

ICF International, Inc.  
Form 10-Q  
May 03, 2019

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, 2019

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 001-33045

ICF International, Inc.

(Exact name of Registrant as Specified in its Charter)

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

Securities registered pursuant to Section 12(b) of the Act.

| Title of each class | Trading Symbols(s) | Name of each exchange on which registered |
|---------------------|--------------------|---|
| Common Stock        | ICFI               | NASDAQ                                    |

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

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

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

As of April 26, 2019, there were 18,830,058 shares outstanding of the registrant’s common stock.

ICF INTERNATIONAL, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q FOR THE

PERIOD ENDED MARCH 31, 2019

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## ICF International, Inc. and Subsidiaries

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

|  | March 31,<br>2019<br>(Unaudited) | December 31,<br>2018 |
|--|----------------------------------|----------------------|
| <b>Assets</b>                                  |                                  |                      |
| Current Assets:                                |                                  |                      |
| Cash and cash equivalents                      | \$ 5,689                         | \$ 11,694            |
| Contract receivables, net                      | 222,472                          | 230,966              |
| Contract assets                                | 151,805                          | 126,688              |
| Prepaid expenses and other assets              | 15,548                           | 16,253               |
| Income tax receivable                          | 4,222                            | 6,505                |
| Total Current Assets                           | 399,736                          | 392,106              |
| Property and Equipment, net                    | 50,888                           | 48,105               |
| Other Assets:                                  |                                  |                      |
| Restricted cash - non-current                  | —                                | 1,292                |
| Goodwill                                       | 720,360                          | 715,644              |
| Other intangible assets, net                   | 33,520                           | 35,494               |
| Operating lease - right-of-use assets          | 127,587                          | —                    |
| Other assets                                   | 22,530                           | 21,221               |
| Total Assets                                   | \$ 1,354,621                     | \$ 1,213,862         |
| <b>Liabilities and Stockholders' Equity</b>    |                                  |                      |
| Current Liabilities:                           |                                  |                      |
| Accounts payable                               | \$ 87,039                        | \$ 102,599           |
| Contract liabilities                           | 35,936                           | 33,494               |
| Operating lease liabilities - current          | 30,324                           | —                    |
| Accrued salaries and benefits                  | 50,014                           | 44,103               |
| Accrued subcontractors and other direct costs  | 49,955                           | 58,791               |
| Accrued expenses and other current liabilities | 27,902                           | 39,072               |
| Total Current Liabilities                      | 281,170                          | 278,059              |
| Long-term Liabilities:                         |                                  |                      |
| Long-term debt                                 | 232,318                          | 200,424              |
| Operating lease liabilities - non-current      | 112,676                          | —                    |
| Deferred rent                                  | —                                | 13,938               |
| Deferred income taxes                          | 43,344                           | 40,165               |
| Other  | 22,542                           | 20,859               |
| Total Liabilities                              | 692,050                          | 553,445              |

## Commitments and Contingencies (Note 15)

## Stockholders' Equity:

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|   |             |              |
|---|-------------|--------------|
| Preferred stock, par value \$.001; 5,000,000 shares authorized; none issued   | —           | —            |
| Common stock, par value \$.001; 70,000,000 shares authorized; 22,660,508 and 22,445,576 shares issued as of March 31, 2019 and December 31, 2018, respectively; 18,865,729 and 18,817,495 shares outstanding as of March 31, 2019 and December 31, 2018, respectively | 23          | 22           |
| Additional paid-in capital  | 330,763     | 326,208      |
| Retained earnings   | 499,126     | 486,442      |
| Treasury stock  | (155,073 )  | (139,704 )   |
| Accumulated other comprehensive loss  | (12,268 )   | (12,551 )    |
| Total Stockholders' Equity  | 662,571     | 660,417      |
| Total Liabilities and Stockholders' Equity  | \$1,354,621 | \$ 1,213,862 |

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

ICF International, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands, except per share amounts)

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2019                            | 2018      |
| Revenue                                  | \$341,254                       | \$302,780 |
| Direct costs                             | 215,949                         | 188,826   |
| Operating costs and expenses:            |                                 |           |
| Indirect and selling expenses            | 96,519                          | 89,659    |
| Depreciation and amortization            | 4,762                           | 4,469     |
| Amortization of intangible assets        | 2,135                           | 2,244     |
| Total operating costs and expenses       | 103,416                         | 96,372    |
| Operating income                         | 21,889                          | 17,582    |
| Interest expense                         | (2,453 )                        | (1,666 )  |
| Other (expense) income                   | (412 )                          | 104       |
| Income before income taxes               | 19,024                          | 16,020    |
| Provision for income taxes               | 3,706                           | 3,603     |
| Net income                               | \$15,318                        | \$12,417  |
| Earnings per Share:                      |                                 |           |
| Basic                                    | \$0.81                          | \$0.67    |
| Diluted                                  | \$0.80                          | \$0.65    |
| Weighted-average Shares:                 |                                 |           |
| Basic                                    | 18,825                          | 18,670    |
| Diluted                                  | 19,263                          | 19,158    |
| Cash dividends declared per common share | \$0.14                          | \$0.14    |
| Other comprehensive income, net of tax   | 283                             | 1,609     |
| Comprehensive income, net of tax         | \$15,601                        | \$14,026  |

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

ICF International, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

|  | Three Months Ended<br>March 31, |                  |
|--|---------------------------------|------------------|
|  | 2019                            | 2018             |
| <b>Cash Flows from Operating Activities</b>                                    |                                 |                  |
| Net income   | \$15,318                        | \$12,417         |
| Adjustments to reconcile net income to net cash used in operating activities:  |                                 |                  |
| Bad debt expense   | (159 )                          | 628              |
| Deferred income taxes  | 3,144                           | 2,640            |
| Non-cash equity compensation   | 4,151                           | 2,391            |
| Depreciation and amortization  | 6,897                           | 6,712            |
| Facilities consolidation reserve   | (67 )                           | (64 )            |
| Amortization of debt issuance costs  | 127                             | 130              |
| Other adjustments, net   | (264 )                          | (535 )           |
| Changes in operating assets and liabilities:                                   |                                 |                  |
| Net contract assets and liabilities  | (23,152 )                       | (11,413 )        |
| Contract receivables   | 8,236                           | 3,319            |
| Prepaid expenses and other assets  | 1,353                           | (5,107 )         |
| Accounts payable   | (15,561 )                       | (6,942 )         |
| Accrued salaries and benefits  | 5,913                           | 834              |
| Accrued subcontractors and other direct costs                                  | (8,796 )                        | (13,540 )        |
| Accrued expenses and other current liabilities                                 | (8,705 )                        | 4,457            |
| Income tax receivable and payable  | (757 )                          | (2,120 )         |
| Other liabilities  | (366 )                          | 346              |
| <b>Net Cash Used in Operating Activities</b>                                   | <b>(12,688 )</b>                | <b>(5,847 )</b>  |
| <b>Cash Flows from Investing Activities</b>                                    |                                 |                  |
| Capital expenditures for property and equipment and capitalized software       | (7,539 )                        | (3,236 )         |
| Payments for business acquisitions, net of cash received                       | (1,819 )                        | (11,835 )        |
| <b>Net Cash Used in Investing Activities</b>                                   | <b>(9,358 )</b>                 | <b>(15,071 )</b> |
| <b>Cash Flows from Financing Activities</b>                                    |                                 |                  |
| Advances from working capital facilities                                       | 163,240                         | 138,240          |
| Payments on working capital facilities   | (131,346)                       | (112,999)        |
| Payments on capital expenditure obligations                                    | —                               | (814 )           |
| Debt issue costs   | —                               | (21 )            |
| Proceeds from exercise of options  | 404                             | 1,800            |
| Dividends paid   | (2,636 )                        | —                |
| Net payments for stockholder issuances and buybacks                            | (15,218 )                       | (9,109 )         |
| <b>Net Cash Provided by Financing Activities</b>                               | <b>14,444</b>                   | <b>17,097</b>    |
| Effect of Exchange Rate Changes on Cash, Cash Equivalents, and Restricted Cash | 305                             | 120              |



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|  |          |          |
|--|----------|----------|
| Decrease in Cash, Cash Equivalents, and Restricted Cash          | (7,297 ) | (3,701 ) |
| Cash, Cash Equivalents, and Restricted Cash, Beginning of Period | 12,986   | 24,266   |
| Cash, Cash Equivalents, and Restricted Cash, End of Period       | \$5,689  | \$20,565 |

Supplemental Disclosure of Cash Flow Information

Cash paid during the period for:

|              |         |         |
|--------------|---------|---------|
| Interest     | \$1,597 | \$1,596 |
| Income taxes | \$1,066 | \$615   |

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

Notes to Consolidated Financial Statements

(in thousands, except per share amounts)

NOTE 1 - BASIS OF PRESENTATION AND NATURE OF OPERATIONS

Basis of Presentation

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

Nature of Operations

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

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

The Company, incorporated in Delaware, is headquartered in Fairfax, Virginia. It maintains offices throughout the world, including 65 or more offices in the U.S. and U.S. territories and 15 or more offices in key regions outside the U.S., including offices in the United Kingdom, Belgium, China, India, and Canada.

