

ICF International, Inc.
Form 10-Q
November 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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

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

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically 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. (Check one):

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 October 26, 2018, there were 18,847,336 shares outstanding of the registrant’s common stock.

ICF INTERNATIONAL, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q FOR THE

PERIOD ENDED SEPTEMBER 30, 2018

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	3
Item 1. <u>Financial Statements</u>	3
<u>Consolidated Balance Sheets at September 30, 2018 (Unaudited) and December 31, 2017</u>	3
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three Months and Nine Months Ended September 30, 2018 and 2017</u>	4
<u>Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2018 and 2017</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
Item 4. <u>Controls and Procedures</u>	31
<u>PART II. OTHER INFORMATION</u>	32
Item 1. <u>Legal Proceedings</u>	32
Item 1A. <u>Risk Factors</u>	32
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 3. <u>Defaults Upon Senior Securities</u>	32
Item 4. <u>Mine Safety Disclosures</u>	32
Item 5. <u>Other Information</u>	32
Item 6. <u>Exhibits</u>	33

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ICF International, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	September 30, 2018	December 31, 2017
	(Unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 5,804	\$ 11,809
Contract receivables, net	194,202	168,318
Contract assets	143,161	123,197
Prepaid expenses and other assets	16,608	11,327
Income tax receivable	10,275	5,596
Restricted cash - current	—	11,191
Total Current Assets	370,050	331,438
Property and Equipment, net	45,742	38,052
Other Assets:		
Goodwill	702,585	686,108
Other intangible assets, net	33,234	35,304
Restricted cash - non-current	1,286	1,266
Other assets	23,147	18,087
Total Assets	\$ 1,176,044	\$ 1,110,255
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 69,168	\$ 75,074
Contract liabilities	26,489	38,571
Accrued salaries and benefits	58,802	45,645
Accrued subcontractors and other direct costs	40,347	47,508
Accrued expenses and other current liabilities	29,418	17,572
Total Current Liabilities	224,224	224,370
Long-term Liabilities:		
Long-term debt	232,504	206,250
Deferred rent	14,335	15,119
Deferred income taxes	37,330	33,351
Other	16,978	15,135
Total Liabilities	525,371	494,225
Commitments and Contingencies (Note 16)		
Stockholders' Equity:		
Preferred stock, par value \$.001; 5,000,000 shares authorized; none issued	—	—
	22	22

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

Common stock, par value \$.001; 70,000,000 shares authorized; 22,419,587 and 22,019,315 shares issued as of September 30, 2018 and December 31, 2017, respectively; 18,868,431 and 18,661,801 shares outstanding as of September 30, 2018 and December 31, 2017, respectively

Additional paid-in capital	322,600	307,821
Retained earnings	470,386	434,766
Treasury stock	(134,191)	(121,540)
Accumulated other comprehensive loss	(8,144)	(5,039)
Total Stockholders' Equity	650,673	616,030
Total Liabilities and Stockholders' Equity	\$ 1,176,044	\$ 1,110,255

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	\$332,968	\$305,301	\$960,063	\$907,988
Direct costs	213,060	189,992	608,451	564,495
Operating costs and expenses:				
Indirect and selling expenses	88,960	84,558	269,029	259,600
Depreciation and amortization	4,210	4,613	12,724	13,431
Amortization of intangible assets	2,516	2,742	7,030	8,225
Total operating costs and expenses	95,686	91,913	288,783	281,256
Operating income	24,222	23,396	62,829	62,237
Interest expense	(2,240)	(2,175)	(6,073)	(6,663)
Other (expense) income	(351)	(311)	(565)	24
Income before income taxes	21,631	20,910	56,191	55,598
Provision for income taxes	4,960	7,218	13,486	19,792
Net income	\$16,671	\$13,692	\$42,705	\$35,806
Earnings per Share:				
Basic	\$0.88	\$0.73	\$2.27	\$1.90
Diluted	\$0.86	\$0.72	\$2.22	\$1.86
Weighted-average Shares:				
Basic	18,873	18,666	18,783	18,807
Diluted	19,306	19,024	19,256	19,218
Cash dividends declared per common share	\$0.14	\$—	\$0.42	\$—
Other comprehensive (loss) income, net of tax	(568)	558	(2,276)	3,030
Comprehensive income, net of tax	\$16,103	\$14,250	\$40,429	\$38,836

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)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$42,705	\$35,806
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash equity compensation	8,682	8,158
Depreciation and amortization	19,753	21,655
Facilities consolidation reserve	(193)	1,351
Deferred taxes and other adjustments, net	5,262	7,473
Changes in operating assets and liabilities:		
Net contract assets and liabilities	(32,158)	(8,046)
Contract receivables, net	(24,050)	8,640
Prepaid expenses and other assets	(6,841)	(2,835)
Accounts payable	(5,882)	(8,822)
Accrued salaries and benefits	12,921	14,795
Accrued subcontractors and other direct costs	(7,897)	(7,975)
Accrued expenses and other current liabilities	3,602	(2,021)
Income tax receivable and payable	(5,535)	(1,710)
Other liabilities	(16)	3,815
Net Cash Provided by Operating Activities	10,353	70,284
Cash Flows from Investing Activities		
Capital expenditures for property and equipment and capitalized software	(15,593)	(8,475)
Payments for business acquisitions, net of cash received	(22,847)	(92)
Net Cash Used in Investing Activities	(38,440)	(8,567)
Cash Flows from Financing Activities		
Advances from working capital facilities	444,637	460,875
Payments on working capital facilities	(418,383)	(490,184)
Payments on capital expenditure obligations	(3,243)	(3,394)
Debt issue costs	(21)	(1,591)
Proceeds from exercise of options	5,842	4,722
Dividends Paid	(5,269)	—
Net payments for stockholder issuances and buybacks	(12,399)	(32,934)
Net Cash Provided by (Used in) Financing Activities	11,164	(62,506)
Effect of Exchange Rate Changes on Cash, Cash Equivalents, and Restricted Cash	(253)	640
Decrease in Cash, Cash Equivalents, and Restricted Cash	(17,176)	(149)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Period	24,266	7,885
Cash, Cash Equivalents, and Restricted Cash, End of Period	\$7,090	\$7,736

Supplemental Disclosure of Cash Flow Information

Cash paid during the period for:

Interest	\$7,193	\$6,042
Income taxes	\$13,056	\$15,085
Non-cash investing and financing transactions:		
Capital expenditure obligations	\$6,121	\$—

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 and local government departments and agencies, international governments, and commercial clients worldwide. U.S. state and local governments include the governments of U.S. territories. 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 55 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 and reportable segment. Operating results for the three and nine month periods ended September 30, 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 year ended December 31, 2017 and the notes thereto included in the Company’s Annual Report on Form 10-K, filed with the SEC on February 28, 2018 (the “Annual Report”).

Reclassifications

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the current year presentation. As a result of the adoption of Accounting Standard Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606), the Company presented balances, titled contract assets and contract liabilities, within the consolidated balance sheet as well as the net impact of changes in these balances within the consolidated statement of cash flows. The Company reclassified comparable balances within the December 31, 2017 consolidated balance sheet as well as the impact of changes in these balances within the consolidated statement of cash flows in order to enhance comparability. Any other reclassifications were immaterial to the financial statements taken as a whole.

Significant Accounting Policies

Revenue Recognition

The Company primarily provides services and technology-based solutions for clients that operate in a variety of markets and the solutions may span the entire program life cycle, from initial research and analysis to the design and implementation of solutions. The Company enters into agreements with clients that create enforceable rights and obligations and for which it is probable that the Company will collect the consideration to which it will be entitled as services and solutions are transferred to the client. Except in certain narrowly defined situations, the Company's agreements with its clients are written and revenue is generally not recognized on oral or implied arrangements. The Company recognizes revenue based on the consideration specified in the agreement and excludes from revenue amounts collected on behalf of third parties. Accordingly, sales and similar taxes which are collected for third parties are excluded from the transaction price. The Company also evaluates whether two or more agreements should be accounted for as one single contract and whether combined or single agreements should be accounted for as more than one performance obligation.

For most contracts, the client requires the Company to perform a number of tasks in providing an integrated output and, hence, each of these contracts are tracked as having only one performance obligation. When contracts are separated into multiple performance obligations, the Company allocates the total transaction price to each performance obligation based on the estimated relative standalone selling prices of the promised services underlying each performance obligation. The Company generally provides customized solutions in which the pricing is based on specific negotiations with each client, and, in these cases, the Company uses a cost plus margin approach to estimate the standalone selling price of each performance obligation. It is common for the Company's long-term contracts to contain award fees, incentive fees or other provisions that can either increase or decrease the transaction price. These variable amounts are generally awarded at the completion of a prescribed measurement period based on the achievement of performance metrics, program milestones or cost targets, and the amount awarded may be subject to client discretion. The Company estimates variable consideration as the most likely amount to which the Company expects to be entitled.

