ICF International, Inc.
Form 10-Q
November 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

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

Commission File Number: 001-33045

ICF International, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	22-3661438 (I.R.S. Employer Identification No.)
9300 Lee Highway, Fairfax, VA (Address of Principal Executive Offices)	22031 (Zip Code)

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

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 26, 2018, there were 18,847,336 shares outstanding of the registrant’s common stock.

ICF INTERNATIONAL, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q FOR THE

PERIOD ENDED SEPTEMBER 30, 2018

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
ICF International, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current Assets:		
Cash and cash equivalents	$ 5,804	$ 11,809
Contract receivables, net	194,202	168,318
Contract assets	143,161	123,197
Prepaid expenses and other assets	16,608	11,327
Income tax receivable	10,275	5,596
Restricted cash - current	—	11,191
Total Current Assets	370,050	331,438
Property and Equipment, net	45,742	38,052
Other Assets:		
Goodwill	702,585	686,108
Other intangible assets, net	33,234	35,304
Restricted cash - non-current	1,286	1,266
Other assets	23,147	18,087
Total Assets	$ 1,176,044	$ 1,110,255
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 69,168	$ 75,074
Contract liabilities	26,489	38,571
Accrued salaries and benefits	58,802	45,645
Accrued subcontractors and other direct costs	40,347	47,508
Accrued expenses and other current liabilities	29,418	17,572
Total Current Liabilities	224,224	224,370
Long-term Liabilities:		
Long-term debt	232,504	206,250
Deferred rent	14,335	15,119
Deferred income taxes	37,330	33,351
Other	16,978	15,135
Total Liabilities	525,371	494,225
Commitments and Contingencies (Note 16)		
Stockholders' Equity:		
Preferred stock, par value $.001; 5,000,000 shares authorized; none issued	—	—
	22	22

Common stock, par value $.001; 70,000,000 shares authorized; 22,419,587 and 22,019,315 shares issued as of September 30, 2018 and December 31, 2017, respectively; 18,868,431 and 18,661,801 shares outstanding as of September 30, 2018 and December 31, 2017, respectively		
Additional paid-in capital	322,600	307,821
Retained earnings	470,386	434,766
Treasury stock	(134,191)	(121,540)
Accumulated other comprehensive loss	(8,144)	(5,039)
Total Stockholders’ Equity	650,673	616,030
Total Liabilities and Stockholders’ Equity	$ 1,176,044	$ 1,110,255

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

ICF International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$332,968	$305,301	$960,063	$907,988
Direct costs	213,060	189,992	608,451	564,495
Operating costs and expenses:				
Indirect and selling expenses	88,960	84,558	269,029	259,600
Depreciation and amortization	4,210	4,613	12,724	13,431
Amortization of intangible assets	2,516	2,742	7,030	8,225
Total operating costs and expenses	95,686	91,913	288,783	281,256
Operating income	24,222	23,396	62,829	62,237
Interest expense	(2,240)	(2,175)	(6,073)	(6,663)
Other (expense) income	(351)	(311)	(565)	24
Income before income taxes	21,631	20,910	56,191	55,598
Provision for income taxes	4,960	7,218	13,486	19,792
Net income	$16,671	$13,692	$42,705	$35,806
Earnings per Share:				
Basic	$0.88	$0.73	$2.27	$1.90
Diluted	$0.86	$0.72	$2.22	$1.86
Weighted-average Shares:				
Basic	18,873	18,666	18,783	18,807
Diluted	19,306	19,024	19,256	19,218
Cash dividends declared per common share	$0.14	$—	$0.42	$—
Other comprehensive (loss) income, net of tax	(568)	558	(2,276)	3,030
Comprehensive income, net of tax	$16,103	$14,250	$40,429	$38,836

