UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM ______ TO ______

Commission File Number: 001-33045

ICF International, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware	**22-3661438**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**

9300 Lee Highway, Fairfax, VA	**22031**
(Address of Principal Executive Offices)	**(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. x 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 proceeding 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	x
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 x No

As of July 31, 2009, there were 15,315,565 shares outstanding of the registrant s common stock.

Table of Contents

ICF INTERNATIONAL, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE

PERIOD ENDED JUNE 30, 2009

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ICF International, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS AT

JUNE 30, 2009 (UNAUDITED) AND DECEMBER 31, 2008

(in thousands)

Assets

	June 30, 2009 *(Unaudited)*	December 31, 2008
Current Assets:		
Cash and cash equivalents	$ 4,373	$ 1,536
Contract receivables, net	169,531	150,778
Prepaid expenses and other	7,528	4,507
Income tax receivable	1,177	3,530
Restricted cash	309	2,180
Deferred income taxes	7,633	4,186
Total current assets	190,551	166,717
Total property and equipment, net	22,538	13,373
Other assets:		
Goodwill	302,237	198,724
Other intangible assets, net	37,308	16,844
Restricted cash	2,100	2,078
Other assets	6,696	3,281
Total assets	$ 561,430	$ 401,017

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

3

Table of Contents

ICF International, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

Liabilities and Stockholders Equity

	June 30, 2009 *(Unaudited)*	December 31, 2008
Current Liabilities:		
Accounts payable	$ 30,050	$ 27,740
Accrued expenses	29,989	35,295
Accrued salaries and benefits	27,962	27,405
Deferred revenue	13,143	12,352
Total current liabilities	101,144	102,792
Long-term liabilities:		
Long-term debt	221,673	80,000
Deferred rent	2,060	2,361
Deferred income taxes	11,562	10,849
Other	5,084	2,098
Total Liabilities	341,523	198,100
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; 15,315,472 and 15,188,320 issued; and 15,314,488 and 15,106,522 outstanding as of June 30, 2009, and December 31, 2008, respectively	15	15
Additional paid-in capital	125,171	120,550
Treasury stock, at cost	(25)	(1,474)
Accumulated other comprehensive loss	(403)	(272)
Stockholder notes receivable	(12)	(12)
Retained earnings	95,161	84,110
Total stockholders equity	219,907	202,917
Total liabilities and stockholders equity	$ 561,430	$ 401,017

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

4

Table of Contents

ICF International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(in thousands, except per share amounts)

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Gross Revenue	$ 175,405	$ 184,064	$ 333,267	$ 359,212
Direct Costs	103,911	119,310	203,148	239,717
Operating costs and expenses:				
Indirect and selling expenses	55,698	46,856	100,987	84,093
Depreciation and amortization	2,499	1,178	4,058	2,186
Amortization of intangible assets	3,160	2,425	4,907	4,200
Total operating costs and expenses	61,357	50,459	109,952	90,479
Operating Income	10,137	14,295	20,167	29,016
Interest expense	(1,500)	(1,037)	(2,236)	(2,247)
Other income (expense)	194	(2)	360	(52)
Income before taxes	8,831	13,256	18,291	26,717
Provision for income taxes	3,662	5,358	7,240	11,004
Net income	$ 5,169	$ 7,898	$ 11,051	$ 15,713
Earnings per Share:				
Basic	$ 0.34	$ 0.54	$ 0.73	$ 1.08
Diluted	$ 0.33	$ 0.52	$ 0.71	$ 1.04
Weighted-average Shares:				
Basic	15,204	14,586	15,142	14,534
Diluted	15,710	15,179	15,647	15,174

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)

	Six months ended June 30, 2009	2008
Cash flows from operating activities		
Net income	$ 11,051	$ 15,713
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,965	6,386
Non-cash compensation	3,775	3,370
Loss on disposal of fixed assets	17	141
Deferred income taxes	(2,734)	(5,693)
Changes in operating assets and liabilities, net of the effect of acquisitions:		
Contract receivables, net	17,833	53,928
Prepaid expenses and other	(5,005)	1,249
Accounts payable	(1,334)	(49,755)
Accrued expenses	(9,189)	(9,722)
Accrued salaries and benefits	(6,785)	(6,185)
Deferred revenue	(1,783)	(2,654)
Income tax receivable	2,353	1,217
Deferred rent	(29)	307
Other liabilities	362	(1,187)
Net cash provided by operating activities	17,497	7,115
Cash flows from investing activities		
Capital expenditures	(2,579)	(3,756)
Capitalized software development costs	(235)	(147)
Payments for business acquisitions, net of cash acquired	(156,902)	(51,282)
Net cash used in investing activities	(159,716)	(55,185)
Cash flows from financing activities		
Advances from working capital facilities	235,008	169,695
Payments on working capital facilities	(93,335)	(123,878)
Restricted cash	1,849	762
Debt issue costs	(630)	(1,309)
Proceeds from exercise of options	1,761	932
Tax benefits of stock option exercises	1,007	1,038
Net payments for stockholder issuances and buybacks	(473)	(20)
Net cash provided by financing activities	145,187	47,220
Effect of Exchange Rate on Cash	(131)	135
Net increase (decrease) in cash and cash equivalents	2,837	(715)
Cash and cash equivalents, beginning of period	1,536	2,733
Cash and cash equivalents, end of period	$ 4,373	$ 2,018

Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$ 1,767	$ 1,671
Income taxes	$ 6,678	$ 14,541

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

Table of Contents

Notes to Consolidated Financial Statements

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

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 statement of the Company s results for the three-month and six-month periods ended June 30, 2009, and June 30, 2008. Operating results for the three-month and six-months period ended June 30, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008, and the notes thereto included in the Company s Annual Report on Form 10-K, filed with the SEC on March 13, 2009.

Basis of Presentation and Nature of Operations

The accompanying consolidated financial statements include the accounts of ICF International, Inc. (ICFI) and its subsidiaries (collectively, the Company). The Company provides management, technology, and policy professional services in the areas of energy, environment, and infrastructure; health, human services, and social programs; and homeland security and defense. The Company s major clients are state and United States (U.S.) government agencies, especially the Department of Health and Human Services (HHS), Department of Defense (DoD), Environmental Protection Agency (EPA), Department of State (DOS), Department of Homeland Security (DHS), Department of Transportation (DOT), Department of Justice (DOJ), Department of Housing and Urban Development (HUD), and Department of Energy (DOE); 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 government 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 London, Moscow, New Delhi, Rio de Janeiro, Toronto, and Beijing.

Note 2. Acquisitions

Macro International Inc. Effective March 31, 2009, the Company acquired 100 percent of the outstanding common shares of Macro International Inc. (Macro). Macro provides research and evaluation, management consulting, marketing communications, and information services to key agencies of the federal government. Macro is recognized for its expertise in research, evaluation, consulting, and implementation services, particularly in federal health programs, covering a wide range of health issues in the U.S. and internationally. In addition to its health-related expertise, Macro has strong credentials in housing, labor, and veterans affairs issues. The Company undertook the acquisition to expand its health-related and large project implementation capabilities across key federal markets, to add service offerings and clients in one of its largest markets, and to provide significant growth potential and cross-selling opportunities.

The acquisition was accounted for as a purchase in accordance with the provisions of SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)). The aggregate purchase price of approximately $157.6 million in cash, including the working capital adjustment required by the stock purchase agreement, was funded by the Company s revolving credit facility. The Company engaged an independent valuation firm to assist management in the allocation of the purchase price to goodwill and to other acquired intangible assets. The excess of the purchase price over the estimated fair value of the net tangible assets acquired was approximately $129.5 million. The Company has preliminarily allocated approximately $104.1 million to goodwill and $25.4 million to other intangible assets. The intangible assets consist of approximately $24.6 million customer-related intangibles that are being amortized over seven years, and $0.8 million marketing-related intangibles that are being amortized over 9 months. Macro was purchased under the election provisions of Internal Revenue Code 338(h)(10), and therefore, goodwill and the amortization of intangibles are deductible for tax purposes over a fifteen-year period and will generate deferred taxes. The results of operations for Macro are included in the Company s statement of earnings after March 31, 2009.

The Company incurred approximately $1.0 million of transaction expenses in the first quarter of 2009 related to the acquisition. The expenses are recorded on the statement of earnings as indirect and selling expenses. In addition, the Company incurred $0.6 million in debt issuance costs related to the acquisition. The debt issuance costs were recorded as other assets and will be amortized over the remaining life of the credit agreement.

Table of Contents

The fair values as reported below represent management s estimates of the fair values as of the acquisition date and based on our initial analysis of supporting information. Management is still in the process of analyzing the fair value of the contract receivables and other liabilities. The final results of our analysis, which should be completed by September 30, 2009, may differ from our preliminary purchase price allocation.

The preliminary purchase price allocation is as follows:

Cash	$ 75
Contract receivables	36,585
Other current assets	633
Customer-related intangibles	24,574
Marketing-related intangibles	797
Goodwill	104,126
Other Assets	134
Property and equipment	5,274
Total assets	172,198
Accounts payable	3,209
Accrued salaries and benefits	7,342
Accrued expenses	1,483
Billings in excess of costs	2,574
Total liabilities	14,608
Net assets	$ 157,590

Revenue from Macro for the three months ended June 30, 2009, was approximately $36.6 million, based on the revenue from contracts in its name. We do not intend to maintain Macro as a separate stand-alone operation and are in the process of integrating its operations and projects, including line and staff personnel, into the rest of the Company. We are also determining the impact this new business will have on our current cost structure pursuant to federal contracting guidance; therefore, it is impractical to provide earnings information for Macro.

Pro forma Information (Unaudited)

The following unaudited condensed pro forma information presents combined financial information as if the acquisition of Macro had been effective at the beginning of each six-month period presented. The pro forma information includes adjustments reflecting changes in the amortization of intangibles, profit-sharing expense, acquisition-related expense (2009 only), and interest expense, and records income tax effects as if Macro had been included in the Company s results of operations:

	Six Months Ended June 30,	
	2009	2008
Revenue	$ 368,707	$ 435,793
Operating income	$ 23,840	$ 34,651
Net Income	$ 12,971	$ 17,405
Earnings per share:		
Basic earnings per share	$ 0.86	$ 1.20
Diluted earnings per share	$ 0.83	$ 1.15

Table of Contents

Note 3. Contract Receivables

Contract receivables consisted of the following:

	June 30, 2009	December 31, 2008
Billed	$ 136,249	$ 110,505
Unbilled	36,819	43,651
Allowance for doubtful accounts	(3,537)	(3,378)
Contract receivables, net	$ 169,531	$ 150,778

Contract receivables, net of the established allowance, are stated at amounts expected to be realized 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 intervals or milestones, or upon completion of the contract or U.S. federal government 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, taking into account 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.

Note 4. Commitments and Contingencies

Litigation and Claims

Various lawsuits and claims and contingent liabilities arise in the ordinary course of the Company s business. The ultimate disposition of certain of these contingencies is not determinable at this time. The Company s management believes there are no current outstanding matters that will materially affect the Company s financial position or results of operations.

Note 5. Debt

As of June 30, 2009, the Company had $221.7 million in debt outstanding. During the three months ended June 30, 2009, the Company decreased its net borrowings by $4.3 million on its revolving credit facility. The change in debt outstanding reflects the Company s borrowing and repaying funds for working capital purposes from time to time. The Company 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 up to $350.0 million for a period of five years (until February 20, 2013) under a revolving line of credit. This Credit Facility is collateralized by substantially all the assets of the Company, and requires that the Company remain in compliance with certain financial ratios, as well as other restrictive covenants. As of June 30, 2009, the Company was in compliance with all these covenants. On March 31, 2009, the Company amended this Credit Facility 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 the Company pays to borrow funds under this Credit Facility. 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. These interest rates ranged from 2.57% to 2.68% during the quarter. The unused Credit Facility as of June 30, 2009, was $52.3 million.

Note 6. Accounting for Stock-Based Compensation

Stock Incentive Plans

On June 25, 1999, the Company adopted the ICF Consulting Group, Inc. Management Stock Option Plan (the 1999 Plan), which expired in June 2009. The 1999 Plan provided for the granting of straight and incentive awards to employees of the Company to purchase shares of the Company s common stock. A total of 282,853 options remain outstanding under the 1999 Plan.

Effective with the Company s initial public offering of stock in September 2006, a long-term equity incentive plan (the 2006 Plan) was adopted. The 2006 Plan permits the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, performance units, and other incentive awards, including restricted stock units and cash incentives. Under the 2006 Plan, the Company may make awards of up to 1,000,000 shares, plus an annual increase on the first day of each of the Company s fiscal years, beginning in 2007, equal to three percent (3%) of the number of outstanding shares of common stock outstanding as of January 1 or a lesser amount as determined by the Board of Directors (the evergreen provision). Under this evergreen provision, the Board of Directors authorized increases of (a) 453,195 shares as of March 10, 2009, which was 3% of the number of shares outstanding as of January 1, 2009, (b) 217,973 shares as of March 10, 2008, which was one and one-half

Table of Contents

percent (1.5%) of its shares of common stock outstanding as of January 1, 2008, and (c) 416,241 shares as of January 1, 2007, which was three percent (3%) of the number of shares outstanding as of that date. Individuals eligible to participate in the 2006 Plan include all officers and key employees of the Company, as determined by the Compensation Committee of the Board of Directors, and all non-employee directors.

Stock-Based Compensation

The Company recognized stock-based compensation expense of $3.8 million for the six months ended June 30, 2009, and $3.4 million for the six months ended June 30, 2008, which is included in indirect and selling expenses.

As of June 30, 2009, and June 30, 2008, there was $12.7 million and $13.3 million, respectively, of total unrecognized compensation expense related to unvested stock-based compensation agreements. Unrecognized compensation expense is recognized over a three- to five-year period on a straight-line basis. The excess tax benefits totaled approximately $1.0 million for both the six months ended June 30, 2009, and June 30, 2008.

