# 2011 ANNUAL REPORT

## Message from the Chairman and Chief Executive Officer

ICF continued its strong performance in 2011, while laying the groundwork to accelerate future growth in the commercial and global marketplaces. Despite an overall flattening of U.S. federal agency budgets, ICF's total revenue for 2011 increased by 10 percent over 2010, led by strong growth in key U.S. markets: energy, environment, and transportation in the government and commercial sectors, and health, education, and social programs in the government sector.

Excellence in these domains has fueled ICF's rapid growth over the past five years; and the recent acquisitions of Ironworks Consulting, L.L.C. on December 31, 2011, and GHK Holdings Limited in February 2012, should create powerful, additional growth drivers in these domains over the next five years. Specifically, these acquisitions open up three new directions for growth by:

- Adding high-demand, digital interactive capabilities to our implementation service offerings.
- Expanding our health services into the commercial sector.
- Providing a larger platform for selling all of our services to the global marketplace.

Our accomplishments over the past year put us in an excellent position to continue to grow despite the current challenges in the U.S. and global economies. The key issues that ICF tackles in energy, health, and related fields will continue to demand the attention of governments and industries across the globe for many years to come. In this environment, we are maintaining our focus on the core strengths that built our reputation as leaders in our markets, while bringing an enhanced set of integrated service offerings to a wider range of clients.

### Growth in our Key Markets

In 2011, ICF's work in the U.S. federal, state, and local government sectors stayed strong, while its commercial business grew rapidly. Strategically, we focused our efforts on the high-growth opportunity areas of energy and infrastructure and health and well-being; and these efforts paid dividends in the form of a plethora of new and exciting projects.

*Energy, Environment, and Transportation*

We leveraged our advisory work into implementation and full project life-cycle solutions to drive growth of more than 68 percent in our U.S. commercial energy business. Our portfolio includes a robust energy efficiency business, which expanded our footprint in both consumer and industrial segments and included initiatives with major utilities in 26 U.S. states. Our growth was also fueled by our work in renewable energy and energy transmission as exemplified by Southern California Edison's Tehachapi Renewable Transmission Project. As a representative engagement requiring rapid mobilization of resources, we performed projects including biological surveys, habitat restoration, and construction monitoring associated with a 175-mile transmission line project in the western United States.

We also significantly expanded our commercial business due to the growing demand for services to ensure energy reliability in the commercial sector. Our performance in this high-growth area should continue to open doors to additional work in energy reliability, critical infrastructure, and cybersecurity.

We also won long-term work in the U.S. government market. A key win at the U.S. Department of Energy's Office of Electricity Delivery and Energy Reliability strengthened our strategic position as a trusted advisor in the energy sector.

*Health, Education, and Social Programs*

We differentiated ourselves from the competition in the rapidly changing health and health information technology market by offering combined expertise in health research and evaluation, health informatics, disease surveillance, environmental health, public health, and health communications.

We significantly expanded our footprint in health with a focus on the Centers for Disease Control and Prevention (CDC). Our win of the CDC Information Management Services contract ($4 billion ceiling over 10 years) helped drive more than $200 million in new sales with the agency and enabled us to further cross-sell IT and domain expertise. Our multidisciplinary teams addressed some of the leading issues for our clients, including epidemics and pandemics, HIV/AIDS, and adult and childhood obesity.

We also used groundbreaking simulation technologies to enhance care for wounded service members, as well as training for military medical personnel. Overall, we continued to strengthen our position in the growing market segments of behavioral health, health surveillance, family support, and medical technology and simulation.

**New Capabilities**

Business growth and new acquisitions enable ICF to significantly expand the capabilities it brings to clients and the marketplace in several new ways. First, we are much better positioned to grow in the commercial sector. The Ironworks acquisition adds a wealth of new clients in multiple sectors, including health and energy as well as the financial services and manufacturing and retail sectors. The combination of Ironworks' revenues and ICF's strong organic growth is expected to boost domestic commercial revenues to 22 percent in 2012—roughly double the level from five years ago.

Second, we are far better able to respond to the steadily rising demand for investment in infrastructure, energy, health, and social programs in Asia, the Middle East, and Brazil, as well as to play a much larger role in the mature markets in Europe. The GHK acquisition, completed in 2012, adds almost 200 staff in Europe and Asia, more than doubling ICF's presence there and providing the scale needed for more sustained growth. The acquisition of Marbek Resource Consultants Ltd., completed at the beginning of 2011, expanded our staff in Canada and our capability to provide global energy services. As a result, our traditional international business is expected to grow to 6 percent of our overall portfolio in 2012. When we add our recent growth in international development work in energy and health, driven by funding agencies such as the U.S. Agency for International Development, we expect this broader portfolio of business performed outside the United States to grow to a total of 12 percent.

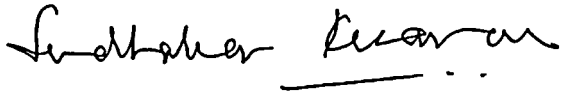
As mentioned earlier, Ironworks' digital interactive services nicely complement ICF's IT and strategic communications services to offer stronger implementation capabilities in core and new markets. Combined, these capabilities enhance our ability to engage the customers and stakeholders of our commercial and government clients and to offer them state-of-the-art services in the rapidly growing digital interactive market.

Finally, ICF opened a large, state-of-the-art operations center in Martinsville, Virginia, providing survey research, customer service, and rebate processing services. This center, which is expected to house more than 500 staff at full capacity, will enable ICF to provide lower cost, more efficient services to clients, while bringing new jobs to an area hard-hit by recession.

**Future Outlook**

Overall, ICF achieved substantial profitable growth in 2011, with revenues reaching $841 million. Our business development efforts continued to benefit from our ability to go to market as "One ICF"—combining domain expertise with functional capabilities. We ended the year with a robust pipeline of opportunities and a total backlog of $1.7 billion. As we enter 2012, where revenue is expected to reach $1 billion for the first time, we are well positioned to sustain our U.S. federal, state, and local government business, while growing dramatically in the commercial and international markets.

As market conditions shift and competitive dynamics intensify, ICF has demonstrated its commitment to profitable growth by not only adapting to clients' needs, but—perhaps more significantly—evolving the very company itself. As our strategy and value drivers evolve, however, our DNA will remain intact: creating client and public value by protecting and improving the quality of life.



**Sudhakar Kesavan**

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# Form 10-K

**(Mark One)**

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

**For the fiscal year ended December 31, 2011**

**Commission File Number: 001-33045**

# ICF INTERNATIONAL, INC.

**(Exact name of Registrant as specified in its charter)**

| **Delaware** | **22-3661438** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(IRS Employer Identification Number)** |
| **9300 Lee Highway Fairfax, VA** | **22031** |
| **(Address of principal executive offices)** | **(Zip Code)** |

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

**Securities Registered Pursuant to Section 12(b) of the Act:**

| **Title of Each Class** | **Name of Exchange on which Registered** |
|---|---|
| **Common Stock, $0.001 par value** | **The NASDAQ Stock Market LLC** |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately $487 million based upon the closing price per share of $25.38, as quoted on the NASDAQ Global Select Market on June 30, 2011. Shares of the outstanding common stock held by each executive officer and director have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 27, 2012, 19,800,267 shares of the Registrant's common stock, $0.001 par value, were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III incorporates information by reference from the definitive proxy statement for the Annual Meeting of Stockholders expected to be held in June 2012.

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## FORWARD-LOOKING STATEMENTS

Some of the statements in this Annual Report on Form 10-K constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will," "would," or similar words. You should read statements that contain these words carefully. The factors described in Item 1A of Part I of this Annual Report on Form 10-K captioned "Risk Factors," or otherwise described in our filings with the Securities and Exchange Commission ("SEC"), as well as any cautionary language in this Annual Report on Form 10-K, provide examples of risks, uncertainties, and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements, including, but not limited to:

- our dependence on contracts with federal, state, and local government agencies and departments for the majority of our revenue;
- changes in the economic and political climate that may affect spending patterns and priorities of our clients;
- failure by Congress or other governmental bodies to approve budgets in a timely fashion;
- results of government audits and investigations;
- failure to receive the full amount of our backlog;
- difficulties implementing our acquisition strategy;
- difficulties expanding our service offerings and client base; and
- liabilities arising from our major contract with the State of Louisiana, which was completed in 2009.

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 Annual Report on Form 10-K. 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 Annual Report on Form 10-K, refer to ICF International, Inc. and its consolidated subsidiaries, unless otherwise indicated. The term "federal government" refers to the United States (U.S.) government, unless otherwise indicated.

## PART I

### ITEM 1. BUSINESS

### COMPANY OVERVIEW

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

- Energy, Environment, and Transportation;
- Health, Education, and Social Programs; and
- Homeland Security and Defense.

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

- ***Advisory Services.*** We provide policy, regulatory, technology, and other advice to our clients to help them address and respond to the challenges they face. Our advisory services include needs and market assessments, policy analysis, strategy and concept development, organizational assessment and strategy, enterprise architecture, and program design.
- ***Implementation Services.*** We implement and manage technological, organizational, and management solutions for our clients, including information technology solutions, project and program management, project delivery, strategic communications, and training. These services often relate to the advisory services we provide.
- ***Evaluation and Improvement Services.*** We provide evaluation and improvement services that help our clients increase the effectiveness and transparency of their programs. Our evaluation and improvement services include program evaluations, continuous improvement initiatives, performance management, benchmarking, and return-on-investment analyses.

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

As of December 31, 2011, we had more than 4,000 employees, including many recognized as thought leaders in their respective fields. We serve clients globally from our headquarters in the metropolitan Washington, D.C. area, our more than 60 regional offices throughout the United States, and our international offices in Beijing, New Delhi, Singapore, Ottawa, Toronto, Brussels, London, Moscow, and Rio de Janeiro.

We generated revenue of $840.8 million, $764.7 million, and $674.4 million in 2011, 2010, and 2009, respectively. Our total backlog was approximately $1,662 million and $1,367 million as of December 31, 2011, and 2010, respectively. See “Contract Backlog” for a discussion of how we calculate backlog, as well as our financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

### OUR COMPANY INFORMATION

Our principal operating subsidiary was founded in 1969. ICF International, Inc. was formed as a Delaware limited liability company in 1999 under the name ICF Consulting Group Holdings, LLC in connection with the

purchase of our business from a larger services organization. A number of our current senior managers participated in this buyout transaction along with private equity investors. We converted to a Delaware corporation in 2003 and changed our name to ICF International, Inc. in 2006.

We completed our initial public offering ("IPO") in October 2006 and filed a shelf registration statement on Form S-3 in September 2009, pursuant to which we sold additional shares of our common stock to the public in December 2009. Since our IPO, we have completed a number of acquisitions and business combinations, including: Energy and Environmental Analysis, Inc. ("EEA") and Advanced Performance Consulting Group, Inc. ("APCG") in January 2007; Z-Tech Corporation ("Z-Tech") in June 2007; Simat, Helliesen & Eichner, Inc. ("SH&E") in December 2007; Jones & Stokes Associates, Inc. ("Jones & Stokes") in February 2008; Macro International Inc. ("Macro") in March 2009; Jacob & Sundstrom, Inc. ("JASI") in December 2009; Marbek Resource Consultants Ltd. ("Marbek") in January 2011; AeroStrategy L.L.C. ("AeroStrategy") in September 2011; and Ironworks Consulting L.L.C. ("Ironworks") in December 2011. Our more recent acquisitions are discussed further in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Acquisitions and Business Combinations."

Our principal executive office is located at 9300 Lee Highway, Fairfax, Virginia 22031, and our telephone number is (703) 934-3000.

We maintain an internet website at www.icfi.com. We make available our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and other information related to us, free of charge, on this site as soon as reasonably practicable after we electronically file those documents with, or otherwise furnish them to, the SEC. Our internet website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

**MARKET OPPORTUNITY, SERVICES, AND SOLUTIONS**

Complex, long-term market factors, as well as secular trends, are changing the way we live and the way government and industry operate and interact. Some of the most critical factors are centered firmly in our three major market areas. In the energy, environment, and transportation market, these factors include rising energy demand and increasing focus on alternative fuels and energy efficiency, energy independence, aging transportation infrastructure, and environmental degradation. In the health, education, and social programs market, these factors include the increasing level of healthcare expenditures relative to the economy, growing aging populations, increasing military and veteran health demands, continued focus on disease prevention, the perceived declining performance of the U.S. educational system compared to other countries, and the need for job creation. The continuing threat of terrorism, including cyber threats, and changing national security priorities are affecting the defense and homeland security markets, as well as infrastructure protection in the commercial sector. In addition to these market-based factors, secular trends across all of our markets are increasing the demand for advisory and implementation services that drive our business. These trends include: increased government focus on efficiency and measuring outcomes, the aging federal workforce, the emphasis on transparency and accountability, and an increased demand for combining domain knowledge of client mission and programs with information-technology solutions.