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

ICF International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	$42,705	$35,806
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash equity compensation	8,682	8,158
Depreciation and amortization	19,753	21,655
Facilities consolidation reserve	(193)	1,351
Deferred taxes and other adjustments, net	5,262	7,473
Changes in operating assets and liabilities:		
Net contract assets and liabilities	(32,158)	(8,046)
Contract receivables, net	(24,050)	8,640
Prepaid expenses and other assets	(6,841)	(2,835)
Accounts payable	(5,882)	(8,822)
Accrued salaries and benefits	12,921	14,795
Accrued subcontractors and other direct costs	(7,897)	(7,975)
Accrued expenses and other current liabilities	3,602	(2,021)
Income tax receivable and payable	(5,535)	(1,710)
Other liabilities	(16)	3,815
Net Cash Provided by Operating Activities	10,353	70,284
Cash Flows from Investing Activities		
Capital expenditures for property and equipment and capitalized software	(15,593)	(8,475)
Payments for business acquisitions, net of cash received	(22,847)	(92)
Net Cash Used in Investing Activities	(38,440)	(8,567)
Cash Flows from Financing Activities		
Advances from working capital facilities	444,637	460,875
Payments on working capital facilities	(418,383)	(490,184)
Payments on capital expenditure obligations	(3,243)	(3,394)
Debt issue costs	(21)	(1,591)
Proceeds from exercise of options	5,842	4,722
Dividends Paid	(5,269)	—
Net payments for stockholder issuances and buybacks	(12,399)	(32,934)
Net Cash Provided by (Used in) Financing Activities	11,164	(62,506)
Effect of Exchange Rate Changes on Cash, Cash Equivalents, and Restricted Cash	(253)	640
Decrease in Cash, Cash Equivalents, and Restricted Cash	(17,176)	(149)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Period	24,266	7,885
Cash, Cash Equivalents, and Restricted Cash, End of Period	$7,090	$7,736

Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest	$7,193	$6,042
Income taxes	$13,056	$15,085
Non-cash investing and financing transactions:		
Capital expenditure obligations	$6,121	$—

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

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Notes to Consolidated Financial Statements

(in thousands, except per share amounts)

NOTE 1 - BASIS OF PRESENTATION AND NATURE OF OPERATIONS

Basis of Presentation

The accompanying consolidated financial statements include the accounts of ICF International, Inc. and its subsidiaries (collectively, the "Company"), and have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("U.S. GAAP"). All significant intercompany transactions and balances have been eliminated.

Nature of Operations

The Company provides professional services and technology-based solutions to government and commercial clients, including management, marketing, technology, and policy consulting and implementation services in the areas of: energy, environment, and infrastructure; health, education and social programs; safety and security; and consumer and financial services. The Company offers a full range of services to these clients throughout the entire life cycle of a policy, program, project, or initiative, from research, analysis, assessment and advice to design and implementation of programs and technology-based solutions, as well as the provision of engagement services and programs.

The Company's major clients are U.S. federal government departments and agencies, most significantly the Department of Health and Human Services, Department of State and Department of Defense. The Company also serves U.S. state and local government departments and agencies, international governments, and commercial clients worldwide. U.S. state and local governments include the governments of U.S. territories. Commercial clients include airlines, airports, electric and gas utilities, oil companies, banks and other financial services companies, transportation, travel and hospitality firms, non-profits/associations, law firms, manufacturing firms, retail chains, and distribution companies. The term "federal" or "federal government" refers to the U.S. federal government, and "state and local" or "state and local government" refers to U.S. state and local governments and U.S. territorial governments, unless otherwise indicated.

The Company, incorporated in Delaware, is headquartered in Fairfax, Virginia. It maintains offices throughout the world, including 55 or more offices in the U.S. and U.S. territories and 15 or more offices in key regions outside the U.S., including offices in the United Kingdom, Belgium, China, India, and Canada.

Interim Results

The unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These rules and regulations permit some of the information and footnote disclosures normally included in financial statements, prepared in accordance U.S. GAAP, to be condensed or omitted. In management's opinion, the unaudited consolidated financial statements contain all adjustments that are of a normal recurring nature, necessary for a fair presentation of the results of operations and financial position of the Company for the interim periods presented. The Company reports operating results and financial data in one operating and reportable segment. Operating results for the three and nine month periods ended September 30, 2018 are not necessarily indicative of the results that may be expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017 and the notes thereto included in the Company's Annual Report on Form 10-K, filed with the SEC on February 28, 2018 (the "Annual Report").

Reclassifications

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the current year presentation. As a result of the adoption of Accounting Standard Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), the Company presented balances, titled contract assets and contract liabilities, within the consolidated balance sheet as well as the net impact of changes in these balances within the consolidated statement of cash flows. The Company reclassified comparable balances within the December 31, 2017 consolidated balance sheet as well as the impact of changes in these balances within the consolidated statement of cash flows in order to enhance comparability. Any other reclassifications were immaterial to the financial statements taken as a whole.

Significant Accounting Policies

Revenue Recognition

The Company primarily provides services and technology-based solutions for clients that operate in a variety of markets and the solutions may span the entire program life cycle, from initial research and analysis to the design and implementation of solutions. The Company enters into agreements with clients that create enforceable rights and obligations and for which it is probable that the Company will collect the consideration to which it will be entitled as services and solutions are transferred to the client. Except in certain narrowly defined situations, the Company’s agreements with its clients are written and revenue is generally not recognized on oral or implied arrangements. The Company recognizes revenue based on the consideration specified in the agreement and excludes from revenue amounts collected on behalf of third parties. Accordingly, sales and similar taxes which are collected for third parties are excluded from the transaction price. The Company also evaluates whether two or more agreements should be accounted for as one single contract and whether combined or single agreements should be accounted for as more than one performance obligation.

