustment resulting in a reduction of income tax expense of approximately \$160,000, or \$0.01 per diluted share relating to the reduction of tax liability that expired based on its statute of limitations.

In the second quarter ended September 30, 2004, the Company completed and filed its federal and state income tax returns for the calendar year ended December 31, 2003. Based on the income tax returns filed, the Company recorded an adjustment to its state effective tax rate in the second quarter resulting in a reduction of income tax expense of \$182,000. This reduction of \$182,000, coupled with a current year state tax provision rate adjustment of \$125,000, resulted in a reduction of income tax expense of approximately \$307,000, or \$0.02 per diluted share.

Note 6. Stockholders' Equity

In May 2004, the Company's Board of Directors authorized a plan to repurchase up to \$7.0 million of the Company's common stock. In April and October 2005, the Company's Board of Directors authorized an increase of an additional \$5.0 million and \$8.0 million, respectively, increasing the total authorization to repurchase the Company's common stock to \$20.0 million. The Company intends to repurchase shares from time to time, at prevailing prices, in the open market. The timing and amount of the share repurchases will be at the discretion of management and will be based on such factors as the stock price, general economic and market conditions, and other factors. The share repurchase plan may be suspended or discontinued at any time. Shares repurchased under the plan are cancelled. For the three months ended September 30, 2005, the Company repurchased 22,000 shares at a total cost of \$194,000. For the nine months ended September 30, 2005, the Company repurchased 446,995 shares at a total cost of \$3.6 million. Since the inception of the share repurchase plan, the Company has repurchased 1,072,495 shares at a total cost of \$8.3 million.

Note 7. Related Parties

The Company periodically leases aircraft from SummitJets, Inc., which is owned by the Company's Chairman and Chief Executive Officer. The lease rate was determined through a review of prevailing market rates for such services. During the three and nine months ended September 30, 2005 and 2004, the Company recorded an expense of \$48,000, \$83,000, \$124,000 and \$124,000 respectively. The expense is included in selling, general and administrative expenses.

In March 2005, the Company facilitated the exercising of stock options upon the retirement of our former member of the Board of Directors, Jack Woodhull. Upon the exercising of the options, the Company repurchased 15,000 shares for a total discounted cost of \$117,000. In April 2005, the Company facilitated the exercising of stock options upon the retirement of our former member of the Board of Directors, Albert Nagy. Upon the exercising of the options, the Company repurchased 200,000 shares for a total discounted cost of \$1.7 million. In April 2005, the Company facilitated the exercising of stock options upon the resignation of our former President and Chief

Table of Contents

Note 7. Related Parties (cont d)

Operating Officer, Bennett Beaudry. Upon the exercising of the options, the Company repurchased 150,625 shares for a total discounted cost of \$1.2 million. The Company purchased all the shares at a 3.6% discount.

Note 8. Discontinued Operations

Prior to fiscal year 2003, the Company sold and dissolved two of its business segments. The balance owed at September 30, 2005 of \$422,000 represents the remaining office lease commitments, net of subleases, over the remaining terms of the leases. During the nine months ended September 30, 2005, the Company paid \$305,000 net of sublease receipts, related to the leased property.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

SM&A is a consulting firm which is the world's leading provider of competition management services, and a leading provider of high-value performance assurance support services that enhance client's ability to perform profitably on the programs they've won. Under these two service lines, our approximately 300 employees and consultants provide strategy, proposal management, program management, systems engineering, expert support, program planning, and other high-value technical support to major industrial customers in the defense, homeland security, aerospace, information technology, architect and engineering sectors. Since 1982, we have managed more than 1,000 proposals worth more than \$312 billion for our clients and have achieved an 85% win rate on awarded contracts.

RESULTS OF OPERATIONS

The following table sets forth certain historical operating results (in thousands):

	For the Three Months Ended September 30,			
	2005	2004	Change	Change %
Revenue	\$ 19,678	\$ 16,078	\$ 3,600	22
Cost of revenue	11,471	9,003	2,468	27
Gross margin	8,207	7,075	1,132	16
Selling, general and administrative expenses	4,438	4,359	79	2
Operating income	3,769	2,716	1,053	39
Income tax expense	1,369	1,088	281	26
Net income	\$ 2,558	\$ 1,667	\$ 891	53

Three Months Ended September 30, 2005 Compared to Three Months Ended September 30, 2004

Revenue. Revenue increased \$3.6 million, or 22%, to \$19.7 million for the three months ended September 30, 2005 compared to \$16.1 million for the same period of the prior year. The increase in our revenue was due to revenue growth in both our competition management and performance assurance service lines. Through our sales and marketing efforts, we have increased the number of active projects with which we are providing our services. We have also not experienced any notable delays in the release of request for proposals or program starts.

The percentage of revenues from competition management services and performance assurance services was 60% and 40% for the three months ended September 30, 2005, respectively, compared to 53% and 47% for the same period of the prior year. The percentage of revenue coming from our aerospace and defense clients was 67% and 71% for the three months ended September 30, 2005 and 2004 respectively. During the three months ended September 30, 2005, five new customers, who accounted for 1% of our total revenue, engaged us. This compares to three new customers, which accounted for less than 1% of our total revenue during the same period of the prior year. During the third quarter, our success fees, which are dependent upon the timing of awards for our clients, totaled \$169,000 compared with \$42,000 for the same period of the prior year.

