

ICF International, Inc.
Form 10-Q
November 03, 2011
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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, 2011

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 001-33045

ICF International, Inc.

(Exact name of Registrant as Specified in its Charter)

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Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

22-3661438
(I.R.S. Employer
Identification No.)

9300 Lee Highway, Fairfax, VA
(Address of Principal Executive Offices)

22031
(Zip Code)

Registrant's telephone number, including area code: (703) 934-3000

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

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

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 31, 2011, there were 19,766,104 shares outstanding of the registrant's common stock.

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ICF INTERNATIONAL, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE

PERIOD ENDED SEPTEMBER 30, 2011

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ICF International, Inc. and Subsidiaries****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share amounts)

	September 30, 2011 <i>(Unaudited)</i>	December 31, 2010
Current Assets:		
Cash	\$ 2,010	\$ 3,301
Contract receivables, net	187,168	176,963
Prepaid expenses and other	8,673	6,995
Income tax receivable	1,503	1,628
Deferred income taxes	5,752	4,973
Total current assets	205,106	193,860
Total property and equipment, net	16,843	18,887
Other assets:		
Goodwill	327,032	323,467
Other intangible assets, net	20,817	26,148
Restricted cash	1,551	3,179
Other assets	6,846	7,278
Total Assets	\$ 578,195	\$ 572,819
Current Liabilities:		
Accounts payable	\$ 32,490	\$ 29,866
Accrued salaries and benefits	44,235	40,750
Accrued expenses	26,695	25,522
Deferred revenue	20,887	20,034
Total current liabilities	124,307	116,172
Long-term Liabilities:		
Long-term debt	50,000	85,000
Deferred rent	6,828	5,142
Deferred income taxes	8,379	10,068
Other	5,100	3,704
Total Liabilities	194,614	220,086
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, par value \$.001 per share; 5,000,000 shares authorized; none issued		
Common stock, \$.001 par value; 70,000,000 shares authorized; 19,871,832 and 19,618,659 issued; and 19,764,630 and 19,567,571 outstanding as of September 30, 2011, and December 31, 2010, respectively	20	20
Additional paid-in capital	227,031	220,891

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Retained earnings	159,660	133,637
Treasury stock	(2,595)	(1,291)
Accumulated other comprehensive loss	(535)	(524)
Total Stockholders' Equity	383,581	352,733
Total Liabilities and Stockholders' Equity	\$ 578,195	\$ 572,819

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**ICF International, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)**

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Gross Revenue	\$ 218,691	\$ 197,711	\$ 626,828	\$ 571,796
Direct Costs	137,343	124,060	389,086	356,750
Operating costs and expenses:				
Indirect and selling expenses	60,341	55,348	177,537	162,508
Depreciation and amortization	2,544	2,716	8,083	8,027
Amortization of intangible assets	2,369	3,082	7,105	9,245
Total operating costs and expenses	65,254	61,146	192,725	179,780
Operating income	16,094	12,505	45,017	35,266
Interest expense	(539)	(776)	(1,732)	(2,656)
Other income		99	89	197
Income before income taxes	15,555	11,828	43,374	32,807
Provision for income taxes	6,221	4,435	17,351	12,793
Net income	\$ 9,334	\$ 7,393	\$ 26,023	\$ 20,014
Earnings per Share:				
Basic	\$ 0.47	\$ 0.38	\$ 1.32	\$ 1.03
Diluted	\$ 0.47	\$ 0.38	\$ 1.31	\$ 1.02
Weighted-average Shares:				
Basic	19,728	19,413	19,666	19,349
Diluted	19,860	19,630	19,888	19,579

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**ICF International, Inc. and Subsidiaries****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(in thousands)

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities		
Net income	\$ 26,023	\$ 20,014
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(2,525)	(3,690)
(Gain) loss on disposal of fixed assets	(13)	36
Non-cash equity compensation	4,786	6,242
Depreciation and amortization	15,188	17,272
Deferred rent	1,809	753
Changes in operating assets and liabilities, net of the effect of acquisitions:		
Contract receivables, net	(8,537)	4,715
Prepaid expenses and other assets	(1,745)	(2,070)
Accounts payable	2,718	(5,301)
Accrued salaries and benefits	3,086	12,609
Accrued expenses	2,023	2,702
Deferred revenue	852	(2,874)
Income tax receivable and payable	118	5,278
Restricted cash	1,628	(1,041)
Other liabilities	1,395	(1,039)
Net cash provided by operating activities	46,806	53,606
Cash flows from investing activities		
Capital expenditures	(6,889)	(4,706)
Capitalized software development costs	(28)	(306)
Payments for business acquisitions, net of cash received	(6,220)	
Net cash used in investing activities	(13,137)	(5,012)
Cash flows from financing activities		
Advances from working capital facilities	104,469	22,094
Payments on working capital facilities	(139,469)	(67,094)
Debt issue costs		(21)
Proceeds from exercise of options	447	616
Tax benefits of stock option exercises and award vesting	815	784
Net payments for stockholder issuances and buybacks	(1,211)	(595)
Net cash used in financing activities	(34,949)	(44,216)
Effect of exchange rate on cash	(11)	(233)
Increase (decrease) in cash	(1,291)	4,145
Cash, beginning of period	3,301	2,353
Cash, end of period	\$ 2,010	\$ 6,498

Supplemental disclosure of cash flow information

Cash paid during the period for:

Interest	\$ 1,694	\$ 3,141
Income taxes	\$ 19,174	\$ 10,882

The accompanying notes are an integral part of these consolidated financial statements.

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Notes to Consolidated Financial Statements

(Dollar amounts in tables in thousands, except per share amounts)

Note 1. Basis of Presentation and Nature of Operations

Interim Results

The unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). These rules and regulations permit some of the information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) to be condensed or omitted. In management's opinion, the unaudited consolidated financial statements contain all adjustments, that are of a normal recurring nature, necessary for a fair presentation of the results of ICF International, Inc. and its subsidiaries (collectively, the Company) for the three-month and nine-month periods ended September 30, 2011, and September 30, 2010. Operating results for the three-month and nine-month periods ended September 30, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The Company believes the carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and other current liabilities approximate their estimated fair values at September 30, 2011, due to their short maturities. The Company believes the carrying value of the lines of credit payable approximate the estimated fair value for debt with similar terms, interest rates, and remaining maturities currently available to companies with similar credit ratings at September 30, 2011. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010, and the notes thereto included in the Company's Annual Report on Form 10-K, filed with the SEC on March 4, 2011.

Nature of Operations

The Company provides management, technology, and policy professional services in the areas of energy, environment, and transportation; health, education, and social programs; and homeland security and defense. The Company's major clients are United States (U.S.) government departments and agencies, especially the Department of Health and Human Services (HHS), Department of Defense (DoD), Department of State (DOS), Environmental Protection Agency (EPA), Department of Homeland Security (DHS), Department of Agriculture (USDA), Department of Housing and Urban Development (HUD), Department of Transportation (DOT), Department of Interior (DOI), Department of Justice (DOJ), Department of Energy (DOE), and Department of Education (ED); state and local government departments and agencies; commercial and international clients, primarily in the air transportation and energy sectors, including airlines, airports, electric and gas utilities, oil companies, and law firms; and other governmental organizations throughout the U.S. and the world. The Company offers a full range of services to these clients, including strategy, analysis, program management, and information technology solutions that combine experienced professional staff, industry and institutional knowledge, and analytical methods.

