

ICF International, Inc.
Form 10-Q
August 06, 2012
Table of Contents

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 JUNE 30, 2012

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)

Edgar Filing: ICF International, Inc. - Form 10-Q

Delaware (State or Other Jurisdiction of Incorporation or Organization)	22-3661438 (I.R.S. Employer Identification No.)
9300 Lee Highway, Fairfax, VA (Address of Principal Executive Offices)	22031 (Zip Code)
Registrant's telephone number, including area code: (703) 934-3000	

Not Applicable

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

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

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

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

Large accelerated filer Accelerated filer

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

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

As of July 31, 2012, there were 19,725,686 shares outstanding of the registrant's common stock.

Table of Contents

ICF INTERNATIONAL, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE
PERIOD ENDED JUNE 30, 2012
TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	3
Item 1. <u>Financial Statements</u>	3
<u>Consolidated Balance Sheets at June 30, 2012 (Unaudited) and December 31, 2011</u>	3
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three Months and Six Months Ended June 30, 2012 and 2011</u>	4
<u>Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2012 and 2011</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4. <u>Controls and Procedures</u>	21
<u>PART II. OTHER INFORMATION</u>	22
Item 1. <u>Legal Proceedings</u>	22
Item 1A. <u>Risk Factors</u>	22
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
Item 3. <u>Defaults Upon Senior Securities</u>	23
Item 4. <u>Mine Safety Disclosures</u>	23
Item 5. <u>Other Information</u>	23
Item 6. <u>Exhibits</u>	23

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

(in thousands, except share amounts)

	June 30, 2012 (Unaudited)	December 31, 2011
Current Assets:		
Cash	\$ 5,257	\$ 4,097
Contract receivables, net	219,756	209,426
Prepaid expenses and other	9,355	7,948
Income tax receivable	6,485	1,155
Deferred income taxes	5,588	7,963
Total current assets	246,441	230,589
Total property and equipment, net	27,991	21,067
Other assets:		
Goodwill	407,862	401,134
Other intangible assets, net	27,952	33,740
Restricted cash	1,639	1,208
Other assets	8,937	6,877
Total Assets	\$ 720,822	\$ 694,615
Current Liabilities:		
Accounts payable	\$ 39,064	\$ 38,685
Accrued salaries and benefits	47,431	46,215
Accrued expenses	28,063	29,252
Deferred revenue	22,956	20,180
Total current liabilities	137,514	134,332
Long-term Liabilities:		
Long-term debt	143,530	145,000
Deferred rent	9,437	7,223
Deferred income taxes	10,435	9,247
Other	10,930	5,785
Total Liabilities	311,846	301,587
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, par value \$.001 per share; 5,000,000 shares authorized; none issued		
Common stock, \$.001 par value; 70,000,000 shares authorized; 20,138,440 and 19,887,459 issued; and 19,723,487 and 19,792,499 outstanding as of June 30, 2012, and December 31, 2011, respectively	20	20
Additional paid-in capital	232,159	227,577

Edgar Filing: ICF International, Inc. - Form 10-Q

Retained earnings	187,785	168,502
Treasury stock	(9,564)	(2,266)
Accumulated other comprehensive loss	(1,424)	(805)
Total Stockholders' Equity	408,976	393,028
Total Liabilities and Stockholders' Equity	\$ 720,822	\$ 694,615

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

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

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Gross Revenue	\$ 239,649	\$ 213,395	\$ 467,290	\$ 408,137
Direct Costs	147,861	133,522	288,049	251,743
Operating costs and expenses:				
Indirect and selling expenses	67,404	59,239	133,257	117,147
Depreciation and amortization	2,800	2,778	4,615	5,539
Amortization of intangible assets	3,519	2,321	7,050	4,736
Total operating costs and expenses	73,723	64,338	144,922	127,422
Operating income	18,065	15,535	34,319	28,972
Interest expense	(611)	(564)	(1,918)	(1,193)
Other income (expense)	(212)	(29)	(263)	40
Income before income taxes	17,242	14,942	32,138	27,819
Provision for income taxes	6,896	5,979	12,855	11,130
Net income	\$ 10,346	\$ 8,963	\$ 19,283	\$ 16,689
Earnings per Share:				
Basic	\$ 0.52	\$ 0.46	\$ 0.98	\$ 0.85
Diluted	\$ 0.52	\$ 0.45	\$ 0.96	\$ 0.84
Weighted-average Shares:				
Basic	19,774	19,688	19,771	19,634
Diluted	19,971	19,847	20,061	19,849
Other comprehensive income:				
Foreign currency translation adjustments	(230)	44	(619)	200
Comprehensive income	\$ 10,116	\$ 9,007	\$ 18,664	\$ 16,889

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

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

(in thousands)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities		
Net income	\$ 19,283	\$ 16,689
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	3,611	(157)
(Gain) loss on disposal of fixed assets	76	(58)
Non-cash equity compensation	3,927	2,972
Depreciation and amortization	11,665	10,275
Deferred rent	2,317	1,251
Changes in operating assets and liabilities, net of the effect of acquisitions:		
Contract receivables, net	(962)	(5,778)
Prepaid expenses and other assets	(1,774)	(2,987)
Accounts payable	(2,021)	2,878
Accrued salaries and benefits	888	1,850
Accrued expenses	(1,766)	37
Deferred revenue	(1,940)	561
Income tax receivable and payable	(5,582)	(1,140)
Restricted cash	(431)	1,444
Other liabilities	1,130	1,545
Net cash provided by operating activities	28,421	29,382
Cash flows from investing activities		
Capital expenditures	(8,102)	(4,234)
Capitalized software development costs		(28)
Payments for business acquisitions, net of cash received	(8,532)	(4,523)
Net cash used in investing activities	(16,634)	(8,785)
Cash flows from financing activities		
Advances from working capital facilities	122,220	81,841
Payments on working capital facilities	(123,690)	(103,427)
Debt issue costs	(1,896)	
Proceeds from exercise of options	23	219
Tax benefits of stock option exercises and award vesting	648	911
Net payments for stockholder issuances and buybacks	(7,313)	(965)
Net cash used in financing activities	(10,008)	(21,421)
Effect of exchange rate on cash	(619)	200
Increase (decrease) in cash	1,160	(624)
Cash, beginning of period	4,097	3,301
Cash, end of period	5,257	2,677

