

ICF International, Inc.
Form 10-Q
May 06, 2010
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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 MARCH 31, 2010

OR

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

Commission File Number: 001-33045

ICF International, Inc.

(Exact name of Registrant as Specified in its Charter)

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Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

22-3661438
(I.R.S. Employer
Identification No.)

9300 Lee Highway, Fairfax, VA
(Address of Principal Executive Offices)

22031
(Zip Code)

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

Not Applicable

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

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

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

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

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

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

As of April 30, 2010, there were 19,328,783 shares outstanding of the registrant's common stock.

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ICF INTERNATIONAL, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE

PERIOD ENDED MARCH 31, 2010

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ICF International, Inc. and Subsidiaries****CONSOLIDATED BALANCE SHEETS AT****MARCH 31, 2010 (UNAUDITED) AND DECEMBER 31, 2009**

(in thousands)

Assets

| | March 31, 2010 <i>(Unaudited)</i> | December 31, 2009 |
|--|---|--------------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 6,766 | \$ 2,353 |
| Contract receivables, net | 166,855 | 174,120 |
| Prepaid expenses and other | 6,136 | 6,666 |
| Income tax receivable | 63 | 4,175 |
| Deferred income taxes | 3,746 | 1,337 |
| Total current assets | 183,566 | 188,651 |
| Total property and equipment, net | 21,429 | 22,600 |
| Other assets: | | |
| Goodwill | 323,467 | 323,467 |
| Other intangible assets, net | 35,393 | 38,474 |
| Restricted cash | 3,136 | 2,123 |
| Other assets | 6,918 | 6,912 |
| Total assets | \$ 573,909 | \$ 582,227 |

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

| | March 31, 2010 <i>(Unaudited)</i> | December 31, 2009 |
|---|--------------------------------------|-------------------|
| Current Liabilities: | | |
| Accounts payable | \$ 22,907 | \$ 27,075 |
| Accrued expenses | 19,449 | 21,770 |
| Accrued salaries and benefits | 34,890 | 32,072 |
| Deferred revenue | 16,421 | 19,370 |
| Total current liabilities | 93,667 | 100,287 |
| Long-term liabilities: | | |
| Long-term debt | 135,000 | 145,000 |
| Deferred rent | 3,450 | 2,914 |
| Deferred income taxes | 12,843 | 11,656 |
| Other | 4,175 | 4,810 |
| Total Liabilities | 249,135 | 264,667 |
| Commitments and Contingencies | | |
| Stockholders' Equity: | | |
| Preferred stock, par value \$.001 per share; 5,000,000 shares authorized; none issued | | |
| Common stock, \$.001 par value; 70,000,000 shares authorized; 19,336,503 and 19,278,591 issued; and 19,318,344 and 19,278,591 outstanding as of March 31, 2010, and December 31, 2009, respectively | 19 | 19 |
| Additional paid-in capital | 213,738 | 211,412 |
| Treasury stock, at cost | (450) | |
| Accumulated other comprehensive loss | (419) | (337) |
| Retained earnings | 111,886 | 106,466 |
| Total stockholders' equity | 324,774 | 317,560 |
| Total liabilities and stockholders' equity | \$ 573,909 | \$ 582,227 |

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)****FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009**

(in thousands, except per share amounts)

| | Three months ended March 31, | |
|---|---|-----------------|
| | 2010 | 2009 |
| Gross Revenue | \$ 174,438 | \$ 157,862 |
| Direct Costs | 107,559 | 99,237 |
| Operating costs and expenses: | | |
| Indirect and selling expenses | 51,030 | 45,289 |
| Depreciation and amortization | 2,668 | 1,559 |
| Amortization of intangible assets | 3,081 | 1,747 |
| Total operating costs and expenses | 56,779 | 48,595 |
| Operating Income | 10,100 | 10,030 |
| Interest expense | (963) | (735) |
| Other income (expense) | 19 | 166 |
| Income before taxes | 9,156 | 9,461 |
| Provision for income taxes | 3,736 | 3,579 |
| Net income | \$ 5,420 | \$ 5,882 |
| Earnings per Share: | | |
| Basic | \$ 0.28 | \$ 0.39 |
| Diluted | \$ 0.28 | \$ 0.38 |
| Weighted-average Shares: | | |
| Basic | 19,282 | 15,079 |
| Diluted | 19,504 | 15,572 |

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)****FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009**

(in thousands)

| | Three months ended March 31, | |
|---|---|------------------|
| | 2010 | 2009 |
| Cash flows from operating activities | | |
| Net income | \$ 5,420 | \$ 5,882 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,749 | 3,306 |
| Non-cash compensation | 1,715 | 1,714 |
| Loss on disposal of fixed assets | 29 | 1 |
| Deferred income taxes | (1,222) | (2,226) |
| Changes in operating assets and liabilities, net of the effect of acquisitions: | | |
| Contract receivables, net | 7,265 | 3,026 |
| Prepaid expenses and other | 496 | (349) |
| Accounts payable | (4,347) | 3,925 |
| Accrued expenses | (1,499) | (8,224) |
| Accrued salaries and benefits | 2,818 | (2,381) |
| Deferred revenue | (2,949) | (255) |
| Income tax receivable | 4,112 | 5,172 |
| Restricted cash | (1,013) | 544 |
| Deferred rent | (76) | (29) |
| Other liabilities | (635) | (66) |
| Net cash provided by operating activities | 15,863 | 10,040 |
| Cash flows from investing activities | | |
| Capital expenditures | (1,447) | (702) |
| Capitalized software development costs | (93) | (118) |
| Payments for business acquisitions, net of cash acquired | | (154,856) |
| Net cash used in investing activities | (1,540) | (155,676) |
| Cash flows from financing activities | | |
| Advances from working capital facilities | 3,729 | 172,418 |
| Payments on working capital facilities | (13,729) | (26,410) |
| Debt issue costs | | (585) |
| Proceeds from exercise of options | 408 | 448 |
| Tax benefits of stock option exercises | 192 | 609 |
| Net payments for stockholder issuances and buybacks | (428) | (79) |
| Net cash (used for) provided by financing activities | (9,828) | 146,401 |
| Effect of Exchange Rate on Cash | (82) | (252) |
| Net increase in cash and cash equivalents | 4,413 | 513 |
| Cash and cash equivalents, beginning of period | 2,353 | 1,536 |