The Company, incorporated in Delaware, is headquartered in Fairfax, Virginia, with over 50 domestic regional offices and international offices in Beijing, New Delhi, Ottawa, Toronto, Brussels, London, Moscow, and Rio de Janeiro.

Note 2. Business Combinations

In September 2011, the Company hired the staff and purchased select assets and liabilities of AeroStrategy L.L.C., a Michigan limited liability company, and AeroStrategy Limited, a limited company organized under the laws of England (collectively, AeroStrategy), an international aviation and aerospace management consulting firm. The purchase was immaterial to the financial statements taken as a whole. The purchase strengthened ICF's aviation consulting business with additional services and an expanded client base.

In January 2011, the Company completed the acquisition of Marbek Resource Consultants Ltd. (Marbek), a Canadian energy and environmental consulting firm. The acquisition was immaterial to the financial statements taken as a whole. The acquisition created an integrated energy, climate, and environmental consultancy with a strong presence in Canada.

Note 3. Contract Receivables

Contract receivables consisted of the following:

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	September 30, 2011	December 31, 2010
Billed	\$ 121,987	\$ 127,452
Unbilled	66,175	51,433
Allowance for doubtful accounts	(994)	(1,922)
Contract receivables, net	\$ 187,168	\$ 176,963

Contract receivables, net of the established allowance, are amounts expected to be received in future periods. Unbilled receivables result from revenue that has been earned in advance of billing. The unbilled receivables can be invoiced at contractually defined

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intervals or milestones, or upon completion of the contract or U.S. federal government incurred-cost audits. The Company anticipates that the majority of unbilled receivables will be substantially billed and collected within one year. Contract receivables are classified as current assets in accordance with industry practice.

The allowance for doubtful accounts is determined based upon management's best estimate of potentially uncollectible contract receivables. The factors that influence management's estimate include historical experience and management's expectations of future losses on a contract-by-contract basis. The Company writes off contract receivables when such amounts are determined to be uncollectible. Losses have historically been within management's expectations.

Note 4. Commitments and Contingencies

Litigation and Claims

The Company is involved in various legal matters and proceedings arising in the ordinary course of business. While these matters and proceedings cause the Company to incur costs, including, but not limited to, attorneys' fees, the Company currently believes that any ultimate liability arising out of these matters and proceedings will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

Commitments

In April 2011, the Company entered into a new lease for operating space in Gaithersburg, Maryland, which will consolidate certain operations into a single location. Rent expense will be recognized on a straight line basis over the term of the lease beginning in the second quarter of 2012. Aggregate rent expense over the 12-year, 8-month period will be approximately \$43.8 million.

Note 5. Debt

The Company entered into its Second Amended and Restated Business Loan and Security Agreement (Credit Facility) on February 20, 2008, with a syndication of nine commercial banks to allow for borrowings of up to \$350.0 million for a period of five years (maturing February 20, 2013) under a revolving line of credit. The Credit Facility provides for borrowings of up to \$275.0 million without a borrowing base requirement and also provides for an accordion feature, which permits additional revolving credit commitments of up to \$75.0 million, subject to lenders approval. The Credit Facility provides for pre-approval by the lenders for acquisitions with individual purchase prices of up to \$75.0 million, if certain conditions are met. The Credit Facility is collateralized by substantially all of the assets of the Company, and requires that the Company remain in compliance with certain financial and non-financial covenants. The financial covenants, as defined by the Credit Facility, require that the Company maintain, on a consolidated basis for each quarter, a fixed charge coverage ratio of not less than 1.25 to 1.00 and a leverage ratio of not more than 3.50 to 1.00. As of September 30, 2011, the Company was in compliance with the covenants under the Credit Facility.

On March 31, 2009, the Credit Facility was amended to allow for the acquisition of Macro International Inc. (Macro), for permission to sell capital stock in one or more offerings (provided that the proceeds are used to pay down the Credit Facility), and to increase the interest rate margins the Company pays to borrow funds under the Credit Facility. On September 22, 2011, the Credit Facility was amended to allow for increased spending on annual capital expenditures from 1.5% to 2.0% of gross annual revenue. The Company has the ability to borrow funds under its Credit Facility at interest rates based on both LIBOR and prime rates, at its discretion, plus their applicable margins. Interest rates on debt outstanding ranged from 1.97% to 2.09% during the third quarter of 2011.

As of September 30, 2011, the Company had \$50.0 million in long-term debt outstanding, \$1.7 million in outstanding letters of credit, and unused borrowing capacity of \$223.3 million under the Credit Facility. During the third quarter ended September 30, 2011, the Company decreased its long-term debt outstanding by \$13.4 million.

Note 6. Accounting for Stock-Based Compensation

The Company recognized stock-based compensation expense of \$1.8 million and \$4.8 million for the three months and nine months ended September 30, 2011, respectively, and \$2.4 million and \$6.2 million for the three months and nine months ended September 30, 2010, respectively. Unrecognized compensation expense of \$18.4 million as of September 30, 2011, related to unvested stock-based compensation agreements, will be recognized over the next three years. For the nine months ended September 30, 2011, the Company granted approximately 0.6 million shares in the form of equity compensation. As of September 30, 2011, the Company had 1.8 million shares available to grant under its equity compensation plan.

Note 7. Income Taxes

The Company's effective tax rate for both the three-month and nine-month periods ended September 30, 2011, was 40.0%. The gross unrecognized tax benefits were \$1.1 million at September 30, 2011. The offsetting tax benefit at September 30, 2011, was \$0.3 million. If recognized, \$0.8 million of the net unrecognized tax benefits at September 30, 2011, would impact the effective tax rate.

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The Company files income tax returns with the U.S. federal government and various state and foreign jurisdictions. The 2008 through 2010 tax years remain subject to examination by the Internal Revenue Service, and the 2007 through 2010 tax years generally remain subject to examination by state authorities. The Company does not anticipate a significant increase or decrease in total unrecognized tax benefits during the next 12 months.

The Company reports penalties and interest related to unrecognized tax benefits in net income before tax. For the nine months ended September 30, 2011, the Company recognized less than \$0.1 million of penalties and interest.

The Company has made no provision for deferred U.S. income taxes or additional foreign taxes on future unremitted earnings of its controlled foreign subsidiaries because the Company considers these earnings to be permanently invested.