Interim Results

The unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). These rules and regulations permit some of the information and footnote disclosures normally included in financial statements, prepared in accordance U.S. GAAP, to be condensed or omitted. In management’s opinion, the unaudited consolidated financial statements contain all adjustments that are of a normal recurring nature, necessary for a fair presentation of the results of operations and financial position of the Company for the interim periods presented. The Company reports operating results and financial data in one operating segment and reporting unit. Operating results for the three months periods ended March 31, 2019 and 2018 are not necessarily indicative of the results that may be expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the fiscal year ended December 31, 2018 and the notes thereto included in the Company’s Annual Report on Form 10-K, filed with the SEC on February 27, 2019 (the “Annual Report”).

Reclassifications

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications were immaterial.

### Significant Accounting Policies

#### Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, other liabilities (current and non-current) on the consolidated balance sheets.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments as of the commencement date. Since most lease agreements do not provide an implicit rate, the Company uses its incremental borrowing rate as of the commencement date in estimating the present value of future payments. The operating lease ROU asset is based on the present value of future lease payments and excludes impacts from lease incentives and initial costs incurred to obtain the lease. Lease terms, for the purposes of determining each lease's present value, include options to extend or terminate the lease if it is reasonably certain and economically reasonable that the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

The Company uses leases to obtain use of a variety of different resources, including those for the use of facilities or equipment. These agreements may contain both lease and non-lease components which are generally accounted for separately. For equipment leases (including copier leases), the Company accounts for the lease component as well as insignificant non-lease components as a single lease.

#### Recent Accounting Pronouncements

##### Recent Accounting Pronouncements Adopted

##### Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued a new standard related to leases, Accounting Standard Update (“ASU”) 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet for those leases classified as operating leases. Under the new standard, required disclosures enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The Company, using a modified retrospective adoption approach, is also required to recognize and measure leases existing at the beginning of the period of adoption, with certain practical expedients available.

The Company adopted the standard effective January 1, 2019. The Company choose the following practical expedients: not to re-assess existing and expired contracts to determine if they contain embedded leases; not to re-assess lease classification on existing leases; not to re-assess initial direct costs of obtaining leases; to account for lease and non-lease components as a single lease component for equipment leases; and to only apply the standard to leases with a term of twelve months or greater.

The most significant impact of adopting the standard was the recognition of ROU assets and lease liabilities for operating leases on the Company’s consolidated balance sheet but it did not have an impact on the Company’s consolidated statements of comprehensive income or consolidated statements of cash flow. The impact to the consolidated balance sheets before and after the adoption are as follows:

|  | January 1, 2019 |                      |                |
|--|-----------------|----------------------|----------------|
|  | Before Adoption | Adoption Adjustments | After Adoption |
| Operating lease - right-of-use assets          | \$—             | \$ 137,152           | \$ 137,152     |
| Operating lease liabilities - current          | —               | 30,951               | 30,951         |
| Accrued expenses and other current liabilities | 1,843           | (1,843 )             | —              |
| Operating lease liabilities - non-current      | —               | 121,982              | 121,982        |
| Deferred rent                                  | 13,938          | (13,938 )            | —              |

##### Stock Compensation

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

##### Recent Accounting Pronouncements Not Yet Adopted

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

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

## NOTE 2 – CONTRACT RECEIVABLES, NET

Contract receivables, net consisted of the following:

|                                 | March 31,<br>2019 | December 31,<br>2018 |
|---------------------------------|-------------------|----------------------|
| Billed and billable             | \$ 227,583        | \$ 236,250           |
| Allowance for doubtful accounts | (5,111 )          | (5,284 )             |
| Contract receivables, net       | \$ 222,472        | \$ 230,966           |

## NOTE 3 – GOODWILL

The changes in the carrying amount of goodwill during the three-months period ended March 31, 2019 were as follows:

|  |            |
|--|------------|
| Balance as of December 31, 2018  | \$ 715,644 |
| Goodwill resulting from business combination - Olson <sup>(1)</sup>        | 3,047      |
| Goodwill resulting from business combination - We Are Vista <sup>(2)</sup> | 579        |
| Effect of foreign currency translation                                     | 1,090      |
| Balance as of March 31, 2019   | \$ 720,360 |

<sup>(1)</sup>In 2019, the Company recorded changes to goodwill representing an immaterial correction of an error for income tax balances related to acquired assets and liabilities from the business combination that occurred in 2014. These balances were not significant to our previously reported financial position.

<sup>(2)</sup>Goodwill measurement period adjustment related to the settlement of the working capital adjustment under the purchase agreement.

## NOTE 4 – LONG-TERM DEBT

On May 17, 2017, the Company entered into a Fifth Amended and Restated Business Loan and Security Agreement with a syndication of 11 commercial banks (the “Credit Facility”). The Credit Facility: (i) included modifications to the Company’s Fourth Amended and Restated Business Loan and Security Agreement, (ii) matures on May 17, 2022, (iii) increased the borrowing ceiling up to \$600.0 million without a borrowing base requirement, taking into account financial, performance-based limitations, and (iv) provided for an “accordion,” which permits additional revolving credit commitments of up to \$300.0 million, subject to lenders’ approval.

The Company has the option to borrow funds under the Credit Facility at interest rates based on both LIBOR (1, 3, or 6 month rates) and the Base Rate (as defined herein), at its discretion, plus their applicable margins. Base Rates are fluctuating per annum rates of interest equal to the highest of (i) the Federal Funds Open Rate, plus 0.5%, (ii) the Prime Rate, and (iii) the daily LIBOR rate, plus a LIBOR Margin between 1.00% and 2.00% based on its Leverage Ratio (as defined under the Credit Facility). The interest accrued based on LIBOR rates is to be paid on the last business day of the interest period (1, 3, or 6 months), while interest accrued based on the Base Rate is to be paid in quarterly installments. The Credit Facility also provides for letters of credit aggregating up to \$60.0 million, which reduce the funds available under the Credit Facility when issued. The unused portion of the Credit Facility is subject to a commitment fee between 0.13% and 0.25% per annum based on the Leverage Ratio.

The Credit Facility is collateralized by substantially all of the assets of the Company and requires that the Company remain in compliance with certain financial and non-financial covenants. The financial covenants require, among

other things, that the Company maintain at all times an Interest Coverage Ratio (as defined under the Credit Facility) of not less than 3.00 to 1.00 and a Leverage Ratio of not more than 3.75 to 1.00 (subject to adjustment, in certain circumstances) for each fiscal quarter. As of March 31, 2019, the Company was in compliance with its covenants under the Credit Facility.

As of March 31, 2019, the Company had \$232.3 million long-term debt outstanding, ten outstanding letters of credit totaling \$3.1 million, and unused borrowing capacity of \$364.6 million under the Credit Facility (excluding the accordion). Taking into account the financial, performance-based limitations, available borrowing capacity (excluding the accordion) was \$273.9 million as of March 31, 2019. The weighted-average interest rate on debt outstanding was 3.76% and 2.84% for the first three months of 2019 and 2018, respectively.

#### NOTE 5 – LEASES

The Company has operating leases for facilities and equipment which have remaining terms ranging from 1 to 29 years. The leases may include options to extend the lease periods for up to 5 years at rates approximating market rates and/or options to terminate the leases within 1 year. The leases may include a residual value guarantee or a responsibility to return the property to its original state of use. Certain leases contain provisions that provide for rental increases based on consumer price indices. The change in rent expense resulting from changes in these indices are included within variable rent.

Operating leases consisted of the following at March 31, 2019:

|   |            |
|---|------------|
| Real estate facilities                    | \$ 132,596 |
| Office equipment                          | 2,062      |
| Other                                     | 486        |
|   | 135,144    |
| Amortization of right-of-use assets       | (7,557 )   |
| Total operating lease right-of-use assets | \$ 127,587 |

Rent expense is recognized on a straight-line basis over the lease term, net of sublease payments. Rent expense consists of the following:

|                             |   |
|-----------------------------|---|
|                             | Three<br>Months<br>Ended<br>March 31,<br>2019 |
| Operating lease costs       | \$ 8,896                                      |
| Short-term lease costs      | 681   |
| Variable lease costs        | 12  |
| Total operating lease costs | 9,589   |
| Sublease income             | —   |
| Total rent expense          | \$ 9,589                                      |

Future minimum lease payments under non-cancellable leases as of March 31, 2019 were as follows:

|   |            |
|---|------------|
| March 31, 2020                            | \$ 34,825  |
| March 31, 2021                            | 32,970     |
| March 31, 2022                            | 31,653     |
| March 31, 2023                            | 25,967     |
| March 31, 2024                            | 13,065     |
| Thereafter                                | 18,694     |
| Total future minimum lease payments       | 157,174    |
| Less: Interest                            | (14,174 )  |
| Total operating lease liabilities         | \$ 143,000 |
| Operating lease liabilities - current     | \$ 30,324  |
| Operating lease liabilities - non-current | 112,676    |
| Total operating lease liabilities         | \$ 143,000 |

Other information related to operating leases is as follows:

Three  
Months  
Ended



|  | March 31,<br>2019 |
|--|-------------------|
| Cash paid for amounts included in the measurement of lease liabilities:      |                   |
| Operating cash flows from operating leases                                   | \$ 9,389          |
| Right-of-use assets obtained in exchange for new operating lease liabilities | \$ 2,159          |
| Weighted-average remaining lease term - operating leases                     | 5.1               |
| Weighted-average discount rate - operating leases                            | 3.8 %             |

At March 31, 2019, the Company had additional operating leases that have not yet commenced of \$16.6 million. Such operating leases will commence within the next year and with lease terms of 1 year to 28 years.