Stock Options

All stock options granted through 2006 were granted under the 1999 Plan. All stock options granted in 2007 and 2008 were under the 2006 Plan. No stock options were granted during the six months ended June, 30, 2009. The aggregate intrinsic value of options outstanding and exercisable at June 30, 2009, was $7.0 million. The aggregate intrinsic value of options outstanding but unvested at June 30, 2009, was $0.6 million.

Compensation expense related to options under the fair value method was $0.3 million for both the six months ended June 30, 2009, and June 30, 2008. Unrecognized expense related to options was $0.4 million and $0.9 million for the six months ended June 30, 2009, and June 30, 2008, respectively.

The following table depicts stock option activity for the six months ended June 30, 2009:

	Options Outstanding		
	Shares	Weighted-Average Exercise Price	
As of December 31, 2008	658,832	$	10.19
Options forfeited or cancelled	(4,333)		15.24
Options exercised	(201,646)		8.73
As of June 30, 2009	452,853	$	10.79

Information regarding stock options outstanding as of June 30, 2009, is summarized below:

Range of Exercise	Prices	OPTIONS OUTSTANDING Number Outstanding As of 06/30/09	Weighted Average Remaining Contractual Term (in yrs)	Weighted Average Exercise Price		OPTIONS EXERCISABLE Number Exercisable As of 06/30/09	Weighted Average Exercise Price	
$ 5.00	$ 5.00	73,370	1.13	$	5.00	73,370	$	5.00
$ 6.00	$ 6.00	16,000	1.51	$	6.00	16,000	$	6.00
$ 6.10	$ 6.10	117,483	3.07	$	6.10	117,483	$	6.10
$ 7.34	$ 7.34	54,500	5.15	$	7.34	54,500	$	7.34
$ 9.05	$ 9.05	21,500	6.76	$	9.05	21,500	$	9.05
$ 18.31	$ 18.31	170,000	7.73	$	18.31	103,334	$	18.31

$ 5.00	$ 18.31	452,853	4.87	$	10.79	386,187	$	9.49

10

Table of Contents

Restricted Stock Awards

Pursuant to the 2006 Plan, the Company awarded 4,086 restricted stock awards (RSAs) to members of its board of directors during the six months ended June 30, 2009, which vested immediately. The average grant date fair value of these RSAs was $23.49. Compensation expense computed under the fair value method was $0.4 million for the six months ended June 30, 2009, and $0.3 million for the six months ended June 30, 2008. Unrecognized compensation expense related to RSAs was approximately $0.3 million and $0.7 million for the six months ended June 30, 2009, and June 30, 2008, respectively.

Restricted Stock Units

Pursuant to the 2006 Plan, the Company awarded 260,757 restricted stock units (RSUs) to employees during the six months ended June 30, 2009. The RSUs vest over three to five years and are being expensed on a straight-line basis. When an RSU vests, one share of stock is issued to the employee for each RSU he or she holds. The RSUs were valued based on the grant date value of a share of the Company s common stock. The weighted-average grant date fair value of the RSUs was $25.47 per share.

Compensation expense related to RSUs computed under the fair value method was $3.1 million for the six months ended June 30, 2009, and $2.8 million for the six months ended June 30, 2008. Unrecognized expense related to RSUs was $12.0 million and $11.7 million for the six months ended June 30, 2009, and June 30, 2008, respectively.

The activity related to RSUs during the six months ended June 30, 2009, was as follows:

	Shares
Outstanding December 31, 2008	623,671
Granted	260,757
Vested	(24,459)
Forfeited	(22,327)
Outstanding June 30, 2009	837,642

Note 7. Income Taxes

For the six months ended June 30, 2009, the Company increased the $1.2 million of gross unrecognized tax benefits at December 31, 2008, by $0.1 million related to additional foreign tax exposure and decreased gross unrecognized tax benefits by $0.3 million for the release of the valuation allowance on our unrecognized foreign tax credits. The gross unrecognized tax benefits at June 30, 2009, were $1.3 million, with an offsetting tax benefit for unrecognized foreign tax credits of $0.3 million; $1.0 million of the net unrecognized tax benefits, if recognized, would affect the effective tax rate.

The Company files income tax returns in the U.S. and various state and foreign jurisdictions. The 2005 through 2007 tax years remain subject to examination by the Internal Revenue Service and the 2004 through 2007 tax years generally remain subject to examination by state authorities. The Company does not anticipate a significant increase or decrease to 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 six months ended June 30, 2009, the Company recognized approximately $0.3 million of penalties and interest.

Effective January 1, 2009, we have made no provision for deferred U.S. income taxes or additional foreign taxes on future unremitted earnings of our controlled foreign subsidiaries because we consider these earnings to be permanently invested.

Table of Contents

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 and the vesting of RSAs and RSUs. The dilutive effect of stock options, RSAs, and RSUs for each period reported is summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net Income	$ 5,169	$ 7,898	$ 11,051	$ 15,713
Weighted-average number of basic shares outstanding during the period	15,204	14,586	15,142	14,534
Dilutive effect of stock options, restricted stock and RSUs	506	593	505	640
Weighted-average number of diluted shares outstanding during the period	15,710	15,179	15,647	15,174
Basic earnings per share	$ 0.34	$ 0.54	$ 0.73	$ 1.08
Diluted earnings per share	$ 0.33	$ 0.52	$ 0.71	$ 1.04

Note 9. Recent Pronouncements

In December 2007, the FASB issued SFAS Statement No. 141(R), which amends SFAS No. 141, *Business Combinations*, and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of business combinations. The Company adopted SFAS No. 141(R) as of January 1, 2009. Because the Company expensed approximately $1.0 million in transition costs related to the Macro acquisition, which would not previously have been expensed, the adoption of SFAS No. 141(R) had a significant impact on the Company s first quarter results of operations.

In December 2007, the FASB issued SFAS Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS No. 160). SFAS No. 160 requires that ownership interests in subsidiaries held by parties other than the parent, and the amount of consolidated net income, be clearly identified, labeled, and presented in the consolidated financial statements. It also requires that once a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value. Sufficient disclosures are required to identify and distinguish clearly between the interests of the parent and the interests of the noncontrolling owners. It was effective for the Company beginning January 1, 2009, and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements shall be applied prospectively. The Company has no material existing minority interests; therefore, the adoption of SFAS No. 160 has not had a material effect on its financial statements and related disclosures, and the Company does not expect that it will have a material effect in the future.

We adopted the provisions of SFAS Statement No. 165, *Subsequent Events* (SFAS No. 165), as of June 30, 2009. SFAS No. 165 provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. SFAS No. 165 requires additional disclosure only and therefore did not have an impact on our financial position, results of operations, or cash flows. We have evaluated subsequent events through August 7, 2009, the date we have issued this Quarterly Report on Form 10-Q.

In June 2009, the FASB issued SFAS Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (revised December 2003), *Consolidation of Variable Interest Entities* (SFAS No. 167). SFAS No. 167 amends FIN 46(R) to require a comprehensive qualitative analysis to be preformed to determine whether a holder of variable interests in a variable interest entity also has a controlling financial interest in that entity;

in addition, FIN 46(R) has been amended to require that the same such analysis be applied to entities previously designated as qualified special-purpose entities under SFAS No. 140. SFAS No. 167 is effective for an entity s first annual reporting period that begins after November 15, 2009. The Company does not believe that adoption of this standard will have an impact on our financial position, results of operations, or cash flows.

In June 2009, the FASB issued SFAS Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* (SFAS No. 168). SFAS No. 168 replaced SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162), to establish the SFAS Accounting Standards Codification as the authoritative source of accounting principles recognized by the FASB to be applied by non-governmental entities in preparation of financial statements in conformity with U.S. GAAP. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009. The adoption of this standard will not have an impact on our financial position, results of operations, or cash flows.

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 wo statements that contain these words carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other forward-looking information. The 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:

- 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 in a timely fashion;
- our dependence on contracts with state and federal government agencies and departments for the majority of our revenue;
- uncertainty as to what extent we will be able to replace the revenue generated by our recently concluded contract with the State of Louisiana, Office of Community Development (The Road Home contract);
- results of government audits and investigations;
- effects of the economic downturn on the air transportation and energy sectors;
- failure to receive the full amount of our backlog;
- loss of members of management or other key employees;
- difficulties implementing our acquisition strategy; and
- difficulties expanding our service offerings and client base.

Additional factors that may affect our results are discussed below in Part II, Item 1A, entitled Risk Factors. Although we believe the expectations reflected in the forward-looking 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 and us as used throughout this Quarterly Report on Form 10-Q refer to ICF International, Inc. and its consolidated subsidiaries, 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 economic, social, and national security issues. Our services primarily address three key markets: energy, environment, and infrastructure; health, human services, and social programs; and homeland security and defense. We believe that demand for our services will continue to grow as government, industry, and other stakeholders seek to address critical long-term societal and natural resources issues in these market areas due to heightened environmental and social concerns, global climate change, the need for cleaner energy, aging populations, and geopolitical changes.

Our clients utilize our services because we combine diverse institutional knowledge and experience in their activities with the deep subject matter expertise of our highly educated staff, which we deploy in multi-disciplinary teams. Our federal government clients have included every cabinet-level department, including HHS, DoD, EPA, DOS, DHS, DOT, DOJ, HUD, and DOE. U.S. federal government clients generated approximately 52% of our revenue for the six months ended June 30, 2009, and approximately 36% of our revenue in the full year 2008. State and local government clients generated approximately 29% of our revenue for the six months ended June 30, 2009, and approximately 47% of our revenue in the full year 2008. The Road Home contract, which accounted for most of our state and local revenue for its three-year duration, ended as scheduled on June 11, 2009. We also serve commercial and international clients, primarily in the air transportation and energy sectors, including airlines, airports, electric and gas utilities, oil companies, and law firms. Our commercial and international clients, including government clients outside the United States, generated approximately 19% of our revenue for the six months ended June 30, 2009, and 17% of our revenue in the full year 2008. We have successfully worked with many of our clients for decades, with the result that we have a unique and knowledgeable perspective on their needs.

Across our markets, we provide end-to-end services that deliver value throughout the entire life of a policy, program, project or initiative:

Advisory Services. We help our clients analyze the policy, regulatory, technology, and other challenges facing them and develop strategies and plans for responding. Our advisory and management consulting services include needs and markets assessment, policy analysis, strategy and concept development, change management strategy, enterprise architecture, and program design.

Table of Contents

Implementation Services. We implement and manage technological, organizational, and management solutions for our clients, often based on the results of our advisory services. Our implementation services include information technology solutions, project and program management, project delivery, strategic communications, and training.

Evaluation and Improvement Services. In support of advisory and implementation services, we provide evaluation and improvement services to help our clients increase the future efficiency and effectiveness of their programs. These services include program evaluation, continuous improvement initiatives, performance management, benchmarking, and return-on-investment analyses.

We have more than 3,500 employees, including many who are recognized thought leaders in their respective fields. We serve clients globally from our headquarters in the metropolitan Washington, D.C. area, our domestic regional offices throughout the U.S, and our international offices in London, Moscow, New Delhi, Rio de Janeiro, Toronto, and Beijing.

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. We have completed several acquisitions since 2007, including our most recent acquisition, Macro, on March 31, 2009. We are continuing to evaluate other acquisition opportunities, and at any given point in time we may be evaluating several such opportunities. There is no assurance that we will be able to integrate past acquisitions successfully or that we will be able to complete or integrate additional acquisitions successfully.

DESCRIPTION OF CRITICAL ACCOUNTING POLICIES

The preparation of our financial statements in accordance with U.S. GAAP 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 prove 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 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 collectibility is reasonably assured. We enter into contracts that are time-and-materials contracts, cost-based contracts, fixed-price contracts, 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. Profit 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 in accordance with the provisions of SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*. 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:

revenue on certain fixed-price contracts is recorded each period based on contract costs incurred to date compared with total estimated costs at completion (cost-to-cost method). Performance is based on the ratio of costs incurred to total estimated costs where the costs incurred represent a reasonable surrogate for output measures of contract performance, including the presentation of deliverables to the client. Progress on a contract is matched against project costs and costs to complete on a periodic basis. 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;

revenue on certain other fixed-price contracts is recognized ratably over the period benefited; and

revenue on certain other fixed-price contracts is recorded based on units delivered to the customer multiplied by the contract-defined unit price.

Revenue recognition requires us to use judgment relative to assessing risks, estimating contract revenue and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of revenue and cost at completion can be complicated and is subject to many variables. Contract costs include labor, subcontracting costs, and other direct costs, as well as allocation of allowable indirect costs. We must also make assumptions regarding the length of time to complete the contract because costs also 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 and 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.

From time to time, we may proceed with work based on 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.

Goodwill and the amortization of intangible assets

Costs in excess of the fair value of tangible and identifiable intangible assets acquired and liabilities assumed in a business combination are recorded as goodwill, in accordance with SFAS No. 141. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are instead reviewed annually (or more frequently if impairment indicators arise) for impairment in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-lived Assets* (SFAS No. 144).

We have elected to perform the annual goodwill impairment review, as of September 30 of each year, during the fourth quarter. For purposes of performing this test, we have determined that we have only one reporting unit. We employed the methods of determining fair value of the reporting unit in accordance with SFAS No. 157, *Fair Value Measurements.* Based upon management s most recent review, including analysis provided by a valuation specialist from an investment bank, we determined that no goodwill impairment charge was required for 2008. Historically, there have been no goodwill impairment charges recorded by the Company.

We follow the provisions of SFAS No. 144 in accounting for impairment or disposal of long-lived assets. SFAS No. 144 requires that long-lived assets and certain identifiable intangibles be reviewed 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 the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell. To date, there have been no impairment charges recorded by the Company.

Recent pronouncements

In December 2007, the FASB issued SFAS Statement No. 141(R), which amends SFAS No. 141 and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combinations. We adopted SFAS No. 141(R) as of January 1, 2009. Because we expensed approximately $1.0 million in transaction costs related to the Macro acquisition, which would not previously have been expensed, the adoption of SFAS No. 141(R) had a significant impact on our first quarter results of operations.

