

ICF International, Inc.
Form 10-Q
May 04, 2012
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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, 2012

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 001-33045

ICF International, Inc.

(Exact name of Registrant as Specified in its Charter)

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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, 2012, there were 19,911,682 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, 2012

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

(in thousands, except share amounts)

| | March 31, 2012 (Unaudited) | December 31, 2011 |
|---|-------------------------------|-------------------|
| Current Assets: | | |
| Cash | \$ 5,713 | \$ 4,097 |
| Contract receivables, net | 223,251 | 209,426 |
| Prepaid expenses and other | 6,009 | 7,948 |
| Income tax receivable | 484 | 1,155 |
| Deferred income taxes | 5,206 | 7,963 |
| Total current assets | 240,663 | 230,589 |
| Total property and equipment, net | 29,301 | 21,067 |
| Other assets: | | |
| Goodwill | 406,799 | 401,134 |
| Other intangible assets, net | 32,476 | 33,740 |
| Restricted cash | 1,215 | 1,208 |
| Other assets | 8,895 | 6,877 |
| Total Assets | \$ 719,349 | \$ 694,615 |
| Current Liabilities: | | |
| Accounts payable | \$ 40,628 | \$ 38,685 |
| Accrued salaries and benefits | 41,301 | 46,215 |
| Accrued expenses | 28,898 | 29,252 |
| Deferred revenue | 24,241 | 20,180 |
| Total current liabilities | 135,068 | 134,332 |
| Long-term Liabilities: | | |
| Long-term debt | 152,146 | 145,000 |
| Deferred rent | 7,706 | 7,223 |
| Deferred income taxes | 10,115 | 9,247 |
| Other | 11,247 | 5,785 |
| Total Liabilities | 316,282 | 301,587 |
| Commitments and Contingencies | | |
| Stockholders' Equity: | | |
| Preferred stock, par value \$.001 per share; 5,000,000 shares authorized; none issued | | |
| Common stock, \$.001 par value; 70,000,000 shares authorized; 19,979,970 and 19,887,459 issued; and 19,852,895 and 19,792,499 outstanding as of March 31, 2012, and December 31, 2011, respectively | 20 | 20 |
| Additional paid-in capital | 229,885 | 227,577 |

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| | | |
|--|----------------|----------------|
| Retained earnings | 177,439 | 168,502 |
| Treasury stock | (3,083) | (2,266) |
| Accumulated other comprehensive loss | (1,194) | (805) |
| Total Stockholders' Equity | 403,067 | 393,028 |
| Total Liabilities and Stockholders' Equity | \$ 719,349 | \$ 694,615 |

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

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

(in thousands, except per share amounts)

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2012 | 2011 |
| Gross Revenue | \$ 227,641 | \$ 194,742 |
| Direct Costs | 140,188 | 118,221 |
| Operating costs and expenses: | | |
| Indirect and selling expenses | 65,871 | 57,926 |
| Depreciation and amortization | 1,815 | 2,761 |
| Amortization of intangible assets | 3,531 | 2,415 |
| Total operating costs and expenses | 71,217 | 63,102 |
| Operating income | 16,236 | 13,419 |
| Interest expense | (1,307) | (629) |
| Other income (expense) | (33) | 87 |
| Income before income taxes | 14,896 | 12,877 |
| Provision for income taxes | 5,959 | 5,151 |
| Net income | \$ 8,937 | \$ 7,726 |
| Earnings per Share: | | |
| Basic | \$ 0.45 | \$ 0.39 |
| Diluted | \$ 0.45 | \$ 0.39 |
| Weighted-average Shares: | | |
| Basic | 19,769 | 19,580 |
| Diluted | 20,082 | 19,780 |
| Other comprehensive income: | | |
| Foreign currency translation adjustments | (389) | 156 |
| Comprehensive income | \$ 8,548 | \$ 7,882 |