Long-term contracts typically contain billing terms that provide for invoicing once a month and payment on a net 30-day basis. Exceptions to monthly billing terms are to ensure that the Company performs satisfactorily rather than representing a significant financing component. For cost-based contracts, the Company's performance is evaluated during a contractually stipulated performance period and, while contract costs may be billed on a monthly basis, the Company is generally permitted to bill for incentive or award fees only after the completion of the performance period, which may occur quarterly, semi-annually or annually, and after the client completes the performance assessment. Fixed-price contracts may provide for milestone billings based on the attainment of specific project objectives rather than for billing on a monthly basis. Moreover, contracts may require retentions or hold backs that are paid at the end of the contract to ensure that the Company performs in accordance with requirements. The Company does not assess whether a contract contains a significant financing component if the Company expects, at contract inception, that the period between payment by the client and the transfer of promised services to the client will be one year or less.

The Company generally recognizes revenue over time as control is transferred to a client, based on the extent of progress towards satisfaction of the performance obligation. The selection of the method used to measure progress requires judgment and is dependent on the contract type selected by the client during contract negotiation and the nature of the services and solutions to be provided.

When a performance obligation is billed using a time-and-materials contract type, the Company uses output progress measures to estimate revenue earned based on hours worked in contract performance at negotiated billing rates. Fixed-price level-of-effort contracts are substantially similar to time-and-materials contracts except that the Company is required to deliver a specified level of effort over a stated period of time. For these contracts, the Company

estimates revenue earned using contract hours worked at negotiated bill rates as the Company delivers the contractually required workforce.

For cost-based contracts, the Company recognizes revenue based on contract costs incurred, as the Company becomes contractually entitled to reimbursement of the contract costs, plus a most likely estimate of award or incentive fees earned on those costs even though final determination of fees earned occurs after the contractually-stipulated performance assessment period ends.

For performance obligations requiring the delivery of a service for a fixed price, the Company uses the ratio of actual costs incurred to total estimated costs, provided that costs incurred (an input method) provides a reasonable measure of progress towards the satisfaction of a performance obligation, in order to estimate the portion of total revenue earned. When this method is used, changes in estimated costs to complete these obligations result in adjustments to revenue on a cumulative catch-up basis, which causes the effect of revised estimates for prior periods to be recognized in the current period. Changes in these estimates can routinely occur over contract performance for a variety of reasons, which include: changes in contract scope; changes in contract cost estimates due to unanticipated cost growth or reassessments of risks impacting costs; changes in estimated incentive or award fees; or performing better or worse than previously estimated.

In some fixed price service contracts, the Company performs services of a recurring nature, such as maintenance and other services of a “stand ready” nature. For these contracts, the Company has the right to consideration in an amount that corresponds directly with the value that the client has received. Therefore, the Company records revenue on a straight-line basis to reflect the transfer of control to the client throughout the contract.

Contracts are often modified to reflect changes in contract specifications and requirements, and these changes may create new enforceable rights and obligations. Most modifications are for services that are not distinct from the existing agreement due to the significant integration service that the Company provides. Therefore, most modifications are accounted for as part of an existing performance obligation. The effect of these modifications on transaction price, and the Company's measure of progress in fulfilling the performance obligation to which it relates, may be recognized as an adjustment to revenue on a cumulative catch-up basis. Revenue from modifications that create new, distinct performance obligations is recognized based on the Company's progress in fulfilling the requirements of the new obligation.

For contracts in which the estimated cost to perform exceeds the consideration to be received, the Company accrues for the entire estimated loss during the period in which the loss is determined by recording additional direct costs.

The Company recognizes the cost to fulfill contracts as incurred. The Company evaluates incremental costs of obtaining a contract and, if they are recoverable from the client and relate to a specific future contract, they are deferred and recognized over contract performance or the estimated life of the customer relationship if renewals are expected. The Company expenses these costs when incurred if the amortization period is one year or less.

Unfulfilled performance obligations represent amounts expected to be earned on contracts and do not include the value of negotiated, unexercised contract options, which are classified as marketing offers. Indefinite delivery/indefinite quantity and similar arrangements provide a framework for the client to issue specific tasks, delivery or purchase orders in the future and these arrangements are considered marketing offers until a specific order is executed.

Revenue recognition entails the use of significant judgment, including, but not limited to, the following: evaluating agreements in terms of the number and nature of performance obligations, determining the appropriate method for measuring progress to satisfaction of obligations, and preparing estimates in terms of the amount of progress that the Company has made. Most of the Company's revenue is recognized over time and for many fixed-price contracts, in particular, the Company estimates the proportion of total revenue earned using the ratio of contract costs incurred to total estimated contract costs, which requires the Company to prepare estimates as work progresses of contract cost left to be incurred. Moreover, some of the Company's contracts include variable consideration, which requires the Company to estimate the most likely amounts that will be earned over the respective performance periods. For these obligations, changes in estimates result in cumulative catch-up adjustments and may have a significant impact on earnings during a given period.

The Company's operating cycle for long-term contracts may be greater than one year and is measured by the average time intervening between the inception and the completion of those contracts. Contract-related assets and liabilities, as highlighted below, are classified as current assets and current liabilities. Significant balance sheet accounts related to the revenue recognition cycle are as follows:

Contract receivables, net – This account includes amounts billed or billable under contract terms. The amounts due are stated at their net realizable value. The Company maintains an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected. The Company considers a number of factors in its estimate of the allowance, including knowledge of a client's financial condition, its historical collection experience, and other factors relevant to assessing the collectability of the receivables.

Contract assets – This account includes unbilled amounts typically resulting from revenue recognized on long-term contracts when the amount of revenue recognized exceeds the amounts billed. It also includes contract retainages until the Company has met the contract-stipulated requirements for payment. Contract assets are reported in a net position on a contract by contract basis each period even though individual contracts may contain multiple performance obligations. On a contract by contract basis, amounts do not exceed their net realizable value.

Contract liabilities – This account consists of advance payments received and billings in excess of revenue recognized on long-term contracts. Contract liabilities are reported in a net position on a contract by contract basis each period even though individual contracts may contain multiple performance obligations.

8

Recent Accounting Pronouncements

Recent Accounting Pronouncements Adopted

Accumulated Other Comprehensive Loss

In February 2018, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-02: Income Statement – Reporting Comprehensive Income (Topic 220). In the past, certain transactions were recorded in accumulated other comprehensive income net of applicable taxes. The tax had been calculated based on the tax rates enacted at the time the transaction occurred with no provision, under previous accounting, for adjusting the balance for changes in the enacted tax rate. Due to the passage of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”), those historical tax rates used for recording the transactions were higher than the Company’s current enacted rate. The new guidance allows the Company to reclassify these stranded tax effects directly to retained earnings. This update is effective for fiscal years beginning after December 15, 2018, including interim periods therein, and early adoption is permitted. During the first quarter of 2018, the Company elected to early adopt the update, which resulted in a one-time cumulative effect adjustment of \$0.8 million from accumulated other comprehensive loss to retained earnings.

Revenue Recognition

The Company implemented ASU 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018 using the modified retrospective method. This method requires that the Company apply the requirements of the new standard in the year of adoption to new contracts and those that were not completed as of the adoption date. Management evaluated those contracts not completed as of January 1, 2018 (the adoption date) and concluded that the impact of adopting ASC 606 did not have a material impact on the Company. Contract assets and contract liabilities were formerly reported as unbilled accounts receivable and deferred revenue, respectively. The titles have been changed in the table below to be consistent with accounts currently used under the new standard.

	December 31, 2017	
	As	As
	Reported	Adopted
Contract receivables, net	\$291,515	\$168,318
Contract assets	—	123,197
Deferred revenue	38,571	—
Contract liabilities	—	38,571
Retained earnings	434,766	434,766

Unfulfilled performance obligations for contracts in process as of the adoption date were \$1.1 billion.

