Fortress International Group, Inc.
Form 10-K
March 29, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

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: 000-51426

FORTRESS INTERNATIONAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-2027651 (I.R.S. Employer Identification No.)
7226 Lee DeForest Drive, Suite 209 Columbia, MD (Address of principal executive offices)	21046 (Zip Code)

Registrant’s telephone number, including area code
(410)-423-7438

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock, $.0001 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer ¨	[Do not check if a smaller reporting company]
Smaller reporting company x			

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

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate) as of June 30, 2010 was approximately $11,187,250 based on 7,662,500 shares held by such non-affiliates at the closing price of a share of common stock of $1.46 as reported on the OTCQB marketplace on such date.

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

Common Stock, par value $0.0001 per share, outstanding as of March 18, 2011 was 14,520,032 shares.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or parts thereof) are incorporated by reference into the following parts of this Annual Report on Form 10-K: Certain information required in Part III of this Annual Report on Form 10-K will be incorporated from the Registrant's Proxy Statement for the 2010 Annual Meeting of Stockholders to be filed within 120 days of the end of the fiscal year ended December 31, 2010.

TABLE OF CONTENTS

Unless the context otherwise requires, when we use the words “Fortress,” ”FIGI,” “we,” “us,” “our company,” or “the Compan this Annual Report on Form 10-K, we are referring to Fortress International Group, Inc., a Delaware corporation, and its subsidiaries, unless it is clear from the context or expressly stated that these references are only to Fortress International Group, Inc.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements can be identified by the use of forward-looking terminology, including the words “believes,” “estimates,” “anticipates,” “expects,” “intends,” “may,” “will” or “should,” or, in each case, th negative or other variations or comparable terminology. You should read such statements 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 listed in Item 1A of Part I of this Annual Report on Form 10-K captioned “Risk Factors,” as well as any cautionary language in this Annual Report on Form 10-K, 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, statements concerning:

- our mission-critical services business, its advantages and our strategy for continuing to pursue our business;
- expectations as to our future revenue, margin, expenses, cash flows and capital requirements;
- expectations as to our materialization of our backlog;
- the amount of cash available to us to execute our business strategy;
- continued compliance with government regulations;
- statements about industry trends;
- geopolitical events and regulatory changes; and
- other statements of expectations, beliefs, future plans and strategies.

These forward-looking statements are subject to risks and uncertainties, including financial, regulatory, industry growth and trend projections, that could cause actual events or results to differ materially from those expressed or implied by the statements. The most important factors that could prevent us from achieving our stated goals include, but are not limited to the risks set forth in this Annual Report on Form 10-K under “Item 1A. Risk Factors.”

Any or all of our forward-looking statements in this Annual Report on Form 10-K may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this Annual Report on Form 10-K will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially.

Except as required by applicable law and regulations, we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Further disclosures that we make on related subjects in our additional filings with the Securities and Exchange Commission should be consulted.

4

PART I

Item 1. BUSINESS

Overview

We were incorporated in Delaware on December 20, 2004 as a special purpose acquisition company under the name "Fortress America Acquisition Corporation" for the purpose of acquiring an operating business that performed services to the homeland security industry. In 2005, we closed our initial public offering, including an over-allotment of 7,800,000 units, with each unit consisting of one share of our common stock and two warrants each to purchase additional shares of common stock, which resulted in gross proceeds of $46.8 million.

On January 19, 2007, we acquired all of the outstanding membership interests of each of VTC, LLC and Vortech, LLC ("TSS/Vortech") pursuant to a Second Amended and Restated Membership Interest Purchase Agreement dated July 31, 2006, as amended by the Amendment to the Second Amended and Restated Membership Interest Purchase Agreement dated January 16, 2007 (the "Purchase Agreement"). In connection with the acquisition we simultaneously changed our name to Fortress International Group, Inc.

After our initial acquisition of TSS/Vortech, management continued an acquisition strategy to expand our geographic footprint, add complementary services and diversify and expand our customer base. We acquired substantially all of the assets of Comm Site of South Florida, Inc. ("Comm Site") on May 7, 2007, 100% of the outstanding and issued capital stock of Innovative Power Systems, Inc. and Quality Power Systems, Inc. ("Innovative") on September 24, 2007, and 100% of the membership interests of Rubicon Integration, LLC ("Rubicon") on November 30, 2007. On January 2, 2008, we purchased 100% of the outstanding and issued capital stock of SMLB, Ltd.

In late 2008 and 2009 our plan to strategically grow the business through acquisitions was suspended due to the downturn in the economy. On December 29, 2009, in an effort to preserve cash resources and enhance liquidity while maintaining a similar set of professional services subsequently, the Company disposed of substantially all of the assets and liabilities of its Rubicon division to its former owners and current management. The disposition resulted in consideration of approximately $2.0 million.

Our principal executive offices are located at 7226 Lee DeForest Drive, Suite 209, Columbia, Maryland 21046 and our telephone number is 410-423-7300. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K , proxy statements for our annual stockholders' meetings and all amendments to those reports, are available to you free of charge through the Securities and Exchange Commission's ("SEC") website at www.sec.gov or on our website at www.thefigi.com as soon as reasonably practicable after such materials have been electronically filed with, or furnished to, the SEC. Copies of these reports and other information may be inspected and copied at the public reference facilities maintained by the SEC at the SEC Headquarters, Public Reference Section, 100 F Street, N.E., Washington D.C. 20549 on official business days during the hours 10:00 a.m. to 03:00 p.m. or by calling the SEC at 1-800-SEC-0330. Copies are also available upon request and without charge by contacting us at Fortress International Group, Inc., 7226 Lee DeForest Drive, Suite 209, Columbia, Maryland 21046.

Our Business

We consult, plan, design, build and maintain mission-critical facilities such as data centers, trading floors, call centers, network operation centers, communication facilities, laboratories and secure bunkers and we offer expertise for electrical, mechanical, telecommunications, security, fire protection and building automation systems that are critical to the mission-critical facilities lifeblood.

We provide a single source solution for highly technical mission-critical facilities and the infrastructure systems that are critical to their function. Our services include information technology strategic initiatives that drive efficiencies through the cost of operating a data center, energy and green initiatives, real estate consulting options, capital solutions, technology consulting, engineering and design management, construction management, system installations, operations management, and facilities management and maintenance.

With respect to these critical infrastructure systems that are part of the mission-critical facility, we focus on physical security, network security, redundancies for uninterruptible power supply systems, electrical switch gear, stand-by power generators, heat rejection and cooling systems, fire protection systems, monitoring and control systems, and security systems, as well as the physical environment that houses critical operations. We help our customers to plan for, prevent or mitigate against the consequences of attacks, power outages and natural disasters. We provide our services, directly and indirectly, to both government and private sector customers.

We have obtained a facility clearance from the United States Department of Defense. This clearance enables us to access and service restricted government projects. In addition to the facility clearance, we have successfully cleared approximately one-half of our employees, allowing them individual access to restricted projects and facilities.

Prior Growth Through Acquisitions

Beginning in 2006 and continuing into 2008, we implemented a plan to grow our business, diversify our customer base, and gain additional operational scale. To mitigate business volume fluctuations and customer concentration, we added selling, general and administrative personnel, enabling us to bid and quote up to approximately several hundred million in revenues across our service offerings. We acquired five businesses during the fiscal years 2007 and 2008 that have provided complementary services, extended our geographical footprint and added key customers and personnel. In late 2008 and 2009, our strategic growth through acquisitions was suspended due to the downturn in the economy.

On January 19, 2007, we acquired all of the outstanding membership interests of each of VTC, LLC, doing business as Total Site Solutions, and Vortech, LLC, or TSS/Vortech. TSS/Vortech provides comprehensive services for the planning, design, and development of mission-critical facilities and information infrastructure . The closing consideration consisted of (i) $11.5 million in cash, including acquisition costs of $1.8 million and net of cash acquired of $1.1 million net of a working capital adjustment per the terms of the purchase agreement, (ii) the assumption of $0.2 million of debt of TSS/Vortech, (iii) 2,602,813 shares of our common stock, of which 2,534,988 shares were issued to the selling members, 67,825 shares were issued to Evergreen Capital LLC as partial payment of certain outstanding consulting fees, and 574,000 shares were designated for issuance to employees of TSS/Vortech under our 2006 Omnibus Incentive Compensation Plan and (iv) $10.0 million in two convertible promissory notes of $5.0 million each, bearing interest at 6%. Simultaneously with the acquisition of TSS/Vortech, we changed our name from “Fortress America Acquisition Corporation” to our current name, “Fortress International Group, Inc.”

Following our initial acquisition of TSS/Vortech, we continued with our acquisition strategy to expand our geographic footprint, add complementary services and diversify and expand our customer base.

On May 7, 2007, we purchased substantially all of the assets of Comm Site of South Florida, Inc. for $150,000 in cash.

On September 24, 2007, we entered into a stock purchase agreement with Innovative Power Systems, Inc., Quality Power Systems, Inc., or, collectively, Innovative, and the stockholders of Innovative. Based in Virginia, Innovative installs, tests and services specialized uninterruptible power supply systems and backup power supply systems for data centers and mission-critical facilities throughout the Washington D.C. metropolitan area. Pursuant to the stock purchase agreement, we acquired 100% of the issued and outstanding capital stock of Innovative for the aggregate consideration consisting of (i) $1.6 million , including acquisition costs of $0.1 million, and net of cash acquired of $0.2 million, subject to certain adjustment as provided in the purchase agreement, (ii) a promissory note for the aggregate amount of $0.3 million plus interest accruing at 6% annually from the date of the issuance of the promissory note (payable in three years, based on a five-year amortization schedule, as described in note), (iii) 25,155 shares of our common stock, and (iv) additional earn-out amounts if Innovative achieves certain targeted earnings for each of the calendar years 2007-2010, as further described in the purchase agreement.

In 2008, Innovative achieved 2008 earnings targets established in the purchase agreement, entitling the sellers to additional purchase consideration of $0.4 million which was paid in the second quarter of 2009 per the terms of the purchase agreement.