Note 8. Earnings Per Share

Basic earnings per share (EPS) is computed by dividing reported net income by the weighted-average number of shares outstanding. Diluted EPS considers the potential dilution that could occur if common stock equivalents were exercised or converted into stock. The difference between the basic and diluted weighted-average equivalent shares with respect to the Company's EPS calculation is due entirely to the assumed exercise of stock options, the vesting of restricted stock, and the settlement of restricted stock units (RSUs). The dilutive effect of stock options, restricted stock and RSUs exclude shares that would be anti-dilutive to the calculation of EPS if included. For the three-month and nine-month periods ended September 30, 2011, approximately 0.3 million anti-dilutive weighted-average shares have been excluded, and for the three-month and nine-month periods ended September 30, 2010, approximately 0.2 million and 0.1 million anti-dilutive weighted-average shares have been excluded, respectively. The dilutive effect of stock option, restricted stock and RSU awards for each period reported is summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net Income	\$ 9,334	\$ 7,393	\$ 26,023	\$ 20,014
Weighted-average number of basic shares outstanding during the period	19,728	19,413	19,666	19,349
Dilutive effect of stock options, restricted stock and RSUs	132	217	222	230
Weighted-average number of diluted shares outstanding during the period	19,860	19,630	19,888	19,579
Basic earnings per share	\$ 0.47	\$ 0.38	\$ 1.32	\$ 1.03
Diluted earnings per share	\$ 0.47	\$ 0.38	\$ 1.31	\$ 1.02

Note 9. Recent Pronouncements

ASU 2011-08, Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment. In September 2011, the Financial Accounting Standards Board (FASB) revised the guidance related to testing goodwill for impairment. The new guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, as a basis for determining whether it is necessary to perform the first step of the two-step goodwill impairment test required under existing guidance. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If, upon assessing the qualitative factors in their totality, an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then performing the two-step impairment test is unnecessary. However, if an entity determines that it is more likely than not, then it is required to perform the first step of the two-step impairment test. In addition, an entity is no longer permitted to carry forward its detailed calculation of a reporting unit's fair value from a prior year as previously permitted. Early adoption is permitted for annual and interim goodwill impairment tests and the Company has elected to do so. As a result of the adoption, the Company determined that it is not more likely than not that the fair value of its one reporting unit is less than its carrying value and therefore did not perform step one of the two-step impairment test.

ASU 2009-14, Software (Topic 985): Certain Revenue Arrangements That Include Software Elements. In October 2009, the FASB also revised the guidance related to software revenue and multiple-element arrangements with software components. The new guidance related to software revenue recognition excludes arrangements with tangible products containing software and non-software components that function together to

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deliver a product's essential functionality. Prior to the new guidance, vendor-specific-objective-evidence (VSOE) of fair value was required for the undelivered elements in the arrangement in order for the Company to account for the elements separately. However, as a result of the new guidance noted below with respect to multiple-deliverable arrangements and the guidance related to software revenue recognition, VSOE may not be required if another topic of the accounting standards codification provides guidance on how to allocate the consideration for contract deliverables. Thus, if there are software and non-

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software components within the same contract and the software components fall within the scope of the *Software Elements* topic of the code, but that topic addresses solely separation and not allocation, one can now refer back to the *Multiple Deliverables* topic of the codification for guidance on consideration allocation. The *Multiple Deliverables* guidance allows consideration to be allocated based upon a relative fair value basis using the entity's best estimate of fair value, which is no longer limited to VSOE or third-party evidence, but may entail management's best estimate of selling price. The guidance was effective for the Company beginning January 1, 2011. The new guidance did not have a material impact on the Company's financial condition or results of operations.

ASU 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements. In October 2009, the FASB revised the accounting guidance pertaining to revenue arrangements with multiple deliverables. Prior to this guidance, in order for deliverables within an arrangement to be separated, the items must have stand-alone value as defined by the statement and there must be objective and reliable evidence of fair value for all elements or at a minimum the undelivered elements within the arrangement. Objective and reliable evidence of fair value meant there was VSOE of fair value, which consisted of the price charged when the deliverable was sold separately or a price established by management with the authority to establish the price for the item before it was to be sold separately. If VSOE did not exist, third-party evidence was also acceptable. The new standard allows for the use of an estimated management selling price to determine the value of deliverables within an arrangement when VSOE or third-party evidence does not exist. The new guidance also eliminated the use of the residual method of allocation allowed in the previous guidance. The Company has multiple-deliverable arrangements. The guidance was effective for the Company beginning January 1, 2011. The new guidance did not have a material impact on the Company's financial condition or results of operations.

Note 10. Subsequent Events

ICF's Board of Directors has approved a share repurchase program, authorizing the Company to repurchase in the aggregate up to \$35.0 million of its outstanding common stock. Purchases under this program may be made from time to time at prevailing market prices in open market purchases or in privately-negotiated transactions in accordance with applicable insider trading and other securities laws and regulations. The purchases will be funded from existing cash balances and/or borrowings, and the repurchased shares will be held in treasury and used for general corporate purposes. The timing and extent to which the Company repurchases its shares will depend upon market conditions and other corporate considerations as may be considered in the Company's sole discretion.

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

FORWARD-LOOKING STATEMENTS

Some of the statements in this Quarterly Report on Form 10-Q constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. In some cases, you can identify these statements by forward-looking words such as anticipate, believe, could, estimate, expect, intend, may, plan, potential, should, will, would, or similar words. You should read these forward-looking statements that contain these words carefully. The risk factors described in our filings with the SEC, as well as any cautionary language in this Quarterly Report on Form 10-Q, provide examples of risks, uncertainties, and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements, including, but not limited to:

our dependence on contracts with federal, state, and local government agencies and departments for the majority of our revenue;

changes in the economic and political climate that may affect spending patterns and priorities of our clients;

failure by Congress or other governmental bodies to approve budgets or other legislation in a timely fashion;

results of government audits and investigations;

failure to receive the full amount of our backlog;

loss of members of management;

difficulties implementing our acquisition strategy;

difficulties expanding our service offerings and client base; and

liabilities arising from our major contract with the State of Louisiana, which was completed in 2009.

The forward-looking statements are based on the beliefs and assumptions of our management and the information available to our management at the time these disclosures were prepared. Although we believe the expectations reflected in these statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update these forward-looking statements, even if our situation changes in the future.

The terms we, our, us, and the Company, as used throughout this Quarterly Report on Form 10-Q refer to ICF International, Inc. and its consolidated subsidiaries, unless otherwise indicated. The term federal government refers to the U.S. government, unless otherwise indicated.

OVERVIEW

We provide management, technology, and policy consulting and implementation services to government, commercial, and international clients. We help our clients conceive, develop, implement, and improve solutions that address complex natural resource, social, and national security

issues. Our services primarily address three key markets:

Energy, environment, and transportation;

Health, education, and social programs; and

Homeland security and defense.

We provide services across these three markets that deliver value throughout the entire life of a policy, program, project, or initiative, from concept analysis and design through implementation and improvement. Our primary services include:

Advisory Services. We provide policy, regulatory, technology, and other advice to our clients to help them address and respond to the challenges they face. Our advisory services include needs and market assessments, policy analysis, strategy and concept development, organizational assessment and strategy, enterprise architecture, and program design.

Implementation Services. We implement and manage technological, organizational, and management solutions for our clients, including information technology solutions, project and program management, project delivery, strategic communications, and training. These services often relate to the advisory services we provide.