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| | | |
|--|----------|----------|
| Cash and cash equivalents, end of period | \$ 6,766 | \$ 2,049 |
|--|----------|----------|

Supplemental disclosure of cash flow information

Cash paid during the period for:

| | | |
|----------|----------|--------|
| Interest | \$ 1,459 | \$ 703 |
|----------|----------|--------|

| | | |
|--------------|--------|--------|
| Income taxes | \$ 518 | \$ 183 |
|--------------|--------|--------|

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

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Notes to Consolidated Financial Statements

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

Note 1. Basis of Presentation and Nature of Operations

Interim Results

The unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). These rules and regulations permit some of the information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) to be condensed or omitted. In management's opinion, the unaudited consolidated financial statements contain all adjustments, that are of a normal recurring nature, necessary for a fair statement of ICF International, Inc. (ICFI) and its subsidiaries (collectively, the Company) results for the three-month periods ended March 31, 2010, and March 31, 2009. Operating results for the three-month period ended March 31, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009, and the notes thereto included in the Company's Annual Report on Form 10-K, filed with the SEC on March 11, 2010.

Basis of Presentation and Nature of Operations

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

The Company, incorporated in Delaware, is headquartered in Fairfax, Virginia, with over 50 domestic regional offices and international offices in London, Moscow, New Delhi, Rio de Janeiro, Toronto, and Beijing.

Note 2. Acquisitions

Jacob & Sundstrom. Effective December 10, 2009, the Company acquired all of the outstanding common stock of Jacob & Sundstrom, Inc. (JASI), an information technology firm specializing in providing cybersecurity and identity management services to U.S. federal civilian and defense agencies. With the acquisition, the Company will offer an expanded range of advisory and implementation solutions across our federal and energy industry client base to assist in mitigating emerging cybersecurity threats and vulnerabilities.

The aggregate purchase price was approximately \$32.2 million in cash, including a working capital adjustment required by the stock purchase agreement, which was funded by our revolving credit facility. The excess of the purchase price over the estimated fair value of the net tangible assets acquired was approximately \$29.0 million. The Company has preliminarily allocated approximately \$21.6 million to goodwill and \$7.4 million to other intangible assets. The intangible assets consist of approximately \$7.0 million of customer-related intangibles that are being amortized over seven years and \$0.4 million of marketing-related intangibles that are being amortized over two years. Management is in the process of finalizing the purchase price allocation for this acquisition and does not believe that the final allocation will vary materially from what is reflected to date. Jacob & Sundstrom was purchased under the election provisions of Internal Revenue Code Section 338(h)(10), and, therefore, goodwill and the amortization of intangibles are deductible for tax purposes over a fifteen-year period and will generate deferred taxes. The results of operations for Jacob & Sundstrom are included in the Company's statement of earnings since December 10, 2009.

The Company incurred approximately \$0.4 million of transaction expenses related to the acquisition. The expenses were recorded on the statement of earnings as indirect and selling expenses.

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

The aggregate purchase price of approximately \$157.6 million in cash, including the working capital adjustment required by the stock purchase agreement, was funded by the Company's revolving credit facility. The Company engaged an independent valuation firm to assist management in the allocation of the purchase price to goodwill and to other acquired intangible assets. The excess of the purchase price over the estimated fair value of the net tangible assets acquired was approximately \$129.5 million. The Company has allocated approximately \$104.1 million to goodwill and \$25.4 million to other intangible assets. The intangible assets consist of approximately \$24.6 million of customer-related intangibles that are being amortized over seven years, and \$0.8 million of marketing-related intangibles that were amortized over 9 months. Macro was purchased under the election provisions of Internal Revenue Code Section 338(h)(10), and, therefore, goodwill and the amortization of intangibles are deductible for tax purposes over a fifteen-year period and will generate deferred taxes. The results of operations for Macro are included in the Company's statement of earnings after March 31, 2009.

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

Note 3. Contract Receivables

Contract receivables consisted of the following:

| | March 31, 2010 | December 31, 2009 |
|---------------------------------|----------------|-------------------|
| Billed | \$ 125,724 | \$ 141,595 |
| Unbilled | 43,714 | 34,858 |
| Allowance for doubtful accounts | (2,583) | (2,333) |
| Contract receivables, net | \$ 166,855 | \$ 174,120 |

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

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

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

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

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Note 5. Debt

The Company entered into the Second Amended and Restated Business Loan and Security Agreement (Credit Facility) on February 20, 2008, with a syndication of nine commercial banks to allow for borrowings of up to \$350.0 million for a period of five years (maturing February 20, 2013) under a revolving line of credit. The Credit Facility provides for borrowings up to \$275.0 million without a borrowing base requirement and also provides for an accordion feature , which permits additional revolving credit commitments up to \$75.0 million, subject to lenders approval. The Credit Facility has already provided pre-approval by the lenders for acquisitions with individual purchase prices of up to \$75.0 million, if certain conditions are met. The Credit Facility is collateralized by substantially all of the assets of the Company, and requires that the Company remain in compliance with certain financial and non-financial covenants.