We believe that demand for our services will continue to grow as government, industry, and other stakeholders seek to understand and respond to these and other factors within the constraints of growing deficits that drive the need for government agencies at all levels to deliver more with fewer resources. We expect that our government clients will continue to utilize professional services firms with domain expertise in their program areas to assist with designing new programs, enhancing existing ones, and offering transformational solutions based on relevant evaluation and improvement experience. In addition, commercial organizations affected by these programs will need to understand such changes, as well as their implications, in order for them to plan appropriately. We believe that our institutional knowledge and our subject-matter expertise in our three key markets are distinct competitive advantages in providing our clients with practical, innovative solutions, directly

applicable to their mission or business, with a faster deployment of the right resources. Moreover, we believe we will be able to leverage the domain expertise and program knowledge we have developed through our advisory assignments and our experience on implementation projects to win larger engagements, thereby increasing returns on business development investment and enhancing employee utilization.

**Energy, Environment, and Transportation**

We have long been involved in advising on energy and environmental issues, including the impact of human activity on natural resources, and in helping develop solutions for infrastructure-related challenges. In addition to addressing government policy and regulation in these areas, our work focuses on industries that are affected by these policies and regulations, particularly the industries most heavily involved in the use and delivery of energy. Significant factors affecting suppliers, users, and regulators of energy are driving private and public sector demand for professional services firms, including:

- Changing power markets, sources of supply, and an increased demand for alternative fuels;
- Ongoing efforts to upgrade the energy infrastructure to meet new power, transmission, environmental, and cybersecurity requirements;
- The need to manage energy demand and increase efficient energy use in an era of supply constraints and environmental concerns; and
- The impacts of addressing carbon and other emissions.

We assist energy enterprises and energy consumers worldwide in their efforts to analyze, develop, and implement strategies related to their business operations and the interrelationships of those operations with the environment and applicable government regulations. We utilize our policy expertise, deep industry knowledge, and proprietary modeling tools to advise government and industry clients on key topics related to electric power, traditional fuels, and renewable sources of energy. Our areas of expertise include power market analysis and modeling, transmissions analysis, electric system reliability standards, energy asset valuation and due diligence, regulatory and litigation support, fuels market analysis, air regulatory strategy, and renewable energy and green power. We also support government and commercial clients in designing, implementing, and evaluating demand-side energy management strategies in a wide range of areas, including energy efficiency and peak load management. Our work includes numerous engagements supporting the ENERGY STAR[SM] suite of programs at the federal and state levels.

Although global climate change is no longer part of the U.S. federal legislative agenda, carbon emissions is still an important focus of governments (including many states within the U.S.) and multinational corporations around the world. Reducing or offsetting greenhouse gas ("GHG") emissions continues to be the subject of both public and private sector interest, and the regulatory landscape in this area is still evolving. The need to address carbon and other harmful emissions has significantly changed the way the world's governments and industries interact and continues to be one of the drivers of the interest in energy efficiency.

We have decades of experience in designing, evaluating, and implementing environmental policies and transportation infrastructure projects and believe that a number of key issues are driving increased demand for the services we provide in these areas, including:

- Increased focus on the proper stewardship and regulation of natural resources;
- Historic under-investment in transportation infrastructure; and
- Changing patterns of economic development that require transportation systems to adapt to new patterns of demand.

By leveraging our interdisciplinary skills, which range from finance and economics to earth and life sciences, and information technology and program management, we are able to provide a wide range of services

that includes complex environmental impact assessments, environmental management information systems, air quality assessments, program evaluation, transportation planning, and regulatory reinvention. Our experience in environmental policy and planning allows us to help clients deal specifically with the inter-related environmental, business, and social implications of transportation modes and infrastructure. From the environmental management of complex infrastructure engagements to strategic and operational concerns of airlines and airports, our solutions draw upon our expertise and institutional knowledge in transportation planning, urban and land use planning, industry management practices, financial analysis, environmental sciences, and economics.

**Health, Education, and Social Programs**

Our advisory, implementation, and improvement expertise is also applied to social resources in areas such as health, education, and social programs. We believe that a confluence of factors is expected to drive an increased need for public spending in the United States on health, human services, and social programs. These factors include, among others:

- An aging population;
- Attempts to expand healthcare services to under-served segments of the population;
- Rising healthcare expenditures, requiring the evaluation of the effectiveness and efficiency of current and new programs;
- Growing awareness of the threats from the global spread of disease;
- The emphasis on improving the effectiveness of the educational system;
- The need to address the foreclosure crisis and its effects on homeowners and communities;
- The need for greater transparency and accountability of public sector programs;
- Increasing focus on cybersecurity requirements;
- Military personnel returning home from active duty with health and social service needs; and
- The need to address the potential health and social consequences of threats from terrorism, natural disasters, and epidemics.

We believe we are well positioned to provide research, consulting, implementation, and improvement services to help our clients develop and manage effective programs in the areas of health, education, and social programs at the national, regional, and local levels. Our subject-matter expertise includes public health, mental health, international health and development, health communications, education, children and families, disaster recovery, housing and communities, military personnel recruitment and retention, and substance abuse. Our combination of health-domain knowledge and our experience in information technology applications provides us with strong capabilities in health informatics, which we believe will be of increasing importance as the need to manage health and biomedical information grows. We partner with our clients in the government, commercial, and non-profit sectors to increase their knowledge base, support program development, enhance program operations, evaluate program results, and improve program effectiveness.

In the area of health, we support many programs within the Department of Health and Human Services ("HHS"), including the National Institutes of Health ("NIH") and the Centers for Disease Control, conducting primary data collection and analyses, assisting in designing, delivering, and evaluating programs, managing technical assistance centers, providing instructional systems, developing information technology applications, and managing information clearinghouse operations. In the area of human services, we provide training and technical assistance for early care and educational programs (such as Head Start), services for victims of crime at the Department of Justice ("DOJ"), and health and demographic surveys in developing countries for the Department of State ("DOS"). In the area of social programs, we provide extensive training, technical assistance, and program analysis and support services for a number of the housing and rural and community development

programs of the Department of Housing and Urban Development ("HUD") and the U.S. Department of Agriculture ("USDA"). In the area of education, we provide research, program design, evaluation, and training at the federal and state level.

**Homeland Security and Defense**

Homeland security programs continue to be a critical priority at the federal level, as well as the state and local levels. We believe that the following key homeland security trends, in both the government and commercial sectors, will continue to drive an increased need for our services in this area:

- Vulnerability of critical infrastructure to cyber and terrorist threats;
- Broadened homeland security concerns to include areas such as health, food, energy, water, and transportation;
- Reassessment of the emergency management functions of homeland security in the face of natural disasters;
- Increased dependence on private sector personnel and organizations in emergency response; and
- The need to ensure that critical functions and sectors are able to recover quickly after attacks.

In addition, the Department of Defense ("DoD") is undergoing major transformations in its approach to strategies, processes, organizational structures, and business practices due to several complex, long-term factors, including:

- The changing nature of global security threats, including cybersecurity threats;
- Family issues associated with globally deployed armed forces; and
- The increasing complexity of war-fighting strategies, the need for real-time information sharing and logistics modernization, network-centric warfare requirements, and the global nature of combat arenas.

We provide key services to the Department of Homeland Security ("DHS") and DoD. At DHS, we assist in shaping and managing critical programs to ensure the safety of communities, developing critical infrastructure protection plans and processes, establishing goals and capabilities for national preparedness at all levels of government in the United States, and managing the national program to test radiological emergency preparedness at the state and local levels in communities adjacent to nuclear power facilities. We also provide cybersecurity and emergency management services to the commercial sector, especially the utility industry. We support DoD by providing high-end strategic planning, analysis, and technology solutions in the areas of logistics management, operational support, command and control, and cybersecurity. We also provide the defense sector with environmental management, human capital assessment, military community research, and technology-enabled solutions. Finally, we pursue opportunities that reside at the intersection of homeland security and defense and believe that the interrelationships and strengthened ties among traditional defense requirements and homeland security, such as disaster preparedness and response and recovery, create significant demands for professional services.

**COMPETITIVE STRENGTHS**

We possess the following key business strengths:

**We have a highly educated professional staff with deep subject-matter knowledge**

We possess strong intellectual capital that provides us with a deep understanding of policies, processes, and programs across our major markets. Our thought leadership is based on years of training, experience, and education. Our clients are able to draw on the in-depth knowledge of our subject-matter experts and our experience developed over decades of providing advisory services. As of December 31, 2011, approximately

40% of our benefits-eligible staff held post-graduate degrees in diverse fields such as the social sciences, business and management, physical sciences, public policy, human capital, information technology and mathematics, engineering, planning, economics, life sciences, and law. These qualifications, and the complementary nature of our markets, enable us to deploy multi-disciplinary teams to identify, develop, and implement solutions that are creative, pragmatic, and tailored to our clients' specific needs.

We believe our diverse range of markets, services, and projects, provide a stimulating work environment for our employees and enhances their professional development. The use of multi-disciplinary teams provides our staff the opportunity to develop and refine common skills required in many types of engagements. Our approach to managing human resources fosters collaboration and significant cross-utilization of the skills and experience of both industry experts and other personnel who can develop creative solutions by drawing upon their different experiences. The types of services we provide, and the manner in which we do so, enable us to attract and retain talented professionals from a variety of backgrounds while maintaining a culture that fosters teamwork and excellence.

**We have strong long-standing relationships with clients across a diverse set of markets**

The long-term relationships we maintain with many of our clients reflect our successful track record of fulfilling our clients' needs. We have advised both the Environmental Protection Agency ("EPA") and HHS for more than 30 years, the Department of Energy ("DOE") for more than 25 years, and DoD for more than 20 years, and have multi-year relationships with many of our other clients. We have numerous contacts at various levels within our clients' organizations, ranging from key decision-makers to functional managers. The long-standing nature and breadth of our client relationships adds greatly to our institutional knowledge, which, in turn, helps us carry out our client engagements more effectively and maintain and expand such relationships. Our extensive experience and client contacts, together with our prime-contractor position on a substantial majority of our contracts and onsite presence, gives us clearer visibility into future opportunities and emerging requirements. In addition, as of December 31, 2011, approximately 380 of our employees held an active federal security clearance (with approximately 120 additional employees having a terminated clearance eligible for reinstatement), which affords us client access at appropriate levels and further strengthens our client relationships. We believe our balance between civilian and defense agencies, our commercial presence, and the diversity of the markets we serve help mitigate the impact of annual shifts in our clients' budgets and priorities.

**Our advisory role positions us to capture a full range of engagements**

We believe our advisory approach, which is based on our subject-matter expertise combined with an understanding of our clients' requirements and objectives, is a significant competitive differentiator that helps us gain access to key client decision-makers during the initial phases of a policy, program, project, or initiative. We use our expertise and understanding to formulate customized recommendations for our clients. We believe this domain expertise and the program knowledge developed from our advisory engagements further position us to provide implementation and evaluation services. Implementation and evaluation engagements, in turn, allow us to understand better our clients' requirements and objectives as they evolve over time. We then use this knowledge to provide evaluation and improvement services that maintain the relevance of our recommendations. As a result, we believe we are able to offer services across the entire life cycle of a particular policy, program, project, or initiative.

**Our technology solutions are driven by our deep subject-matter expertise**

Government and commercial decision-makers have become increasingly aware that, to be effective, technology solutions need to be seamlessly integrated with people and processes. We possess strong knowledge in information technology and a thorough understanding of human and organizational processes. This combination of skills, along with our domain knowledge, allows us to deliver technology-enabled solutions tailored to our clients' business and organizational needs and with less ramp-up time required to understand customer issues.

**Our proprietary analytics and methods allow us to deliver superior solutions to our clients**

We believe our innovative, and often proprietary, analytics and methods are key competitive differentiators because they enhance our ability to deliver customized solutions, and enable us to deliver services in a more cost-effective manner than our competitors. For example, we have developed industry-standard energy and environmental models that are used by governments and commercial entities around the world for energy planning and air quality analyses, and have also developed a suite of proprietary climate change tools to help the private sector develop strategies for complying with GHG emission reduction requirements. We maintain proprietary databases that we continually refine and that are available to be incorporated quickly into our analyses on client engagements. In addition, we also have proprietary program management methodologies and services that we believe can help governments improve performance measurement, support chief information officer and science and engineering program activities, and reduce security risks.

**We are led by an experienced management team**

Our management team, consisting of approximately 250 officers with the title of vice president or higher, possesses extensive industry experience and had an average tenure of 13 years with us as of December 31, 2011 (including prior service with companies we have acquired). This low turnover allows us to retain institutional knowledge. Our managers are experienced both in marketing efforts and in successfully managing and executing advisory, implementation, and evaluation assignments. Our management team also has experience in acquiring other businesses and integrating those operations within our own. A number of our managers are industry-recognized thought leaders. Based on these factors, we believe that our management's successful past performance and deep understanding of our clients' needs have been differentiating factors in competitive situations.