Evaluation and Improvement Services. We provide evaluation and improvement services that help our clients increase the effectiveness and transparency of their programs. Our evaluation and improvement services include program evaluations, continuous improvement initiatives, performance management, benchmarking, and return-on-investment analyses.

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We serve federal, state, local, and foreign government clients, as well as major domestic and international corporations and multilateral institutions. Our clients utilize our advisory services because we offer a combination of deep subject-matter expertise and institutional experience in our market areas. We believe that our domain expertise and the program knowledge developed from our advisory engagements further position us to provide implementation and evaluation services.

We have more than 4,000 employees, including many recognized as thought leaders in their respective fields. The Company, incorporated in Delaware, is headquartered in Fairfax, Virginia, with over 50 domestic regional offices and international offices in Beijing, New Delhi, Ottawa, Toronto, Brussels, London, Moscow, and Rio de Janeiro.

OUTLOOK

Our future results will depend on the success of our strategy to enhance our client relationships and seek larger engagements across the program life cycle in our three key markets, and to complete additional acquisitions and to integrate them successfully. In our three markets, we will continue to focus on building scale in domain and horizontal expertise, developing our commercial, as well as our government, business and replicating our business model geographically throughout the United States and globally.

CRITICAL ACCOUNTING ESTIMATES

The preparation of our financial statements in accordance with accounting principles generally accepted in the United States of America requires that we make estimates and judgments that affect the reported amount of assets, liabilities, revenue, and expenses, as well as the disclosure of contingent assets and liabilities. If any of these estimates or judgments proves to be incorrect, our reported results could be materially affected. Actual results may differ significantly from our estimates under different assumptions or conditions. We believe that the estimates, assumptions, and judgments involved in the accounting practices described below have the greatest potential impact on our financial statements and we therefore consider them to be critical accounting policies.

Revenue Recognition

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 enter into contracts that are time-and-materials, cost-based, fixed-price, or a combination of these.

Time-and-Materials Contracts. Revenue for time-and-materials contracts is recorded on the basis of allowable labor hours worked multiplied by the contract-defined billing rates, plus the costs of other items used in the performance of the contract. Profits and losses on time-and-materials contracts result from the difference between the cost of services performed and the contract-defined billing rates for these services.

Cost-Based Contracts. Revenue under cost-based contracts is recognized as costs are incurred. Applicable estimated profit, if any, is included in earnings in the proportion that incurred costs bear to total estimated costs. Incentives, award fees, or penalties related to performance are also considered in estimating revenue and profit rates based on actual and anticipated awards.

Fixed-Price Contracts. Revenue for fixed-price contracts is recognized when earned, generally as work is performed. Services performed vary from contract to contract and are not always uniformly performed over the term of the arrangement. We recognize revenue in a number of different ways on fixed-price contracts, including:

Proportional Performance: Revenue on certain fixed-price contracts is recorded each period based upon certain contract performance measures (labor hours, labor costs, or total costs) incurred expressed as a proportion of a total project estimate. Thus, labor hours, labor costs, or total contract costs incurred to date are compared with the total estimate for these items at completion. Performance is based on the ratio of the incurred hours or costs to the total estimate. Progress on a contract is monitored regularly to ensure that revenue recognized reflects project status. When hours or costs incurred are used as the basis for revenue recognition, the hours or costs incurred represent a reasonable surrogate for output measures of contract

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performance, including the presentation of deliverables to the client. Clients are obligated to pay as services are performed, and in the event that a client cancels the contract, payment for services performed through the date of cancellation is negotiated with the client.

Contractual Outputs: Revenue on certain fixed-price contracts is recognized based upon outputs completed to date expressed as a percentage of total outputs required in the contract or based upon units delivered to the customer multiplied by the contract-defined unit price.

Straight-Line: When services are performed or are expected to be performed consistently throughout an arrangement, revenue on those fixed-price contracts is recognized ratably over the period benefited.

Completed Contract: Revenue on certain fixed-price contracts is recognized at completion if the final act is so significant to the arrangement that value is deemed to be transferred only at completion.

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Revenue recognition requires us to use judgment relative to assessing risks, estimating contract revenue and costs or other variables, and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of revenue and estimates at completion can be complicated and are subject to many variables. Contract costs include labor, subcontracting costs, and other direct costs, as well as an allocation of allowable indirect costs. We must also make assumptions regarding the length of time to complete the contract because costs include expected increases in wages, prices for subcontractors, and other direct costs. From time to time, facts develop that require us to revise our estimated total costs or hours and thus the associated revenue on a contract. To the extent that a revised estimate affects contract profit or revenue previously recognized, we record the cumulative effect of the revision in the period in which the facts requiring the revision become known. Provision for the full amount of an anticipated loss on any type of contract is recognized in the period in which it becomes probable and can be reasonably estimated. As a result, operating results could be affected by revisions to prior accounting estimates.

We generate invoices to clients in accordance with the terms of the applicable contract, which may not be directly related to the performance of services. Unbilled receivables are invoiced based upon the achievement of specific events as defined by each contract, including deliverables, timetables, and incurrence of certain costs. Unbilled receivables are classified as a current asset. Advanced billings to clients in excess of revenue earned are recorded as deferred revenue until the revenue recognition criteria are met. Reimbursements of out-of-pocket expenses are included in revenue with corresponding costs incurred by us included in cost of revenue.

We may proceed with work based upon written client direction prior to the completion and signing of formal contract documents. We have a formal review process for approving any such work. Revenue associated with such work is recognized only when it can reliably be estimated and realization is probable. We base our estimates on a variety of factors, including previous experiences with the client, communications with the client regarding funding status, and our knowledge of available funding for the contract.

DIRECT COSTS

Direct costs consist primarily of costs incurred to provide services to clients, the most significant of which are subcontractors and employee salaries and wages, plus associated fringe benefits, relating to specific client engagements. Direct costs also include the costs of third-party materials and any other related direct costs, such as travel expenses.

We generally expect the ratio of direct costs as a percentage of revenue to decline when our own labor increases relative to subcontracted labor or outside consultants. Conversely, as our labor decreases relative to subcontracted labor or outside consultants, we expect the ratio to increase.

Changes in the mix of services and other direct costs provided under our contracts can result in variability in our direct costs as a percentage of revenue. For example, when we perform work in the area of implementation, we expect that more of our services will be performed in client-provided facilities and/or with dedicated staff. Such work generally has a higher proportion of direct costs than much of our current advisory work, and we anticipate that higher utilization of such staff will decrease indirect expenses. In addition, to the extent we are successful in winning larger contracts, our own labor services component could decrease because larger contracts typically are broader in scope and require more diverse capabilities, potentially resulting in more subcontracted labor, more other direct costs, and lower margins. Although these factors could lead to a higher ratio of direct costs as a percentage of revenue, the economics of these larger jobs are nonetheless generally favorable because they increase income, broaden our revenue base, and have a favorable return on invested capital.

OPERATING EXPENSES

Our operating costs and expenses consist of indirect and selling expenses, including non-cash compensation, and depreciation and amortization.