In 2009, Innovative achieved 2009 earnings targets established in the purchase agreement, entitling the sellers to additional purchase consideration of $0.2 million. Subject to terms and conditions outlined in the purchase agreement, the payment was due in the second quarter of 2010.

On November 30, 2007, we entered into a membership interest purchase agreement with Rubicon Integration, LLC, or Rubicon, a Delaware limited liability company based in Virginia, and each of the members of Rubicon. Rubicon provides consulting, owners' representation and equipment integration services for mission-critical facilities to corporate customers across the United States. Pursuant to the purchase agreement, we acquired 100% of the membership interests of Rubicon for the aggregate consideration consisting of (i) $4.7 million in cash, including acquisition costs of $0.2 million and net of cash acquired of $0.1 million, (ii) 204,000 shares of our common stock valued at $1.1 million , (iii) contingent consideration in the form of two unsecured promissory notes in the maximum amount of $1.5 million and $2.0 million, respectively, plus interest accruing at 6% annually from November 30, 2007, the date of the issuance, payable to the sellers upon the achievement of certain operational and financial targets for December 2007 and for the calendar year 2008, respectively, and (iv) additional earn-out amounts, contingent upon the achievement of certain earnings targets by Rubicon for each of the calendar years 2008-2009.

In 2007, Rubicon achieved certain 2007 earnings targets established in the purchase agreement, entitling the sellers to the first contingently issuable note of $1.5 million, which was due on January 31, 2008. In accordance with terms of the agreement, an additional working capital adjustment of $0.1 million was paid to the sellers on January 31, 2008.

In 2008, Rubicon received contingently issuable notes totaling $2.0 million by achieving or exceeding certain financial targets defined in the purchase agreement. Approximately $0.4 million had been paid at December 31, 2008, while the remainder was paid in January 2009.

Additionally in 2008, Rubicon achieved certain 2008 earnings targets established in the purchase agreement, entitling the sellers to an earn-out payment estimated at $0.5 million at December 31, 2008. In 2009, we delivered the calculation and finalized the 2008 earn-out with the sellers, which resulted in the issuance of an additional $0.8 million of consideration in the form of $0.5 million note and payment for the balance. In 2009, Rubicon achieved certain 2009 earnings targets established in the amended purchase agreement, entitling the sellers to an earn-out payment of $0.2 million

As we sought additional liquidity and to maintain a similar service offering, on December 29, 2009, we sold substantially all of the assets and liabilities of Rubicon for consideration totaling $2.0 million consisting of $0.8 million in cash proceeds, net of transaction costs, $0.6 million note receivable and $0.4 million in forgiveness of actual obligations and potential liabilities related to the 2008 and 2009 earn-outs. Additionally, we are entitled to contingent consideration in the form of an earn-out equal to 7.5% of gross profit on designated projects during a one year period commencing on the close date. At December 31, 2009, the Company had not recorded any contingent consideration associated with the earn-out as it was not reasonably assured and estimable.

On January 2, 2008, we entered into a stock purchase agreement with SMLB, Ltd, or SMLB, an Illinois corporation which provides professional construction management services for mission-critical facilities, and each of the stockholders of SMLB, for the acquisition of SMLB. Pursuant to the purchase agreement we acquired 100% of the issued and outstanding capital stock of SMLB for an aggregate consideration consisting of (i) $2.0 million in cash, subject to certain adjustment to be determined within 60 days of the closing of the acquisition, (ii) an unsecured promissory note for an aggregate amount of $0.5 million, plus interest accruing at 6% annually from the date of the issuance, (iii) an aggregate of 96,896 shares of common stock of the Company, to be held in escrow pursuant to a certain indemnity escrow agreement, and (iv) additional earn-out amounts, contingent upon the achievement of certain operational and financial targets by SMLB for each of the calendar years 2008 and 2009 and subject to satisfaction of any outstanding indemnification obligations by the sellers. The note referred to above was reduced for working capital adjustments in accordance with terms of the purchase agreement. The adjusted note is payable in three years, based on a five-year amortization schedule, with $24,118 plus accrued interest payable on each of January 2, 2009 and January 2, 2010 and the balance of $72,336 plus accrued interest payable on January 2, 2011. The January 2, 2009 scheduled payment was not made, as the note was adjusted in the fourth quarter of 2008.

As indicated above, we suspended our strategic plan to grow our business through acquisitions because of the downturn in the economy.

Mission-Critical IT Industry

IT facilities and other high technology environments are much more complex than standard facilities and require a larger capital investment. Errors and delays in the planning, design, construction or installation of such facilities can involve significant costs. As a result, companies, building owners and managers are increasingly seeking project managers and construction firms with specialized expertise and experience in designing, building and maintaining critical IT infrastructure and systems.

We pursue opportunities in the growing mission-critical IT market in both the government and private sectors through our single source solution offerings. We believe there are significant barriers to entry for new competitors in the mission-critical IT market, including customer requirements for firms with substantial IT project experience, deep and broad professional and IT construction management offerings and, for homeland defense and intelligence agency work, facility and security clearances. Through our facilities integration services, we have the ability, directly and through subcontractor relationships, to provide all services and coordinate the efforts of all personnel involved in a mission-critical project, to meet crucial occupancy deadlines, and to complete all required services with minimal disruption.

We believe energy initiatives are significant to the overall industry with a growing focus on corporate citizenship with regard to the environment and opportunities to increase profitability. We believe the macro trend of rising energy costs adds further incentive to incorporate green initiatives as potential returns to customers are greater, while the payback periods on their investments is shortened. We address this growing trend with a specialized focus on green initiatives and a thorough understanding of the Leadership in Energy and Environmental Design (LEEDS) Certification which is a third party certification and benchmark for the design, construction and operation of high performance green buildings. We understand the LEEDS design requirements and their contribution to the environment and potential profitability enhancements.

Service Offerings

We have developed a menu of unique consulting and service options to assist and partner with owners of mission-critical facilities to develop strategies that enable them to cope with the complexities facing mission-critical facility infrastructure systems. These solutions begin with strategies for the IT assets that are being housed in the facility, through power, cooling and heat rejection issues and disaster recovery backup systems. We help them develop total cost of ownership models that enable them to design and build the most efficient data centers based on their available capital. Our solutions involve all aspects of the life cycle of the data center and are described in more detail below.

Technology Consulting

Energy and Green Solutions. We have developed services that can identify energy savings for the customer on both the supply side from utility sources and demand side in terms of consumption of an existing data center.

Supply side services include:

- Competitive utility rate analysis in deregulated areas;
- Obtaining energy certificates and carbon offset certificates for capital expenditures on both renewable energy based initiatives as well as replacement initiatives; and
- Participation in demand response programs.

Demand side initiatives include:

- Energy audits;
- Facility consolidation; and
- Performance based contracting initiatives that create capital from energy savings on replacement projects.

IT Solutions. These services are partially performed by our in-house staff and done in conjunction with our teaming partners and include:

- Data center strategic planning;
- Data center optimization;
- Virtualization and consolidation of servers and storage devices; and
- Data center relocation planning and implementation.

Real Estate Solutions. These services include:

- Assisting customers with disposal and acquisition of mission-critical assets;
- Site assessments, evaluation and selection;
- Conceptual design and in depth budget and cost analysis;
- Financial modeling and market research;
- Utility assessment;
- Telecommunication service assessment;
- Cost and payback analysis; and
- Phased investment strategy for development of speculative space.

Capital solutions. These services include:

- Finding sale and lease back alternatives for our customers;
- Matching customers up with leasing partners to finance major equipment purchases;
- Finding equity partners for our customers developing speculative projects; and
- Performance contract financing for energy related capital projects.

Design and Engineering/Planning and Programming

This phase represents the initiation of project development and typically includes establishing project goals and a preliminary budget and schedules, setting technical parameters and requirements, and determining project team members and the overall level of effort required of the team. When developing mission-critical facilities, the planning and programming phase is often considered the most important because this is where the project receives its initial emphasis, motivation and direction.

Design and engineering service offerings typically include critical power and mechanical load calculations, schematic design of electrical, mechanical, communications, fire protection and security systems, mechanical design and engineering, high and medium voltage electrical design and engineering, communications and security systems design and engineering, physical vulnerability assessments, force protection design and bomb blast analyses, fire protection system design and engineering, facility systems equipment selection, and facility commissioning and testing.

Construction Management

Activities during this phase include detailed preparations required for a successful construction process. Work performed during the construction management phase includes project management, value engineering and design management, bid negotiation, subcontractor pre-qualification and negotiation, long-lead equipment procurement, issuance of equipment and construction contracts, and refinement of project budget and schedule. Our project managers mobilize the required expertise for the project, utilizing in-house superintendents and quality control and safety professionals, as well as qualified subcontractors and support personnel, some of which have historically been provided by affiliated entities. Our project managers supervise work by project team members, including all aspects of the following: architecture and construction, electric power systems, heat rejection and cooling, energy management and controls, cooling tower systems, security systems, voice, data and network cabling, fire and life safety systems, and process piping and plumbing systems. Our project managers remain responsible for all aspects of the project until project completion and customer delivery.

The installation portion of the project is typically of the longest duration when compared to other project phases. In addition, this portion has the largest number of outside influences that can impact project goals and objectives, such as weather, non-performance of subcontractors, equipment deliveries, unexpected project changes from the owner, and influence from local authorities and utility providers. Therefore, experience, skill and mission focus are critical during the project installation period.

Facilities Management

We provide a comprehensive maintenance and service contract designed to insure that the multiple systems critical to sustaining on-line applications in technologically intensive facilities remain operational and functional. Typical services during the facilities maintenance and service phase include overall management of facility maintenance program, on-site staffing of technical engineering positions (e.g., electricians, HVAC mechanics, control technicians and voice/data technicians), and management of non-technical subcontracted services (e.g., security, landscaping, janitorial, pest control, snow removal, carpentry, painting and general maintenance services). We seek to provide on-site maintenance services, not only to gain additional project revenue, but also to obtain hands-on involvement in any new facility planning, design and construction initiatives that the customer undertakes.