On March 31, 2009, the Credit Facility was amended to allow for the acquisition of Macro, for permission to sell capital stock in one or more offerings (provided that the proceeds are used to pay down the Credit Facility), and to increase the interest rate margins the Company pays to borrow funds under the Credit Facility. The Company has the ability to borrow funds under its Credit Facility at interest rates based on both LIBOR and prime rates, at its discretion, plus their applicable margins. Interest rates on debt outstanding ranged from 2.48% to 2.5% during the quarter.

As of March 31, 2010, the Company had \$135.0 million in debt outstanding, \$1.3 million in outstanding letters of credit, and unused borrowing capacity of \$138.7 million under the Credit Facility. During the first quarter ended March 31, 2010, the Company decreased its net borrowings by \$10.0 million. This change in debt outstanding reflects the Company s reduction in working capital requirements. As of March 31, 2010, the Company was in compliance with the covenants under the Credit Facility.

Note 6. Accounting for Stock-Based Compensation

Stock Incentive Plans

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 non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, performance units, and other incentive awards, including restricted stock units and cash incentives. Under the 2006 Plan, the Company may make awards of up to 1,000,000 shares, plus an annual increase on the first day of each of the Company s fiscal years, beginning in 2007, equal to three percent (3%) of the number of outstanding shares of common stock 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 an increase of 578,358 shares as of March 8, 2010, which was three percent (3%) of the number of shares outstanding as of January 1, 2010. 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.

On March 8, 2010, the Board adopted the ICF International, Inc. 2010 Omnibus Incentive Plan (2010 Plan), subject to ratification by the Company s stockholders at the Company s annual meeting to be held on June 4, 2010. The Company has not made, and does not intend to make, any equity awards under the 2010 Plan until after our stockholders have approved the 2010 Plan.

Stock-Based Compensation

The Company recognized stock-based compensation expense of \$1.7 million for the three months ended March 31, 2010, and for the three months ended March 31, 2009, which is included in indirect and selling expenses.

As of March 31, 2010, and March 31, 2009, there was \$19.7 million and \$8.5 million, respectively, of total unrecognized compensation expense related to unvested stock-based compensation agreements. Unrecognized compensation expense is recognized ratably over the vesting period of such stock-based payment arrangements ranging from three to five years. The excess tax benefits totaled approximately \$0.2 million and \$0.6 million for the three months ended March 31, 2010, and March 31, 2009, respectively.

Stock Options

All stock options granted through 2006 were granted under the 1999 Plan; all stock options granted in 2007 and 2008 were under the 2006 Plan. No stock options were granted in 2009. All stock options granted to date have been non-qualified. The Company awarded 169,818 non-qualified stock options to employees during the three months ended March 31, 2010, under the 2006 Plan.

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Option awards are granted with an exercise price equal to the fair value of the Company's common stock on the date of grant. The fair value of the options is estimated on the date of grant using the Black-Scholes-Merton pricing model. The aggregate intrinsic value of options outstanding and exercisable at March 31, 2010, was \$3.4 million, and the aggregate intrinsic value of options vested and expected to vest at March 31, 2010, was \$3.4 million.

Compensation expense related to options under the fair value method was \$0.1 million for both the three months ended March 31, 2010, and March 31, 2009. Unrecognized expense related to options was \$1.8 million and \$0.5 million as of March 31, 2010, and March 31, 2009, respectively.

The following table depicts stock option activity for the three months ended March 31, 2010:

| | Options Outstanding | |
|--------------------------------|---------------------|---------------------------------|
| | Shares | Weighted-Average Exercise Price |
| As of December 31, 2009 | 312,973 | \$ 12.12 |
| Granted | 169,818 | 24.74 |
| Options forfeited or cancelled | (5,500) | 5.64 |
| Options exercised | (36,277) | 11.24 |
| As of March 31, 2010 | 441,014 | \$ 17.13 |

Information regarding stock options outstanding as of March 31, 2010, is summarized below:

| OPTIONS OUTSTANDING | | | | | OPTIONS EXERCISABLE | |
|--------------------------|----------|-----------------------------------|---|---------------------------------|-----------------------------------|---------------------------------|
| Range of Exercise Prices | | Number Outstanding As of 03/31/10 | Weighted-Average Remaining Contractual Term (in yrs.) | Weighted-Average Exercise Price | Number Exercisable As of 03/31/10 | Weighted-Average Exercise Price |
| \$ 5.00 | \$ 5.00 | 33,000 | 0.79 | \$ 5.00 | 33,000 | \$ 5.00 |
| \$ 6.00 | \$ 6.00 | 9,000 | 0.76 | \$ 6.00 | 9,000 | \$ 6.00 |
| \$ 6.10 | \$ 6.10 | 47,196 | 2.18 | \$ 6.10 | 47,196 | \$ 6.10 |
| \$ 7.34 | \$ 7.34 | 29,000 | 4.12 | \$ 7.34 | 29,000 | \$ 7.34 |
| \$ 9.05 | \$ 9.05 | 18,000 | 5.99 | \$ 9.05 | 18,000 | \$ 9.05 |
| \$18.31 | \$ 18.31 | 135,000 | 6.98 | \$ 18.31 | 135,000 | \$ 18.31 |
| \$24.14 | \$ 24.14 | 24,556 | 9.95 | \$ 24.14 | 0 | |
| \$24.84 | \$ 24.84 | 145,262 | 10.00 | \$ 24.84 | 0 | |
| \$ 5.00 | \$ 24.84 | 441,014 | 6.81 | \$ 17.13 | 271,196 | \$ 12.37 |

Restricted Stock Awards

Pursuant to the 2006 Plan, the Company awarded an aggregate of 4,553 restricted stock awards (RSAs) to members of its board of directors during the three months ended March 31, 2010, which vested immediately. The weighted-average grant date fair value of these RSAs was \$24.14 per share. Compensation expense related to RSAs computed under the fair value method was \$0.1 million for the three months ended March 31, 2010, and for the three months ended March 31, 2009. Unrecognized compensation expense related to RSAs was approximately \$0.1 million and \$0.4 million as of March 31, 2010, and March 31, 2009, respectively.

