

ICF International, Inc.  
Form 10-Q  
November 07, 2008  
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 SEPTEMBER 30, 2008**

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

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

**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 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  Smaller reporting company  
(Do not check if a 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 November 1, 2008, there were 14,877,813 shares outstanding of the registrant's common stock.

**Table of Contents**

**ICF INTERNATIONAL, INC.**

**QUARTERLY REPORT ON FORM 10-Q FOR THE**

**PERIOD ENDED SEPTEMBER 30, 2008**

**TABLE OF CONTENTS**

<b><u>PART I. FINANCIAL INFORMATION</u></b>	<b>3</b>
Item 1. <u>Financial Statements</u>	3
<u>Consolidated Balance Sheets at September 30, 2008 (Unaudited) and December 31, 2007</u>	3
<u>Consolidated Statements of Earnings (Unaudited)</u>	5
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Forward-Looking Statements</u>	12
<u>Overview</u>	12
<u>Outlook</u>	13
<u>Description of Critical Accounting Policies</u>	13
<u>Direct Costs</u>	15
<u>Operating Costs and Expenses</u>	16
<u>Income Tax Expense</u>	16
<u>Results of Operations</u>	16
<u>Selected Key Metrics</u>	19
<u>Financial Condition, Liquidity and Capital Resources</u>	21
<u>Off-Balance Sheet Arrangements and Contractual Obligations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	22
Item 4. <u>Controls and Procedures</u>	23
<b><u>PART II. OTHER INFORMATION</u></b>	<b>23</b>
Item 1. <u>Legal Proceedings</u>	23
Item 1A. <u>Risk Factors</u>	23
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
Item 3. <u>Defaults Upon Senior Securities</u>	24
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	24
Item 5. <u>Other Information</u>	24
Item 6. <u>Exhibits</u>	24

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ICF International, Inc. and Subsidiaries****CONSOLIDATED BALANCE SHEETS AT****SEPTEMBER 30, 2008 (UNAUDITED) AND DECEMBER 31, 2007**

(in thousands)

**Assets**

	<b>September 30, 2008</b> <i>(Unaudited)</i>	<b>December 31, 2007</b>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 2,699	\$ 2,733
Contract receivables, net	156,199	190,159
Prepaid expenses and other	4,962	3,955
Income tax receivable	1,140	1,933
Deferred income taxes	5,613	3,902
<b>Total current assets</b>	<b>170,613</b>	<b>202,682</b>
<b>Total property and equipment, net</b>	<b>14,340</b>	<b>7,541</b>
<b>Other assets:</b>		
Goodwill	200,061	159,491
Other intangible assets, net	19,086	17,710
Restricted cash	2,644	3,668
Other assets	3,078	1,933
<b>Total assets</b>	<b>\$ 409,822</b>	<b>\$ 393,025</b>

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

**Table of Contents****ICF International, Inc. and Subsidiaries****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share amounts)

**Liabilities and Stockholders' Equity**

	September 30, 2008 <i>(Unaudited)</i>	December 31, 2007
<b>Current Liabilities:</b>		
Accounts payable	\$ 23,510	\$ 74,260
Accrued expenses	42,190	47,084
Accrued salaries and benefits	32,115	27,801
Deferred revenue	12,299	16,067
<b>Total current liabilities</b>	<b>110,114</b>	<b>165,212</b>
<b>Long-term liabilities:</b>		
Long-term debt	89,692	47,079
Deferred rent	2,300	1,773
Deferred income taxes	11,449	9,109
Other	1,733	5,061
<b>Total Liabilities</b>	<b>215,288</b>	<b>228,234</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity:</b>		
Preferred stock, par value \$.001 per share; 5,000,000 shares authorized; none issued		
Common stock, \$.001 par value; 70,000,000 shares authorized; 14,854,014 and 14,593,723 issued; and 14,779,602 and 14,531,521 outstanding as of September 30, 2008, and December 31, 2007, respectively	15	15
Additional paid-in capital	117,876	109,795
Treasury stock, at cost	(1,438)	(746)
Accumulated other comprehensive income	125	361
Stockholder notes receivable	(12)	(21)
Retained earnings	77,968	55,387
<b>Total stockholders' equity</b>	<b>194,534</b>	<b>164,791</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 409,822</b>	<b>\$ 393,025</b>

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

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

(in thousands, except per share amounts)

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Gross Revenue	\$ 176,281	\$ 198,813	\$ 535,493	\$ 540,697
Direct Costs	115,421	147,468	355,138	398,260
Operating costs and expenses:				
Indirect and selling expenses	44,251	29,639	128,344	85,107
Depreciation and amortization	1,706	622	3,891	1,727
Amortization of intangible assets	2,241	1,257	6,442	2,493
Total operating costs and expenses	48,198	31,518	138,677	89,327
Operating Income	12,662	19,827	41,678	53,110
Interest expense	(785)	(654)	(3,032)	(1,392)
Other income	67	54	15	490
Income before taxes	11,944	19,227	38,661	52,208
Provision for income taxes	5,076	8,133	16,080	21,272
Net income	\$ 6,868	\$ 11,094	\$ 22,581	\$ 30,936
Earnings per Share:				
Basic	\$ 0.47	\$ 0.78	\$ 1.55	\$ 2.20
Diluted	\$ 0.45	\$ 0.74	\$ 1.48	\$ 2.09
Weighted-average Shares:				
Basic	14,631	14,299	14,570	14,060
Diluted	15,283	14,999	15,209	14,800

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)

	<b>Nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 22,581	\$ 30,936
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,333	4,220
Non-cash compensation	4,827	2,189
Accrued interest on stockholder notes		(21)
Loss on disposal of fixed assets	122	5
Deferred income taxes	(4,736)	(1,715)
Changes in operating assets and liabilities, net of the effect of acquisitions:		
Contract receivables, net	51,932	(36,950)
Prepaid expenses and other	327	(1,506)
Accounts payable	(55,083)	17,725
Accrued expenses	(7,685)	20,833
Accrued salaries and benefits	543	7,731
Deferred revenue	(3,887)	(3,995)
Income tax payable	36	(2,706)
Deferred rent	569	1
Other liabilities	(3,738)	(1,177)
<b>Net cash provided by operating activities</b>	<b>16,141</b>	<b>35,570</b>
<b>Cash flows from investing activities</b>		
Capital expenditures	(9,257)	(2,646)
Capitalized software development costs	(245)	(300)
Payments for business acquisitions, net of cash acquired	(51,334)	(40,796)
<b>Net cash used in investing activities</b>	<b>(60,836)</b>	<b>(43,742)</b>
<b>Cash flows from financing activities</b>		
Advances from working capital facilities	227,878	216,089
Payments on working capital facilities	(185,265)	(216,089)
Restricted cash	1,024	72
Debt issue costs	(1,311)	(82)
Proceeds from exercise of options	1,200	3,851
Tax benefits of stock option exercises	2,047	2,960
Net payments for stockholder issuances and buybacks	(685)	(285)
Proceeds on stockholder notes	9	536
<b>Net cash provided by financing activities</b>	<b>44,897</b>	<b>7,052</b>
Effect of Exchange Rate on Cash	(236)	197
<b>Net decrease in cash and cash equivalents</b>	<b>(34)</b>	<b>(923)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>2,733</b>	<b>2,997</b>