Gross Margin. Gross margin increased \$1.1 million, or 16%, to \$8.2 million for the three months ended September 30, 2005 compared to \$7.1 million for the same period of the prior year. The increase in gross margin dollars is due to the increase in sales as discussed above. As a percentage of revenue, gross margin decreased to 42% for the three months ended September 30, 2005 compared to 44.0% for the same period of the prior year. This decline was due primarily to a planned increase in our sales compensation expense as a percentage of revenue which we implemented at the beginning of calendar year 2005. In addition, our travel expenses associated with delivering our services increased slightly over the same period of the prior year.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist principally of salary and benefit costs for executive, sales and administrative personnel, training, recruiting, professional services and other general corporate activities. Selling, general and administrative expenses increased \$79,000, or 2%, to \$4.4 million for the three months ended September 30, 2005, as compared to \$4.4 million for the

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (cont d)

same period of the prior year. The increase was from expenses associated with the expansion of our office space at our Newport Beach, California location. As a percentage of revenue, selling, general and administrative expenses decreased to 23% for the three months ended September 30, 2005, as compared to 27% for the same period of the prior year.

Operating Income. Operating income increased \$1.1 million, or 39% to \$3.8 million for the three months ended September 30, 2005, compared to \$2.7 million for the same period of the prior year. As a percentage of revenue, operating income increased to 19% for the three months ended September 30, 2005, as compared to 17% for the same period of the prior year. Operating income increased due to the increase in sales and gross profit offset by the planned increase in selling, general and administrative expenses, as discussed above.

Income Tax Expense. The effective income tax rates for the three months ended September 30, 2005 and 2004 were 35% and 39%, respectively. In the third quarter ended September 30, 2005, we recorded a tax adjustment resulting in a reduction of income tax expense of approximately \$160,000, or \$0.01 per diluted share relating to the reduction of tax liability that expired based on its statute of limitations.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (cont'd)**
RESULTS OF OPERATIONS

The following table sets forth certain historical operating results (in thousands):

	For the Nine Months Ended September 30,			
	2005	2004	Change	Change %
Revenue	\$ 60,184	\$ 50,724	\$ 9,460	19
Cost of revenue	34,577	27,817	6,760	24
Gross margin	25,607	22,907	2,700	12
Selling, general and administrative expenses	14,017	11,937	2,080	17
Operating income	11,590	10,970	620	6
Income tax expense	4,320	4,197	123	3
Net income	\$ 7,631	\$ 6,890	\$ 741	11

Nine months Ended September 30, 2005 Compared to Nine months Ended September 30, 2004

Revenue. Revenue increased \$9.5 million, or 19%, to \$60.2 million for the nine months ended September 30, 2005 compared to \$50.7 million for the same period of the prior year. The increase in our revenue was due primarily to revenue growth in both our competition management and performance assurance service lines. Through our sales and marketing efforts, we have increased the number of active projects with which we are providing our services. In addition, we have not experienced any notable delays in the release of request for proposals or program starts.

The percentage of revenues from competition management services and performance assurance services was 56% and 44% for the nine months ended September 30, 2005, respectively, compared to 59% and 41% for the same period of the prior year. The percentage of revenue coming from our aerospace and defense clients was 71% and 74% for the nine months ended September 30, 2005 and 2004 respectively. During the nine months ended September 30, 2005, twenty new customers, who accounted for 7% of our total revenue, engaged us. This compares to twenty-three new customers, which accounted for 9% of our total revenue during the same period of the prior year. During the nine months ended September 30, 2005, our success fees, which are dependent upon the timing of awards for our clients, totaled \$734,000 compared with \$793,000 for the same period of the prior year.

Gross Margin. Gross margin increased \$2.7 million, or 12%, to \$25.6 million for the nine months ended September 30, 2005 compared to \$22.9 million for the same period of the prior year. The increase in gross margin dollars is due to the increase in sales as discussed above. As a percentage of revenue, gross margin decreased to 42% for the nine months ended September 30, 2005 compared to 45% for the same period of the prior year. This decline was due primarily to a planned increase in our sales compensation expense as a percentage of revenue which we implemented at the beginning of calendar year 2005. In addition, our travel expenses associated with delivering our services increased slightly over the same period of the prior year.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist principally of salary and benefit costs for executive, sales and administrative personnel, training, recruiting, professional services and other general corporate activities. Selling, general and administrative expenses increased \$2.1 million, or 17%, to \$14.0 million for the nine months ended September 30, 2005, as compared to \$11.9 million for the same period of the prior year. As a percentage of revenue, selling, general and administrative expenses decreased to 23% for the nine months ended September 30, 2005, as compared to 24% for the same period of the prior year. Our sales and marketing expenses increased \$1.1 million due to the increase in the number of account executives, marketing professionals and support staff to support and service our planned revenue growth. Our training expenses increased \$600,000 related to the planned improvement in our internal training capabilities. We increased the number and types of internal training classes to train our employees in the delivery of our new solution offerings and maintain our overall high standards of quality. Lastly, our facility expenses increased \$355,000 due to

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (cont d)

our completed expansion into an additional 11,000 square feet of office space at our Newport Beach, California headquarters, which is primarily used for training, production and computing facilities.