Restricted Stock Units

Pursuant to the 2006 Plan, the Company awarded an aggregate of 406,327 restricted stock units (RSUs) to employees during the three months ended March 31, 2010. The RSUs vest over three to five years and are being expensed on a straight-line basis. When an RSU vests, one share of stock is issued to the employee for each RSU he or she holds. The RSUs were valued based on the grant date value of a share of the Company's

common stock.

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Compensation expense related to RSUs computed under the fair value method was \$1.5 million for the three months ended March 31, 2010, and \$1.4 million for the three months ended March 31, 2009. Unrecognized expense related to RSUs was \$17.8 million and \$7.6 million as of March 31, 2010, and March 31, 2009, respectively.

The activity related to RSUs during the three months ended March 31, 2010, was as follows:

| | Shares |
|--------------------------------------|---------------|
| Outstanding December 31, 2009 | 486,017 |
| Granted | 406,327 |
| Vested | (16,252) |
| Forfeited | (29,169) |
| Outstanding March 31, 2010 | 846,923 |

Note 7. Income Taxes

The effective tax rate for the three months ended March 31, 2010, was 40.8%. The gross unrecognized tax benefits were \$1.3 million at March 31, 2010, and December 31, 2009. The offsetting tax benefit at March 31, 2010, and December 31, 2009, was \$0.3 million. If recognized, \$0.8 million of the net unrecognized tax benefits at March 31, 2010, would impact the effective tax rate.

The Company files income tax returns in the U.S. and various state and foreign jurisdictions. The 2006 through 2009 tax years remain subject to examination by the Internal Revenue Service, and the 2005 through 2009 tax years generally remain subject to examination by state authorities. The Company does not anticipate a significant increase or decrease to total unrecognized tax benefits during the next 12 months.

The Company reports penalties and interest related to unrecognized tax benefits in net income before tax. For the three months ended March 31, 2010, the Company recognized less than \$0.1 million of penalties and interest.

The Company has made no provision for deferred U.S. income taxes or additional foreign taxes on future unremitted earnings of our controlled foreign subsidiaries because the Company considers these earnings to be permanently invested.

Note 8. Earnings Per Share

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

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2010 | 2009 |
| Net Income | \$ 5,420 | \$ 5,882 |
| Weighted-average number of basic shares outstanding during the period | 19,282 | 15,079 |
| Dilutive effect of stock options, restricted stock and RSUs | 222 | 493 |
| Weighted-average number of diluted shares outstanding during the period | 19,504 | 15,572 |
| Basic earnings per share | \$ 0.28 | \$ 0.39 |

Diluted earnings per share

\$ 0.28 \$ 0.38

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Note 9. Recent Pronouncements

Consolidations, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. In June 2009, the FASB issued amended guidance on the accounting and disclosure requirements for variable interest entities (VIEs). The amendment requires an entity to qualitatively, rather than quantitatively, assess the determination of the primary beneficiary of a VIE. This determination, among other things, should be based upon whether the entity has the ability to direct the activities that most significantly impact the economic performance of the VIE. This amendment became effective on January 1, 2010, for the Company. The adoption did not have a material impact on the Company's financial condition and results of operations.

The following accounting standards have been issued, but as of March 31, 2010, are not yet effective and thus have yet to be adopted by the Company.

Revenue Arrangements with Multiple Deliverables. In October 2009, the FASB revised the accounting guidance pertaining to revenue arrangements with multiple deliverables. Prior to this guidance, in order for deliverables within an arrangement to be separated, the items must have stand-alone value as defined by the statement and there must be objective and reliable evidence of fair value for all elements or at a minimum the undelivered elements within the arrangement. Objective and reliable evidence of fair value meant there was vendor-specific-objective-evidence (VSOE) of fair value, which consisted of the price charged when the deliverable is sold separately or a price established by management with the authority to establish the price for the item before it is to be sold separately. Or if VSOE did not exist, third-party evidence was also acceptable. The new standard allows for the use of an estimated management selling price to determine the value of deliverables within an arrangement when VSOE or third-party evidence does not exist. The new guidance also eliminates the use of the residual method of allocation allowed in the previous guidance. The Company has multiple-deliverable arrangements. The guidance will be effective for the Company beginning January 1, 2011. The Company is evaluating the effect that implementation of the new standard will have on its financial condition and results of operations.

Certain Revenue Arrangements That Include Software Elements. In October 2009, the FASB also revised the guidance related to software revenue and multiple-element arrangements with software components. The new guidance related to software revenue recognition excludes arrangements with tangible products containing software and nonsoftware components that function together to deliver a product's essential functionality. Prior to the new guidance, VSOE of fair value was required for the undelivered elements in the arrangement in order for the Company to account for the elements separately. However, as a result of the new guidance noted above with respect to multiple-deliverable arrangements and the guidance related to software revenue recognition, VSOE may not be required if another topic of the accounting standards codification provides guidance on how to allocate the consideration for contract deliverables. Thus, if there is a software and nonsoftware component within the same contract and the software component falls within the scope of the *Software Elements* topic of the code, but that topic addresses solely separation and not allocation, one can now refer back to the *Multiple Deliverables* topic of the codification for guidance on consideration allocation. Thus, as the *Software Elements* topic requires VSOE and management asserts that VSOE does not exist, the Company should now refer to the *Multiple Deliverables* guidance, which would allow consideration to be allocated based upon a relative fair value basis using the entity's best estimate of fair value, which is no longer limited to VSOE or third-party evidence but may entail management's best estimate of selling price. At this time, the Company is assessing the impact of this revised guidance. The Company does not believe that this new guidance will have a material impact on its financial condition and result of operations.