## STRATEGY

Our strategy to increase our revenue and stockholder value involves the following key elements:

**Leverage advisory work into implementation and full life-cycle solutions**

We plan to continue to leverage our advisory services and strong client relationships to increase our revenue from implementation support services. These services include: information services and technology solutions, project and program management, business process solutions, strategic communications, and technical assistance and training. Our advisory services provide us with insight and understanding of our clients' missions and goals. We believe the domain expertise and program knowledge we develop from these advisory assignments position us to capture a greater portion of larger implementation engagements. We will, however, need to undertake such expansion carefully to avoid actual, potential, and perceived conflicts of interest. See "Risk Factors—Risks Related to our Business—The diversity of the services we provide and the clients we serve may create actual, potential, and perceived conflicts of interest and conflicts of business that limit our growth and lead to liability for us."

**Pursue larger contract opportunities**

We believe that continuing to expand our client engagements into implementation, evaluation, and improvement services enables us to pursue larger prime contract opportunities, which should provide a greater return on our business development efforts and allow for enhanced employee utilization. We plan to continue to target larger and longer-term opportunities through greater emphasis on early identification of opportunities, strategic capture and positioning, and enhanced brand recognition. We believe that the resulting increase in the scale, scope, and duration of our contracts will help us continue our growth.

**Expand and deepen our presence in federal and state governmental agencies**

Given the growth in the scope of our service offerings, many of our current federal clients are not utilizing the full array of services that we offer, especially with regard to implementation. We will specifically target deeper penetration of those agencies that currently procure services only from one or two of our business areas. We believe we can leverage many of our long-term client relationships by introducing these existing clients, where appropriate, to our other services. For example, we plan to introduce many of our advisory clients to our capabilities to provide associated information technology, cybersecurity, large-scale program management, and strategic communications services. Given the increasing focus on deficit reduction and transparency, we can also offer clients our extensive performance measurement, program evaluation, and performance management services. Finally, having grown to more than 60 offices across the United States, we can focus more of our business development efforts on addressing the needs of federal agencies with operations outside of the metropolitan Washington, D.C. area.

**Expand our commercial business**

We see growth opportunities in our current commercial business in the utility and air transport industries, as well as significant potential for us to expand our business in other commercial sectors, both domestically and internationally. Although we believe the utility industry will continue to be a strong market for advisory services in light of the growing focus on regulatory actions and alternative fuels, we intend to leverage our existing relationships and institutional expertise to pursue and capture additional, typically higher-margin opportunities. First, we believe we can continue to expand beyond our advisory-based businesses and into implementation services such as assisting with implementing energy efficiency programs, informational technology applications, and environmental management services for the larger utilities. Second, the growth of interest in sustainability and energy efficiency issues has created opportunities to offer these types of services to new clients in sectors beyond our traditional clients. We expect other sectors, such as information service providers and hotel and tourist-related services, to continue to expand as these industries better understand their energy consumption options and the positive benefits of demonstrating environmental stewardship. Finally, the recent acquisition of Ironworks provides an opportunity to sell our information technology (“IT”), strategic communications, and customer engagement services to a broader range of commercial clients, especially in the fast-growing health care sector.

**Replicate our business model globally across government and industry**

We believe the services we provide to the energy, environment, and transportation markets have especially strong business drivers throughout the world. Europe’s growing need for cutting-edge climate change, energy and environmental solutions plays well to our domain expertise. Moreover, four of our offices outside of the United States are located in the BRIC countries (Brazil, Russia, India, and China), each of which represents a substantial market with rapidly growing demands for new sources of energy, a need for transportation infrastructure improvements, and severe air and carbon pollution issues. Asia, especially, is increasing its demand for clean energy and energy efficiency services. We believe our ability to offer energy, infrastructure, climate change, and environmental services to both commercial and government clients in these countries from local offices, typically staffed by native citizens, positions us to help clients address these key issues and therefore to expand our market presence. We are also positioned to grow our international development business across multiple regions.

**Focus on higher-margin projects**

We plan to pursue higher-margin commercial projects and to continue to shift our federal, state, and local government contract base to increase margins. We believe we have strong global client relationships in both the commercial energy and air transport markets, where our margins have historically been higher than those in our government business. We view the energy industry as a particularly attractive market for us over the next decade due to concerns over controlling energy costs and limiting climate and environmental impacts, increased state

and federal regulation, and the need for cleaner and more diverse sources of energy. We believe these factors, coupled with our expanding national and global footprint, will result in a greater number of engagements that will also be larger in size and scope.

**Pursue strategic acquisitions and business combinations**

We plan to augment our organic growth with selected acquisitions and business combinations. During the past few years, we have added a number of companies including: Ironworks, Marbek, and AeroStrategy in 2011, Macro and JASI in 2009; Jones & Stokes in 2008; and SH&E, Z-Tech, EEA, and APCG in 2007. Our more recent acquisitions are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Acquisitions and Business Combinations." We plan to continue a disciplined acquisition strategy to obtain new clients, increase our size and market presence, and obtain capabilities that complement our existing portfolio of services, while focusing on cultural compatibility and financial impact.

## CONTRACTS

Domestic government clients (including U.S. federal, state, and local governments), domestic commercial clients, and international clients (including government and commercial clients outside the United States) accounted for approximately 76%, 20%, and 4%, respectively, of our 2011 revenue, approximately 81%, 14%, and 5%, respectively, of our 2010 revenue, and approximately 79%, 16%, and 5%, respectively, of our 2009 revenue. Our clients span a broad range of defense and civilian agencies and commercial enterprises. Our contract periods typically extend from one month to five years, including option periods. Many of our government contracts provide for option periods that may be exercised by the client. Our largest contract in 2009, The Road Home contract with the State of Louisiana, completed in June 2009, accounted for approximately 9% of our revenue. In 2011, 2010, and 2009, no other single contract accounted for more than 4% of our revenue. Including The Road Home contract, our top 10 contracts in 2011, 2010, and 2009 collectively accounted for approximately 21%, 20%, and 21% of our revenue, respectively. Excluding The Road Home contract, our top 10 contracts in 2011, 2010, and 2009 collectively accounted for approximately 21%, 20%, and 12% of our revenue, respectively. In 2011, we received approximately 22%, 8%, and 6% of our revenue, respectively, from our three largest clients, HHS, DoD, and DOS. Most of our revenue is derived from prime contracts, which accounted for approximately 86%, 85% and 85% of our revenue for 2011, 2010, and 2009, respectively. Unless the context otherwise requires, we use the term "contracts" to refer to contracts and any task orders or delivery orders issued under a contract.

Our U.S. and international clients accounted for revenues of approximately $805.3 million and $35.5 million, respectively, in 2011, $728.1 million and $36.6 million, respectively, in 2010; and $639.8 million and $34.6 million, respectively, in 2009. Our U.S. clients include federal, state, and local governments and domestic commercial clients. Non-profit entities and universities are considered commercial clients. Entities such as the World Bank and the United Nations are considered international clients, while DOS and the U.S. Agency for International Development are considered U.S. government clients. In general, a client is considered international if it is located outside the United States. If we are a subcontractor, then the client is not considered to be the prime contractor but rather the ultimate client receiving the services from the prime contractor team. Our foreign operations pose special risks, as discussed below in "Risk Factors—Risks Related to Our Business—Our international operations pose special and unusual risks to our profitability and operating results."

## CONTRACT BACKLOG

We define *total backlog* as the future revenue we expect to receive from our contracts and other engagements. We generally include in our backlog the estimated revenue represented by contract options that have been priced, but not exercised. We do not include any estimate of revenue relating to potential future delivery orders that might be awarded under our General Services Administration Multiple Award Schedule ("GSA Schedule") contracts, other Indefinite Delivery/Indefinite Quantity ("IDIQ") contracts, or other contract vehicles that are also held by a large number of firms and under which potential future delivery orders or task

orders might be issued by any of a large number of different agencies or departments, and are likely to be subject to a competitive bidding process. We do, however, include potential future work expected to be awarded under IDIQ contracts that are available to be utilized by a limited number of potential clients and are held either by us alone or by a limited number of firms.

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

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

Although we expect our contract backlog to result in revenue, the timing of revenue associated with both funded and unfunded backlog will vary based on a number of factors, and we may not recognize revenue associated with a particular component of backlog when anticipated, or at all. Our government clients generally have the right to cancel any contract, or ongoing or planned work under any contract, at any time. In addition, there can be no assurance that revenue from funded or unfunded backlog will have similar profitability to previous work or will be profitable at all. Generally speaking, we believe the risk that a particular component of backlog will not result in future revenue is higher for unfunded backlog than for funded backlog. See “Risk Factors—Risks Related to Our Business—We may not receive revenue corresponding to the full amount of our backlog, or may receive it later than we expect, which could adversely affect our revenue and operating results.”

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

| | December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | | (In millions) | |
| Funded | $ 730.4 | $ 649.0 | $ 536.0 |
| Unfunded | 931.4 | 718.2 | 825.5 |
| Total | $1,661.8 | $1,367.2 | $1,361.5 |

Included in our total 2011 backlog is $64.4 million related to a signed federal government contract under protest. Management believes there is a strong probability that the contract award to us will be upheld.

**BUSINESS DEVELOPMENT**

Our business development efforts are critical to our organic growth. A firm-wide business development process, referred to as the Business Development Life Cycle (“BDLC”), is used to guide sales activities in a disciplined manner from lead identification, through lead qualification, to capture and proposal. An internally

developed tool is used to track all sales opportunities throughout the BDLC, as well as to manage our aggregate sales pipeline. The pursuits of major sales opportunities are each led by a capture manager and are reviewed by management during their life cycle to ensure alignment with our corporate strategy and effective use of resources.

Business development efforts in priority market areas, which include some of our largest federal agency accounts (HHS, DOE, DoD, DHS, and EPA) and our commercial business, are executed through account teams, each of which is headed by a corporate account executive and supported by dedicated corporate business development professionals and senior staff from the relevant operational area. Each account executive has significant authority and accountability to set priorities and bring to bear the correct resources. Each team participates in regular executive reviews. This account-based approach allows deep insight into the needs of our clients. It also helps us anticipate their evolving requirements over the coming 12 to 18 months and position ourselves to meet those requirements. Each of our operational areas is responsible for maximizing sales in our existing accounts and finding opportunities in closely related accounts. Their efforts are complemented by our corporate business development function, which is responsible for large and strategically important pursuits.

The corporate business development function also includes a market research and competitive intelligence group, a proposal group, a marketing group, a communications group, and a strategic capture unit. Our contracts and administration function leads our pricing decisions in partnership with the business development account teams and operational areas.

**COMPETITION**

We operate in a highly competitive and fragmented marketplace and compete against a number of firms in each of our key markets. Some of our principal competitors include: Abt Associates Inc.; Booz Allen Hamilton Holding; Cambridge Systematics, Inc.; CRA International, Inc.; Deloitte LLP; Eastern Research Group, Inc.; Cardno ENTRIX, Inc.; L-3 Communications Corporation; Lockheed Martin Corporation; Navigant Consulting, Inc.; Northrop Grumman Corporation; PA Consulting Group; SAIC, Inc.; Research Triangle Institute; SRA International, Inc.; and Westat, Inc. In addition, within each of our key markets, we have numerous smaller competitors, many of which have narrower service offerings and serve niche markets. Some of our competitors are significantly larger than us and have greater access to resources and stronger brand recognition than we do. See “Risk Factors—Risks Related to Our Business—We face intense competition from many firms that have greater resources than we do, as well as from smaller firms that have narrower service offerings and serve niche markets. This competition could result in price reductions, reduced profitability, and loss of market share.”

We consider the principal competitive factors in our market to be client relationships, reputation and past performance of the firm, client references, technical knowledge and industry expertise of employees, quality of services and solutions, scope of service offerings, and pricing.

**INTELLECTUAL PROPERTY**

We own a number of trademarks and copyrights that help maintain our business and competitive position. We do not have any patents. Sales and licenses of our intellectual property do not currently comprise a substantial portion of our revenue or profit. We rely on the technology and models, proprietary processes, and other intellectual property we own or have rights to use in our analyses and other work we perform for our clients. We use these innovative, and often proprietary, analytical models and tools throughout our service offerings. Our staff regularly maintains, updates, and improves these models based on our corporate experience. In addition, we sometimes retain limited rights in software applications we develop for clients. We use a variety of means to protect our intellectual property, but there can be no assurance that it will be adequately protected.