Supplemental disclosure of cash flow information

Cash paid during the period for:

Interest	\$ 1,737	\$ 1,185
Income taxes	\$ 14,197	\$ 11,760

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

Table of Contents

Notes to Consolidated Financial Statements

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

Note 1. Basis of Presentation and Nature of Operations

Interim Results

The unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). These rules and regulations permit some of the information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) to be condensed or omitted. In management's opinion, the unaudited consolidated financial statements contain all adjustments that are of a normal recurring nature, necessary for a fair presentation of the results of ICF International, Inc. and its subsidiaries (collectively, the Company) for the three-month and six-month periods ended June 30, 2012, and June 30, 2011. Operating results for the three-month and six-month periods ended June 30, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. Certain immaterial amounts in the 2011 consolidated financial statements have been reclassified to conform to current-year presentation. The Company believes the carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and other current liabilities approximate their estimated fair values at June 30, 2012, due to their short maturities. The Company believes the carrying value of the lines of credit payable approximate the estimated fair value for debt with similar terms, interest rates, and remaining maturities currently available to companies with similar credit ratings at June 30, 2012. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011, and the notes thereto included in the Company's Annual Report on Form 10-K, filed with the SEC on March 2, 2012.

Nature of Operations

The Company provides management, technology, and policy professional services in the areas of energy, environment, and infrastructure; health, social programs, and consumer/financial; and public safety and defense. Beginning in 2012, the Company changed the names of its markets, see Management's Discussion and Analysis of Financial Condition and Results of Operations Overview for a more detailed discussion. The Company's major clients are United States (U.S.) government departments and agencies, especially the Department of Health and Human Services (HHS), Department of Defense (DoD), Department of State (DOS), Environmental Protection Agency (EPA), Department of Homeland Security (DHS), U.S. Department of Agriculture (USDA), Department of Housing and Urban Development (HUD), Department of Transportation (DOT), Department of Interior (DOI), Department of Justice (DOJ), Department of Energy (DOE), and Department of Education (ED); U.S. state and local government departments and agencies; non-governmental organizations, non-U.S. governments, and multilateral institutions; and commercial clients worldwide, such as airlines, airports, electric and gas utilities, financial institutions, health payer and provider organizations, law firms, multinational corporations, non-profit organizations, oil companies, and retail firms. The Company offers a full range of services to these clients, including strategy, analysis, program management, and information technology solutions that combine experienced professional staff, industry and institutional knowledge, and analytical methods.

The Company, incorporated in Delaware, is headquartered in Fairfax, Virginia. It maintains offices throughout the world, including over 60 offices in the U.S. and over 15 offices in key markets outside the U.S., including offices in Beijing, Hong Kong, New Delhi, Ottawa, Toronto, Brussels, London, Moscow, and Rio de Janeiro.

Note 2. Business Combinations

GHK Holdings Limited (GHK)

In February 2012, the Company completed the acquisition of GHK Holdings Limited (GHK). With its headquarters in London, GHK is a multi-disciplinary consultancy serving governmental and commercial clients on environment, employment, health, education and training, transportation, social policy, business and economic development, and international development issues. The purchase was immaterial to the Company's financial statements taken as a whole. The acquisition complemented and significantly strengthened the Company's existing European operations and created additional leverage in high-growth Asian markets.

Ironworks Consulting, L.L.C. (Ironworks)

Effective December 31, 2011, the Company acquired Ironworks Consulting, L.L.C. (Ironworks), an interactive web development firm that provides customer engagement solutions across web, mobile, and social media platforms to companies in the health, energy, and financial

Edgar Filing: ICF International, Inc. - Form 10-Q

services industries, as well as to U.S. federal government agencies and nonprofit organizations. The addition of Ironworks complements the Company's existing services and provides new selling opportunities in the federal, commercial energy, and nonprofit space, while offering additional opportunities in the financial and commercial health segments.

The aggregate purchase price of approximately \$102.0 million in cash, including the working capital adjustment required by the stock purchase agreement, was funded by the Company's Credit Facility. The Company has engaged an independent valuation firm to assist management in the allocation of the purchase price to goodwill and to other acquired intangible assets. The excess of the purchase

Table of Contents

price over the estimated fair value of the net tangible assets acquired was approximately \$89.5 million. The Company has preliminarily allocated approximately \$74.3 million to goodwill and \$15.2 million to other intangible assets. The intangible assets consist of approximately \$14.7 million of customer-related intangibles that are being amortized over seven years from the acquisition date, and \$0.5 million of marketing-related intangibles that are being amortized over one year from the acquisition date. The change in the aggregate purchase price and the changes in certain purchase price allocations from December 31, 2011, reflect changes to the working capital adjustment and preliminary purchase price allocations. The Company is still evaluating the fair value of acquired assets and liabilities and pre-acquisition contingencies; therefore, the final allocation of the purchase price has not been completed. Ironworks was an asset purchase for tax purposes, and therefore, the goodwill and the amortization of intangibles are deductible over a fifteen-year period and will give rise to certain deferred tax assets and liabilities. The results of operations for Ironworks have been included in the Company's financial statements as of December 31, 2011; however, because the acquisition occurred on the last day of the year in 2011, the operations of Ironworks had no impact on the statement of comprehensive income in 2011.

The fair values as reported below represent management's estimates of the fair values as of the acquisition date.

The purchase price allocation is as follows (in thousands):

Cash	\$ 1,112
Contract receivables	12,123
Other current and non-current assets	199
Customer-related intangibles	14,726
Marketing-related intangibles	484
Goodwill	74,338
Property and equipment	1,121
 Total Assets	 104,103
Accounts payable and other	931
Accrued salaries and benefits	298
Billings in excess of costs	905
 Total Liabilities	 2,134
 Net Assets	 \$ 101,969

The Company does not intend to maintain Ironworks as a separate stand-alone operation and is in the process of integrating its operations and projects, including line and staff personnel, into the rest of the Company.