Under the modified retrospective method, the Company is required to maintain dual reporting during the year of adoption in order to present revenue under both the previous and new accounting for contracts initiated on or after the date of adoption and for those contracts having remaining obligations as of the adoption date. Revenue timing differences between the two methods resulted primarily from contracts with performance incentives. Under the new accounting, the Company has included in revenue the most likely amount of priced incentives earned as contract work was performed rather than, as under the old accounting, waiting to recognize revenue from incentives until specific quantitative goals were achieved, generally at the end of the measurement period. This timing difference is not expected to result in a material change to the Company’s annual revenue since most incentives have a one-year measurement period, which is aligned with the Company’s fiscal year. Revenue calculated under the old and new methods is as follows:

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

	Three months ended		Nine months ended	
	September 30, 2018		September 30, 2018	
	Previous	New	Previous	New
	Accounting	Accounting	Accounting	Accounting
Revenue	\$331,978	\$332,968	\$957,773	\$960,063
Contract assets	141,391	143,161	141,391	143,161
Contract liabilities	27,009	26,489	27,009	26,489

Recent Accounting Pronouncements Not Yet Adopted

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This standard revises the accounting for leases and 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. The standard also requires qualitative and quantitative disclosures designed to provide information regarding the nature, amount and timing of lease expense. For lessees, the new guidance is not expected to significantly change the recognition and measurement of lease expense. This standard is effective for the first interim and annual periods beginning after December 15, 2018, with early adoption permitted. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842), Targeted Improvements permitting the recognition of a cumulative-effect adjustment to retained earnings on the date of adoption. The Company will adopt the standard beginning January 1, 2019. The Company intends to adopt the standard using the alternative transition method. The Company is currently evaluating its leases and designing new processes and controls that will aid in the implementation of and accounting for the new requirements. At this time, the Company cannot fully determine the effect of adopting the standard on the consolidated financial statements. However, the Company currently anticipates that, on adoption, the Company will recognize right-of-use assets and lease liabilities that will each total from \$100 to \$200 million. The Company does not expect a material impact from adopting the new standard on the results of operations and cash flows.

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 with early adoption permitted. The Company is currently in the process of evaluating the impact of adoption, but does not anticipate a material impact on the consolidated financial statements.

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:

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

	September 30, 2018	December 31, 2017
Billed and billable	\$ 198,204	\$ 172,171
Allowance for doubtful accounts	(4,002)	(3,853)
Contract receivables, net	\$ 194,202	\$ 168,318

NOTE 3 – GOODWILL

The changes in the carrying amount of goodwill during the nine-months period ended September 30, 2018 were as follows:

Balance as of December 31, 2017	\$686,108
Goodwill resulting from The Future Customer business combination	7,597
Goodwill resulting from DMS Disaster Consultants business combination	10,254
Effect of foreign currency translation	(1,374)
Balance as of September 30, 2018	\$702,585

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) includes modifications to the Company’s Fourth Amended and Restated Business Loan and Security Agreement, (ii) matures on May 17, 2022, (iii) increases the borrowing ceiling up to \$600.0 million without a borrowing base requirement, taking into account financial, performance-based limitations, and (iv) provides for an “accordion,” which permits additional revolving credit commitments of up to \$300.0 million, subject to lenders’ approval. The Credit Facility provides for letters of credit aggregating up to \$60.0 million, which reduce the funds available under the Credit Facility when issued.

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, 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 Rates is to be paid in quarterly installments. 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 September 30, 2018, the Company was in compliance with its covenants under the Credit Facility.

As of September 30, 2018, the Company had \$232.5 million long-term debt outstanding, 10 outstanding letters of credit totaling \$3.2 million, and unused borrowing capacity of \$364.3 million under the Credit Facility (excluding the accordion). Taking into account the financial, performance-based limitations, available borrowing capacity (excluding the accordion) was \$214.0 million as of September 30, 2018. The weighted-average interest rate on debt outstanding was 3.2% and 2.7% for the first nine months of 2018 and 2017, respectively.

NOTE 5 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

On August 8, 2018, the Company entered into two floating-to-fixed interest rate swap agreements (the “Swaps”) for an aggregate notional amount of \$75.0 million in order to hedge a portion of the Company’s floating rate Credit Facility (which is discussed in Note 4 – Long-Term Debt.) The Company has designated the Swaps as cash flow hedges. Similar to the previous swap agreement that the Company entered into, these Swaps are intended to mitigate the risk of rising interest rates. The Swaps provide a fixed rate of 2.8530% per annum on the notional amount, plus the applicable margin pursuant to the Credit Facility. The cash flows from the Swaps began August 31, 2018 and end on August 31, 2023, and the realized gains and losses in connection with each required interest payment will be reclassified from accumulated other comprehensive income (loss) (“AOCI”) to interest expense during the period of the cash flows. On a quarterly basis, management evaluates all swap agreements to determine each agreement’s effectiveness or ineffectiveness and records the change in fair value as an adjustment to other comprehensive income or loss.

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 September 30, 2018 and 2017 are as follows:

	Three Months Ended September 30, 2018			Total
	Gain on Sale of	Interest Rate Hedge	Fair Value of Interest Rate Hedge Agreements ⁽²⁾	
	Foreign Currency Translation Adjustments ⁽⁴⁾	of Interest Rate Hedge Agreement ⁽⁵⁾	of	
Accumulated other comprehensive (loss) income at June 30,				
2018	\$ (11,074)	\$ 2,431	\$ 1,067	\$ (7,576)
Current period other comprehensive income (loss):				
Other comprehensive (loss) income before reclassifications	(255)	—	371	116
Amounts reclassified from accumulated other comprehensive income	—	(180)	(41)	(221)
Effect of taxes ⁽³⁾	(142)	47	(368)	(463)
Total current period other comprehensive (loss) income	(397)	(133)	(38)	(568)
Accumulated other comprehensive (loss) income at				
September 30, 2018	\$ (11,471)	\$ 2,298	\$ 1,029	\$ (8,144)

	Three Months Ended September 30, 2017			Total
	Gain on Sale of	Interest Rate Hedge	Fair Value of Interest Rate Hedge Agreement ⁽²⁾⁽⁵⁾	
	Foreign Currency Translation Adjustments ⁽⁴⁾	of Interest Rate Hedge Agreement ⁽⁵⁾	of	
Accumulated other comprehensive (loss) income at June 30,				
September 30, 2017	\$ (9,343)	\$ 2,175	\$ —	\$ (7,168)

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

2017

Current period other comprehensive income (loss):

Other comprehensive income before reclassifications	943	—	228	1,171
Effect of taxes ⁽³⁾	(613)	—	—	(613)
Total current period other comprehensive income	330	—	228	558

Accumulated other comprehensive (loss) income at

September 30, 2017	\$ (9,013)	\$ 2,175	\$ 228	\$ (6,610)
--------------------	------------	----------	--------	------------

12

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

	Nine Months Ended September 30, 2018			
	Gain on Sale	Change in Fair Value of Interest Rate Hedge Agreement	Change in Fair Value of Interest Rate Hedge Agreement	Total
	Foreign Currency Translation Adjustment ⁽⁴⁾	of Interest Rate Hedge Agreement	Fair Value of Interest Rate Hedge Agreement	(²)(⁵)
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 ⁽⁴⁾	(1,307)	478	—	(829)
Adjusted beginning balance	(8,945)	2,636	441	(5,868)
Current period other comprehensive (loss) income:				
Other comprehensive (loss) income before reclassifications	(2,530)	—	997	(1,533)
Amounts reclassified from accumulated other				
comprehensive income	—	(480)	(41)	(521)
Effect of taxes ⁽³⁾	4	142	(368)	(222)
Total current period other comprehensive (loss) income	(2,526)	(338)	588	(2,276)
Accumulated other comprehensive (loss) income at				
September 30, 2018	\$(11,471)	\$ 2,298	\$ 1,029	\$(8,144)

	Nine Months Ended September 30, 2017			
	Gain on Sale	Change in Fair Value of Interest Rate Hedge Agreement	Change in Fair Value of Interest Rate Hedge Agreement	Total
	Foreign Currency Translation Adjustment ⁽⁴⁾	of Interest Rate Hedge Agreement	Fair Value of Interest Rate Hedge Agreement	(²)(⁵)
Accumulated other comprehensive (loss) income at				
January 1, 2017	\$(11,815)	\$ 2,175	\$ —	\$(9,640)
Current period other comprehensive income (loss):				
Other comprehensive income before reclassifications	4,113	—	228	4,341
Effect of taxes ⁽³⁾	(1,311)	—	—	(1,311)
Total current period other comprehensive income	2,802	—	228	3,030

Accumulated other comprehensive (loss) income at

September 30, 2017	\$ (9,013)	\$ 2,175	\$ 228	\$(6,610)
--------------------	-------------	----------	--------	-----------

(1) - Represents the fair 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 was recorded in other comprehensive income, net of tax, 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 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 were 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 and nine months ended September 30, 2018 and 2017 was 22.9% and 34.5% and 24.0% and 35.6%, 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 assets on the consolidated balance sheet.