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)

| | Three Months Ended March 31, | |
|---|---|-----------------|
| | 2012 | 2011 |
| Cash flows from operating activities | | |
| Net income | \$ 8,937 | \$ 7,726 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Deferred income taxes | 3,674 | (16) |
| (Gain) loss on disposal of fixed assets | 67 | (66) |
| Non-cash equity compensation | 1,772 | 1,195 |
| Depreciation and amortization | 5,346 | 5,176 |
| Deferred rent | 525 | 842 |
| Changes in operating assets and liabilities, net of the effect of acquisitions: | | |
| Contract receivables, net | (4,391) | (2,138) |
| Prepaid expenses and other assets | 1,678 | (972) |
| Accounts payable | (798) | (5,629) |
| Accrued salaries and benefits | (5,313) | 3,819 |
| Accrued expenses | (5,712) | (3,059) |
| Deferred revenue | (655) | 896 |
| Income tax receivable and payable | 419 | 4,236 |
| Restricted cash | (7) | 1,303 |
| Other liabilities | 5,461 | 513 |
| Net cash provided by operating activities | 11,003 | 13,826 |
| Cash flows from investing activities | | |
| Capital expenditures | (5,626) | (1,696) |
| Capitalized software development costs | 0 | (28) |
| Payments for business acquisitions, net of cash received | (8,556) | (4,547) |
| Net cash used in investing activities | (14,182) | (6,271) |
| Cash flows from financing activities | | |
| Advances from working capital facilities | 35,231 | 32,294 |
| Payments on working capital facilities | (28,085) | (37,294) |
| Debt issue costs | (1,681) | 0 |
| Proceeds from exercise of options | 23 | 85 |
| Tax benefits of stock option exercises and award vesting | 486 | 949 |
| Net payments for stockholder issuances and buybacks | (790) | (758) |
| Net cash provided by (used in) financing activities | 5,184 | (4,724) |
| Effect of exchange rate on cash | (389) | 156 |
| Increase in cash | 1,616 | 2,987 |
| Cash, beginning of period | 4,097 | 3,301 |
| Cash, end of period | \$ 5,713 | \$ 6,288 |

Supplemental disclosure of cash flow information

Cash paid during the period for:

| | | |
|--------------|----------|--------|
| Interest | \$ 830 | \$ 610 |
| Income taxes | \$ 1,468 | \$ 328 |

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 amounts)

Note 1. Basis of Presentation and Nature of Operations

Interim Results

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

Nature of Operations

The Company provides management, technology, and policy professional services in the areas of energy, environment, and infrastructure; health, social programs, and consumer/financial; and public safety and defense. Beginning in 2012, the Company changed the names of its markets, see Management's Discussion and Analysis of Financial Condition and Results of Operations Overview for a more detailed discussion. The Company's major clients are United States (U.S.) government departments and agencies, especially the Department of Health and Human Services (HHS), Department of Defense (DoD), Department of State (DOS), Environmental Protection Agency (EPA), Department of Homeland Security (DHS), U.S. Department of Agriculture (USDA), Department of Housing and Urban Development (HUD), Department of Transportation (DOT), Department of Interior (DOI), Department of Justice (DOJ), Department of Energy (DOE), and Department of Education (ED); state and local government departments and agencies; 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. It maintains offices throughout the world, including over 60 offices in the U.S. and over 15 offices in key markets outside the U.S., including offices in Beijing, Hong Kong, New Delhi, Ottawa, Toronto, Brussels, London, Moscow, and Rio de Janeiro.

Note 2. Business Combinations

GHK Holdings Limited (GHK)

In February 2012, the Company completed the acquisition of GHK Holdings Limited (GHK). With its headquarters in London, GHK is a multi-disciplinary consultancy serving government and commercial clients on environment, employment, health, education and training, transportation, social policy, business and economic development, and international development issues. The purchase was immaterial to the Company's financial statements taken as a whole.