For most contracts, the client requires the Company to perform a number of tasks in providing an integrated output and, hence, each of these contracts are tracked as having only one performance obligation. When contracts are separated into multiple performance obligations, the Company allocates the total transaction price to each performance obligation based on the estimated relative standalone selling prices of the promised services underlying each performance obligation. The Company generally provides customized solutions in which the pricing is based on specific negotiations with each client, and, in these cases, the Company uses a cost plus margin approach to estimate the standalone selling price of each performance obligation. It is common for the Company’s long-term contracts to contain award fees, incentive fees or other provisions that can either increase or decrease the transaction price. These variable amounts are generally awarded at the completion of a prescribed measurement period based on the achievement of performance metrics, program milestones or cost targets, and the amount awarded may be subject to client discretion. The Company estimates variable consideration as the most likely amount to which the Company expects to be entitled.

Long-term contracts typically contain billing terms that provide for invoicing once a month and payment on a net 30-day basis. Exceptions to monthly billing terms are to ensure that the Company performs satisfactorily rather than representing a significant financing component. For cost-based contracts, the Company’s performance is evaluated during a contractually stipulated performance period and, while contract costs may be billed on a monthly basis, the Company is generally permitted to bill for incentive or award fees only after the completion of the performance period, which may occur quarterly, semi-annually or annually, and after the client completes the performance assessment. Fixed-price contracts may provide for milestone billings based on the attainment of specific project objectives rather than for billing on a monthly basis. Moreover, contracts may require retentions or hold backs that are paid at the end of the contract to ensure that the Company performs in accordance with requirements. The Company does not assess whether a contract contains a significant financing component if the Company expects, at contract inception, that the period between payment by the client and the transfer of promised services to the client will be one year or less.

The Company generally recognizes revenue over time as control is transferred to a client, based on the extent of progress towards satisfaction of the performance obligation. The selection of the method used to measure progress requires judgment and is dependent on the contract type selected by the client during contract negotiation and the nature of the services and solutions to be provided.

When a performance obligation is billed using a time-and-materials contract type, the Company uses output progress measures to estimate revenue earned based on hours worked in contract performance at negotiated billing rates. Fixed-price level-of-effort contracts are substantially similar to time-and-materials contracts except that the Company is required to deliver a specified level of effort over a stated period of time. For these contracts, the Company

estimates revenue earned using contract hours worked at negotiated bill rates as the Company delivers the contractually required workforce.

For cost-based contracts, the Company recognizes revenue based on contract costs incurred, as the Company becomes contractually entitled to reimbursement of the contract costs, plus a most likely estimate of award or incentive fees earned on those costs even though final determination of fees earned occurs after the contractually-stipulated performance assessment period ends.

For performance obligations requiring the delivery of a service for a fixed price, the Company uses the ratio of actual costs incurred to total estimated costs, provided that costs incurred (an input method) provides a reasonable measure of progress towards the satisfaction of a performance obligation, in order to estimate the portion of total revenue earned. When this method is used, changes in estimated costs to complete these obligations result in adjustments to revenue on a cumulative catch-up basis, which causes the effect of revised estimates for prior periods to be recognized in the current period. Changes in these estimates can routinely occur over contract performance for a variety of reasons, which include: changes in contract scope; changes in contract cost estimates due to unanticipated cost growth or reassessments of risks impacting costs; changes in estimated incentive or award fees; or performing better or worse than previously estimated.

In some fixed price service contracts, the Company performs services of a recurring nature, such as maintenance and other services of a “stand ready” nature. For these contracts, the Company has the right to consideration in an amount that corresponds directly with the value that the client has received. Therefore, the Company records revenue on a straight-line basis to reflect the transfer of control to the client throughout the contract.

Contracts are often modified to reflect changes in contract specifications and requirements, and these changes may create new enforceable rights and obligations. Most modifications are for services that are not distinct from the existing agreement due to the significant integration service that the Company provides. Therefore, most modifications are accounted for as part of an existing performance obligation. The effect of these modifications on transaction price, and the Company's measure of progress in fulfilling the performance obligation to which it relates, may be recognized as an adjustment to revenue on a cumulative catch-up basis. Revenue from modifications that create new, distinct performance obligations is recognized based on the Company's progress in fulfilling the requirements of the new obligation.

For contracts in which the estimated cost to perform exceeds the consideration to be received, the Company accrues for the entire estimated loss during the period in which the loss is determined by recording additional direct costs.