Operating Income. Operating income increased \$620,000, or 6% to \$11.6 million for the nine months ended September 30, 2005, compared to \$11.0 million for the same period of the prior year. As a percentage of revenue, operating income decreased to 19% for the nine months ended September 30, 2005, as compared to 22% for the same period of the prior year. Operating income as a percentage of sales decreased due to the increase in sales and gross profit offset by the planned increase in selling, general and administrative expenses, as discussed above.

Income Tax Expense. Our effective income tax rates for nine months ended September 30, 2005 and 2004 were 36% and 38%, respectively. In the first quarter ended March 31, 2005, we completed and filed our federal and state income tax returns for the calendar year ended December 31, 2004. Based on the income tax returns filed, we recorded an adjustment to our effective tax rate in the first quarter of 2005 resulting in a reduction of income tax expense of approximately \$208,000, or \$0.01 per diluted share. In the third quarter ended September 30, 2005, we recorded a tax adjustment resulting in a reduction of income tax expense of approximately \$160,000, or \$0.01 per diluted share relating to the reduction of tax liability that expired based on its statute of limitations.

In the second quarter ended September 30, 2004, we completed and filed our federal and state income tax returns for the calendar year ended December 31, 2003. Based on the income tax returns filed, we recorded an adjustment to our state effective tax rate in the second quarter resulting in a reduction of income tax expense of \$182,000. This reduction of \$182,000, coupled with a current year state tax provision rate adjustment of \$125,000, resulted in a reduction of income tax expense of approximately \$307,000, or \$0.02 per diluted share.

Table of Contents

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (cont'd)
Capital Resources and Liquidity**

Our working capital increased to \$38.4 million at September 30, 2005 from \$31.9 million at December 31, 2004. In addition, our cash and cash equivalents increased to \$27.4 million at September 30, 2005, from \$22.1 million at December 31, 2004. Cash flows from operating activities provided \$9.4 million during the nine months ended September 30, 2005, compared to \$2.1 million for the same period during the prior year. The increase in our cash flows from operating activities is due primarily to the timing of our payroll cycles and the recording of the income tax effect from the exercise of stock options.

The change in accounts receivable was due primarily to the increase in our sales for the nine months ended September 30, 2005 compared to the same period of the prior year. Our days sales outstanding (DSO) was 65 days, which is consistent with our historical average of between 65 to 67 days.

We expanded our office space by an additional 11,000 square feet in December 2004, which is primarily used for training, production and computing facilities. In addition, we entered into an agreement with a software vendor in March 2005 to implement an Enterprise Resource Planning software program. Of the purchases of fixed assets of \$1.7 million during the nine months ended September 30, 2005, we spent \$1.5 million relating to these two activities.

In May 2004, the Company's Board of Directors authorized a plan to repurchase up to \$7.0 million of the Company's common stock. In April and October 2005, the Company's Board of Directors authorized an increase of an additional \$5.0 million and \$8.0 million, respectively, increasing the total authorization to repurchase the Company's common stock to \$20.0 million. The Company intends to repurchase shares from time to time, at prevailing prices, in the open market. The timing and amount of the share repurchases will be at the discretion of management and will be based on such factors as the stock price, general economic and market conditions, and other factors. The share repurchase plan may be suspended or discontinued at any time. Shares repurchased under the plan are cancelled. As of September 30, 2005, the Company has repurchased 1,072,495 shares at a total cost of \$8.3 million.

The Company has a revolving credit agreement which allows for borrowings up to \$10.0 million at the prime rate minus one half of one percent (-0.50%) per annum or LIBOR plus two and one quarter percent (2.25%) per annum. The revolving credit agreement is renewable annually on April 30th of each year. Borrowings under the revolving credit agreement are unsecured. The agreement requires the Company to comply with certain financial covenants pertaining to its tangible net worth, ratio of total liabilities to tangible net worth, and ratio of current assets to current liabilities (as defined in the agreement). The agreement also contains certain negative covenants which, among other things, restricts the Company's ability to incur additional indebtedness of more than \$1.0 million in excess of the \$10.0 million limit set forth in the credit agreement and make capital expenditures in excess of \$2.0 million without the prior written approval of the lender. At September 30, 2005, we had no outstanding borrowings under the line of credit, the bank had issued a letter of credit for \$64,000 and we had \$9.9 million in availability.

We believe we have sufficient working capital available under the line of credit and cash generated by continuing operations will be sufficient to fund operations for at least the next twelve months.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (cont d)
RISK FACTORS

In addition to the other information in this Quarterly Report on Form 10-Q, the following factors should be considered carefully in evaluating our business and prospects.

Our business depends substantially on the defense industry.

Our competition management and performance assurance services business depends substantially on U.S. Government expenditures for defense products. Any decline in the future defense, information technology or homeland security procurement expenditures could affect the opportunities available to our clients and, indirectly, our business. A number of factors could contribute to such a decline in opportunities, including:

Loss of political support for current or increased levels of spending;

Changes of presidential administration, particularly changes from one political party to another, that typically result in a mass reordering of priorities that reduce new proposal activity for up to a year;

Threat scenarios evolving away from global conflicts to regional conflicts;

Spending for ongoing operations, such as the war on terrorism, the occupation of Iraq, downward pressure on spending for procurement of new systems and research and development spending; and

Cancellation of programs or emphasis on government shifting programs.