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

Effective December 31, 2011, the Company acquired Ironworks Consulting, L.L.C. (Ironworks), an interactive web development firm that provides customer engagement solutions across web, mobile, and social media platforms to companies in the health, energy, and financial services industries, as well as to U.S. federal government agencies and nonprofit organizations. The addition of Ironworks complements the Company's existing services and provides new selling opportunities in the federal, commercial energy, and nonprofit space, while offering additional opportunities in the financial and commercial health segments.

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The aggregate purchase price of approximately \$102.5 million in cash, including the working capital adjustment required by the stock purchase agreement, was funded by the Company's Credit Facility. The Company has engaged an independent valuation firm to assist management in the allocation of the purchase price to goodwill and to other acquired intangible assets. The excess of the purchase price over the estimated fair value of the net tangible assets acquired was approximately \$89.6 million. The Company has

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preliminarily allocated approximately \$74.4 million to goodwill and \$15.2 million to other intangible assets. The intangible assets consist of approximately \$14.7 million of customer-related intangibles that are being amortized over seven years from the acquisition date, and \$0.5 million of marketing-related intangibles that are being amortized over one year from the acquisition date. The change in the aggregate purchase price, and the changes in certain purchase price allocations from December 31, 2011, reflect changes to the working capital adjustment and preliminary purchase price allocations. The Company is still evaluating the fair value of acquired assets and liabilities and pre-acquisition contingencies; therefore, the final allocation of the purchase price has not been completed. Ironworks was an asset purchase for tax purposes, and therefore, the goodwill and the amortization of intangibles are deductible over a fifteen-year period and will give rise to certain deferred tax assets and liabilities. The results of operations for Ironworks have been included in the Company's financial statements as of December 31, 2011; however, because the acquisition occurred on the last day of the year in 2011, the operations of Ironworks had no impact on the statement of earnings in 2011.

The Company incurred approximately \$0.4 million of transaction expenses in 2011 related to the acquisition. The expenses are recorded on the statement of earnings as indirect and selling expenses.

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

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

| | |
|--------------------------------------|----------------|
| Cash | \$ 1,112 |
| Contract receivables | 12,678 |
| Other current and non-current assets | 199 |
| Customer-related intangibles | 14,726 |
| Marketing-related intangibles | 484 |
| Goodwill | 74,378 |
| Property and equipment | 1,121 |
| Total Assets | 104,698 |
| Accounts payable | 931 |
| Accrued salaries and benefits | 370 |
| Billings in excess of costs | 905 |
| Total Liabilities | 2,206 |
| Net Assets | \$ 102,492 |

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

AeroStrategy L.L.C. (AeroStrategy)

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

Marbek Resource Consultants Ltd. (Marbek)

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

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

Contract receivables consisted of the following:

| | March 31, 2012 | December 31, 2011 |
|---------------------------------|----------------|-------------------|
| Billed | \$ 145,412 | \$ 149,725 |
| Unbilled | 79,612 | 61,447 |
| Allowance for doubtful accounts | (1,773) | (1,746) |
| Contract receivables, net | \$ 223,251 | \$ 209,426 |

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

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

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

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

Road Home Contract

Although no legal proceeding has been commenced, the Company has received additional correspondence from the Office of Community Development of the State of Louisiana, adding to its claim that the Company is responsible for the overpayment of Road Home program grant funds. The Company expects to receive more correspondence from the Office of Community Development, further adding to the claim. The Company believes this claim has no merit, intends to vigorously defend its position, and has therefore not recorded a liability as of March 31, 2012.