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

Other comprehensive income (loss) includes foreign currency translation adjustments arising from the conversion of financial statements of foreign subsidiaries into U.S. dollars, the amortization of the gain on the sale of an interest rate hedge agreement, and the change in the fair value of current interest rate hedge agreements. Components of accumulated other comprehensive loss as of March 31, 2019 and 2018 are as follows:

|  | Three Months Ended March 31, 2019 |   |  | Total      |
|--|-----------------------------------|---|--|------------|
|  | Gain on Sale                      | Change in Fair Value of Interest Rate Hedge Agreement | Change in Fair Value of Interest Rate Hedge Agreements <sup>(2)(5)</sup> |            |
| Accumulated other comprehensive (loss) income at                 |                                   |   |  |            |
| January 1, 2019  | \$(14,168)                        | \$ 2,164  | \$ (547)   | \$(12,551) |
| Current period other comprehensive (loss) income:                |                                   |   |  |            |
| Other comprehensive income (loss) before reclassifications       | 1,254                             | —   | (1,164)  | 90         |
| Amounts reclassified from accumulated other comprehensive income | —                                 | (180)   | 23   | (157)      |
| Effect of taxes <sup>(3)</sup>                                   | —                                 | 47  | 303  | 350        |
| Total current period other comprehensive (loss) income           | 1,254                             | (133)   | (838)  | 283        |
| Accumulated other comprehensive (loss) income at                 |                                   |   |  |            |
| March 31, 2019   | \$(12,914)                        | \$ 2,031  | \$ (1,385)   | \$(12,268) |

  

|  | Three Months Ended March 31, 2018 |   |   | Total     |
|--|-----------------------------------|---|---|-----------|
|  | Gain on Sale                      | Change in Fair Value of Interest Rate Hedge Agreement | Change in Fair Value of Interest Rate Hedge Agreements <sup>(2)</sup> |           |
| Accumulated other comprehensive (loss) income at |                                   |   |   |           |
| January 1, 2018                                  | \$(7,638)                         | \$ 2,158  | \$ 441  | \$(5,039) |

|   |           |          |        |           |
|---|-----------|----------|--------|-----------|
| Reclassification of stranded tax effects due to adoption of accounting principle <sup>(4)</sup> | (1,307)   | 478      | —      | (829 )    |
| Adjusted beginning balance  | (8,945)   | 2,636    | 441    | (5,868)   |
| Current period other comprehensive income (loss):   |           |          |        |           |
| Other comprehensive income before reclassifications   | 1,578     | —        | 445    | 2,023     |
| Amounts reclassified from accumulated other comprehensive income                                | —         | (120 )   | —      | (120 )    |
| Effect of taxes <sup>(3)</sup>  | (341 )    | 47       | —      | (294 )    |
| Total current period other comprehensive (loss) income  | 1,237     | (73 )    | 445    | 1,609     |
| Accumulated other comprehensive (loss) income at March 31, 2018                                 | \$(7,708) | \$ 2,563 | \$ 886 | \$(4,259) |

- (1) Represents the unamortized value of an interest rate hedge agreement, designated as a cash flow hedge, which was sold on December 1, 2016. The fair value of the interest rate hedge agreement, at the date of the sale, was recorded in other comprehensive income, net of tax, and is being reclassified to interest expense when earnings are impacted by the hedged items and as interest payments are made on the Credit Facility from January 31, 2018 to January 31, 2023.
- (2) Represents the change in fair value of interest rate hedge agreements designated as a cash flow hedge. The fair value of the interest rate hedge agreements was recorded in other comprehensive income and will be reclassified to interest expense when earnings are impacted by the hedged items and as interest payments are made on the Credit Facility from August 31, 2018 to August 31, 2023.
- (3) The Company's effective tax rate for the three months ended March 31, 2019 and 2018 was 19.5% and 22.5%, respectively.
- (4) The Company has adjusted the balance at December 31, 2017 of accumulated other comprehensive loss for the stranded tax effects caused by the enactment of the Tax Act.
- (5) The fair value of the fixed interest rate swap asset is included in other liabilities on the consolidated balance sheet.

## NOTE 7 – STOCKHOLDERS' EQUITY

Changes in stockholders' equity for the three months ended March 31, 2019 and 2018 are as follows:

|   | Three Months Ended March 31, 2019 |        |                                  |                      |                |             |             | Accumulated<br>Other<br>Comprehensive<br>Loss | Total |
|---|-----------------------------------|--------|----------------------------------|----------------------|----------------|-------------|-------------|---|-------|
|   | Common Stock                      |        | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Treasury Stock |             |             |   |       |
|   | Shares                            | Amount |                                  |                      | Shares         | Amount      |             |   |       |
| Balance at January 1, 2019                    | 18,817                            | \$ 22  | \$ 326,208                       | \$ 486,442           | 3,629          | \$(139,704) | \$ (12,551) | \$ 660,417                                    |       |
| Net income                                    | —                                 | —      | —                                | 15,318               | —              | —           | —           | 15,318  |       |
| Other comprehensive income                    | —                                 | —      | —                                | —                    | —              | —           | 283         | 283   |       |
| Equity compensation                           | —                                 | —      | 4,151                            | —                    | —              | —           | —           | 4,151   |       |
| Exercise of stock options                     | 11                                | —      | 404                              | —                    | —              | —           | —           | 404   |       |
| Issuance of shares pursuant to vesting of     |                                   |        |                                  |                      |                |             |             |   |       |
| stock units                                   | 255                               | 1      | —                                | —                    | —              | —           | —           | 1   |       |
| Net payments for stock issuances and buybacks | (217 )                            | —      | —                                | —                    | 217            | (15,369 )   | —           | (15,369 )                                     |       |
| Dividends declared                            | —                                 | —      | —                                | (2,634 )             | —              | —           | —           | (2,634 )                                      |       |
| Balance at March 31, 2019                     | 18,866                            | \$ 23  | \$ 330,763                       | \$ 499,126           | 3,846          | \$(155,073) | \$ (12,268) | \$ 662,571                                    |       |

|   | Three Months Ended March 31, 2018 |        |                                  |                      |                |             |            | Accumulated<br>Other<br>Comprehensive<br>Loss | Total |
|---|-----------------------------------|--------|----------------------------------|----------------------|----------------|-------------|------------|---|-------|
|   | Common Stock                      |        | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Treasury Stock |             |            |   |       |
|   | Shares                            | Amount |                                  |                      | Shares         | Amount      |            |   |       |
| Balance at January 1, 2018                            | 18,662                            | \$ 22  | \$ 307,821                       | \$ 434,766           | 3,357          | \$(121,540) | \$ (5,039) | \$ 616,030                                    |       |
| Net income  | —                                 | —      | —                                | 12,417               | —              | —           | —          | 12,417  |       |
| Other comprehensive income                            | —                                 | —      | —                                | —                    | —              | —           | 1,609      | 1,609   |       |
| Equity compensation                                   | —                                 | —      | 2,320                            | —                    | —              | 71          | —          | 2,391   |       |
| Exercise of stock options                             | 76                                | —      | 1,800                            | —                    | —              | —           | —          | 1,800   |       |
| Issuance of shares pursuant to vesting of stock units | 187                               | —      | —                                | —                    | (3 )           | —           | —          | —   |       |
| Net payments for stock issuances and buybacks         | (158 )                            | —      | —                                | —                    | 158            | (9,109 )    | —          | (9,109 )                                      |       |
| Reclassification of stranded tax effects due to       |                                   |        |                                  |                      |                |             |            |   |       |
| adoption of accounting principle                      | —                                 | —      | —                                | 829                  | —              | —           | (829)      | —   |       |
| Dividends declared                                    | —                                 | —      | —                                | (2,637 )             | —              | —           | —          | (2,637 )                                      |       |
| Balance at March 31, 2018                             | 18,767                            | \$ 22  | \$ 311,941                       | \$ 445,375           | 3,512          | \$(130,578) | \$ (4,259) | \$ 622,501                                    |       |

## NOTE 8 – RESTRICTED CASH

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The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheet for the periods presented to the total of cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows for the three months ended March 31, 2019 and 2018:

|  | 2019      |         | 2018      |          |
|--|-----------|---------|-----------|----------|
|  | Beginning | Ending  | Beginning | Ending   |
| Cash and cash equivalents  | \$11,694  | \$5,689 | \$11,809  | \$19,292 |
| Restricted cash - current <sup>(1)</sup>   | —         | —       | 11,191    | —        |
| Restricted cash - non-current  | 1,292     | —       | 1,266     | 1,273    |
| Total of cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows | \$12,986  | \$5,689 | \$24,266  | \$20,565 |

<sup>(1)</sup>Restricted cash – current at the beginning of 2018 represents amount held in an escrow account for a business acquisition.