NOTE 7 – STOCKHOLDERS' EQUITY

Changes in stockholders' equity for the three and nine months ended September 30, 2018 and 2017 are as follows:

	Three Months Ended September 30, 2018							
	Common Stock				Treasury Stock		Accumulated Other Comprehensive	
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Loss	Total
Balance at July 1, 2018	18,826	\$ 22	\$ 317,013	\$ 456,358	3,502	\$(130,446)	\$(7,576)	\$ 635,371
Net income	—	—	—	16,671	—	—	—	16,671
Other comprehensive income	—	—	—	—	—	—	(568)	(568)
Equity compensation	—	—	3,292	—	—	43	—	3,335
Exercise of stock options	85	—	2,309	—	—	—	—	2,309
Issuance of shares pursuant to vesting of								
restricted stock units	8	—	—	—	(1)	—	—	—
Net payments for stock issuances and buybacks	(51)	—	(14)	—	51	(3,788)	—	(3,802)
Reclassification of stranded tax effects due to								
adoption of accounting principle	—	—	—	—	—	—	—	—
Dividends declared	—	—	—	(2,643)	—	—	—	(2,643)
Balance at September 30, 2018	18,868	\$ 22	\$ 322,600	\$ 470,386	3,552	\$(134,191)	\$(8,144)	\$ 650,673

	Three Months Ended September 30, 2017							
	Common Stock				Treasury Stock		Accumulated Other Comprehensive	
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Loss	Total
Balance at July 1, 2017	18,718	\$ 22	\$ 300,394	\$ 394,004	3,202	\$(114,122)	\$(7,168)	\$ 573,130
Net income	—	—	—	13,692	—	—	—	13,692
Other comprehensive income	—	—	—	—	—	—	558	558
Equity compensation	—	—	2,709	—	—	89	—	2,798
Exercise of stock options	82	—	2,291	—	—	—	—	2,291
Issuance of shares pursuant to vesting of								
restricted stock units	11	—	—	—	(4)	—	—	—
Net payments for stock issuances and buybacks	(172)	—	—	—	172	(7,683)	—	(7,683)
Balance at September 30, 2017	18,639	\$ 22	\$ 305,394	\$ 407,696	3,370	\$(121,716)	\$(6,610)	\$ 584,786

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

Nine Months Ended September 30, 2018

Common Stock

Treasury Stock

	Common Stock		Additional		Treasury Stock		Accumulated	
	Shares	Amount	Paid-in Capital	Retained Earnings	Shares	Amount	Loss	Total
Balance at January 1, 2018	18,662	\$ 22	\$ 307,821	\$ 434,766	3,357	\$(121,540)	\$ (5,039)	\$ 616,030
Net income	—	—	—	42,705	—	—	—	42,705
Other comprehensive income	—	—	—	—	—	—	(2,276)	(2,276)
Equity compensation	—	—	8,507	—	—	178	—	8,685
Exercise of stock options	210	—	5,842	—	—	—	—	5,842
Issuance of shares pursuant to vesting of								
restricted stock units	198	—	—	—	(7)	—	—	—
Net payments for stock issuances and buybacks	(202)	—	430	—	202	(12,829)	—	(12,399)
Reclassification of stranded tax effects due to								
adoption of accounting principle	—	—	—	829	—	—	(829)	—
Dividends declared	—	—	—	(7,914)	—	—	—	(7,914)
Balance at September 30, 2018	18,868	\$ 22	\$ 322,600	\$ 470,386	3,552	\$(134,191)	\$ (8,144)	\$ 650,673

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

Nine Months Ended September 30, 2017

	Common Stock				Treasury Stock		Accumulated Other Comprehensive	
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Loss	Total
Balance at January 1, 2017	19,021	\$ 22	\$292,427	\$371,890	2,642	\$(88,695)	\$(9,640)	\$566,004
Net income	—	—	—	35,806	—	—	—	35,806
Other comprehensive income	—	—	—	—	—	—	3,030	3,030
Equity compensation	—	—	7,921	—	—	238	—	8,159
Exercise of stock options	176	—	4,722	—	—	—	—	4,722
Issuance of shares pursuant to vesting of								
restricted stock units	181	—	—	—	(11)	—	—	—
Net payments for stock issuances and buybacks	(739)	—	324	—	739	\$(33,259)	—	\$(32,935)
Balance at September 30, 2017	18,639	\$ 22	\$305,394	\$407,696	3,370	\$(121,716)	\$(6,610)	\$584,786

NOTE 8 – RESTRICTED CASH

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 nine months ended September 30, 2018 and 2017:

	2018		2017	
	Beginning	Ending	Beginning	Ending
Cash and cash equivalents	\$11,809	\$5,804	\$6,042	\$6,485
Restricted cash - current ⁽¹⁾	11,191	—	—	—
Restricted cash - non-current	1,266	1,286	1,843	1,251
Total of cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows	\$24,266	\$7,090	\$7,885	\$7,736

(1) - Restricted cash – current as of December 31, 2017 represents amount held in an escrow account for the acquisition of The Future Customer. See Note 12 – Business Combinations.

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 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.

	September 30, 2018	
	Three	
	Months	
	Ended	Nine Months Ended
Client Markets:		
Energy, environment, and infrastructure	\$ 147,840	\$ 404,476
Health, education, and social programs	126,347	381,287
Safety and security	29,446	82,412
Consumer and financial	29,335	91,888
Total	\$ 332,968	\$ 960,063

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

	September 30, 2018	
	Three Months	
	Ended	Nine Months Ended
Client Type:		
U.S. federal government	\$ 139,875	\$ 412,403
U.S. state and local government	55,828	122,958
International government	26,559	89,968
Total Government	222,262	625,329
Commercial	110,706	334,734
Total	\$ 332,968	\$ 960,063

	September 30, 2018	
	Three Months	
	Ended	Nine Months Ended
Contract Mix:		
Fixed-price	\$ 126,332	\$ 384,870
Time-and-materials	146,472	399,023
Cost-based	60,164	176,170
Total	\$ 332,968	\$ 960,063

Contract Balances:

Contract assets consist primarily of unbilled amounts resulting from long-term contracts when revenue recognized exceeds the amount billed 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 \$32.0 million increase in the Company's net contract assets (liabilities) is due to the timing of work performed in relation to billing schedule timing for fixed price programs which resulted in a reduction in contract liabilities, particularly in our international operations. 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.

	September 30, 2018	At date of adoption	Change
Contract assets	\$ 143,161	\$ 123,197	\$ 19,964
Contract liabilities	(26,489)	(38,571)	12,082
Net contract assets (liabilities)	\$ 116,672	\$ 84,626	\$ 32,046

Performance Obligations:

The Company had \$1.5 billion in unfulfilled performance obligations as of September 30, 2018, 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 and nine months ended September 30, 2018 and 2017 was 22.9% and 34.5% and 24.0% and 35.6%, 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 September 30, 2018 was \$0.1 million. There were no tax positions that, if recognized, would have a favorable impact on the Company's effective tax rate.

The Company's policy is not to 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 Act, which was signed into law on December 22, 2017 and is 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, provisions which include a permanent reduction in the federal corporate income tax rate from 35% to 21%. The Company has completed the accounting for the tax effects of the enactment of the Tax Act; accordingly, the Company recorded adjustments to the provisional estimate of the effects on existing deferred tax balances and the one-time transition tax in the period of enactment. The Company recognized these adjustments to the provisional estimate as an increase in the provision for income taxes during the third quarter of 2018.

The Company re-measured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, the Company has completed its analysis of the Tax Act and refining its provisional estimates, which affected the measurement of these balances. Pursuant to Securities and Exchange Commission Staff Accounting Bulletin 118 ("SAB 118"), the provisional amount recorded related to the re-measurement of the deferred tax balances has been adjusted during the nine months ended September 30, 2018 as an increase in the provision for income taxes, including adjustments to valuation allowances, of approximately \$1.3 million.

The one-time "transition tax" is based on the Company's total post-1986 earnings and profits ("E&P") which the Company has previously deferred from U.S. income taxation. The Company has completed the calculation of the total post-1986 foreign E&P and related foreign tax pools for these foreign subsidiaries. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount, as well as the related foreign tax credit utilization, changed as the Company finalized its calculation of post-1986 foreign E&P and related foreign tax pools that were previously deferred from U.S. federal taxation and the amounts held in cash or other specified assets. Similarly, the cumulative foreign tax credit carry forward balance as of December 31, 2017 increased by approximately \$2.2 million and the valuation allowance required increased by approximately \$2.2 million. No additional income taxes have been provided for on any remaining undistributed foreign earnings not subject to the transition tax and any additional outside basis difference inherent in these foreign entities because these amounts continue to be permanently reinvested in foreign operations. Pursuant to SAB 118, the provisional amount recorded related to the transition tax has been adjusted during the nine months ended September 30, 2018. The Company recognized this adjustment to the provisional estimate as a decrease in the provision for income taxes of approximately \$1.1 million during the third 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. The 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 current provision for 2018 included no tax expense for GILTI.