Indirect and selling expenses

Indirect and selling expenses include our management, facilities, and infrastructure costs for all employees, as well as salaries and wages, plus associated fringe benefits, not directly related to client engagements. Among the functions covered by these expenses are marketing, business and corporate development, bids and proposals, facilities, information technology and systems, contracts administration, accounting, treasury, human resources, legal, corporate governance, and executive and senior management. We include all of our cash incentive compensation in this item, as well as all our non-cash compensation, such as stock-based compensation provided to employees, whose compensation and other benefit costs are included in both direct costs and indirect and selling expenses.

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Equity compensation

Incentive stock awards are measured at fair value. We have elected to use the Black-Scholes-Merton option pricing model to value any options granted and to amortize compensation expense relating to share-based payments on a straight-line basis over the requisite service period. The Company will reconsider its 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 prevent their value from being reasonably estimated using this model.

Property and equipment

Property and equipment are carried at cost and are depreciated using the straight-line method over their estimated useful lives, which range from two to seven years. Leasehold improvements are amortized on a straight-line basis over the shorter of the economic life of the improvement or the related lease term. Assets acquired in acquisitions are recorded at fair value.

Goodwill and other intangible assets

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead reviewed annually (or more frequently if impairment indicators arise) for impairment. Intangible assets with estimable useful lives must be amortized over such lives and reviewed for impairment.

We have elected to perform our annual goodwill impairment review as of September 30 of each year. For the purposes of performing this review, we have concluded that the Company is one reporting unit. We have adopted the amended guidance under ASU 2011-08 issued in September 2011. We evaluated, on the basis of the weight of evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of our one reporting unit is less than its carrying amount. This evaluation included macroeconomic and industry and market specific considerations, financial performance indicators and measurements, and other factors. We have determined that it is not more likely than not that the fair value of our one reporting unit is less than its carrying amount and that the two-step impairment test is not required to be performed for 2011. Therefore, based upon management's review, no goodwill impairment charge was required as of September 30, 2011.

We are required to review long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell.

Recent pronouncements

New accounting standards are discussed in Note 9 Recent Pronouncements of our Notes to Consolidated Financial Statements appearing in this Quarterly Report on Form 10-Q.

Table of Contents**RESULTS OF OPERATIONS****Three Months ended September 30, 2011, compared to Three Months ended September 30, 2010**

The following table sets forth certain items from our unaudited consolidated statements of earnings and the period-over-period rate of change in each of them and expresses these items as a percentage of revenue for the periods indicated.

	Three Months Ended September 30,				Year-to-Year Change Three Months Ended September 30, 2010 to 2011	
	2011	2010	2011	2010	Dollars (In Thousands)	Percent
	Dollars (In Thousands)		Percentages			
Gross Revenue	\$ 218,691	\$ 197,711	100.0%	100.0%	\$ 20,980	10.6%
Direct Costs	137,343	124,060	62.8%	62.7%	13,283	10.7%
Operating Costs and Expenses						
Indirect and selling expenses	60,341	55,348	27.6%	28.0%	4,993	9.0%
Depreciation and amortization	2,544	2,716	1.1%	1.4%	(172)	(6.3)%
Amortization of intangible assets	2,369	3,082	1.1%	1.6%	(713)	(23.1)%
Total Operating Costs and Expenses	65,254	61,146	29.8%	31.0%	4,108	6.7%
Operating Income	16,094	12,505	7.4%	6.3%	3,589	28.7%
Other (Expense) Income						
Interest expense	(539)	(776)	(0.3)%	(0.4)%	237	(30.5)%
Other income		99			(99)	(100.0)%
Income before Income Taxes	15,555	11,828	7.1%	5.9%	3,727	31.5%
Provision for Income Taxes	6,221	4,435	2.8%	2.2%	1,786	40.3%
Net Income	\$ 9,334	\$ 7,393	4.3%	3.7%	\$ 1,941	26.3%

Gross Revenue. Revenue for the three months ended September 30, 2011, was \$218.7 million, compared to \$197.7 million for the three months ended September 30, 2010, representing an increase of \$21.0 million or 10.6%. The increase is primarily attributable to growth in the domestic commercial market of \$15.7 million and growth in the state and local market of \$3.3 million.

Direct costs. Direct costs for the three months ended September 30, 2011, were \$137.3 million compared to \$124.1 million for the three months ended September 30, 2010, an increase of \$13.3 million or 10.7%. The increase in direct costs is primarily attributable to an increase in subcontractor expense and direct labor expense. Direct costs as a percent of revenue were 62.8% for the three months ended September 30, 2011, compared to 62.7% for the three months ended September 30, 2010.

Indirect and selling expenses. Indirect and selling expenses for the three months ended September 30, 2011 were \$60.3 million compared to \$55.3 million for the three months ended September 30, 2010, an increase of \$5.0 million or 9.0%. The increase in indirect and selling expenses is primarily attributable to an increase in indirect labor. Indirect and selling expenses as a percent of revenue were 27.6% for the three months ended September 30, 2011, compared to 28.0% for the three months ended September 30, 2010.

Depreciation and amortization. Depreciation and amortization for the three months ended September 30, 2011, was \$2.5 million compared to \$2.7 million for the three months ended September 30, 2010.

Amortization of intangible assets. Amortization of intangible assets for the three months ended September 30, 2011, was \$2.4 million compared to \$3.1 million for the three months ended September 30, 2010. The 23.1% decrease resulted primarily from amortization related to intangible assets that were fully amortized prior to September 30, 2011, but were not fully amortized as of September 30, 2010.

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Operating Income. For the three months ended September 30, 2011, operating income was \$16.1 million compared to \$12.5 million for the three months ended September 30, 2010, an increase of \$3.6 million or 28.7%. Operating income as a percent of revenue increased to 7.4% for the three months ended September 30, 2011, from 6.3% for the three months ended September 30, 2010. Operating income and operating income as a percent of revenue increased primarily due to an increase in gross revenue of 10.6%, offset by an increase in direct costs of 10.7%, and an increase in operating costs and expenses of 6.7% for the three months ended September 30, 2011, as compared to the three months ended September 30, 2010.

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Interest expense. For the three months ended September 30, 2011, interest expense was \$0.5 million, compared to \$0.8 million for the three months ended September 30, 2010. The 30.5% decrease was due primarily to a lower average debt balance during the third quarter of 2011, as compared to the average debt balance during the third quarter of 2010.

Provision for Income Taxes. Our effective income tax rate for the three months ended September 30, 2011, was 40.0% compared to 37.5% for the three months ended September 30, 2010. The increase in the effective rate for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, is primarily due to higher unfavorable current-year adjustments in 2011 compared to 2010, and a one-time decrease in 2010 in our unrecognized tax benefits, a previously recorded liability, due to the expiration of the applicable statute of limitations.

Nine Months ended September 30, 2011, compared to Nine Months ended September 30, 2010

The following table sets forth certain items from our unaudited consolidated statements of earnings and the period-over-period rate of change in each of them and expresses these items as a percentage of revenue for the periods indicated.