In addition to on-site services the company has a 24X7 National Operations Center in Elkridge, Maryland that has the capability of monitoring remotely our data center service contract customers' facilities for systems operations and emergency events that could lead to outages. Temperature levels, humidity, electrical connectivity, power usage and fire alarm conditions are among the items monitored. In addition the system maintains all site documentation for repairs and maintenance performed on each critical piece of equipment covered under our service contract agreement. The information is useful to our customers for determination of why failures occur and enables them to make critical decisions on repair or replacement strategies based on the operating histories maintained on the item.

Our service contracts with our customers are typically one to three years in duration with cancelation clauses for non performance. They are typically billed monthly and the value covers an estimated cost for the performance of scheduled maintenance tasks required to be performed at various usage or time intervals as well as testing schedules to be performed to insure the equipment functions properly under assumed electrical load or outage conditions. The contracts also have pricing formulas for labor rates and material markups for unscheduled work performed due to either emergency service needs or equipment failures. In some cases our pricing is subject to adjustments for outages caused by our lack of performance.

Strategy

Our strategies for growth include the following:

- Focus on selling consulting services. Our past experience in selling project-related services has demonstrated the importance of focusing on the sale of consulting business. Focusing on the top of the Solutions Path offers the following advantages applicable to government, government-related and commercial customers:

  - Develop a customer relationship at the initiation of a project, therefore maximizing the sales opportunity;

- Because consulting engagements are less expansive than project-wide engagements, purchase authority often resides at lower levels of management, which increases probability of closure;

- Limit exposure to competition since the fee is relatively low and the services are in specialized areas where we can demonstrate our technical depth and expertise in mission-critical facilities to the customer;

- Increase the probability of conversion (selling subsequent phases) because the customer is comfortable with the performance and price of initial services; and

- Position us on the "customer's side of the table," which teams us with the customer on a consolidated mission and distinguishes us from typical contractors and firms associated with equipment suppliers.

- Maintaining and Enhancing Key Alliances. Maintaining key alliances is also crucial to sales development and growth and often provides us with introductions to the customers of our alliance partners. These alliances reside with IT consulting firms, specialty mission-critical engineering firms, application service providers and internet service providers. Key alliance opportunities also reside in other firms within the market sector such as equipment manufacturers, product suppliers, property management firms, developers, IT system integrators and firmware providers. In addition, we seek to maintain alliances and enter into teaming or partnering relationships with minority contracting firms and hub zone companies. These firms are natural alliance partners and can provide us with valuable entry into government contracting relationships. In turn, we can provide these contractors and hub zone companies with valuable mission-critical design, engineering, and contracting experience to which they might not otherwise have access. We have entered into several key strategic alliances with large IT corporations to provide engineering, design, and construction management services.

- Marketing Initiatives. We have expanded our current localized marketing campaign to a regional and national level. This will involved intensifying the marketing of our consulting and engineering services to private sector end users, major government contractors, and existing and potential alliance partners on regional and national basis through a focused marketing program, involving:

  - Selected media advertising;
  - Trade show attendance;
  - Conducting technical seminars in local target markets; and
  - Producing a marketing campaign for distribution at a national level.

Contracts and Customers

Our customers include United States government and homeland defense agencies and private sector businesses that in some cases are the end user of the facility or in other cases are providing a facility to a government end user. We categorize contracts where a government agency is the ultimate end user of the facility as government-related contracts.

The price provisions of the contracts we undertake can be grouped into three broad categories: (i) fixed-price, (ii) guaranteed maximum price (cost plus fee) and (iii) time and materials.

In a fixed-price contract, we must fully absorb cost overruns, notwithstanding the difficulty of estimating all of the costs we will incur in performing these contracts and in projecting the ultimate level of revenues that we may achieve. Our failure to anticipate technical problems, estimate costs accurately or control costs during the performance of a fixed-price contract may reduce the profitability of a fixed-price contract or cause a loss.

In a guaranteed maximum price contract, we share our cost information with the customer and earn a negotiated fee. In addition, a contingency fee is included for changes and errors in pricing. As the project progresses to the point where both the customer and we are comfortable with final pricing of the project, a maximum price is agreed to with savings reverting back to the customer. Due to the fact that the risk is shared with the customer on these projects, the profit margins are less than those earned on other contract types.

In time-and-materials contracts, we are reimbursed for labor at fixed hourly rates and for materials used at an agreed upon mark up on cost. Profit margins depend on the negotiated bill rate with the customer less our labor and benefit costs.

For the years ended December 31, 2010 and December 31, 2009, revenues from guaranteed maximum price contracts represented approximately 6% and 31% of our revenues, respectively. Most government contracts, including our contracts with the federal government, are subject to termination at will by the government, to government audits and to continued appropriations.

We do have some customer concentration as we earned approximately 69% and 20% of our total revenue from two customers for the years ended December 31, 2010 and 2009.

Historically, we are not subject to any significant regulation by state, federal or foreign governments. In the future, as we seek to more often contract directly with the federal government versus performing on a subcontractor basis, we may be subject to increased audit and oversight of federal government agencies and the laws and regulations relating to the formation, administration, and performance of government contracts.

These laws and regulations would, among other things:

- impose specific and unique cost accounting practices that may differ from U.S. generally accepted accounting principles and require reconciliation;
- impose acquisition regulations that define reimbursable and non-reimbursable costs;
- restrict the use and dissemination of information classified for national security purposes and the export of certain products and technical data; and
- require the development and maintenance of a detailed ethics and compliance program.

Backlog

We believe an indicator of our future performance is our backlog of uncompleted projects under contract or awarded. Our backlog represents our estimate of the anticipated revenue from executed and awarded contracts that have not been completed and that we expect will be recognized as revenues over the life of the contract.

Backlog is not a measure defined in generally accepted accounting principles, and our methodology for determining backlog may not be comparable to the methodology used by other companies in determining their backlog. Our backlog is generally recognized under two categories: (1) contracts for which work authorizations have been or are expected to be received on a fixed-price basis, guaranteed maximum price basis and time and materials basis and (2) contracts awarded to us where some, but not all, of the work has not yet been authorized.

As of December 31, 2010, our backlog was approximately \$30.6 million, compared to approximately \$47.1 million at December 31, 2009. In the first quarter of 2010, a large developer customer sold its property and cancelled its remaining contract commitment under the original agreement. Accordingly, we removed the project totaling \$12.4 million, net of acquirer's assumed and assigned contract of \$3.2 million, from our December 31, 2009 backlog.

At December 31, 2010, we have authorizations to proceed with work for approximately \$13.9 million, or 45% of our total backlog of \$30.6 million. Additionally, approximately \$25.9 million, or 85% of our total backlog, relates to four customers at December 31, 2010. We estimate that approximately 45% of our backlog will be recognized during our 2011 fiscal year. This estimate is based on the compilation of monthly backlog reports that the project management regularly prepares which present backlog per contract, our management's estimate of future revenue based on known contracts and historical trends and our projection of the amount of such backlog expected to be recognized in the following 12 months.

We adjust backlog to reflect project cancellations, deferrals and revisions in scope and cost (both upward and downward) known at the reporting date. Future contract modifications or cancellations may increase or reduce backlog and future revenues. We generally do not track and therefore have not disclosed whether the contracts included in our backlog are fully funded, incrementally funded, or unfunded. Our customers may enter into contracts with us for our services; however, authorization for us to perform those services may be dependent on the customer's ability to finance the project either internally or externally through investors. Most of our customer contracts are terminable at will by the customer consistent with industry practice. As a result, no assurances can be given that the amounts included in backlog will ultimately be realized. See Item 1A. "Risk Factors" for additional risk factors relating to our backlog.

Sales and Marketing

The marketing approach employed by us emphasizes expertise in IT hardware systems, energy consultants, real estate consultants and facilities programming and planning, which enables involvement at the critical early stages in projects where a full range of services are needed. This marketing approach allows the customer to contract for comprehensive facilities integration services or to contract separately for each individual project phase. Our marketing program seeks to capitalize on our industry standing, including our existing relationships, relationships added through acquisitions and our reputation based on our performance on completed projects. We also seek to enhance our name recognition through the use of trade shows, technical seminars, direct mailings, and the media.

The decline in the economy beginning in late 2008 and continuing through 2009 has impacted our ability to fund a larger sales force and various media events and advertising during 2009 so major cutbacks were implemented in our sales force and marketing programs. To offset the cutbacks we engaged senior staff and management to drive our sales efforts to reduce SG&A. With the leaner organization and participation of senior management in the sales process, our sales efforts have been adequate despite the reduced demand due to the recession. As our cash flow improves we anticipate we will bring back certain marketing activities that give us the fastest and greatest return, specifically trade show events and technical seminars, and we will focus more effort in the sale of recurring revenue opportunities to build up our facilities and service divisions.

Maintaining key alliances is also crucial to sales development and growth and often provides us with introductions to the customers of our alliance partners. These alliances reside with IT consulting firms, specialty mission-critical engineering firms, application service providers and internet service providers. Key alliance opportunities also reside in other firms within the market sector such as equipment manufacturers, product suppliers, property management firms, developers, IT system integrators and firmware providers. In addition, we seek to maintain alliances and enter into teaming or partnering relationships with minority contracting firms and hub zone companies. These firms are natural alliance partners and can provide us with valuable entry into government contracting relationships. In turn, we can provide these contractors and hub zone companies with valuable mission-critical design, engineering, and contracting experience to which they might not otherwise have access. We have entered into several key strategic alliances with large IT corporations to provide engineering, design, and construction management services.

The process for acquiring business may require us to participate in a competitive request-for-proposal process, with the primary difference among potential customers being that the process for direct government and government-related customers is significantly more formal and complex than for private sector customers as a result of government procurement rules and regulations that govern the contracting process.