In the event expenditures for products of the type manufactured by our clients are reduced and not offset by other new programs or products, there will be a reduction in the volume of contracts or subcontracts to be bid upon by our clients and, as a result, a reduction in the volume of proposals we manage. Unless offset, such reductions could materially and adversely affect our business, operating results and financial condition.

We rely on a relatively limited number of clients.

We derive a significant portion of revenue from continuing operations from a relatively limited number of clients. Our seven largest customers accounted for 84% and 92% of our revenue for 2004 and 2003, respectively. Clients typically retain our services as needed on an engagement basis rather than pursuant to long-term contracts, and a client can usually terminate the engagement at any time without a significant penalty. Moreover, there can be no assurance that existing clients will continue to engage us for additional assignments or do so at the same revenue levels. The loss of any significant client could materially and adversely affect our business, financial condition and results of operations. In addition, the level of services required by an individual client may diminish over the life of the relationship, and there can be no assurance we will be successful in establishing relationships with new clients as this occurs.

The markets in which we operate are highly competitive.

The market for competition management services in the procurement of government and commercial contracts for aerospace and defense work is a niche market with a number of competitors. We are the largest provider of such services and principally compete with the in-house capability of our clients. In addition, numerous smaller proposal management companies compete in this highly specialized industry. With sufficient resources in the form of money and excellent talent with current security clearances, our competitors could erode our current market share and such a reduction could materially and adversely affect our business, operating results and financial condition.

We rely heavily upon our key senior management personnel and our ability to recruit and maintain skilled professionals.

Our success is dependent upon the efforts, abilities, and business generation capabilities and project execution of our strategic account managers and account executives. In addition, Steven S. Myers, our Chief Executive Officer and Chairman of the Board, has a significant role in our success. The loss of the services of these individuals, for any reason, could materially and adversely affect our business, operating results and financial condition.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (cont d)

Our business involves the delivery of professional services and is highly labor-intensive. Our success depends largely on our general ability to attract, develop, motivate and retain highly skilled professionals. The loss of some or a significant number of our professionals or the inability to attract, hire, develop, train and retain additional skilled personnel could have a serious negative effect on us, including our ability to obtain and successfully complete important engagements and thus maintain or increase our revenue.

Quarterly results may fluctuate.

We may experience fluctuations in future quarterly operating results due to a number of factors, including the size, timing and duration of client engagements.

Our stock price is subject to significant volatility.

Our common stock was first publicly traded on January 29, 1998 after our initial public offering at \$12.00 per share. Between January 29, 1998 and September 30, 2005, the closing sale price has ranged from a high of \$31.13 per share to a low of \$0.75 per share. The market price of our common stock could continue to fluctuate substantially due to a variety of factors, including:

Quarterly fluctuations in results of operations;

Adverse circumstances affecting the introduction, or market acceptance of new services we offer;

Announcements of new services by competitors;

Announcements of poor operating results by us or our competitors;

Loss of key employees;

Changes in the regulatory environment or market conditions affecting the defense and aerospace industry;

Changes in earnings estimates and ratings by analysts;

Lack of market liquidity resulting from a relatively small amount of public stock float;

Changes in generally accepted accounting principles;

Sales of common stock by existing holders; and

The announcement of proposed acquisitions and dispositions.

We cannot guarantee that future acquisitions, mergers or investments in other companies will be successful.

If appropriate opportunities present themselves, we may consider acquiring, merging with or making investments in companies or assets that we believe will complement, enhance or expand our current business or otherwise offer us growth opportunities. We will likely compete for such opportunities with companies with greater financial and management resources than us. There can be no assurance that suitable acquisition or other investment opportunities will be identified, that any of these transactions can be consummated, or that, if acquired, the new businesses can be integrated successfully and profitably into our operations. These acquisitions and investments may also entail the following risks:

the diversion of our management's attention from our existing business while evaluating acquisitions, investments and other prospective business combinations and thereafter while assimilating the operations and personnel of the new business;

adverse short-term effects on our operating results;

the inability to successfully and rapidly integrate the new businesses, personnel and products with our existing business, including financial reporting, management and information technology systems;

higher than anticipated costs of integration;

unforeseen operating difficulties and expenditures;

the need to manage a significantly larger business;

Table of Contents

potential dilution to our shareholders to the extent we use our common stock as currency for an acquisition;

the assumption of liabilities;

the use of a substantial amount of our available cash to consummate an acquisition;

difficulties inherent in the implementation and application of the provisions of the Sarbanes-Oxley Act of 2002 to the operations of a privately-held entity acquired by the Company; and

loss of employees of an acquired business, including employees who may have been instrumental to the success or growth of that business.

We may not be able to successfully integrate or operate profitably any new business we acquire and we cannot assure you that any other investments we make, or strategic alliances we enter into, will be successful.

Principal shareholder has significant control.

At September 30, 2005, Steven S. Myers, Chief Executive Officer and Chairman of the Board, beneficially owned or controlled approximately 24% of our outstanding common stock and will have the ability to control or significantly influence the election of directors and the results of other matters submitted to a vote of shareholders. This concentration of ownership may have the effect of delaying or preventing a change in control and may adversely affect the ability of other holders of our common stock to pass shareholder resolutions and control our actions.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company currently has no instruments that are sensitive to market risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer concluded that these disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the requisite time periods.