The Company recognizes the cost to fulfill contracts as incurred. The Company evaluates incremental costs of obtaining a contract and, if they are recoverable from the client and relate to a specific future contract, they are deferred and recognized over contract performance or the estimated life of the customer relationship if renewals are expected. The Company expenses these costs when incurred if the amortization period is one year or less.

Unfulfilled performance obligations represent amounts expected to be earned on contracts and do not include the value of negotiated, unexercised contract options, which are classified as marketing offers. Indefinite delivery/indefinite quantity and similar arrangements provide a framework for the client to issue specific tasks, delivery or purchase orders in the future and these arrangements are considered marketing offers until a specific order is executed.

Revenue recognition entails the use of significant judgment, including, but not limited to, the following: evaluating agreements in terms of the number and nature of performance obligations, determining the appropriate method for measuring progress to satisfaction of obligations, and preparing estimates in terms of the amount of progress that the Company has made. Most of the Company's revenue is recognized over time and for many fixed-price contracts, in particular, the Company estimates the proportion of total revenue earned using the ratio of contract costs incurred to total estimated contract costs, which requires the Company to prepare estimates as work progresses of contract cost left to be incurred. Moreover, some of the Company's contracts include variable consideration, which requires the Company to estimate the most likely amounts that will be earned over the respective performance periods. For these obligations, changes in estimates result in cumulative catch-up adjustments and may have a significant impact on earnings during a given period.

The Company's operating cycle for long-term contracts may be greater than one year and is measured by the average time intervening between the inception and the completion of those contracts. Contract-related assets and liabilities, as highlighted below, are classified as current assets and current liabilities. Significant balance sheet accounts related to the revenue recognition cycle are as follows:

Contract receivables, net – This account includes amounts billed or billable under contract terms. The amounts due are stated at their net realizable value. The Company maintains an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected. The Company considers a number of factors in its estimate of the allowance, including knowledge of a client's financial condition, its historical collection experience, and other factors relevant to assessing the collectability of the receivables.

Contract assets – This account includes unbilled amounts typically resulting from revenue recognized on long-term contracts when the amount of revenue recognized exceeds the amounts billed. It also includes contract retainages until the Company has met the contract-stipulated requirements for payment. Contract assets are reported in a net position on a contract by contract basis each period even though individual contracts may contain multiple performance obligations. On a contract by contract basis, amounts do not exceed their net realizable value.

Contract liabilities – This account consists of advance payments received and billings in excess of revenue recognized on long-term contracts. Contact liabilities are reported in a net position on a contract by contract basis each period even though individual contracts may contain multiple performance obligations.

Recent Accounting Pronouncements

Recent Accounting Pronouncements Adopted

Accumulated Other Comprehensive Loss

In February 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-02: Income Statement – Reporting Comprehensive Income (Topic 220). In the past, certain transactions were recorded in accumulated other comprehensive income net of applicable taxes. The tax had been calculated based on the tax rates enacted at the time the transaction occurred with no provision, under previous accounting, for adjusting the balance for changes in the enacted tax rate. Due to the passage of the Tax Cuts and Jobs Act of 2017 (the "Tax Act"), those historical tax rates used for recording the transactions were higher than the Company's current enacted rate. The new guidance allows the Company to reclassify these stranded tax effects directly to retained earnings. This update is effective for fiscal years beginning after December 15, 2018, including interim periods therein, and early adoption is permitted. During the first quarter of 2018, the Company elected to early adopt the update, which resulted in a one-time cumulative effect adjustment of $0.8 million from accumulated other comprehensive loss to retained earnings.

Revenue Recognition

The Company implemented ASU 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018 using the modified retrospective method. This method requires that the Company apply the requirements of the new standard in the year of adoption to new contracts and those that were not completed as of the adoption date. Management evaluated those contracts not completed as of January 1, 2018 (the adoption date) and concluded that the impact of adopting ASC 606 did not have a material impact on the Company. Contract assets and contract liabilities were formerly reported as unbilled accounts receivable and deferred revenue, respectively. The titles have been changed in the table below to be consistent with accounts currently used under the new standard.

	December 31, 2017	
	As Reported	As Adopted
Contract receivables, net	$291,515	$168,318
Contract assets	—	123,197
Deferred revenue	38,571	—
Contract liabilities	—	38,571
Retained earnings	434,766	434,766

Unfulfilled performance obligations for contracts in process as of the adoption date were $1.1 billion.