AeroStrategy L.L.C. and AeroStrategy Limited (AeroStrategy)

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

Marbek Resource Consultants Ltd. (Marbek)

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

Table of Contents**Note 3. Contract Receivables**

Contract receivables consisted of the following:

	June 30, 2012	December 31, 2011
Billed	\$ 144,148	\$ 149,725
Unbilled	77,296	61,447
Allowance for doubtful accounts	(1,688)	(1,746)
Contract receivables, net	\$ 219,756	\$ 209,426

Contract receivables, net of the established allowance, are stated at amounts expected to be received in future periods. Unbilled receivables result from revenue that has been earned in advance of billing. Unbilled receivables can be invoiced at contractually defined intervals or milestones, as well as upon completion of the contract or government audits. The Company anticipates that the majority of unbilled receivables will be substantially billed and collected within one year, and therefore, classifies them as current assets in accordance with industry practice.

The Company considers a number of factors in its estimate of allowance for doubtful accounts, including the customer's financial condition, the Company's historical collection experience with the customer, and other factors that may bear on collectability of the receivables. The Company writes off contract receivables when such amounts are determined to be uncollectible. Losses have historically been within management's expectations.

Note 4. Commitments and Contingencies**Litigation and Claims**

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

Road Home Contract

Although no legal proceeding has been commenced, the Company has received additional correspondence from the Office of Community Development of the State of Louisiana, adding to its claim that the Company is responsible for the overpayment of Road Home program grant funds. The Company expects to receive more correspondence from the Office of Community Development related to the claim. The Company believes this claim has no merit, intends to vigorously defend its position, and has therefore not recorded a liability as of June 30, 2012.

Note 5. Long-Term Debt

The Company entered into a Third Amended and Restated Business Loan and Security Agreement (Credit Facility) on March 14, 2012, with a syndication of eleven commercial banks to allow for borrowings of up to \$500.0 million for a period of five years (maturing March 14, 2017) under a revolving line of credit. The new Credit Facility amends and restates the previous agreement entered into on February 20, 2008, which had allowed for borrowings of up to \$350.0 million. The Credit Facility provides for borrowings of up to \$400.0 million without a borrowing base requirement, and also provides for an accordion feature, which permits additional revolving credit commitments of up to \$100.0 million, subject to lenders' approval. The Company incurred approximately \$1.9 million in additional debt issuance costs related to amending the Credit Facility, which will be amortized over the term of the agreement. The Credit Facility is collateralized by substantially all of the assets of the Company and requires that the Company remain in compliance with certain financial and non-financial covenants. The financial covenants, as defined by the Credit Facility, require that the Company maintain, on a consolidated basis for each quarter, a fixed charge coverage ratio of not less than 1.00 to 1.25 and a leverage ratio of not more than 1.00 to 3.75. As of June 30, 2012, the Company was in compliance with the covenants under the Credit Facility.

The Company has the ability to borrow funds under its Credit Facility at interest rates based on both LIBOR and prime rates, at its discretion, plus their applicable margins. Interest rates on debt outstanding ranged from 1.7% to 3.5% during the second quarter of 2012.

Edgar Filing: ICF International, Inc. - Form 10-Q

As of June 30, 2012, the Company had \$143.5 million in long-term debt outstanding, \$2.9 million in outstanding letters of credit, and unused borrowing capacity of \$253.6 million under the Credit Facility.

Table of Contents**Note 6. Share Repurchase Program**

In 2011, the Company's Board of Directors approved a share repurchase program, authorizing the Company to repurchase, in the aggregate, up to \$35.0 million of its outstanding common stock. Purchases under this program are made from time to time at prevailing market prices in open market purchases or can be made in privately negotiated transactions in accordance with applicable insider trading and other securities laws and regulations. The purchases are funded from existing cash balances and/or borrowings, and the repurchased shares are held in treasury and used for general corporate purposes. The timing and extent to which the Company repurchases its shares depends upon market conditions and other corporate considerations as may be considered in the Company's sole discretion. During the quarter ended June 30, 2012, the Company repurchased 259,673 shares at a weighted average price of \$22.42 per share for approximately \$5.8 million under the share repurchase program. There were no repurchases in prior periods under the share repurchase program.

Note 7. Accounting for Stock-Based Compensation

The Company recognized stock-based compensation expense of \$2.2 million and \$3.9 million for the three months and six months ended June 30, 2012, respectively, and \$1.8 million and \$3.0 million for the three months and six months ended June 30, 2011, respectively. Unrecognized compensation expense of \$23.0 million as of June 30, 2012, related to unvested stock-based compensation agreements, will be recognized over a weighted-average period of approximately two years. For the six months ended June 30, 2012, the Company granted approximately 0.6 million shares in the form of equity compensation. As of June 30, 2012, the Company had approximately 0.9 million shares available to grant under its equity compensation plan.

Note 8. Income Taxes

The Company's effective tax rate for both the three-month and six-month periods ended June 30, 2012 was 40.0%. The gross unrecognized tax benefits were \$1.1 million at June 30, 2012. The offsetting tax benefit at June 30, 2012 was \$0.4 million. If recognized, \$0.5 million of the net unrecognized tax benefits at June 30, 2012, would impact the effective tax rate.

The Company files income tax returns with the U.S. federal government and various state and foreign jurisdictions. The 2008 through 2011 tax years remain subject to examination by the U.S. Internal Revenue Service, and the 2007 through 2011 tax years generally remain subject to examination by U.S. state authorities. Tax years remaining open for foreign jurisdictions range from 2004 to 2011. The Company does not anticipate a significant increase or decrease in total unrecognized tax benefits during the next 12 months.

The Company reports penalties and interest related to unrecognized tax benefits in net income before tax. The Company has made no provision for deferred U.S. income taxes or additional foreign taxes on future unremitted earnings of its controlled foreign subsidiaries because the Company considers these earnings to be permanently invested.