In December 2007, the FASB issued SFAS No. 160, which requires that ownership interests in subsidiaries held by parties other than the parent, and the amount of consolidated net income, be clearly identified, labeled, and presented in the consolidated financial

15

statements. It also requires that once a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value. Sufficient disclosures are required to identify and distinguish clearly between the interests of the parent and the interests of the noncontrolling owners. It was effective for us beginning January 1, 2009, and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements shall be applied prospectively. We have no material existing minority interests; therefore, the adoption of SFAS No. 160 has not had a material effect on our financial statements and related disclosures, and we do not expect that it will have a material effect in the future.

We adopted the provisions of SFAS Statement No. 165 as of June 30, 2009. SFAS No. 165 provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. SFAS No. 165 requires additional disclosure only and therefore did not have an impact on our financial position, results of operations, or cash flows. We have evaluated subsequent events through August 7, 2009, the date we have issued this Quarterly Report on Form 10-Q.

In June 2009, the FASB issued SFAS Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (revised December 2003), *Consolidation of Variable Interest Entities* (SFAS No. 167). SFAS No. 167 amends FIN 46(R) to require a comprehensive qualitative analysis to be preformed to determine whether a holder of variable interests in a variable interest entity also has a controlling financial interest in that entity; in addition, FIN 46(R) has been amended to require that the same such analysis be applied to entities previously designated as qualified special-purpose entities under SFAS No. 140. SFAS No. 167 is effective for an entity s first annual reporting period that begins after November 15, 2009. We do not believe that adoption of this standard will have an impact on our financial position, results of operations, or cash flows.

In June 2009, the FASB issued SFAS No. 168, which replaced SFAS No. 162, to establish the SFAS Accounting Standards Codification as the authoritative source of accounting principles recognized by the FASB to be applied by non-governmental entities in preparation of financial statements in conformity with U.S. GAAP. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009. The adoption of this standard will not have an impact on our financial position, results of operations, or cash flows.

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 subcontracted labor or outside consultants for clients increase relative to our own labor, 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, but 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 COSTS AND 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 our cash incentive compensation in this item, as well as all non-cash compensation (such as stock-based compensation), regardless of whether the recipients   other compensation and benefit costs are included in direct costs or indirect and selling expenses.

Non-cash compensation

The Company recognized stock-based compensation expense of $2.1 million and $3.8 million in the three months and six months ended June 30, 2009, respectively, which is included in indirect and selling expenses.

Table of Contents

As of June 30, 2009, there was $12.7 million of total unrecognized compensation expense related to unvested stock-based compensation arrangements. Such unrecognized compensation expense will be recognized ratably over three to five years.

Depreciation and amortization

Depreciation and amortization include the depreciation of computers, furniture, and other equipment; the amortization of the costs of internal software; leasehold improvements; and the amortization of intangible assets arising from acquisitions.

INCOME TAX EXPENSE

Our effective tax rate was 39.6% for the six months ended June 30, 2009. The non-recurring release of valuation allowances was offset by permanent tax differences related to expenses not deductible for tax purposes in the six months ended June 30, 2009, to produce a tax rate similar to the combined federal and state statutory tax rate.

RESULTS OF OPERATIONS

Three Months ended June 30, 2009, compared to Three Months ended June 30, 2008

The following table sets forth certain items from our unaudited consolidated statements of operations 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 June 30,				Year-to-Year Change Three Months Ended June 30, 2008 to 2009	
	2009	2008	2009	2008		
	Dollars (In Thousands)		Percentages		Dollars (In Thousands)	Percent
Revenue	$ 175,405	$ 184,064	100.0%	100.0%	$ (8,659)	(4.7)%
Direct Costs	103,911	119,310	59.2%	64.8%	(15,399)	(12.9)%
Operating Expenses						
Indirect and selling expenses	55,698	46,856	31.8%	25.5%	8,842	18.9%
Depreciation and amortization	2,499	1,178	1.4%	0.6%	1,321	112.1%
Amortization of intangible assets	3,160	2,425	1.8%	1.3%	735	30.3%
Total Operating Expenses	61,357	50,459	35.0%	27.4%	10,898	21.6%
Earnings from Operations	10,137	14,295	5.8%	7.8%	(4,158)	(29.1)%
Other (Expense) Income						
Interest expense	(1,500)	(1,037)	(0.9)%	(0.6)%	(463)	44.6%
Other	194	(2)	0.1%	0.0%	196	N/A
Income before Income Taxes	8,831	13,256	5.0%	7.2%	(4,425)	(33.4)%
Income Tax Expense	3,662	5,358	2.1%	2.9%	(1,696)	(31.7)%
Net Income	$ 5,169	$ 7,898	2.9%	4.3%	$ (2,729)	(34.6)%

Revenue. Revenue for the three months ended June 30, 2009, was $175.4 million, compared to $184.1 million for the three months ended June 30, 2008, representing a decrease of $8.7 million or 4.7%. The decrease was primarily due to a reduction in revenue of $55.6 million associated with the declining activities of The Road Home contract, which concluded as scheduled in June 2009. The decrease in revenue on The Road Home contract was partially offset by: (1) revenue of $36.6 million associated with the operations of Macro, which was acquired effective March 31, 2009, and (2) growth in other contracts of $10.4 million.

***Direct costs*.** Direct costs for the three months ended June 30, 2009, were $103.9 million, or 59.2% of revenue, compared to $119.3 million, or 64.8% of revenue, for the three months ended June 30, 2008. The decrease was primarily due to the declining activities associated with The Road Home contract. The decrease was partially offset by direct costs associated with the operations of Macro and an increase in direct costs associated with growth in other contracts. The decrease in direct costs as a percentage of revenue was primarily attributable to the decreased work on The Road Home contract, which consisted of relatively more work performed by subcontractors, and increased revenue from Macro and other contracts, which had a relatively lower direct-cost component.

Indirect and selling expenses. Indirect and selling expenses for the three months ended June 30, 2009, were $55.7 million, or 31.8% of revenue, compared to $46.9 million, or 25.5% of revenue for the three months ended June 30, 2008. The increase in indirect and selling expenses was due principally to indirect costs associated with the operations of Macro. The increase in indirect costs as a percentage of revenue for the three months ended June 30, 2009, was primarily attributable to a change in our contract mix. The decrease in the activity of The Road Home contract was partially offset by growth through acquisition and organic growth, which has a relatively higher indirect-cost component.

***Depreciation and amortization*.** Depreciation and amortization for the three months ended June 30, 2009, was $2.5 million, or 1.4% of revenue, compared to $1.2 million, or 0.6% of revenue for the three months ended June 30, 2008. This 112.1% increase in depreciation and amortization resulted primarily from depreciation related to Macro and the increase in capital expenditures last year.

Table of Contents

Amortization of intangible assets**.** Amortization of intangible assets for the three months ended June 30, 2009, was $3.2 million, or 1.8% of revenue, compared to $2.4 million, or 1.3% of revenue for the three months ended June 30, 2008. The increase in amortization expense was primarily due to the amortization of intangibles related to the Macro acquisition, partially offset by a decrease in amortization expense related to other acquisitions.

Earnings from Operations**.** For the three months ended June 30, 2009, earnings from operations were $10.1 million, or 5.8% of revenue, compared to $14.3 million, or 7.8% of revenue for the three months ended June 30, 2008. Both the 29.1% decrease in earnings from operations and the decrease in earnings from operations as a percentage of revenue were primarily due to the decrease in revenue associated with the declining activities of The Road Home contract and increased depreciation and amortization expense.

Interest expense. For the three months ended June 30, 2009, interest expense was $1.5 million, compared to $1.0 million for the three months ended June 30, 2008. The increase was due primarily to an increase in debt associated with the acquisition of Macro, partially offset by lower interest rates.

Income tax expense**.** Our effective income tax rate for the three months ended June 30, 2009, was 41.5% compared to 40.4% for the three months ended June 30, 2008. The lower effective rate in these three months of 2008 was attributable to federal tax credits that were larger than in these three months of 2009.

Six Months ended June 30, 2009, compared to Six Months ended June 30, 2008

The following table sets forth certain items from our unaudited consolidated statements of operations 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.

	Six Months Ended June 30,				Year-to-Year Change Six Months Ended June 30, 2008 to 2009	
	2009	2008	2009	2008		
	Dollars (In Thousands)		Percentages		Dollars (In Thousands)	Percent
Revenue	$ 333,267	$ 359,212	100.0%	100.0%	$ (25,945)	(7.2)%
Direct Costs	203,148	239,717	61.0%	66.7%	(36,569)	(15.3)%
Operating Expenses						
Indirect and selling expenses	100,987	84,093	30.3%	23.4%	16,894	20.1%
Depreciation and amortization	4,058	2,186	1.2%	0.6%	1,872	85.6%
Amortization of intangible assets	4,907	4,200	1.4%	1.2%	707	16.8%
Total Operating Expenses	109,952	90,479	32.9%	25.2%	19,473	21.5%
Earnings from Operations	20,167	29,016	6.1%	8.1%	(8,849)	(30.5)%
Other (Expense) Income						
Interest expense	(2,236)	(2,247)	(0.7)%	(0.6)%	11	(0.5)%
Other	360	(52)	0.1%	0.0%	412	N/A
Income before Income Taxes	18,291	26,717	5.5%	7.5%	(8,426)	(31.5)%
Income Tax Expense	7,240	11,004	2.2%	3.1%	(3,764)	(34.2)%
Net Income	$ 11,051	$ 15,713	3.3%	4.4%	$ (4,662)	(29.7)%

Revenue. Revenue for the six months ended June 30, 2009, was $333.3 million, compared to $359.2 million for the six months ended June 30, 2008, representing a decrease of $25.9 million or 7.2%. The decrease was primarily due to a reduction in revenue of $93.0 million associated with the declining activities of The Road Home contract. The decrease in revenue on The Road Home contract was partially offset by:
(1) revenue of $36.6 million associated with the operations of Macro; (2) growth in other contracts of $22.7 million; and (3) revenue associated with the operations of Jones & Stokes Associates, Inc. (Jones & Stokes), whose results are included in operating results for the entire six months ended June 30, 2009, but only partially included in the operating results of the comparable period last year.

***Direct costs*.** Direct costs for the six months ended June 30, 2009, were $203.1 million, or 61.0% of revenue, compared to $239.7 million, 66.7% of revenue, for the six months ended June 30, 2008. The decrease was primarily due to the declining activities associated with The Road Home contract. The decrease was partially offset by: (1) direct costs associated with the operations of Macro; (2) an increase in direct costs associated with growth in other contracts; and (3) direct costs associated with the operations of Jones & Stokes, whose results are included in operating results for the entire six months ended June 30, 2009, but only partially included in the operating results of the comparable period last year. The decrease in direct costs as a percentage of revenue was primarily attributable to the decreased work on The Road Home contract, which consisted of relatively more work performed by subcontractors, and increased revenue from Macro and other contracts, which had a relatively lower direct-cost component.

Indirect and selling expenses. Indirect and selling expenses for the six months ended June 30, 2009, were $101.0 million, or 30.3% of revenue, compared to $84.1 million, or 23.4% of revenue for the six months ended June 30, 2008. The increase in indirect and selling expenses was due principally to: (1) indirect costs associated with the operations of Macro; (2) indirect costs associated with

Table of Contents

the operations of Jones & Stokes, whose results are included in operating results for the entire six months ended June 30, 2009, but only partially included in the operating results of the comparable period last year; and (3) $1.0 million of expenses associated with the acquisition of Macro. The increase in indirect costs as a percentage of revenue for the six months ended June 30, 2009, was primarily attributable to a change in contract mix. The decrease in the activity of The Road Home contract was partially offset by growth through acquisition and organic growth, which has a relatively higher indirect-cost component.

Depreciation and amortization. Depreciation and amortization for the six months ended June 30, 2009, was $4.1 million, or 1.2% of revenue, compared to $2.2 million, or 0.6% of revenue for the six months ended June 30, 2008. This 85.6% increase in depreciation and amortization resulted primarily from an increase in capital expenditures last year and depreciation related to Macro.

Amortization of intangible assets. Amortization of intangible assets for the six months ended June 30, 2009, was $4.9 million, or 1.4% of revenue, compared to $4.2 million, or 1.2% of revenue for the six months ended June 30, 2008. The increase in amortization expense was primarily due to the amortization of intangibles related to the Macro acquisition, partially offset by a decrease in amortization expense related to other acquisitions.

Earnings from Operations. For the six months ended June 30, 2009, earnings from operations were $20.2 million, or 6.1% of revenue, compared to $29.0 million, or 8.1% of revenue for the six months ended June 30, 2008. Earnings from operations decreased primarily due to the decrease in revenue associated with the declining activities of The Road Home contract and increased depreciation and amortization expense.

Interest expense. For both the six months ended June 30, 2009, and the six months ended June 30, 2008, interest expense was $2.2 million. While our aggregate outstanding debt was higher during the six months ended June 30, 2009, than the six months ended June 30, 2008, the interest rate applicable to this outstanding debt was lower for the six months ended June 30, 2009, than for the six months ended June 30, 2008.

Income tax expense. Our effective income tax rate for the six months ended June 30, 2009, was 39.6% compared to 41.2% for the six months ended June 30, 2008. The lower effective tax rate for this period in 2009 was primarily attributable to the non-recurring release of valuation allowances, partially offset by greater permanent tax differences in 2009 related to expenses not deductible for tax purposes and lower federal tax credits in 2009.

SELECTED KEY METRICS

Revenue

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

- energy, environment, and infrastructure;
- health, human services, 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. Revenue from The Road Home contract and Macro are classified in our health, human services, and social programs market.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Energy, environment, and infrastructure	40%	36%	40%	32%

Health, human services, and social programs	52%	55%	51%	59%
Homeland security and defense	8%	9%	9%	9%
Total	100%	100%	100%	100%

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.