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”), cash-based awards, 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 599,811 as of September 30, 2018, will 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 September 30, 2018, the Company had approximately 1,138,609 shares available for grant under the 2018 Omnibus Plan. Cash-settled RSUs (“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 nine months ended September 30, 2018, the Company granted to its employees 206,140 shares in the form of RSUs with an average grant date fair value of \$64.30, and the equivalent value of 146,831 shares in the form of CSRSUs with an average grant date fair value of \$60.82. During the nine months ended September 30, 2018, the Company also granted 45,136 shares in the form of PSAs to its employees with a grant date fair value of \$60.65 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 2018 have a performance period from January 1, 2018 through December 31, 2020 and the performance conditions are consistent with the PSAs granted in 2017.

The Company recognized stock-based compensation expense of \$4.5 million and \$5.2 million for the three months ended September 30, 2018 and 2017, respectively, and \$14.7 million and \$13.4 million for the nine months ended September 30, 2018 and 2017, respectively. Unrecognized compensation expense of approximately \$14.9 million as of September 30, 2018 related to unsettled RSUs is expected to be recognized over a weighted-average period of 1.9 years. The unrecognized compensation expense related to CSRSUs totaled approximately \$21.6 million at September 30, 2018 and is expected to be recognized over a weighted-average period of 1.7 years. Unrecognized compensation expense related to PSAs of approximately \$4.0 million as of September 30, 2018 is expected to be recognized over a weighted-average period of 1.1 years.

NOTE 12 – BUSINESS COMBINATIONS

In January 2018, the Company acquired The Future Customer (“TFC”), a leading boutique loyalty strategy and marketing company based in London (U.K.) The acquisition of TFC enhanced and extended the Company’s customer loyalty business to Europe.

In August 2018, the Company acquired the disaster management and recovery firm, DMS Disaster Consultants (“DMS”). DMS assists public sector clients with man-made and natural disaster planning and preparedness, and post-disaster response and recovery efforts by assisting clients in obtaining funding from Federal Emergency Management Agency (FEMA), insurance companies, and other sources.

The combined purchase consideration for these acquisitions was \$24.9 million, which included \$22.8 million of initial cash payments and \$1.2 million estimated the fair value (Level 3) of contingent consideration to be paid to the former owners if certain objectives are achieved. The Company recognized the fair value of the assets acquired and liabilities assumed and allocated \$17.9 million to goodwill and \$5.1 million to intangible assets. The intangible assets primarily consist of customer relationships and are amortized on an accelerated basis based on projected customer payments. The Company determined the fair value of the contingent consideration as of each acquisition date using a valuation model which included the most likely outcome and the application of an appropriate discount rate. At the end of the reporting period, the fair value of the contingent consideration will be remeasured and any changes will be recorded in current operations. There were no material remeasurements recorded through September 30, 2018. The acquisitions were not significant to the Company’s financial statements taken as a whole.

NOTE 13 – EARNINGS PER SHARE

EPS is computed by dividing reported net income by the weighted-average number of shares outstanding. Diluted EPS considers the potential dilution that could occur if common stock equivalents were exercised or converted into stock. The difference between the basic and diluted weighted-average equivalent shares with respect to the Company's EPS calculation is due entirely to the assumed exercise of stock options and the vesting 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 September 30, 2018, the PSAs granted during the year ended December 31, 2016 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, 2017 and during the nine months ended September 30, 2018 have not yet completed their initial two-year performance period and therefore were excluded in the calculation of diluted EPS. There were no material weighted-average shares excluded from the calculation of EPS because they were anti-dilutive for the three and nine months ended September 30, 2018 and 2017, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Income	\$16,671	\$13,692	\$42,705	\$35,806
Weighted-average number of basic shares outstanding during the period	18,873	18,666	18,783	18,807
Dilutive effect of stock options, RSUs, and performance shares	433	358	473	411
Weighted-average number of diluted shares outstanding during the period	19,306	19,024	19,256	19,218
Basic earnings per share	\$0.88	\$0.73	\$2.27	\$1.90
Diluted earnings per share	\$0.86	\$0.72	\$2.22	\$1.86

NOTE 14 – 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. As part of the Company's modification of the Credit Facility, the Credit Facility limits on share repurchases were eliminated to permit 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 September 30, 2018, \$91.4 million remained available for share repurchases. Share repurchases also include shares surrendered by employees to satisfy tax withholding obligations in connection with the issuance of restricted stock, RSUs and PSAs.

NOTE 15 – SUBSEQUENT EVENTS

In October 2018, the Company acquired We Are Vista Limited ("Vista"), a communications company headquartered in Leeds, U. K., with additional presence in London. Vista provides advisory services and solutions to clients in the financial, retail, automobile, and energy industries.

On November 1, 2018, the Company's board of directors approved a \$0.14 per share cash dividend. The dividend will be paid on January 16, 2019 to shareholders of record as of the close of business on December 7, 2018.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Litigation and Claims

The Company is involved in various legal matters and proceedings arising in the ordinary course of business. While these matters and proceedings cause 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:

- 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 in a timely fashion and reductions in government spending, including, but not limited to, budgetary cuts resulting from automatic sequestration under the Budget Control Act of 2011, which was impacted in a positive way for us by the Bipartisan Budget Act of 2018 that became law on February 9, 2018;
- 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 the "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, unless otherwise indicated. 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, 2017 filed with the Securities and Exchange Commission on February 28, 2018 (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.

21

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 experience with disaster relief and rebuild efforts, including those from Hurricanes Katrina and Rita, and Superstorm Sandy, put us in a favorable position to provide recovery assistance, housing, and environmental and infrastructure solutions on behalf of federal departments and agencies, state and local jurisdictions, 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 5,500 full-time employees around the globe (excluding part-time and on-demand employees), including many recognized as thought leaders in their respective fields. We serve clients globally from our headquarters in the Washington, D.C. metropolitan area, 55 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” 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.

22

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 May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). Topic 606 provides a single comprehensive revenue recognition framework and supersedes existing revenue recognition guidance. Included in the new principles-based revenue recognition model are changes to the basis for determining the timing for revenue recognition. In addition, the standard expands and improves revenue disclosures. The Company implemented Topic 606 on January 1, 2018 using the modified retrospective method. This method requires that the Company apply the requirements of the new standard in the year of adoption to new contracts and those that were not completed as of the adoption date. For further discussion see “Note 1—Basis of Presentation and Nature of Operations—Significant Accounting Policies — Revenue Recognition” and “Note 1—Basis of Presentation and Nature of Operations—Recent Accounting Pronouncements” 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 mix 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.

Client Markets

The table below shows our revenue generated from client markets and such revenue as a percentage of total revenue for the periods indicated. Certain immaterial amounts in prior year have been reclassified within client market categories based on our current view of the client’s primary market in order to increase comparability of the current year to the prior year.

	Three Months Ended				Nine Months Ended			
	September 30, 2018		September 30, 2017		September 30, 2018		September 30, 2017	
(dollars in thousands)	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Energy, environment, and infrastructure	\$ 147,840	44 %	\$ 121,064	40 %	\$ 404,476	42 %	\$ 359,967	40 %
Health, education, and social programs	126,347	38 %	128,335	42 %	381,287	40 %	380,281	42 %
Safety and security	29,446	9 %	25,938	8 %	82,412	9 %	77,486	8 %
Consumer and financial	29,335	9 %	29,964	10 %	91,888	9 %	90,254	10 %
Total	\$ 332,968	100 %	\$ 305,301	100 %	\$ 960,063	100 %	\$ 907,988	100 %
Client mix								

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

We categorize our clients into two classifications: government and commercial. Within the government classification, we present three types of sub-classifications: federal government, state and local government, and international government. We also serve a variety of commercial clients worldwide. The table below shows our revenue by client type and revenue as a percentage of total revenue for the periods indicated. Certain immaterial revenue amounts in prior year have been reclassified due to minor adjustments and reclassification within client mix.