Note 5. Long-Term Debt

The Company entered into a Third Amended and Restated Business Loan and Security Agreement (Credit Facility) on March 14, 2012, with a syndication of ten commercial banks to allow for borrowings of up to \$500.0 million for a period of five years (maturing March 14, 2017) under a revolving line of credit. The new Credit Facility amends and restates the previous agreement entered into on February 20, 2008, which had allowed for borrowings of up to \$350.0 million. The Credit Facility provides for borrowings of up to \$400.0 million without a borrowing base requirement, and also provides for an accordion feature, which permits additional revolving credit commitments of up to \$100.0 million, subject to lenders' approval. Total debt issuance costs as of March 31, 2012 were \$2.2 million, including approximately \$1.6 million in additional debt issuance costs related to the amended Credit Facility. The Company will amortize these debt issuance costs over the term of the agreement. The Credit Facility is collateralized by substantially all of the assets of the Company, and requires that the Company remain in compliance with certain financial and non-financial covenants. The financial covenants, as defined by the Credit Facility, require that the Company maintain, on a consolidated basis for each quarter, a fixed charge coverage ratio of not less than 1.00 to 1.25 and a leverage ratio of not more than 1.0 to 3.75. As of March 31, 2012, the Company was in compliance with the covenants under the Credit Facility.

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

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As of March 31, 2012, the Company had \$152.1 million in long-term debt outstanding, \$2.9 million in outstanding letters of credit, and unused borrowing capacity of \$245.0 million under the Credit Facility.

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The Company recognized stock-based compensation expense of \$1.8 million for the three months ended March 31, 2012, and \$1.2 million for the three months ended March 31, 2011. Unrecognized compensation expense of \$24.8 million as of March 31, 2012, related to unvested stock-based compensation agreements, will be recognized over a weighted-average period of three years. For the three months ended March 31, 2012, the Company granted approximately 0.5 million shares in the form of equity compensation. As of March 31, 2012, the Company had approximately 1.0 million shares available to grant under its equity compensation plan.

Note 7. Income Taxes

The Company's effective tax rate for the three-month periods ended March 31, 2012, and March 31, 2011, was 40.0%. The gross unrecognized tax benefits were \$1.1 million at March 31, 2012. The offsetting tax benefit at March 31, 2012, was \$0.4 million. If recognized, \$0.5 million of the net unrecognized tax benefits at March 31, 2012, would impact the effective tax rate.

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

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

Note 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 restricted stock units (RSUs). The dilutive effect of stock options excludes shares that would be anti-dilutive to the calculation of EPS if included. The dilutive effect of stock options, restricted stock, and RSU awards for each period reported is summarized below:

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2012 | 2011 |
| Net Income | \$ 8,937 | \$ 7,726 |
| Weighted-average number of basic shares outstanding during the period | 19,769 | 19,580 |
| Dilutive effect of stock options, restricted stock and RSUs | 313 | 200 |
| Weighted-average number of diluted shares outstanding during the period | 20,082 | 19,780 |
| Basic earnings per share | \$ 0.45 | \$ 0.39 |
| Diluted earnings per share | \$ 0.45 | \$ 0.39 |

Note 9. Recent Pronouncements

ASU 2011-08, Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment. In September 2011, the Financial Accounting Standards Board (FASB) revised the guidance related to testing goodwill for impairment. The new guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, as a basis for determining whether it is necessary to perform the first step of the two-step goodwill impairment test required under existing guidance. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If, upon assessing the qualitative factors in their totality,

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an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then performing the two-step impairment test is unnecessary. However, if an entity determines that it is more likely than not, then it is required to perform the first step of the two-step impairment test. In addition, an entity is no longer permitted to carry forward its detailed calculation of a reporting unit's fair value from a prior year as previously permitted. The Company adopted this guidance as of the third quarter of 2011.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

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

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

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

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

results of government audits and investigations;

failure to receive the full amount of our backlog;

difficulties implementing our acquisition strategy;

difficulties expanding our service offerings and client base; and

liabilities arising from our major contract with the State of Louisiana, which was completed in 2009.

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

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

OVERVIEW

We provide management, technology, and policy consulting and implementation services to government, commercial, and non-U.S. clients. We help our clients conceive, develop, implement, and improve solutions that address complex natural resource, social, and national security issues. Our services primarily address three key markets:

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

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

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

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

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

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 serve federal, state, local, and foreign government clients, as well as major domestic and international corporations and multilateral institutions. Our clients utilize our advisory services because we offer a combination of deep subject-matter expertise and institutional experience in our market areas. We believe that our domain expertise and the program knowledge developed from our advisory engagements further position us to provide implementation and evaluation services.