Note 9. Earnings Per Share

Basic earnings per share (EPS) is computed by dividing reported net income by the weighted-average number of shares outstanding. Diluted EPS considers the potential dilution that could occur if common stock equivalents were exercised or converted into stock. The difference between the basic and diluted weighted-average equivalent shares with respect to the Company's EPS calculation is due entirely to the assumed exercise of stock options and the vesting of restricted stock and restricted stock units (RSUs). The dilutive effect of stock options excludes shares that would be anti-dilutive to the calculation of EPS if included. For the three-month and six-month periods ended June 30, 2012, approximately 0.8 million and 0.3 million anti-dilutive weighted-average shares have been excluded from the calculation of EPS, respectively, and for the three-month and six-month periods ended June 30, 2011, approximately 0.4 million and 0.3 million anti-dilutive weighted-average shares have been excluded from the calculation of EPS, respectively. The dilutive effect of stock options, restricted stock, and RSU awards for each period reported is summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net Income	\$ 10,346	\$ 8,963	\$ 19,283	\$ 16,689
Weighted-average number of basic shares outstanding during the period	19,774	19,688	19,771	19,634
Dilutive effect of stock options, restricted stock and RSUs	197	159	290	215

Edgar Filing: ICF International, Inc. - Form 10-Q

Weighted-average number of diluted shares outstanding during the period	19,971	19,847	20,061	19,849
Basic earnings per share	\$ 0.52	\$ 0.46	\$ 0.98	\$ 0.85
Diluted earnings per share	\$ 0.52	\$ 0.45	\$ 0.96	\$ 0.84

Note 10. Recent Pronouncements

ASU 2011-08, Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment. In September 2011, the Financial Accounting Standards Board (FASB) revised the guidance related to testing goodwill for impairment. The new guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit

Table of Contents

is less than its carrying amount, as a basis for determining whether it is necessary to perform the first step of the two-step goodwill impairment test required under existing guidance. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If, upon assessing the qualitative factors in their totality, an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then performing the two-step impairment test is unnecessary. However, if an entity determines that it is more likely than not, then it is required to perform the first step of the two-step impairment test. In addition, an entity is no longer permitted to carry forward its detailed calculation of a reporting unit's fair value from a prior year as previously permitted. The Company adopted this guidance as of the third quarter of 2011.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations **FORWARD-LOOKING STATEMENTS**

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

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

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

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

results of government audits and investigations;

failure to receive the full amount of our backlog;

difficulties in implementing our acquisition strategy;

difficulties in expanding our service offerings and client base; and

liabilities arising from our completed major contract with the State of Louisiana.

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

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

OVERVIEW

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

Key Markets:

Edgar Filing: ICF International, Inc. - Form 10-Q

Energy, environment, and infrastructure. We provide advisory services on energy and environmental issues for both government and commercial clients relating to power markets, energy demand, environmental policy, and the transportation industry. We develop implementation solutions for industry-related challenges such as increasing energy efficiency needs and managing the environmental challenges of large infrastructure projects.

Health, social programs, and consumer/financial. We provide research and evaluation advisory services, and implementation services, including program development and information technology applications, for public health issues and for a variety of social programs, such as those focused on education, housing, and veterans. We also provide advisory and technology services to consumer and financial businesses and government agencies that interact with those businesses.

Public safety and defense. We provide advisory and implementation services concerning public safety, including crime and justice, and for homeland security in all phases of program development and critical infrastructure protection. Our defense services include logistical program support, modeling and simulation, and cybersecurity.

Table of Contents

In the first quarter of 2012, we modified the names of each of our key markets. Energy, environment, and transportation is now energy, environment, and infrastructure; health, education, and social programs is now health, social programs, and consumer/financial; and homeland security and defense is now public safety and defense. We made these modifications because of new acquisitions and growth that allow us to reach new customers with a broader array of services in these markets. We have also made changes to the allocation of revenue to each of these markets, and reflected these changes in both the current and prior-year periods.

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

Key Services:

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

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

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

Key Clients:

Government. We provide our advisory, implementation, and evaluation and improvement services to government, non-governmental organizations, and multilateral institutions. These clients include U.S. federal clients, U.S. state and local clients, and non-U.S. clients.

Commercial. We also provide our services to commercial clients worldwide, such as airlines, airports, electric and gas utilities, financial institutions, health payer and provider organizations, law firms, multinational corporations, non-profit organizations, oil companies, and retail firms. These clients include U.S. based clients and non-U.S. based clients.

In the second quarter of 2012, we modified our key client classifications to reflect our current business and growth. Previously, four client classifications were provided, which included U.S. federal government, U.S. state and local government, U.S. commercial, and non-U.S. clients. These previous client types have been re-categorized into two broader client classifications, government and commercial.

Within the government classification, we present three client sub-classifications: U.S. federal, U.S. state and local, and non-U.S. clients. Within the commercial classification only total commercial is presented, and it includes both U.S. and non-U.S. based clients. With the implementation of our international growth strategy and our recent acquisitions, providing one consolidated commercial category is a more appropriate reflection of our business, as our commercial business utilizes both U.S. and non-U.S. employees to support commercial clients, many of which have a global presence. We have made these changes in both the current and prior-year periods.

Employees and Offices:

We have more than 4,500 employees, including many recognized as thought leaders in their respective fields. The Company, incorporated in Delaware, is headquartered in Fairfax, Virginia. We maintain offices throughout the world, including over 60 offices in the U.S. and over 15 offices in key markets outside the U.S., including offices in Beijing, Hong Kong, New Delhi, Ottawa, Toronto, Brussels, London, Moscow, and Rio de Janeiro.

OUTLOOK

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

CRITICAL ACCOUNTING ESTIMATES

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

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, services have been rendered, the contract price is fixed or determinable, and collectability is reasonably assured. We enter into contracts that are time-and-materials, cost-based, fixed-price, or a combination of these.