(dollars in thousands)	Three Months Ended				Nine Months Ended			
	September 30, 2018		September 30, 2017		September 30, 2018		September 30, 2017	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
U.S. federal government	\$139,875	42 %	\$142,514	47 %	\$412,403	43 %	\$421,810	46 %
U.S. state and local government	55,828	17 %	29,910	10 %	122,958	13 %	98,861	11 %
International government	26,559	8 %	22,429	7 %	89,968	9 %	63,091	7 %
Government	222,262	67 %	194,853	64 %	625,329	65 %	583,762	64 %
Commercial	110,706	33 %	110,448	36 %	334,734	35 %	324,226	36 %
Total	\$332,968	100 %	\$305,301	100 %	\$960,063	100 %	\$907,988	100 %

Contract mix

We classify our contracts based on contract type which is an indicator, depending on changes in the proportionate amount of revenues derived from each type of contract, of the degree of performance risk we have assumed. For additional information regarding the types of contracts we utilize, see the “Contract Mix” section in “Item 7”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report. Our contract mix varies from year to year and quarter to quarter due to numerous factors, including our business strategies and the procurement activities of our clients. Unless the context requires otherwise, we use the term “contracts” to refer to contracts and any task, delivery or purchase orders issued under a contract. The table below shows our revenue by contract type and revenue as a percentage of our total revenue for the periods indicated. Certain immaterial revenue amounts in the prior year have been reclassified due to minor adjustments and reclassification within contract mix.

	Three Months Ended				Nine Months Ended			
	September 30, 2018		September 30, 2017		September 30, 2018		September 30, 2017	
(dollars in thousands)	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Fixed-price	\$126,332	38 %	\$122,305	40 %	\$384,870	40 %	\$356,927	39 %
Time-and-materials	146,472	44 %	125,887	41 %	399,023	42 %	383,873	42 %
Cost-based	60,164	18 %	57,109	19 %	176,170	18 %	167,188	19 %
Total	\$332,968	100 %	\$305,301	100 %	\$960,063	100 %	\$907,988	100 %

Contract backlog

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

	September 30,		December 31,
(dollars in millions)	2018	2017	2017
Funded	\$1,277.9	\$1,006.2	\$ 1,060.0
Unfunded	1,236.6	1,074.3	890.4
Total	\$2,514.5	\$2,080.5	\$ 1,950.4

There were no backlog amounts in either 2018 or 2017 for which the contract award was under protest. Certain backlog in the prior year has been revised to conform to our current definition of backlog. Backlog increased primarily due to contract awards related to hurricane relief and recovery efforts.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2018, Compared to Three Months Ended September 30, 2017

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.

Year-to-Year
Change

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

(dollars in thousands)	Three Months Ended September 30,				Three Months Ended September 30, 2017 and 2018	
	Dollars		Percentages		Dollars	Percent
	2018	2017	2018	2017		
Revenue	\$332,968	\$305,301	100.0%	100.0%	\$27,667	9.1%
Direct Costs	213,060	189,992	64.0%	62.2 %	23,068	12.1%
Operating Costs and Expenses:						
Indirect and selling expenses	88,960	84,558	26.7%	27.7 %	4,402	5.2%
Depreciation and amortization	4,210	4,613	1.3%	1.5 %	(403)	(8.7%)
Amortization of intangible assets	2,516	2,742	0.7%	0.9 %	(226)	(8.2%)
Total Operating Costs and Expenses	95,686	91,913	28.7%	30.1 %	3,773	4.1%
Operating Income	24,222	23,396	7.3%	7.7 %	826	3.5%
Interest expense	(2,240)	(2,175)	(0.7%)	(0.7 %)	(65)	3.0%
Other (expense) income	(351)	(311)	(0.1%)	(0.1 %)	(40)	12.9%
Income before Income Taxes	21,631	20,910	6.5%	6.9 %	721	3.4%
Provision for Income Taxes	4,960	7,218	1.5%	2.4 %	(2,258)	(31.3%)
Net Income	\$16,671	\$13,692	5.0%	4.5 %	\$2,979	21.8%

Revenue. Revenue for the three months ended September 30, 2018 was \$333.0 million, compared to \$305.3 million for the three months ended September 30, 2017, representing an increase of \$27.7 million or 9.1%. The increase was primarily attributable to a \$27.4 million increase in government revenue and a \$0.3 million increase in revenue from commercial clients. The increase in government client revenue was the result of a \$25.9 million increase in revenue earned on state and local government contracts, primarily as a result of increases in the energy, environment and infrastructure client market in response to hurricane relief and recovery efforts, and a \$4.1 million increase in revenue from our international government clients, primarily as a result of increases in the energy, environment and infrastructure and health, education, and social programs client markets, offset by a decrease of \$2.6 million in our federal government clients. The decrease in federal government clients is the result of a \$7.5 million decrease in our health, education, and social program market clients, offset by a \$4.6 million increase in safety and security clients and a \$0.3 million increase in energy, environment and infrastructure clients. The increase in commercial revenue was due to a \$1.8 million increase in our health, education and social program market clients, offset primarily by a \$0.9 million decrease in our energy, environment and infrastructure market clients and a \$0.6 million decrease in our consumer and financial clients. Revenue from time-and-materials contracts increased due to hurricane relief and recovery efforts.

Direct Costs. Direct costs for the three months ended September 30, 2018 were \$213.1 million compared to \$190.0 million for the three months ended September 30, 2017, an increase of \$23.1 million or 12.1%. The increase in direct costs was attributable to an increase of \$18.2 million in subcontractor and other direct costs and \$4.9 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. Direct costs as a percent of revenue increased to 64.0% for the three months ended September 30, 2018, compared to 62.2% for the three months ended September 30, 2017.

Indirect and selling expenses. Indirect and selling expenses for the three months ended September 30, 2018 were \$89.0 million compared to \$84.6 million for the three months ended September 30, 2017, an increase of \$4.4 million or 5.2%. The increase in indirect and selling expenses was primarily due to a \$2.7 million increase in general and administrative costs, which included higher costs to invest in our internal processes and professional fees related to our acquisitions and a \$1.7 million increase in indirect compensation costs during the three months ended September 30, 2018. Indirect and selling expenses as a percent of revenue decreased to 26.7% for the three months ended September 30, 2018, compared to 27.7% for the three months ended September 30, 2017. The decline in the indirect and selling expense as a percentage of revenues is due to a larger increase in revenues as compared to indirect and selling costs as we realize revenue on recently awarded contracts.

Depreciation and amortization. Depreciation and amortization was \$4.2 million for the three months ended September 30, 2018 compared to \$4.6 million for the three months ended September 30, 2017.

Amortization of intangible assets. Amortization of intangible assets for the three months ended September 30, 2018 was \$2.5 million compared to \$2.7 million for the three months ended September 30, 2017. The \$0.2 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 \$24.2 million for the three months ended September 30, 2018 compared to \$23.4 million for the three months ended September 30, 2017, an increase of \$0.8 million or 3.5%. Operating income as a percentage of revenue decreased to 7.3% for the three months ended September 30, 2018, compared to 7.7% for the same period in 2017. The changes were largely due to increases in revenue offset by proportionately larger increases in the direct costs, resulting in a net reduction in operating income and operating margin.

Interest expense. For the three months ended September 30, 2018 and 2017, interest expense was \$2.2 million and \$2.2 million. The change in interest expense for the three months ended September 30, 2018 was primarily due to an increase in the weighted-average interest rate offset by lower average debt balances for such period compared to the three months ended September 30, 2017 and the reclassification of interest expense from our hedging activities.

Other (expense) income. Other expense was unchanged at \$0.3 million for the three months ended September 30, 2018 and 2017.

Provision for Income Taxes. For the three months ended September 30, 2018, income tax expense was \$5.0 million compared to \$7.2 million for the three months ended September 30, 2017, a decrease of \$2.2 million, and the effective income tax rate for the three months ended September 30, 2018 and 2017 was 22.9% and 34.5%, respectively. The decrease in income tax expense was primarily due to the decrease in the federal income tax rate from 35% to 21% pursuant to the enactment of the Tax Cuts and Jobs Act of 2017 (“Tax Act”) in December 2017 and a decrease in tax expense of \$0.7 million due to the reversal of an uncertain tax position due to expiration of the statute of limitations and an increase in windfall tax benefit of \$0.2 million resulting from the exercise of stock options in the three months ended September 30, 2018 compared to the three months ended September 30, 2017.

In addition to the change in the federal income tax rate from 35% to 21%, the Tax Act resulted in the revaluation of deferred tax assets and liabilities required as a result of the tax rate change and the application of a mandatory one-time “transition tax” on unremitted earnings of certain foreign subsidiaries that were previously tax deferred.

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

We have updated the accounting for the tax effects resulting from the enactment of the Tax Act. In certain cases we made a provisional estimate of the effects on our existing deferred tax balances and the one-time transition tax as of the date of enactment, December 2017. We have now completed our evaluation of the impact of the Tax Act and an immaterial change in the impact of the Tax Act was recorded to income tax expense in the three months ended September 30, 2018.