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

<b>Cash and cash equivalents, end of period</b>	\$ 2,699	\$ 2,074
---	----------	----------

**Supplemental disclosure of cash flow information**

Cash paid during the period for:

Interest	\$ 2,714	\$ 1,135
----------	----------	----------

Income taxes	\$ 20,694	\$ 23,037
--------------	-----------	-----------

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



---

## **Table of Contents**

### **Notes to Consolidated Financial Statements**

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

#### **Note 1. Basis of Presentation and Nature of Operations**

##### **Interim Results**

The unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). These rules and regulations permit some of the information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( US GAAP ) to be condensed or omitted. In management 's opinion, the unaudited consolidated financial statements contain all adjustments, that are of a normal recurring nature, necessary for a fair statement of the Company 's results for the three-month and nine-month periods ended September 30, 2008, and September 30, 2007. Operating results for the three-month and nine-month periods ended September 30, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007, and the notes thereto included in the Company 's Annual Report on Form 10-K, filed with the SEC on March 17, 2008.

##### **Basis of Presentation and Nature of Operations**

The accompanying consolidated financial statements include the accounts of ICF International, Inc. ( ICFI ) and its subsidiaries (collectively, the Company ). The Company provides management, technology, and policy professional services in the areas of energy and climate change, environment and infrastructure, health, human services and social programs, and homeland security and defense. The Company 's major clients are the State of Louisiana and United States ( U.S. ) government agencies, especially the Department of Health and Human Services ( HHS ), Department of Defense ( DoD ), Environmental Protection Agency ( EPA ), Department of Homeland Security ( DHS ), Department of Transportation ( DOT ), Department of Justice ( DOJ ), Department of Housing and Urban Development ( HUD ), and Department of Energy ( DOE ); commercial and international clients, primarily in the air transportation and energy sectors, including airlines, airports, electric and gas utilities, oil companies, and law firms; and other government organizations throughout the U.S. and the world. The Company offers a full range of services to these clients, including strategy, analysis, program management, and information technology solutions that combine experienced professional staff, industry and institutional knowledge, and analytical methods.

The Company, incorporated in Delaware, is headquartered in Fairfax, Virginia, with over 30 domestic regional offices and international offices in London, Moscow, New Delhi, Rio de Janeiro, and Toronto.

#### **Note 2. Acquisitions**

*Jones & Stokes Associates, Inc.* In February 2008, the Company acquired 100 percent of the outstanding common stock of Jones & Stokes Associates, Inc. ( Jones & Stokes ), a privately held firm that provides integrated planning and resource management services, specializing in the transportation, energy, water, and natural resource management sectors. Jones & Stokes supports a broad mix of commercial and federal, state, and local government clients on projects to plan and implement infrastructure improvements and mandated government programs. The Company undertook the acquisition to expand ICFI 's environmental and large project implementation capabilities across such strategic growth areas as transportation and infrastructure, energy, climate change, and water resources. The Company also undertook the acquisition to expand its presence in the western U.S. markets, where natural resources issues are a growing concern and where Jones & Stokes has outstanding market presence.

The acquisition was accounted for as a purchase in accordance with the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 141, *Business Combinations* ( SFAS No. 141 ). The aggregate purchase price was approximately \$50.4 million, including \$49.0 million of cash and \$1.4 million of transaction expenses. The Company engaged an independent valuation firm to assist management in the allocation of the purchase price to goodwill and to other acquired intangible assets. The excess of the purchase price over the estimated fair value of the net tangible assets acquired was approximately \$48.7 million. The Company has preliminarily allocated approximately \$43.7 million to goodwill and \$5.0 million to other intangible assets. The intangible assets consist of customer-related intangibles and marketing-related intangibles in the amounts of approximately \$2.9 million and \$2.1 million, respectively. The customer-related intangibles and marketing-related intangibles are being amortized over seven years and two years, respectively. Neither the goodwill nor the amortization of intangibles is deductible for tax purposes. The results of operations for Jones & Stokes have been included in the Company 's statement of operations since February 11, 2008.

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

During the second and third quarters of 2008, the Company's estimated fair value of net tangible assets acquired decreased by \$1.1 million, primarily due to an increase in deferred tax liability. The aggregate purchase price increased by \$0.4 million (due to a working capital adjustment), and other intangible assets increased by \$1.9 million.

**Table of Contents**

Management's estimates of the fair values of the other acquired assets are as of the acquisition date and are based on its initial analysis of supporting information. Additionally, the purchase price for the transaction may change based upon final settlement of any pre-acquisition contingencies in accordance with SFAS No. 141.

**Simat, Helliesen & Eichner, Inc.** In December 2007, the Company acquired 100 percent of the outstanding common shares of Simat, Helliesen & Eichner, Inc. (SH&E), a privately held aviation transportation consulting firm that provides strategy, policy, regulatory, financial, and technical consulting services to airlines, airports, and other public and private industry stakeholders. The Company believes that the acquisition will enhance its transportation service offerings, which had been concentrated primarily on surface transportation, with federal, state, and industry clients; enhance its position in key federal markets such as the Federal Aviation Administration and Transportation Security Administration; and allow the Company to combine its climate change expertise with SH&E's strong aviation presence to be a leader in the expanding air transport and climate change market.

The acquisition was accounted for as a purchase in accordance with the provisions of SFAS No. 141. The aggregate purchase price was approximately \$53.0 million, including \$52.0 million of cash and \$1.0 million of transaction expenses. The Company engaged an independent valuation firm to assist management in the allocation of the purchase price to goodwill and to other acquired intangible assets. The excess of the purchase price over the estimated fair value of the net tangible assets acquired was approximately \$47.6 million. The Company has preliminarily allocated approximately \$38.2 million to goodwill and \$9.4 million to other intangible assets and expects to finalize this allocation by the end of 2008. The intangible assets consist of customer-related intangibles, developed technology, and marketing-related intangibles in the amounts of approximately \$6.6 million, \$2.3 million and \$0.5 million, respectively. The customer-related intangibles, developed technology, and marketing related intangibles are being amortized over seven years, six years, and one year, respectively. Neither the goodwill nor the amortization of intangibles is deductible for tax purposes. The results of operations for SH&E have been included in the Company's statement of operations since December 3, 2007.

Management's estimates of the fair values of the acquired assets are as of the acquisition date and are based on its initial analysis of supporting information. The final results of the Company's analysis may differ from the preliminary purchase price allocation. Additionally, the purchase price for the transaction may change based upon final settlement of any pre-acquisition contingencies in accordance with SFAS No. 141.

**Note 3. Contract Receivables**

Contract receivables consisted of the following (in thousands of dollars):

	September 30, 2008	December 31, 2007
Billed	\$ 120,513	\$ 141,484
Unbilled	40,868	52,208
Allowance for doubtful accounts	(5,182)	(3,533)
Contract receivables, net	\$ 156,199	\$ 190,159

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

The allowance for doubtful accounts is determined based upon management's best estimate of potentially uncollectible contract receivables, taking into account management's expectations of future losses on a contract-by-contract basis. The Company writes off contract receivables when such amounts are determined to be uncollectible. Losses have historically been within management's expectations.