Note 10. Subsequent Events

On April 1, 2010, the Company entered into a new lease for office space at its Eye Street location in Washington, D.C., which was due to expire in November 2012. The new agreement commences on April 1, 2010, and will expire in November 2022. Rent expense will be recognized on a straight-line basis over the lease term. Aggregate rent expense for the 12-year, 8-month period under this arrangement will be approximately \$19.8 million.

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,

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

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

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

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

results of government audits and investigations;

effects of the economic downturn on the air transportation and energy sectors;

liabilities arising from our major contract with the State of Louisiana, completed in 2009;

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 Part II, Item 1A entitled Risk Factors. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update these forward-looking statements, even if our situation changes in the future.

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

OVERVIEW

We provide management, technology, and policy consulting and implementation services to government, commercial, and international clients. We help our clients conceive, develop, implement, and improve solutions that address complex economic, social, and national security issues. Our services primarily address three key markets: energy, environment, and infrastructure; health, human services, and social programs; and homeland security and defense. We believe that demand for our services will continue to grow as government, industry, and other stakeholders seek to address critical long-term societal and natural resources issues in these market areas due to heightened environmental and social concerns, global climate change, the need for cleaner energy, aging populations, and geopolitical changes.

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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, DOS, EPA, DHS, USDA, HUD, DOT, DOI, DOJ, DOE, and ED. U.S. federal government clients generated approximately 72% of our revenue for the three months ended March 31, 2010, and approximately 43% of our revenue for the three months ended March 31, 2009. State and local government clients generated approximately 10% of our revenue for the three months ended March 31, 2010, and approximately 39% of our revenue for the three months ended March 31, 2009. The Road Home contract, which accounted for most of our state and local revenue for its three-year duration, ended as scheduled on June 11, 2009. We also serve domestic 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 domestic commercial and international clients, including government clients outside the United States, generated approximately 18% of our revenue for both the three months ended March 31, 2010, and March 31, 2009. 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.

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

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

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

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

OUTLOOK

Our future results will depend on the success of our strategy to enhance our client relationships and seek larger engagements across the program life cycle in our three key markets, and to complete additional acquisitions and to integrate them successfully. We have completed several acquisitions since 2007, including two acquisitions in 2009, Macro and JASI. We are continuing to evaluate other acquisition opportunities, and at any given point in time we may be evaluating several such opportunities. There is no assurance that we will be able to integrate past acquisitions successfully or that we will be able to complete or integrate additional acquisitions successfully.

DESCRIPTION OF CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

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

Time-and-Materials Contracts. Revenue for time-and-materials contracts is recorded on the basis of allowable labor hours worked multiplied by the contract-defined billing rates, plus the costs of other items used in the performance of the contract. 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

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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. Services performed vary from contract to contract and are not always uniformly performed over the term of the arrangement. We recognize revenue in a number of different ways on fixed-price contracts, including:

Estimates at Completion/Proportional Performance: Revenue on certain fixed-price contracts is recorded each period based upon certain contract performance measures (labor hours, labor costs, total costs) incurred expressed as a proportion of a total project estimate. Thus, labor hours, labor costs, or total contract costs incurred to date are

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compared with the total estimate for these items at completion. Performance is based on the ratio of the incurred hours or costs to the total estimate. Progress on a contract is monitored regularly to ensure revenue recognized reflects project status. When hours or costs incurred are used as the basis for revenue recognition, the hours or costs incurred represent a reasonable surrogate for output measures of contract performance, including the presentation of deliverables to the client. Clients are obligated to pay as services are performed, and in the event that a client cancels the contract, payment for services performed through the date of cancellation is negotiated with the client.

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

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

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

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

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

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

Goodwill and the amortization of intangible assets

Costs in excess of the fair value of tangible and identifiable intangible assets acquired and liabilities assumed in a business combination are recorded as goodwill. 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. Intangible assets with estimable useful lives are required to be amortized over their respective estimated useful lives and are also required to be reviewed for impairment if events or circumstances warrant such a review.

We have elected to perform the annual goodwill impairment review as of September 30 of each year, during the fourth quarter. For purposes of performing this test, we have determined that we have only one reporting unit. We employed market-based methods of determining fair value of the reporting unit consisting of our market capitalization and analysis of guideline public companies. Based upon management's most recent review, including analysis provided by a valuation specialist from an investment bank, we determined that no goodwill impairment charge was required for 2009. Historically, there have been no goodwill impairment charges recorded by the Company.

Long-lived assets and certain identifiable intangibles are 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

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such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell. To date, there have been no impairment charges recorded by the Company.

Recent pronouncements

New accounting standards are discussed in Note 9 Recent Pronouncements of our Notes to Consolidated Financial Statements appearing in this Quarterly Report on Form 10-Q.

DIRECT COSTS

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

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

Changes in the mix of services and other direct costs provided under our contracts can result in variability in our direct costs as a percentage of revenue. For example, when we perform work in the area of implementation, we expect that more of our services will be performed in client-provided facilities and/or with dedicated staff. Such work generally has a higher proportion of direct costs than much of our current advisory work, but we anticipate that higher utilization of such staff will decrease indirect expenses. In addition, to the extent we are successful in winning larger contracts, our own labor services component could decrease because larger contracts typically are broader in scope and require more diverse capabilities, potentially resulting in more subcontracted labor, more other direct costs, and lower margins. Although these factors could lead to a higher ratio of direct costs as a percentage of revenue, the economics of these larger jobs are nonetheless generally favorable because they increase income, broaden our revenue base, and have a favorable return on invested capital.