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

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

Table of Contents

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

Proportional Performance: Revenue on certain fixed-price contracts is recorded each period based upon certain contract performance measures (labor hours, labor costs, or total costs) incurred expressed as a proportion of a total project estimate. Thus, labor hours, labor costs, or total contract costs incurred to date are compared with the total estimate for these items at completion. Performance is based on the ratio of the incurred hours or costs to the total estimate. Progress on a contract is monitored regularly to ensure that revenue recognized reflects project status. When hours or costs incurred are used as the basis for revenue recognition, the hours or costs incurred represent a reasonable surrogate for output measures of contract performance, including the presentation of deliverables to the client. Clients are obligated to pay as services are performed, and in the event that a client cancels the contract, payment for services performed through the date of cancellation is negotiated with the client.

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

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

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

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

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

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

DIRECT COSTS

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

Edgar Filing: ICF International, Inc. - Form 10-Q

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

Changes in the mix of services and other direct costs provided under our contracts can result in variability in our direct costs as a percentage of revenue. For example, when we perform work in the area of implementation, we expect that more of our services will be performed in client-provided facilities and/or with dedicated staff. Such work generally has a higher proportion of direct costs than much of our current advisory work, and we anticipate that higher utilization of such staff will decrease indirect expenses. In addition, to the extent we are successful in winning larger contracts, our own labor services component could decrease because larger contracts

Table of Contents

typically are broader in scope and require more diverse capabilities, potentially resulting in more subcontracted labor, more other direct costs, and lower margins. Although these factors could lead to a higher ratio of direct costs as a percentage of revenue, the economics of these larger jobs are nonetheless generally favorable because they increase income, broaden our revenue base, and have a favorable return on invested capital.

OPERATING EXPENSES

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

Indirect and selling expenses

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

Equity compensation

Incentive stock awards are measured at fair value. We have elected to use the Black-Scholes-Merton option pricing model to value any options granted and to amortize compensation expense relating to share-based payments on a straight-line basis over the requisite service period. We will reconsider the use of the Black-Scholes-Merton model if additional information becomes available in the future that indicates another model would be more appropriate or if grants issued in future periods have characteristics that prevent their value from being reasonably estimated using this model.

Property and equipment

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

Goodwill and other intangible assets

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

We perform our annual goodwill impairment review as of September 30 of each year. For the purposes of performing this review, we have concluded that the Company is one reporting unit. We estimate fair value of our one reporting unit using a market based approach.

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

Table of Contents

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

Recent pronouncements

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

RESULTS OF OPERATIONS**Three Months ended June 30, 2012, compared to Three Months ended June 30, 2011**

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

	Three Months Ended June 30,				Year-to-Year Change	
	2012		2011		Three Months Ended June 30, 2011 to 2012	
	Dollars (In Thousands)		Percentages		Dollars (In Thousands)	Percent
Gross Revenue	\$ 239,649	\$ 213,395	100.0%	100.0%	\$ 26,254	12.3%
Direct Costs	147,861	133,522	61.7%	62.6%	14,339	10.7%
Operating Costs and Expenses						
Indirect and selling expenses	67,404	59,239	28.1%	27.7%	8,165	13.8%
Depreciation and amortization	2,800	2,778	1.2%	1.3%	22	0.8%
Amortization of intangible assets	3,519	2,321	1.5%	1.1%	1,198	51.6%
Total Operating Costs and Expenses	73,723	64,338	30.8%	30.1%	9,385	14.6%
Operating Income	18,065	15,535	7.5%	7.3%	2,530	16.3%
Other (Expense) Income						
Interest expense	(611)	(564)	(0.2)%	(0.3)%	(47)	8.3%
Other income	(212)	(29)	(0.1)%	(0.0)%	(183)	631.0%
Income before Income Taxes	17,242	14,942	7.2%	7.0%	2,300	15.4%
Provision for Income Taxes	6,896	5,979	2.9%	2.8%	917	15.3%
Net Income	\$ 10,346	\$ 8,963	4.3%	4.2%	\$ 1,383	15.4%

Gross Revenue. Revenue for the three months ended June 30, 2012, was \$239.6 million, compared to \$213.4 million for the three months ended June 30, 2011, representing an increase of \$26.3 million or 12.3%. Excluding the impact of the acquisitions of Ironworks and GHK, revenue increased by \$2.1 million, compared to the three months ended June 30, 2011. Revenue growth, compared to the prior year quarter, was strongest within our commercial client base, specifically in our energy, environment and infrastructure market, and our health, social programs and consumer/financial market.

Direct costs. Direct costs for the three months ended June 30, 2012, were \$147.9 million compared to \$133.5 million for the three months ended June 30, 2011, an increase of \$14.3 million or 10.7%. The increase in direct costs is primarily attributable to an increase in direct labor expense and subcontractor expense, primarily resulting from the acquisitions of Ironworks and GHK. Direct costs as a percent of revenue decreased to 61.7% for the three months ended June 30, 2012, compared to 62.6% for the three months ended June 30, 2011.

Edgar Filing: ICF International, Inc. - Form 10-Q

Indirect and selling expenses. Indirect and selling expenses for the three months ended June 30, 2012 were \$67.4 million compared to \$59.2 million for the three months ended June 30, 2011, an increase of \$8.2 million or 13.8%. The increase in indirect and selling expenses is primarily attributable to an increase in indirect labor, primarily resulting from the acquisitions of Ironworks and GHK. Indirect and selling expenses as a percent of revenue increased to 28.1% for the three months ended June 30, 2012, compared to 27.7% for the three months ended June 30, 2011.

Table of Contents

Depreciation and amortization. Depreciation and amortization was \$2.8 million for the three months ended June 30, 2012 and 2011, respectively.

Amortization of intangible assets. Amortization of intangible assets for the three months ended June 30, 2012, was \$3.5 million compared to \$2.3 million for the three months ended June 30, 2011. The 51.6% increase resulted primarily from the acquisitions of Ironworks and GHK.