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

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

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

---

## **Table of Contents**

**Note 5. Debt**

As of September 30, 2008, the Company had \$89.7 million in debt outstanding. During the nine months ended September 30, 2008, the Company incurred net borrowings of \$42.6 million on its revolving credit facility. The Company used these borrowed funds to finance acquisitions and working capital. The Company amended its credit facility on February 14, 2008, to increase the capacity of its revolving line of credit from \$115.0 million to \$125.0 million. On February 20, 2008, the Company signed the Second Amended and Restated Business Loan and Security Agreement with a syndication of nine commercial banks to allow for borrowings of up to \$350.0 million for a period of five years (until February 20, 2013). The Company borrowed funds under its revolving facility at interest rates based on both LIBOR and prime rates, at its discretion, plus their applicable margins. These interest rates ranged from 3.35% to 4.09% during the quarter. The unused credit facility as of September 30, 2008, was \$184.4 million.

**Note 6. Accounting for Stock-Based Compensation****Stock Incentive Plans**

On June 25, 1999, the Company adopted the ICF Consulting Group, Inc. Management Stock Option Plan (the 1999 Plan). The 1999 Plan provides for the granting of straight and incentive awards to employees of the Company to purchase shares of the Company's common stock. A total of 1,334,027 shares of common stock were originally reserved for issuance under the 1999 Plan. In May 2002, the Company amended the 1999 Plan to reserve an additional 238,313 shares for issuance. The exercise price for straight awards granted under the 1999 Plan was not to be less than \$5.00 per share. The option price for incentive awards granted under the 1999 Plan was determined by the Compensation Committee of the Board of Directors based upon the fair market value of the Company's common stock on the date of grant. Awards are no longer being made under the 1999 Plan, and the 1999 Plan will expire in June 2009. A total of 23,692 share equivalents remain available under the 1999 Plan.

Effective with the Company's initial public offering of stock in September 2006, a long-term equity incentive plan (the 2006 Plan) was adopted. The 2006 Plan permits the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, performance units, and other incentive awards, including restricted stock units and cash incentives. Under the 2006 Plan, the Company may make awards of up to 1,000,000 shares, plus an annual increase on the first day of each of the Company's fiscal years, beginning in 2007, equal to the lesser of three percent (3%) of the number of outstanding shares of common stock outstanding as of January 1 or a lesser amount as determined by the Board of Directors (the evergreen provision). Under this evergreen provision, the Board of Directors authorized increases of (a) 217,973 shares as of January 1, 2008, which was one and one-half percent (1.5%) of its shares of common stock outstanding as of that date, and (b) 416,241 shares as of January 1, 2007, which was three percent (3%) of the number of shares outstanding as of that date. Individuals eligible to participate in the 2006 Plan include all officers and key employees of the Company, as determined by the Compensation Committee of the Board of Directors, and all non-employee directors.

**Stock-Based Compensation**

The Company recognized stock-based compensation expense of \$4.8 million in the nine months ended September 30, 2008, and \$2.2 million in the nine months ended September 30, 2007, which is included in indirect and selling expenses.

As of September 30, 2008, and September 30, 2007, there was \$11.7 million and \$7.0 million, respectively, of total unrecognized compensation cost related to unvested stock-based compensation agreements. Unrecognized compensation expense is being recognized over a three- to five-year period on a straight-line basis.

In accordance with SFAS No. 123(R), *Share-Based Payment*, for periods beginning on or after January 1, 2006, excess tax benefits from stock-based compensation plans are presented as financing cash flows. The excess tax benefits totaled approximately \$2.0 million and \$3.0 million for the nine months ended September 30, 2008, and September 30, 2007, respectively.

**Stock Options**

All stock options granted through 2006 were granted under the 1999 Plan. All stock options granted in 2007 were under the 2006 Plan. No stock options were granted during the nine months ended September 30, 2008. The aggregate intrinsic value of options outstanding and exercisable at September 30, 2008, was \$8.4 million. The aggregate intrinsic value of options outstanding but unvested at September 30, 2008, was \$0.2 million.

Compensation expense related to options under the fair value method was \$0.4 million for the nine months ended September 30, 2008, and \$0.3 million for the nine months ended September 30, 2007. Unrecognized expense related to options was \$0.8 million and \$1.3 million for the nine

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

months ended September 30, 2008, and September 30, 2007, respectively.

**Table of Contents**

The following table depicts stock option activity for the nine months ended September 30, 2008:

	Options Outstanding	
	Shares	Weighted-Average Exercise Price
<b>As of December 31, 2007</b>	<b>1,043,561</b>	<b>\$ 8.48</b>
Options forfeited or cancelled	(1,000)	5.00
Options exercised	(216,882)	5.53
<b>As of September 30, 2008</b>	<b>825,679</b>	<b>\$ 9.25</b>

Information regarding stock options outstanding as of September 30, 2008, is summarized below:

Range of Options Exercise Prices	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
	Number of Options Outstanding As of 09/30/08	Weighted Average Remaining Contractual Term (yrs)	Weighted Average Option Exercise Price	Number of Options Exercisable As of 09/30/08	Weighted Average Exercise Price	
\$ 5.00	195,986	1.69	\$ 5.00	195,986	\$ 5.00	
\$ 6.00	29,265	2.25	\$ 6.00	29,265	\$ 6.00	
\$ 6.10	233,223	3.78	\$ 6.10	233,223	\$ 6.10	
\$ 7.34	119,705	5.92	\$ 7.34	119,705	\$ 7.34	
\$ 9.05	37,500	7.46	\$ 9.05	37,500	\$ 9.05	
\$ 18.31	210,000	8.48	\$ 18.31	70,001	\$ 18.31	
\$ 5.00	825,679	4.90	\$ 9.25	685,680	\$ 7.41	

**Restricted Stock Awards**

Pursuant to the 2006 Plan, the Company issued 10,192 shares of restricted stock to two directors on March 14, 2008, which vest over three years on a straight-line basis. The grant date fair value of these restricted stock awards was \$21.19 per share.

Compensation expense computed under the fair value method was \$0.4 million for both the nine months ended September 30, 2008, and September 30, 2007. Unrecognized compensation expense related to restricted stock awards was approximately \$0.6 million and \$1.1 million for the nine months ended September 30, 2008, and September 30, 2007, respectively.

**Restricted Stock Units**

Pursuant to the 2006 Plan, the Company awarded 44,757 restricted stock units ( RSUs ) to employees during the nine months ended September 30, 2008. The RSUs vest over three years and are being expensed on a straight-line basis. When an RSU vests, one share of stock is issued to the employee for each RSU he or she holds. The RSUs were valued based on the grant date value of a share of the Company's common stock. The weighted-average grant date fair value of the RSUs was \$21.23 per share.