## EMPLOYEES

As of December 31, 2011, we had more than 4,000 benefits-eligible (full-time and regular part-time) employees, approximately 40% of whom held post-graduate degrees in diverse fields such as social sciences, business and management, physical sciences, public policy, human capital, information technology and mathematics, engineering, planning, economics, life sciences, and law, and approximately 78% of whom held a bachelor's degree or equivalent or higher. As of December 31, 2011, approximately 380 of our employees held an active federal security clearance, and approximately 120 additional employees held a terminated clearance eligible for reinstatement.

Our professional environment encourages advanced training to acquire industry-recognized certifications, rewards strong job performance with advancement opportunities, and fosters ethical and honest conduct. Our salary structure, incentive compensation, and benefit packages are competitive within our industry.

## ITEM 1A. RISK FACTORS

The following discussion of "risk factors" identifies the most significant factors that may adversely affect our business, operations, financial position or future financial performance. This information should be read in conjunction with Management's Discussion and Analysis and the consolidated financial statements and related notes incorporated by reference into this Annual Report on Form 10-K. These and other factors could cause future results to differ from those in forward-looking statements and from historical trends.

### RISKS RELATED TO OUR INDUSTRY

**We rely substantially on government clients for our revenue, and government spending priorities may change in a manner adverse to our business.**

We derived approximately 66%, 71%, and 60% of our revenue in 2011, 2010, and 2009, respectively, from contracts with federal agencies and departments, and approximately 10%, 10%, and 19% of our revenue from contracts with state and local governments in 2011, 2010, and 2009, respectively. Approximately 9% of our revenue in 2009 was from The Road Home contract with the State of Louisiana, as discussed in more detail below. Expenditures by our federal clients may be restricted or reduced by presidential or congressional action or by action of the Office of Management and Budget or otherwise limited. In addition, many states are not permitted to operate with budget deficits and nearly all states face considerable challenges in balancing budgets that anticipate reduced revenues. We expect some of our clients will delay some payments due to us, may eventually fail to pay what they owe us, and may delay some programs and projects. For some clients, we may face an unwelcome choice: turn down (or stop) work with the risk of damaging a valuable client relationship, or perform work with the risk of not getting paid in a timely fashion or perhaps at all. Federal, state, and local elections could also affect spending priorities and budgets at all levels of government. In addition, increased deficits and debt at all levels of government, both domestic and foreign, may lead to reduced spending in agencies, departments, projects, or programs we support. Even the perception that such reductions could occur could affect the value of our stock.

**The failure of Congress to approve budgets in a timely manner for the federal agencies and departments we support could delay and reduce spending, cause us to lose revenue and profit, and affect our cash flow.**

On an annual basis, Congress must approve budgets that govern spending by each of the federal agencies and departments we support. When Congress is unable to agree on budget priorities, and thus is unable to pass annual appropriations bills on a timely basis, which has happened frequently in recent years, it typically enacts a continuing resolution. Continuing resolutions generally allow federal agencies and departments to operate at spending levels based on the previous budget cycle. When agencies and departments must operate on the basis of a continuing resolution, funding we expect to receive from clients for work we are already performing and new initiatives may be delayed or cancelled. Thus, the failure by Congress to approve budgets in a timely manner can

result in the loss of revenue and profit in the event federal agencies and departments are required to cancel or change existing or new initiatives, or the deferral of revenue and profit to later periods due to delays in implementing existing or new initiatives. There is also the possibility, which has occurred in the past, that Congress will not enact either a budget or a continuing resolution in a timely manner. In such an event, many parts of the federal government, including agencies, departments, programs, and projects we support, may "shut down," which will immediately begin substantially negatively affecting our revenue, profit, and cash flow. The budgets of many of our state and local government clients are also subject to similar budget processes, and thus subject us to similar risks and uncertainties.

**Our failure to comply with complex laws, rules, and regulations relating to government contracts could cause us to lose business and subject us to a variety of penalties.**

We must comply with laws, rules, and regulations relating to the formation, administration, and performance of government contracts, which affect how we do business with our government clients and impose added costs on our business. Each government client has its own laws, rules, and regulations affecting its contracts. Among the more significant strictures affecting federal government contracts are:

- the Federal Acquisition Regulation, and agency and department regulations analogous or supplemental to it;
- the Truth in Negotiations Act;
- the Procurement Integrity Act;
- the Civil False Claims Act;
- the Cost Accounting Standards; and
- laws, rules and regulations restricting (i) the use and dissemination of information classified for national security purposes, (ii) the exportation of specified products, technologies, and technical data, and (iii) the use and dissemination of sensitive but unclassified data.

The federal government and other governments with which we do business may in the future change their procurement practices or adopt new contracting laws, rules, or regulations, that could be costly to satisfy or that could impair our ability to obtain new contracts and reduce our revenue and profit, for example, by curtailing the use of services firms or increasing the use of firms with a "preferred status," such as small business. Any failure to comply with applicable federal, state, or local strictures could subject us to civil and criminal penalties and administrative sanctions, including termination of contracts, repayment of amounts already received under contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with federal and even state and local government agencies and departments, any of which could adversely affect our reputation, our revenue, our operating results, and the value of our stock. Failure to abide by laws applicable to our work for governments outside the United States could have similar effects.

**Unfavorable government audit results could force us to adjust previously reported operating results, could affect future operating results, and could subject us to a variety of penalties and sanctions.**

Federal government agencies, including the Defense Contract Audit Agency and NIH, and many states, audit and review our contract performance, pricing practices, cost structure, financial responsibility, and compliance with applicable laws, regulations, and standards. Audits could raise issues that have significant adverse effects on our operating results, including, but not limited to, substantial adjustments to our previously reported operating results and substantial effects on future operating results. If a government audit, review, or investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, repayment of amounts already received under contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with federal and even state and local government agencies and departments. We may also lose business if we are found not to be sufficiently financially responsible. In addition, we could suffer serious harm to our reputation

and our stock price could decline if allegations of impropriety are made against us, whether or not true. Federal audits have been completed on our incurred contract costs only through 2006; audits for costs incurred on work performed since then have not yet been completed. In addition, non-audit reviews by the government may still be conducted on all our government contracts.

**Our U.S. government contracts contain provisions that are unfavorable to us and permit our government clients to terminate our contracts partially or completely at any time prior to completion.**

Our government contracts contain provisions not typically found in commercial contracts, including provisions that allow our clients to terminate or modify these contracts at the government's convenience upon short notice. If a government client terminates one of our contracts for convenience, we may only bill the client for work completed prior to the termination, plus any project commitments and settlement expenses the client agrees to pay, but not for any work not yet performed. In addition, many of our government contracts and task and delivery orders are incrementally funded as appropriated funds become available. The reduction or elimination of such funding can result in options not being exercised and further work on existing contracts and orders being curtailed. In any such event, we would have no right to seek lost fees or other damages. If a government client were to terminate, decline to exercise an option under, or curtail further performance under one or more of our significant contracts, our revenue and operating results would be materially harmed.

## RISKS RELATED TO OUR BUSINESS

**We depend on contracts with federal agencies and departments for a substantial portion of our revenue and profit, and our business, revenue, and profit levels could be materially and adversely affected if our relationships with these agencies and departments deteriorate.**

Contracts with U.S. federal agencies and departments accounted for approximately 66%, 71%, and 60%, of our revenue in 2011, 2010, and 2009, respectively. We believe that U.S. federal contracts will continue to be a significant source of our revenue and profit for the foreseeable future.

Because we have a large number of contracts with our clients, we continually bid for and execute new contracts, and our existing contracts continually become subject to re-competition and expiration. Upon the expiration of a contract, we typically seek a new contract or subcontractor role relating to that client to replace the revenue generated by the expired contract. There can be no assurance that those expiring contracts we are servicing will continue after their expiration, that the client will re-procure those requirements, that any such re-procurement will not be restricted in a way that would eliminate us from the competition (e.g., set aside for small business), or that we will be successful in any such re-procurements. If we are not able to replace the revenue from these contracts, either through follow-on contracts or new contracts for those requirements or for other requirements, our revenue and operating results will be materially harmed.

**Our reliance on GSA Schedule and other IDIQ contracts creates the risk of volatility in our revenue and profit levels.**

We believe that one of the key elements of our success is our position as a prime contractor under GSA Schedule contracts and other IDIQ contracts. As these types of contracts have increased in importance over the last several years, we believe our position as a prime contractor has become increasingly important to our ability to sell our services to federal clients. However, these contracts require us to compete for each delivery order and task order, rather than having a more predictable stream of activity and, therefore, revenue and profit, during the term of a contract. There can be no assurance that we will continue to obtain revenue from such contracts at these levels, or in any amount, in the future. To the extent that federal agencies and departments choose to employ GSA Schedule and other contracts encompassing activities for which we are not able to compete or provide services, we could lose business, which would negatively affect our revenue and profitability.

**Our commercial business depends on certain sectors of the global economy which are highly cyclical and can lead to substantial variations in revenue and profit from period to period.**

Historically, our commercial business has been heavily concentrated in the energy and air transport industries, which are highly cyclical. Demand for our services from energy and air transport industry clients has declined when either industry has experienced a downturn, and we expect a decline in demand for our services when either of these industries experiences a downturn in the future. Unrest in various countries around the world, particularly in the Middle East, could have a negative impact on these aspects of our commercial business. Other factors that could cause a downturn in the energy industry include, but are not limited to, a decline in general economic conditions, changes in political stability in oil producing regions, and government regulations affecting the energy sector. Other factors leading to a downturn in the air transport industry include, but are not limited to, a decline in general economic conditions, acts of terrorism or war, changes in the worldwide geopolitical climate, increases in the cost of energy, the financial condition of major airlines or airports, changes in weather patterns, and government regulations affecting the air transport industry.

With our acquisition of Ironworks Consulting, L.L.C. on December 31, 2011, our commercial clientele was expanded, particularly within the health, energy, and financial services industries. As is the case with energy and air transport, we would expect a decline in demand for our services in the health, energy, and financial services industries when any of these industries experiences a downturn in the future.

**We may not receive revenue corresponding to the full amount of our backlog, or may receive it later than we expect, which could adversely affect our revenue and operating results.**

The calculation of backlog is highly subjective and is subject to numerous uncertainties and estimates, and there can be no assurance that we will in fact receive the amounts we have included in our backlog. Our assessment of a contract's potential value is based on factors such as the amount of revenue we have recently recognized on that contract, our experience in utilizing contract capacity on similar types of contracts, and our professional judgment. In the case of contracts that may be renewed at the option of the client, we generally calculate backlog by assuming that the client will exercise all of its renewal options; however, the client may elect not to exercise its renewal options. In addition, federal contracts rely on congressional appropriation of funding, which is typically provided only partially at any point during the term of federal contracts, and all or some of the work to be performed under a contract may require future appropriations by Congress and the subsequent allocation of funding by the procuring agency or department to the contract. An increase in protests of contracts awarded to us, as is currently being experienced in our industry, could also adversely affect our backlog and our potential associated revenue. Our estimate of the portion of backlog that we expect to recognize as revenue in any future period is likely to be inaccurate because the receipt and timing of this revenue often depends on subsequent appropriation and allocation of funding and is subject to various contingencies, such as timing of task orders and delivery orders, many of which are beyond our control. In addition, we may never receive revenue from some of the engagements that are included in our backlog, and this risk is greater with respect to unfunded backlog. Although we adjust our backlog periodically to reflect modifications to or renewals of existing contracts, awards of new contracts, or approvals of expenditures, if we fail to realize revenue corresponding to our backlog, our revenue and operating results could be adversely affected.

**Because much of our work is performed under task orders, delivery orders, and short-term assignments, we are exposed to the risk of not having sufficient work for our staff, which can affect revenue and profit.**

We perform some of our work under short-term contracts. Even under many of our longer-term contracts, we perform much of our work under individual task orders and delivery orders, many of which are awarded on a competitive basis. If we cannot obtain new work in a timely fashion, whether through new contracts, task orders, or delivery orders, modifications to existing contracts, task orders, or delivery orders, or otherwise, we may not be able to keep our staff profitably utilized. It is difficult to predict when such new work or modifications will be obtained. There can be no assurance that we can profitably manage the utilization of our staff.

**Litigation, claims, disputes, audits, reviews, and investigations in connection with the completed Road Home contract expose us to many different types of liability, may divert management attention, and could increase our costs.**

In June 2006, our subsidiary, ICF Emergency Management Services, LLC, was awarded the Road Home contract by the State of Louisiana, Office of Community Development, to manage a program designed primarily to help homeowners and landlords of small rental properties affected by Hurricanes Rita and Katrina by providing them compensation for the uninsured, uncompensated damages they suffered from the hurricanes. The Road Home contract was our largest contract throughout its three-year duration. It was completed on June 11, 2009, as scheduled.