Competition

The mission-critical IT solutions market is large, fragmented and highly competitive. We compete for contracts based on our strong customer relationships, successful past performance record, significant technical expertise, specialized knowledge and broad service offerings. We often compete against divisions of both the large design contractors and construction contractors, as well as against numerous small- to medium-sized specialized or regional information technology consulting firms. Some of these competitors are large, well-established companies that have broader geographic scope and greater financial and other resources than us. These larger, more established competitors include Washington Group International, Inc. (a division of URS Corporation), Dycom Industries, Inc., Mastec Inc., Hill International Inc., Hewlett Packard Company, Holder Construction Company, Nova Construction, Syska Hennesey, Whiting Turner and Clark Construction. We expect competition in the mission-critical IT technology services sector to increase in the future.

12

Executive Officers

Set forth below is information as of March 18, 2011, about our executive officers, as determined in accordance with the rules of the SEC.

Name	Age	Position with the Company
Harvey L. Weiss	68	Vice-Chairman of the Board
Thomas P. Rosato	59	Chief Executive Officer and Director
Gerard J. Gallagher	54	President, Chief Operating Officer and Director
Timothy C. Dec	52	Chief Financial Officer

Harvey L. Weiss, age 68, has served as our Vice-Chairman of the Board since December 2008 and prior to that he served as Chairman of the Board from the closing of our acquisition of TSS/Vortech on January 19, 2007. From our inception through the closing of TSS/Vortech, Mr. Weiss had served as our Chief Executive Officer, President and a member of our Board. He has over 40 years of experience in the information technology and security market place. From 2002 to August 1, 2004, Mr. Weiss was the Chief Executive Officer and President of System Detection, Inc., a software security company. From 2000 to 2002, he served as President of Engineering Systems Solutions, Inc., a security and biometrics integration firm. During 1999, Mr. Weiss was the Chief Executive Officer and President of Global Integrity Corporation, a SAIC subsidiary specializing in information security and served as a Director until the company was sold in 2002. From 1996 to 1998, until sold to Network Associates, Inc, Mr. Weiss was President of the Commercial Division, Secretary and Director of Trusted Information Systems, Inc., a NASDAQ-listed security network company. Prior to that time, from 1994 to 1996, Mr. Weiss served as President of Public Sector Worldwide Division for Unisys Corporation. From 1991 to 1993, Mr. Weiss was the Vice President of Sales and the President and Chief Operating Officer of Thinking Machines Corporation, a massively parallel processing company. Prior to that time, he served in various senior capacities including Vice President of Digital Equipment Corporation's Government Systems Group. Mr. Weiss serves on the Board of Vision Technologies Inc., an engineering and manufacturing company for electro-optical and thermal imaging camera systems, was a member of the Brookings Institution Council, and is a trustee of Capitol College. Mr. Weiss received a Bachelor of Science in Mathematics from the University of Pittsburgh and attended the Massachusetts Institute of Technology Sloane School Program for Senior Executives.

Thomas P. Rosato, age 59, became a Director and our Chief Executive Officer upon our acquisition of TSS/Vortech on January 19, 2007. Mr. Rosato has over 30 years of experience in mission-critical service businesses. Since 2002, he has served as the co-founder and chairman of TSS and the co-founder and chairman of Vortech. From 1998 to 2001, Mr. Rosato served as the President - Group Maintenance of America/Encompass Services Corporation, National Accounts Division. From 1995 to 1998, he served as the founder and President of Commercial Air, Power & Cable, Inc. From 1980 to 1995, he served in various capacities at Com-Site Enterprises, most recently as Chief Financial Officer and Chief Operating Officer. Mr. Rosato started his career in 1973 as a certified public accountant at Coopers & Lybrand. Mr. Rosato received a Bachelor of Business Administration in Accounting from Temple University in 1973.

Gerard J. Gallagher, age 54, became a Director and our President and Chief Operating Officer upon our acquisition of TSS/Vortech on January 19, 2007. Mr. Gallagher has more than 25 years of experience in mission-critical fields. Since 2002, he has served as the co-founder and President of TSS and the co-founder and President of Vortech. From 1998 to 2001, Mr. Gallagher served as the President of the Total Site Solutions division of Encompass Services Corp. From 1997 to 1998, he served as the President of the Total Site Solutions division of Commercial Air, Power & Cable, Inc. From 1991 to 1997, he served as the Chief Facilities Operations and Security Officer of the International Monetary Fund. From 1980 to 1991, Mr. Gallagher served in various capacities at Com Site Enterprises, most recently as Senior Vice President of Engineering and Sales. Mr. Gallagher received a Bachelor of Science in Fire Science from the University of Maryland and a Bachelor of Science in Organizational Management (Summa Cum Laude) from

Columbia Union College.

Timothy C. Dec, age 52, was appointed as Chief Financial Officer of the Company, effective August 20, 2007. Prior to his appointment and since June 2006, Mr. Dec was the Chief Financial Officer of Presidio Networked Solutions Inc., the nation’s largest independent value-added solutions provider that offers a wide range of Cisco-centric network infrastructure and collaborative solutions. From 1999 until May 2006, Mr. Dec was Senior Vice President, Chief Accounting Officer & Treasurer of Broadwing Corporation, a NASDAQ listed telecommunications company. From 1997 to 1999, Mr. Dec was Director of Accounting and Administration for Thermo Trilogy Corporations, a subsidiary of AMEX listed Thermo Electron Company. Earlier in his career, Mr. Dec held finance and accounting related positions at North American Vaccine, Inc. an AMEX listed company engaged in the research, development and manufacturing of vaccines, privately held general contractor Clark Construction and Intertek Services International, LTD, a division of Inchcape Group, a multinational public company based in London, England. Mr. Dec holds a Bachelor of Science degree in Accounting from Mount Saint Mary’s University in Emmitsburg, Maryland, and a Masters of Business Administration from American University in Washington DC. He is a Certified Public Accountant.

The employment of our officers is subject to the terms and conditions of their respective employment agreements.

Employees

At December 31, 2010, we had approximately 114 full-time employees. We have obtained facility clearance from the United States Department of Defense. In addition to the facility clearance, we have successfully cleared approximately one-half of our employees, allowing them individual access to restricted projects and facilities. Our future success will depend significantly on our ability to attract, retain and motivate qualified personnel. We are not a party to any collective bargaining agreement and we have not experienced any strikes or work stoppages. We consider our relationship with our employees to be satisfactory.

Item 1A. RISK FACTORS

Our business involves a number of risks, some of which are beyond our control. The risks and uncertainties described below are not the only ones we face. Such factors could have a significant impact on our business, operating results and financial condition. We believe the most significant of these risks and uncertainties are as follows:

Actual or potential conflicts of interest are likely to develop between us and Messrs. Rosato and Gallagher.

Thomas P. Rosato and Gerard J. Gallagher, the selling members of TSS/Vortech, continue to own significant businesses other than TSS/Vortech that are not owned or controlled by us. We have and will continue to have ongoing business relationships with certain of these businesses. These relationships will likely create actual or potential conflicts of interest between Messrs. Rosato and Gallagher, who are executive officers and members of our Board of Directors and thus in a position to influence corporate decisions, and us.

We have had our first year of profitability and we may experience net losses in the future.

This is our first year of profitability as an operating Company, otherwise, we have incurred significant net losses. For the year ended December 31, 2010, we achieved our first year of net income of $0.9 million since 2007. In prior years we have a history of net losses, including net losses for the years ended December 31, 2009 and 2008 of approximately $18.8 million and $32.9 million, respectively. Although we have made efforts to align costs with sales and gross margin volume, there can be no guarantee that we will be successful in sustaining or increasing profitability in 2011 or beyond. The severity and uncertainty of the current economic downturn and rapidly changing competitive marketplace has created a volatile and challenging business climate, which may continue to negatively impact our customers and their spending and investment decisions. We may not be able to generate the level of revenue necessary to achieve and maintain sustainable profitability, particularly as we continue to incur significant sales and marketing and administrative expenses. Any failure to maintain and grow our revenue volumes would adversely affect our business, financial condition and operating results.

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

Our acquisitions were 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. Since December 31, 2006, we completed the acquisitions of TSS/Vortech, Comm Site , Innovative, Rubicon, and SMLB. 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. To the extent 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 operations. In 2009, we conducted such analyses that resulted in impairment loss on goodwill of $0.3 million. Additionally during the year ended December 31, 2009, we evaluated our customer relationships in light of the bookings below anticipated levels, resulting in impairment of approximately $9.9 million. At December 31, 2010 and 2009, our net carrying value of goodwill and other indefinite lived intangibles was $3.8 million.

We amortize intangible assets with estimable useful lives over their respective estimated useful lives to their estimated residual values, and also 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.

Recent global economic trends have adversely affected our business, liquidity and financial results.

Recent global economic conditions, including disruption of financial markets, have adversely affected our business and results of operations, primarily through limiting our access to credit and debt and equity financing and disrupting our clients’ businesses. The reduction in financial institutions’ willingness or ability to lend has increased the cost of capital and reduced the availability of credit. The continuation or worsening of general market conditions in the United States or other national economies important to our businesses may adversely affect our clients’ level of spending, ability to obtain financing, and ability to make timely payments to us for our services, which could require us to increase our allowance for doubtful accounts, negatively impact our days sales outstanding and adversely affect our results of operations.

We derive a significant portion of our revenues from a limited number of customers.

We derive and believe that we will continue to derive in the near term, a significant portion of our revenues from a limited number of customers. To the extent that any significant customer uses less of our services or terminates its relationship with us, our revenues could decline significantly, which would have an adverse effect on our financial condition and results of operations. Our two largest customers accounted for approximately 69% and 20% of our total revenues for the years ended December 31, 2010 and 2009, respectively. Additionally, during the year ended December 31, 2010, three customers, comprising 42% of our total backlog at December 31, 2010, were acquired. We are unable to determine the effect that those acquisitions may have on continued business with these customers, although to date we have continued to perform previously contracted work and bid new opportunities.