Compensation expense related to RSUs computed under the fair value method was \$4.0 million and \$1.5 million for the nine months ended September 30, 2008, and September 30, 2007, respectively. Unrecognized expense related to RSUs was \$10.4 million and \$4.6 million for the nine months ended September 30, 2008, and September 30, 2007, respectively.

The activity related to RSUs during the nine months ended September 30, 2008, was as follows:

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

	<b>Shares</b>
Outstanding December 31, 2007	889,165
Granted	44,757
Vested	(53,507)
Forfeited	(31,300)
Outstanding September 30, 2008	849,115



**Table of Contents****Note 7. Income Taxes**

On January 1, 2007, the Company adopted the provision of Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ).

For the nine months ended September 30, 2008, the Company reduced the \$2.2 million of unrecognized tax benefits at December 31, 2007, by \$1.3 million. Of this reduction, \$1.1 million was predominantly related to filing of amended tax returns to report unrecognized tax benefits from prior acquisitions and \$0.4 million was related to the expiration of the federal statute of limitations for the 2004 tax year, both of which were partially offset by a \$0.2 million addition for new unrecognized tax benefits. The unrecognized tax benefits as of September 30, 2008, were \$0.9 million. Of this total, \$0.7 million would affect the effective tax rate if recognized and the remaining \$0.2 million related to acquisitions would not affect the effective tax rate if recognized, but would be a decrease to goodwill.

The Company files income tax returns in the U.S. and various state and foreign jurisdictions. The 2005 through 2007 tax years remain subject to examination by the Internal Revenue Service and the 2004 through 2007 tax years generally remain subject to examination by state authorities. The Company does not anticipate a significant increase or decrease to the total unrecognized tax benefits during the next 12 months.

The Company reports interest and penalties related to non-acquisition unrecognized tax benefits in net income before tax. For the nine months ended September 30, 2008, the Company reversed approximately \$0.4 million of penalty and interest. This reversal was predominantly related to the expiration of the federal statute of limitations for the 2004 tax year and the filing of amended returns for previous unrecognized tax benefits, of which \$0.3 million related to prior acquisitions and was recorded through goodwill. The Company has not yet determined the effect, if any, that the acquisition of Jones and Stokes will have on the amount of unrecognized tax benefits, but expects to make this determination by the end of 2008.

**Note 8. Earnings Per Share**

Basic earnings per share ( EPS ) is computed by dividing reported net income by the weighted-average number of shares outstanding. Diluted EPS considers the potential dilution that could occur if common stock equivalents were exercised or converted into stock. The difference between the basic and diluted weighted-average equivalent shares with respect to the Company's EPS calculation is due entirely to the assumed exercise of stock options and the vesting of restricted stock and RSUs. The dilutive effect of stock options, restricted stock, and RSUs for each period reported is summarized below:

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Net Income	\$ 6,868	\$ 11,094	\$ 22,581	\$ 30,936
Weighted-average number of basic shares outstanding during the period	14,631	14,299	14,570	14,060
Dilutive effect of stock options, restricted stock and RSUs	652	700	639	740
Weighted-average number of diluted shares outstanding during the period	15,283	14,999	15,209	14,800
Basic earnings per share	\$ 0.47	\$ 0.78	\$ 1.55	\$ 2.20
Diluted earnings per share	\$ 0.45	\$ 0.74	\$ 1.48	\$ 2.09

**Note 9. Recent Pronouncements**

In December 2007, the FASB issued SFAS Statement No. 141(R), *Business Combinations* ( SFAS No. 141(R) ). SFAS No. 141(R) amends SFAS 141 and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. It is effective for the Company beginning January 1, 2009, and will be applied prospectively. To the extent the Company continues to make acquisitions, SFAS No. 141(R) could impact its future financial statements and related disclosures.

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

In December 2007, the FASB issued SFAS Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51* ( SFAS No. 160 ). SFAS No. 160 requires that ownership interests in subsidiaries held by parties other than the parent, and the amount of consolidated net income, be clearly identified, labeled, and presented in the consolidated financial statements. It also requires that once a subsidiary is deconsolidated, any retained

noncontrolling equity

---

**Table of Contents**

investment in the former subsidiary be initially measured at fair value. Sufficient disclosures are required to identify and distinguish clearly between the interests of the parent and the interests of the noncontrolling owners. It is effective for the Company beginning January 1, 2009, and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements shall be applied prospectively. The Company has no material existing minority interests; therefore, the Company does not expect that the adoption of SFAS No. 160 will have a material effect on its future financial statements and related disclosures.

In May 2008, the FASB issued SFAS Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS No. 162 ). SFAS No. 162 identifies a hierarchy for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for nongovernmental entities. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The adoption of SFAS No. 162 is not expected to have a material impact on the Company's consolidated financial statements.

***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 statements carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other forward-looking information. The factors described in our filings with the SEC, as well as any cautionary language in this Quarterly Report on Form 10-Q, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements, including but not limited to:

changes in the spending priorities of our clients;

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

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

performance by us and our subcontractors under a major contract with the State of Louisiana, Office of Community Development ( The Road Home contract );

acceleration of performance and revenues under The Road Home contract, on the one hand, and significant audit risks associated with, and possible termination of, The Road Home contract, on the other hand;

uncertainty as to what extent we will be able to replace the revenue generated by The Road Home contract as activity under that contract decreases;

results of government audits and investigations;

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

an economic downturn in the air transportation or energy sectors;

failure to receive the full amount of our backlog;

loss of members of management or other key employees;

difficulties implementing our acquisition strategy; and

difficulties expanding our service offerings and client base.

Additional factors that may affect our results are discussed in our Annual Report on Form 10-K for the year ended December 31, 2007, in Part I, Item 1A, entitled Risk Factors. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update these forward-looking statements, even if our situation changes in the future.

The terms we, our and us as used throughout this Quarterly Report on Form 10-Q refer to ICF International, Inc. and its consolidated subsidiaries, unless otherwise indicated.

### **OVERVIEW**

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

---

## Table of Contents

security issues. Our services primarily address four key markets: energy and climate change; environment and infrastructure; health, human services and social programs; and homeland security and defense. Increased government involvement in virtually all aspects of our lives has created opportunities for us to resolve issues at the intersection of the public and private sectors. We believe that demand for our services will continue to grow as government, industry and other stakeholders seek to understand and respond to geopolitical and demographic changes, budgetary constraints, heightened environmental and social concerns, rapid technological changes, and increasing globalization. Our clients utilize our services because we combine diverse institutional knowledge and experience in their activities with the deep subject matter expertise of our highly educated staff, which we deploy in multi-disciplinary teams. Our federal government clients have included every cabinet-level department, including HHS, DoD, EPA, DHS, DOT, DOJ, HUD, and DOE. U.S. federal government clients generated approximately 35% of our revenue for the nine months ended September 30, 2008, and approximately 27% of our revenue in the full year 2007. Our largest state and local government client is the state of Louisiana. State and local government clients generated approximately 48% of our revenue for the nine months ended September 30, 2008, and approximately 65% of our revenue in the full year 2007. The Road Home contract with the State of Louisiana accounted for approximately 40% of our revenue for the nine months ended September 30, 2008, and approximately 63% of our revenue in the full year 2007. We also serve commercial and international clients, primarily in the air transportation and energy sectors, including airlines, airports, electric and gas utilities, oil companies, and law firms. Our commercial and international clients, including government clients outside the United States, generated approximately 17% of our revenue for the nine months ended September 30, 2008, and 8% of our revenue in the full year 2007. We have successfully worked with many of our clients for decades, with the result that we have a unique and knowledgeable perspective on their needs.