	Nine Months Ended September 30,		Year-to-Year Change		Nine Months Ended September 30,	
	2011	2010	2011	2010	2010 to 2011	
	Dollars (In Thousands)		Percentages		Dollars (In Thousands)	Percent
Gross Revenue	\$ 626,828	\$ 571,796	100.0%	100.0%	\$ 55,032	9.6%
Direct Costs	389,086	356,750	62.1%	62.4%	32,336	9.1%
Operating Costs and Expenses						
Indirect and selling expenses	177,537	162,508	28.3%	28.4%	15,029	9.3%
Depreciation and amortization	8,083	8,027	1.3%	1.4%	56	0.7%
Amortization of intangible assets	7,105	9,245	1.1%	1.6%	(2,140)	(23.2)%
Total Operating Costs and Expenses	192,725	179,780	30.8%	31.4%	12,945	7.2%
Operating Income	45,017	35,266	7.2%	6.2%	9,751	27.7%
Other (Expense) Income						
Interest expense	(1,732)	(2,656)	(0.3)%	(0.5)%	924	(34.8)%
Other income	89	197			(108)	(54.8)%
Income before Income Taxes	43,374	32,807	6.9%	5.7%	10,567	32.2%
Provision for Income Taxes	17,351	12,793	2.7%	2.2%	4,558	35.6%
Net Income	\$ 26,023	\$ 20,014	4.2%	3.5%	\$ 6,009	30.0%

Gross Revenue. Revenue for the nine months ended September 30, 2011, was \$626.8 million, compared to \$571.8 million for the nine months ended September 30, 2010, representing an increase of \$55.0 million or 9.6%. The increase is primarily attributable to growth in the domestic commercial market of \$40.0 million and growth in the U.S. government market of \$11.8 million.

Direct costs. Direct costs for the nine months ended September 30, 2011, were \$389.1 million compared to \$356.8 million for the nine months ended September 30, 2010, an increase of \$32.3 million or 9.1%. The increase in direct costs is primarily attributable to an increase in subcontractor expense and direct labor expense. Direct costs as a percent of revenue were 62.1% for the nine months ended September 30, 2011, compared to 62.4% for the nine months ended September 30, 2010.

Indirect and selling expenses. Indirect and selling expenses for the nine months ended September 30, 2011, were \$177.5 million compared to \$162.5 million for the nine months ended September 30, 2010, an increase of \$15.0 million or 9.3%. The increase in indirect and selling expenses is primarily attributable to an increase in indirect labor and general and administrative expense. Indirect and selling expenses as a percent of revenue were 28.3% for the nine months ended September 30, 2011, compared to 28.4% for the nine months ended September 30, 2010.

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Depreciation and Amortization. Depreciation and amortization for the nine months ended September 30, 2011, was \$8.1 million compared to \$8.0 million for the nine months ended September 30, 2010.

Amortization of intangible assets. Amortization of intangible assets for the nine months ended September 30, 2011, was \$7.1 million compared to \$9.2 million for the nine months ended September 30, 2010. The 23.2% decrease resulted primarily from amortization related to intangible assets that were fully amortized prior to September 30, 2011, but were not fully amortized as of September 30, 2010.

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Operating Income. For the nine months ended September 30, 2011, operating income was \$45.0 million compared to \$35.3 million for the nine months ended September 30, 2010, an increase of \$9.8 million or 27.7%. Operating income as a percent of revenue increased to 7.2% for the nine months ended September 30, 2011, from 6.2% for the nine months ended September 30, 2010. Operating income and operating income as a percent of revenue increased primarily due to an increase in gross revenue of 9.6%, offset by an increase in direct costs of 9.1%, and an increase in operating costs and expenses of 7.2% for the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010.

Interest expense. For the nine months ended September 30, 2011, interest expense was \$1.7 million, compared to \$2.7 million for the nine months ended September 30, 2010. The 34.8% decrease was due primarily to a lower average debt balance during the first nine months of 2011, as compared to the average debt balance during the first nine months of 2010.

Provision for Income Taxes. Our effective income tax rate for the nine months ended September 30, 2011, was 40.0% compared to 39.0% for the nine months ended September 30, 2010. The increase in the effective rate for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, is primarily due to higher unfavorable current-year adjustments in 2011 compared to 2010, and a one-time decrease in 2010 in our unrecognized tax benefits, a previously recorded liability, due to the expiration of the applicable statute of limitations.

SELECTED KEY METRICS**Revenue**

We earn revenue from services that we provide to clients in three key markets:

Energy, environment, and transportation;

Health, education, and social programs; and

Homeland security and defense.

The following table shows our revenue from each of our three markets as a percentage of total revenue for the periods indicated. For each client, we have attributed all revenue from that client to the market we consider to be the client's primary market, even if a portion of that revenue relates to a different market. Certain amounts in the prior year have been reclassified to conform to current year presentation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Energy, environment, and transportation	43%	41%	43%	40%
Health, education, and social programs	43%	43%	43%	45%
Homeland security and defense	14%	16%	14%	15%
Total	100%	100%	100%	100%

The increase in energy, environment, and transportation revenue for the three months and nine months ended September 30, 2011, compared to the three months and nine months ended September 30, 2010, is primarily attributable to revenue growth in domestic, energy-related clients.

Our primary clients are the agencies and departments of the U.S. federal and state governments. The following table shows our revenue by type of client as a percentage of total revenue for the periods indicated.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
U.S. federal government	66%	71%	67%	71%
U.S. state and local government	10%	10%	10%	10%
Domestic commercial	20%	14%	19%	14%
International	4%	5%	4%	5%
Total	100%	100%	100%	100%

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The decrease in U.S. federal government revenue and the increase in domestic commercial revenue as a percent of total revenue, for the three months and nine months ended September 30, 2011, compared to the three months and nine months ended September 30, 2010, is primarily attributable to revenue growth in domestic, energy-related clients.

Contract mix

Our contracts with clients include time-and-materials contracts, cost-based contracts (including cost-based fixed fee, cost-based award fee, and cost-based incentive fee, as well as grants and cooperative agreements), and fixed-price contracts. Our contract mix varies from year to year due to numerous factors, including our business strategies and the procurement activities of our clients. Unless the context requires otherwise, we use the term *contracts* to refer to contracts and any task orders or delivery orders issued under a contract. The following table shows our revenue from each of these types of contracts as a percentage of total revenue for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Time-and-materials	48%	50%	50%	49%
Fixed-price	28%	27%	27%	28%
Cost-based	24%	23%	23%	23%
Total	100%	100%	100%	100%

Time-and-materials contracts. Under time-and-materials contracts, we are paid for labor at fixed hourly rates and generally reimbursed separately for allowable materials, other direct costs, and out-of-pocket expenses. Our actual labor costs may vary from the expected costs that formed the basis for our negotiated hourly rates if we utilize different employees than anticipated, need to hire additional employees at higher wages, increase the compensation paid to existing employees, or are able to hire employees at lower-than-expected rates. Our non-labor costs, such as fringe benefits, overhead, and general and administrative costs, also may be higher or lower than we anticipated. To the extent that our actual labor and non-labor costs under a time-and-materials contract vary significantly from our expected costs or the negotiated hourly rates, we can generate more or less than the targeted amount of profit or, perhaps, incur a loss.