OPERATING COSTS AND EXPENSES

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

Indirect and selling expenses

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

Non-cash compensation

The Company recognized stock-based compensation expense of \$1.7 million in both the three months ended March 31, 2010, and March 31, 2009, which is included in indirect and selling expenses.

As of March 31, 2010, there was \$19.7 million of total unrecognized compensation expense related to unvested stock-based compensation arrangements. Such unrecognized compensation expense will be recognized ratably over three to five years, depending on the vesting period for each grant.

Depreciation and amortization

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

Table of Contents**INCOME TAX EXPENSE**

Our effective tax rate was 40.8% for the three months ended March 31, 2010. This rate was higher than the combined federal and state statutory tax rate because of non-recurring increases to prior-year differences, as well as current-year permanent tax differences related to expenses not deductible for tax purposes in the three months ended March 31, 2010.

RESULTS OF OPERATIONS**Three Months ended March 31, 2010, compared to Three Months ended March 31, 2009**

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

| | Three Months Ended March 31, | | | | Year-to-Year Change Three Months Ended March 31, 2009 to 2010 | |
|---|------------------------------|------------|-------------|--------|---|---------|
| | 2010 | 2009 | 2010 | 2009 | Dollars | Percent |
| | Dollars (In Thousands) | | Percentages | | (In Thousands) | |
| Gross Revenue | \$ 174,438 | \$ 157,862 | 100.0% | 100.0% | \$ 16,576 | 10.5% |
| Direct Costs | 107,559 | 99,237 | 61.7% | 62.9% | 8,322 | 8.4% |
| Operating Costs and Expenses | | | | | | |
| Indirect and selling expenses | 51,030 | 45,289 | 29.2% | 28.6% | 5,741 | 12.7% |
| Depreciation and amortization | 2,668 | 1,559 | 1.5% | 1.0% | 1,109 | 71.1% |
| Amortization of intangible assets | 3,081 | 1,747 | 1.8% | 1.1% | 1,334 | 76.4% |
| Total Operating Costs and Expenses | 56,779 | 48,595 | 32.5% | 30.7% | 8,184 | 16.8% |
| Earnings from Operations | 10,100 | 10,030 | 5.8% | 6.4% | 70 | 0.7% |
| Other (Expense) Income | | | | | | |
| Interest expense | (963) | (735) | (0.6)% | (0.5)% | (228) | 31.0% |
| Other | 19 | 166 | 0.0% | 0.1% | (147) | (88.6)% |
| Income before Income Taxes | 9,156 | 9,461 | 5.2% | 6.0% | (305) | (3.2)% |
| Income Tax Expense | 3,736 | 3,579 | 2.1% | 2.3% | 157 | 4.4% |
| Net Income | \$ 5,420 | \$ 5,882 | 3.1% | 3.7% | \$ (462) | (7.9)% |

Gross Revenue. Revenue for the three months ended March 31, 2010, was \$174.4 million, compared to \$157.9 million for the three months ended March 31, 2009, representing an increase of \$16.6 million or 10.5%. The increase was primarily due to (1) revenue associated with the operations of Macro and JASI, acquired in 2009, whose results are included in the operating results for the three months ended March 31, 2010, but are not included in the operating results for the three months ended March 31, 2009, and (2) growth in other contracts of \$20.0 million, primarily offset by a reduction in revenue of \$45.5 million associated with the conclusion of The Road Home contract in June 2009.

Direct costs. Direct costs for the three months ended March 31, 2010, were \$107.6 million, or 61.7% of revenue, compared to \$99.2 million, or 62.9% of revenue, for the three months ended March 31, 2009. The increase in direct costs was primarily due to the direct costs associated with the operations of Macro and JASI, acquired in 2009, whose results are included in the operating results for the three months ended March 31, 2010, but are not included in the operating results for the three months ended March 31, 2009, and an increase in direct costs associated with growth in other contracts, primarily offset by the effect of the conclusion of The Road Home contract in June 2009.

Indirect and selling expenses. Indirect and selling expenses for the three months ended March 31, 2010, were \$51.0 million, or 29.2% of revenue, compared to \$45.3 million, or 28.6% of revenue for the three months ended March 31, 2009. The increase in indirect and selling expenses was due principally to the indirect costs associated with the operations of Macro and JASI, acquired in 2009, whose results are included in the operating results for the three months ended March 31, 2010, but are not included in the operating results for the three months ended March 31, 2009.

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Depreciation and amortization. Depreciation and amortization for the three months ended March 31, 2010, was \$2.7 million, or 1.5% of revenue, compared to \$1.6 million, or 1.0% of revenue for the three months ended March 31, 2009. This 71.1% increase in depreciation and amortization resulted primarily from capital expenditures made after March 31, 2009, and depreciation related to assets from acquired businesses.

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Amortization of intangible assets. Amortization of intangible assets for the three months ended March 31, 2010, was \$3.1 million, or 1.8% of revenue, compared to \$1.7 million, or 1.1% of revenue for the three months ended March 31, 2009. The increase in amortization expense was primarily due to the amortization of intangibles related to the 2009 acquisitions, partially offset by a decrease in amortization expense related to other acquisitions.

Earnings from Operations. For the three months ended March 31, 2010, earnings from operations were \$10.1 million, or 5.8% of revenue, compared to \$10.0 million, or 6.4% of revenue for the three months ended March 31, 2009. Earnings from operations as a percentage of revenue decreased primarily due to increased depreciation and amortization expense. Earnings from operations for the three months ended March 31, 2010, also reflect unusual severance, resulting in approximately \$0.6 million of additional pre-tax expenses.

Interest expense. For the three months ended March 31, 2010, interest expense was \$1.0 million, compared to \$0.7 million for the three months ended March 31, 2009. The increase was due primarily to a higher average debt balance during the first quarter 2010 as compared to the average debt balance during the first quarter of 2009.