Table of Contents

	Three Months Ended June 30, 2009	2008	Six Months Ended June 30, 2009	2008
U.S. state and local government	20%	47%	29%	50%
U.S. federal government	60%	35%	52%	34%
Domestic commercial	16%	13%	15%	11%
International	4%	5%	4%	5%
Total	100%	100%	100%	100%

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 June 30, 2009	2008	Six Months Ended June 30, 2009	2008
Time-and-materials	48%	68%	56%	66%
Cost-based	23%	11%	18%	11%
Fixed-price	29%	21%	26%	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, 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, but many 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 return. 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.

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, a loss.

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.

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

Table of Contents

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

	June 30, 2009	June 30, 2008
	(in millions)	
Funded	$ 448.2	$ 425.6
Unfunded	$ 770.3	$ 354.0
Total	$ 1,218.5	$ 779.6

The backlog estimates at June 30, 2009, included an estimated total backlog of $412.7 million for Macro, of which approximately $100 million was funded backlog.

CAPITAL RESOURCES, FINANCIAL CONDITION, AND LIQUIDITY

Credit Facility. On February 20, 2008, we signed the Credit Facility with a syndication of nine commercial banks to allow for borrowings of up to $350.0 million for a period of five years (until February 20, 2013). This revised Credit Facility provides for borrowings on a revolving line of credit up to $275.0 million without a borrowing base requirement, subject to our compliance with both financial and non-financial covenants. The revised Credit Facility also provides for an accordion feature, which permits additional revolving credit commitments up to $75.0 million under the same terms and conditions as the existing revolving line of credit, subject to lenders approval. This Credit Facility also provides pre-approval of our lenders for us to acquire other companies with individual purchase prices of up to $75.0 million if certain conditions are met and provides less restrictive financial and non-financial covenants than our previous credit facility. On March 31, 2009, we amended this Credit Facility 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 this Credit Facility. Under the terms of our Credit Facility, we are required to comply with financial and non-financial covenants. We were in compliance with all such covenants as of June 30, 2009.

Financial Condition. There were several significant changes in our balance sheet during the six months ended June 30, 2009. Contract receivables, net, increased to $169.5 million compared to $150.8 million as of December 31, 2008, due to an increase in the amount of contract receivables from the acquisition of Macro, offset by a decline in receivables from The Road Home contract. Goodwill increased from $198.7 million on December 31, 2008, to $302.2 million, also resulting from our acquisition of Macro. In addition, other intangible assets, net, increased from $16.8 million on December 31, 2008, to $37.3 million due to the acquisition of Macro. Long-term debt increased from $80.0 million on December 31, 2008, to $221.7 million on June 30, 2009, due to borrowings necessary to complete the acquisition of Macro. Days-sales-outstanding were 80 at June 30, 2009, and were 77 at December 31, 2008, while our days-payable-outstanding were 49 at June 30, 2009, and were 55 at December 31, 2008. Total property and equipment, net, increased to $22.5 million as of June 30, 2009, compared to $13.4

million as of December 31, 2008, due primarily to an increase of $5.3 million in fixed assets acquired as part of the Macro acquisition and a $3.5 million increase in software. In March 2009, the Company executed a new three-year enterprise-wide agreement with Microsoft, which will be paid in semi-annual installments over a three-year period.

Table of Contents

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 June 30, 2009, we had $221.7 million borrowed under our revolving line of credit and unused borrowing capacity of $52.3 million on our Credit Facility, all of 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 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 and Cash Equivalents. 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 and cash equivalents, including marketable securities, were $4.4 million and $1.5 million on June 30, 2009, and December 31, 2008, respectively.

Cash Flow. The following table sets forth our sources and uses of cash for the six months ended June 30, 2009, and June 30, 2008:

	Six Months Ended	
	June 30, 2009	June 30, 2008
	(in thousands)	
Net cash provided by operations	$ 17,497	$ 7,115
Net cash used in investing activities	(159,716)	(55,185)
Net cash provided by financing activities	145,187	47,220
Effect of exchange rate on cash	(131)	135
Net increase (decrease) in cash	$ 2,837	$ (715)

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 $17.5 million in the six months ended June 30, 2009, and $7.1 million in the six months ended June 30, 2008. Cash flows from operating activities for the first six months of 2008 were negatively impacted by an increase in our subcontract and vendor payments, and accrued salaries and benefits payments, partially offset by a decrease in our contract receivables. Cash flows from operating activities for the first six months of 2009 were positively impacted by the timing of tax payments and contract receivable payments, largely offset by a net decrease in accounts payable, accrued expenses, and accrued salaries and benefits.

Investing activities used cash of $159.7 million for the six months ended June 30, 2009, compared to $55.2 million for the six months ended June 30, 2008. The cash used in investing activities for the first six months of 2009, was primarily for the acquisition of Macro. The cash used in investing activities for the first six months of 2008 was primarily for our acquisition of Jones & Stokes.

For the six months ended June 30, 2009, cash flow provided by financing activities of $145.2 million was attributable primarily to $141.7 million in advances net of payments from our revolving line of credit, of which $157.5 million was used to fund the acquisition of Macro. For the six months ended June 30, 2008, cash flow provided by financing activities of $47.2 million was attributable primarily to $45.8 million in advances net of payments from our revolving line of credit, which was used to fund the acquisition of Jones & Stokes.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

We use off-balance sheet arrangements to finance the lease of operating 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 generally assume the lease rights and obligations of companies acquired in business combinations and continue financing equipment under operating leases until the end of the lease term following the acquisition date.

Table of Contents

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 June 30, 2009, we had five outstanding letters of credit with a total value of $1.0 million. We have no other material off-balance sheet financing arrangements.

The following table summarizes our contractual obligations as of June 30, 2009, that require us to make future cash payments. For contractual obligations, we included payments that we have an unconditional obligation to make. Excluded from the following table are amounts already recorded on our balance sheet as liabilities at June 30, 2009.

	Payments due by Period (In thousands)				
	Total	Less than 1 year	Years 2 and 3	Years 4 and 5	After 5 Years
Rent of facilities	$ 92,198	$ 24,094	$ 40,748	$ 17,980	$ 9,375
Other operating lease obligations	$ 4,124	$ 1,637	$ 2,117	$ 370	$ 1
Total	$ 96,322	$ 25,731	$ 42,865	$ 18,350	$ 9,376

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, 2008.

Item 4. Controls and Procedures

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting. As of June 30, 2009, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and 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 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 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, within the Company have been detected. Because of the inherent limitations in a cost-effective 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

From time to time, we are involved in various legal matters and proceedings concerning matters arising in the ordinary course of business. 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 a high degree of risk. There are numerous and varied risks, known and unknown, that may prevent us from achieving our goals. The risks described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008, have changed for a variety of reasons, including the conclusion of The Road Home contract in June 2009, as scheduled, and changes in the current economic climate. The risk factors presented in the Annual Report on Form 10-K are therefore replaced in their entirety by the risk factors described below. The risks described below are not the only ones we will face. If any of these or other risks actually occur, our business, financial condition or results of operation may be materially and adversely affected. In such event, the trading price of our common stock could decline and investors in our common stock could lose all or part of their investment.

RISKS RELATED TO CHANGES IN ECONOMIC AND POLITICAL CLIMATE

Current or worsening economic conditions could adversely affect our business.

The United States and global economies are currently experiencing a period of substantial economic uncertainty with wide-ranging effects, including the disruption of global financial markets. Some, but not all of the possible effects of these economic events are outlined in the risk factors described below, including those relating to levels and priorities of federal and state spending, access to capital and credit markets, effects on commercial and other clients, and potential impairment of our goodwill and other long-lived assets. Although governments worldwide, including the federal government, have initiated actions in response to the current situation, we are unable to predict the impact, severity, and duration of these economic conditions. We believe that our industry, which is particularly sensitive to government spending levels, may be less severely adversely affected by the factors affecting commercial businesses and consumer spending generally, but we cannot assure you that the economic environment or other factors will not adversely impact our business, financial condition, results of operations, or cash flows.

The combination of the adverse economic climate and challenges faced by federal and state governments could result in changes in spending priorities and adversely affect our ability to grow or maintain our revenues and profitability.

The combined effect of the challenging economic climate, related budgetary pressures at the federal and state levels, the new presidential administration in the United States (that may have, or be forced to have, spending priorities that are disadvantageous to us, including a focus on economic stimulus and regulatory reform), and changes in the composition of the U.S. Congress, may affect agencies, departments, projects, or programs we currently support, or that we may seek to support in the future. The programs and projects we support must compete with other programs and projects for consideration during budget formulation and appropriation processes, and may be affected by the general economic conditions. Budget decisions made in this environment are difficult to predict and may have long-term consequences for certain programs and projects. We believe that many of the programs and projects we support are a high priority, and that changing priorities may present opportunities for us, but there remains the possibility that one or more of the programs and projects we support will be reduced, delayed, or terminated. We engage in a number of projects and programs that may be perceived as being favored by the new presidential administration and could be expected to receive funding under the American Recovery and Reinvestment Act. Reductions in, or delays or terminations of, any of the existing programs or projects we support, or of anticipated projects, unless offset by other programs, projects, or opportunities, could adversely affect our ability to grow or maintain our revenues and profitability. We are focused on meeting these challenges and taking advantage of related opportunities. If we are not successful in this effort, we may not be able to grow or maintain our revenues and profitability.

Recent levels of market volatility are unprecedented, and adverse capital and credit market conditions may affect our ability to access cost-effective sources of funding.

The capital and credit markets recently have been experiencing extreme volatility and disruption. Liquidity has contracted significantly, borrowing rates have varied significantly, and borrowing terms have become more restrictive. Historically, we have believed that we could access these markets to support our business activities, including operations, acquisitions, and refinancing debt. In the future, we may not be able to obtain credit or capital market financing on acceptable terms, or at all, which could have an adverse effect on our financial position, results of operations, and cash flows. In addition, the state of the capital and credit

Table of Contents

markets could also affect other entities with which we do business, including our commercial and other clients, and our suppliers, subcontractors, and team members, which could also have an adverse effect on our financial position, results of operations, and cash flows.

RISKS RELATED TO OUR INDUSTRY

We rely substantially on government clients for our revenue, and government spending priorities may change in a manner adverse to our business.

We derived approximately 49%, 27%, and 36% of our revenue for 2006, 2007, and 2008, respectively, from contracts with federal agencies and departments (for the six months ended June 30, 2009, this figure was approximately 52%), and approximately 40%, 65%, and 47% of our revenue from contracts with state and local governments in 2006, 2007, and 2008, respectively (for the six months ended June 30, 2009, this figure was approximately 29%). In 2008, approximately 38% of our revenue was from The Road Home contract with the State of Louisiana (for the six months ended June 30, 2009, this figure was approximately 18%), as discussed in more detail under Risks Related to our Business . Virtually all of our major government clients have experienced reductions in budgets at some time, often for a protracted period, and we expect similar reductions in the future. Expenditures by our federal clients may be restricted by action of the Office of Management and Budget or otherwise limited. In addition, many states are not permitted to operate with budget deficits, and nearly all states face considerable challenges in balancing budgets that anticipate reduced revenues. For example, our clients include agencies and departments of, as well as local and municipal governments within, the State of California, which has recently been dealing with a multi-billion-dollar budget deficit. We expect that these and other clients will delay some payments due us, may eventually fail to pay some of what they owe us, and may delay some projects and programs. For some clients, we may face an unwelcome choice: turn down (or stop) work with the risk of damaging a valuable client relationship, or perform work with the risk of not getting paid in a timely fashion or perhaps at all. For a discussion of the risks associated with incurring costs before a contract is executed or appropriately modified, please see Risks Related to Our Business We sometimes incur costs before a contract is executed or appropriately modified. To the extent a suitable contract or modification is not subsequently signed or we are not paid for our work, our revenue and profit will be reduced.

Federal, state, and local elections could also affect spending priorities and budgets at all levels of government, and the current national and worldwide economic downturn may result in changes in government priorities in ways that could be disadvantageous to us. For example, addressing the financial crisis and economic downturn will require use of substantial government resources, which may lower the amounts available for agencies, departments, projects, or programs we support. In addition, some governments may not have sufficient resources to continue spending at previous levels. A decline in expenditures, or a shift in expenditures away from agencies, departments, projects, or programs that we support, whether to pay for other projects or programs within the same or other agencies or departments, to reduce budget deficits, to fund tax reductions, or for other reasons, could materially adversely affect our business, prospects, financial condition, or operating results. Moreover, the perception that a cut in appropriations or spending may occur could adversely affect investor sentiment about our stock and cause our stock price to fall.

The failure of Congress to approve budgets in a timely manner for the federal agencies and departments we support could delay and reduce spending and cause us to lose revenue and profit.

On an annual basis, Congress must approve budgets that govern spending by each of the federal agencies and departments we support. When Congress is unable to agree on budget priorities, and thus is unable to pass the annual budget on a timely basis, it typically enacts a continuing resolution. Continuing resolutions generally allow federal agencies and departments to operate at spending levels based on the previous budget cycle. When agencies and departments must operate on the basis of a continuing resolution, funding we expect to receive from clients for work we are already performing and new initiatives may be delayed or cancelled. Thus, the failure by Congress to approve budgets in a timely manner can result in either loss of revenue and profit in the event federal agencies and departments are required to cancel existing or new initiatives, or the deferral of revenue and profit to later periods due to delays in implementing existing or new initiatives. The budgets of many of our state and local government clients are also subject to similar budget processes, and thus subject us to similar risks and uncertainties.

Our failure to comply with complex laws, rules, and regulations relating to government contracts could cause us to lose business and subject us to a variety of penalties.