Most of our contracts may be canceled on short notice, so our revenue and potential profits are not guaranteed.

Most of our contracts are cancelable on short notice by the customer either at its convenience or upon our default. If one of our customers terminates a contract at its convenience, then we typically are able to recover only costs incurred or committed, settlement expenses and profit on work completed prior to termination, which could prevent us from recognizing all of our potential revenue and profit from that contract. If one of our customers terminates the contract due to our default, we could be liable for excess costs incurred by the customer in re-procuring services from another source, as well as other costs. Many of our contracts, including our service agreements, are periodically open to public bid. We may not be the successful bidder on our existing contracts that are re-bid. We also provide an increasing portion of our services on a non-recurring, project-by-project basis. We could experience a reduction in our revenue, profitability and liquidity if:

- our customers cancel a significant number of contracts;
- we fail to win a significant number of our existing contracts upon re-bid; or
- we complete the required work under a significant number of our non-recurring projects and cannot replace them with similar projects.

Our backlog varies and is subject to unexpected adjustments and cancellations and is, therefore, not guaranteed to be recognized as revenue.

We cannot assure that the revenues attributed to uncompleted projects under contract will be realized or, if realized, will result in profits. Included in our backlog is the maximum amount of all uncompleted contracts and task order contracts, or a lesser amount if we do not reasonably expect to be issued task orders for the maximum amount of such contracts. We perform services only when purchase orders are issued under the associated contracts.

The backlog amounts are estimates, subject to change or cancellation, and accordingly, the actual customer purchase orders to perform work may vary significantly in scope and amount from the backlog amounts. Accordingly, we cannot provide any assurance that we will in fact be awarded the maximum amount of such contracts or be awarded any amount at all. Our backlog as of December 31, 2010 and 2009 was approximately $30.6 million and $47.1 million, respectively.

The majority of our projects are accounted for on the percentage-of-completion method, and if actual results vary from the assumptions made in estimating percentage-of-completion, our revenue and income could be reduced.

We generally recognize revenue on our projects on the percentage-of-completion method. Under the percentage-of-completion method, we record revenue as work on the contract progresses. The cumulative amount of revenue recorded on a contract at a specified point in time is that percentage of total estimated revenue that incurred costs to date bear to estimated total expected contract costs. The percentage-of-completion method therefore relies on estimates of total expected contract costs. Contract revenue and total cost estimates are reviewed and revised periodically as the work progresses. Adjustments are reflected in contract revenue in the fiscal period when such estimates are revised. Estimates are based on management’s reasonable assumptions and experience, but are only estimates. Variation between actual results and estimates on a large project or on a number of smaller projects could be material. We immediately recognize the full amount of the estimated loss on a contract when our estimates indicate such a loss. Any such loss would reduce our revenue and income.

We submit change orders to our customers for work we perform beyond the scope of some of our contracts. If our customers do not approve these change orders, our results of operations could be adversely impacted.

We typically submit change orders under some of our contracts for payment of work performed beyond the initial contractual requirements. The applicable customers may not approve or may contest these change orders and we cannot assure you that these claims will be approved in whole, in part or at all. If these claims are not approved, our net income and results of operations could be adversely impacted.

We may not accurately estimate the costs associated with services provided under fixed-price contracts, which could impair our financial performance.

A portion of our revenue is derived from fixed price contracts. Under these contracts, we set the price of our services and assume the risk that the costs associated with our performance may be greater than we anticipated. Our profitability is therefore dependent upon our ability to estimate accurately the costs associated with our services. These costs may be affected by a variety of factors, such as lower than anticipated productivity, conditions at the work sites differing materially from what was anticipated at the time we bid on the contract, and higher than expected costs of materials and labor. Certain agreements or projects could have lower margins than anticipated or losses if actual costs for contracts exceed our estimates, which could reduce our profitability and liquidity.

Failure to properly manage projects may result in costs or claims.

Our engagements often involve relatively large scale, highly complex projects. The quality of our performance on such projects depends in large part upon our ability to manage the customer relationship, to manage effectively the project and to deploy appropriate resources, including third-party contractors and our own personnel, in a timely manner. Any defects, errors or failure to meet customers' expectations could result in claims for substantial damages against us. We currently maintain comprehensive general liability, umbrella, and professional liability insurance policies. We cannot be certain that the insurance coverage we carry to cover such claims will be adequate to protect us from the full impact of such claims. Moreover, in certain instances, we guarantee customers that we will complete a project by a scheduled date or that the project will achieve certain performance standards. If the project experiences a performance problem, we may not be able to recover the additional costs we will incur, which could exceed revenues realized from a project. Finally, if we underestimate the resources or time we need to complete a project with capped or fixed fees, our operating results could be seriously harmed.

We may choose, or be required, to pay our subcontractors even if our customers do not pay, or delay paying, us for the related services.

We use subcontractors to perform portions of our services and to manage work flow. In some cases, we pay our subcontractors before our customers pay us for the related services. If we choose, or are required, to pay our subcontractors for work performed for customers who fail to pay, or delay paying us for the related work, we could experience a decrease in profitability and liquidity.

We operate in a highly competitive industry, which could reduce our growth opportunities, revenue and operating results.

The mission-critical IT industry in which we operate is highly competitive and continues to become more competitive. We often compete with other IT consulting and integration companies, including several that are large domestic companies that may have financial, technical and marketing resources that exceed our own. Our competitors may develop the expertise, experience and resources to provide services that are equal or superior in both price and quality to our services, and we may not be able to maintain or enhance our competitive position. Our size often prevents us from bidding on larger, more profitable projects, which significantly reduces our growth opportunities. Although our customers currently outsource a significant portion of these services to us and our competitors, we can offer no assurance that our existing or prospective customers will continue to outsource specialty contracting services to us in the future.

The industries we serve have experienced and may continue to experience rapid technological, structural and competitive changes that could reduce the need for our services and adversely affect our revenues.

The mission-critical IT industry is characterized by rapid technological change, intense competition and changing consumer and data center needs. We generate a significant portion of our revenues from customers in the mission-critical IT industry. New technologies, or upgrades to existing technologies by customers, could reduce the need for our services and adversely affect our revenues and profitability. Improvements in existing technology may allow companies to improve their networks without physically upgrading them. Reduced demand for our services or a loss of a significant customer could adversely affect our results of operations, cash flows and liquidity.

A reduction in spending due to the economic downturn has resulted in a decrease in demand for our services.

As federal, state or local government or private enterprise spending on mission-critical related capital expenditures decreased, the demand for services like those provided by us has declined. This decrease has reduced our opportunity for growth, increased our marketing and sales costs, and reduced the prices we can charge for services, which has reduced our revenue and adversely affected our operating results.

We may be unable to obtain sufficient bonding capacity to support certain service offerings.

Some of our contracts require performance and payment bonds. Bonding capacity for construction projects has become increasingly difficult to obtain, and bonding companies are denying or restricting coverage to an increasing number of contractors. Companies that have been successful in renewing or obtaining coverage have sometimes been required to post additional collateral to secure the same amount of bonds which would reduce availability under any credit facility. We may not be able to maintain a sufficient level of bonding capacity in the future, which could preclude us from being able to bid for certain contracts and successfully contract with certain customers. In addition, even if we are able to successfully renew or obtain performance or payment bonds in the future, we may be required to post letters of credit in connection with the bonds.

We may be unable to hire and retain sufficient qualified personnel; the loss of any of our key executive officers may adversely affect our business.

We believe that our future success will depend in large part on our ability to attract and retain highly skilled, knowledgeable, sophisticated and qualified managerial, professional and technical personnel. Our business involves the development of tailored solutions for customers, a process that relies heavily upon the expertise and services of employees. Accordingly, our employees are one of our most valuable resources. Competition for skilled personnel, especially those with security clearance, is intense in our industry. Recruiting and training these personnel require substantial resources. Our failure to attract and retain qualified personnel could increase our costs of performing our contractual obligations, reduce our ability to efficiently satisfy our customers' needs, limit our ability to win new business and constrain our future growth.

Our business is managed by a small number of key executive officers, including Mr. Weiss, our Vice-Chairman, Mr. Rosato, our Chief Executive Officer, Mr. Gallagher, our President and Chief Operating Officer, and Mr. Dec, our Chief Financial Officer. The loss of any of these key executive officers could have a material adverse effect on our business.

A portion of our business depends upon obtaining and maintaining required security clearances, and our failure to do so could result in termination of certain of our contracts or cause us to be unable to bid or rebid on certain contracts.

Some United States government projects require our employees to maintain various levels of security clearances, and we may be required to maintain certain facility security clearances complying with United States government requirements.

Obtaining and maintaining security clearances for employees involve a lengthy process, and it is difficult to identify, recruit and retain employees who already hold security clearances. If our employees are unable to obtain or retain security clearances or if such employees who hold security clearances terminate their employment, the customer whose work requires cleared employees could terminate the contract or decide not to renew it upon expiration. To the extent we are not able to engage employees with the required security clearances for a particular contract, we may not be able bid on or win new contracts, or effectively re-bid on expiring contracts, which could adversely affect our business.

In addition, we expect that some of the contracts on which we will bid will require us to demonstrate our ability to obtain facility security clearances and perform work with employees who hold specified types of security clearances. A facility security clearance is an administrative determination that a particular facility is eligible for access to classified information or an award of a classified contract. Although contracts may be awarded prior to the issuance of a facility security clearance, in such cases the contractor is processed for facility security clearance at the appropriate level and must meet the eligibility requirements for access to classified information. A contractor or prospective contractor must meet certain eligibility requirements before it can be processed for facility security clearance. Our ability to obtain and maintain facility security clearances has a direct impact on our ability to compete for and perform United States government projects, the performance of which requires access to classified information.

Our failure to comply with the regulations of the United States Occupational Safety and Health Administration and other state and local agencies that oversee safety compliance could reduce our revenue, profitability and liquidity.