We partner with our clients to solve complex problems and produce mission-critical results. Across our markets, we provide end-to-end services that deliver value throughout the entire life of a policy, program, project or initiative:

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

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

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

We have more than 3,000 employees, including many who are recognized thought leaders in their respective fields. We serve clients globally from our headquarters in the metropolitan Washington, D.C. area, our domestic regional offices throughout the United States, and our international offices in London, Moscow, New Delhi, Rio de Janeiro, and Toronto.

## **OUTLOOK**

In June 2006, our subsidiary, ICF Emergency Management Services, LLC, was awarded The Road Home contract. As discussed below, The Road Home contract has had a significant impact on our results of operations beginning in the third quarter of 2006, accounting for approximately 63% of our revenue for all of 2007 and approximately 40% of our revenue for the nine months ended September 30, 2008. The contract has a stated term of three years. However, due to the acceleration of the program, we expect the program may be substantially concluded during 2008, accelerating to earlier periods our need to win new business to replace the revenues from the contract. The acceleration of the program has also accelerated the pace at which we have earned fees compared to anticipated fee earnings over what had been expected to be a three-year program. This factor, together with the challenges of predicting the future timing of work by our numerous subcontractors, makes it especially difficult for us to forecast the revenues and earnings associated with the contract.

We do not expect to be able to replace the revenues derived from The Road Home contract solely with organic growth in our existing businesses or from different services, clients, practice areas, offices, geographic focus, or otherwise. As a result, our future results will depend in part on the success of our strategy to continue to make acquisitions and to integrate them successfully. We announced the purchase of Z-Tech Corporation ( Z-Tech ) on June 28, 2007, SH&E on November 12, 2007, and Jones & Stokes on February 13, 2008. We are continuing to evaluate other acquisition opportunities, and at any given point in time we may be evaluating several such opportunities. There is no assurance that we will be

able to complete or successfully integrate additional acquisitions.

**DESCRIPTION OF CRITICAL ACCOUNTING POLICIES**

The preparation of our financial statements in accordance with US GAAP requires that we make estimates and judgments that affect the reported amount of assets, liabilities, revenue, and expenses, as well as the disclosure of contingent assets and liabilities. If any of

---

## Table of Contents

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 therefore consider them to be critical accounting policies.

### **Revenue Recognition**

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

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

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

**Fixed-Price Contracts.** Revenue for fixed-price contracts is recognized when earned, generally as work is performed in accordance with the provisions of SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*. Services performed vary from contract to contract and are not uniformly performed over the term of the arrangement. We recognize revenue in a number of different ways on fixed-price contracts, including:

revenue on certain fixed-price contracts is recorded each period based on contract costs incurred to date compared with total estimated costs at completion (cost-to-cost method). Performance is based on the ratio of costs incurred to total estimated costs where the costs incurred represent a reasonable surrogate for output measures of contract performance, including the presentation of deliverables to the client. Progress on a contract is matched against project costs and costs to complete on a periodic basis. Clients are obligated to pay as services are performed, and in the event that a client cancels the contract, payment for services performed through the date of cancellation is negotiated with the client;

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

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

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

We generate invoices to clients in accordance with the terms of the applicable contract, which may not be directly related to the performance of services. Unbilled receivables are invoiced based upon the achievement of specific events as defined by each contract including deliverables,

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

timetables, and incurrence of certain costs. Unbilled receivables are classified as a current asset. Advanced billings to clients in excess of revenue earned are recorded as deferred revenue until the revenue recognition criteria are met. Reimbursements of out-of-pocket expenses are included in revenue with corresponding costs incurred by us included in cost of revenue.

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



---

## **Table of Contents**

### **Goodwill and the Amortization of Intangible Assets**

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

We have elected to perform the annual goodwill impairment review, as of September 30 of each year, during the fourth quarter. Based upon management's most recent review, including a valuation report issued by an investment bank, we determined that no goodwill impairment charge was required for 2007. Historically, there have been no goodwill impairment charges recorded by the Company.

We follow the provisions of SFAS No. 144 in accounting for impairment or disposal of long-lived assets. SFAS No. 144 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell. To date, there have been no impairment charges recorded by the Company.

### **New Accounting Standards**

In December 2007, the FASB issued SFAS No. 141(R), which amends SFAS 141 and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. It is effective for the Company beginning January 1, 2009, and will be applied prospectively. To the extent we continue to make acquisitions, SFAS No. 141(R) could impact our future financial statements and related disclosures.

In December 2007, the FASB issued SFAS No. 160, which requires that ownership interests in subsidiaries held by parties other than the parent, and the amount of consolidated net income, be clearly identified, labeled, and presented in the consolidated financial statements. It also requires that once a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value. Sufficient disclosures are required to identify and distinguish clearly between the interests of the parent and the interests of the noncontrolling owners. It is effective for us beginning January 1, 2009, and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements shall be applied prospectively. We have no material existing minority interests; therefore, we do not expect that the adoption of SFAS No. 160 will have a material effect on our future financial statements and related disclosures.

In May 2008, the FASB issued SFAS No. 162, which identifies a hierarchy for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for nongovernmental entities. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The adoption of SFAS No. 162 is not expected to have a material impact on our consolidated financial statements.

### **DIRECT COSTS**

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

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

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

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, if we are successful in our strategy to increase the proportion of our work in the area of implementation (as in the case of The Road Home contract), 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 the amount of indirect expenses. In addition, to the extent we are successful in winning larger contracts, our own labor services component could decrease because larger contracts typically are broader in scope and require more diverse capabilities, potentially resulting in more subcontracted labor, increased other direct costs,

## **Table of Contents**

and lower margins. Although these factors could lead to a higher ratio of direct costs as a percentage of revenue, the economics of these larger jobs are nonetheless generally favorable because they increase income, broaden our revenue base, and have a favorable return on invested capital.

### **OPERATING COSTS AND EXPENSES**

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

#### **Indirect and Selling Expenses**

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

#### **Non-Cash Compensation**

The Company recognized stock-based compensation expense of \$1.5 million and \$4.8 million in the three months and nine months ended September 30, 2008, respectively, which is included in indirect and selling expenses. By comparison, the Company recognized stock-based compensation expense of \$0.8 million and \$2.2 million in the three months and nine months ended September 30, 2007, respectively. The expense was significantly greater in 2008 because approximately 61% of the awards made in 2007 were made in the fourth quarter.

As of September 30, 2008, there was \$11.7 million of total unrecognized compensation expense related to unvested stock-based compensation. Such unrecognized compensation expense is being recognized over a three- to five-year period on a straight-line basis.

#### **Depreciation and Amortization**

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

### **INCOME TAX EXPENSE**

Our effective tax rate of 41.6% for the nine months ended September 30, 2008, was higher than the statutory tax rate primarily due to permanent tax differences related to expenses not deductible for tax purposes.