The Road Home contract provided us with significant opportunities, but also created substantial risks. A number of these risks continue beyond the term of the contract. We have a number of lawsuits pending and other claims have been made against us in connection with the Road Home contract. New lawsuits may be filed and new claims may be made against us including, but not limited to, claims by homeowners, rental housing owners, and others who are dissatisfied with the amount of money they have received from, or their treatment under, the Road Home program. Claims have also been made against us by subcontractors and a claim made by an agency of the State of Louisiana, and other claims may be made against us in the future in connection with the Road Home contract. We have defended such actions vigorously and plan to continue to do so, but we have not prevailed in every case and may not prevail in future cases. Although the contract provides that, with several exceptions, we are allowed to charge as an expense under the contract reasonable costs and fees incurred in defending and paying claims brought by third parties arising out of our performance, there can be no assurance that our costs and fees will be reimbursed. The State of Louisiana has not reimbursed us for the majority of such costs or fees and has not reimbursed any such costs or fees since 2008.

In addition, the Road Home contract has been, and we expect it to continue to be, audited, investigated, reviewed, and monitored frequently by federal and state authorities and their representatives. These activities consume significant management time and effort; further, the contract provides that we are subject to audits for more than five years after the expiration of the contract. Findings from any audit, investigation, review, monitoring, or similar activity could subject us to civil and criminal penalties and administrative sanctions from state or federal authorities, which could substantially adversely affect our reputation, our revenue, our operating results, and the value of our stock.

**We face intense competition from many firms that have greater resources than we do, as well as from smaller firms that have narrower service offerings and serve niche markets. This competition could result in price reductions, reduced profitability, and loss of market share.**

We operate in highly competitive markets and generally encounter intense competition to win contracts, task orders, and delivery orders. If we are unable to compete successfully for new business, our revenue and operating margins may decline. Many of our competitors are larger and have greater financial, technical, marketing, and public relations resources, larger client bases, and greater brand or name recognition than we do. We also have numerous smaller competitors, many of which have narrower service offerings and serve niche markets. Our competitors may be able to compete more effectively for contracts and offer lower prices to clients, causing us to lose contracts, as well as lowering our profit or even causing us to suffer losses on contracts that we do win. Some of our subcontractors are also competitors, and some of them may in the future secure positions as prime contractors, which could deprive us of work we might otherwise have won under such contracts. On contracts where we are a subcontractor, the prime contractors or our teaming partners may also deprive us of work we might otherwise have performed. Our competitors may be able to provide clients with different and greater capabilities and benefits than we can provide.

**We derive significant revenue and profit from contracts awarded through a competitive bidding process, which can impose substantial costs on us, and we will lose revenue and profit if we fail to compete effectively.**

We derive significant revenue and profit from contracts that are awarded through a competitive bidding process. Competitive bidding imposes substantial costs and presents a number of risks, including:

- the substantial cost and managerial time and effort that we spend to prepare bids and proposals;
- the need to estimate accurately the resources and costs that will be required to service any contracts we are awarded, sometimes in advance of the final determination of their full scope;
- the expense and delay that may arise if our competitors protest or challenge awards made to us pursuant to competitive bidding, a practice becoming more common in our industry, and the risk that such protests or challenges could result in the requirement to resubmit bids, and in the termination, reduction, or modification of the awarded contracts; and
- the opportunity cost of not bidding on and winning other contracts we might otherwise pursue.

To the extent we engage in competitive bidding and are unable to win particular contracts, we not only incur substantial costs in the bidding process that negatively affect our operating results, but we may lose the opportunity to operate in the market for the services provided under those contracts for a number of years. Even if we win a particular contract through competitive bidding, our profit margins may be depressed or we may even suffer losses as a result of the costs incurred through the bidding process and the need to lower our prices to overcome competition.

**We may lose money on some contracts if we underestimate the resources we need to perform under them.**

We provide services to clients primarily under three types of contracts: time-and-materials contracts; cost-based contracts; and fixed-price contracts. Each of these types of contracts, to differing degrees, involves the risk that we could underestimate our cost of fulfilling the contract, which may reduce the profit we earn or lead to a financial loss on the contract, which would adversely affect our operating results.

- Under time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and for certain expenses, and we assume the risk that our costs of performance may exceed the negotiated hourly rates.
- Under our cost-based contracts, which frequently cap many of the various types of costs we can charge and which impose overall and individual task order or delivery order ceilings, we are reimbursed for certain costs incurred, which must be allowable and at or below the caps under the terms of the contract and applicable regulations. If we incur unallowable costs in the performance of a contract, the client will not reimburse those costs, and if our allowable costs exceed any of the applicable caps or ceilings, we will not be able to recover those costs. Under some cost-based contracts, we receive no fees.
- Under fixed-price contracts, we perform specific tasks for a set price. Compared to cost-plus-fee contracts and time-and-materials contracts, fixed-price contracts involve greater financial risk because we bear the full impact of cost overruns.

Our clients typically determine which type of contract will be awarded to us. In the past, cost-based contracts have been the least profitable of our contract types, although the relative profitability of the three types of contracts may change in the future. To the extent that the relative profitability of these three types of contracts changes, our mix of contract types changes, our indirect rates change for any reason, or we acquire companies with a different mix of contract types or whose contract types have different levels of profitability than ours, our operating margin and operating results may suffer.

In order to determine the appropriate revenue to recognize on our contracts in each accounting period, we must use judgment relative to assessing risks, estimating contract revenue and costs, and making assumptions for

schedule and technical issues. From time to time, facts develop that require us to revise our estimated total costs and revenue on a contract, which could cause us to reduce the amount of revenue or profit previously recognized. In addition, the full amount of an anticipated loss on any type of contract is recognized in the period in which it becomes probable and can be reasonably estimated. As a result, our operating results could be affected by revisions to prior accounting estimates.

**Our international operations pose special and unusual risks to our profitability and operating results.**

We have offices in Beijing, New Delhi, Singapore, Ottawa, Toronto, Brussels, London, Moscow, and Rio de Janeiro, among others. We also perform work in other foreign countries, some of which have a history of political instability or may expose our employees and subcontractors to physical danger, and we expect to continue to expand our international operations and offices. One element of our strategy to improve our competitiveness is to perform some of our work in countries with lower cost structures, such as India. There can be no assurance that this strategy will be successful and it could create problems for our ability to compete for U.S. federal, state, or local government contracts to the extent that the clients prefer or mandate that the work be performed in the U.S. or by U.S. citizens. In addition, expansion into new geographic regions requires considerable management and financial resources, the expenditure of which may negatively impact our results, and we may never see any return on our investment. Our operations are subject to risks associated with operating in, and selling to and in, foreign countries, including, but not limited to:

- compliance with the laws, regulations, policies, legal standards, and enforcement mechanisms of the United States and the other countries in which we operate, which are sometimes inconsistent;
- currency fluctuations and devaluations and limitations on the conversion of foreign currencies into U.S. dollars;
- restrictions on the ability to repatriate profits to the United States or otherwise move funds;
- potential personal injury to personnel who may be exposed to military conflicts and other hostile situations in foreign countries;
- expropriation and nationalization of our assets or those of our subcontractors, and other inabilities to protect our property rights; and/or
- difficulties in managing and staffing foreign operations, dealing with differing local business cultures and practices, and collecting accounts receivable.

Any or all of these factors could, directly or indirectly, adversely affect our international and domestic operations and our overall revenue, profit, and operating results.

**As we develop new services, new clients and new practices, enter new lines of business, and focus more of our business on providing more implementation and improvement services rather than advisory services, our operating risks increase.**

We currently assist our clients both in advisory capacities and by helping them implement and improve the solutions to their problems. As part of our corporate strategy, we are attempting to sell more services relating to implementation and improvement, and we are regularly searching for ways to provide new services to clients. In addition, we plan to extend our services to new clients, into new lines of business, and into new geographic locations. As we focus more on implementation and improvement; attempt to develop new services, new clients, new practice areas and new lines of business; open new offices; and do business in new geographic locations, those efforts could harm our results of operations and could be unsuccessful.

Such growth efforts place substantial additional demands on our management and staff, as well as on our information, financial, administrative and operational systems. We may not be able to manage these demands successfully. Growth may require increased recruiting efforts, opening new offices, increased business development, selling, marketing and other actions that are expensive and entail increased risk. We may need to

**The diversity of the services we provide and the clients we serve may create actual, potential, and perceived conflicts of interest and conflicts of business that limit our growth and lead to liability for us.**

Because we provide services to a wide array of both government and commercial clients, occasions arise where, due to actual, potential, or perceived conflicts of interest or business conflicts, we cannot perform work for which we are qualified. A number of our contracts contain limitations on the work we can perform for others, such as, for example, when we are assisting a government agency or department in developing regulations or enforcement strategies. Actual, potential, and perceived conflicts limit the work we can do and, consequently, can limit our growth, adversely affect our operating results, and reduce the value of our Company. In addition, if we fail to address actual or potential conflicts properly or even if we simply fail to recognize a perceived conflict, we may be in violation of our existing contracts, may otherwise incur liability, and may lose future business for not preventing the conflict from arising, and our reputation may suffer.

**We depend on our intellectual property and our failure to protect it could harm our competitive position.**

Our success depends in part upon our internally developed technology and models, proprietary processes, and other intellectual property that we utilize to provide our services and incorporate in our products. If we fail to protect our intellectual property, our competitors could market services or products similar to our services and products, which could reduce demand for our offerings. Federal clients typically retain a perpetual, world-wide, royalty-free right to use the intellectual property we develop for them in a manner defined within the federal regulations, including providing it to other federal agencies or departments, as well as to our competitors in connection with their performance of federal contracts. When necessary, we seek authorization to use intellectual property developed for the federal government or to secure export authorization. Federal clients may grant us the right to commercialize software developed with federal funding, but they are not required to do so. If we were to use intellectual property improperly, that was even partially funded by the federal government, the government could seek damages and royalties from us, sanction us, and prevent us from working on future federal contracts. Actions could also be taken against us if we improperly use intellectual property belonging to others besides the federal government.

**We may be harmed by intellectual property infringement claims.**

We have been subject to and are likely to be subject to additional claims that intellectual property we use in delivering services and business solutions to our clients infringe upon intellectual property rights of others. Our employees develop much of the intellectual property that we use to provide our services and business solutions to our clients, but we also engage third parties to assist us and we license technology from other vendors. If our vendors, our employees or third parties assert claims that we or our clients are infringing on their intellectual property, we could incur substantial costs to defend those claims, even if we prevail. In addition, if any of these infringement claims are ultimately successful, we could be required to:

- pay substantial damages;
- cease selling and using products and services that incorporate the challenged intellectual property;
- obtain a license or additional licenses from our vendors or other third parties, which may not be available on commercially reasonable terms or at all; and
- redesign our products and services that rely on the challenged intellectual property, which may be very expensive or commercially impractical.

Any of these outcomes could further adversely affect our operating results.

**Systems and/or service failures could interrupt our operations, leading to reduced revenue and profit.**

Any interruption in our operations or any systems failures, including, but not limited to: (1) inability of our staff to perform their work in a timely fashion, whether caused by limited access to, and/or closure of, our and/or

our clients' offices or otherwise, (2) failure of network, software and/or hardware systems, and (3) other interruptions and failures, whether caused by us, a third-party service provider, unauthorized intruders and/or hackers, computer viruses, natural disasters, power shortages, terrorist attacks or otherwise, could cause loss of data and interruptions or delays in our business or that of our clients, or both. In addition, the failure or disruption of mail, communications and/or utilities could cause an interruption or suspension of our operations or otherwise harm our business. Our property and business interruption insurance may be inadequate to compensate us for all losses that may occur as a result of any system or operational failure or disruption and, as a result, our actual results could differ materially and adversely from those anticipated.

**Improper disclosure of confidential commercial and personal data could result in liability and harm our reputation.**

We store and process increasingly large amounts of confidential information concerning our employees, customers and vendors. In addition, we store confidential information on behalf of our customers (such as information regarding applicants in programs that we coordinate through our contractual relationships with customers). Although we take appropriate measures to protect such information, the continued occurrence of high-profile data breaches provides evidence of an external environment increasingly hostile to information security. This environment demands that we continuously improve our design and coordination of security controls throughout our Company. Despite these efforts, it is possible that our security controls over data, our training of employees and vendors on data security, and other practices we follow may not prevent the improper disclosure of personally identifiable or other confidential information. Improper disclosure of this information could harm our reputation, lead to legal exposure to customers, or subject us to liability under laws that protect personal or other confidential data, resulting in increased costs or loss of revenue.

## RISKS RELATED TO ACQUISITIONS

**Growing through acquisitions is a key element of our business strategy, and we are constantly reviewing acquisition opportunities. These activities may be costly and divert the attention of management from existing operations and initiatives.**

One of our principal growth strategies is to make selective acquisitions. We believe that pursuing acquisitions actively is necessary for a public company of our size in our business. As a result, at any given time, we may be evaluating several acquisition opportunities. Our normal practice is not to disclose potential acquisitions until definitive agreements are executed and, in some cases, material conditions precedent are satisfied. When we are able to identify an appropriate acquisition candidate, we may not be able to negotiate the price and other terms of the acquisition successfully or finance the acquisition on terms satisfactory to us. Our out-of-pocket expenses in identifying, researching, and negotiating potential acquisitions has been and will likely continue to be significant, even if we do not ultimately acquire identified businesses. In addition, negotiations of potential acquisitions and the integration of acquired business operations divert management attention away from day-to-day operations and may reduce staff utilization and adversely affect our revenue and operating results.