## NOTE 9 – REVENUE RECOGNITION

## Disaggregation of Revenue

The Company disaggregates revenue from clients, most of which is earned over time, into categories that depict how the nature, amount and uncertainty of revenue and cash flows are affected by economic factors. Those categories are client market, client type and contract mix. Client market revenue information provides insight into the breadth of the Company's expertise. In classifying revenue by client market, the Company attributes revenue from a client to the market that the Company believes is the client's primary market. The Company also classifies revenue by the type of entity for which it does business, which is an indicator of the diversity of its client base. The Company attributes revenue generated as a subcontractor to a commercial company as government revenue when the ultimate client is a government agency or department. Finally, disaggregation by contract mix provides insight in terms of the degree of performance risk that the Company has assumed. Fixed-price contracts are considered to provide the highest amount of performance risk as the Company is required to deliver a scope of work or level of effort for a negotiated fixed price. Time-and-materials contracts require the Company to provide skilled employees on contracts for negotiated fixed hourly rates. Since the Company is not required to deliver a scope of work, but merely skilled employees, it considers these contracts to be less risky than a fixed-price agreement. Cost-based contracts are considered to provide the lowest amount of performance risk since the Company is generally reimbursed for all contract costs incurred in performance of contract deliverables with only the amount of incentive or award fees (if applicable) dependent on the achievement of negotiated performance requirements.

Increases in revenue from energy, environment, and infrastructure client markets, and U.S. state and local governments in the three months ended March 31, 2019 compared to the prior year period were primarily due to work performed on disaster recovery and relief efforts which also caused an increase in revenue generated through time-and-materials contracts. Consumer and financial client market revenue increased primarily due to acquisitions during the prior year.

|   | Three Months Ended |         |   |                |         |   |
|---|--------------------|---------|---|----------------|---------|---|
|   | March 31, 2019     |         |   | March 31, 2018 |         |   |
|   | Dollars            | Percent | % | Dollars        | Percent | % |
| <b>Client Markets:</b>                  |                    |         |   |                |         |   |
| Energy, environment, and infrastructure | \$ 153,651         | 45      | % | \$ 124,250     | 41      | % |
| Health, education, and social programs  | 121,337            | 35      | % | 122,928        | 41      | % |
| Safety and security                     | 29,052             | 9       | % | 25,475         | 8       | % |
| Consumer and financial                  | 37,214             | 11      | % | 30,127         | 10      | % |
| Total                                   | \$ 341,254         | 100     | % | \$ 302,780     | 100     | % |

|                                 | Three Months Ended |         |   |                |         |   |
|---------------------------------|--------------------|---------|---|----------------|---------|---|
|                                 | March 31, 2019     |         |   | March 31, 2018 |         |   |
|                                 | Dollars            | Percent | % | Dollars        | Percent | % |
| <b>Client Type:</b>             |                    |         |   |                |         |   |
| U.S. federal government         | \$ 131,823         | 39      | % | \$ 134,185     | 44      | % |
| U.S. state and local government | 65,522             | 19      | % | 31,313         | 10      | % |
| International government        | 27,158             | 8       | % | 28,767         | 10      | % |
| Total Government                | 224,503            | 66      | % | 194,265        | 64      | % |
| Commercial                      | 116,751            | 34      | % | 108,515        | 36      | % |
| Total                           | \$ 341,254         | 100     | % | \$ 302,780     | 100     | % |

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|                      | Three Months Ended |              |                   |              |
|----------------------|--------------------|--------------|-------------------|--------------|
|                      | March 31, 2019     |              | March 31, 2018    |              |
|                      | Dollars            | Percent      | Dollars           | Percent      |
| <b>Contract Mix:</b> |                    |              |                   |              |
| Fixed-price          | \$ 133,534         | 39 %         | \$ 122,328        | 40 %         |
| Time-and-materials   | 156,347            | 46 %         | 124,342           | 41 %         |
| Cost-based           | 51,373             | 15 %         | 56,110            | 19 %         |
| <b>Total</b>         | <b>\$ 341,254</b>  | <b>100 %</b> | <b>\$ 302,780</b> | <b>100 %</b> |

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## Contract Balances:

Contract assets consist primarily of unbilled amounts resulting from long-term contracts when revenue recognized exceeds the amount billed often due to billing schedule timing. Contract liabilities result from advance payments received on a contract or from billings in excess of revenue recognized on long-term contracts due to billing schedule timing. The net contract assets (liabilities) increased \$22.7 million due primarily to increases in contract assets offset partially by increases in contract liabilities. The increase in contract assets is primarily due to hurricane relief and rebuild work for U.S. state and local governments, which is considered part of the energy, environment and infrastructure client market, and most of which has been performed on time-and-materials agreements. There were no material changes to contract balances due to impairments or business combinations during the period.

|                                   | March 31,<br>2019 | December 31,<br>2018 | \$<br>Change | %<br>Change |
|-----------------------------------|-------------------|----------------------|--------------|-------------|
| Contract assets                   | \$ 151,805        | \$ 126,688           | \$25,117     | 19.8 %      |
| Contract liabilities              | (35,936 )         | (33,494 )            | (2,442 )     | 7.3 %       |
| Net contract assets (liabilities) | \$ 115,869        | \$ 93,194            | \$22,675     | 24.3 %      |

## Performance Obligations:

The Company had \$1.4 billion in unfulfilled performance obligations as of March 31, 2019, which primarily entail the future delivery of services for which revenue will be recognized over time. The obligations relate to continued or additional services required on contracts and were generally valued using an estimated cost plus margin approach, with variable consideration being estimated at the most likely amount. The Company expects to satisfy these performance obligations, on average, in one year.

## NOTE 10 – INCOME TAXES

The Company's effective tax rate for the three months ended March 31, 2019 and 2018 was 19.5% and 22.5%, respectively.

The Company is subject to federal income taxes as well as to taxes in various state, local and foreign jurisdictions. Tax statutes and regulations within each jurisdiction are subject to interpretation and require the application of significant judgment. The Company's 2015 through 2017 tax years remain subject to examination by the Internal Revenue Service for federal tax purposes. Certain significant state, local and foreign tax returns also remain open under the applicable statute of limitations and are subject to examination for the tax years from 2014 to 2017.

The Company's total liability for unrecognized tax benefits as of March 31, 2019 was \$0.2 million. There were \$0.2 million in tax positions that, if recognized, would have a favorable impact on the Company's effective tax rate.

The Company does not recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. 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.

On December 20, 2017, the U.S. Congress passed the Tax Cuts and Jobs Act (the "Tax Act"), which was signed into law on December 22, 2017 and was generally effective beginning January 1, 2018. The Company has been impacted in several ways as a result of the Tax Act, including, but not limited to, a permanent reduction in the federal corporate income tax rate from 35% to 21%. The Company completed the accounting for the tax effects of the enactment of the Tax Act in the fourth quarter of 2018.



The Tax Act subjects U.S. corporations to current tax on global intangible low-taxed income (or “GILTI”) earned by certain foreign subsidiaries. Pursuant to FASB Staff Q&A, Topic 740 No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI resulting from those items in the year the tax is incurred. The Company elected in the first quarter of fiscal year 2018 to recognize the resulting tax on GILTI as a period expense in the period the tax is incurred. The GILTI tax provision for the quarter ended March 31, 2019 and 2018 was immaterial.

NOTE 11 – ACCOUNTING FOR STOCK COMPENSATION

On April 4, 2018, the Company’s board of directors approved the 2018 Omnibus Incentive Plan (the “2018 Omnibus Plan”), which was subsequently approved by the stockholders and became effective on May 31, 2018 (the “Effective Date”). The 2018 Omnibus Plan replaced the previous 2010 Omnibus Incentive Plan (the “Prior Plan”).

On or after the Effective Date, the 2018 Omnibus Plan allows the Company to grant 1,185,000 shares using stock options, stock appreciation rights, restricted stock, restricted stock units (“RSUs”), performance units and performance share awards (“PSAs”), and other stock-based awards to all officers, key employees, and non-employee directors of the Company. Outstanding shares granted under the Prior Plan, totaling 347,629 as of March 31, 2019, remain subject to its terms and conditions, and no additional awards from the Prior Plan are to be made after the Effective Date. As of March 31, 2019, the Company had approximately 915,297 shares available for grant under the 2018 Omnibus Plan. The 2018 Omnibus Plan also gives the Company the ability to issue cash-settled RSUs (“CSRSUs”). The CSRSUs have no impact on the shares available for grant under the Omnibus Plan, nor on the calculated shares used in earnings per share (“EPS”) calculations.

During the three months ended March 31, 2019, the Company granted to its employees 136,480 shares in the form of RSUs with an average grant date fair value of \$76.56, and the equivalent value of 95,638 shares in the form of CSRSUs with an average grant date fair value of \$76.56. During the three months ended March 31, 2019, the Company also granted 47,290 shares in the form of PSAs to its employees with a grant date fair value of \$82.38 per share. The RSUs, CSRSUs and PSAs granted are generally subject to service-based vesting conditions, with the PSAs also having performance-based vesting conditions. The performance conditions for the PSAs granted in 2019 have a performance period from January 1, 2019 through December 31, 2021 and the performance conditions are consistent with the PSAs granted in prior years.