Under the modified retrospective method, the Company is required to maintain dual reporting during the year of adoption in order to present revenue under both the previous and new accounting for contracts initiated on or after the date of adoption and for those contracts having remaining obligations as of the adoption date. Revenue timing differences between the two methods resulted primarily from contracts with performance incentives. Under the new accounting, the Company has included in revenue the most likely amount of priced incentives earned as contract work was performed rather than, as under the old accounting, waiting to recognize revenue from incentives until specific quantitative goals were achieved, generally at the end of the measurement period. This timing difference is not expected to result in a material change to the Company's annual revenue since most incentives have a one-year measurement period, which is aligned with the Company's fiscal year. Revenue calculated under the old and new methods is as follows:

	Three months ended September 30, 2018		Nine months ended September 30, 2018	
	Previous Accounting	New Accounting	Previous Accounting	New Accounting
Revenue	$331,978	$ 332,968	$957,773	$ 960,063
Contract assets	141,391	143,161	141,391	143,161
Contract liabilities	27,009	26,489	27,009	26,489

Recent Accounting Pronouncements Not Yet Adopted

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This standard revises the accounting for leases and requires lessees to recognize, for all leases with terms of greater than one year, a right-of-use asset and lease liability which depicts the rights and obligations arising from a lease. The standard also requires qualitative and quantitative disclosures designed to provide information regarding the nature, amount and timing of lease expense. For lessees, the new guidance is not expected to significantly change the recognition and measurement of lease expense. This standard is effective for the first interim and annual periods beginning after December 15, 2018, with early adoption permitted. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842), Targeted Improvements permitting the recognition of a cumulative-effect adjustment to retained earnings on the date of adoption. The Company will adopt the standard beginning January 1, 2019. The Company intends to adopt the standard using the alternative transition method. The Company is currently evaluating its leases and designing new processes and controls that will aid in the implementation of and accounting for the new requirements. At this time, the Company cannot fully determine the effect of adopting the standard on the consolidated financial statements. However, the Company currently anticipates that, on adoption, the Company will recognize right-of-use assets and lease liabilities that will each total from $100 to $200 million. The Company does not expect a material impact from adopting the new standard on the results of operations and cash flows.

Stock Compensation

In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation (Topic 718). The standard simplifies the accounting for share-based compensation to non-employees by aligning the guidance with share-based payments to employees. It is effective for interim and annual reporting periods beginning after December 15, 2018 with early adoption permitted. The Company is currently in the process of evaluating the impact of adoption, but does not anticipate a material impact on the consolidated financial statements.

Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract

In August 2018, the FASB issued ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40). The standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is considered a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard also requires the entity to expense the capitalized implementation costs of a hosting arrangement over the term of the hosting arrangement and present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting arrangement. The standard is effective for interim periods and fiscal years beginning after December 15, 2019 with early adoption permitted. The standard may be implemented using either the retrospective or prospective method. The Company is currently in the process of evaluating the impact of adoption and mode of adoption, but does not anticipate that there will be a material impact on the consolidated financial statements as a result of adopting the standard.

NOTE 2 – CONTRACT RECEIVABLES, NET

Contract receivables, net consisted of the following:

	September 30, 2018	December 31, 2017
Billed and billable	$ 198,204	$ 172,171
Allowance for doubtful accounts	(4,002)	(3,853)
Contract receivables, net	$ 194,202	$ 168,318

NOTE 3 – GOODWILL

The changes in the carrying amount of goodwill during the nine-months period ended September 30, 2018 were as follows:

Balance as of December 31, 2017	$686,108
Goodwill resulting from The Future Customer business combination	7,597
Goodwill resulting from DMS Disaster Consultants business combination	10,254
Effect of foreign currency translation	(1,374)
Balance as of September 30, 2018	$702,585

NOTE 4 – LONG-TERM DEBT

On May 17, 2017, the Company entered into a Fifth Amended and Restated Business Loan and Security Agreement with a syndication of 11 commercial banks (the "Credit Facility"). The Credit Facility: (i) includes modifications to the Company's Fourth Amended and Restated Business Loan and Security Agreement, (ii) matures on May 17, 2022, (iii) increases the borrowing ceiling up to $600.0 million without a borrowing base requirement, taking into account financial, performance-based limitations, and (iv) provides for an "accordion," which permits additional revolving credit commitments of up to $300.0 million, subject to lenders' approval. The Credit Facility provides for letters of credit aggregating up to $60.0 million, which reduce the funds available under the Credit Facility when issued.

The Company has the option to borrow funds under the Credit Facility at interest rates based on both LIBOR (1, 3, or 6 month rates) and the Base Rate, at its discretion, plus their applicable margins. Base Rates are fluctuating per annum rates of interest equal to the highest of (i) the Federal Funds Open Rate, plus 0.5%, (ii) the Prime Rate, and (iii) the daily LIBOR rate, plus a LIBOR Margin between 1.00% and 2.00% based on its Leverage Ratio (as defined under the Credit Facility). The interest accrued based on LIBOR rates is to be paid on the last business day of the interest period (1, 3, or 6 months), while interest accrued based on the Base Rates is to be paid in quarterly installments. The unused portion of the Credit Facility is subject to a commitment fee between 0.13% and 0.25% per annum based on the Leverage Ratio.