We must comply with laws, rules, and regulations relating to the formation, administration, and performance of government contracts, which affect how we do business with our government clients and impose added costs on our business. Each government client has its own laws, rules, and regulations affecting its contracts. Among the more significant strictures affecting federal government contracts are:

the Federal Acquisition Regulation, and agency regulations analogous or supplemental to it, which comprehensively regulate the formation, administration, and performance of federal government contracts;

- the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with some contract negotiations;

- the Procurement Integrity Act, which, among other things, defines standards of conduct for those attempting to secure federal contracts, prohibits certain activities relating to federal procurements, and limits the employment activities of certain former federal employees;

- the Cost Accounting Standards, which impose accounting requirements that govern our right to payment under federal contracts; and

- laws, rules and regulations restricting (i) the use and dissemination of information classified for national security purposes, (ii) the exportation of specified products, technologies, and technical data, and (iii) the use and dissemination of sensitive but unclassified data.

The federal government and other governments with which we do business may in the future change their procurement practices and/or adopt new contracting laws, rules and/or regulations, including cost accounting standards, that could be costly to satisfy or that could impair our ability to obtain new contracts. Any failure to comply with applicable strictures could subject us to civil and criminal penalties and administrative sanctions, including termination of contracts; repayment of amounts already received under contracts; forfeiture of profits; suspension of payments; fines; and suspension or debarment from doing business with federal and even state and local government agencies and departments, any of which could substantially adversely affect our reputation, our revenue, our operating results, and the value of our stock. Failure to abide by laws applicable to our work for governments outside the United States could have similar effects. Unless the content requires otherwise, we use the term contracts to refer to contracts and any task orders or delivery orders issued under a contract.

Unfavorable government audit results could force us to adjust previously reported operating results, could affect future operating results, and could subject us to a variety of penalties and sanctions.

The federal government and many states audit and review our contract performance, pricing practices, cost structure, financial responsibility, and compliance with applicable laws, regulations, and standards. Like most major government contractors, we have our business processes, financial information, and government contracts audited and reviewed on a continual basis by federal agencies, including the Defense Contract Audit Agency. Audits, including audits relating to companies we have acquired or may acquire or subcontractors we have hired or may hire, could raise issues that have significant adverse effects on our operating results. For example, audits could result in substantial adjustments to our previously reported operating results if costs that were originally reimbursed, or that we believed would be reimbursed, are subsequently disallowed. In addition, cash we have already collected may need to be refunded, past and future operating margins may be reduced, and we may need to adjust our practices, which could reduce profit on other past, current, and future contracts. Moreover, a government agency could withhold payments due us under a contract pending the outcome of any investigation with respect to a contract or our performance under it. The Road Home contract is discussed below under Risks Related to Our Business.

If a government audit, review, or investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, repayment of amounts already received under contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with federal and even state and local government agencies and departments. We may also lose business if we are found not to be sufficiently financially responsible. In addition, we could suffer serious harm to our reputation and our stock price could decline if allegations of impropriety are made against us, whether or not true. Federal audits have been completed on our incurred contract costs only through 2006; audits for costs incurred on work performed since then have not yet been completed. In addition, non-audit reviews by the government may still be conducted on all our government contracts.

If we are suspended or debarred from contracting with the federal government or any state government generally, or any specific agency or department, if our reputation or relationship with federal or state agencies and departments is impaired, or if the federal or state governments otherwise cease doing business with us or significantly decrease the amount of business they do with us, our revenue and operating results would be materially harmed.

Table of Contents

Our government contracts contain provisions that are unfavorable to us and permit our government clients to terminate our contracts partially or completely at any time prior to completion.

Our government contracts contain provisions not typically found in commercial contracts, including provisions that allow our clients to terminate or modify these contracts at the government s convenience upon short notice. If a government client terminates one of our contracts for convenience, we may recover only our incurred and committed costs, settlement expenses, and any fee due on work completed prior to the termination, but not any revenues for work not yet performed. In addition, many of our government contracts and task and delivery orders are incrementally funded as appropriated funds become available. The reduction or elimination of such funding can result in options not being exercised and further work on existing contracts and orders being curtailed. In any such event, we would have no right to seek lost fees or other damages. If a government client were to terminate, decline to exercise an option under, or curtail further performance under one or more of our significant contracts, our revenue and operating results would be materially harmed.

Adoption of new procurement practices or contracting laws, rules, and regulations, and changes in existing procurement practices or contracting laws, rules, and regulations could impair our ability to obtain new contracts and cause us to lose revenue and profit.

In the future, the federal government may change its procurement practices and/or adopt new contracting laws, rules, or regulations that could cause its agencies and departments to curtail the use of services firms or increase the use of companies with a preferred status, such as small businesses. For example, legislation restricting the procedure by which services are outsourced to federal contractors has been proposed in the past, and if such legislation were to be enacted, it would likely reduce the amount of services that could be outsourced by the federal government. Any such changes in procurement practices or new contracting laws, rules, or regulations could impair our ability to obtain new contracts and materially reduce our revenue and profit. Other government clients could enact changes to their procurement laws and regulations that could have similar adverse effects on us.

In addition, our business activities may be or may become subject to international, foreign, U.S., state, or local laws or regulatory requirements that may limit our strategic options and growth and may increase our expenses and reduce our profit, negatively affecting the value of our stock. We generally have no control over the effect of such laws or requirements on us and they could affect us more than they affect other companies.

RISKS RELATED TO OUR BUSINESS

We depend on contracts with federal agencies and departments for a substantial portion of our revenue and profit, and our business, revenue, and profit levels could be materially and adversely affected if our relationships with these agencies and departments deteriorate.

Contracts with federal agencies and departments accounted for approximately 49%, 27%, and 36% of our revenue for fiscal years 2006, 2007, and 2008, respectively (this figure for the six months ended June 30, 2009, was approximately 52%). The majority of the revenues of Macro, which we acquired on March 31, 2009, is derived from federal contracts. In addition, we believe that federal contracts will continue to be a significant source of our revenue and profit for the foreseeable future.

Because we have a large number of contracts with clients, we continually bid for and execute new contracts, and our existing contracts continually become subject to recompetition and expiration. Upon the expiration of a contract, we typically seek a new contract or subcontractor role relating to that client to replace the revenue generated by the expired contract. There can be no assurance that the requirements those expiring contracts were satisfying will continue after their expiration, that the client will re-procure those requirements, that any such re-procurement will not be restricted in a way that would eliminate us from the competition (e.g., set aside for small business), or that we will be successful in any such re-procurements. If we are not able to replace the revenue from these contracts, either through follow-on contracts or new contracts for those requirements or for new requirements, our revenue and operating results will be materially harmed.

Among the key factors in maintaining our relationships with government agencies and departments (and other clients) are our performance on individual contracts, the strength of our professional reputation, and the relationships of our managers with client personnel. Because we have many contracts, we expect disagreements and performance issues with clients to arise from time to time. To the extent that such disagreements arise, our performance does not meet client expectations, our reputation or relationships with one or more key clients are impaired, or one or more important client personnel leave their employment, are transferred to other positions, or otherwise become less involved with our contracts, our revenue and operating results could be materially harmed. Our reputation could also be harmed if we work on or are otherwise associated with a project that receives significant negative attention in the news media or otherwise for any reason.

Table of Contents

Ongoing and possible post-contract litigation, disputes, audits, reviews and investigations in connection with the recently expired Road Home contract expose us to many different types of liability, may divert management attention, and could increase our costs.

In June 2006, our subsidiary, ICF Emergency Management Services, LLC (ICF EMS), was awarded The Road Home contract by the State of Louisiana, Office of Community Development, to manage a program designed primarily to help homeowners and landlords of small rental properties affected by Hurricanes Rita and Katrina by providing them compensation for the uninsured, uncompensated damages they suffered from the hurricanes. The Road Home contract accounted for approximately 63% of our revenue in 2007, approximately 38% of our revenue in 2008, and approximately 18% of our revenue for the six months ended June 30, 2009. Although the contract expired on June 11, 2009, as scheduled, we expect it to be our largest contract for the year 2009.

The Road Home contract provided us with significant opportunities, but also created substantial risks, including adverse effects that might result if we cannot replace the revenue and profits from the contract, as well as the risk of fraud by employees, applicants and others, as with any compensation program. Some of these risks continue beyond the term of the contract. Further, because we have never wound down a contract of this size, we are subject to many risks in connection with its conclusion. We have outlined below the significant risks to which we believe we are subject specifically in connection with this contract s conclusion and immediately thereafter.

We have a number of lawsuits pending and other claims made against us in connection with The Road Home contract, and others may be brought in the future. We have defended such actions vigorously and plan to continue to do so, but we have not prevailed in every case and may not prevail in future cases. Even the successful conclusion of such claims, however, will cause us to incur attorneys fees and other costs and will divert valuable management time and attention. Although the contract provides that, with several exceptions, we may charge as an expense under the contract reasonable costs and fees incurred in defending and paying claims brought by third parties arising out of our performance, there can be no assurance that all of our costs and fees will be reimbursed, and, to date, most of such costs and fees have not been reimbursed. Claims against us could be substantial and exceed the amounts of, or may not be covered by, available insurance. Such claims may include any of the following, among others:

Homeowners, rental housing owners, or others dissatisfied with the amount of money they have received from, or their treatment under, this program have taken action against the State of Louisiana and us, and more actions may be initiated, whether or not merited, including possible class action or other substantial litigation.

We have terminated most of our employees who worked on The Road Home contract, some earlier than initially anticipated due to the contract s earlier acceleration. Some of those former employees have taken action against us, and more actions may be instituted, whether or not merited, including possible class action or other substantial litigation.

We and our subcontractors gathered and maintain sensitive information concerning potential and actual program participants. A claim or determination that we failed to maintain and secure such information properly or failed to take appropriate action to prevent fraud could result in substantial liability for us.

There is a risk that reimbursement will be sought from us, for example, for problems found with our services or the services of our subcontractors, including reimbursement for any excess amounts paid to grant recipients, whether or not any such reimbursement sought is consistent with the terms of the contract.

There is also the risk that the State of Louisiana will seek indemnification from us for certain liabilities pursuant to the contract.

In addition, The Road Home contract has been, and we expect it to continue to be, audited, investigated, reviewed, and monitored frequently by federal and state authorities and their representatives. These activities consume significant management time and effort; further, the contract provides that we are subject to audits for more than five years after the expiration of the contract. The large number of parties scrutinizing our performance under The Road Home contract significantly heightens the risk of adverse findings. Such findings from any audit, investigation, review, monitoring, or similar activity could subject us to civil and criminal penalties and administrative sanctions from state or federal authorities, including repayments of amounts already received under the contract, forfeiture of profits, suspension of payments, fines, claims for reimbursement for the costs resulting from any errors or omissions in our performance under the contract, and suspension or debarment from doing business with the State of Louisiana or federal agencies and departments, any of which could substantially adversely affect our reputation, our revenue and operating results, and the value of our stock.

As of June 30, 2009, we had an aggregate of billed and unbilled accounts receivable of approximately $14.2 million under The Road Home contract. The State of Louisiana is currently withholding payments of approximately $12.4 million due to us without specifying the reasons for most of the amount being withheld. Based on our current understanding, a substantial portion of the

Table of Contents

amount being withheld is for work performed by our subcontractors. As a result, we are withholding certain payments from our subcontractors, which may affect our relationships with them and may result in action by them against us. We cannot predict if and when the state will make the payments that have been withheld or if and when the state may decide to withhold other payments. The state s failure to make these payments could have a substantial adverse effect on our reputation, relationships with other firms, cash flow, operating results, and stock price. Further, we may be subject to claims from both the State of Louisiana and our subcontractors.

Finally, we face the substantial challenge of replacing the revenue and profits from The Road Home contract. For all of its three-year duration, The Road Home contract was our largest contract, providing well over one-half of our revenue at its peak. We have embarked on numerous efforts to replace this revenue and the resulting profits, including several acquisitions, but there can be no assurance that these efforts will be successful. If these efforts are not successful, we would expect our operating results to suffer and our stock price could decline accordingly.

Our increasing dependence on GSA Schedule and other IDIQ contracts creates the risk of increasing volatility in our revenue and profit levels.

We believe that one of the key elements of our success is our position as a prime contractor under GSA Schedule contracts and other IDIQ contracts. As these types of contracts have increased in importance over the last several years, we believe our position as a prime contractor has become increasingly important to our ability to sell our services to federal clients. However, these contracts require us to compete for each delivery order and task order, rather than having a more predictable stream of activity and, therefore, revenue and profit, during the term of a contract. There can be no assurance that we will continue to obtain revenue from such contracts at these levels, or in any amount, in the future. To the extent that federal agencies and departments choose to employ GSA Schedule and other contracts encompassing activities for which we are not able to compete or provide services, we could lose business, which would negatively affect our revenue and profitability.

Our commercial business depends on the air transport and energy sectors of the global economy, both of which are highly cyclical and can lead to substantial variations in revenue and profit from period to period.

Our commercial business is heavily concentrated in the air transport and energy industries, which are highly cyclical. Our clients in these industries experience periods of relatively high demand followed by periods of relatively low demand. Their demand for our services has historically risen and fallen accordingly. We expect that demand for our services from commercial air transport and energy industry clients will decline when either industry experiences a downturn. Factors leading to a downturn in the air transport industry include a decline in general economic conditions, acts of terrorism or war, changes in the worldwide geopolitical climate, increases in the cost of energy, the financial condition of major airlines or airports, changes in weather patterns, and government regulations affecting the air transport industry. Other factors, some of them unforeseeable, could also affect the demand for our services to this industry. Factors that could cause a downturn in the energy industry include a decline in general economic conditions, changes in political stability in the Middle East and other oil producing regions, and government regulations affecting the energy sector. There are other factors, unrelated to the price of or demand for energy, that have affected demand for our services or may affect it in the future, such as the fate of a major corporation in the energy industry. Demand for our services from some parts of the commercial air transport industry and transaction-related work in the energy industry has, in fact, dropped during the current economic downturn.

We may not receive revenue corresponding to the full amount of our backlog, or may receive it later than we expect, which could materially and adversely affect our revenue and operating results.