The Company recognized stock-based compensation expense of \$6.7 million and \$4.9 million for the three months ended March 31, 2019 and 2018, respectively. Unrecognized compensation expense of approximately \$21.3 million as of March 31, 2019 related to unsettled RSUs is expected to be recognized over a weighted-average period of 2.2 years. The unrecognized compensation expense related to CSRSUs totaled approximately \$15.0 million at March 31, 2019 and is expected to be recognized over a weighted-average period of 1.9 years. Unrecognized compensation expense related to PSAs of approximately \$7.0 million as of March 31, 2019 is expected to be recognized over a weighted-average period of 1.7 years.

#### NOTE 12 – EARNINGS PER SHARE

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 was due entirely to the assumed exercise of stock options and the vesting and settlement of RSUs and PSAs. PSAs are included in the computation of diluted shares only to the extent that the underlying performance conditions (i) are satisfied as of the end of the reporting period or (ii) would be considered satisfied if the end of the reporting period were also the end of the applicable performance period and the result would be dilutive under the treasury stock method.

As of March 31, 2019, the PSAs granted during the year ended December 31, 2017 met the related performance conditions for the initial performance period and were included in the calculation of diluted EPS. However, the PSAs granted during the year ended December 31, 2018 and during the three months ended March 31, 2019 have not yet completed their initial two-year performance period and therefore were excluded in the calculation of diluted EPS. There were 31,840 and 26,420 weighted-average shares excluded from the calculation of EPS because they were anti-dilutive for the three months ended March 31, 2019 and 2018, respectively.

The dilutive effect of stock options, RSUs, and PSAs for each period reported is summarized below:

Three Months  
Ended

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|  | March 31, |          |
|--|-----------|----------|
|  | 2019      | 2018     |
| Net Income   | \$15,318  | \$12,417 |
| Weighted-average number of basic shares outstanding during the   |           |          |
| period   | 18,825    | 18,670   |
| Dilutive effect of stock options, RSUs, and performance shares   | 438       | 488      |
| Weighted-average number of diluted shares outstanding during the |           |          |
| period   | 19,263    | 19,158   |
| Basic earnings per share   | \$0.81    | \$0.67   |
| Diluted earnings per share                                       | \$0.80    | \$0.65   |

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#### NOTE 13 – SHARE REPURCHASE PROGRAM

The Company's current share repurchase program allows for share repurchases in the aggregate up to \$100.0 million under share repurchase plans approved by the board of directors pursuant to Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934. The Credit Facility permits unlimited share repurchases, provided the Company's Leverage Ratio, prior to and after giving effect to such repurchases, is not greater than 3.25 to 1.00. As of March 31, 2019, \$77.5 million remained available for share repurchases under the approved share repurchase program.

#### NOTE 14 – SUBSEQUENT EVENTS

On May 2, 2019, the Company's board of directors approved a \$0.14 per share cash dividend. The dividend will be paid on July 16, 2019 to shareholders of record as of the close of business on June 14, 2019.

#### NOTE 15 – 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 it 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 its financial position, results of operations, or cash flows.

##### Road Home Contract

On June 10, 2016, the Office of Community Development (the "OCD") of the State of Louisiana filed a written administrative demand with the Louisiana Commissioner of Administration against ICF Emergency Management Services, L.L.C. ("ICF Emergency"), a subsidiary of the Company, in connection with ICF Emergency's administration of the Road Home Program ("Program"). The Program contract was a three-year, \$912 million contract awarded to the Company in 2006. The Program ended, as scheduled, in 2009.

The Program was primarily intended to help homeowners and landlords of small rental properties affected by Hurricanes Rita and Katrina. In its administrative demand, the OCD sought approximately \$200.8 million in alleged overpayments to the Program's grant recipients. The State of Louisiana separately supplemented the amount of recovery it is seeking in total to approximately \$220.2 million. The State of Louisiana, through the Division of Administration, also filed suit in Louisiana state court on June 10, 2016. The State of Louisiana broadly alleges and seeks recoupment for the same claim made in the administrative proceeding submission before the Louisiana Commissioner of Administration. On September 21, 2016, the Commissioner of the Division of Administration notified OCD and the Company of his decision to defer jurisdiction of the administrative demand filed by the OCD. In so doing, the Commissioner declined to reach a decision on the merits and stated that his deferral would not be deemed to grant or deny any portion of the OCD's claim. The Commissioner subsequently authorized the parties to proceed on the matter in the previously filed judicial proceeding. The Company continues to believe that this claim has no merit and intends to vigorously defend its position. The Company has therefore not recorded a liability.

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 (this "Quarterly Report") constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, as amended. 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," "should," "will," "would," or similar words. You should read 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, provide examples of risks, uncertainties, and events that may cause actual results to differ materially from the expectations described in the forward-looking statements, including, but not limited to:

- Our dependence on contracts with United States ("U.S.") federal, state and local, and international governments, agencies and departments for the majority of our revenue;
- Changes in federal government budgeting and spending priorities;
- Failure by Congress or other governmental bodies to approve budgets and debt ceiling increases in a timely fashion and related reduction in government spending;
- Failure of the Administration and Congress to agree on spending priorities, which may result in temporary shutdowns of non-essential federal functions, including our work to support such functions;
- Results of routine and non-routine government audits and investigations;
- Dependence of commercial work on certain sectors of the global economy that are highly cyclical;
- Failure to realize the full amount of our backlog;
- Difficulties in integrating acquisitions generally;
- Risks resulting from expanding service offerings and client base;
- The lawsuit filed by the State of Louisiana seeking approximately \$220.2 million in alleged overpayments from the Road Home contract; and
- Additional risks as a result of having international operations.

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

The terms "we," "our," "us," and "Company," as used throughout this Quarterly Report, refer to ICF International, Inc. and its subsidiaries, unless otherwise indicated. The term "federal" or "federal government" refers to the U.S. federal government, and "state and local" or "state and local government" refers to U.S. state and local governments and the governments of U.S. territories. The following discussion and analysis is intended to help the reader understand our business, financial condition, results of operations, and liquidity and capital resources. You should read this discussion in conjunction with our consolidated financial statements and the related notes contained elsewhere in this Quarterly Report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the Securities and Exchange Commission on February 27, 2019 (our "Annual Report").

## OVERVIEW AND OUTLOOK

We provide professional services and technology-based solutions to government and commercial clients, including management, marketing, technology, and policy consulting and implementation services. We help our clients conceive, develop, implement, and improve solutions that address complex business, natural resource, social, technological, and public safety issues. Our services primarily support clients that operate in four key markets:

Energy, Environment, and Infrastructure;  
Health, Education, and Social Programs;  
Safety and Security; and  
Consumer and Financial.

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We provide services to our diverse client base that deliver value throughout the entire life cycle of a policy, program, project, or initiative. Our primary services include:

- Advisory Services;
- Program Implementation Services;
- Analytics Services;
- Digital Services; and
- Engagement Services.

Our clients utilize our services because we offer a combination of deep subject matter expertise, technical solutions, and institutional experience. We believe that our domain expertise and the program knowledge developed from our research and analytic, and assessment and advisory engagements further position us to provide a full suite of services.

We report operating results and financial data as a single segment based on the consolidated information used by our chief operating decision-maker in evaluating the financial performance of our business and allocating resources. Our single segment represents our core business – professional services for government and commercial clients. Although we describe our multiple service offerings and client markets to provide a better understanding of our business operations, we offer integrated solutions, pulling from resources across our Company and, accordingly, do not manage our business or allocate our resources based on those service offerings or client market areas.

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 resource issues due to heightened concerns about: clean energy and energy efficiency; health promotion, treatment, and cost control; natural disaster relief and rebuild efforts; and ongoing homeland security threats. In the wake of the major hurricanes (Harvey, Irma, Maria and Michael) that devastated communities in Texas, Florida, the U.S. Virgin Islands, and Puerto Rico, the affected areas remain in various stages of relief and recovery efforts. We believe our prior and current experience with disaster relief and rebuild efforts, including those from Hurricanes Maria, Katrina and Rita, and Superstorm Sandy, put us in a favorable position to continue to provide recovery assistance, housing, and environmental and infrastructure solutions on behalf of federal departments and agencies, state and local governments, and regional agencies.

We also see significant opportunity to further leverage our digital and client engagement capabilities across our commercial and government client base. Our future results will depend on the success of our strategy to enhance our client relationships and seek larger engagements spanning all aspects of the program life cycle as well as completely and successfully integrating strategic acquisitions. We will continue to focus on building scale in vertical and horizontal domain expertise, developing business with both our government and commercial clients, and replicating our business model in selective geographies. In doing so, we will continue to evaluate strategic acquisition opportunities that enhance our subject matter knowledge, broaden our service offerings, and/or provide scale in specific geographies.

While we continue to see favorable long-term market opportunities, there are certain near-term challenges facing all government service providers. Administrative and legislative actions by the federal government to address changing priorities or in response to the budget deficit could have a negative impact on our business, which may result in a reduction to our revenue and profit and adversely affect cash flow. However, we believe we are well positioned to provide a broad range of services in support of initiatives that will continue to be priorities to the federal government as well as to state and local and international governments and commercial clients.