The Credit Facility is collateralized by substantially all of the assets of the Company and requires that the Company remain in compliance with certain financial and non-financial covenants. The financial covenants require, among other things, that the Company maintain at all times an Interest Coverage Ratio (as defined under the Credit Facility) of not less than 3.00 to 1.00 and a Leverage Ratio of not more than 3.75 to 1.00 (subject to adjustment, in certain circumstances) for each fiscal quarter. As of September 30, 2018, the Company was in compliance with its covenants under the Credit Facility.

As of September 30, 2018, the Company had $232.5 million long-term debt outstanding, 10 outstanding letters of credit totaling $3.2 million, and unused borrowing capacity of $364.3 million under the Credit Facility (excluding the accordion). Taking into account the financial, performance-based limitations, available borrowing capacity (excluding the accordion) was $214.0 million as of September 30, 2018. The weighted-average interest rate on debt outstanding was 3.2% and 2.7% for the first nine months of 2018 and 2017, respectively.

NOTE 5 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

On August 8, 2018, the Company entered into two floating-to-fixed interest rate swap agreements (the "Swaps") for an aggregate notional amount of $75.0 million in order to hedge a portion of the Company's floating rate Credit Facility (which is discussed in Note 4 – Long-Term Debt.) The Company has designated the Swaps as cash flow hedges. Similar to the previous swap agreement that the Company entered into, these Swaps are intended to mitigate the risk of rising interest rates. The Swaps provide a fixed rate of 2.8530% per annum on the notional amount, plus the applicable margin pursuant to the Credit Facility. The cash flows from the Swaps began August 31, 2018 and end on August 31, 2023, and the realized gains and losses in connection with each required interest payment will be reclassified from accumulated other comprehensive income (loss) ("AOCI") to interest expense during the period of the cash flows. On a quarterly basis, management evaluates all swap agreements to determine each agreement's effectiveness or ineffectiveness and records the change in fair value as an adjustment to other comprehensive income or loss.

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NOTE 6 – OTHER COMPREHENSIVE INCOME (LOSS) AND ACCUMULATED OTHER COMPREHENSIVE LOSS

Other comprehensive income (loss) includes foreign currency translation adjustments arising from the conversion of financial statements of foreign subsidiaries into U.S. dollars, the amortization of the gain on the sale of an interest rate hedge agreement, and the change in the fair value of current interest rate hedge agreements. Components of accumulated other comprehensive loss as of September 30, 2018 and 2017 are as follows:

	Three Months Ended September 30, 2018			
	Foreign Currency Translation Adjustments	Gain on Sale of Interest Rate Hedge Agreement [1]	Change in Fair Value of Interest Rate Hedge Agreements [2] [5]	Total
Accumulated other comprehensive (loss) income at June 30, 2018	$(11,074)	$ 2,431	$ 1,067	$(7,576)
Current period other comprehensive income (loss):				
Other comprehensive (loss) income before reclassifications	(255)	—	371	116
Amounts reclassified from accumulated other comprehensive income	—	(180)	(41)	(221)
Effect of taxes [3]	(142)	47	(368)	(463)
Total current period other comprehensive (loss) income	(397)	(133)	(38)	(568)
Accumulated other comprehensive (loss) income at September 30, 2018	$(11,471)	$ 2,298	$ 1,029	$(8,144)

	Three Months Ended September 30, 2017			
	Foreign Currency Translation Adjustments	Gain on Sale of Interest Rate Hedge Agreement [1]	Change in Fair Value of Interest Rate Hedge Agreement [2][5]	Total
Accumulated other comprehensive (loss) income at June 30,	$(9,343)	$ 2,175	$ —	$(7,168)

2017				
Current period other comprehensive income (loss):				
Other comprehensive income before reclassifications	943	—	228	1,171
Effect of taxes [3]	(613)	—	—	(613)
Total current period other comprehensive income	330	—	228	558
Accumulated other comprehensive (loss) income at September 30, 2017	$(9,013)	$ 2,175	$ 228	$(6,610)