Operating Income. For the three months ended June 30, 2012, operating income was \$18.1 million compared to \$15.5 million for the three months ended June 30, 2011, an increase of \$2.5 million or 16.3%. Operating income as a percent of revenue increased to 7.5% for the three months ended June 30, 2012, from 7.3% for the three months ended June 30, 2011. Operating income and operating income as a percent of revenue increased due to growth in revenue outpacing the growth in costs.

Interest expense. Interest expense was \$0.6 million for the three months ended June 30, 2012 and 2011, respectively.

Provision for Income Taxes. The effective income tax rate for the three months ended June 30, 2012, and June 30, 2011, was 40.0%.

Six Months ended June 30, 2012, compared to Six Months ended June 30, 2011

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

	Six Months Ended June 30,				Year-to-Year Change Six Months Ended June 30, 2011 to 2012	
	2012	2011	2012	2011	Dollars (In Thousands)	Percent
	Dollars (In Thousands)		Percentages			
Gross Revenue	\$ 467,290	\$ 408,137	100.0%	100.0%	\$ 59,153	14.5%
Direct Costs	288,049	251,743	61.6%	61.7%	36,306	14.4%
Operating Costs and Expenses						
Indirect and selling expenses	133,257	117,147	28.5%	28.6%	16,110	13.8%
Depreciation and amortization	4,615	5,539	1.0%	1.4%	(924)	(16.7)%
Amortization of intangible assets	7,050	4,736	1.5%	1.2%	2,314	48.9%
Total Operating Costs and Expenses	144,922	127,422	31.0%	31.2%	17,500	13.7%
Operating Income	34,319	28,972	7.4%	7.1%	5,347	18.5%
Other (Expense) Income						
Interest expense	(1,918)	(1,193)	(0.4)%	(0.3)%	(725)	60.8%
Other income	(263)	40	(0.1)%	0.0%	(303)	(757.5)%
Income before Income Taxes	32,138	27,819	6.9%	6.8%	4,319	15.5%
Provision for Income Taxes	12,855	11,130	2.8%	2.7%	1,725	15.5%
Net Income	\$ 19,283	\$ 16,689	4.1%	4.1%	\$ 2,594	15.5%

Gross Revenue. Revenue for the six months ended June 30, 2012, was \$467.3 million, compared to \$408.1 million for the six months ended June 30, 2011, representing an increase of \$59.2 million or 14.5%. Excluding the impact of the acquisitions of Ironworks and GHK, revenue increased by \$15.8 million, compared to the six months ended June 30, 2011. Revenue growth, compared to the prior year, was achieved across our commercial and government client base, specifically in our energy, environment and infrastructure market, and our health, social programs and consumer/financial market.

Direct costs. Direct costs for the six months ended June 30, 2012, were \$288.0 million compared to \$251.7 million for the six months ended June 30, 2011, an increase of \$36.3 million or 14.4%. The increase in direct costs is primarily attributable to an increase in direct labor expense and subcontractor expense, primarily resulting from the acquisitions of Ironworks and GHK. Direct costs as a percent of revenue decreased to

Edgar Filing: ICF International, Inc. - Form 10-Q

61.6% for the six months ended June 30, 2012, compared to 61.7% for the six months ended June 30, 2011.

Indirect and selling expenses. Indirect and selling expenses for the six months ended June 30, 2012 were \$133.3 million compared to \$117.1 million for the six months ended June 30, 2011, an increase of \$16.1 million or 13.8%. The increase in indirect and selling expenses is primarily attributable to an increase in indirect labor, primarily resulting from the acquisitions of Ironworks and GHK. Indirect and selling expenses as a percent of revenue decreased to 28.5% for the six months ended June 30, 2012, compared to 28.6% for the six months ended June 30, 2011.

Table of Contents

Depreciation and amortization. Depreciation and amortization for the six months ended June 30, 2012, was \$4.6 million compared to \$5.5 million for the six months ended June 30, 2011. The decrease in depreciation and amortization of \$0.9 million was partially due to a change in the estimated useful lives of certain technology-related assets, and partially due to other assets that had been fully depreciated as of June 30, 2012, but had not been fully depreciated as of June 30, 2011.

Amortization of intangible assets. Amortization of intangible assets for the six months ended June 30, 2012, was \$7.1 million compared to \$4.7 million for the six months ended June 30, 2011. The 48.9% increase resulted primarily from the acquisitions of Ironworks and GHK.

Operating Income. For the six months ended June 30, 2012, operating income was \$34.3 million compared to \$29.0 million for the six months ended June 30, 2011, an increase of \$5.3 million or 18.5%. Operating income as a percent of revenue increased to 7.4% for the six months ended June 30, 2012, from 7.1% for the six months ended June 30, 2011. Operating income and operating income as a percent of revenue increased due to growth in revenue outpacing the growth in costs.

Interest expense. For the six months ended June 30, 2012, interest expense was \$1.9 million, compared to \$1.2 million for the six months ended June 30, 2011. The \$0.7 million increase was due primarily to an increase in the average debt balance related to the acquisitions of Ironworks and GHK.

Provision for Income Taxes. The effective income tax rate for the six months ended June 30, 2012, and June 30, 2011, was 40.0%.

SELECTED KEY METRICS**Revenue**

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

Energy, environment, and infrastructure;

Health, social programs, and consumer/financial; and

Public safety and defense.

In the first quarter of 2012, we modified the names of each of our key markets. Energy, environment, and transportation is now energy, environment, and infrastructure; health, education, and social programs is now health, social programs, and consumer/financial; and homeland security and defense is now public safety and defense.