Fixed-price contracts. Under fixed-price contracts, we perform specific tasks for a pre-determined price. Compared to time-and-materials and cost-based contracts, fixed-price contracts involve greater financial risk because we bear the full impact of labor and non-labor costs that exceed our estimates, in terms of costs per hour, number of hours, and all other costs of performance, in return for the full benefit of any cost savings. We therefore may generate more or less than the targeted amount of profit or, perhaps, incur a loss.

Cost-based contracts. Under cost-based contracts, we are paid based on the allowable costs we incur, and usually receive a fee. All of our cost-based contracts reimburse us for our direct labor and fringe-benefit costs that are allowable under the contract; however, certain contracts limit the amount of overhead and general and administrative costs we can recover, which may be less than our actual overhead and general and administrative costs. In addition, our fees are constrained by fee ceilings and, in certain cases, such as with grants and cooperative agreements, we may receive no fee. Because of these limitations, our cost-based contracts, on average, are our least profitable type of contract, and we may generate less than the expected profit, or perhaps, incur a loss. Cost-based fixed-fee contracts specify the fee to be paid. Cost-based incentive-fee and cost-based award-fee contracts provide for increases or decreases in the contract fee, within specified limits, based upon actual results as compared to contractual targets for factors such as cost, quality, schedule, and performance.

Contract backlog

We define *total backlog* as the future revenue we expect to receive from our contracts and other engagements. We generally include in backlog the estimated revenue represented by contract options that have been priced, but not exercised. We do not include any estimate of revenue relating to potential future delivery orders that might be awarded under our General Services Administration Multiple-Award Schedule (*GSA Schedule*) contracts, other Indefinite Delivery/Indefinite Quantity (*IDIQ*) contracts, or other contract vehicles that are also held by a large number of firms, and under which potential future delivery orders or task orders might be issued by any of a large number of different agencies and are likely to be subject to a competitive bidding process. We do, however, include potential future work expected to be awarded under *IDIQ* contracts that are available to be utilized by a limited number of potential clients and are held either by us alone or by a limited number of firms.

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We include expected revenue in *funded backlog* when we have been authorized by the client to proceed under a contract up to the dollar amount specified by our client, and this amount will be owed to us under the contract after we provide the services pursuant to the authorization. If we do not provide services authorized by a client prior to the expiration of the authorization, we remove amounts corresponding to the expired authorization from backlog. We do include expected revenue under an engagement in funded backlog when we do not have a signed contract if we have received client authorization to begin or continue working and we expect to sign a contract for the engagement. In this case, the amount of funded backlog is limited to the amount authorized. Our funded backlog does not represent the full revenue potential of our contracts because many government clients, and sometimes other clients, authorize work under a particular contract on a yearly or more frequent basis, even though the contract may extend over several years. Most of the services we provide to commercial clients are provided under contracts with relatively short durations. As a consequence, our backlog attributable to these clients is typically reflected in funded backlog and not in unfunded backlog.

We define *unfunded backlog* as the difference between total backlog and funded backlog. Our revenue estimates for purposes of determining unfunded backlog for a particular contract are based, to a large extent, on the amount of revenue we have recently recognized on that contract, our experience in utilizing contract capacity on similar types of contracts, and our professional judgment. Our revenue estimate for a contract included in backlog is sometimes lower than the revenue that would result from our client utilizing all remaining contract capacity.

Although we expect our contract backlog to result in revenue, the timing of revenue associated with both funded and unfunded backlog will vary based on a number of factors, and we may not recognize revenue associated with a particular component of backlog when anticipated, or at all. Our government clients generally have the right to cancel any contract, or ongoing or planned work under any contract, at any time. In addition, there can be no assurance that revenue from funded or unfunded backlog will have similar profitability to previous work or will be profitable at all. Generally speaking, we believe the risk that a particular component of backlog will not result in future revenue is higher for unfunded backlog than for funded backlog.

Our funded and estimates of unfunded and total backlog at the dates indicated were as follows:

	September 30,	
	2011	2010
	(in millions)	
Funded	\$ 796.0	\$ 663.6
Unfunded	918.2	743.0
Total	\$ 1,714.2	\$ 1,406.6

Included in the total 2011 backlog is \$88.1 million related to two new signed federal government contracts under protest. Management believes the federal government conducted a fair and objective source selection process and believes there is a high probability that the contract awards to us will be upheld.

CAPITAL RESOURCES, FINANCIAL CONDITION, AND LIQUIDITY

Credit Facility. We entered into the Second Amended and Restated Business Loan and Security Agreement (Credit Facility) on February 20, 2008, with a syndication of nine commercial banks to allow for borrowings of up to \$350.0 million for a period of five years (maturing February 20, 2013) under a revolving line of credit. The Credit Facility provides for borrowings of up to \$275.0 million without a borrowing base requirement and also provides for an accordion feature, which permits additional revolving credit commitments of up to \$75.0 million, subject to lenders approval. The Credit Facility has provided pre-approval by the lenders for acquisitions with individual purchase prices of up to \$75.0 million, if certain conditions are met. The Credit Facility is collateralized by substantially all of the assets of the Company, and requires that we remain in compliance with certain financial and non-financial covenants.

On March 31, 2009, the Credit Facility was amended to allow for the acquisition of Macro, for permission to sell capital stock in one or more offerings (provided that the proceeds are used to pay down the Credit Facility), and to increase the interest rate margins we pay to borrow funds under the Credit Facility. On September 22, 2011, the Credit Facility was amended to allow for increased spending on annual capital expenditures from 1.5% to 2.0% of gross annual revenue. We have the ability to borrow funds under the Credit Facility at interest rates based on both LIBOR and prime rates, at our discretion, plus their applicable margins. Interest rates on debt outstanding ranged from 1.97% to 2.09% during the third quarter of 2011.

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Financial Condition. There were several changes in our balance sheet during the nine months ended September 30, 2011. Accounts receivable increased from \$177.0 million on December 31, 2010, to \$187.2 million on September 30, 2011. Days-sales-outstanding were 68 days at September 30, 2011, and were 73 days at December 31, 2010. Long-term debt decreased from \$85.0 million on December 31, 2010, to \$50.0 million on September 30, 2011, due to cash flow from operations and reductions in working capital requirements. Accounts payable and accrued salaries and benefits increased to \$76.7 million on September 30, 2011, from \$70.6 million on December 31, 2010, primarily due to the timing of payments. Days-payable-outstanding were 46 days at September 30, 2011, and were 49 days at December 31, 2010.

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Liquidity and Borrowing Capacity. Short-term liquidity requirements are created by our use of funds for working capital, capital expenditures, and the need to provide any debt service. We expect to meet these requirements through a combination of cash flow from operations and borrowings under our Credit Facility. As of September 30, 2011, we had \$50.0 million borrowed under our revolving line of credit, outstanding letters of credit of \$1.7 million, and unused borrowing capacity of \$223.3 million which is available for our working capital needs.