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

OUTLOOK

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

CRITICAL ACCOUNTING ESTIMATES

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

Revenue Recognition

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

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

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

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

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

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

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

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

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

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

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

DIRECT COSTS

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

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

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

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

OPERATING EXPENSES

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

Indirect and selling expenses

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

Equity compensation

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

Property and equipment

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

Goodwill and other intangible assets

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

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

We have adopted the amended guidance under ASU 2011-08, issued in September 2011. We evaluated, on the basis of the weight of evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of our one reporting unit is less than its carrying amount. This evaluation included macroeconomic, industry and market specific considerations, financial performance indicators and measurements, and other factors. We determined that it is not more likely than not that the fair value of our one reporting unit is less than its carrying amount and that the two-step impairment test was not required to be performed for 2011. Therefore, based upon management's review, no goodwill impairment charge was required as of December 31, 2011, or March 31, 2012.

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

Recent pronouncements

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

RESULTS OF OPERATIONS**Three Months ended March 31, 2012, compared to Three Months ended March 31, 2011**

The following table sets forth certain items from our unaudited consolidated statements of earnings 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, | | Three Months Ended March 31, | | Year-to-Year Change | |
|---|------------------------------|------------|------------------------------|--------|------------------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 | Three Months Ended March 31, | 2011 to 2012 |
| | Dollars (In Thousands) | | Percentages | | Dollars (In Thousands) | Percent |
| Gross Revenue | \$ 227,641 | \$ 194,742 | 100.0% | 100.0% | \$ 32,899 | 16.9% |
| Direct Costs | 140,188 | 118,221 | 61.6% | 60.7% | 21,967 | 18.6% |
| Operating Costs and Expenses | | | | | | |
| Indirect and selling expenses | 65,871 | 57,926 | 28.9% | 29.7% | 7,945 | 13.7% |
| Depreciation and amortization | 1,815 | 2,761 | 0.8% | 1.4% | (946) | (34.3)% |
| Amortization of intangible assets | 3,531 | 2,415 | 1.6% | 1.3% | 1,116 | 46.2% |
| Total Operating Costs and Expenses | 71,217 | 63,102 | 31.3% | 32.4% | 8,115 | 12.9% |
| Operating Income | 16,236 | 13,419 | 7.1% | 6.9% | 2,817 | 21.0% |
| Other (Expense) Income | | | | | | |
| Interest expense | (1,307) | (629) | (0.6)% | (0.3)% | (678) | 107.8% |
| Other income | (33) | 87 | | | (120) | (137.9)% |
| Income before Income Taxes | 14,896 | 12,877 | 6.5% | 6.6% | 2,019 | 15.7% |
| Provision for Income Taxes | 5,959 | 5,151 | 2.6% | 2.6% | 808 | 15.7% |
| Net Income | \$ 8,937 | \$ 7,726 | 3.9% | 4.0% | \$ 1,211 | 15.7% |

Gross Revenue. Revenue for the three months ended March 31, 2012, was \$227.6 million, compared to \$194.7 million for the three months ended March 31, 2011, representing an increase of \$32.9 million or 16.9%. Excluding the impact of the acquisitions of Ironworks and GHK, revenue increased by \$13.7 million, compared to the three months ended March 31, 2011. Total revenue increased in each client type, primarily in U.S. commercial of \$17.3 million, and U.S. federal government of \$8.3 million, compared to the three months ended March 31, 2011.

Direct costs. Direct costs for the three months ended March 31, 2012, were \$140.2 million compared to \$118.2 million for the three months ended March 31, 2011, an increase of \$22.0 million or 18.6%. The increase in direct costs is primarily attributable to an increase in subcontractor expense and direct labor expense, primarily impacted by the acquisitions of Ironworks and GHK. Direct costs as a percent of revenue increased to 61.6% for the three months ended March 31, 2012, compared to 60.7% for the three months ended March 31, 2011.