The calculation of backlog is highly subjective and is subject to numerous uncertainties and estimates, and there can be no assurance that we will in fact receive the amounts we have included in our backlog. Our assessment of a contract s potential value is based on factors such as 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. In the case of contracts that may be renewed at the option of the client, we generally calculate backlog by assuming that the client will exercise all of its renewal options; however, the client may elect not to exercise its renewal options. In addition, federal contracts rely on congressional appropriation of funding, which is typically provided only partially at any point during the term of federal contracts, and all or some of the work to be performed under a contract may require future appropriations by Congress and the subsequent allocation of funding by the procuring agency to the contract. Our estimate of the portion of backlog that we expect to recognize as revenue in any future period is likely to be inaccurate because the receipt and timing of this revenue often depends on subsequent appropriation and allocation of funding and is subject to various contingencies, such as timing of task orders and delivery orders, many of which are beyond our control. In addition, we may never receive revenue from some of the engagements that are included in our backlog, and this risk is greater with respect to unfunded backlog and backlog related to IDIQ contracts. Further, the actual receipt of revenue on engagements included in backlog may never occur or may change because client priorities could change, a program or project schedule could change, the program or

29

project could be canceled, the government agency or other client could elect not to exercise renewal options under a contract or could select other contractors to perform services, or a contract could be reduced, modified, or terminated. Although we adjust our backlog periodically to reflect modifications to or renewals of existing contracts, awards of new contracts, or approvals of expenditures, if we fail to realize revenue corresponding to our backlog, our revenue and operating results for the then current fiscal period, as well as future reporting periods, could be materially adversely affected.

Because much of our work is performed under task orders, delivery orders, and short-term assignments, we are exposed to the risk of not having sufficient work for our staff, which can affect revenue and profit.

We perform some of our work under short-term contracts. Even under many of our longer-term contracts, we perform much of our work under individual task orders and delivery orders, many of which are awarded on a competitive basis. If we cannot obtain new work in a timely fashion, whether through new contracts, task orders, or delivery orders, modifications to existing contracts, task orders, or delivery orders, or otherwise, we may not be able to keep our staff profitably utilized. It is difficult to predict when such new work or modifications will be obtained. Moreover, we need to manage our staff carefully to ensure that those with appropriate qualifications are available when needed and that staff do not have excessive down-time when working on multiple projects, or as projects are beginning or nearing completion. There can be no assurance that we can profitably manage the utilization of our staff. In the short run, our costs are relatively fixed, so lack of staff utilization hurts revenue, profit, and operating results.

Loss of key members of our senior management team could impair our relationships with clients and disrupt the management of our business.

We believe that our success depends on the continued contributions of the members of our senior management team, particularly Sudhakar Kesavan, our Chief Executive Officer; John Wasson, our Chief Operating Officer; and Alan Stewart, our Chief Financial Officer. We rely on our senior management to generate business and manage and execute projects and programs successfully. In addition, the relationships and reputation that many members of our senior management team have established and maintain with client personnel contribute to our ability to maintain good client relations and identify new business opportunities. Apart from our most senior executive officers, we do not generally have agreements with members of our senior management team providing for a specific term of employment. The loss of any member of our senior management could impair our ability to identify and secure new contracts, maintain good client relations, and otherwise manage our business. The loss or rumored loss of any member of our senior management could also adversely affect our stock price.

If we fail to attract and retain skilled employees, we will not be able to continue to win new work, staff engagements, and sustain our profit margins and revenue growth.

We must continue to hire significant numbers of highly qualified individuals who have technical skills and who work well with our clients. These employees are in great demand and are likely to remain a limited resource for the foreseeable future. If we are unable to recruit and retain a sufficient number of these employees, our ability to staff engagements and to maintain and grow our business could be limited. In such a case, we may be unable to win or perform contracts, and we could be required to engage larger numbers of subcontractor personnel, any of which could adversely affect our revenue, profit, operating results, and reputation. We could even default under one or more contracts for failure to perform properly in a timely fashion, which could expose us to additional liability and further harm our reputation and ability to compete for future contracts. In addition, some of our contracts contain provisions requiring us to commit to staff an engagement with personnel the client considers key to our successful performance under the contract. In the event we are unable to provide these key personnel or acceptable substitutes, or otherwise staff our work, the client may reduce the size and scope of our engagement under a contract or terminate it, and our revenue and operating results may suffer.

Growing through acquisitions is a key element of our business strategy, and we are constantly reviewing acquisition opportunities. These activities may involve significant costs, be disruptive, and/or not be successful. These activities will divert the attention of management from existing operations.

One of our strategies is to grow through selected acquisitions. We believe pursuing acquisitions actively is necessary for a public company of our size in our business. As a result, at any given time, we may be evaluating several acquisition opportunities. We may also have outstanding, at any time, one or more expressions of interest, agreements in principle, letters of intent, or similar agreements regarding potential acquisitions, which are subject to completion of due diligence and other significant conditions, as well as confidentiality agreements with potential acquisition targets. Our experience has been that potential acquisition targets demand confidentiality as a matter of course and allow relatively little due diligence before entering into a preliminary agreement in principle. We insist on including due diligence and other conditions in such preliminary agreements and engage in due diligence prior to executing definitive agreements regarding potential acquisitions. We find that potential acquisitions subject to preliminary agreements in principle often are not consummated, or are consummated on terms materially different than those to which parties initially agreed. Accordingly, our normal practice is not to disclose potential acquisitions until definitive agreements are executed and, in some cases, material conditions precedent are satisfied.

When we are able to identify an appropriate acquisition candidate, we may not be able to negotiate the price and other terms of the acquisition successfully or finance the acquisition on terms satisfactory to us. Our out-of-pocket expenses in identifying, researching, and negotiating potential acquisitions has been and will likely continue to be significant, even if we do not ultimately acquire identified businesses. In addition, negotiations of potential acquisitions and the integration of acquired business operations divert management attention away from day-to-day operations and may reduce staff utilization during a transition period.

When we undertake acquisitions, they may present integration challenges, fail to perform as expected, increase our liabilities, and reduce our earnings.

When we complete acquisitions, it may be difficult and costly to integrate the acquired businesses due to differences in the locations of personnel and facilities, differences in corporate cultures, disparate business models, or other reasons. If we are unable to integrate companies we acquire successfully, our revenue and operating results could suffer. In addition, we may not be successful in achieving the anticipated cost efficiencies and synergies from these acquisitions, which could include offering our services to existing clients of acquired companies or offering the services of acquired companies to our existing clients to increase our revenue and profit. In fact, our costs for managerial, operational, financial, and administrative systems may increase and be higher than anticipated. We may also experience attrition, including key employees of acquired and existing businesses, during and following integration of an acquired business into our Company. We could also lose business during any transition, whether related to this attrition or caused by other factors. Any attrition and/or loss of business could adversely affect our future revenue and operating results and prevent us from achieving the anticipated benefits of the acquisition. In addition, acquisitions of businesses or other material operations may require additional debt or equity financing or both, resulting in additional leverage or dilution of ownership, or both.

Businesses we acquire may have liabilities or adverse operating issues, or both, that we fail to discover through due diligence or the extent of which we underestimate prior to the acquisition. These may include failure to comply with, or other violations of, applicable laws, rules, or regulations or contractual or other obligations or liabilities. We, as the successor owner, may be financially responsible for, and may suffer harm to our reputation and otherwise be adversely affected by, such issues. An acquired business also may have problems with internal controls over financial reporting, which could in turn lead us to have significant deficiencies or material weaknesses in our own internal controls over financial reporting. These and any other costs, liabilities, and disruptions associated with any of our past acquisitions and any future acquisitions could harm our operating results.

As a result of our acquisitions, we have substantial amounts of goodwill and intangible assets, and changes in business conditions could cause these assets to become impaired, requiring substantial write-downs that would adversely affect our operating results.

All of our acquisitions have been accounted for as purchases and involved purchase prices well in excess of tangible asset values, resulting in the creation of a significant amount of goodwill and other intangible assets. As of June 30, 2009, goodwill and purchased intangibles accounted for approximately $302.2 million and $37.3 million, or approximately 54% and 7%, respectively, of our total assets. We plan to continue acquiring businesses if and when opportunities arise, further increasing these amounts. Under generally accepted accounting principles, we do not amortize goodwill and intangible assets acquired in a purchase business combination that are determined to have indefinite useful lives, but instead review them annually (or more frequently if impairment indicators arise) for impairment. Although we have to date determined that such assets have not been impaired, additional acquisitions and the current economic conditions could make impairment more likely in the future. To the extent that we determine that such an asset has been impaired, we will write down its carrying value on our balance sheet and book an impairment charge in our statement of earnings.

We amortize intangible assets with estimable useful lives over their respective estimated useful lives to their estimated residual values, and review them for impairment. If, as a result of acquisitions or otherwise, the amount of intangible assets being amortized increases, so will our depreciation and amortization charges in future periods.

We face intense competition from many firms that have greater resources than we do, which could result in price reductions, reduced profitability, and loss of market share.

We operate in highly competitive markets and generally encounter intense competition to win contracts, task orders, and delivery orders. If we are unable to compete successfully for new business, our revenue and operating margins may decline. Many of our competitors are larger and have greater financial, technical, marketing, and public relations resources, larger client bases, and greater brand or name recognition than we do. We also have numerous smaller competitors, many of which have narrower service offerings

Table of Contents

and serve niche markets. Our competitors may be able to compete more effectively for contracts and offer lower prices to clients, causing us to lose contracts, as well as lowering our profit or even causing us to suffer losses on contracts that we do win. Some of our subcontractors are also competitors, and some of them may in the future secure positions as prime contractors, which could deprive us of work we might otherwise have won under such contracts. Our competitors also may be able to provide clients with different and greater capabilities and benefits than we can provide in areas such as technical qualifications, past performance on relevant contracts, geographic presence, ability to keep pace with the changing demands of clients, and the availability of key personnel. Our competitors also have established or may establish relationships among themselves or with third parties or may, through mergers and acquisitions, increase their ability to address client needs. Accordingly, it is possible that new competitors or alliances among competitors may emerge. In addition, our competitors may also be able to offer higher prices for attractive acquisition candidates, which could harm our strategy of growing through selected acquisitions.

We derive significant revenue and profit from contracts awarded through a competitive bidding process, which can impose substantial costs on us, and we will lose revenue and profit if we fail to compete effectively.

We derive significant revenue and profit from contracts that are awarded through a competitive bidding process. We expect that most of the government business we seek in the foreseeable future will be awarded through competitive bidding. Competitive bidding imposes substantial costs and presents a number of risks, including:

- the substantial cost and managerial time and effort that we spend to prepare bids and proposals for contracts that may or may not be awarded to us;
- the need to estimate accurately the resources and costs that will be required to service any contracts we are awarded, sometimes in advance of the final determination of their full scope;
- the expense and delay that may arise if our competitors protest or challenge awards made to us pursuant to competitive bidding, and the risk that such protests or challenges could result in the requirement to resubmit bids, and in the termination, reduction, or modification of the awarded contracts; and
- the opportunity cost of not bidding on and winning other contracts we might otherwise pursue.

To the extent we engage in competitive bidding and are unable to win particular contracts, we not only incur substantial costs in the bidding process that would negatively affect our operating results, but we may lose the opportunity to operate in the market for the services provided under those contracts for a number of years. Even if we win a particular contract through competitive bidding, our profit margins may be depressed or we may even suffer losses as a result of the costs incurred through the bidding process and the need to lower our prices to overcome competition.

We may lose money on some contracts if we underestimate the resources we need to perform under them.

We provide services to clients primarily under three types of contracts: time-and-materials contracts; cost-based contracts; and fixed-price contracts. In 2007, we derived approximately 55%, 9% and 36%, of our revenue from time-and-materials, cost-based, and fixed-price contracts, respectively. For 2008, the corresponding percentages were approximately 66%, 11% and 23%, respectively. For the six months ended June 30, 2009, the corresponding percentages were approximately 56%, 18%, and 26%. Each of these types of contracts, to differing degrees, involves the risk that we could underestimate our cost of fulfilling the contract, which may reduce the profit we earn or lead to a financial loss on the contract, which would adversely affect our operating results.

- Under time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and for certain expenses, and we assume the risk that our costs of performance may exceed the negotiated hourly rates.

Under our cost-based contracts, which frequently cap many of the various types of costs we can charge and which impose overall and individual task order or delivery order ceilings, we are reimbursed for certain costs incurred, which must be allowable and at or below these caps and ceilings under the terms of the contract and applicable regulations. If we incur unallowable costs in the performance of a contract, the client will not reimburse those costs, and if our allowable costs exceed any of the applicable caps or ceilings, we will not be able to recover those costs. In some cases, we receive no fees.

Under fixed-price contracts, we perform specific tasks for a set price. Compared to cost-plus-fee contracts and time-and-materials contracts, fixed-price contracts involve greater financial risk because we bear the full impact of cost overruns.

Table of Contents

In order to determine the appropriate revenue to recognize on our contracts in each accounting period, we must use judgment relative to assessing risks, estimating contract revenue and costs, and making assumptions for schedule and technical issues. From time to time, facts develop that require us to revise our estimated total costs and 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, our operating results could be affected by revisions to prior accounting estimates. See Management s Discussion and Analysis of Financial Condition and Results of Operations Description of Critical Accounting Policies Revenue Recognition.

Our operating margins and operating results may suffer if cost-based contracts increase in proportion to our total contract mix.

Our clients typically determine which type of contract will be awarded to us. In the past, cost-based contracts have been the least profitable of our contract types. To the extent that we enter into more or larger cost-based contracts in proportion to our total contract mix, our indirect rates change for any reason, or we acquire companies with a large volume of cost-based contracts, our operating margins and operating results may suffer. We do not know how, if at all, our contract mix or our indirect rates will change in the future. The acquisition of Macro substantially increased the proportion of our work that is cost-based.

We have incurred substantial amounts of debt in the past and expect to incur additional debt, which could substantially reduce our profitability, limit our ability to pursue certain business opportunities, and reduce the value of our stock.