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	Nine Months Ended September 30, 2018			
	Foreign Currency Translation Adjustments	Gain on Sale of Interest Rate Hedge Agreement (1)	Change in Fair Value of Interest Rate Hedge Agreements (2)(5)	Total
Accumulated other comprehensive (loss) income at January 1, 2018	$(7,638)	$ 2,158	$ 441	$(5,039)
Reclassification of stranded tax effects due to adoption of accounting principle (4)	(1,307)	478	—	(829)
Adjusted beginning balance	(8,945)	2,636	441	(5,868)
Current period other comprehensive (loss) income:				
Other comprehensive (loss) income before reclassifications	(2,530)	—	997	(1,533)
Amounts reclassified from accumulated other comprehensive income	—	(480)	(41)	(521)
Effect of taxes (3)	4	142	(368)	(222)
Total current period other comprehensive (loss) income	(2,526)	(338)	588	(2,276)
Accumulated other comprehensive (loss) income at September 30, 2018	$(11,471)	$ 2,298	$ 1,029	$(8,144)

	Nine Months Ended September 30, 2017			
	Foreign Currency Translation Adjustments	Gain on Sale of Interest Rate Hedge Agreement (1)	Change in Fair Value of Interest Rate Hedge Agreement (2)(5)	Total
Accumulated other comprehensive (loss) income at January 1, 2017	$(11,815)	$ 2,175	$ —	$(9,640)
Current period other comprehensive income (loss):				
Other comprehensive income before reclassifications	4,113	—	228	4,341
Effect of taxes (3)	(1,311)	—	—	(1,311)
Total current period other comprehensive income	2,802	—	228	3,030

Accumulated other comprehensive (loss) income at				
September 30, 2017	$(9,013)	$ 2,175	$ 228	$(6,610)

(1) - Represents the fair value of an interest rate hedge agreement, designated as a cash flow hedge, which was sold on December 1, 2016. The fair value of the interest rate hedge agreement was recorded in other comprehensive income, net of tax, and will be reclassified to interest expense when earnings are impacted by the hedged items and as interest payments are made on the Credit Facility from January 31, 2018 to January 31, 2023.

(2) - Represents the change in fair value of interest rate hedge agreements designated as a cash flow hedge. The fair value of the interest rate hedge agreements were recorded in other comprehensive income and will be reclassified to interest expense when earnings are impacted by the hedged items and as interest payments are made on the Credit Facility from August 31, 2018 to August 31, 2023.

(3) - The Company's effective tax rate for the three and nine months ended September 30, 2018 and 2017 was 22.9% and 34.5% and 24.0% and 35.6%, respectively.

(4) - The Company has adjusted the balance at December 31, 2017 of accumulated other comprehensive loss for the stranded tax effects caused by the enactment of the Tax Act.

(5) - The fair value of the fixed interest rate swap asset is included in other assets on the consolidated balance sheet.

NOTE 7 – STOCKHOLDERS’ EQUITY

Changes in stockholders’ equity for the three and nine months ended September 30, 2018 and 2017 are as follows:

	Three Months Ended September 30, 2018							
	Common Stock				Treasury Stock			
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Accumulated Other Comprehensive Loss	Total
Balance at July 1, 2018	18,826	$ 22	$ 317,013	$ 456,358	3,502	$ (130,446)	$ (7,576)	$ 635,371
Net income	—	—	—	16,671	—	—	—	16,671
Other comprehensive income	—	—	—	—	—	—	(568)	(568)
Equity compensation	—	—	3,292	—	—	43	—	3,335
Exercise of stock options	85	—	2,309	—	—	—	—	2,309
Issuance of shares pursuant to vesting of restricted stock units	8	—	—	—	(1)	—	—	—
Net payments for stock issuances and buybacks	(51)	—	(14)	—	51	(3,788)	—	(3,802)
Reclassification of stranded tax effects due to adoption of accounting principle	—	—	—	—	—	—	—	—
Dividends declared	—	—	—	(2,643)	—	—	—	(2,643)
Balance at September 30, 2018	18,868	$ 22	$ 322,600	$ 470,386	3,552	$ (134,191)	$ (8,144)	$ 650,673

	Three Months Ended September 30, 2017							
	Common Stock				Treasury Stock			
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Accumulated Other Comprehensive Loss	Total
Balance at July 1, 2017	18,718	$ 22	$ 300,394	$ 394,004	3,202	$ (114,122)	$ (7,168)	$ 573,130
Net income	—	—	—	13,692	—	—	—	13,692
Other comprehensive income	—	—	—	—	—	—	558	558
Equity compensation	—	—	2,709	—	—	89	—	2,798
Exercise of stock options	82	—	2,291	—	—	—	—	2,291
Issuance of shares pursuant to vesting of restricted stock units	11	—	—	—	(4)	—	—	—
Net payments for stock issuances and buybacks	(172)	—	—	—	172	(7,683)	—	(7,683)
Balance at September 30, 2017	18,639	$ 22	$ 305,394	$ 407,696	3,370	$ (121,716)	$ (6,610)	$ 584,786