While the Company's disclosure controls and procedures provide reasonable assurance that the appropriate information will be available on a timely basis, this assurance is subject to limitations inherent in any control system, no matter how well designed and administered.

Changes in Internal Controls

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) identified in connection with the evaluation of our internal control performed during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

We are involved in routine litigation incidental to the conduct of our business. There are currently no material pending litigation proceedings to which we are a party or to which any of our property is subject.

Item 2. Changes in Securities and Use of Proceeds and Issuer Purchase of Equity Securities**Issuer Purchases of Equity Securities**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Approximate \$ Value of Shares That May Yet Be Purchased Under the Plan
Beginning balance	625,500	\$ 7.39	625,500	\$ 2,377,000
January 1, 2005 to January 31, 2005				2,377,000
February 1, 2005 to February 28, 2005	45,180	8.03	670,680	2,014,000
March 1, 2005 to March 31, 2005	27,990	7.88	698,670	1,794,000
April 1, 2005 to April 30, 2005	351,825	8.24	1,050,495	3,896,000
May 1, 2005 to May 31, 2005				3,896,000
June 1, 2005 to June 30, 2005				3,896,000
July 1, 2005 to July 31, 2005				3,896,000
August 1, 2005 to August 30, 2005				3,896,000
September 1, 2005 to September 30, 2005	22,000	8.84	1,072,495	3,702,000
Total	1,072,495	\$ 7.74	1,072,495	

In May 2004, the Company's Board of Directors authorized a plan to repurchase up to \$7.0 million of the Company's common stock. In April and October 2005, the Company's Board of Directors authorized an increase of an additional \$5.0 million and \$8.0 million, respectively, increasing the total authorization to repurchase the Company's common stock to \$20.0 million. The Company intends to repurchase shares from time to time, at prevailing prices, in the open market. The timing and amount of the share repurchases will be at the discretion of management and will be based on such factors as the stock price, general economic and market conditions, and other factors. The share repurchase plan may be suspended or discontinued at any time. Shares repurchased under the plan are cancelled. As of September 30, 2005, the Company has repurchased 1,072,495 shares at a total cost of \$8.3 million.

Table of Contents

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable.

Item 5. Other Information

The Company periodically leases aircraft from SummitJets, Inc., which is owned by the Company's Chairman and Chief Executive Officer. The lease rate was determined through a review of prevailing market rates for such services. During the three and nine months ended September 30, 2005 and 2004, the Company recorded an expense of \$48,000, \$83,000, \$124,000 and \$124,000 respectively. The expense is included in selling, general and administrative expenses.

In March 2005, the Company facilitated the exercising of stock options upon the retirement of our former member of the Board of Directors, Jack Woodhull. Upon the exercising of the options, the Company repurchased 15,000 shares for a total discounted cost of \$117,000. In April 2005, the Company facilitated the exercising of stock options upon the retirement of our former member of the Board of Directors, Albert Nagy. Upon the exercising of the options, the Company repurchased 200,000 shares for a total discounted cost of \$1.7 million. In April 2005, the Company facilitated the exercising of stock options upon the resignation of our former President and Chief Operating Officer, Bennett Beaudry. Upon the exercising of the options, the Company repurchased 150,625 shares for a total discounted cost of \$1.2 million. The Company purchased all the shares at a 3.6% discount.

On June 8, 2005, the Board of Directors (the Board) of SM&A (the Company), upon recommendation of the Board's Audit and Compensation Committees, approved the accelerated vesting of certain unvested and out-of-the-money options held by current employees, officers and directors (the Acceleration). The options accelerated were granted under the Company's Second Amended and Restated Equity Incentive Plan (the Plan).

As a result of the Acceleration, the affected unvested options are those which had exercise prices of greater than \$8.87 per share. The closing sales price of the Company's common stock on the NASDAQ National market on June 8, 2005, the effective date of the Acceleration, was \$8.87. Pursuant to the Acceleration, options granted under the Plan to purchase approximately 403,000 shares of the Company's common stock that would otherwise have vested at various times within the next four years became fully vested. Of the 403,000 options, 200,000 options were granted to current Directors, 100,000 were granted to current Officers, and the remaining 103,000 options were granted to current employees. The options have a range of exercise prices of \$9.07 to \$12.66. As a result of the Board's decision to approve the Acceleration, each agreement for options subject to the Acceleration is deemed to be amended to reflect the Acceleration as of the effective date, but all other terms and conditions of each such option agreement remain in full force and effect.

The decision to initiate the Acceleration under the Plan, which the Company believes to be in the best interest of the Company and its shareholders, was made primarily to reduce compensation expense that would be expected to be recorded in future periods following the Company's adoption of Financial Accounting Standards Board (FASB) Statement no. 123, Share-Based Payment (revised 2004) (SFAS 123(R)). The Company currently accounts for stock-based compensation using the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. The SFAS 123(R) will require the Company to record compensation expense equal to the fair value of all equity-based compensation over the vesting period of each such award. As a result of the Acceleration under the Plan, the Company expects to reduce its aggregate compensation expense related to the accelerated options by a total of approximately \$1.8 million before taxes over the next four years (the remaining vesting period for the accelerated options). This estimate is subject to change, but is based on

Table of Contents

Item 5. Other Information (cont d)

approximated value calculations using the Black-Scholes methodology. The Company will disclose the pro forma effect of this compensation expense in the pro forma footnote disclosure in its fiscal year 2005 annual report, as permitted under the transition guidance provided by the FASB.