The Tax Act subjects U.S. corporations to current tax on global intangible low-taxed income (or “GILTI”) earned by certain foreign subsidiaries. We elected in the first quarter of 2018 to record changes to GILTI tax as a period cost, and taxes due on future GILTI will be included as a current-period expense when incurred. The current provision for 2018 included no tax expense for GILTI.

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

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)	Nine Months Ended September 30,				Year-to-Year Change	
	Dollars		Percentages		Nine Months Ended September 30, 2017 and 2018	
	2018	2017	2018	2017	Dollars	Percent
Revenue	\$960,063	\$907,988	100.0%	100.0%	\$52,075	5.7%
Direct Costs	608,451	564,495	63.4%	62.2 %	43,956	7.8%
Operating Costs and Expenses:						
Indirect and selling expenses	269,029	259,600	28.0%	28.6 %	9,429	3.6%
Depreciation and amortization	12,724	13,431	1.3%	1.5 %	(707)	(5.3%)
Amortization of intangible assets	7,030	8,225	0.7%	0.9 %	(1,195)	(14.5%)
Total Operating Costs and Expenses	288,783	281,256	30.0%	31.0 %	7,527	2.7%
Operating Income	62,829	62,237	6.6%	6.8 %	592	1.0%
Interest expense	(6,073)	(6,663)	(0.6%)	(0.7 %)	590	(8.9%)
Other (expense) income	(565)	24	(0.1%)	—	(589)	(2454.2%)
Income before Income Taxes	56,191	55,598	5.9%	6.1 %	593	1.1%
Provision for Income Taxes	13,486	19,792	1.4%	2.2 %	(6,306)	(31.9%)
Net Income	\$42,705	\$35,806	4.5%	3.9 %	\$6,899	19.3%

Revenue. Revenue for the nine months ended September 30, 2018 was \$960.1 million, compared to \$908.0 million for the nine months ended September 30, 2017, representing an increase of \$52.1 million or 5.7%. The increase was attributable to a \$41.6 million increase in government client revenue and a \$10.5 million increase in our commercial clients. The increase in government clients was the result of a \$26.9 million increase in our international government clients, primarily as a result of increases in the energy, environment and infrastructure and health, education, and social programs market, and an increase of \$24.1 million in state and local government clients, primarily the result of increases in our energy, environment and infrastructure market clients, offset by a decrease of \$9.4 million in our federal government clients. The decrease in federal government clients was the result of a \$15.9 million decrease in our health, education, and social program market clients, offset by a \$5.3 million increase in safety and security clients and a \$1.2 million increase in energy, environment and infrastructure clients. The increase in commercial revenue was primarily due to a \$7.0 million increase in our health, education and social program market clients, a \$1.9 million increase in our energy, environment, and infrastructure market clients, and a \$1.6 million increase in our consumer and financial market clients.

Direct Costs. Direct costs for the nine months ended September 30, 2018 were \$608.5 million compared to \$564.5 million for the nine months ended September 30, 2017, an increase of \$44.0 million or 7.8%. The increase in direct costs was attributable to an increase of \$32.4 million in subcontractor and other direct costs and an \$11.6 million increase in direct labor and associated fringe benefits. The increase in both direct labor and subcontractor and other costs is the result of an increase in revenues. Direct costs as a percent of revenue increased to 63.4% for the nine months ended September 30, 2018, compared to 62.2% for the nine months ended September 30, 2017.

Indirect and selling expenses. Indirect and selling expenses for the nine months ended September 30, 2018 were \$269.0 million compared to \$259.6 million for the nine months ended September 30, 2017, an increase of \$9.4 million or 3.6%. The increase in indirect and selling expenses was primarily due to a \$5.6 million increase in general and administrative costs, which included higher costs to invest in our internal processes and costs related to our acquisitions and a \$3.8 million increase in indirect compensation costs during the nine months ended September 30, 2018. Indirect and selling expenses as a percent of revenue decreased to 28.0% for the nine months ended September 30, 2018, compared to 28.6% for the nine months ended September 30, 2017. The decline in the indirect and selling expense as a percentage of revenues is due to a larger increase in revenues as compared to indirect selling costs.

Depreciation and amortization. Depreciation and amortization was \$12.7 million for the nine months ended September 30, 2018 compared to \$13.4 million for the nine months ended September 30, 2017.

Amortization of intangible assets. Amortization of intangible assets for the nine months ended September 30, 2018 was \$7.0 million compared to \$8.2 million for the nine months ended September 30, 2017. The \$1.2 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 \$62.8 million for the nine months ended September 30, 2018 compared to \$62.2 million for the nine months ended September 30, 2017, an increase of \$0.6 million or 1.0%. Operating income as a percentage of revenue decreased to 6.6% for the nine months ended September 30, 2018, compared to 6.8% for the same period in 2017. The changes were largely due to increases in revenue offset by proportionately larger increases in direct costs, resulting in a smaller increase in operating income and a reduction in the operating margin.

Interest expense. For the nine months ended September 30, 2018 and 2017, interest expense was \$6.1 million and \$6.7 million resulting in a decrease of 0.6 million or 8.9%. The lower interest expense for the nine months ended September 30, 2018 was due to lower average debt balances for the nine-month period ended September 30, 2018 compared to the nine months ended September 30, 2017 and the activity from our hedging instruments, which was only partially offset by an increase in the weighted-average interest rate.

Other (expense) income. Other expense was \$0.6 million for the nine months ended September 30, 2018. The nine months ended September 30, 2017 has a nominal amount of other income.

Provision for Income Taxes. For the nine months ended September 30, 2018, income tax expense was \$13.5 million compared to \$19.8 million for the nine months ended September 30, 2017, a decrease of \$6.3 million, and the effective income tax rate for the nine months ended September 30, 2018 and 2017 was 24.0% and 35.6%, respectively. The decrease in income tax expense and the effective tax rate was primarily due to the decrease in the federal income tax rate from 35% to 21% pursuant to the enactment of the Tax Act in December 2017, a decrease in tax expense of \$0.8 million resulting from the exercise of stock options providing an additional windfall tax benefit from equity-based compensation and a decrease in tax expense of \$0.7 million due to the reversal of an uncertain tax position due to the expiration of the statute of limitations in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

NON-GAAP MEASURES

Service Revenue

Service revenue represents revenue less subcontractor and other direct costs such as third-party materials and travel expenses. 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. 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.

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

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017

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

Revenue	\$332,968	\$305,301	\$960,063	\$907,988
Subcontractor and other direct costs	(101,708)	(83,534)	(273,920)	(241,514)
Service revenue	\$231,260	\$221,767	\$686,143	\$666,474

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 decrease in EBITDA and Adjusted EBITDA for the nine months ended September 30, 2018 over the prior period is due to additional marketing costs, investment in our internal processes and, in terms of Adjusted EBITDA, increased acquisition activity in the current year which were, in terms of Adjusted EBITDA, only partially offset by higher special charges for facility consolidation and office closures during the prior year.

The following table presents a reconciliation of net income to EBITDA and Adjusted EBITDA for the periods indicated:

(in thousands)	Three Months		Nine Months Ended	
	Ended September 30, 2018	2017	September 30, 2018	2017
Net income	\$16,671	\$13,692	\$42,705	\$35,806
Other expense (income)	351	311	565	(24)
Interest expense	2,240	2,175	6,073	6,663
Provision for income taxes	4,960	7,218	13,486	19,792
Depreciation and amortization	6,726	7,355	19,754	21,656
EBITDA	30,948	30,751	82,583	83,893
Special charges related to acquisition expenses ⁽¹⁾	507	—	613	—
Special charges related to severance for staff realignment ⁽²⁾	340	264	995	841
Special charges related to facility consolidations and office closures ⁽³⁾	115	2	115	1,721
Total special charges	962	266	1,723	2,562
Adjusted EBITDA	\$31,910	\$31,017	\$84,306	\$86,455

(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.

(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.

(3) Special charges related to facility consolidation and office closures: These costs are exit costs associated with terminated leases or full office closures. These exit costs include charges incurred under a contractual obligation that existed as of the date of the accrual and for which we will continue to pay until the contractual obligation is satisfied but with no economic benefit to us.

Non-GAAP Earnings per Share

Non-GAAP 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 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 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 EPS are reasonable and appropriate to provide additional information to investors.