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Indirect and selling expenses. Indirect and selling expenses for the three months ended March 31, 2012 were \$65.9 million compared to \$57.9 million for the three months ended March 31, 2011, an increase of \$7.9 million or 13.7%. The increase in indirect and selling expenses is primarily attributable to an increase in indirect labor, primarily impacted by the acquisitions of Ironworks and GHK. Indirect and selling expenses as a percent of revenue decreased to 28.9% for the three months ended March 31, 2012, compared to 29.7% for the three months ended March 31, 2011.

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Depreciation and amortization. Depreciation and amortization for the three months ended March 31, 2012, was \$1.8 million compared to \$2.8 million for the three months ended March 31, 2011. The decrease in depreciation and amortization of \$0.9 million was partially due to a change in the estimated useful lives of certain technology related assets, and partially due to other assets that had been fully depreciated as of March 31, 2012, but had not been fully depreciated as of March 31, 2011.

Amortization of intangible assets. Amortization of intangible assets for the three months ended March 31, 2012, was \$3.5 million compared to \$2.4 million for the three months ended March 31, 2011. The 46.2% increase resulted primarily from the acquisitions of Ironworks and GHK.

Operating Income. For the three months ended March 31, 2012, operating income was \$16.2 million compared to \$13.4 million for the three months ended March 31, 2011, an increase of \$2.8 million or 21.0%. Operating income as a percent of revenue increased to 7.1% for the three months ended March 31, 2012, from 6.9% for the three months ended March 31, 2011. Operating income and operating income as a percent of revenue increased due to growth in revenue outpacing the growth in costs.

Interest expense. For the three months ended March 31, 2012, interest expense was \$1.3 million, compared to \$0.6 million for the three months ended March 31, 2011. The \$0.7 million increase was due primarily to an increase in the average debt balance related to the acquisition of Ironworks.

Provision for Income Taxes. Our effective income tax rate for the three months ended March 31, 2012, and March 31, 2011, was 40.0%.

SELECTED KEY METRICS**Revenue**

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

Energy, environment, and infrastructure;

Health, social programs, and consumer/financial; and

Public safety and defense.

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

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 March 31, | |
|---|---------------------------------|------|
| | 2012 | 2011 |
| Energy, environment, and infrastructure | 44% | 41% |
| Health, social programs, and consumer/financial | 43% | 43% |
| Public safety and defense | 13% | 16% |

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Total

100%

100%

15

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

| | Three Months Ended March 31, | |
|---------------------------------|---------------------------------|-------------|
| | 2012 | 2011 |
| U.S. federal government | 62% | 68% |
| U.S. state and local government | 10% | 10% |
| U.S. commercial | 23% | 17% |
| Non-U.S. | 5% | 5% |
| Total | 100% | 100% |

The decrease in U.S. federal government revenue and the increase in U.S. commercial revenue as a percent of total revenue, for the three months ended March 31, 2012, compared to the three months ended March 31, 2011, is primarily attributable to revenue from the acquisition of Ironworks, and growth in work with energy-related clients.

Contract mix

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

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

| | Three Months Ended March 31, | |
|--------------------|---------------------------------|-------------|
| | 2012 | 2011 |
| Time-and-materials | 50% | 51% |
| Fixed-price | 28% | 27% |
| Cost-based | 22% | 22% |
| Total | 100% | 100% |

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

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

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Cost-based contracts. Under cost-based contracts, we are paid based on the allowable costs we incur, and usually receive a fee. All of our cost-based contracts reimburse us for our direct labor and fringe-benefit costs that are allowable under the contract; however, certain contracts limit the amount of overhead and general and administrative costs we can recover, which may be less than our actual overhead and general and administrative costs. In addition, our fees are constrained by fee ceilings and, in certain cases, such as with

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grants and cooperative agreements, we may receive no fee. Because of these limitations, our cost-based contracts, on average, are our least profitable type of contract, and we may generate less than the expected profit, or perhaps, incur a loss. Cost-based fixed-fee contracts specify the fee to be paid. Cost-based incentive-fee and cost-based award-fee contracts provide for increases or decreases in the contract fee, within specified limits, based upon actual results as compared to contractual targets for factors such as cost, quality, schedule, and performance.