#### Employees and Offices:

We have more than 7,000 full and part-time employees around the globe, including many recognized as thought leaders in their respective fields. We serve clients globally from our headquarters in the Washington, D.C. metropolitan area, 65 or more regional offices throughout the U.S. and U.S. territories and 15 or more offices in key regions outside the U.S., including offices in the United Kingdom, Belgium, China, India and Canada.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion of our financial condition and results of operations is based on our consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). The preparation of these consolidated financial statements requires us to make certain estimates and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses and our application of critical accounting policies, including: revenue recognition, impairment of goodwill and other intangible assets, income taxes, and stock-based compensation. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Note 2 – Summary of Significant Accounting Policies” in our Annual Report and “Note 1—Basis of Presentation and Nature of Operations—Significant Accounting Policies” and “Note 1—Basis of Presentation and Nature of Operations—Recent Accounting Pronouncements” in the “Notes to Consolidated Financial Statements” in this Quarterly Report for further discussions of our significant accounting policies and estimates.



We periodically evaluate our critical accounting policies and estimates based on changes in generally accepted accounting principles that may have an effect on our financial statements. In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842) (“ASU 2016-02”). ASU 2016-02 revises the accounting for leases and requires lessees to recognize a right-of-use asset and a corresponding lease liability that depicts the rights and obligations arising from a lease agreement. We implemented ASU 2016-02 on January 1, 2019 and elected certain practical expedients available under the ASU. The result of the adoption was the recognition of right-of-use asset totaling \$136.9 million and lease liabilities totaling \$152.7 million as of the adoption date. For further discussion see “Note 1—Basis of Presentation and Nature of Operations—Significant Accounting Policies — Leases” and “Note 1—Basis of Presentation and Nature of Operations—Recent Accounting Pronouncements Adopted” in the “Notes to Consolidated Financial Statements” in this Quarterly Report.

## RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting standards are discussed in “Note 1—Basis of Presentation and Nature of Operations—Recent Accounting Pronouncements” in the “Notes to Consolidated Financial Statements” in this Quarterly Report.

## SELECTED KEY METRICS

In order to evaluate operations, we track revenue by key metrics that provide useful information about the nature of our business. Client markets provide insight into the breadth of our expertise. Client type is an indicator of the diversity of our client base. Revenue by contract mix provides insight in terms of the degree of performance risk that we have assumed. Significant variances in the key metrics tables that are provided below are discussed under the revenue section of the results of operations. For further discussion see “Note 9—Revenue Recognition” in this Quarterly Report.

## RESULTS OF OPERATIONS

Three Months Ended March 31, 2019, Compared to Three Months Ended March 31, 2018

The table below sets forth certain items from our unaudited consolidated statements of comprehensive income, the percentage of revenue for such items in the periods provided, and the period-over-period rate of change and percentage of revenue for the periods indicated.

| (dollars in thousands)                    | Three Months Ended March 31, |               |              |               | Year-to-Year<br>Change<br>Three Months<br>Ended<br>March 31, 2018<br>and 2019 |             |
|---|------------------------------|---------------|--------------|---------------|---|-------------|
|   | Dollars                      |               | Percentages  |               | Dollars   | Percent     |
|   | 2019                         | 2018          | 2019         | 2018          |   |             |
| Revenue                                   | \$341,254                    | \$302,780     | 100.0%       | 100.0%        | \$38,474  | 12.7%       |
| Direct Costs                              | 215,949                      | 188,826       | 63.3%        | 62.4 %        | 27,123  | 14.4%       |
| <b>Operating Costs and Expenses:</b>      |                              |               |              |               |   |             |
| Indirect and selling expenses             | 96,519                       | 89,659        | 28.3%        | 29.6 %        | 6,860   | 7.6%        |
| Depreciation and amortization             | 4,762                        | 4,469         | 1.4%         | 1.5 %         | 293   | 6.6%        |
| Amortization of intangible assets         | 2,135                        | 2,244         | 0.6%         | 0.7 %         | (109 )  | (4.9%)      |
| <b>Total Operating Costs and Expenses</b> | <b>103,416</b>               | <b>96,372</b> | <b>30.3%</b> | <b>31.8 %</b> | <b>7,044</b>  | <b>7.3%</b> |
| Operating Income                          | 21,889                       | 17,582        | 6.4%         | 5.8 %         | 4,307   | 24.5%       |
| Interest expense                          | (2,453 )                     | (1,666 )      | (0.7%)       | (0.5 %)       | (787 )  | 47.2%       |

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|                            |          |          |        |     |   |         |          |
|----------------------------|----------|----------|--------|-----|---|---------|----------|
| Other (expense) income     | (412 )   | 104      | (0.1%) | —   |   | (516 )  | (496.2%) |
| Income before Income Taxes | 19,024   | 16,020   | 5.6%   | 5.3 | % | 3,004   | 18.8%    |
| Provision for Income Taxes | 3,706    | 3,603    | 1.1%   | 1.2 | % | 103     | 2.9%     |
| Net Income                 | \$15,318 | \$12,417 | 4.5%   | 4.1 | % | \$2,901 | 23.4%    |

Revenue. Revenue for the three months ended March 31, 2019 was \$341.3 million, compared to \$302.8 million for the three months ended March 31, 2018, representing an increase of \$38.5 million or 12.7%. The increase in revenue was primarily attributable to a \$30.2 million increase in government revenue and a \$8.3 million increase in revenue from commercial clients. The increase in government client revenue was the result of a \$34.2 million increase in revenue earned on state and local government contracts, primarily because of increases in the energy, environment and infrastructure client market in response to hurricane relief and recovery efforts. This increase was partially offset by a decrease of \$2.4 million in our federal government clients as a result of a partial federal government shutdown in January 2019, and a \$1.6 million decrease in revenue from our international government clients. The increase in commercial revenue was primarily due to a \$7.1 million increase in our consumer and financial client revenue driven primarily by revenue derived as a result of companies acquired in 2018, and a \$1.3 million increase in our energy, environment and infrastructure client market revenue. During the three months ended March 31, 2019 when compared to the prior period ending March 31, 2018, organic revenue increased by \$25.8 million and revenue from companies acquired after the first quarter of 2018 provided additional revenue of \$12.7 million.

Direct Costs. Direct costs for the three months ended March 31, 2019 were \$215.9 million compared to \$188.8 million for the three months ended March 31, 2018, an increase of \$27.1 million or 14.4%. The increase in direct costs was attributable to an increase of \$21.0 million in subcontractor and other direct costs and \$6.1 million increase in direct labor and associated fringe benefits. The increase in both direct labor and subcontractor and other direct costs is primarily due to an increase in revenues and the effect of additional costs related to companies acquired after the first quarter of 2018. As we have been successful in winning larger contracts, our own labor services component has generally decreased because larger contracts typically are broader in scope and require more diverse capabilities, resulting in more subcontracted effort, more other direct costs, and slightly lower margins. Direct costs as a percent of revenue increased to 63.3% for the three months ended March 31, 2019, compared to 62.4% for the three months ended March 31, 2018.

Indirect and selling expenses. Indirect and selling expenses for the three months ended March 31, 2019 was \$96.5 million compared to \$89.7 million for the three months ended March 31, 2018, an increase of \$6.9 million or 7.6%. The increase in indirect and selling expense was primarily due to a \$5.3 million increase in general and administrative costs and a \$1.5 million increase in indirect labor and fringe. The increased costs included indirect labor and selling expense from companies acquired after the first quarter of 2018, planned investments in our internal processes and infrastructure and an increase in our incentive compensation. These increases were partially offset by a reduction in bad debt expense due to a change in our estimate of the collectability of amounts due from a client that recently filed for bankruptcy. Indirect and selling expenses as a percent of revenue decreased to 28.3% for the three months ended March 31, 2019, compared to 29.6% for the three months ended March 31, 2018. The decrease in indirect and selling expenses as a percent of revenues is due to higher growth in revenues when compared with a lower growth in indirect and selling expenses.

Depreciation and amortization. Depreciation and amortization was \$4.8 million for the three months ended March 31, 2019 compared to \$4.5 million for the three months ended March 31, 2018.

Amortization of intangible assets. Amortization of intangible assets for the three months ended March 31, 2019 was \$2.1 million compared to \$2.2 million for the three months ended March 31, 2018. The \$0.1 million decrease was primarily due to reduced levels of intangible assets amortization associated with prior acquisitions, which were only partially offset by amortization from recent acquisitions.

Operating Income. Operating income was \$21.9 million for the three months ended March 31, 2019 compared to \$17.6 million for the three months ended March 31, 2018, an increase of \$4.3 million or 24.5%. Operating income as a percentage of revenue increased to 6.4% for the three months ended March 31, 2019, compared to 5.8% for the three months ended March 31, 2018. Our higher revenue base, favorable business mix and cost discipline drove a net improvement in operating income and operating margin.

Interest expense. For the three months ended March 31, 2019 and 2018, interest expense was \$2.5 million and \$1.7 million. The change in interest expense for the three months ended March 31, 2019 was primarily due to an increase in the weighted average debt balance on the credit facility and the weighted-average interest rate on our long-term debt.