**When we undertake acquisitions, they may present integration challenges, fail to perform as expected, increase our liabilities, and/or reduce our earnings.**

When we complete acquisitions, it may be difficult and costly to integrate the acquired businesses due to differences in the locations of personnel and facilities, differences in corporate cultures, disparate business models, or other reasons. If we are unable to integrate companies we acquire successfully, our revenue and operating results could suffer. In addition, we may not be successful in achieving the anticipated cost efficiencies and synergies from these acquisitions, which could include offering our services to existing clients of acquired companies or offering the services of acquired companies to our existing clients to increase our revenue and profit. In addition, our costs for managerial, operational, financial, and administrative systems may increase and be higher than anticipated. We may also experience attrition, including key employees of acquired and existing

businesses, during and following integration of an acquired business into our Company. Any attrition or loss of business could adversely affect our future revenue and operating results and prevent us from achieving the anticipated benefits of the acquisition. Finally, acquisitions of businesses or other material operations may require additional debt or equity financing or both, resulting in additional leverage or dilution of ownership, or both.

**As a result of our acquisitions, we have substantial amounts of goodwill and intangible assets, and changes in business conditions could cause these assets to become impaired, requiring substantial write-downs that would adversely affect our operating results.**

All of our acquisitions have been accounted for as purchases and involved purchase prices well in excess of tangible asset values, resulting in the creation of a significant amount of goodwill and other intangible assets. As of December 31, 2011, goodwill and purchased intangibles accounted for approximately 58% and 5%, respectively, of our total assets. Under U.S. generally accepted accounting principles, we do not amortize goodwill and intangible assets acquired in a purchase business combination that are determined to have indefinite useful lives, but instead review them annually (or more frequently if impairment indicators arise) for impairment. Although we have to date determined that such assets have not been impaired, future events or changes in circumstances that result in an impairment of goodwill or other intangible assets would have a negative impact on our profitability and financial results.

## RISKS RELATED TO OUR CAPITAL STRUCTURE

**Provisions of our charter documents and Delaware law may inhibit potential acquisition bids and other actions that you and other stockholders may consider favorable, and the market price of our common stock may be lower as a result.**

Our charter documents contain the following provisions that could have an anti-takeover effect:

- divide our board of directors into three classes, making it more difficult for stockholders to change the composition of the board;
- allow directors to be removed only for cause;
- do not permit our stockholders to call a special meeting of the stockholders;
- require all stockholder actions to be taken by a vote of the stockholders at an annual or special meeting or by a written consent signed by all of our stockholders;
- require our stockholders to comply with advance notice procedures to nominate candidates for election to our board of directors or to place stockholders' proposals on the agenda for consideration at stockholder meetings; and
- require the approval of the holders of capital stock representing at least two-thirds of the Company's voting power to amend our indemnification obligations, director classifications, stockholder proposal requirements, and director candidate nomination requirements set forth in our amended and restated certificate of incorporation and amended and restated bylaws.

In addition, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which regulates corporate acquisitions. These provisions could discourage potential acquisition proposals; delay or prevent a change-in-control transaction; discourage others from making tender offers for our common stock; and/or prevent changes in our management.

**We have incurred substantial amounts of debt in the past and expect to incur additional debt, which could substantially reduce our profitability, limit our ability to pursue certain business opportunities, and reduce the value of our stock.**

As a result of our business activities and acquisitions, we have incurred substantial debt in the past, and we expect to incur significant additional debt in the future. Such debt could increase our risks, including those described in this Annual Report on Form 10-K, and lead to other risks. Our debt could have important consequences for our stockholders, such as:

- our future ability to obtain additional financing for working capital, capital expenditures, product and service development, acquisitions, general corporate purposes, and other purposes may be impaired;
- a substantial portion of our cash flow from operations could be dedicated to the payment of the principal and interest on our debt;
- our vulnerability to economic downturns and rises in interest rates will be increased;
- our flexibility in planning for and reacting to changes in our business and the marketplace may be limited;
- we may be placed at a competitive disadvantage relative to other firms;
- in order to comply with the terms of our financing agreements, we may take actions that are based on short-term rather than long-term results; and
- we may be unable to comply with the terms of our financing agreements, which could result in a default under these agreements.

Servicing our debt in the future may require a significant amount of cash. Our ability to repay or refinance our debt depends on, among other things, our successful financial and operating performance and the interest rates on our debt. Our financial and operating performance and the interest rates we pay in turn depend on a number of factors, many of which are beyond our control.

Our continued success depends in part on our ability to comply with the terms of our financing agreements and raise capital on commercially reasonable terms when, and in the amounts, needed. If additional financing is required, including refinancing existing debt, there can be no assurances that we will be able to obtain such additional financing on terms acceptable to us and at the times required, if at all. If we are unable to comply with the terms of our financing agreements or obtain additional required financing, we may be required to raise additional equity by issuing additional stock, alter our business plan materially, curtail all or part of our business expansion plans, sell part or all of our business or other assets, or be subject to actions such as bankruptcy or other financial restructuring in the event of default. Any of these results could have a significant adverse effect on the value of our stock.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

We lease our offices and do not own any real estate. As of December 31, 2011, we leased approximately 290,000 square feet of office space at our corporate headquarters at 9300 Lee Highway, Fairfax, Virginia (in the metropolitan Washington, D.C. area) and an adjoining building through December 2022 (the “Fairfax Offices”). The Fairfax Offices house a portion of our operations and almost all of our corporate functions, including executive management, treasury, accounting, legal, human resources, business and corporate development, facilities management, information services, and contracts.

As of December 31, 2011, we had leases in place for approximately 900,000 square feet of office space in more than 60 other office locations throughout the United States and around the world, with various lease terms expiring over the next 10 years. As of December 31, 2011, approximately 20,000 square feet of the space we leased was subleased to other parties. We believe that our current office space, together with the office space to be assumed over the next three years under the current Fairfax Offices lease and other office space we expect to be able to lease, will meet our needs for the next several years. Lastly, a portion of our operations staff is housed at client-provided facilities, pursuant to the terms of a number of our client contracts.

## ITEM 3. 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 4. REMOVED AND RESERVED

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

### Market Information

Our common stock trades on The NASDAQ Global Select Market under the symbol "ICFI." The high and low sales prices of our common stock for each quarter for the two years 2011 and 2010 are as follows:

| | Sales Price Per Share (in dollars) | |
|---|---|---|
| | High | Low |
| 2011 Fourth Quarter | $27.55 | $17.68 |
| 2011 Third Quarter | $25.97 | $18.29 |
| 2011 Second Quarter | $26.01 | $20.20 |
| 2011 First Quarter | $26.47 | $19.58 |
| 2010 Fourth Quarter | $28.13 | $23.39 |
| 2010 Third Quarter | $25.34 | $20.86 |
| 2010 Second Quarter | $25.98 | $20.90 |
| 2010 First Quarter | $27.23 | $22.02 |

### Holders

As of February 27, 2012, there were 54 registered holders of record of our common stock. This number is not representative of the number of beneficial holders because many of the shares are held by depositories, brokers, or nominees.

### Dividends

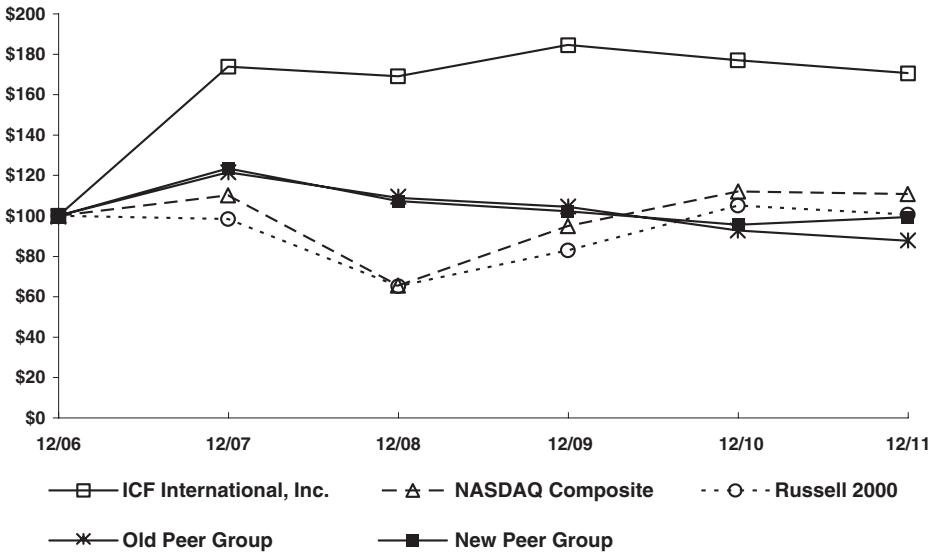
We have neither declared nor paid any cash dividends on our common stock and presently intend to retain our future earnings, if any, to fund the development and growth of our business. Therefore, we do not anticipate paying cash dividends in the foreseeable future.

**Stock Performance Graph**

The following graph compares the cumulative total stockholder return on our common stock from December 31, 2006 through December 31, 2011, with the cumulative total return on (i) the NASDAQ Composite, (ii) the Russell 2000 stock index, (iii) our previous peer group, which we used for our Annual Report on Form 10-K for the year 2010, composed of other governmental and commercial service providers: CACI International Inc.; CRA International, Inc.; Dynamics Research Corporation; FTI Consulting, Inc.; Huron Consulting Group Inc.; ManTech International Corporation; Maximus, Inc.; Navigant Consulting, Inc.; NCI, Inc.; and SAIC, Inc. (the "old peer group") and (iv) a new peer group composed of other governmental and commercial service providers: Booz Allen Hamilton Holding; CACI International Inc.; CRA International, Inc.; Dynamics Research Corporation; FTI Consulting, Inc.; Huron Consulting Group Inc.; ManTech International Corporation; Maximus, Inc.; Navigant Consulting, Inc.; and NCI, Inc. (the "new peer group"). In 2011, SRA International, Inc. was acquired, and has therefore been removed from the old peer group. We selected the new peer group, which includes Booz Allen Hamilton Holding and removes SAIC Inc., because it reflects the companies to which we believe we are the closest in comparability. The comparison below assumes that all dividends are reinvested and all returns are market-cap weighted. The historical information set forth below is not necessarily indicative of future performance.

**COMPARISON OF 5 YEARS CUMULATIVE TOTAL RETURN***

Among ICF International, Inc, the NASDAQ Composite Index, the Russell 2000 Index, Old Peer Group, and New peer Group




* $100 invested on 12/31/06 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

| | December 31, 2007 | December 31, 2008 | December 31, 2009 | December 31, 2010 | December 31, 2011 |
|---|---|---|---|---|---|
| ICF International, Inc. . . . | $173.97 | $169.21 | $184.57 | $177.13 | $170.66 |
| NASDAQ Composite . . . . | 110.26 | 65.65 | 95.19 | 112.10 | 110.81 |
| Russell 2000 Index . . . . . | 98.43 | 65.18 | 82.89 | 105.14 | 100.75 |
| Old Peer Group . . . . . | 121.61 | 109.11 | 104.69 | 92.86 | 87.85 |
| New Peer Group . . . . . | 123.51 | 107.48 | 102.44 | 95.80 | 99.53 |

**Recent Sales of Unregistered Securities**

During the three months ended December 31, 2011, we issued the following securities that were not registered under the Securities Act of 1933, as amended ("Securities Act"). No underwriters were involved in the following issuances of securities.

(a) Issuances of Common Stock:

On October 1, 2011, we issued an aggregate 1,474 shares of unregistered common stock to two of our directors in lieu of cash for director fee compensation, with an aggregate value of $27,726.

Each of these issuances was made in reliance upon the exemption from the registration provisions of the Securities Act, set forth in Section 4(2) thereof relative to sales by an issuer not involving any public offering and the rules and regulations thereunder. The recipients of securities in each case acquired the securities for investment only and not with a view to the distribution thereof. Each of the recipients of securities in these transactions was an accredited or sophisticated person and had adequate access, through employment, business, or other relationships, to information about us.

**Purchases of Equity Securities by Issuer**

During the three months ended December 31, 2011, we purchased 2,497 shares of common stock for an aggregate of $60,233 from employees to pay required withholding taxes and the exercise price due upon the exercise of options and the settlement of restricted stock units ("RSUs"), in accordance with the applicable long-term incentive plan. The average fair value of the common stock purchased was $24.12 per share.