Contract backlog

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

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

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

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

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

| | March 31, | |
|--------------|-------------------|-------------------|
| | 2012 | 2011 |
| | (in millions) | |
| Funded | \$ 741.5 | \$ 639.1 |
| Unfunded | 946.8 | \$ 732.8 |
| Total | \$ 1,688.3 | \$ 1,371.9 |

Included in our total March 31, 2012 backlog is \$63.8 million related to a signed federal government contract under protest. Management believes the contract award to us will be upheld.

CAPITAL RESOURCES, FINANCIAL CONDITION, AND LIQUIDITY

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Credit Facility. We entered into a Third Amended and Restated Business Loan and Security Agreement (Credit Facility) on March 14, 2012, with a syndication of ten commercial banks to allow for borrowings of up to \$500.0 million for a period of five years (maturing March 14, 2017) under a revolving line of credit. The new Credit Facility amends and restates the previous agreement entered into on February 20, 2008, which had allowed for borrowings of up to \$350.0 million. The Credit Facility provides for borrowings of up to \$400.0 million without a borrowing base requirement, and also provides for an accordion feature, which permits additional revolving credit commitments of up to \$100.0 million, subject to lenders approval. Total debt issuance costs as of March 31,

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2012 were \$2.2 million, including approximately \$1.6 million in additional debt issuance costs related to the amended Credit Facility. We will amortize these debt issuance costs over the term of the agreement. The Credit Facility is collateralized by substantially all of our assets of the Company, and requires that we remain in compliance with certain financial and non-financial covenants. The financial covenants, as defined by the Credit Facility, require that we maintain, on a consolidated basis for each quarter, a fixed charge coverage ratio of not less than 1.00 to 1.25 and a leverage ratio of not more than 1.0 to 3.75. As of March 31, 2012, we were in compliance with the covenants under the Credit Facility.

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

Financial Condition. There were several changes in our balance sheet during the three months ended March 31, 2012. Accounts receivable increased from \$209.4 million on December 31, 2011, to \$223.3 million on March 31, 2012. Not including the impact of the acquisition of GHK, days-sales-outstanding were 78 days at March 31, 2012, and were 74 days at March 31, 2011. Long-term debt increased from \$145.0 million on December 31, 2011, to \$152.1 million on March 31, 2012, primarily due to the acquisition of GHK. Accounts payable and accrued salaries and benefits decreased to \$81.9 million on March 31, 2012, from \$84.9 million on December 31, 2011, primarily due to the timing of payments. Not including the impact of the acquisition of GHK, days-payable-outstanding were 46 days at March 31, 2012, and March 31, 2011.

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, 2012, we had \$152.1 million borrowed under our revolving line of credit, outstanding letters of credit of \$2.9 million, and unused borrowing capacity of \$245.0 million which is available for our working capital needs and for other purposes.

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

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

Cash and Cash Equivalents. We consider cash on deposit and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. Cash was \$5.7 million and \$4.1 million on March 31, 2012, and December 31, 2011, respectively.

Cash Flow. The following table sets forth our sources and uses of cash for the three months ended March 31, 2012, and March 31, 2011:

| | Three Months Ended March 31, | |
|---|---|-----------------|
| | 2012 | 2011 |
| | (in thousands) | |
| Net cash provided by operating activities | \$ 11,003 | \$ 13,826 |
| Net cash used in investing activities | (14,182) | (6,271) |
| Net cash provided by (used in) financing activities | 5,184 | (4,724) |
| Effect of exchange rate on cash | (389) | 156 |
| Net increase in cash | \$ 1,616 | \$ 2,987 |

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 \$11.0 million in the three months ended March 31, 2012, and \$13.8 million in the three months ended March 31, 2011. Cash flows from operating activities for the first three months of 2012 were positively impacted by prepaid expenses and other assets, and other liabilities, and were negatively impacted by accrued salaries and benefits, contract receivables, and accrued expenses. Cash flows from

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operating activities for the first three months of 2011 were positively impacted by accrued salaries and benefits, and the timing of tax payments, and were negatively impacted by accounts payable, accrued expenses, and contract receivables.