Other (expense) income. Other expense was \$0.4 million for the three months ended March 31, 2019 compared to other income of \$0.1 million for the three months ended March 31, 2018. The activity in other (expense) income for the three months ended March 31, 2019 and 2018 is primarily due to unrealized and realized foreign currency gains and losses.

Provision for Income Taxes. For the three months ended March 31, 2019, income tax expense was \$3.7 million compared to \$3.6 million for the three months ended March 31, 2018, an increase of \$0.1 million. The increase in income tax expense is due to the increase in pre-tax income, partially offset by the decline in the effective income tax rate. The effective income tax rate for the three months ended March 31, 2019 and 2018 was 19.5% and 22.5%, respectively. The decrease in the effective income tax rate was primarily due to a discrete, windfall tax benefit of \$2.0 million resulting from the exercise of equity-based compensation and the recognition of permanently non-taxable income which were only partially offset by an increase in non-deductible executive compensation in the three months ended March 31, 2019.

## NON-GAAP MEASURES

## Service Revenue

Service revenue represents revenue less subcontractor and other direct costs, which, among other things, include third-party materials and travel expenses. We believe service revenue is a useful measure to investors since, as a consulting firm, a key source of our profit is revenue obtained from the services that we provide to our clients through our employees. Service revenue is not a recognized term under U.S. GAAP and should not be considered an alternative to revenue as a measure of operating performance. This presentation of service revenue may not be comparable to other similarly titled measures used by other companies because other companies may use different methods to prepare similarly titled measures.

The table below presents a reconciliation of revenue to service revenue for the periods indicated:

| (in thousands)                       | Three Months Ended |           |
|--------------------------------------|--------------------|-----------|
|                                      | March 31,          |           |
|                                      | 2019               | 2018      |
| Revenue                              | \$341,254          | \$302,780 |
| Subcontractor and other direct costs | (99,899 )          | (78,882 ) |
| Service revenue                      | \$241,355          | \$223,898 |

## EBITDA and Adjusted EBITDA

Earnings before interest and other income and/or expense, tax, and depreciation and amortization (“EBITDA”) is a measure we use to evaluate operating performance. We believe EBITDA is useful in assessing ongoing trends and, as a result, may provide greater visibility in understanding our operations.

Adjusted EBITDA is EBITDA further adjusted to eliminate the impact of certain items that we do not consider to be indicative of the performance of our ongoing operations. We evaluate these adjustments on an individual basis based on both the quantitative and qualitative aspects of the item, including their size and nature as well as whether or not we expect them to occur as part of our normal business on a regular basis. We believe that the adjustments applied in calculating adjusted EBITDA are reasonable and appropriate to provide additional information to investors.

EBITDA and Adjusted EBITDA are not recognized terms under U.S. GAAP and should not be used as alternatives to net income as a measure of operating performance. This presentation of EBITDA and Adjusted EBITDA may not be comparable to other similarly titled measures used by other companies because other companies may use different methods to prepare similarly titled measures. EBITDA and Adjusted EBITDA are not intended to be a measure of free cash flow for management’s discretionary use as these measures do not include certain cash requirements such as interest payments, tax payments, capital expenditures and debt service.

The following table presents a reconciliation of net income to EBITDA and Adjusted EBITDA for the periods indicated. Certain immaterial amounts in the prior year has been revised to conform with the current presentation of Adjusted EBITDA:

| (in thousands) | Three Months |      |
|----------------|--------------|------|
|                | Ended        |      |
|                | March 31,    |      |
|                | 2019         | 2018 |

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|   |          |          |
|---|----------|----------|
| Net income  | \$15,318 | \$12,417 |
| Other expense (income)  | 412      | (104 )   |
| Interest expense  | 2,453    | 1,666    |
| Provision for income taxes  | 3,706    | 3,603    |
| Depreciation and amortization   | 6,897    | 6,713    |
| EBITDA  | 28,786   | 24,295   |
| Special charges related to acquisition expenses <sup>(1)</sup>            | —        | 62       |
| Special charges related to severance for staff realignment <sup>(2)</sup> | 454      | 655      |
| Adjustment related to bad debt reserve <sup>(3)</sup>                     | (782 )   | —        |
| Total special charges   | (328 )   | 717      |
| Adjusted EBITDA   | \$28,458 | \$25,012 |

(1) Special charges related to acquisition expenses: These costs are mainly related to closed and anticipated-to-close acquisitions, consisting primarily of consultant and other outside third-party costs and amortization of deferred consideration payments, discounted as part of the acquisition.

(2) Special charges related to severance for staff realignment: These costs are mainly due to involuntary employee termination benefits for Company officers or groups of employees who have been notified that they will be terminated as part of a consolidation or reorganization.

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(3) Adjustment related to bad debt reserve: During 2018, we established a bad debt reserve for amounts due from a utility client that had filed for bankruptcy and included the reserve as an adjustment due to its relative size. The current quarter adjustment reflects a favorable revision of our estimate of collectability based on third party interest in acquiring the receivables.

#### Non-GAAP Diluted Earnings per Share

Non-GAAP diluted earnings per share (“EPS”) represents diluted EPS excluding the impact of certain items such as severance for staff realignment, and facility consolidations and office closures (which are also excluded from Adjusted EBITDA as described further above), as well as the impact of amortization of intangible assets related to our acquisitions. While these adjustments may be recurring and not infrequent or unusual, we do not consider these adjustments to be indicative of the performance of our ongoing operations. Non-GAAP diluted EPS is not a recognized term under U.S. GAAP and is not an alternative to basic or diluted EPS as a measure of performance. This presentation of Non-GAAP diluted EPS may not be comparable to other similarly titled measures used by other companies because other companies may use different methods to prepare similarly titled measures. We believe that the supplemental adjustments applied in calculating Non-GAAP diluted EPS are reasonable and appropriate to provide additional information to investors.

The following table presents a reconciliation of diluted EPS to Non-GAAP diluted EPS for the periods indicated:

|  | Three Months<br>Ended<br>March 31, |        |
|--|------------------------------------|--------|
|  | 2019                               | 2018   |
| Diluted EPS  | \$0.80                             | \$0.65 |
| Special charges related to severance for staff realignment | 0.02                               | 0.03   |
| Adjustment related to bad debt reserve                     | (0.04)                             | —      |
| Amortization of intangibles                                | 0.11                               | 0.12   |
| Income tax effects <sup>(1)</sup>                          | (0.02)                             | (0.03) |
| Non-GAAP Diluted EPS                                       | \$0.87                             | \$0.77 |

(1) Income tax effects were calculated using an effective U.S. GAAP tax rate of 19.5% and 22.5% for the three months ended March 31, 2019 and 2018, respectively.

#### LIQUIDITY AND CAPITAL RESOURCES

**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. Our primary source of borrowings is from our Fifth Amended and Restated Business Loan and Security Agreement with a syndicate of 11 commercial banks (the “Credit Facility”), as described in “Note 4—Long-Term Debt” in the “Notes to Consolidated Financial Statements” in this Quarterly Report.

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 acquisitions, quarterly cash dividends and organic growth. Additionally, we continuously analyze our capital structure to ensure we have sufficient capital to fund future significant, strategic acquisitions. 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, in the future, we need additional borrowings or capital.

Financial Condition. There were several changes in our balance sheet as of March 31, 2019 compared to the balance sheet as of December 31, 2018. Cash and cash equivalents decreased to \$5.7 million as of March 31, 2019, from \$11.7 million on December 31, 2018. Restricted cash (current and non-current) decreased \$1.3 million to \$0.0 million from \$1.3 million at December 31, 2018. These changes are further discussed in “Cash Flow” below.

Contract receivables, net of allowance for doubtful accounts, decreased to \$222.5 million compared to \$231.0 million on December 31, 2018 primarily due to improved collections efforts. Contract receivables are a significant component of our working capital and generally increase due to revenue growth and may be favorably or unfavorably impacted by our collection’s efforts, including timing from new contract startups, and other short-term fluctuations related to the payment practices of our clients. Contract assets and contract liabilities, on a contract by contract basis, represent revenue in excess of billings, and billings in excess of revenue, respectively, both of which generally arise from revenue timing and contractually stipulated billing schedules or billing complexity. At March 31, 2019, contract assets and contract liabilities were \$151.8 million and \$35.9 million, respectively, compared to \$126.7 million and \$33.5 million, respectively, at December 31, 2018.

We evaluate our collections efforts using the days-sales-outstanding ratio, or DSO, which we calculate by dividing total accounts receivable (contract receivables, net and contract assets, less contract liabilities), by revenue per day. Days-sales-outstanding increased from 77 days for the quarter ended December 31, 2018 to 89 days for the quarter ended March 31, 2019 primarily due to timing differences in client billings driven largely by disaster relief and rebuild efforts which have complex reporting and billing requirements.



Property and equipment, net of depreciation and amortization, increased due to capital expenditures primarily related to increases in capitalized software and computer equipment as the Company invests in its infrastructure as well as obtaining additional property and equipment related to recent acquisitions.