### **RESULTS OF OPERATIONS**

#### **Three Months ended September 30, 2008, compared to Three Months ended September 30, 2007**

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

**Table of Contents**

	Three Months Ended September 30,				Year-to-Year Change Three Months Ended September 30, 2007 to 2008	
	2008	2007	2008	2007		
	Dollars (In Thousands)		Percentages		Dollars (In Thousands)	Percent
<b>Revenue</b>	\$ 176,281	\$ 198,813	100.0%	100.0%	\$ (22,532)	(11.3)%
<b>Direct Costs</b>	115,421	147,468	65.5%	74.2%	(32,047)	(21.7)%
<b>Operating Expenses</b>						
Indirect and selling expenses	44,251	29,639	25.0%	14.9%	14,612	49.3%
Depreciation and amortization	1,706	622	1.0%	0.3%	1,084	174.3%
Amortization of intangible assets	2,241	1,257	1.3%	0.6%	984	78.3%
<b>Total Operating Expenses</b>	48,198	31,518	27.3%	15.8%	16,680	52.9%
<b>Earnings from Operations</b>	12,662	19,827	7.2%	10.0%	(7,165)	(36.1)%
<b>Other (Expense) Income</b>						
Interest expense	(785)	(654)	(0.4)%	(0.3)%	(131)	20.0%
Other	67	54	0.0%	0.0%	13	24.1%
<b>Income before Income Taxes</b>	11,944	19,227	6.8%	9.7%	(7,283)	(37.9)%
<b>Income Tax Expense</b>	5,076	8,133	2.9%	4.1%	(3,057)	(37.6)%
<b>Net Income</b>	\$ 6,868	\$ 11,094	3.9%	5.6%	\$ (4,226)	(38.1)%

**Revenue.** Revenue for the three months ended September 30, 2008, was \$176.3 million, compared to \$198.8 million for the three months ended September 30, 2007, representing a decrease of \$22.5 million or 11.3%. The decrease was primarily due to a reduction in revenue of \$64.8 million associated with the declining activities of The Road Home contract. The decrease in revenue on The Road Home contract was partially offset by both revenue associated with the acquisitions of SH&E and Jones & Stokes, whose results are included in operating results for the three months ended September 30, 2008, but not included in the operating results of the comparable period last year, and growth in other contracts of \$15.1 million.

**Direct costs.** Direct costs for the three months ended September 30, 2008, were \$115.4 million, or 65.5% of revenue, compared to \$147.5 million, or 74.2% of revenue, for the three months ended September 30, 2007. The decrease was primarily due to the declining activities associated with The Road Home contract. The decrease was partially offset by direct costs associated with the acquisition of SH&E and Jones & Stokes, whose results are included in operating results for the three months ended September 30, 2008, but not included in the operating results of the comparable period last year. The decrease in direct costs as a percentage of revenue was primarily attributable to a decrease in work we subcontracted to other parties on The Road Home contract.

**Indirect and selling expenses.** Indirect and selling expenses for the three months ended September 30, 2008, were \$44.3 million, or 25.0% of revenue, compared to \$29.6 million, or 14.9% of revenue for the three months ended September 30, 2007. The 49.3% increase in indirect and selling expenses was due principally to indirect costs associated with the operations of SH&E and Jones & Stokes, which was not included in the operating results for the three months ended September 30, 2007. The increase in indirect costs as a percentage of revenue for the three months ended September 30, 2008, was primarily attributable to the addition of the acquisitions and decrease in revenue from The Road Home contract noted above.

**Depreciation and amortization.** Depreciation and amortization for the three months ended September 30, 2008, was \$1.7 million, or 1.0% of revenue, compared to \$0.6 million, or 0.3% of revenue for the three months ended September 30, 2007. This 174.3% increase in depreciation and amortization and the increase in depreciation and amortization as a percentage of revenue resulted primarily from our acquisitions in December 2007 of SH&E and February 2008 of Jones & Stokes and an increase in capital expenditures.

**Amortization of intangible assets.** Amortization of intangible assets for the three months ended September 30, 2008, was \$2.2 million, or 1.3% of revenue, compared to \$1.3 million, or 0.6% of revenue for the three months ended September 30, 2007. This 78.3% increase in amortization of intangible assets and the increase in amortization of intangible assets as a percentage of revenue resulted primarily from our acquisitions in December 2007 of SH&E and February 2008 of Jones & Stokes.

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

**Earnings from Operations.** For the three months ended September 30, 2008, earnings from operations were \$12.7 million, or 7.2% of revenue, compared to \$19.8 million, or 10.0% of revenue for the three months ended September 30, 2007. Earnings from operations, both in total and as a percentage of revenue, decreased primarily due to the additional amortization expenses related to the intangible assets associated with the acquisitions of SH&E and Jones & Stokes, the increase in depreciation and amortization related to capital expenditures, an increase in non-cash compensation, and a decrease in revenue from The Road Home contract.

**Interest expense.** For the three months ended September 30, 2008, interest expense was \$0.8 million, compared to nearly \$0.7 million for the three months ended September 30, 2007. The increase was due primarily to an increase in debt associated with the acquisitions noted above.

**Table of Contents**

**Income tax expense.** Our effective income tax rate for the three months ended September 30, 2008, was 42.5% compared to 42.3% for the three months ended September 30, 2007.

**Nine Months ended September 30, 2008, compared to Nine Months ended September 30, 2007**

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

	Nine Months Ended September 30,				Year-to-Year Change	
	2008	2007	2008	2007	Nine Months Ended September 30, 2007 to 2008	
	Dollars (In Thousands)		Percentages		Dollars (In Thousands)	Percent
<b>Revenue</b>	\$ 535,493	\$ 540,697	100.0%	100.0%	\$ (5,204)	(1.0)%
<b>Direct Costs</b>	355,138	398,260	66.3%	73.7%	(43,122)	(10.8)%
<b>Operating Expenses</b>						
Indirect and selling expenses	128,344	85,107	24.0%	15.7%	43,237	50.8%
Depreciation and amortization	3,891	1,727	0.7%	0.3%	2,164	125.3%
Amortization of intangible assets	6,442	2,493	1.2%	0.5%	3,949	158.4%
<b>Total Operating Expenses</b>	138,677	89,327	25.9%	16.5%	49,350	55.2%
<b>Earnings from Operations</b>	41,678	53,110	7.8%	9.8%	(11,432)	(21.5)%
<b>Other (Expense) Income</b>						
Interest expense	(3,032)	(1,392)	(0.6)%	(0.3)%	(1,640)	117.8%
Other	15	490	0.0%	0.1%	(475)	(96.9)%
<b>Income before Income Taxes</b>	38,661	52,208	7.2%	9.6%	(13,547)	(25.9)%
<b>Income Tax Expense</b>	16,080	21,272	3.0%	3.9%	(5,192)	(24.4)%
<b>Net Income</b>	\$ 22,581	\$ 30,936	4.2%	5.7%	\$ (8,355)	(27.0)%

**Revenue.** Revenue for the nine months ended September 30, 2008, was \$535.5 million, compared to \$540.7 million for the nine months ended September 30, 2007, representing a decrease of \$5.2 million or 1.0%. The decrease was primarily due to a reduction in revenue of \$136.9 million associated with the declining activities of The Road Home contract. The decrease in revenue on The Road Home contract was partially offset by: (1) revenue associated with the acquisitions of SH&E and Jones & Stokes, whose results are included in operating results for the nine months ended September 30, 2008, but not included in the operating results of the comparable period last year; (2) the acquisition of Z-Tech, whose results are included in operating results for the nine months ended September 30, 2008, but included for only 3 months in the operating results of the comparable period last year; and, (3) growth in other contracts of \$39.2 million.