As a result of our business activities and acquisitions, we have incurred substantial debt in the past, and we expect to incur significant additional debt in the future. Such debt could increase the risks described herein and lead to other risks. The amount of our debt could have important consequences for our stockholders, such as:

- our future ability to obtain additional financing for working capital, capital expenditures, product and service development, acquisitions, general corporate purposes, and other purposes may be impaired;
- a substantial portion of our cash flow from operations could be dedicated to the payment of the principal and interest on our debt;
- our vulnerability to economic downturns and rises in interest rates will be increased;
- we may be unable to comply with the terms of our financing agreements;
- our flexibility in planning for and reacting to changes in our business and the marketplace may be limited; and
- we may be placed at a competitive disadvantage relative to other firms.

Servicing our debt in the future may require a significant amount of cash. Our ability to repay or refinance our debt depends, among other things, on our successful financial and operating performance and the interest rates on our debt. Our financial and operational performance and the interest rates we pay in turn depend on a number of factors, many of which are beyond our control.

If our financial performance declines and we are unable to pay our debts, we will be required to pursue one or more alternative strategies, such as selling assets, refinancing or restructuring indebtedness, or selling additional stock, perhaps under unfavorable conditions. Any of these factors could adversely affect the value of our stock.

Our continued success depends on our ability to raise capital on commercially reasonable terms when, and in the amounts, needed. If additional financing is required, including refinancing existing debt, there can be no assurances that we will be able to obtain such additional financing on terms acceptable to us and at the times required, if at all. In that case, we may be required to raise additional equity by issuing additional stock, alter our business plan materially, curtail all or part of our business expansion plans, or be subject to actions such as bankruptcy or other financial restructuring in the event of default. Any of these results could have a significant adverse effect on the value of our stock.

Our existing debt includes and our future debt will include covenants that restrict our activities and create the risk of defaults, which could impair the value of our stock.

Our financing arrangements contain and will continue to contain a number of significant covenants that, among other things, restrict our ability to dispose of assets; incur additional indebtedness; make capital expenditures; pay dividends; create liens on assets; enter into leases, investments, and acquisitions; engage in mergers and consolidations; engage in certain transactions with affiliates; and otherwise restrict corporate activities (including change of control and asset sale transactions).

Table of Contents

In addition, our financing arrangements require us to maintain specified financial ratios and comply with financial tests. At times in the past, we have not fulfilled these covenants, maintained these ratios, or complied with these financial tests specified in our financial arrangements. At other times, we have only marginally fulfilled these covenants, maintained these ratios, or complied with these financial tests. At the times when we fail to fulfill or only marginally fulfill the requirements of debt covenants, our day-to-day business decisions may be affected. For example, concern over satisfying debt restrictions and covenants might cause us to forego contract bidding or acquisition opportunities or otherwise cause us to focus on short-term rather than long-term results. There is no assurance that we will be able to fulfill our debt covenants, maintain these ratios, or comply with these financial tests in the future.

Failure to comply with the restrictive covenants imposed by our financing arrangements, if not cured through performance or an amendment of the financing arrangements, could result in a default. In the event of a default, our lenders could, among other things: (i) declare all amounts borrowed to be due and payable, together with accrued and unpaid interest; (ii) terminate their commitments to make further loans; and/or (iii) proceed against the collateral securing obligations owed to them. In turn, such action by our lenders could lead to the bankruptcy, insolvency, financial restructuring, or liquidation of our Company.

Our international operations pose special and unusual risks to our profitability and operating results.

We have offices in London, Moscow, New Delhi, Rio de Janeiro, Toronto, and Beijing. We also perform work in other foreign countries, some of which have a history of political instability or may expose our employees and subcontractors to physical danger, and we expect to continue to expand our international operations and offices. One element of our strategy to improve our competitiveness is to perform some of our work in countries with lower cost structures, such as India. There can be no assurance, however, that this strategy will be successful. Moreover, this particular element of our strategy could create problems for our ability to compete for U.S. federal, state, or local government contracts, to the extent that the client agencies prefer or mandate that work under their contracts be executed in the United States or by U.S. citizens. In addition, expansion into new geographic regions requires considerable management and financial resources, the expenditure of which may negatively impact our results, and we may never see any return on our investment. Moreover, we are required to comply with the U.S. Foreign Corrupt Practices Act (FCPA), which generally prevents making payments to foreign officials in order to obtain or retain business. Some of our competitors may not be subject to FCPA restrictions. Our operations are subject to risks associated with operating in, and selling to and in, foreign countries, including, but not limited to, those listed elsewhere in this Risk Factors section and:

- compliance with the laws, regulations, policies, legal standards, and enforcement mechanisms of the United States and the other countries in which we operate, which are sometimes inconsistent;
- currency fluctuations and devaluations and limitations on the conversion of foreign currencies into U.S. dollars;
- recessions, depressions, inflation, hyperinflation, price controls, strikes, and political and economic instability;
- rapid changes in and high interest rates;
- restrictions on the ability to repatriate profits to the United States or otherwise move funds;
- potential personal injury to personnel who may be exposed to military conflicts and other hostile situations in foreign countries, including Afghanistan and Iraq;
- civil disturbances, terrorist activities, acts of war, natural disasters, epidemics, pandemics, and other catastrophic events;
- expropriation and nationalization of our assets or those of our subcontractors and other inabilities to protect our property rights;

difficulties in managing and staffing foreign operations, dealing with differing local business cultures and practices, and collecting accounts receivable;

longer sales cycles;

confiscatory taxes or other adverse tax consequences;

tariffs, duties, import and export controls, and other trade barriers; and

investment and other restrictions and requirements by United States and foreign governments, including activities that disrupt markets; restrict payments; or limit, change, or deprive us of the ability to enforce contracts or obtain and retain licenses and other rights necessary to conduct our business.

Table of Contents

Any or all of these factors could, directly or indirectly, adversely affect our international and domestic operations and our overall revenue, profit, and operating results.

Systems and/or service failures could interrupt our operations, leading to reduced revenue and profit.

Any interruption in our operations or any systems failures, including, but not limited to: (i) inability of our staff to perform their work in a timely fashion, whether caused by limited access to, and/or closure of, our and/or our clients offices or otherwise; (ii) failure of network, software, and/or hardware systems; and (iii) other interruptions and failures, whether caused by us, third-party service providers, unauthorized intruders and/or hackers, computer viruses, natural disasters, power shortages, terrorist attacks, or otherwise, could cause loss of data and interruptions or delays in our business or that of our clients, or both. In addition, failure or disruption of mail, communications, and/or utilities could cause an interruption or suspension of our operations or otherwise harm our business.

If we fail to meet client expectations or otherwise fail to perform our contracts properly, the value of our stock could decrease.

We could lose revenue, profit, and clients, and be exposed to liability if we have disagreements with our clients or fail to meet their expectations. We create, implement, and maintain solutions that are often critical to our clients operations, and the needs of our clients are rapidly changing. Our ability to secure new work and hire and retain qualified staff depends heavily on our overall reputation, as well as the individual reputations of our staff members. Perceived poor performance on even a single contract could seriously impair our ability to secure new work and hire and retain qualified staff. In addition, we have experienced, and may experience in the future, some systems and service failures, schedule or delivery delays, and other problems in connection with our work.

Moreover, a failure by one or more of our subcontractors to perform satisfactorily the agreed-upon services on a timely basis may compromise our ability to perform our obligations as a prime contractor. In some cases, we have limited involvement in the work performed by subcontractors and may have exposure as a result of problems caused by subcontractors. In addition, we may have disputes with our subcontractors that could impair our ability to execute our contracts as required and could otherwise increase our costs. Such disputes and problems with subcontractors could, among other things, cause us to lose future contracts, suffer negative publicity, or otherwise incur liability for performance deficiencies we did not create. In turn, these negative outcomes could have a material adverse effect upon our operations, our financial performance, and the value of our stock.

Our failure to obtain and maintain necessary security clearances may limit our ability to perform classified work for federal clients, which could cause us to lose business.

Some federal contracts require us to maintain facility security clearances and require some of our employees to maintain individual security clearances. The federal government has the right to grant and terminate such clearances. If our employees lose or are unable to obtain needed security clearances in a timely manner, or we lose or are unable to obtain a needed facility clearance, federal clients can limit our work under or terminate some contracts. To the extent we cannot obtain the required facility clearances or security clearances for our employees or we fail to obtain them on a timely basis, we may not derive our anticipated revenue and profit, which could harm our operating results. In addition, a security breach relating to any classified or sensitive but unclassified information entrusted to us could cause serious harm to our business, damage our reputation, and result in a loss of our facility or individual employee security clearances.

Our relations with other contractors are important to our business and, if disrupted, could cause us damage.

We derive a portion of our revenue from contracts under which we act as a subcontractor or form teaming arrangements in which we and other contractors jointly bid on particular contracts, projects, or programs. For 2007, our revenue as a subcontractor was approximately 6% of our revenue, for 2008, this figure was approximately 10% of revenue, and for the six months ended June 30, 2009, it was approximately 14% of revenue. As a subcontractor or team member, we often lack control over fulfillment of a contract, and poor performance on the contract could tarnish our reputation, result in a reduction of the amount of our work under or termination of that contract, and cause us not to obtain future work, even when we perform as required. We expect to continue to depend on relationships with other contractors for a portion of our revenue and profit in the foreseeable future. Moreover, our revenue and operating results could be materially and adversely affected if any prime contractor or teammate does not pay our invoices in a timely fashion, chooses to offer products or services of the type that we provide, teams with other companies to provide such products or services, or otherwise reduces its reliance upon us for such products or services.

Table of Contents

The diversity of the services we provide and the clients we serve may create actual, potential, and perceived conflicts of interest and conflicts of business that limit our growth and lead to liability for us.

Because we provide services to a wide array of both government and commercial clients, occasions arise where, due to actual, potential, or perceived conflicts of interest or business conflicts, we cannot perform work for which we are qualified. A number of our contracts contain limitations on the work we can perform for others, such as, for example, when we are assisting a government agency or department in developing regulations or enforcement strategies. Our internal procedure requires that, whenever a project we are pursuing may pose a conflict of interest, our Conflict of Interest Manager, or COI Manager, is notified prior to initiation of work. The COI Manager is then responsible for determining the extent of any possible conflict. As a result of these actions, we may determine that no actual or potential conflict is likely and pursuit of the project should proceed, the likelihood of actual or potential conflict is sufficiently great that we should not pursue the project at all, or there is an actual or potential conflict of interest that can be mitigated by an appropriately fashioned mitigation plan, which must then be created, approved by the client, and implemented. In addition, our managers work with each other to identify and resolve any potential conflicts of business. However, there can be no assurance that these processes will work properly. Actual, potential, and perceived conflicts limit the work we can do and, consequently, can limit our growth, adversely affect our operating results, and reduce the value of our Company. In addition, if we fail to address actual or potential conflicts properly or even if we simply fail to recognize a perceived conflict, we may be in violation of our existing contracts, may otherwise incur liability, and may lose future business for not preventing the conflict from arising, and our reputation may suffer. As we grow and further diversify our service offerings, client base, and geographic reach, actual, potential, and perceived conflicts will increase, further adversely affecting our operating results.

We sometimes incur costs before a contract is executed or appropriately modified. To the extent a suitable contract or modification is not subsequently signed or we are not paid for our work, our revenue and profit will be reduced.

When circumstances warrant, we sometimes incur expenses and perform work without a signed contract or appropriate modification to an existing contract to cover such expenses or work. When we do so, we are working at-risk, and there is a chance that the subsequent contract or modification will not ensue, or if it does, that it will not allow us to be paid for expenses already incurred, work already performed, or both. In such cases, we have generally been successful in obtaining the required contract or modification, but any failure to do so in the future could affect our operating results.

As we develop new services, new clients, and new practices, enter new lines of business, and focus more of our business on providing implementation and improvement services rather than advisory services, our risk of making costly mistakes increases.

We currently assist our clients both in advisory capacities and by helping them implement and improve solutions to their problems. As part of our corporate strategy, we are attempting to sell more services relating to implementation and improvement, and we are regularly searching for ways to provide new services to clients. In addition, we plan to extend our services to new clients, into new lines of business, and into new geographic locations. As we change our focus toward implementation and improvement; attempt to develop new services, new clients, new practice areas, and new lines of business; open new offices; and do business in new geographic locations, those efforts could harm our results of operations and could be unsuccessful.

Efforts involving a different focus, new services, new clients, new practice areas, new lines of business, new offices, and new geographic locations entail inherent risks associated with inexperience and competition from mature participants in those areas. Our inexperience may result in costly decisions that could harm our profit and operating results. In particular, implementation services often relate to development and implementation of critical infrastructure or operating systems that our clients view as mission critical, and if we fail to satisfy the needs of our clients in providing these services, our clients could incur significant costs and losses for which they could seek compensation from us.

Claims in excess of our insurance coverage could harm our business and financial results.

When entering into contracts with commercial clients, we attempt, where feasible and appropriate, to negotiate indemnification protection from our clients, as well as monetary limitation of liability for professional acts, errors, and omissions, but it is not always possible to do so. In addition, we cannot be sure that these contractual provisions will protect us from liability for damages if action is taken against us. Claims against us, both under our client contracts and otherwise, have arisen in the past, exist currently, and will arise in the future. These claims include actions by employees, clients, and third parties. Some of the work we do, for example, in the environmental area, is potentially hazardous to our employees, our clients, and third parties, and they may suffer damage because of our actions or inaction. We have various policies and programs in the environmental, health, and safety area, but they may not prevent harm to employees, clients, and third parties. Our insurance coverage may not be sufficient to cover all the claims against us, insurance may not continue to be available on commercially reasonable terms in sufficient amounts to cover such claims, or at all, and our insurers may disclaim coverage as to any or all such claims and otherwise may be unwilling or unable to cover such claims. The successful assertion of any claim or combination of claims against us could seriously harm our business. Even if not successful, such claims could result in significant legal and other costs, harm our reputation, and be a distraction to management.