	Nine Months Ended September 30, 2018							
	Common Stock				Treasury Stock			
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2018	18,662	$ 22	$ 307,821	$ 434,766	3,357	$ (121,540)	$ (5,039)	$ 616,030
Net income	—	—	—	42,705	—	—	—	42,705
Other comprehensive income	—	—	—	—	—	—	(2,276)	(2,276)
Equity compensation	—	—	8,507	—	—	178	—	8,685
Exercise of stock options	210	—	5,842	—	—	—	—	5,842
Issuance of shares pursuant to vesting of restricted stock units	198	—	—	—	(7)	—	—	—
Net payments for stock issuances and buybacks	(202)	—	430	—	202	(12,829)	—	(12,399)
Reclassification of stranded tax effects due to adoption of accounting principle	—	—	—	829	—	—	(829)	—
Dividends declared	—	—	—	(7,914)	—	—	—	(7,914)
Balance at September 30, 2018	18,868	$ 22	$ 322,600	$ 470,386	3,552	$ (134,191)	$ (8,144)	$ 650,673

	Nine Months Ended September 30, 2017							
	Common Stock				Treasury Stock			
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2017	19,021	$ 22	$ 292,427	$ 371,890	2,642	$ (88,695)	$ (9,640)	$ 566,004
Net income	—	—	—	35,806	—	—	—	35,806
Other comprehensive income	—	—	—	—	—	—	3,030	3,030
Equity compensation	—	—	7,921	—	—	238	—	8,159
Exercise of stock options	176	—	4,722	—	—	—	—	4,722
Issuance of shares pursuant to vesting of restricted stock units	181	—	—	—	(11)	—	—	—
Net payments for stock issuances and buybacks	(739)	—	324	—	739	(33,259)	—	(32,935)
Balance at September 30, 2017	18,639	$ 22	$ 305,394	$ 407,696	3,370	$ (121,716)	$ (6,610)	$ 584,786

NOTE 8 – RESTRICTED CASH

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheet for the periods presented to the total of cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows for the nine months ended September 30, 2018 and 2017:

	2018		2017	
	Beginning	Ending	Beginning	Ending
Cash and cash equivalents	$ 11,809	$ 5,804	$ 6,042	$ 6,485
Restricted cash - current [(1)]	11,191	—	—	—
Restricted cash - non-current	1,266	1,286	1,843	1,251
Total of cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows	$ 24,266	$ 7,090	$ 7,885	$ 7,736

(1) - Restricted cash – current as of December 31, 2017 represents amount held in an escrow account for the acquisition of The Future Customer. See Note 12 – Business Combinations.

NOTE 9 – REVENUE RECOGNITION

Disaggregation of Revenue

The Company disaggregates revenue from clients, most of which is earned over time, into categories that depict how the nature, amount and uncertainty of revenue and cash flows are affected by economic factors. Those categories are client market, client type and contract mix. Client market provides insight into the breadth of the Company's expertise. In classifying revenue by client market, the Company attributes revenue from a client to the market that the Company believes is the client's primary market. The Company also classifies revenue by the type of entity for which it does business, which is an indicator of the diversity of its client base. The Company attributes revenue generated as a

subcontractor to a commercial company as government revenue when the ultimate client is a government agency or department. Finally, disaggregation by contract mix provides insight in terms of the degree of performance risk that the Company has assumed. Fixed-price contracts are considered to provide the highest amount of performance risk as the Company is required to deliver a scope of work or level of effort for a negotiated fixed price. Time-and-materials contracts require the Company to provide skilled employees on contracts for negotiated fixed hourly rates. Since the Company is not required to deliver a scope of work, but merely skilled employees, it considers these contracts to be less risky than a fixed-price agreement. Cost-based contracts are considered to provide the lowest amount of performance risk since the Company is generally reimbursed for all contract costs incurred in performance of contract deliverables with only the amount of incentive or award fees (if applicable) dependent on the achievement of negotiated performance requirements.

	September 30, 2018	
	Three Months Ended	Nine Months Ended
Client Markets:		
Energy, environment, and infrastructure	$147,840	$ 404,476
Health, education, and social programs	126,347	381,287
Safety and security	29,446	82,412
Consumer and financial	29,335	91,888
Total	$332,968	$ 960,063

	September 30, 2018	
	Three Months Ended	Nine Months Ended
Client Type:		
U.S. federal government	$ 139,875	$ 412,403
U.S. state and local government	55,828	122,958
International government	26,559	89,968
Total Government	222,262	625,329
Commercial	110,706	334,734