**Direct costs.** Direct costs for the nine months ended September 30, 2008, were \$355.1 million, or 66.3% of revenue, compared to \$398.3 million, or 73.7% of revenue, for the nine months ended September 30, 2007. The decrease was primarily due to the declining activities associated with The Road Home contract. The decrease was partially offset by direct costs associated with the acquisitions of SH&E and Jones & Stokes, whose results are included in operating results for the nine months ended September 30, 2008, but not included in the operating results of the comparable period last year, and the acquisition of Z-Tech, whose results are included in operating results for the nine months ended September 30, 2008, but included for only 3 months in the operating results of the comparable period last year. The decrease in direct costs as a percentage of revenue was primarily attributable to a decrease in work we subcontracted to other parties on The Road Home contract.

**Indirect and selling expenses.** Indirect and selling expenses for the nine months ended September 30, 2008, were \$128.3 million, or 24.0% of revenue, compared to \$85.1 million, or 15.7% of revenue for the nine months ended September 30, 2007. The 50.8% increase in indirect and selling expenses was due principally to indirect costs associated with the operations of Z-Tech, SH&E, and Jones & Stokes, and the increase in non-cash compensation expense. The increase in indirect and selling expenses as a percentage of revenue for the nine months ended September 30, 2008, was primarily attributable to the addition of the three acquisitions noted above.

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

**Depreciation and amortization.** Depreciation and amortization for the nine months ended September 30, 2008, was \$3.9 million, or 0.7% of revenue, compared to \$1.7 million, or 0.3% of revenue for the nine months ended September 30, 2007. This 125.3% increase in depreciation and amortization and the increase in depreciation and amortization as a percentage of revenue resulted primarily from our acquisitions in June 2007 of Z-Tech, in December 2007 of SH&E, and in February 2008 of Jones & Stokes, and an increase in capital expenditures.

**Table of Contents**

**Amortization of intangible assets.** Amortization of intangible assets for the nine months ended September 30, 2008, was \$6.4 million, or 1.2% of revenue, compared to \$2.5 million, or 0.5% of revenue for the nine months ended September 30, 2007. This 158.4% increase in amortization of intangible assets and the increase in amortization of intangible assets as a percentage of revenue resulted primarily from our acquisitions in June 2007 of Z-Tech, in December 2007 of SH&E, and February 2008 of Jones & Stokes.

**Earnings from Operations.** For the nine months ended September 30, 2008, earnings from operations were \$41.7 million, or 7.8% of revenue, compared to \$53.1 million, or 9.8% of revenue for the nine months ended September 30, 2007. Earnings from operations, both in total and as a percentage of revenue, decreased primarily due to the additional amortization expenses related to the intangible assets associated with the acquisitions of Z-Tech, SH&E and Jones & Stokes, the increase in depreciation and amortization related to capital expenditures, an increase in non-cash compensation, and the decrease in revenue from The Road Home contract.

**Interest expense.** For the nine months ended September 30, 2008, interest expense was \$3.0 million, compared to \$1.4 million for the nine months ended September 30, 2007. The increase was due primarily to an increase in debt associated with the acquisitions noted above.

**Income tax expense.** Our effective income tax rate for the nine months ended September 30, 2008, was 41.6% compared to 40.7% for the nine months ended September 30, 2007. The lower effective tax rate in 2007 was attributable to federal tax credits that were larger than in 2008.

**SELECTED KEY METRICS****Revenue**

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

energy and climate change;

environment and infrastructure;

health, human services and social programs; and

homeland security and defense.

The following table shows our revenue from each of our four 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. The Road Home contract is classified in our health, human services and social programs market. The SH&E and Jones & Stokes revenues are classified in our environment and infrastructure market.

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Energy and climate change	11%	8%	10%	8%
Environment and infrastructure	27%	9%	24%	8%
Health, human services and social programs	53%	75%	57%	76%
Homeland security and defense	9%	8%	9%	8%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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



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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
U.S. state and local government	44%	65%	48%	67%
U.S. federal government	38%	28%	35%	26%
Domestic commercial	14%	5%	12%	5%
International	4%	2%	5%	2%
Total	100%	100%	100%	100%

**Table of Contents****Contract Mix**

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Time-and-materials	69%	57%	68%	54%
Cost-based	12%	9%	11%	8%
Fixed-price	19%	34%	21%	38%
Total	100%	100%	100%	100%

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

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

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

**Contract Backlog**

We define *total backlog* as the future revenue we expect to receive from our contracts and other engagements. We generally include in backlog the estimated revenue represented by contract options that have been priced, though 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 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

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

of funded backlog is limited to the amount authorized. Our funded backlog does not represent the full revenue potential of our contracts because government clients, and sometimes other clients, generally authorize work under a particular contract on a yearly or more frequent basis, even though the contract may extend over a number of years.

**Table of Contents**

Most of the services we provide to commercial clients are provided under contracts with relatively short durations that authorize us to provide services and, 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 upon a number of factors, and we may not recognize revenue associated with a particular component of backlog when anticipated, or at all. Our government clients generally have the right to cancel any contract, or ongoing or planned work under any contract, at any time. In addition, there can be no assurance that revenue from funded or unfunded backlog will have similar profitability to previous work or will be profitable at all. Generally speaking, we believe the risk that a particular component of backlog will not result in future revenue is higher for unfunded backlog than for funded backlog.

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

	September 30, 2008      2007 (in millions)	
Funded	\$ 476.1	\$ 508.2
Unfunded	\$ 356.8	\$ 300.3
<b>Total</b>	<b>\$ 832.9</b>	<b>\$ 808.5</b>

The backlog estimates at September 30, 2008, included an estimated funded backlog of \$97.6 million associated with The Road Home contract, \$82.3 million of backlog associated with Jones & Stokes, and \$13.5 million of backlog associated with SH&E.

**FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

**Financial Condition.** Contract receivables, net, decreased to \$156.2 million as of September 30, 2008, compared to \$190.2 million as of December 31, 2007, due to a reduction in the amount of contract receivables under The Road Home contract, partially offset by the addition of contract receivables from the addition of Jones & Stokes. The other significant change in our assets from December 31, 2007 to September 30, 2008, was an increase in goodwill from \$159.5 million to \$200.1 million, resulting from our acquisition of Jones & Stokes.