Income tax expense. Our effective income tax rate for the three months ended March 31, 2010, was 40.8% compared to 37.8% for the three months ended March 31, 2009. The higher effective rate in 2010 was attributable to the non-recurring release of valuation allowances in the three months ended March 31, 2009.

SELECTED KEY METRICS**Revenue**

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

energy, environment, and infrastructure;

health, human services, and social programs; and

homeland security and defense.

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

| | Three Months Ended | |
|---|--------------------|------|
| | 2010 | 2009 |
| Energy, environment, and infrastructure | 40% | 41% |
| Health, human services, and social programs | 45% | 46% |
| Homeland security and defense | 15% | 13% |
| Total | 100% | 100% |

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

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| | Three Months Ended | |
|---------------------------------|---------------------------|-------------|
| | March 31, | |
| | 2010 | 2009 |
| U.S. federal government | 72% | 43% |
| U.S. state and local government | 10% | 39% |
| Domestic commercial | 14% | 14% |
| International | 4% | 4% |
| Total | 100% | 100% |

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The increase in the percentage of revenue attributable to the U.S. federal government for the three months ended March 31, 2009, compared to the three months ended March 31, 2010, results mainly from business we acquired in 2009 within this category that are included in our results for the three months ended March 31, 2010, but are not included in our results for the three months ended March 31, 2009. The decrease in percentage of revenue attributable to U.S. state and local government results mainly from the conclusion of the Road Home contract on June 11, 2009.

Contract mix

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

| | Three Months Ended March 31, | |
|--------------------|---|-------------|
| | 2010 | 2009 |
| Time-and-materials | 49% | 65% |
| Cost-based | 24% | 11% |
| Fixed-price | 27% | 24% |
| Total | 100% | 100% |

The decrease in the percentage of revenue attributable to time-and-materials contracts for the three months ended March 31, 2009, compared to the three months ended March 31, 2010, results mainly from the conclusion of the Road Home contract on June 11, 2009. The increase in percentage of revenue attributable to cost-based contracts results mainly from the primary classification of Macro's operations as this type of contract, although some of Macro's operations do generate revenue from time-and-materials as well as fixed-price contracts.

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.

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Contract backlog

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

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

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

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

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

| | March 31, | |
|----------|---------------|------------|
| | 2010 | 2009 |
| | (in millions) | |
| Funded | \$ 562.8 | \$ 500.1 |
| Unfunded | \$ 771.3 | \$ 729.5 |
| Total | \$ 1,334.1 | \$ 1,229.6 |

The backlog estimates at March 31, 2010, included an estimated total backlog of \$56.0 million for JASI, of which approximately \$6.4 million was funded backlog.

CAPITAL RESOURCES, FINANCIAL CONDITION, AND LIQUIDITY

Credit Facility. We entered into the Second Amended and Restated Business Loan and Security Agreement (Credit Facility) on February 20, 2008, with a syndication of nine commercial banks to allow for borrowings of up to \$350.0 million for a period of five years (maturing February 20, 2013) under a revolving line of credit. The Credit Facility provides for borrowings up to \$275.0 million without a borrowing base requirement and also provides for an accordion feature , which permits additional revolving credit commitments up to \$75.0 million, subject to lenders approval. The Credit Facility has already provided pre-approval by the lenders for acquisitions with individual purchase prices of up to \$75.0 million, if certain conditions are met. The Credit Facility is collateralized by substantially all of the assets of the Company, and requires that we remain in compliance with certain financial and non-financial covenants.

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On March 31, 2009, the Credit Facility was amended to allow for the acquisition of Macro, for permission to sell capital stock in one or more offerings (provided that the proceeds are used to pay down the Credit Facility), and to increase the interest rate margins we pay to borrow funds under the Credit Facility. We have the ability to borrow funds under the Credit Facility at interest rates based on both LIBOR and prime rates, at our discretion, plus their applicable margins. Interest rates on debt outstanding ranged from 2.48% to 2.5% during the quarter.

As of March 31, 2010, we had \$135.0 million in debt outstanding, \$1.3 million in outstanding letters of credit, and unused borrowing capacity of \$138.7 million under the Credit Facility. During the first quarter ended March 31, 2010, we decreased our net borrowings by \$10.0 million. This change in debt outstanding reflects our reduction in working capital requirements. As of March 31, 2010, we were in compliance with the covenants under the Credit Facility.

Financial Condition. There were several significant changes in our balance sheet during the three months ended March 31, 2010. Contract receivables, net, decreased to \$166.9 million compared to \$174.1 million as of December 31, 2009, due to an increase in cash collection. Long-term debt decreased from \$145.0 million on December 31, 2009, to \$135.0 million on March 31, 2010, due to the cash flow from operations and reductions in working capital requirements. Days-sales-outstanding were 78 days at March 31, 2010, and were 80 at December 31, 2009, while our days-payable-outstanding were 44 at March 31, 2010, and were 46 at December 31, 2009.

Liquidity and Borrowing Capacity. Short-term liquidity requirements are created by our use of funds for working capital, capital expenditures, and the need to provide any debt service. We expect to meet these requirements through a combination of cash flow from operations and borrowings under our Credit Facility. As of March 31, 2010, we had \$135.0 million borrowed under our revolving line of credit and unused borrowing capacity of \$138.7 million on our Credit Facility, which is available for our working capital needs.

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

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

Cash and Cash Equivalents. We consider cash on deposit and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalents, including marketable securities, were \$6.8 million and \$2.4 million on March 31, 2010, and December 31, 2009, respectively.