Goodwill, as discussed in “Note 3—Goodwill” in the “Notes to Consolidated Financial Statements” in this Quarterly Report, increased due to an immaterial correction of an error from a prior acquisition and the impact of foreign currency translation.

Effective January 1, 2019, the Company implemented the new lease standard. The standard, among other changes, requires lessees to recognize, for all leases with terms of greater than one year, a right-of-use asset and lease liability which depicts the rights and obligations arising from a lease agreement. As a result, the Company has recorded a right-of-use asset totaling \$127.6 million related to its operating leases and \$30.3 million and \$112.7 million of current and long-term lease liabilities, respectively. The adoption of the new standard is discussed in “Note 1-Basis of Presentation and Nature of Operations-Significant Accounting Policies” and “Note 1—Basis of Presentation and Nature of Operations—Recent Accounting Pronouncements” in the “Notes to Consolidated Financial Statements” in this Quarterly Report.

Total current liabilities, exclusive of the current portion of operating lease liabilities and contract liabilities (both of which are discussed above), consists of: accounts payable, accrued salaries and benefits, accrued subcontractors and other direct costs and accrued expenses and other current liabilities. These operating liabilities were \$214.9 million at March 31, 2019, a decrease of \$29.7 million compared to \$244.6 million at December 31, 2018. The net decrease in these liabilities was due primarily to timing of payments in the first quarter of 2019, the increased activity in the fourth quarter of 2018 and, to a lesser extent, the impact of the acquired companies.

Long-term debt increased to \$232.3 million on March 31, 2019 from \$200.4 million on December 31, 2018, primarily due to net draws on our Credit Facilities of \$31.9 million to fund current operations and business acquisitions. The weighted average debt balance on the credit facility for the three months ended March 31, 2019 and 2018 was \$230.9 million and \$206.0 million. The weighted average interest rate on the Credit Facility for the three months ended March 31, 2019 and 2018 was 3.76% and 2.84%. We generally utilize cash flow from operations as our primary source of funding and turn to our Credit Facility to fund temporary fluctuations such as increases in accounts receivable, reductions in accounts payable and accrued expenses, the purchase of treasury stock and to meet funding requirements of acquisitions.

We have explored various options for mitigating the risk associated with potential fluctuations in the foreign currencies in which we conduct transactions. We currently have forward contract agreements (“currency hedges”) in an amount proportionate to work anticipated to be performed under certain contracts in Europe. We recognize changes in the fair value of the currency hedges in our results of operations. We may increase the number, size and scope of our currency hedges as we analyze options for mitigating our foreign exchange risk. Management views the current impact of the hedges to the consolidated financial statements as not significant.

Share Repurchase Program. In September 2017 the board of directors approved a share repurchase program that authorizes share repurchases in the aggregate up to \$100.0 million. Our total repurchases are also limited by the Credit Facility as described in “Note 13—Share Repurchase Program” in the “Notes to Consolidated Financial Statements” in this Quarterly Report. Our overall repurchase limit is the lower of the amount imposed by our board of directors and by the Credit Facility. Purchases under the repurchase program may be made from time to time at prevailing market prices in open market purchases or in privately negotiated transactions pursuant to Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance with applicable insider trading and other securities laws and regulations. The purchases will be funded from existing cash balances and/or borrowings, and the repurchased shares will be held in treasury and used for general corporate purposes. The timing and extent to which we repurchase our shares will depend upon market conditions and other corporate considerations, as may be considered in our sole discretion. During the three months ended March 31, 2019, we repurchased 122,000

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shares under this program at an average price of \$70.53 per share. As of March 31, 2019, \$77.5 million remained available for share repurchases.

Dividends. Cash dividends declared thus far in 2019 are as follows:

| Dividend Declaration Date | Dividend  |                |                |
|---------------------------|-----------|----------------|----------------|
|                           | Per Share | Record Date    | Payment Date   |
| February 26, 2019         | \$ 0.14   | March 29, 2019 | April 16, 2019 |
| May 2, 2019               | \$ 0.14   | June 14, 2019  | July 16, 2019  |

Cash Flow. We consider cash on deposit and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. The following table sets forth our sources and uses of cash for the three months ended March 31, 2019 and 2018:

| (in thousands)   | Three Months Ended |           |
|--|--------------------|-----------|
|  | March 31, 2019     | 2018      |
| Net Cash Used in Operating Activities  | \$(12,688)         | \$(5,847) |
| Net Cash Used in Investing Activities  | (9,358)            | (15,071)  |
| Net Cash Provided by Financing Activities                                      | 14,444             | 17,097    |
| Effect of Exchange Rate Changes on Cash, Cash Equivalents, and Restricted Cash | 305                | 120       |
| Decrease in Cash, Cash Equivalents, and Restricted Cash                        | \$(7,297)          | \$(3,701) |

Our operating cash flows are primarily affected by the overall profitability of our contracts, our ability to invoice and collect from our clients in a timely manner, and the timing of vendor and subcontractor payments in accordance with negotiated payment terms. We bill most of our clients on a monthly basis after services are rendered. Operating activities used \$12.7 million in cash for the three months ended March 31, 2019 compared to cash used by operating activities of \$5.8 million for the three months ended March 31, 2018. The decrease in cash flows provided by operations for the three months ended March 31, 2019 compared to the prior year was primarily due to the increase in contract assets and net decrease in our operating liabilities, accounts payable, accrued salaries and benefits, accrued subcontractors and other direct costs and accrued expenses and other liabilities, partially offset by the improvement in net income, contract receivables, deferred income taxes and non-cash equity compensation.

Investing activities used cash of \$9.4 million for the three months ended March 31, 2019, compared to \$15.1 million for the three months ended March 31, 2018. Our cash flows used in investing activities consists primarily of capital expenditures and acquisitions. The cash used in investing activities for the three months ended March 31, 2019 included acquisitions of \$1.8 million and \$7.5 million for capital expenditures. The cash used in investing activities for the three months ended March 31, 2018 included acquisition costs \$11.8 million and \$3.2 million of capital expenditures.

Our cash flows provided by financing activities consists primarily of debt and equity transactions. For the three months ended March 31, 2019, cash flows provided by financing activities of \$14.4 million was largely attributable to cash provided by net advances on our Credit Facility of \$31.9 million, partially offset by cash used for net payments for stock issuances and buybacks of \$15.2 million, primarily representing shares repurchased under our share repurchase program, and payments of cash dividends totaling \$2.6 million. For the three months ended March 31, 2018, cash flows used in financing activities of \$17.1 million was largely attributable to net advances on our Credit Facility of \$25.2 million, partially offset by cash used for payments for stock issuances and buybacks of \$9.1 million and payments of cash dividends totaling \$2.6 million

### 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.

### 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 of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act. We performed the evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based on 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. As a result of the Company's adoption of the new lease accounting standard ASU 2016-02, Leases (Topic 842), we implemented controls to ensure adequate evaluation of our lease commitments and assessment of the impact of the new accounting standard related to our financial statements to facilitate its adoption on January 1, 2019. There were no other significant changes to our internal control over financial reporting due to the adoption of the new standard, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f), during the period covered by this Quarterly Report or 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, have been or will be detected. Because of the inherent limitations in any control system, misstatements due to error or fraud may occur and may not be detected.

## 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

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.

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

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

Purchase of Equity Securities by Issuer. The following table summarizes our share repurchase activity for three months ended March 31, 2019:

| Period                   | Total<br>Number of<br>Shares<br>Purchased<br>as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Average<br>Price<br>Paid<br>per<br>Share<br>(2) | Total<br>Number of<br>Shares<br>Purchased<br>as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number (or<br>Approximate<br>Dollar<br>Value) of<br>Shares that<br>May<br>Yet Be<br>Purchased<br>Under<br>the Plans or<br>Programs (3) |
|--------------------------|---|---|---|---|
| January 1 - January 31   | 79,269  | \$ 64.14  | 42,000  | \$83,356,460  |
| February 1 - February 28 | 39,020  | \$ 71.37  | 38,000  | \$80,636,821  |
| March 1 - March 31       | 99,164  | \$ 75.63  | 42,000  | \$77,457,354  |
| Total                    | 217,453   | \$ 70.68  | 122,000   |   |

- (1) The total number of shares purchased of 217,453 includes shares repurchased pursuant to our share repurchase program described further in footnote (3) below, as well as shares purchased from employees to pay required withholding taxes related to the settlement of any restricted stock units and performance-based share awards in accordance with our applicable long-term incentive plan.
- (2) During the three months ended March 31, 2019, we repurchased 95,453 shares of common stock from employees in satisfaction of tax withholding obligations at an average price of \$70.86 per share.
- (3) The current share repurchase program authorizes share repurchases in the aggregate up to \$100.0 million, not to exceed the amount allowed under the Credit Facility. During the three months ended March 31, 2019, we repurchased 122,000 shares under the stock repurchase plan at an average price of \$70.53 per share.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit

Number Exhibit

- 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. \*
- 101 The following materials from the ICF International, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements.\*

\*Submitted electronically herewith.



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 3, 2019 By: /s/ Sudhakar Kesavan  
Sudhakar Kesavan  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

May 3, 2019 By: /s/ James Morgan  
James Morgan  
Executive Vice President and Chief Financial Officer  
  
(Principal Financial Officer)