Our current liabilities decreased to \$110.1 million as of September 30, 2008, from \$165.2 million as of December 31, 2007, due primarily to a \$50.8 million decrease in accounts payable, and a \$4.9 million decrease in accrued expenses. Both of these decreases were primarily attributable to decreased activity levels (including those of subcontractors) under The Road Home contract, partially offset by the addition of current liabilities from Jones & Stokes. Long-term debt increased by \$42.6 million, primarily due to the acquisition of Jones & Stokes.

**Liquidity.** 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 Second Amended and Restated Credit Agreement.

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

Under the terms of our Second Amended and Restated Credit Agreement, we are required to comply with financial and non-financial covenants. We were in compliance with all such covenants as of September 30, 2008.

**Cash and Cash Equivalents.** We consider cash on deposit and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalents, including marketable securities, were \$2.7 million and \$2.1 million on September 30, 2008, and September 30, 2007, respectively.

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

***Credit Facility and Borrowing Capacity.*** On February 20, 2008, we signed the Second Amended and Restated Business Loan and Security Agreement with a syndication of nine commercial banks to allow for borrowings of up to \$350.0 million for a period of five years (until February 20, 2013). This revised credit facility provides for borrowings on a revolving line of credit up to \$275.0 million

**Table of Contents**

without a borrowing base requirement, subject to the Company's compliance with both financial and non-financial covenants. The revised credit facility also provides for an accordion feature, which permits additional revolving credit commitments up to \$75.0 million under the same terms and conditions as the existing revolving line of credit, subject to lenders' approval. This agreement also provides pre-approval of our lenders for us to acquire other companies with individual purchase prices of up to \$75.0 million if certain conditions are met, lowers our interest rate pricing grid, and provides less restrictive financial and non-financial covenants than our previous agreement.

**Cash Flow.** The following table sets forth our sources and uses of cash for the nine months ended September 30, 2008, and September 30, 2007:

	Nine Months Ended	
	September 30, 2008	September 30, 2007
	(in thousands)	
Net cash provided by operations	\$ 16,141	\$ 35,570
Net cash used in investing activities	(60,836)	(43,742)
Net cash provided by financing activities	44,897	7,052
Effect of exchange rate on cash	(236)	197
<b>Net decrease in cash</b>	<b>\$ (34)</b>	<b>\$ (923)</b>

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 \$16.1 million in the nine months ended September 30, 2008, and \$35.6 million in the nine months ended September 30, 2007. Cash flows from operating activities for the first nine months of 2008 were negatively impacted by a large increase in our subcontract and vendor payments, partially offset by a significant decrease in our contract receivables. Cash flows from operating activities for the first nine months of 2007 were positively impacted by a large increase in accounts payable and accrued expenses, largely offset by a significant increase in our contract receivables.

Investing activities used cash of \$60.8 million for the nine months ended September 30, 2008, compared to \$43.7 million for the nine months ended September 30, 2007. The cash used in investing activities for the first nine months of 2008, was primarily for payments for the acquisition of Jones & Stokes. The cash used in investing activities for the first nine months of 2007 was primarily for our acquisitions of Energy and Environmental Analysis, Inc. ( EEA ), Advanced Performance Consulting Group, Inc. ( APCG ), and Z-Tech.

For the nine months ended September 30, 2008, cash flow provided by financing activities of \$44.9 million was attributable primarily to a \$42.6 million in net debt advances from our revolving line, which was used to fund the acquisition of Jones & Stokes. For the nine months ended September 30, 2007, cash flow provided by financing activities of \$7.1 million was attributable primarily to \$6.8 million in net proceeds from the exercise of stock options.

**OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS**

For the nine months ended September 30, 2008, we had four letters of credit outstanding for a total value of \$0.9 million.

The following table summarizes our contractual obligations as of September 30, 2008, that requires us to make future cash payments. For contractual obligations, we included payments that we have an unconditional obligation to make. Excluded from the following table are amounts already recorded on our balance sheet as liabilities at September 30, 2008.

	Total	Payments due by Period			
		(In thousands)			
		Less than 1 year	Years 2 and 3	Years 4 and 5	After 5 Years
Rent of facilities	\$ 73,502	\$ 17,657	\$ 30,335	\$ 15,734	\$ 9,776
Operating lease obligations	\$ 2,735	\$ 1,079	\$ 1,319	\$ 337	\$
<b>Total</b>	<b>\$ 76,237</b>	<b>\$ 18,736</b>	<b>\$ 31,654</b>	<b>\$ 16,071</b>	<b>\$ 9,776</b>

**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, 2007.

---

**Table of Contents**

***Item 4. Controls and Procedures***

***Disclosure Controls and Procedures and Internal Controls Over Financial Reporting.*** As of September 30, 2008, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in our reports filed with the SEC under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (2) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There have been no significant changes in our internal controls over financial reporting during the period covered by this Quarterly Report on Form 10-Q or, to our knowledge, in other factors that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

**PART II. OTHER INFORMATION**

***Item 1. Legal Proceedings***

From time to time, we are involved in various legal matters and proceedings concerning matters arising in the ordinary course of business. We currently believe that any ultimate liability arising out of these matters and proceedings will not have a material adverse effect on our financial position, results of operations, or cash flows.

***Item 1A. Risk Factors***

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, 2007. The risks described in our Annual Report on Form 10-K are not the only risks that we encounter. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results.

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

***Issuances of Common Stock.*** For the three months ended September 30, 2008, a total of 2,794 shares of unregistered stock, valued at \$46,213 were issued to five directors of the Company in lieu of cash for director fee compensation. The issuance of these shares is exempt under Section 4(2) of the Securities Act of 1933, as amended.

***Grants of Restricted Stock.*** None.

***Purchase of Equity.*** During the three months ended September 30, 2008, the Company purchased 35,468 shares of common stock for \$702,005 in exchange for the payment of withholding taxes and exercise price due upon the exercise of options. The average fair value of the common stock was \$19.79 per share.



**Table of Contents**

The following table summarizes stock repurchases for the three months ended September 30, 2008:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 - July 31	None	\$ 0.00	None	None
August 1 - August 31	3,980	\$ 18.92	None	None
Sept 1 - Sept 30	31,488	\$ 19.90	None	None
Total	35,468	\$ 19.79	None	None

**Item 3. Defaults Upon Senior Securities**  
None

**Item 4. Submission of Matters to a Vote of Security Holders**  
None

**Item 5. Other Information**  
None

**Item 6. Exhibits**

Exhibit Number	Exhibit
3.2	Amended and Restated Bylaws effective September 22, 2008 (Incorporated by reference to the Company's Form 8-K, filed on September 23, 2008).
10.1	Eighth Amendment of Contract between ICF Emergency Management, LLC and the State of Louisiana, through the Division of Administration, Office of Community Development (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K, filed July 22, 2008).
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 and Accounting Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

**SIGNATURES**

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

ICF INTERNATIONAL, INC.

November 7, 2008

By: /s/ SUDHAKAR KESAVAN  
Sudhakar Kesavan  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

November 7, 2008

By: /s/ ALAN R. STEWART  
Alan R. Stewart  
Chief Financial Officer and Assistant Corporate Secretary  
(Principal Financial and Accounting Officer)