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

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Energy, environment, and infrastructure	42%	42%	41%	41%
Health, social programs, and consumer/financial	44%	43%	45%	43%
Public safety and defense	14%	15%	14%	16%
Total	100%	100%	100%	100%

Table of Contents

In the second quarter of 2012, we modified our key client classifications to reflect our current business and growth. Previously, four client classifications were provided, which included U.S. federal government, U.S. state and local government, U.S. commercial, and non-U.S. clients. These previous client types have been re-categorized into two broader client classifications, government and commercial. Our primary clients are the agencies and departments of the U.S. federal and state governments. The following table shows our revenue by type of client as a percentage of total revenue for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
U.S. federal government	59%	67%	61%	67%
U.S. state and local government	10%	10%	10%	10%
Non-U.S. government	4%	1%	3%	2%
Government	73%	78%	74%	79%
Commercial	27%	22%	26%	21%
Total	100%	100%	100%	100%

The decrease in U.S. federal government revenue and the increase in commercial revenue as a percent of total revenue, for the three months and six months ended June 30, 2012, compared to the three months and six months ended June 30, 2011, is primarily attributable to revenue from the acquisition of Ironworks.

Contract mix

Our contracts with clients include time-and-materials contracts, fixed-priced contracts, and cost-based contracts (including cost-based fixed fee, cost-based award fee, and cost-based incentive fee, as well as grants and cooperative agreements). Our contract mix varies from year to year due to numerous factors, including our business strategies and the procurement activities of our clients. Unless the context requires otherwise, we use the term "contracts" to refer to contracts and any task orders or delivery orders issued under a contract.

The following table shows the approximate percentage of our revenue from each of these types of contracts for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Time-and-materials	49%	49%	50%	50%
Fixed-price	30%	27%	29%	27%
Cost-based	21%	24%	21%	23%
Total	100%	100%	100%	100%

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

Edgar Filing: ICF International, Inc. - Form 10-Q

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

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

Table of Contents

contracts specify the fee to be paid. Cost-based incentive-fee and cost-based award-fee contracts provide for increases or decreases in the contract fee, within specified limits, based upon actual results as compared to contractual targets for factors such as cost, quality, schedule, and performance.

Contract backlog

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

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

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

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

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

	June 30,	
	2012	2011
	(in millions)	
Funded	\$ 715.6	\$ 578.8
Unfunded	825.2	\$ 770.6
Total	\$ 1,540.8	\$ 1,349.4

As of June 30, 2012 there were no contracts included in backlog that are under protest.

CAPITAL RESOURCES, FINANCIAL CONDITION, AND LIQUIDITY

Credit Facility. We entered into a Third Amended and Restated Business Loan and Security Agreement (Credit Facility) on March 14, 2012, with a syndication of eleven commercial banks to allow for borrowings of up to \$500.0 million for a period of five years (maturing March 14, 2017) under a revolving line of credit. The new Credit Facility amends and restates the previous agreement entered into on February 20, 2008,

Edgar Filing: ICF International, Inc. - Form 10-Q

which had allowed for borrowings of up to \$350.0 million. The Credit Facility provides for borrowings of up to \$400.0 million without a borrowing base requirement, and also provides for an accordion feature, which permits additional revolving credit commitments of up to \$100.0 million, subject to lenders' approval. We incurred approximately \$1.9 million in additional debt issuance costs related to the amended Credit Facility which will be amortized over the term of the agreement. The Credit Facility is collateralized by substantially all of the assets of the Company, and requires that we remain in compliance with certain financial and non-financial covenants. The financial covenants, as defined by the Credit Facility, require that we maintain, on a consolidated basis for each quarter, a fixed charge coverage ratio of not less than 1.00 to 1.25 and a leverage ratio of not more than 1.00 to 3.75. As of June 30, 2012, we were in compliance with the covenants under the Credit Facility.

Table of Contents

We have the ability to borrow funds under our Credit Facility at interest rates based on both LIBOR and prime rates, at our discretion, plus their applicable margins. Interest rates on debt outstanding ranged from 1.7% to 3.5% during the second quarter of 2012.

Financial Condition. There were several changes in our balance sheet during the six months ended June 30, 2012. Contract receivables, net increased to \$219.8 million on June 30, 2012, from \$209.4 million on December 31, 2011, primarily due to the acquisition of GHK. Days-sales-outstanding were 74 days on June 30, 2012, and were 75 days on December 31, 2011. Goodwill increased to \$407.9 million on June 30, 2012, from \$401.1 million on December 31, 2011, due to the acquisition of GHK and purchase price allocation changes for the acquisition of Ironworks. Other intangible assets, net decreased to \$28.0 million on June 30, 2012, from \$33.7 million on December 31, 2011, due to amortization, partially offset by the acquisition of GHK. Other long-term liabilities increased to \$10.9 million on June 30, 2012, from \$5.8 million on December 31, 2011, primarily due to a long-term technology related license agreement.

With the continued expansion and implementation of our international growth strategy, and coinciding with our acquisition of GHK, we have begun to explore various options of mitigating the risk associated with potential fluctuations in the foreign currencies in which we conduct transactions. In addition to a forward contract agreement (hedge) that we acquired with our acquisition of GHK, in the second quarter of 2012 we entered into a new hedge in an amount proportionate to work anticipated to be performed under certain contracts in Europe. We recognize changes in the fair-value of the hedges in our results of operations. As we continue to implement our international growth strategy, we may increase the size and scope of our hedges as we analyze options for mitigating our foreign exchange risk. The current impact of the hedge to the consolidated financial statements is immaterial.

Liquidity and Borrowing Capacity. Short-term liquidity requirements are created by our use of funds for working capital, capital expenditures, and the need to provide any debt service. We expect to meet these requirements through a combination of cash flow from operations and borrowings under our Credit Facility. As of June 30, 2012, we had \$143.5 million borrowed under our Credit Facility, outstanding letters of credit of \$2.9 million, and unused borrowing capacity of \$253.6 million, which is available for our working capital needs and other purposes.

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

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

Cash and Cash Equivalents. We consider cash on deposit and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. Cash was \$5.3 million and \$4.1 million on June 30, 2012, and December 31, 2011, respectively.