The Occupational Safety and Health Act of 1970, as amended, or OSHA, establishes certain employer responsibilities, including maintenance of a workplace free of recognized hazards likely to cause death or serious injury, compliance with standards promulgated by the Occupational Safety and Health Administration and various record keeping, disclosure and procedural requirements. Various standards, including standards for notices of hazards, safety in excavation and demolition work, may apply to our operations. We have incurred, and will continue to incur, capital and operating expenditures and other costs in the ordinary course of our business in complying with OSHA and other state and local laws and regulations.

Our quarterly revenue, operating results and profitability will vary.

Our revenue, operating results and profitability may fluctuate significantly and unpredictably in the future. In particular, the changes in contract mix that is inherent to our business may significantly affect our results. Therefore, period-to-period comparisons of our operating results may not be a good indication of our future performance.

Factors that may contribute to the variability of our revenue, operating results or profitability include:

- Fluctuations in revenue earned on contracts;
- Commencement, completion and termination of contracts, especially contracts relating to our major customers;
- Declines in backlog that are not replaced;
- Additions and departures of key personnel;
- Strategic decisions by us and our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments and changes in business strategy;
- General economic conditions;
- Contract mix and the extent of subcontractor use; and
- Any seasonality of our business.

If we are unable to engage appropriate subcontractors or if our subcontractors fail to perform their contractual obligations, our performance as a prime contractor and ability to obtain future business could be materially and adversely impacted.

Our contract performance may involve the engagement of subcontracts to other companies upon which we rely to perform all or a portion of the work we are obligated to deliver to our customers. Our inability to find and engage appropriate subcontractors or a failure by one or more of our subcontractors to satisfactorily deliver on a timely basis the agreed-upon supplies and/or perform the agreed-upon services may materially and adversely affect our ability to perform our obligations as a prime contractor.

In extreme cases, a subcontractor's performance deficiency could result in the customer terminating the contract for default with us. A default termination could expose us to liability for excess costs of reprocurement by the customer and have a material adverse effect on our ability to compete for future contracts and task orders.

Because we do not currently intend to pay dividends on our common stock, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain all future earnings, if any, for use in the operations and expansion of our business. As a result, we do not anticipate paying cash dividends in the foreseeable future. Any future determination as to the declaration and payment of cash dividends will be at the discretion of our board of directors and will depend on factors our board of directors deems relevant, including, among others, our results of operations, financial condition and cash requirements, business prospects, and the terms of our credit facilities and other financing arrangements. Accordingly, realization of a gain on stockholders' investments will depend on the appreciation of the price of our common stock. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders purchased their shares.

Our insiders hold a significant portion of our outstanding common stock. Future sales of common stock by these insiders may have an adverse effect on the market price of our common stock.

Our officers and directors hold approximately 4.9 million shares of commons stock or 37% of our outstanding common shares as of December 31, 2010. Stock sales by our directors and officers are subject to compliance with our Code of Conduct and preapproval process from the Chief Financial Officer. Sales of a substantial number of these shares in the public market could decrease the market price of our common stock. In addition, the perception that such sales might occur may cause the market price of our common stock to decline. Future issuances or sales of our common stock could have an adverse effect on the market price of our common stock.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to document and test our internal controls over financial reporting for fiscal 2010 and beyond. Any delays or difficulty in satisfying these requirements could adversely affect our future results of operations and our stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to document and test the effectiveness of our internal controls over financial reporting in accordance with an established internal control framework and to report on our conclusion as to the effectiveness of our internal controls for our year ending December 31, 2010 and subsequent years. It may cost us more than we expect to comply with these control and procedure-related requirements.

Our management, including our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal controls over financial reporting as of December 31, 2010. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission's Internal Control-Integrated Framework.

As a result of this assessment, we have determined that our internal control over financial reporting was effective as of December 31, 2010. Management worked throughout 2010 to remedy previously identified material weaknesses in our internal control and utilized a certified public accounting firm to assist us in our documentation and testing of internal controls over financial reporting in 2010. We eliminated previously identified material weaknesses associated with segregation of duties by changing duties or access of those processing transaction or in the case the finance staff size precluded segregations we implemented independent report and review of such transactions. We formalized documentation of policies and procedures that were in place and shared them across the organization, while further implementing controls to reasonably assume compliance with generally accepted accounting principles related to revenue. Although many controls were deemed effective in the third and fourth quarter and were tested, we believe there remains significant deficiency related to revenue controls as there was limited data for testing. We will continue to closely monitor controls through quarterly testing and ensure updates are made as merited by the operating environment.

We plan to continue working with a certified public accounting firm to assist us in our documentation and testing of internal controls over financial reporting in 2011. Any failure to implement required new and improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

Our Shares are Thinly Traded and May Not be Readily Marketable

Our shares are not widely traded, and daily trading volume is generally very low compared with most publicly traded companies. As a result, you may not be able to readily resell your shares in the company.

Our common stock may be characterized as a "penny stock" under applicable SEC regulation.

The common stock may be characterized as "penny stock" under SEC regulations. As such, broker-dealers dealing in the common stock may be subject to the disclosure rules for transactions involving penny stocks, which generally require that, prior to a purchase, the broker-dealer determine if purchasing the common stock is suitable for the applicable purchaser. The broker-dealer must also obtain the written consent of the applicable purchasers to purchase the common stock and disclose the best bid and offer prices available for the common stock and the price at which the broker-dealer last purchased or sold the common stock. These additional burdens imposed upon broker-dealers may discourage them from effecting transactions in the common stock, which could make it difficult for an investor to sell his, her or its shares at any given time.

20

Item1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our principal executive offices are located at 7226 Lee DeForest Drive, Suite 209, Columbia, Maryland 21046. We have both cancelable and non-cancelable operating leases and do not own any real property. Our subsidiaries operate from leased administrative offices and shop facilities, none of which are material to the company’s operations. We believe that our facilities are adequate for our current operations and additional or replacement facilities would be available if necessary.

Item 3. LEGAL PROCEEDINGS

We are not a party to any material litigation in any court, and management is not aware of any contemplated proceeding by any governmental authority against us. 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 4. (Removed and Reserved)

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

From August 1, 2007 until April 1, 2010, our common stock traded on The NASDAQ Capital Market (NASDAQ) under the symbol "FIGI." On March 22, 2010, we filed a Form 25 with the Securities and Exchange Commission and notified NASDAQ of the voluntary delisting of our common stock from The NASDAQ Capital Market. Effective at the opening of business on April 2, 2010, our common stock began trading on the OTCQB marketplace of the OTC Markets Group, Inc. under the symbol "FIGI." The last reported sale price on March 18, 2011 was $1.49. The following table sets forth the high and low sales prices for our common stock as reported by NASDAQ until April 1, 2010, and, thereafter, the high and low bid prices for our common stock on the OTCQB marketpalce.

	Common Stock	
	High	Low
Year ended December 31, 2010		
First Quarter	$ 1.17	$ 0.51
Second Quarter	$ 2.10	$ 1.05
Third Quarter	$ 1.73	$ 1.25
Fourth Quarter	$ 1.60	$ 1.30
Year ended December 31, 2009		
First Quarter	$ 2.00	$ 0.61
Second Quarter	$ 1.51	$ 0.62
Third Quarter	$ 1.18	$ 0.50
Fourth Quarter	$ 0.97	$ 0.41

Stockholders

As of March 18, 2011, there were 65 stockholders of record of our 14,520,032 outstanding shares of common stock (does not reflect persons or entities that hold their shares of common stock in nominee or " street " name through various brokerage firms).

Dividends

We have not paid dividends to our stockholders since our inception and do not plan to pay cash dividends in the foreseeable future. We currently intend to retain earnings, if any, to finance our growth.

Issuer Purchases of Equity Securities

The table set forth below shows all repurchases of securities by us during the quarter ended December 31, 2010:

Monthly Period During the Three Months Ended December 31, 2010	Total Shares Purchased (a)	Average Price Paid per Share	Total Shares Purchased as Part of Publically Announced Plans	Approximate Dollar Amount of Shares Yet To Be Purchased Under Plans
October 1, 2010-October 31, 2010	-	$-	-	-
November 1, 2010- November 30, 2010	5,109	0.94	-	-
December 1, 2010-December 31, 2010	-	-	-	-

Total	5,109	$0.94	-	-

(a) All of these shares were acquired from associates to satisfy tax withholding requirements upon the vesting of restricted stock.

22

Item 6. SELECTED FINANCIAL DATA

The information called for by this item is not required as we are a smaller reporting company.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with our financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this Annual Report on Form 10-K.

Business Formation and Overview

We were incorporated in Delaware on December 20, 2004 as a special purpose acquisition company under the name "Fortress America Acquisition Corporation" for the purpose of acquiring an operating business that performs services in the homeland security industry. On July 20, 2005, we closed our initial public offering of 7,800,000 units (including underwriters exercise of an over-allotment option), resulting in proceeds net of fees to us of approximately $43.2 million.

On January 19, 2007, we acquired all of the outstanding membership interests of each of VTC, L.L.C., doing business as "Total Site Solutions" ("TSS"), and Vortech, L.L.C. ("Vortech" and, together with TSS, "TSS/Vortech") and simultaneously changed our name to "Fortress International Group, Inc." The acquisition fundamentally transformed the company from a special purpose acquisition company to an operating business.

Building on the TSS/Vortech business, management continued an acquisition strategy to expand our geographical footprint, add complementary services, and diversify and expand our customer base. After acquiring TSS/Vortech, the company continued its expansion through the acquisitions of Comm Site of South Florida, Inc. on May 7, 2007 ("Comm Site"), Innovative Power Systems, Inc. and Quality Power Systems, Inc. (collectively, "Innovative") on September 24, 2007, Rubicon Integration, LLC ("Rubicon") on November 30, 2007 and SMLB Ltd. ("SMLB") on January 2, 2008.

Beginning in the first half of 2009, the Company experienced a lack of closed contracts and continued customer delays and in response revised its financial forecast. In addition to efforts taken to cut costs to align with revised forecasted revenues, the Company suspended its plan to strategically grow the business through acquisitions and engaged an investment bank to evaluate financial alternatives including raising additional capital and the potential sale of divisions. As a result of this process, on December 29, 2009 we sold substantially all of the assets and liabilities of Rubicon to its management and former owners.