Item 6. Exhibits

INDEX TO EXHIBITS

Exhibits (numbered in accordance with item 601 of Regulation S-K).

- 2.1 Stock Purchase and Sale Agreement, by and among the Registrant, Steven Myers Holding Inc. and L-3 Communications Corporation. ⁽¹⁾
- 2.2 Amendment No. 1 to Stock Purchase and Sale Agreement, by and among the Registrant, Steven Myers Holding Inc. and L-3 Communications Corporation. ⁽²⁾
- 3.1 Amended and Restated Articles of Incorporation. ⁽³⁾
- 3.2 Amended and Restated Bylaws of the Registrant. ⁽⁴⁾
- 10.1 Amended and Restated 1997 Stock Option Plan and related form of Stock Option Agreement. ⁽⁵⁾
- 10.2 Amended and Restated Employee Stock Purchase Plan. ⁽⁶⁾
- 10.3 Office Facility Lease. ⁽⁷⁾
- 10.4 Amendment No. 1 to Office Facility Lease. ⁽⁸⁾
- 10.5 Employment Agreement of Steven S. Myers. ⁽⁹⁾
- 10.6 Amendment No. 1 to Employment Agreement of Steven S. Myers. ⁽¹⁰⁾
- 10.7 Amendment No. 2 to Employment Agreement of Steven S. Myers. ⁽¹¹⁾
- 10.8 Amendment No. 3 to Employment Agreement of Steven S. Myers. ⁽¹²⁾
- 10.9 Amendment No. 4 to Employment Agreement of Steven S. Myers. ⁽¹³⁾
- 10.10 Amendment No. 5 to Employment Agreement of Steven S. Myers. ⁽¹⁴⁾
- 10.11 Employment Agreement of Cathy L. Wood McCarthy⁽¹⁵⁾
- 10.12 Amendment No. 1 to Employment Agreement of Cathy L. Wood McCarthy⁽¹⁶⁾
- 10.13 Amendment No. 2 to Employment Agreement of Cathy L. Wood McCarthy⁽¹⁷⁾
- 10.14 Amendment No. 3 to Employment Agreement of Cathy L. Wood McCarthy⁽¹⁸⁾
- 10.15 Amendment No. 4 to Employment Agreement of Cathy L. Wood McCarthy⁽¹⁹⁾
- 10.16 Employment Agreement of Bennett C. Beaudry. ⁽²⁰⁾

10.17	Amendment No. 1 to Employment Agreement of Bennett C. Beaudry. ⁽²¹⁾
	23

Table of Contents

10.18	Amendment No. 2 to Employment Agreement of Bennett C. Beaudry. ⁽²²⁾
10.19	Amendment No. 3 to Employment Agreement of Bennett C. Beaudry. ⁽²³⁾
10.20	Accounts Receivable Loan Agreement dated January 10, 2002, by and between the Registrant and City National Bank, a national banking association. ⁽²⁴⁾
10.21	Commercial Guaranty dated January 10, 2002, executed by Steven Myers & Associates, Inc. in favor of City National Bank, a national banking association. ⁽²⁵⁾
10.22	Revolving Loan Agreement dated October 14, 2003, by and between the registrant and City National Bank, a national association. ⁽²⁶⁾
10.23	Revolving Note dated April 10, 2003, executed by SM&A, in favor of City National Bank. ⁽²⁷⁾
10.24	Renewal of Revolving Note dated April 27, 2004, executed by SM&A, in favor of City National Bank. ⁽²⁸⁾
10.25	Renewal of Revolving Note dated April 29, 2005, executed by SM&A, in favor of City National Bank. ⁽²⁹⁾
10.26	Consultant Agreement of Bowes Enterprises. ⁽³⁰⁾
10.27	Consultant Agreement of Joseph B. Reagan. ⁽³¹⁾
21.1	Subsidiaries of the Registrant. ⁽³²⁾
31.1	Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ⁽³³⁾
31.2	Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ⁽³⁴⁾
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ⁽³⁵⁾
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ⁽³⁶⁾

Footnote #

- (1) Filed on November 27, 2001 as Exhibit 10.1 to the registrant's Current Report on Form 8-K and incorporated herein by reference.

- (2) Filed on December 14, 2001 as Exhibit 10.1 to the registrant's Current Report on Form 8-K and incorporated herein by reference.
- (3) Filed on March 15, 2002 as Exhibit 3.1 to the registrant's Annual Report on Form 10-K and incorporated herein by reference.
- (4) Filed on May 3, 2002 as Exhibit 3.2 to the registrant's Quarterly Report on Form 10-Q and incorporated herein by reference.
- (5) Filed on April 17, 2001 as Exhibit 10.1 to the registrant's Annual Report on Form 10-K and incorporated herein by reference.
- (6) Filed on April 29, 2002 as Exhibit C to the registrant's Annual Proxy Statement on

Form 14A and
incorporated
herein by
reference.