We anticipate that our long-term liquidity requirements, including any future acquisitions, will be funded through a combination of cash flow from operations, borrowings under our Credit Facility, additional secured or unsecured debt, or the issuance of common or preferred stock, each of which may be initially funded through borrowings under our Credit Facility.

We believe that the combination of internally generated funds, available bank borrowings, and cash and cash equivalents on hand will provide the required liquidity and capital resources necessary to fund on-going operations, customary capital expenditures, and other current working capital requirements. We are continuously analyzing our capital structure to ensure we have sufficient capital to fund future acquisitions and internal growth. We monitor the state of the financial markets on a regular basis to assess the availability and cost of additional capital resources both from debt and equity sources. We believe that we will be able to access these markets at commercially reasonable terms and conditions if we need additional borrowings or capital.

Cash. We consider cash on deposit and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. Cash was \$2.0 million and \$3.3 million on September 30, 2011, and December 31, 2010, respectively.

Cash Flow. The following table sets forth our sources and uses of cash for the nine months ended September 30, 2011, and September 30, 2010:

	Nine Months Ended September 30,	
	2011	2010
	(in thousands)	
Net cash provided by operating activities	\$ 46,806	\$ 53,606
Net cash used in investing activities	(13,137)	(5,012)
Net cash used in financing activities	(34,949)	(44,216)
Effect of exchange rate on cash	(11)	(233)
Net increase (decrease) in cash	\$ (1,291)	\$ 4,145

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 clients monthly after services are rendered. Operating activities provided cash of \$46.8 million in the nine months ended September 30, 2011, and \$53.6 million in the nine months ended September 30, 2010. Cash flows from operating activities for the first nine months of 2011 were positively impacted by accrued salaries and benefits, accounts payable, and accrued expenses, and were negatively impacted by contract receivables and prepaid expenses. Cash flows from operating activities for the first nine months of 2010 were positively impacted by accrued salaries and benefits, the timing of tax payments, and contract receivable payments, and were negatively impacted by accounts payable, a net decrease in deferred revenue, and prepaid expenses.

Investing activities used cash of \$13.1 million for the nine months ended September 30, 2011, compared to \$5.0 million for the nine months ended September 30, 2010. The cash used in investing activities for the first nine months of 2011 was primarily for our business combinations of AeroStrategy and Marbek, as well as the purchase of property and equipment. The cash used in investing activities for the first nine months of 2010 was primarily related to the purchase of property and equipment.

For the nine months ended September 30, 2011, cash flow used in financing activities of \$34.9 million was attributable primarily to \$35.0 million in net repayments to our revolving line of credit. For the nine months ended September 30, 2010, cash flow used in financing activities of \$44.2 million was attributable primarily to \$35.0 million in net repayments to our revolving line of credit.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

We use off-balance sheet arrangements to finance the lease of facilities. We have financed the use of all of our office and storage facilities through operating leases. Operating leases are also used from time to time to finance the use of computers, servers, copiers, telephone systems, and to a lesser extent, other fixed assets, such as furnishings, and we also obtain operating leases in connection with business acquisitions. We

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generally assume the lease rights and obligations of companies acquired in business combinations and continue financing facilities and equipment under operating leases until the end of the lease term following the acquisition date.

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The Credit Facility provides for stand-by letters of credit aggregating up to \$5.0 million that reduce the funds available under the revolving line of credit when issued. As of September 30, 2011, we had 8 outstanding letters of credit with a total value of \$1.7 million.

The following table summarizes our contractual obligations as of September 30, 2011 that require us to make future cash payments. For contractual obligations, we included payments that we have an unconditional obligation to make.

	Total	Payments due by Period (In thousands)			
		Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Rent of facilities	\$ 250,292	\$ 27,872	\$ 48,668	\$ 41,140	\$ 132,612
Operating lease obligations	3,235	1,739	1,237	259	
Long-term debt obligation	50,000		50,000		
Total	\$ 303,527	\$ 29,611	\$ 99,905	\$ 41,399	\$ 132,612

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the disclosures discussed in the section entitled "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4. Controls and Procedures

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting. As of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Interim Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in our reports filed with the SEC under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (2) accumulated and communicated to our management, including the Chief Executive Officer and Interim Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There have been no significant changes in our internal controls over financial reporting during the period covered by this Quarterly Report on Form 10-Q or, to our knowledge, in other factors that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Limitations on the Effectiveness of Controls. Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Because of the inherent limitations in any control system, misstatements due to error or fraud may occur and not be detected.

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

We are involved in various legal matters and proceedings arising in the ordinary course of business. While these matters and proceedings cause us to incur costs, including, but not limited to, attorneys' fees, we currently believe that any ultimate liability arising out of these matters and proceedings will not have a material adverse effect on our financial position, results of operations, or cash flows.

Item 1A. Risk Factors

Investing in our common stock involves risk. There are numerous and varied risks, known and unknown, that may affect us and prevent us from achieving our goals. There have been no material changes in those risk factors discussed in the section entitled "Risk Factors" disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010.

The risks described in our Annual Report on Form 10-K are not the only risks that we encounter. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results.

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

Issuances of Common Stock. For the three months ended September 30, 2011, a total of 1,082 shares of unregistered common stock, valued at an aggregate of \$27,732, were issued to two directors of the Company in lieu of cash for director fee compensation on July 1, 2011. The issuance of these shares is exempt under Section 4(2) of the Securities Act of 1933, as amended.

Purchase of Equity. During the three months ended September 30, 2011, the Company purchased 11,193 shares of common stock for an aggregate of \$272,933 from employees to pay required withholding taxes and the exercise price due upon the exercise of options and the settlement of RSUs, in accordance with the applicable long-term incentive plan. The average fair value of the common stock purchased was \$24.38 per share.

The following table summarizes stock repurchases for the three months ended September 30, 2011:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 - July 31	122	\$ 25.63	None	None
August 1 - August 31	10,197	\$ 24.73	None	None
September 1 - September 30	874	\$ 20.14	None	None
Total	11,193	\$ 24.38	None	None

Item 3. Defaults Upon Senior Securities

None.

Item 4. Reserved

Item 5. Other Information
None.

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Item 6. Exhibits

Exhibit

Number	Exhibit
10.1	Second Modification to Second Amended and Restated Business Loan and Security Agreement and other loan documents, dated as of September 22, 2011 by and among Citizens Bank of Pennsylvania, as a Lender and Administrative Agent, ICF.
10.2	Severance Letter Agreement between ICF International, Inc. and Sandra B. Murray.
31.1	Certificate of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a).
31.2	Certificate of the Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the ICF International, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Earnings, (iii) Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements.*

* Submitted electronically herewith.

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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.

ICF INTERNATIONAL, INC.

November 3, 2011

By: /s/ Sudhakar Kesavan
Sudhakar Kesavan
Chairman and Chief Executive Officer
(Principal Executive Officer)

November 3, 2011

By: /s/ Sandra B. Murray
Sandra B. Murray
Interim Chief Financial Officer
(Principal Financial Officer)