With the remaining companies, we provide comprehensive services for the planning, design, and development of mission-critical facilities and information infrastructure. We also provide a single source solution for highly technical mission-critical facilities such as data centers, operation centers, network facilities, server rooms, security operations centers, communications facilities and the infrastructure systems that are critical to their function. Our services include technology consulting, engineering and design management, construction management, system installations, operations management, and facilities management and maintenance.

There are several legislative factors that we anticipate will drive demand for our services. Legislation such as Sarbanes Oxley compliance for publicly traded companies, HIPPA laws regarding protection and availability of data for healthcare organizations and the government's critical infrastructure protection program for industries that are vital to our economy have resulted in such companies having the need to invest to protect their networks, assure the reliability of those networks, and maintain their ability to perform transactions that are financial or informational in nature. With respect to these critical infrastructure systems, we focus on physical security, network security, redundancies for uninterruptible power supply systems, electrical switch gear, stand-by power generators, heat rejection and cooling systems, fire protection systems, monitoring and control systems, and security systems, as well as the physical environment that houses critical operations. We help our customers plan for, prevent or mitigate against the consequences of attacks, power outages and natural disasters. We provide our services, directly and indirectly, to both government customers and private sector customers.

A certain portion of our business relate to government entities' mission-critical facilities requiring the relocation, renovation and upgrade of facilities to protect information networks and data processing centers. We have obtained a facility clearance from the United States Department of Defense. This clearance enables the companies to access and service restricted government projects. In addition to the facility clearance, we have successfully cleared approximately one-half of our employees, allowing them individual access to restricted projects and facilities. Several additional employees are currently in the process for clearance.

Our customers include United States government and homeland defense agencies and private sector businesses that in some cases are the end user of the facility or in other cases are providing a facility to a government end user. We categorize contracts where a government agency is the ultimate end user of the facility as government-related contracts.

Our revenues are derived from fees for our professional services as well as revenues earned under construction management contracts and facility management contracts with varying terms.

Competition in Current Economic Environment

Our industry has been and may be further adversely impacted by the current economic environment and tight credit conditions. We have seen larger competitors seek to expand their services offerings including a focus in the mission-critical market. These larger competitors have an infrastructure and support greater than ours and accordingly, we have begun to experience some price pressure as some companies are willing to take on projects at lower margins. With certain customers, we have experienced a delay in spending, or deferral of projects to an indefinite commencement date due to the economic uncertainty or lack of access to capital.

We believe there are high barriers to entry into our sector for new competitors due to our specialized technology service offerings which we deliver to our customers, our top secret clearances, and our turnkey suite of deliverables offered. We compete for business based upon our reputation, past experience, and our technical engineering knowledge of mission-critical facilities and their infrastructure. We are developing and creating long term relationships with our customers because of our excellent reputation in the industry and will continue to create facility management relationships with our customers that we expect will provide us with steadier revenue streams to improve the value of our business. Finally, we seek to further expand our energy services that focus on operational cost savings that may be used to either fund the project or increase returns to the facility operator. We believe these barriers and our technical capabilities and experience will differentiate us to compete with new entrants into the market or pricing pressures.

Although we will closely monitor our proposal pricing and the volume of the work, we cannot be certain that our current margins will be sustained. Furthermore, given the environment, and that the volume of our contracts further decreased, we are taking additional measures to reduce our operating costs through additional reductions in general, administrative and marketing cost, reductions in personnel and related costs, including the possibility of terminating our regulatory reporting requirement. For further information see “ Liquidity and Capital Resources ” below.

Operations Overview

We contract with our customer under three primary contract types: cost-plus-fee (guaranteed maximum price), time-and-materials, and fixed-price contracts. Cost-plus-fee (guaranteed maximum price) contracts are typically lower risk arrangements and thus yield lower profit margins than time-and-materials and fixed-price arrangements which generate higher profit margins generally, relative to their higher risk. Where customer requirements are clear, we prefer to enter into time-and-materials and fixed-price arrangements rather than cost-plus-fee contracts.

Most of our revenue is generated based on services provided either by our employees or subcontractors. To a lesser degree, the revenue we earn includes reimbursable travel and other costs to support the project. Thus, once we are awarded new business, the key to delivering the revenue is through hiring new employees to meet customer requirements, retaining our employees, and ensuring that we deploy them on direct-billable jobs. Therefore, we closely monitor hiring success, attrition trends, and direct labor utilization. Since we earn higher profits from the labor services that our employees provide compared with subcontracted efforts and other reimbursable costs, we seek to optimize our labor content on the contracts we are awarded.

Cost of revenue includes labor, or the salaries and wages of our employees, plus fringe benefits; the costs of subcontracted labor and outside consultants, equipment and materials; and other direct costs such as travel incurred to support contract efforts. Since we earn higher profits on our own labor services, we expect the ratio of cost of services to revenue to decline when our labor services mix increases relative to subcontracted labor or third-party material. Conversely, as subcontracted labor or third-party material purchases for customers increase relative to our own labor services, we expect the ratio of cost of services to revenue to increase. As we continue to bid and win larger contracts, our own labor services component could decrease. Typically, the larger contracts are broader in scope and require more diverse capabilities, thus resulting in more subcontracted labor. In addition, we can face hiring challenges in staffing larger contracts. While these factors could lead to a higher ratio of cost of services to 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.

Depreciation and amortization expenses are affected by the level of our annual capital expenditures and the amount of identified intangible assets related to acquisitions. We do not presently foresee significant changes in our capital expenditure requirements.

Our operating income, or revenue minus cost of revenue, selling, general and administrative expenses, and depreciation and amortization, and thus our operating margin, or the ratio of operating income to revenue, is driven by the mix and execution on our contracts, and how we manage our costs, and the amortization charges resulting from acquisitions in 2008.

Our cash position is driven primarily by the level of net income, working capital in accounts receivable, capital expenditures and acquisition activities.

Contract Backlog

We believe an indicator of our future performance is our backlog of uncompleted projects in process or recently awarded. Our backlog represents our estimate of anticipated revenue from executed and awarded contracts that have not been completed and that we expect will be recognized as revenues over the life of the contracts. We have broken our backlog into the following three categories: (i) technology consulting consisting of services related to consulting and/or engineering design contracts; (ii) construction management; and (iii) facility management.

Backlog is not a measure defined in generally accepted accounting principles in the United States of America, and our methodology for determining backlog may not be comparable to the methodology of other companies in determining their backlog. Our backlog is generally recognized under two categories: (1) contracts for which work authorizations have been or are expected to be received on a fixed-price basis, guaranteed maximum price basis and time and materials basis, and (2) contracts awarded to us where some, but not all, of the work has not yet been authorized.

As of December 31, 2010, our backlog was approximately $30.6 million, compared to approximately $47.1 million at December 31, 2009. In the first quarter of 2010, a large developer customer sold its property and cancelled its remaining contract commitment under the original agreement. Accordingly, we removed the project totaling $12.4 million, net of acquirer's assumed and assigned contract of $3.2 million, from our December 31, 2010 backlog.

At December 31, 2010, we have authorizations to proceed with work for approximately $13.9 million, or 45% of our total backlog of $30.6 million. Approximately, $25.9 million, or 85% of our total backlog, related to four customers at December 31, 2010. Additionally, during the year ended December 31, 2010, three customers, comprising 42% of our total backlog at December 31, 2010, were acquired. We are unable to determine the effect that the mergers may have on continued business with these customers although to date we have continued to perform previously contracted work and bid new opportunities. At December 31, 2009, we had authorizations to proceed with work for approximately $39.9 million or 85% of our total backlog of $47.1 million. Approximately, $32.5 million, or 82% of our backlog related to three customers at December 31, 2009.

We believe that approximately 89% of the backlog at December 31, 2010 will be recognized over the next twelve months. The following table reflects the value of our backlog in the three categories identified below as of December 31, 2010 and December 31, 2009, respectively (in millions).

	December 31, 2010	December 31, 2009
Technology consulting	$ 9.9	$ 1.4
Construction management	7.5	33.8
Facilities management	13.2	11.9
Total	$ 30.6	$ 47.1

Related Party Transactions

We have in the past, and continue to have, transactions with related parties. Such transactions are reviewed by the audit committee of our Board of Directors in accordance with our audit committee charter. We believe that all of our related party transactions are completed at arm's length terms. For a discussion of certain relationships and related party transactions, see Note 16 — Related Party Transactions of the Notes to Consolidated Financial Statements. The table below summarizes our related party transactions (in millions):

	For the Year Ended December 31, 2010	2009

Revenue	$ 0.9	$ 0.4
Cost of revenue	1.2	2.9
Selling, general and administrative	0.5	0.6

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The preparation of the financial statements included elsewhere in this Annual Report on Form 10-K requires that management make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ significantly from those estimates.

We believe the following critical accounting policies affect the more significant estimates and judgments used in the preparation of our financial statements.

Revenue Recognition

The Company recognizes revenue when pervasive evidence of an arrangement exists, the contract price is fixed or determinable, services have been rendered or goods delivered, and collectability is reasonably assured. The Company’s revenue is derived from the following types of contractual arrangements: fixed-price contracts, time-and-materials contracts and cost-plus-fee contracts (including guaranteed maximum price contracts). The Company’s primary source of revenue is from fixed-price contracts and we apply ASC 605-35 Construction-Type and Production-Type Contracts, recognizing revenue on the percentage-of-completion method using costs incurred in relation to total estimated project costs.

Revenue from fixed price contracts is recognized on the percentage of completion method, measured by the percentage of total costs incurred to date to estimated total costs for each contract. This method is used because management considers cost incurred and costs to complete to be the best available measure of progress in the contracts. Contract costs include all direct materials, subcontract and labor costs and those indirect costs related to contract performance, such as indirect labor, payroll taxes, employee benefits and supplies.