The following table summarizes stock repurchases for the three months ended December 31, 2011:

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1 – October 31 | — | — | None | None |
| November 1 – November 30 | 2,497 | 24.12 | None | None |
| December 1 – December 31 | — | — | None | None |
| Total | 2,497 | $24.12 | None | None |

## ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected historical financial data derived from our audited financial statements, and other Company information for each of the five years presented. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited financial statements. The selected financial data reflect our performance of The Road Home contract from June 2006 through its completion in June 2009. At the client's request, our performance was accelerated during the first half of the contract term. For further information regarding The Road Home contract, see "Risk Factors—Risks Related to our Business—Litigation, claims, disputes, audits, reviews, and investigations in connection with the completed Road Home contract expose us to many different types of liability, may divert management attention, and could increase our costs." The selected financial data include non-cash compensation recognized related to stock options and awards. The data also reflect the results or impact of our acquisitions and business combinations, since the date the entities were purchased, of APCG and EEA in January 2007, Z-Tech in June 2007, SH&E in December 2007, Jones & Stokes in February 2008, Macro in March 2009, JASI in December 2009, Marbek in January 2011 and AeroStategy in September 2011. There was no impact to the Statement of Earnings in 2011 as a result of the Ironworks acquisition, because Ironworks was acquired on December 31, 2011.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| | (in thousands, except per share amounts) | | | | |
| **Statement of Earnings Data:** | | | | | |
| Gross Revenue | $840,775 | $764,734 | $674,399 | $697,426 | $727,120 |
| Direct costs | 520,522 | 476,187 | 411,334 | 460,002 | 532,153 |
| Operating costs and expenses: | | | | | |
| Indirect and selling expenses | 241,062 | 218,533 | 203,428 | 170,360 | 118,128 |
| Depreciation and amortization | 10,757 | 10,775 | 9,416 | 5,407 | 2,432 |
| Amortization of intangible assets | 9,550 | 12,326 | 11,137 | 8,683 | 3,884 |
| Operating Income | 58,884 | 46,913 | 39,084 | 52,974 | 70,523 |
| Interest expense | (2,248) | (3,403) | (5,107) | (4,082) | (1,944) |
| Other income | 124 | 172 | 1,005 | 581 | 519 |
| Income before income taxes | 56,760 | 43,682 | 34,982 | 49,473 | 69,098 |
| Income tax expense | 21,895 | 16,511 | 12,626 | 20,750 | 28,542 |
| Net income | $ 34,865 | $ 27,171 | $ 22,356 | $ 28,723 | $ 40,556 |
| Earnings per share: | | | | | |
| Basic | $ 1.77 | $ 1.40 | $ 1.45 | $ 1.96 | $ 2.87 |
| Diluted | $ 1.75 | $ 1.38 | $ 1.40 | $ 1.88 | $ 2.72 |
| Weighted-average shares: | | | | | |
| Basic | 19,684 | 19,375 | 15,433 | 14,641 | 14,152 |
| Diluted | 19,928 | 19,626 | 15,914 | 15,270 | 14,896 |

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| | | | (Unaudited) (in thousands) | | |
| **Other Operating Data:** | | | | | |
| EBITDA [1] | $ 79,191 | $ 70,014 | $ 59,637 | $ 67,064 | $ 76,839 |
| Non-cash compensation charge included in EBITDA | 6,658 | 7,533 | 7,192 | 6,473 | 3,680 |

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| **Consolidated balance sheet data:** | | | | | |
| Cash and cash equivalents | $ 4,097 | $ 3,301 | $ 2,353 | $ 1,536 | $ 2,733 |
| Net working capital | 96,257 | 77,688 | 88,364 | 63,925 | 37,470 |
| Total assets | 694,615 | 572,819 | 582,227 | 401,017 | 393,025 |
| Long-term debt | 145,000 | 85,000 | 145,000 | 80,000 | 47,079 |
| Total stockholders' equity | 393,028 | 352,733 | 317,560 | 202,917 | 164,791 |

[1] EBITDA, a measure used by us to evaluate performance, is earnings before interest, tax, and depreciation and amortization. We believe EBITDA is useful to investors because similar measures are frequently used by securities analysts, investors, and other interested parties in evaluating companies in our industry. EBITDA is not a recognized term under generally accepted accounting principles and does not purport to be an alternative to net income as a measure of operating performance, or to cash flows from operating activities as a measure of liquidity. Because not all companies use identical calculations, this presentation of EBITDA may not be comparable to other similarly titled measures used by other companies. EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments, capital expenditures, and debt service. Our credit agreement includes covenants based on EBITDA, subject to certain adjustments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources." A reconciliation of net income to EBITDA follows:

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| | | | (In thousands) | | |
| Net income | $34,865 | $27,171 | $22,356 | $28,723 | $40,556 |
| Other (income) | (124) | (172) | (1,005) | (581) | (519) |
| Interest expense | 2,248 | 3,403 | 5,107 | 4,082 | 1,944 |
| Income tax expense | 21,895 | 16,511 | 12,626 | 20,750 | 28,542 |
| Depreciation and amortization | 20,307 | 23,101 | 20,553 | 14,090 | 6,316 |
| EBITDA | $79,191 | $70,014 | $59,637 | $67,064 | $76,839 |

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with the "Selected Financial Data" and the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions, such as statements of our plans, objectives, expectations, and intentions. The cautionary statements made in this Annual Report on Form 10-K should be read as applying to all related forward-looking statements wherever they appear in this Annual Report on Form 10-K. Our actual results could differ materially from those anticipated in the forward-looking statements. Factors that could cause or contribute to our actual results differing materially from those anticipated include those discussed in "Risk Factors" and elsewhere in this Annual Report on Form 10-K.*

### OVERVIEW

We provide management, technology, and policy consulting and implementation services to government, commercial, and international clients. We help our clients conceive, develop, implement, and improve solutions that address complex economic, social, and national security issues. Our services primarily address three key markets: energy, environment, and transportation; health, education, and social programs; and homeland security and defense. We believe that demand for our services will continue to grow as government, industry, and other stakeholders seek to address critical long-term societal and natural resource issues in these market areas due to heightened concerns about clean energy and energy efficiency; health promotion, treatment, and cost control; and ever-present homeland security threats.

Our clients utilize our services because we combine diverse institutional knowledge and experience in their activities with the deep subject-matter expertise of our highly educated staff, which we deploy in multi-disciplinary teams. Our federal government clients have included every cabinet-level department, including HHS, DoD, DOS, EPA, DHS, USDA, HUD, Department of Transportation ("DOT"), Department of Interior ("DOI"), DOJ, DOE, National Science Foundation ("NSF"), and Department of Education ("ED"). U.S. federal government clients generated approximately 66%, 71%, and 60% of our revenue in 2011, 2010, and 2009, respectively. State and local government clients generated approximately 10%, 10%, and 19% of our revenue in 2011, 2010, and 2009, respectively. The Road Home contract with the State of Louisiana, which accounted for the majority of our state and local revenue for its three-year duration, ended as scheduled on June 11, 2009. We also serve domestic commercial and international clients, primarily in the air transportation and energy sectors, including airlines, airports, electric and gas utilities, oil companies, and law firms. Our domestic commercial and international clients, including government clients outside the United States, generated approximately 24%, 19%, and 21% of our revenue in 2011, 2010, and 2009, respectively. We have successfully worked with many of our clients for decades, with the result that we have a unique and knowledgeable perspective on their needs.

We report operating results and financial data as a single segment based on the information used by our chief operating decision-makers in evaluating the 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 to three markets to provide a better understanding of our business, we do not manage our business or allocate our resources based on those service offerings or markets.

### CRITICAL ACCOUNTING ESTIMATES

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

**Revenue Recognition**

[illegible]

[illegible]

[illegible]

**Goodwill and the amortization of intangible assets**

[illegible]

[illegible]

[illegible]

[illegible]

**New accounting standards**

New accounting standards are discussed in •Note B—*Summary of Significant Accounting Policies—Recent Accounting Pronouncements"* of our •Notes to Consolidated Financial StatementsŽ appearing in this Annual Report on Form 10-K.

**REVENUE**

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

- € Energy, environment, and transportation;
- € Health, education, and social programs; and
- € Homeland security and defense.

The following table shows the approximate percentage of our revenue from each of our three markets for the periods indicated. Although we changed the names of our key markets in 2010, the scope of each market is the same as 2009, and the revenue for 2009 for each market is therefore unchanged. For each client, we have attributed all revenue from that client to the market we consider to be the client•s primary market, even if a portion of that revenue relates to a different market.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Energy, environment, and transportation | 43% | 40% | 42% |
| Health, education, and social programs | 43% | 45% | 44% |
| Homeland security and defense | 14% | 15% | 14% |
| Total | 100% | 100% | 100% |

The increase in energy, environment, and transportation revenue in 2011 compared to 2010 was primarily attributable to revenue growth in domestic, energy-related clients.

Our primary clients are the agencies and departments of the U.S. federal government. The following table shows the approximate percentage of our revenue for each type of client for the periods indicated.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| U.S. federal government | 66% | 71% | 60% |
| U.S. state and local government | 10% | 10% | 19% |
| Domestic commercial | 20% | 14% | 16% |
| International | 4% | 5% | 5% |
| Total | 100% | 100% | 100% |

The increase in domestic commercial revenue in 2011 compared to 2010, and the decrease in U.S. federal government revenue for the same period, was primarily attributable to revenue growth in domestic, energy-related clients. The decrease in U.S. state and local government revenue in 2011 and 2010 compared to 2009 was primarily a result of a reduction in revenue resulting from the completion of The Road Home contract with the State of Louisiana in June 2009.

Most of our revenue is from contracts on which we are the prime contractor, which we believe provides us strong client relationships. In 2011, 2010, and 2009, approximately 86%, 85%, and 85%, of our revenue, respectively, was from prime contracts.

**Contract mix**

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

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Time-and-materials | 49% | 49% | 51% |
| Fixed-price | 28% | 28% | 29% |
| Cost-based | 23% | 23% | 20% |
| Total | 100% | 100% | 100% |

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

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

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

**DIRECT COSTS**

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

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

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

## OPERATING EXPENSES

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

### Indirect and selling expenses

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

### Stock Incentive Plans and non-cash compensation

On June 4, 2010, our stockholders ratified the ICF International, Inc. 2010 Omnibus Incentive Plan (the "Omnibus Plan"), which was adopted by us on March 8, 2010. The Omnibus Plan replaced the 2006 Long-Term Equity Incentive Plan (the "2006 Plan"), which we had used for equity and incentive awards since becoming a publicly traded company in 2006. The Omnibus Plan provides for the granting of options, stock appreciation rights, restricted stock, RSUs, performance shares, performance units, cash-based awards, and other stock-based awards to all officers, key employees, and non-employee directors. The Omnibus Plan allowed for us to grant an additional 1.8 million shares in addition to the remaining shares from the 2006 Plan, for a total of approximately 2.7 million shares. Shares awarded that are not stock options or stock appreciation rights are counted as 1.9 shares deducted from the Omnibus Plan for every one share delivered under those awards. Shares awarded that are stock options or stock appreciation rights are counted as a single share deducted from the Omnibus Plan for

***JASI.*** Effective December 2009, we acquired all of the outstanding common stock of JASI, an information technology firm specializing in providing cybersecurity and identity management services to U.S. federal civilian and defense agencies. The acquisition was immaterial to the financial statements taken as a whole. With the acquisition, we are able to offer an expanded range of advisory and implementation solutions across our federal and energy industry client base to assist in mitigating emerging cybersecurity threats and vulnerabilities.

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

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

Our acquisitions to date have all involved purchase prices well in excess of net tangible asset values, resulting in the creation of a significant amount of goodwill and other intangible assets. Increased levels of finite-lived intangible assets will increase our amortization charges. At December 31, 2011, goodwill accounted for approximately 58% of our total assets, and purchased intangibles accounted for approximately 5% of our total assets. We test our goodwill for impairment at least annually, and if we conclude that it is impaired, we will be required to write down its carrying value on our consolidated balance sheet and record an impairment charge in our consolidated statement of earnings.

We plan to continue to acquire businesses if and when opportunities arise. We expect future acquisitions to generate significant amounts of goodwill and other intangible assets. We expect to incur additional debt for future acquisitions and, in some cases, to use our stock as acquisition consideration in addition to, or in lieu of, cash. Any issuance of stock may have a dilutive effect on our stock outstanding.