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

	Three Months		Nine Months Ended	
	Ended September 30, 2018	2017	2018	2017
Diluted EPS	\$0.86	\$0.72	\$ 2.22	\$ 1.86
Special charges related to acquisition expenses	0.03	—	0.03	—
Special charges related to severance for staff realignment	0.02	0.01	0.05	0.04
Special charges related to facility consolidations and office closures	0.01	0.01	0.01	0.11
Amortization of intangibles	0.13	0.14	0.37	0.43
Income tax effects ⁽¹⁾	(0.04)	(0.05)	(0.11)	(0.20)
Non-GAAP EPS	\$1.01	\$0.83	\$ 2.57	\$ 2.24

(1) Income tax effects were calculated using an effective U.S. GAAP tax rate of 22.9% and 34.5%, and 24.0% and 35.6% for the three and nine months ended September 30, 2018 and 2017, 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 September 30, 2018 compared to the balance sheet as of December 31, 2017. Cash and cash equivalents decreased \$6.0 million on September 30, 2018, from \$11.8 million on December 31, 2017, which is further discussed in “Cash Flow” below. Contract receivables, net, increased \$25.9 million compared to December 31, 2017 primarily due to revenue growth. Our net contract assets (liabilities) increased by \$32.0 million due to the increase in unbilled receivables due primarily to disaster recovery contracts and a decrease in deferred revenue due to milestone billing timing. Days-sales-outstanding increased from 71 days for the quarter ended December 31, 2017, compared to 84 days for the quarter ended September 30, 2018, primarily due to temporary timing differences in client collections. Accounts payable decreased \$5.9 million and net accrued subcontractors and other direct costs and accrued expenses and other current liabilities increased \$17.8 million due to timing of payments, partially offset by accrued expenses related to acquisition related working capital adjustments and contingent consideration.

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

Goodwill and intangible assets increased due to recent acquisitions. The Company recognized fair value of the assets and liabilities assumed and allocated \$17.9 million to goodwill and \$5.1 million to intangible assets and \$1.2 million to estimated fair value of contingent consideration to be paid to the former owners on the achievement of certain objectives. The intangible assets primarily consist of customer relationships and are amortized on an accelerated basis based on forecasted customer cash payments. The Company determined the fair value of the contingent consideration as of the acquisition date using a valuation model which included the most likely outcome and the application of an appropriate discount rate. At the end of each reporting period, the fair value of the contingent consideration will be remeasured and any changes will be recorded as an adjustment to current operations. There was no material re-measurement recorded through September 30, 2018.

Long-term debt increased to \$232.5 million on September 30, 2018 from \$206.3 million on December 31, 2017, primarily due to net cash received from our Credit Facility of \$26.3 million, which was used to meet operating cash flow requirements and fund acquisitions. See “Cash Flow” below. We generally utilize cash flow from operations as our prime 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 meet funding requirements of acquisitions.

Accumulated other comprehensive loss within stockholders' equity declined in the nine months ended September 30, 2018 primarily due to the impact of changes in foreign currency as a result of our cumulative translation adjustment which was offset by the activity of the interest rate hedging instruments and the revaluation of balances at the enacted tax rate as a result of the Tax Act. The British Pound and the Euro both experienced increases relative to the U.S. dollar which resulted in the change in the cumulative translation adjustment. 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.

On August 8, 2018, the Company entered into two additional floating-to-fixed interest rate swap agreements (the “Swaps”) for an aggregate notional amount of \$75.0 million in order to hedge a portion of the Company’s floating rate Credit Facility. The Company has designated the Swaps as cash flow hedges. Similar to the previous swap agreement that the Company entered into, these Swaps are intended to mitigate the risk of rising interest rates by providing a fixed rate of 2.8530% per annum on the notional amount, plus the applicable margin pursuant to the Credit Facility. On a quarterly basis, management records the change in fair value of the Swaps as other comprehensive income or loss. The cash flows from the Swaps began August 31, 2018 and end on August 31, 2023, and the realized gains and losses in connection with each required interest payment will be reclassified from AOCI to interest expense during the period of the cash flows.

Share Repurchase Program. In September 2017 our board of directors approved a share repurchase program that authorizes us to make share repurchases in the aggregate up to \$100.0 million. Our total repurchases are also limited by the Credit Facility as described in “Note 14—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 nine months ended September 30, 2018, we repurchased 138,537 shares under this program at an average price of \$62.30 per share. As of September 30, 2018, \$91.4 million remained available for share repurchases.

Dividends. Cash dividends declared thus far in 2018 are as follows:

Dividend Declaration Date	Dividend		
	Per Share	Record Date	Payment Date
February 27, 2018	\$ 0.14	March 30, 2018	April 16, 2018
May 2, 2018	\$ 0.14	June 8, 2018	July 16, 2018
August 2, 2018	\$ 0.14	September 7, 2018	October 16, 2018
November 1, 2018	\$ 0.14	December 7, 2018	January 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 nine months ended September 30, 2018 and 2017:

(in thousands)	Nine Months Ended	
	September 30, 2018	2017
Net Cash Provided by Operating Activities	\$10,353	\$70,284
Net Cash Used in Investing Activities	(38,440)	(8,567)
Net Cash Provided by (Used in) Financing Activities	11,164	(62,506)
Effect of Exchange Rate Changes on Cash, Cash Equivalents, and Restricted Cash	(253)	640
Decrease in Cash, Cash Equivalents, and Restricted Cash	\$(17,176)	\$(149)

The primary factors affecting our operating cash flow are the overall profitability of our contracts, our ability, based on contractually-stipulated billing terms, to invoice and collect from our clients in a timely manner, and our ability to manage vendor payments terms. Operating activities provided \$10.4 million in cash for the nine months ended September 30, 2018 compared to cash provided by operating activities of \$70.3 million for the nine months ended September 30, 2017. The decrease in cash flows provided by operations for the nine months ended September 30, 2018 compared to the prior year was the result of favorable timing of collections of pass-through invoices during the prior year and the subsequent subcontractor payments in the current year as well as fewer contract prepayments, particularly related to international contracts, due to billing schedule timing. Additionally, the timing of payment of prepaid expenses impacted operating cash flows during the current year.

Investing activities used cash of \$38.4 million for the nine months ended September 30, 2018, compared to \$8.6 million for the nine months ended September 30, 2017. The cash used in investing activities for the nine months ended September 30, 2018 included acquisitions of \$22.8 million and \$15.6 million for capital expenditures. The cash used in investing activities for the nine months ended September 30, 2017 was primarily for capital expenditures.

For the nine months ended September 30, 2018, cash flows provided by financing activities of \$11.2 million was largely attributable to cash provided by net advances on our Credit Facility of \$26.3 million and cash received in the exercise of options of \$5.8 million offset by cash used for net payments for stockholder issuances and buybacks of \$12.4 million, primarily representing shares repurchased under our share repurchase program, \$3.2 million of payments on capital expenditure obligations, and cash dividends of \$5.3 million. For the nine months ended September 30, 2017, cash flows used in financing activities of \$62.5 million was largely attributable to cash used for payments for stock issuances and buybacks of \$32.9 million and net advances on our Credit Facility of \$29.3 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 revenue standard (Topic 606), we implemented controls to ensure adequate evaluation of contracts and assessment of the impact of the new accounting standard related to revenue recognition on our financial statements to facilitate its adoption on January 1, 2018. 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

Issuances of Common Stock. For the three months ended September 30, 2018, a total of 1,933 shares of unregistered common stock, valued at an aggregate of \$139,853, were issued to seven of our directors for director-related compensation. The issuance of these shares is exempt from registration under Section 4(2) of the Securities Act of 1933, as amended.

Purchase of Equity Securities by Issuer. The following table summarizes our share repurchase activity for three months ended September 30, 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (2)
July 1 - July 31	20,371	\$ 73.36	20,371	\$93,501,276
August 1 - August 31	16,316	\$ 76.77	14,214	\$92,410,669
September 1 - September 30	13,700	\$ 76.02	13,700	\$91,369,186
Total	50,387	\$ 75.19	48,285	

(1) The total number of shares purchased of 50,387 includes shares repurchased pursuant to our share repurchase program described further in footnote (2) 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. During the three months ended September 30, 2018, we

repurchased 2,102 shares of common stock from employees in satisfaction of tax withholding obligations at an average price of \$77.05 per share.

- (2) 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. As part of the Company's modification of the Credit Facility, the limits on share repurchases were eliminated except that our Leverage Ratio, prior to and after giving effect to any repurchase, must not be greater than 3.25 to 1.00. During the three months ended September 30, 2018, we repurchased 48,285 shares under the stock repurchase plan at an average price of \$75.10 per share.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

32

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 September 30, 2018 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.

November 2, 2018 By: /s/ Sudhakar Kesavan
Sudhakar Kesavan
Chairman and Chief Executive Officer
(Principal Executive Officer)

November 2, 2018 By: /s/ James Morgan
James Morgan
Executive Vice President and Chief Financial Officer

(Principal Financial Officer)