Cash Flow. The following table sets forth our sources and uses of cash for the three months ended March 31, 2010, and March 31, 2009:

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2010 | 2009 |
| | (in thousands) | |
| Net cash provided by operations | \$ 15,863 | \$ 10,040 |
| Net cash used in investing activities | (1,540) | (155,676) |
| Net cash (used for) provided by financing activities | (9,828) | 146,401 |
| Effect of exchange rate on cash | (82) | (252) |
| Net increase in cash | \$ 4,413 | \$ 513 |

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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 \$15.9 million in the three months ended March 31, 2010, and \$10.0 million in the three months ended March 31, 2009. Cash flows from operating activities for the first three months of 2010 were positively impacted by the timing of tax payments, accrued salaries, and contract receivable payments, offset by a net decrease in accounts payable and deferred revenue. Cash flows from operating activities for the first three months of 2009 were positively impacted by a decrease in accounts receivable, partially offset by a decrease in our accounts payable and accrued expenses.

Investing activities used cash of \$1.5 million for the three months ended March 31, 2010, compared to \$155.7 million for the three months ended March 31, 2009. The cash used in investing activities for the first three months of 2010 was for the acquisition of property and equipment. The cash used in investing activities for the first three months of 2009 was primarily for our acquisition of Macro.

For the three months ended March 31, 2010, cash flow used by financing activities of \$9.8 million was attributable primarily to \$10.0 million in repayments to our revolving line of credit. For the three months ended March 31, 2009, cash flow provided by financing activities of \$146.4 million was attributable primarily to \$146.0 million in advances net of payments from our revolving line of credit, which was used to fund the acquisition of Macro.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

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

On March 8, 2010, the Company entered into a new lease that replaced its current headquarters lease, which was due to expire in October 2012. The new lease will initially be for 201,707 square feet, with 57,025 square feet of additional space to be subsequently added. It commenced on April 1, 2010, and will expire on December 31, 2022. Base rent under the agreement will be approximately \$0.5 million per month with annual escalations fixed at 2.5% per year, yielding a total lease commitment of approximately \$89.3 million over the twelve-year term of the lease. The Company will not incur any early termination penalties for the termination of the original lease. The Company also entered into a new lease for its Eye Street location in Washington, D.C. Refer to Note 10 Subsequent Events of our Notes to Consolidated Financial Statements appearing in this Quarterly Report for more detail on this new arrangement.

The Credit Facility provides for stand-by letters of credit aggregating up to \$5.0 million that reduce the funds available under the revolving line of credit when issued. As of March 31, 2010, we had 5 outstanding letters of credit with a total value of \$1.3 million.

We have no other material off-balance sheet financing arrangements.

The following table summarizes our contractual obligations as of March 31, 2010, that require us to make future cash payments. For contractual obligations, we included payments that we have an unconditional obligation to make.

| | Payments due by Period (In thousands) | | | | |
|-----------------------------------|---------------------------------------|---------------------|------------------|------------------|------------------|
| | Total | Less than 1 year | Years 2 and 3 | Years 4 and 5 | After 5 Years |
| Rent of facilities | \$ 188,939 | \$ 25,803 | \$ 45,330 | \$ 29,582 | \$ 88,224 |
| Other operating lease obligations | 4,924 | 2,187 | 2,631 | 105 | 1 |
| Long-term debt obligation | 135,000 | 0 | 135,000 | 0 | 0 |
| Total | \$ 328,863 | \$ 27,990 | \$ 182,961 | \$ 29,687 | \$ 88,225 |

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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, 2009.

Item 4. Controls and Procedures

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

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

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

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. There are numerous and varied risks, known and unknown, that may affect us and prevent us from achieving our goals. There have been no material changes in those risk factors discussed in the section entitled "Risk Factors" disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009, except to note that CM Equity Partners, L.P. ("CM Equity") made its fifth and final distribution of our common stock to its limited partners on April 6, 2010. Following this distribution, CM Equity no longer holds shares of our common stock and therefore the risks outlined in connection with its ownership under "Additional shares of our common stock could be offered or distributed in the future, which could cause our common stock price to decline significantly" are no longer applicable.

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 March 31, 2010, a total of 830 shares of unregistered stock, valued at \$22,584, were issued to two directors of the Company in lieu of cash for director fee compensation on January 1, 2010. The issuance of these shares is exempt under Section 4(2) of the Securities Act of 1933, as amended.

Purchase of Equity. During the three months ended March 31, 2010, the Company purchased 18,159 shares of common stock for \$450,158 in exchange for the payment of withholding taxes and exercise price due upon the exercise of options and the vesting of restricted stock. The average fair value of the common stock purchased was \$24.79 per share.

The following table summarizes stock repurchases for the three months ended March 31, 2010:

| 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 |
|--------------------------|---|---|---|--|
| January 1 - January 31 | 2,006 | \$ 25.67 | None | None |
| February 1 - February 28 | 1,856 | \$ 23.58 | None | None |
| March 1 - March 31 | 14,297 | \$ 24.82 | None | None |
| Total | 18,159 | \$ 24.79 | None | None |

Item 3. Defaults Upon Senior Securities
None.

Item 4. Reserved

Item 5. Other Information
None.

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Item 6. Exhibits

Exhibit

| Number | Exhibit |
|---------------|--|
| 10.1 | Employment Terms By and Between the Company and Ronald P. Vargo, dated January 28, 2010 |
| 10.2 | Severance Protection Agreement By and Between the Company and Ronald P. Vargo, dated March 1, 2010 |
| 31.1 | Certificate of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a). |
| 31.2 | Certificate of the Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a). |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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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.

May 6, 2010

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

May 6, 2010

By: /s/ RONALD P. VARGO
Ronald P. Vargo
Chief Financial Officer, Executive Vice President and Assistant
Corporate Secretary

(Principal Financial Officer)

May 6, 2010

By: /s/ PHILLIP M. ECK
Phillip M. Eck
Acting Controller and Principal Accounting Officer