Table of Contents

We depend on our intellectual property and our failure to protect it could enable competitors to market services and products with similar features, which may reduce demand for our services and products.

Our success depends in part upon our internally developed technology and models, proprietary processes, and other intellectual property that we utilize to provide our services and incorporate in our products. If we are unable to protect our intellectual property, our competitors could market services or products similar to our services and products, which could reduce demand for our offerings. Federal clients typically retain a perpetual, world-wide, royalty-free right to use the intellectual property we develop for them in any manner they deem appropriate, including providing it to our competitors, at no cost, in connection with their performance of federal contracts. When necessary, we seek authorization to re-use intellectual property developed for the federal government or to secure export authorization. Federal clients may grant contractors the right to commercialize software developed with federal funding, but they are not required to do so. In any event, if we were to use improperly intellectual property even partially funded by the federal government, the government could seek damages and royalties from us, sanction us, and prevent us from working on future federal contracts. Similar actions could be taken against us if we improperly use intellectual property belonging to other clients.

We may be unable to prevent unauthorized parties from copying or otherwise obtaining and using our technology and models. Policing unauthorized use of our technology and models is difficult, and we may not be able to prevent misappropriation, particularly in foreign countries where the laws, and enforcement of those laws, may not protect our intellectual property as fully as those in the United States. Others, including our employees, may compromise the trade secrets and other intellectual property that we own. Although we require our employees to execute non-disclosure and intellectual property assignment agreements, these agreements may not be legally or practically sufficient to protect our rights. Litigation may be necessary to enforce our intellectual property rights, protect our trade secrets, and determine the validity and scope of our proprietary rights and the proprietary rights of others. Any litigation could result in substantial costs and diversion of resources, with no assurance of success.

In addition, we need to invest in our intellectual property regularly to maintain it, keep it up to date, and improve it. There can be no assurance that we will be able to do so in a timely manner, effectively, efficiently, or at all. To the extent we do not maintain and improve our intellectual property, our reputation may be damaged, we may lose business, and we may subject the Company to costly claims that we have failed to perform our services properly.

We may be harmed by intellectual property infringement claims.

We may become subject to claims from our employees and third parties who assert that intellectual property we use in delivering services and business solutions to our clients infringe upon their intellectual property rights. Our employees develop much of the intellectual property that we use to provide our services and business solutions to our clients, but we also engage third parties to assist us and we license technology from other vendors. If our vendors, employees, or third parties assert claims that we or our clients are infringing on their intellectual property, we could incur substantial costs to defend those claims, even if we prevail. In addition, if any of these infringement claims are ultimately successful, we could be required to:

- pay substantial damages;
- cease selling and using products and services that incorporate the challenged intellectual property;
- obtain a license or additional licenses from our vendors or other third parties, which may not be available on commercially reasonable terms or at all; and/or
- redesign our products and services that rely on the challenged intellectual property, which may be very expensive or commercially impractical.

Any of these outcomes could further adversely affect our operating results.

Our business will be negatively affected if we are not able to anticipate and keep pace with rapid changes in technology or if growth in technology use by our clients is not as rapid as in the past.

Our success depends, partly, on our ability to develop and implement technology services and solutions that anticipate and keep pace with rapid and continuing changes in technology, industry standards, and client preferences. We may not be successful in anticipating or responding to these developments on a timely basis, and our offerings may not be successful in the marketplace. In addition, the costs we incur in anticipation or response may be substantial and may be greater than we expect, and we may never recover these costs. Also, our clients and potential clients may slow the growth in their use of technology and/or technologies developed by our competitors may make our service or solution offerings uncompetitive or obsolete. Any one of these circumstances could have a material adverse effect on our revenue or profits or ability to obtain and complete client engagements successfully.

Table of Contents

Moreover, we use technology-enabled tools to differentiate us from our competitors and facilitate our service offerings that do not require the delivery of technology services or solutions. If we fail to keep these tools current and useful, our ability to sell and deliver our services could suffer, and so could our operating results.

RISKS RELATED TO OUR CAPITAL STRUCTURE

Our stock price is volatile and could decline.

The stock market in general has been highly volatile, as has the market price of our common stock. The market price of our common stock is likely to continue to be volatile, and investors in our common stock may experience a decrease in the value of their stock, including decreases unrelated to our operating performance or prospects. The price of our common stock could be subject to wide fluctuations in response to a number of factors, including those listed elsewhere in this Risk Factors section and others including, but not limited to:

- statements or actions by clients, government officials (even if they are not our clients), securities analysts, and others;
- commencement, completion, and termination of contracts, any of which can cause us to incur significant expenses without corresponding payments or revenue, during any particular quarter;
- changes in our staff utilization rates, which can be caused by various factors outside our control, including inclement weather that prevents our staff from traveling to work sites;
- failure by Congress or other governmental authorities to approve budgets in a timely fashion;
- changes or perceived changes in the professional services industry in general and the government services industry in particular;
- military and other actions related to international conflicts, wars, or otherwise;
- timing of significant costs and investments, such as bid and proposal costs or the costs involved in planning or making acquisitions;
- variations in purchasing patterns under our contracts;
- our contract mix and the extent we use subcontractors, and changes in either;
- strategic decisions by us or our competitors, such as acquisitions, consolidations, divestments, spin-offs, joint ventures, strategic investments, and changes in business strategy; and
- federal and state government and other clients priorities and spending, both generally and by our particular clients.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management s attention and resources.

Our principal investor has significant influence over the Company, which could result in actions of which other stockholders do not approve.

Our principal stockholder, CM Equity Partners, L.P. and its affiliated partnerships (CMEP), own approximately 20% of our outstanding common stock. As a result, CMEP has influence over the outcome of all matters on which our stockholders vote, including the election of directors, amendments to our certificate of incorporation and bylaws, and mergers and other business combinations. CMEP s interests may not be aligned with the interests of our other investors. This concentration of ownership and voting power may also delay or prevent a change in control of our Company, could prevent other stockholders from receiving a premium over the market price, or reduce any such premium if a change in control is proposed, and could otherwise adversely affect the price of our stock.

Our principal investor and some members of our board of directors may have conflicts of interest that could hinder our ability to make acquisitions.

One of our principal growth strategies is to make selective acquisitions. CMEP sponsors private equity funds, some of which are focused on investments in, among other things, businesses in the federal services sector. Our directors Peter M. Schulte and Joel R. Jacks are principals of CMEP. In addition, Messrs. Schulte and Jacks, as well as our director Dr. Edward H. Bersoff, are directors of ATS Corporation (ATS), a federal information technology services provider. Dr. Bersoff also serves as the President and Chief

Table of Contents

Executive Officer of ATS. It is possible that CMEP, its related funds, or ATS could be interested in acquiring businesses that we would also be interested in acquiring, and that these relationships could hinder our ability to carry out our acquisition strategy. In the event this situation arises in the future, we plan to refer the matter to independent members of our board of directors who are neither members of management nor affiliated with either CMEP or ATS.

A substantial number of shares of our common stock have recently been distributed by our primary investor and become eligible for sale, and more may be distributed in the future, which could cause our common stock price to decline significantly.

If our stockholders sell, or the market perceives that our stockholders intend to sell, substantial amounts of our common stock in the public market, the market price of our common stock could decline significantly. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. Our primary investor, CMEP, has recently made three distributions of our common stock held by CMEP to its limited partners, which were then eligible for sale by the limited partners, as follows: approximately 1.4 million shares on November 19, 2008; approximately 1.2 million shares on April 24, 2009; and 1.5 million shares on June 30, 2009, for a total of approximately 4.1 million shares. We do not control the actions of CMEP and cannot predict whether or when CMEP may make further distributions from its remaining 20% ownership, or the impact any such distribution may have on our share price.

We do not intend to pay dividends.

We intend to retain our earnings, if any, for general corporate purposes, and we do not anticipate paying cash dividends on our stock in the foreseeable future. In addition, existing financing arrangements prohibit us from paying such dividends. This lack of dividends may make our stock less attractive to investors.

Provisions of our charter documents and Delaware law may inhibit potential acquisition bids and other actions that you and other stockholders may consider favorable, and the market price of our common stock may be lower as a result.

Certain provisions in our amended and restated certificate of incorporation and amended and restated bylaws make it more difficult for a third party to acquire, or attempt to acquire, control of our Company, even if a change in control were considered favorable by you and other stockholders. For example, our board of directors has the authority to issue up to 5,000,000 shares of preferred stock. The board of directors can fix the price, rights, preferences, privileges, and restrictions of the preferred stock without any further vote or action by our stockholders. The issuance of shares of preferred stock may delay or prevent a change-in-control transaction. As a result, the market price of our common stock and the voting and other rights of our stockholders may be adversely affected. This issuance of shares of preferred stock may result in the loss of voting control to other stockholders.

Our charter documents also contain other provisions that could have an anti-takeover effect. These provisions:

- divide our board of directors into three classes, making it more difficult for stockholders to change the composition of the board;
- allow directors to be removed only for cause;
- do not permit our stockholders to call a special meeting of the stockholders;
- require all stockholder actions to be taken by a vote of the stockholders at an annual or special meeting or by a written consent signed by all of our stockholders;
- require our stockholders to comply with advance notice procedures to nominate candidates for election to our board of directors or to place stockholders proposals on the agenda for consideration at stockholder meetings; and

require the approval of the holders of capital stock representing at least two-thirds of the Company s voting power to amend our indemnification obligations, director classifications, stockholder proposal requirements, and director candidate nomination requirements set forth in our amended and restated certificate of incorporation and amended and restated bylaws.

In addition, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which regulates corporate acquisitions. These provisions could discourage potential acquisition proposals and delay or prevent a change-in-control transaction. They could also discourage others from making tender offers for our common stock. These provisions may also prevent changes in our management.

Table of Contents

We indemnify our officers and members of the board of directors under certain circumstances. Such provisions may discourage stockholders from bringing a lawsuit against officers and directors for breaches of fiduciary duty and may also reduce the likelihood of derivative litigation against officers and directors even though such action, if successful, might otherwise have benefited you and other stockholders. In addition, your investment in our stock may be adversely affected to the extent that we pay the costs of settlement and damage awards against our officers or directors pursuant to such provisions.

If you invest in our common stock, you could experience substantial dilution.

From our IPO through June 30, 2009, the price of our common stock was substantially higher than the net tangible book value per share of our outstanding common stock. In addition, we have offered, and we expect to continue to offer, stock to our employees and directors. Such stock may be offered to our employees and directors at prices below the then current market prices. Our employee stock purchase plan allows employees to purchase our stock at a discount to the market price. Most options issued in the past have had per-share exercise prices below the recent price of our stock. As of June 30, 2009, there were 386,187 shares of common stock issuable upon exercise of outstanding stock options at a weighted-average exercise price of $9.49 per share. Additional options may be granted to employees and directors in the future at per-share exercise prices below the then current market prices.

In addition, we may be required, or could elect, to seek additional equity financing in the future or to issue preferred or common stock to pay all or part of the purchase price for any businesses, products, technologies, intellectual property, and/or other assets or rights we may acquire, to pay for a reduction, change, and/or elimination of liabilities in the future, for general corporate purposes, or any other reason. If we issue new equity securities under these circumstances, our stockholders may experience additional dilution and the holders of any new equity securities may have rights, preferences, and privileges senior to those of the holders of our common stock.

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

Issuances of Common Stock. For the three months ended June 30, 2009, a total of 1,477 shares of unregistered stock, valued at $34,695, were issued to four directors of the Company in lieu of cash for director fee compensation. 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 June 30, 2009, the Company purchased 25,393 shares of common stock for $676,241 in exchange for the payment of withholding taxes and exercise price due upon the exercise of options and the vesting of restricted stock. The average fair value of the common stock was $26.63 per share.

The following table summarizes stock repurchases for the three months ended June 30, 2009:

Period	**(a) Total Numbers of Shares Purchased**	**(b) Average Price Paid per Share**		**(c) Total Number of Shares Purchased as Part of Publicity Announced Plans or Programs**	**(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs**
April 1 April 30	23,613	$ 26.69	$ 630,230.97	None	None
May 1 May 30	1,780	$ 25.85	$ 46,009.68	None	None
June 1 June 30				None	None
Total	25,393	$ 26.63	$ 676,240.65	None	None

Item 3. Defaults Upon Senior Securities

None

Table of Contents

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

The Annual Meeting of the Stockholders of the Company was held on June 4, 2009. The results of the vote on the matters presented at the meeting on that date were as follows:

1. The following individuals were elected as directors, each for a three-year term, by the following votes:

		Votes For	Votes Withheld
2.	Richard Feldt	13,892,577	78,423
	Joel R. Jacks	10,126,376	3,844,624
	Sudhakar Kesavan	13,346,789	624,211

3. The appointment of Grant Thornton LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2009, was ratified by the stockholders by the following vote:

Votes For	Votes Against	Abstain
13,903,597	66,755	646

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	Exhibit
2.1	Stock Purchase Agreement by and among ICF Consulting Group, Inc., ICF International, Inc., *info* GROUP Inc., and Opinion Research Corporation dated as of March 27, 2009, and completed on April 1, 2009 (Incorporated by reference to Exhibit 2.1 to the Company s Form 8-K, filed April 6, 2009).
3.1	Amended and Restated Bylaws (Incorporated by reference to the Company s Form 8-K, filed April 22, 2009).
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 Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

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

	ICF INTERNATIONAL, INC.	
August 7, 2009	By:	/s/ SUDHAKAR KESAVAN Sudhakar Kesavan Chairman, President and Chief Executive Officer (Principal Executive Officer)
August 7, 2009	By:	/s/ ALAN R. STEWART Alan R. Stewart Chief Financial Officer and Corporate Secretary (Principal Financial Officer)
August 7, 2009	By:	/s/ SCOTT E. BRESLER Scott E. Bresler Controller and Principal Accounting Officer