- (7) Filed on
November 21,
1997 as
Exhibit 10.3 to
the registrant's
Registration
Statement
333-4075 on
Form S-1
(Registration
No. 333-4075)
and
incorporated
herein by
reference.
- (8) Filed on
October 22,
2004 as
Exhibit 10.25 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.
- (9) Filed on
April 17, 2001
as Exhibit 10.17
to the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.
- (10) Filed on
March 15, 2002
as Exhibit 10.7
to the registrant's
Annual Report
on Form 10-K
and

incorporated
herein by
reference.

(11) Filed on May 3,
2002 as
Exhibit 10.8 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.

(11) Filed on
March 11, 2003
as Exhibit 10.7
to the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.

(13) Filed on
February 6,
2004 as
Exhibit 10.8 to
the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.

Table of Contents

- (14) Filed on
October 22,
2004 as
Exhibit 10.21 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.
- (15) Filed on
March 15, 2002
as Exhibit 10.8
to the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.
- (16) Filed on
November 4,
2002 as
Exhibit 10.10 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.
- (17) Filed on
March 11, 2003
as Exhibit 10.10
to the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.
- (18) Filed on
February 6,
2004 as

Exhibit 10.12 to
the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.

(19) Filed on
October 22,
2004 as
Exhibit 10.22 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.

(20) Filed on
November 4,
2002 as
Exhibit 10.11 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.

(21) Filed on
March 11, 2003
as Exhibit 10.12
to the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.

(22) Filed on
February 6,
2004 as
Exhibit 10.15 to
the registrant's
Annual Report
on Form 10-K

and
incorporated
herein by
reference.

(23) Filed on
October 8, 2004
as Exhibit 99.1
to the registrant's
current report
on 8-K and
incorporated
herein by
reference.

(24) Filed on
January 25,
2002 as
Exhibit 99.2 to
the registrant's
Current Report
on Form 8-K
and
incorporated
herein by
reference.

(25) Filed on
January 25,
2002 as
Exhibit 99.3 to
the registrant's
Current Report
on Form 8-K
and
incorporated
herein by
reference.

(26) Filed on
February 6,
2004 as
Exhibit 10.18 to
the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.

- (27) Filed on
July 31, 2003 as
Exhibit 10.16 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.
- (28) Filed on
July 21, 2004 as
Exhibit 10.20 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.
- (29) Filed on
July 14, 2005 as
Exhibit 10.25 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.
- (30) Filed on
October 22,
2004 as
Exhibit 10.23 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.
- (31) Filed on
October 22,
2004 as
Exhibit 10.24 to
the registrant's
Quarterly

Report on Form
10-Q and
incorporated
herein by
reference.

(32) Filed on
March 11, 2003
as Exhibit 21.1
to the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.

(33) Filed herewith.

(34) Filed herewith.

(35) Filed herewith.

(36) Filed herewith.

Table of Contents

SIGNATURE

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

SM&A

By: /s/ CATHY L. MCCARTHY

Dated: October 18, 2005

Cathy L. McCarthy
Executive Vice President, Chief Financial
Officer and Secretary

By: /s/ STEVEN S. MYERS

Dated: October 18, 2005

Steven S. Myers
Chairman and Chief Executive Officer

Table of Contents

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
2.1	Stock Purchase and Sale Agreement, by and among the Registrant, Steven Myers Holding Inc. and L-3 Communications Corporation. ⁽¹⁾
2.2	Amendment No. 1 to Stock Purchase and Sale Agreement, by and among the Registrant, Steven Myers Holding Inc. and L-3 Communications Corporation. ⁽²⁾
3.1	Amended and Restated Articles of Incorporation. ⁽³⁾
3.2	Amended and Restated Bylaws of the Registrant. ⁽⁴⁾
10.1	Amended and Restated 1997 Stock Option Plan and related form of Stock Option Agreement. ⁽⁵⁾
10.2	Amended and Restated Employee Stock Purchase Plan. ⁽⁶⁾
10.3	Office Facility Lease. ⁽⁷⁾
10.4	Amendment No. 1 to Office Facility Lease. ⁽⁸⁾
10.5	Employment Agreement of Steven S. Myers. ⁽⁹⁾
10.6	Amendment No. 1 to Employment Agreement of Steven S. Myers. ⁽¹⁰⁾
10.7	Amendment No. 2 to Employment Agreement of Steven S. Myers. ⁽¹¹⁾
10.8	Amendment No. 3 to Employment Agreement of Steven S. Myers. ⁽¹²⁾
10.9	Amendment No. 4 to Employment Agreement of Steven S. Myers. ⁽¹³⁾
10.10	Amendment No. 5 to Employment Agreement of Steven S. Myers. ⁽¹⁴⁾
10.11	Employment Agreement of Cathy L. Wood McCarthy ⁽¹⁵⁾
10.12	Amendment No. 1 to Employment Agreement of Cathy L. Wood McCarthy ⁽¹⁶⁾
10.13	Amendment No. 2 to Employment Agreement of Cathy L. Wood McCarthy ⁽¹⁷⁾
10.14	Amendment No. 3 to Employment Agreement of Cathy L. Wood McCarthy ⁽¹⁸⁾
10.15	Amendment No. 4 to Employment Agreement of Cathy L. Wood McCarthy ⁽¹⁹⁾
10.16	Employment Agreement of Bennett C. Beaudry. ⁽²⁰⁾
10.17	Amendment No. 1 to Employment Agreement of Bennett C. Beaudry. ⁽²¹⁾