Cash Flow. The following table sets forth our sources and uses of cash for the six months ended June 30, 2012, and June 30, 2011:

	Six Months Ended	
	June 30,	
	2012	2011
	(in thousands)	
Net cash provided by operating activities	\$ 28,421	\$ 29,382
Net cash used in investing activities	(16,634)	(8,785)
Net cash used in financing activities	(10,008)	(21,421)
Effect of exchange rate on cash	(619)	200
Net increase (decrease) in cash	\$ 1,160	\$ (624)

Our operating cash flow is primarily affected by the overall profitability of our contracts, our ability to invoice and collect from our clients in a timely manner, and our ability to manage our vendor payments. We bill most of our clients monthly after services are rendered. Operating activities provided cash of \$28.4 million for the six months ended June 30, 2012, and \$29.4 million for the six months ended June 30, 2011.

Edgar Filing: ICF International, Inc. - Form 10-Q

Cash flows from operating activities for the first six months of 2012 were positively impacted by other liabilities and accrued salaries and benefits, and were negatively impacted by net income taxes payable and accounts payable. Cash flows from operating activities for the first six months of 2011 were positively impacted by accounts payable and accrued salaries and benefits, and were negatively impacted by contract receivables, net and prepaid expenses and other assets.

Investing activities used cash of \$16.6 million for the six months ended June 30, 2012, compared to \$8.8 million for the six months ended June 30, 2011. The cash used in investing activities for the first six months of 2012 was primarily for our acquisition of GHK and capital expenditures. The cash used in investing activities for the first six months of 2011 was primarily for our business combination of Marbek and capital expenditures.

Table of Contents

For the six months ended June 30, 2012, cash flow used in financing activities of \$10.0 million was attributable primarily to \$7.3 million in net payments for stockholder issuances and the stock buybacks through our share repurchase program, and \$1.5 million in net advances from our credit line. For the six months ended June 30, 2011, cash flow used in financing activities of \$21.4 million was primarily due to \$21.6 million in net repayments to our revolving line of credit.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

We use off-balance sheet arrangements to finance the lease of facilities. We have financed the use of all of our office and storage facilities through operating leases. Operating leases are also used from time to time to finance the use of computers, servers, copiers, telephone systems, and to a lesser extent, other fixed assets, such as furnishings, and we also obtain operating leases in connection with business acquisitions. We generally assume the lease rights and obligations of companies acquired in business combinations and continue financing facilities and equipment under operating leases until the end of the lease term following the acquisition date.

The Credit Facility provides for stand-by letters of credit aggregating up to \$20.0 million that reduce the funds available under the revolving line of credit when issued. As of June 30, 2012, we had 8 outstanding letters of credit with a total value of \$2.9 million.

The following table summarizes our contractual obligations as of June 30, 2012 that require us to make future cash payments. For contractual obligations, we included payments that we have an unconditional obligation to make.

	Total	Payments due by Period (In thousands)			More than 5 years
		Less than 1 year	1 to 3 years	3 to 5 years	
Rent of facilities	\$ 236,636	\$ 27,513	\$ 48,062	\$ 43,271	\$ 117,790
Operating lease obligations	2,375	1,188	1,004	183	
Long-term debt obligation	143,530			143,530	
Total	\$ 382,541	\$ 28,701	\$ 49,066	\$ 186,984	\$ 117,790

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the disclosures discussed in the section entitled "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 4. Controls and Procedures

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

Limitations on the Effectiveness of Controls. Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent

Edgar Filing: ICF International, Inc. - Form 10-Q

limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Because of the inherent limitations in any control system, misstatements due to error or fraud may occur and not be detected.

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

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

Item 1A. Risk Factors

Investing in our common stock involves risk. There are numerous and varied risks, known and unknown, that may affect us and prevent us from achieving our goals. There have been no material changes in those risk factors discussed in the section entitled "Risk Factors" disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011.

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

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

Issuances of Common Stock. For the three months ended June 30, 2012, a total of 1,061 shares of unregistered common stock, valued at an aggregate of \$27,713, were issued to two directors of the Company in lieu of cash for director fee compensation on April 2, 2012. The issuance of these shares is exempt under Section 4(2) of the Securities Act of 1933, as amended.

Purchase of Equity. During the three months ended June 30, 2012, the Company purchased 44,659 shares of Company common stock for an aggregate of \$1.1 million from employees to pay required withholding taxes and the exercise price due upon the exercise of options and the settlement of RSUs, in accordance with the applicable long-term incentive plan. The average fair value of the common stock purchased was \$24.44 per share.

During the three months ended June 30, 2012, the Company repurchased 259,673 shares of Company common stock at a weighted average price of \$22.42 per share under its share repurchase program.

The following tables summarize the Company's stock repurchases for the three months ended June 30, 2012:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share
<i>Shares purchased in satisfaction of tax withholding obligations</i>		
April 1 - April 30	33,537	\$ 25.22
May 1 - May 31	11,122	\$ 22.08
June 1 - June 30		\$
Total	44,659	\$ 24.44

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly	(d) Maximum Number (or Approximate Dollar Value) of Shares that
--------	---	--	---	--

Edgar Filing: ICF International, Inc. - Form 10-Q

				Announced Plans or Programs *		May Yet Be Purchased Under the Plans or Programs *
<i>Shares purchased pursuant to share repurchase program</i>						
April 1	April 30		\$			\$ 35,000,000
May 1	May 31	259,673	\$ 22.42	259,673	\$	29,172,483
June 1	June 30		\$		\$	29,172,483
Total		259,673	\$ 22.42	259,673	\$	29,172,483

Table of Contents

* On November 2, 2011, the Company announced that its Board of Directors had approved a share repurchase program. Under this program, the Company is authorized to repurchase, in the aggregate, \$35.0 million of its outstanding stock.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit

Number	Exhibit
10.1	Offer Letter between ICF International, Inc. and James Morgan.
10.2	Severance Letter Agreement between ICF International, Inc. and James Morgan.
31.1	Certificate of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a).
31.2	Certificate of the Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the ICF International, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements.*

* Submitted electronically herewith.

Table of Contents

SIGNATURES

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

ICF INTERNATIONAL, INC.

August 6, 2012

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

August 6, 2012

By: /s/ James Morgan
James Morgan
Chief Financial Officer

(Principal Financial Officer)