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Investing activities used cash of \$14.2 million for the three months ended March 31, 2012, compared to \$6.3 million for the three months ended March 31, 2011. The cash used in investing activities for the first three months of 2012 was primarily for our business combination of GHK, and capital expenditures. The cash used in investing activities for the first three months of 2011 was primarily for our business combination of Marbek.

For the three months ended March 31, 2012, cash flow provided by financing activities of \$5.2 million was attributable primarily to \$7.1 million in net advances from our revolving line of credit. For the three months ended March 31, 2011, cash flow used in financing activities of \$4.7 million was attributable primarily to \$5.0 million in net repayments to our revolving line of credit.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

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

The Credit Facility provides for stand-by letters of credit aggregating up to \$20.0 million that reduce the funds available under the revolving line of credit when issued. As of March 31, 2012, we had 8 outstanding letters of credit with a total value of \$2.9 million.

The following table summarizes our contractual obligations as of March 31, 2012 that require us to make future cash payments. For contractual obligations, we included payments that we have an unconditional obligation to make.

| | Total | Payments due by Period (In thousands) | | | |
|-----------------------------|------------|--|-----------------|-----------------|----------------------|
| | | Less than 1 year | 1 to 3 years | 3 to 5 years | More than 5 years |
| Rent of facilities | \$ 241,822 | \$ 27,688 | \$ 48,381 | \$ 42,958 | \$ 122,795 |
| Operating lease obligations | 2,552 | 1,329 | 993 | 230 | |
| Long-term debt obligation | 152,146 | | | 152,146 | |
| Total | \$ 396,520 | \$ 29,017 | \$ 49,374 | \$ 195,334 | \$ 122,795 |

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting. As of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Interim 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 Interim 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 Interim 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.

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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, have been detected. Because of the inherent limitations in any control system, misstatements due to error or fraud may occur and not be detected.

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

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

Item 1A. Risk Factors

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

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

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

Issuances of Common Stock. For the three months ended March 31, 2012, a total of 1,085 shares of unregistered common stock, valued at an aggregate of \$27,711, were issued to two directors of the Company in lieu of cash for director fee compensation on January 3, 2012. The issuance of these shares is exempt under Section 4(2) of the Securities Act of 1933, as amended.

Purchase of Equity. During the three months ended March 31, 2012, the Company purchased 32,115 shares of common stock for an aggregate of \$817,246 from employees to pay required withholding taxes and the exercise price due upon the exercise of options and the settlement of RSUs, in accordance with the applicable long-term incentive plan. The average fair value of the common stock purchased was \$25.45 per share.

The following table summarizes stock repurchases for the three months ended March 31, 2012:

| 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 | 4,107 | \$ 25.69 | None | None |
| February 1 - February 29 | | \$ | None | None |
| March 1 - March 31 | 28,008 | \$ 25.41 | None | None |
| Total | 32,115 | \$ 25.45 | 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 | Severance Letter Agreement between ICF International, Inc. and Isabel S. Reiff. |
| 10.2 | Severance Letter Agreement between ICF International, Inc. and Ellen Glover. |
| 31.1 | Certificate of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a). |
| 31.2 | Certificate of the Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a). |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of the Interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following materials from the ICF International, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Earnings, (iii) Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements.* |

* Submitted electronically herewith.

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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 4, 2012

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

May 4, 2012

By: /s/ Sandra B. Murray
Sandra B. Murray
Interim Chief Financial Officer

(Principal Financial Officer)