Table of Contents

EXHIBIT NO.	DESCRIPTION
10.18	Amendment No. 2 to Employment Agreement of Bennett C. Beaudry. ⁽²²⁾
10.19	Amendment No. 3 to Employment Agreement of Bennett C. Beaudry. ⁽²³⁾
10.20	Accounts Receivable Loan Agreement dated January 10, 2002, by and between the Registrant and City National Bank, a national banking association. ⁽²⁴⁾
10.21	Commercial Guaranty dated January 10, 2002, executed by Steven Myers & Associates, Inc. in favor of City National Bank, a national banking association. ⁽²⁵⁾
10.22	Revolving Loan Agreement dated October 14, 2003, by and between the registrant and City National Bank, a national association. ⁽²⁶⁾
10.23	Revolving Note dated April 10, 2003, executed by SM&A, in favor of City National Bank. ⁽²⁷⁾
10.24	Renewal of Revolving Note dated April 27, 2004, executed by SM&A, in favor of City National Bank. ⁽²⁸⁾
10.25	Renewal of Revolving Note dated April 29, 2005, executed by SM&A, in favor of City National Bank. ⁽²⁹⁾
10.26	Consultant Agreement of Bowes Enterprises. ⁽³⁰⁾
10.27	Consultant Agreement of Joseph B. Reagan. ⁽³¹⁾
21.1	Subsidiaries of the Registrant. ⁽³²⁾
31.1	Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ⁽³³⁾
31.2	Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ⁽³⁴⁾
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ⁽³⁵⁾
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ⁽³⁶⁾

Footnote #

- (1) Filed on November 27, 2001 as Exhibit 10.1 to the registrant's Current Report on Form 8-K

and
incorporated
herein by
reference.

- (2) Filed on
December 14,
2001 as
Exhibit 10.1 to
the registrant's
Current Report
on Form 8-K
and
incorporated
herein by
reference.
- (3) Filed on
March 15, 2002
as Exhibit 3.1 to
the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.
- (4) Filed on May 3,
2002 as
Exhibit 3.2 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.
- (5) Filed on
April 17, 2001
as Exhibit 10.1
to the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.

(6)

Filed on
April 29, 2002
as Exhibit C to
the registrant's
Annual Proxy
Statement on
Form 14A and
incorporated
herein by
reference.

(7) Filed on
November 21,
1997 as
Exhibit 10.3 to
the registrant's
Registration
Statement
333-4075 on
Form S-1
(Registration
No. 333-4075)
and
incorporated
herein by
reference.

(8) Filed on
October 22,
2004 as
Exhibit 10.25 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.

(9) Filed on
April 17, 2001
as Exhibit 10.17
to the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.

(10)

Filed on
March 15, 2002
as Exhibit 10.7
to the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.

(11) Filed on May 3,
2002 as
Exhibit 10.8 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.

(11) Filed on
March 11, 2003
as Exhibit 10.7
to the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.

(13) Filed on
February 6,
2004 as
Exhibit 10.8 to
the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.

Table of Contents

- (14) Filed on
October 22,
2004 as
Exhibit 10.21 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.
- (15) Filed on
March 15, 2002
as Exhibit 10.8
to the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.
- (16) Filed on
November 4,
2002 as
Exhibit 10.10 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.
- (17) Filed on
March 11, 2003
as Exhibit 10.10
to the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.
- (18) Filed on
February 6,
2004 as

Exhibit 10.12 to
the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.

(19) Filed on
October 22,
2004 as
Exhibit 10.22 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.

(20) Filed on
November 4,
2002 as
Exhibit 10.11 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.

(21) Filed on
March 11, 2003
as Exhibit 10.12
to the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.

(22) Filed on
February 6,
2004 as
Exhibit 10.15 to
the registrant's
Annual Report
on Form 10-K

and
incorporated
herein by
reference.

(23) Filed on
October 8, 2004
as Exhibit 99.1
to the registrant's
current report
on 8-K and
incorporated
herein by
reference.

(24) Filed on
January 25,
2002 as
Exhibit 99.2 to
the registrant's
Current Report
on Form 8-K
and
incorporated
herein by
reference.

(25) Filed on
January 25,
2002 as
Exhibit 99.3 to
the registrant's
Current Report
on Form 8-K
and
incorporated
herein by
reference.

(26) Filed on
February 6,
2004 as
Exhibit 10.18 to
the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.

- (27) Filed on
July 31, 2003 as
Exhibit 10.16 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.
- (28) Filed on
July 21, 2004 as
Exhibit 10.20 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.
- (29) Filed on
July 14, 2005 as
Exhibit 10.25 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.
- (30) Filed on
October 22,
2004 as
Exhibit 10.23 to
the registrant's
Quarterly
Report on Form
10-Q and
incorporated
herein by
reference.
- (31) Filed on
October 22,
2004 as
Exhibit 10.24 to
the registrant's
Quarterly

Report on Form
10-Q and
incorporated
herein by
reference.

(32) Filed on
March 11, 2003
as Exhibit 21.1
to the registrant's
Annual Report
on Form 10-K
and
incorporated
herein by
reference.

(33) Filed herewith.

(34) Filed herewith.

(35) Filed herewith.

(36) Filed herewith.