Revenue on time-and-material contracts is recognized based on the actual labor hours performed at the contracted billable rates, and costs incurred on behalf of the customer. Revenue on cost-plus-fee contracts is recognized to the extent of costs incurred, plus an estimate of the applicable fees earned. Fixed fees under cost-plus-fee contracts are recorded as earned in proportion to the allowable costs incurred in performance of the contract.

Contract revenue recognition inherently involves estimation. Examples of estimates include the contemplated level of effort to accomplish the tasks under the contract, the costs of the effort, and an ongoing assessment of the Company’s progress toward completing the contract. From time to time, as part of its standard management process, facts develop that require the Company to revise its estimated total costs on revenue. To the extent that a revised estimate affects contract profit or revenue previously recognized, the Company records the cumulative effect of the revision in the period in which the revisions becomes known. The full amount of an anticipated loss on any type of contract is recognized in the period in which it becomes probable and can reasonably be estimated.

Under certain circumstances, the Company may elect to work at risk prior to receiving an executed contract document. The Company has a formal procedure for authorizing any such at risk work to be incurred. Revenue, however, is deferred until a contract modification or vehicle is provided by the customer.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on an analysis of our historical experience with bad debt write-offs and an aging of the accounts receivable balance. Unanticipated changes in the financial condition of clients or significant changes in the economy could impact the reserves required. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

As of December 31, 2009, accounts receivables of $1.3 million are due from two customers to whom we have offered extended payment terms. Of the $1.3 million, $1.0 million was collected in the first quarter of 2010, while the remaining $0.3 million has been included in our allowance for doubtful accounts at December 31, 2010. At December 31, 2010, accounts receivable do not include any such extended payment terms.
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Non-cash Compensation

We apply the expense recognition provisions of ASC 718 Compensation-Stock Compensation. The recognition of the value of the instruments results in compensation or professional expenses in our financial statements. The expense differs from other compensation and professional expenses in that these charges are typically settled through the issuance of common stock, which would have a dilutive effect upon earnings per share, if and when outstanding shares of restricted stock vest. The determination of the estimated fair value used to record the compensation or professional expenses associated with the equity or liability instruments issued requires management to make a number of assumptions and estimates that can change or fluctuate over time.

Goodwill and Other Purchased Intangible Assets

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. Other purchased intangible assets include the fair value of trade names at December 31, 2010. ASC 350 Intangibles-Goodwill and other intangibles, establishes financial accounting and reporting for acquired goodwill and other intangible assets. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but rather tested for impairment on an annual basis or triggering event. Purchased intangible assets with a definite useful life are amortized on a straight-line basis over their estimated useful lives.

The estimated fair market value of identified intangible assets is amortized over the estimated useful life of the related intangible asset. We have a process pursuant to which we typically retain third-party valuation experts to assist us in determining the fair market values and useful lives of identified intangible assets. We evaluate these assets for impairment when events occur that suggest a possible impairment. Such events could include, but are not limited to, the loss of a significant client or contract, decreases in federal government appropriations or funding for specific programs or contracts, or other similar events. We determine impairment by comparing the net book value of the asset to its future undiscounted net cash flows using a combination and mix of discounted cash flow analysis and market value of comparable companies and our market capitalization. If impairment occurs, we will record an impairment expense equal to the difference between the net book value of the asset and its estimated discounted cash flows using a discount rate based on our cost of capital and the related risks of recoverability.

In 2009, we experienced several events indicating impairment including a reduction in forecasted revenues and a decline in our market price eventually determined to be other than temporary. Accordingly, we conducted such analyses that resulted in impairment loss on goodwill of $0.3 million for the year ended December 31, 2010. At December 31, 2010, the residual carrying value of goodwill was $3.8 million.

Long-Lived Assets (Excluding Goodwill)

In accordance with the provisions of ASC 360-10-35 Impairment or Disposal of Long-Lived Assets in accounting for long-lived assets such as property, equipment and intangible assets subject to amortization, we review the assets for impairment. If circumstances indicate the carrying value of the asset may not be fully recoverable, a loss is recognized at the time impairment exists and a permanent reduction in the carrying value of the asset is recorded. In 2009 as a result of the revised forecast, we recorded an impairment loss of approximately $9.9 million associated with finite lived customer relationship and non competition intangibles. We believe that the total carrying values of our long-lived assets of $0.9 million as of December 31, 2010 is fully realizable.

Income Taxes

Deferred income taxes are provided for the differences between the basis of assets and liabilities for financial reporting and income tax purposes. Deferred tax assets and liabilities are measured using tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized.

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which principally arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. We also must analyze income tax reserves, as well as determine the likelihood of recoverability of deferred tax assets, and adjust any valuation allowances accordingly. Considerations with respect to the recoverability of deferred tax assets include the period of expiration of the tax asset, planned use of the tax asset, and historical and projected taxable income, as well as tax liabilities for the tax jurisdiction to which the tax asset relates. Valuation allowances are evaluated periodically and will be subject to change in each future reporting period as a result of changes in one or more of these factors.

We adopted ASC 740 Income Taxes, which prescribes a more-likely-than-not threshold of financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. Management has concluded that the adoption of ASC 740 had no material effect on our financial position or results of operations. As of December 31, 2010, we do not have any material gross unrecognized tax benefits or liabilities.

Recently Issued Accounting Pronouncements

In July 2010, Accounting Standards Update No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance of Credit Losses, was issued. This Update amends Topic 310 to expand the disclosures requirements and provide users with greater transparency about an entity's allowance for credit losses and the quality of its financing receivables. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The expanded disclosures do not apply to trade accounts receivable that have a contractual maturity of one year or less and that arose from the sale of goods or services. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of Accounting Standards Update No. 2010-20 did not have an impact on our disclosures, as our trade receivables have a maturity of less than one year.

In April 2010, Accounting Standards Update No. 2010-17, Revenue Recognition—Milestone Method (Topic 605): Milestone Method of Revenue Recognition—a consensus of the FASB Emerging Issues Task Force, was issued. This Update provides guidance on defining a milestone under Topic 605 and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and nonsubstantive milestones that should be evaluated individually. The amendments in this Update are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. The adoption of Accounting Standards Update 2010-17 is not expected to have a significant impact on the Company's results of operations or financial position.

In February 2010, Accounting Standards Update No. 2010-09, Subsequent Events (Topics 855): Amendments to Certain Recognition and Disclosure Requirements, was issued. This Update addresses both the interaction of the requirements of ASC 885, Subsequent Events, with the SEC's reporting requirements and the intended breadth of the reissuance disclosures provision related to subsequent events. The amendments in this Update affect all entities. The amendments remove the requirement for an SEC filer to disclose a date in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. Generally Accepted Accounting Principles (GAAP). Additionally, the Financial Accounting Standards Board (FASB) has clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. All of the amendments in this Update are effective upon issuance of the final Update, except for the use of the issued date for conduit debt obligors. The amendment was effective for interim or annual periods ending after June 15, 2010. The adoption of Accounting Standards Update No. 2010-09 did not have a significant impact on the Company's results of operation or financial position.

In January 2010, Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, was issued. All entities that are required to make disclosures about recurring or nonrecurring fair value measurements are affected by the amendments in this Update. This Update provides amendments to Subtopic 820-10 that requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In addition, it requires that in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This Update provides amendments to Subtopic 820-10 that clarifies existing disclosures. Specifically, a reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. Also, a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. This Update also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets (Subtopic 715-20). The conforming amendments to Subtopic 715-20 change the terminology from major categories of assets to classes of assets and provide a cross reference to the guidance in Subtopic 820-10 on how to determine appropriate classes to present fair value disclosures. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of Accounting Standards Update No. 2010-06 is not expected to have a significant impact on the Company's results of operations or financial position.

In January 2010, Accounting Standards Update No. 2010-02, Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of Subsidiaries—a Scope Clarification, was issued. The objective of this Update is to address implementation issues related to the changes in ownership provisions in ASC 810-10, Consolidation—Overall. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is business or non-profit. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or non-profit activity for an equity interest in another entity. The amendments affect entities that have previously adopted the decrease in ownership provisions of ASC 810-10 but have applied the guidance in that Subtopic differently from the guidance provided in the Update. This Update provides amendments to ASC 810-10 and related guidance within U.S. GAAP to clarify the scope of the decrease in ownership provision of the Subtopic and related guidance applies to a subsidiary or group of assets that is a business or non-profit activity; a subsidiary that is a business or non-profit activity that is transferred to an equity method investee or joint venture; and an exchange of a group that constitutes a business or non-profit activity for a noncontrolling interest in an entity. The amendments in this Update expand the disclosures about the deconsolidation of a subsidiary or derecognition of a group of assets within the scope of ASC 810-10. In addition to the existing disclosures, an entity should disclose the valuation techniques used to measure the fair value of any retained investment in the former subsidiary or group of assets and information that enables users of its financial statements to assess the input used to develop the measurement; the nature of continuing involvement with the subsidiary or entity the group of assets after it has been deconsolidated or derecognized; and whether the transaction that resulted in the deconsolidation of the subsidiary or the derecognition of the group of assets was with a related party or whether the former subsidiary or entity acquiring the group of assets will be a related party after deconsolidation. An entity also should disclose the valuation techniques used to measure an entity interest in an acquiree held by the entity immediately before the acquisition date in a business combination achieved in stages. The amendments in this Update are effective beginning in the period that an entity adopts Statement of Financial Accounting Standards (SFAS) 160, which was codified in July 2009 in ASC 810-10. If an entity has previously adopted SFAS 160 as of the date the amendments in this Update are included in the ASC, the amendments in this Update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this Update should be applied retrospectively to the first period that an entity adopted SFAS 160. The adoption of Accounting Standards Update No. 2010-02 did not have a significant impact on the Company’s results of operations or financial position.

In December 2009, Accounting Standards Update No. 2009-17, Consolidation (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, was issued. The amendments in this Update to the Accounting Standards Codification are the result of FASB Statement No. 167,