## FLUCTUATION OF QUARTERLY RESULTS AND CASH FLOW

Our results of operations and cash flow may vary significantly from quarter to quarter depending on a number of factors, including, but not limited to:

- progress of contract performance;
- number of billable days in a quarter;
- timing of client orders;
- timing of award fee notices;
- changes in the scope of contracts;

- variations in purchasing patterns under our contracts;
- federal and state government and other clients' spending levels;
- timing of billings to, and payments by, clients;
- timing of receipt of invoices from, and payments to, employees and vendors;
- commencement, completion, and termination of contracts;
- strategic decisions we make, such as acquisitions, consolidations, divestments, spin-offs, joint ventures, strategic investments, and changes in business strategy;
- timing of significant costs and investments (such as bid and proposal costs and the costs involved in planning or making acquisitions);
- our contract mix and use of subcontractors;
- additions to and departures of staff;
- changes in staff utilization;
- vacation and sick days taken by our employees;
- level and cost of our debt;
- changes in accounting principles and policies; and/or
- general market and economic conditions.

Because a significant portion of our expenses, such as personnel, facilities, and related costs, are fixed in the short term, contract performance and variation in the volume of activity, as well as in the number and volume of contracts commenced or completed during any quarter, may cause significant variations in operating results from quarter to quarter.

**EFFECT OF APPROVAL OF FEDERAL BUDGET**

The federal government's fiscal year ends on September 30 of each year. If a federal budget for the next fiscal year has not been approved by that date, some of our clients may have to suspend engagements on which we are working or may delay new engagements until a budget has been approved. Any such suspension or delay may reduce our revenue in the quarter ending September 30 (our third quarter) or the subsequent quarter. The federal government's fiscal year end can also trigger increased contracting activity, which could affect our third and/or fourth quarter revenue, profit, and cash flow. In addition, it is possible that Congress could enact a continuing resolution or, in the alternative, fail to approve a budget or a continuing resolution in a timely manner, resulting in a government "shut down." A continuing resolution could delay or reduce our revenue, profit, and cash flow, while a government "shut down" will more immediately and substantially reduce our revenue, profit, and cash flow.

**EFFECTS OF INFLATION**

We generally have been able to price our contracts in a manner to accommodate the rates of inflation experienced in recent years, although we cannot ensure that we will be able to do so in the future.

## RESULTS OF OPERATIONS

The following table sets forth certain items from our consolidated statements of operations as an approximate percentage of revenue for the periods indicated.

**Consolidated Statement of Earnings**
**Years Ended December 31, 2011, 2010, and 2009**
**(dollars in thousands)**

| | Year Ended December 31, | | | | | | Year to Year Change | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 | 2010 to 2011 | | 2009 to 2010 | |
| | Dollars | | | Percentages | | | Dollars | Percent | Dollars | Percent |
| **Gross Revenue** | $840,775 | $764,734 | $674,399 | 100.0% | 100.0% | 100.0% | $76,041 | 9.9% | $90,335 | 13.4% |
| **Direct Costs** | 520,522 | 476,187 | 411,334 | 61.9% | 62.3% | 61.0% | 44,335 | 9.3% | 64,853 | 15.8% |
| **Operating Costs and Expenses** | | | | | | | | | | |
| Indirect and selling expenses | 241,062 | 218,533 | 203,428 | 28.7% | 28.6% | 30.2% | 22,529 | 10.3% | 15,105 | 7.4% |
| Depreciation and amortization | 10,757 | 10,775 | 9,416 | 1.3% | 1.4% | 1.4% | (18) | (0.2)% | 1,359 | 14.4% |
| Amortization of intangible assets | 9,550 | 12,326 | 11,137 | 1.1% | 1.6% | 1.7% | (2,776) | (22.5)% | 1,189 | 10.7% |
| **Total Operating Costs and Expenses** | 261,369 | 241,634 | 223,981 | 31.1% | 31.6% | 33.3% | 19,735 | 8.2% | 17,653 | 7.9% |
| **Operating Income** | 58,884 | 46,913 | 39,084 | 7.0% | 6.1% | 5.8% | 11,971 | 25.5% | 7,829 | 20.0% |
| **Other (Expense) Income** | | | | | | | | | | |
| Interest expense | (2,248) | (3,403) | (5,107) | (0.2)% | (0.4)% | (0.7)% | 1,155 | 33.9% | 1,704 | 33.4% |
| Other | 124 | 172 | 1,005 | — | — | 0.1% | (48) | (27.9)% | (833) | (82.9)% |
| **Income Before Income Taxes** | 56,760 | 43,682 | 34,982 | 6.8% | 5.7% | 5.2% | 13,078 | 29.9% | 8,700 | 24.9% |
| **Provision for Income Taxes** | 21,895 | 16,511 | 12,626 | 2.7% | 2.2% | 1.9% | 5,384 | 32.6% | 3,885 | 30.8% |
| **Net Income** | $ 34,865 | $ 27,171 | $ 22,356 | 4.1% | 3.6% | 3.3% | $ 7,694 | 28.3% | $ 4,815 | 21.5% |

**Year ended December 31, 2011, compared to year ended December 31, 2010**

***Gross Revenue.*** Revenue for the year ended December 31, 2011, was $840.8 million, compared to $764.7 million for the year ended December 31, 2010, representing an increase of $76.0 million, or 9.9%. The increase was primarily due to growth in the domestic commercial market of $57.2 million and growth in the U.S. government market of $14.5 million.

***Direct costs.*** Direct costs for the year ended December 31, 2011, were $520.5 million, compared to $476.2 million for the year ended December 31, 2010, an increase of $44.3 million, or 9.3%. The increase in direct costs was primarily attributable to an increase in subcontractor expense and direct labor expense. Direct costs as a percent of revenue were 61.9% for the year ended December 31, 2011, compared to 62.3% for the year ended December 31, 2010.

***Indirect and selling expenses.*** Indirect and selling expenses for the year ended December 31, 2011, were $241.1 million, or 28.7% of revenue, compared to $218.5 million, or 28.6% of revenue for the year ended December 31, 2010. The increase in indirect and selling expenses of $22.5 million is primarily attributable to an increase in indirect labor and general and administrative expense.

***Depreciation and amortization.*** Depreciation and amortization was $10.8 million for each of the years ended December 31, 2011 and 2010.

***Amortization of intangible assets.*** Amortization of intangible assets for the year ended December 31, 2011, was $9.6 million, compared to $12.3 million for the year ended December 31, 2010. The 22.5% decrease in amortization expense was primarily from amortization related to intangible assets that were fully amortized prior to December 31, 2011, but were not fully amortized as of December 31, 2010.

***Operating Income.*** For the year ended December 31, 2011, operating income was $58.9 million, compared to $46.9 million for the year ended December 31, 2010, an increase of $12.0 million, or 25.5%. Operating income as a percent of revenue increased to 7.0% for the year ended December 31, 2011, from 6.1% for the year ended December 31, 2010. Operating income and operating income as a percent of revenue increased primarily due to an increase in gross revenue of 9.9%, partially offset by an increase in direct costs of 9.3% and an increase in operating costs and expenses of 8.2% for the year ended December 31, 2011, compared to the year ended December 31, 2010.

***Interest expense.*** For the year ended December 31, 2011, interest expense was $2.2 million, compared to $3.4 million for the year ended December 31, 2010. The 33.9% decrease was due primarily to a lower average debt balance in 2011, as compared to the year ended December 31, 2010.

***Other income.*** For the year ended December 31, 2011, other income was $0.1 million, compared to $0.2 million for the year ended December 31, 2010.

***Provision for income taxes.*** Our income tax rate for the year ended December 31, 2011 was 38.6% compared to 37.8% for the year ended December 31, 2010. The increase in the effective rate for the year ended December 31, 2011, compared to December 31, 2010, is primarily due to a one-time decrease in 2010 in our unrecognized tax benefits, a previously recorded liability, due to the expiration of the applicable statute of limitations, and higher state tax credits recognized in 2010.

**Year ended December 31, 2010, compared to year ended December 31, 2009**

***Gross Revenue.*** Revenue for the year ended December 31, 2010, was $764.7 million, compared to $674.4 million for the year ended December 31, 2009, representing an increase of $90.3 million, or 13.4%. The increase was primarily due to growth in contracts of $89.2 million, and revenue associated with the operations of Macro,

acquired March 31, 2009, whose revenue is included in the twelve months ended December 31, 2010, but is not included in the first three months of 2009, and the operations of JASI, acquired in December 2009, whose revenue is included in the twelve months ended December 31, 2010, but is only included in December of 2009, partially offset by a reduction in revenue of $60.4 million associated with the conclusion of The Road Home contract in June 2009.

***Direct costs.*** Direct costs for the year ended December 31, 2010, were $476.2 million, compared to $411.3 million for the year ended December 31, 2009, an increase of $64.9 million or 15.8%. The increase in direct costs was primarily due to costs associated with a growth in contracts, the operations of Macro, acquired March 31, 2009, whose results are included in the twelve months ended December 31, 2010, but are not included in the first three months of 2009, and the operations of JASI, acquired in December 2009, whose results are included in the twelve months ended December 31, 2010, but are only included in December of 2009, partially offset by the effect of the conclusion of The Road Home contract in June 2009.

***Indirect and selling expenses.*** Indirect and selling expenses for the year ended December 31, 2010, were $218.5 million, or 28.6% of revenue, compared to $203.4 million, or 30.2% of revenue for the year ended December 31, 2009. The decrease in indirect and selling expenses as a percentage of revenue was due principally to increased contract revenue, partially offset by an increase in indirect and selling expenses of 7.4%, for the year ended December 31, 2010, compared to the year ended December 31, 2009. The increase in indirect and selling expenses of $15.1 million is primarily attributable to costs associated with a growth in contracts and the operations of JASI, acquired in December 2009, and the operations of Macro, acquired March 31, 2009, whose results are included in the twelve months ended December 31, 2010, but are partially included in the twelve months ended December 31, 2009.

***Depreciation and amortization.*** Depreciation and amortization for the year ended December 31, 2010, was $10.8 million, compared to $9.4 million for the year ended December 31, 2009. The 14.4% increase in depreciation and amortization resulted primarily from depreciation related to assets from recently acquired businesses and new assets placed into service in 2010.

***Amortization of intangible assets.*** Amortization of intangible assets for the year ended December 31, 2010, was $12.3 million, compared to $11.1 million for the year ended December 31, 2009. The 10.7% increase in amortization expense was primarily due to the amortization of intangibles related to acquisitions we completed in 2009, partially offset by a decrease in amortization expense related to earlier acquisitions.

***Operating Income.*** For the year ended December 31, 2010, operating income was $46.9 million, compared to $39.1 million for the year ended December 31, 2009, an increase of $7.8 million or 20%. Operating income increased primarily due to increased contract revenue, partially offset by an increase in operating costs and expenses of 7.9% for the year ended December 31, 2010, compared to the year ended December 31, 2009.

***Interest expense.*** For the year ended December 31, 2010, interest expense was $3.4 million, compared to $5.1 million for the year ended December 31, 2009. The decrease was due primarily to a lower average debt balance in 2010 as compared to the average debt balance in 2009.

***Other income.*** For the year ended December 31, 2010, other income was $0.2 million, compared to $1.0 million for the year ended December 31, 2009. The activity in other income for the year ended December 31, 2009, was primarily attributable to funds received from indemnity claims related to prior acquisitions.

***Provision for income taxes.*** Our income tax rate for the year ended December 31, 2010 was 37.8% compared to 36.1% for the year ended December 31, 2009. The increase was predominately related to a greater release of certain unrecognized tax benefits and greater one-time prior year adjustments in 2009, partially offset by a reduction of the permanent differences related to expenses not deductible for tax purposes and an increase in state tax credits during 2010.

## LIQUIDITY AND CAPITAL RESOURCES

***Credit Facility.*** We entered into the Second Amended and Restated Business Loan and Security Agreement ("Credit Facility") on February 20, 2008, with a syndication of nine commercial banks to allow for borrowings of up to $350.0 million for a period of five years (maturing February 20, 2013) under a revolving line of credit. The Credit Facility provides for borrowings of up to $275.0 million without a borrowing base requirement and also provides for an "accordion feature," which permits additional revolving credit commitments of up to $75.0 million, subject to lenders' approval. The Credit Facility has provided pre-approval by the lenders for acquisitions with individual purchase prices of up to $75.0 million, if certain conditions are met. The Credit Facility is collateralized by substantially all of our assets, and requires that we remain in compliance with certain financial and non-financial covenants. The financial covenants, as defined by the Credit Facility, require that we maintain, on a consolidated basis for each quarter, a Fixed Charge Coverage Ratio of not less than 1.00 to 1.25 and a Leverage Ratio of not more than 1.0 to 3.5. As of December 31, 2011, we were in compliance with the covenants under the Credit Facility.

On March 31, 2009, the Credit Facility was amended to allow for the acquisition of Macro, for permission to sell capital stock in one or more offerings (provided that the proceeds are used to pay down the Credit Facility), and to increase the interest rate margins we pay to borrow funds under the Credit Facility. On September 22, 2011, the Credit Facility was amended to allow for increased spending on annual capital expenditures from 1.5% to 2.0% of gross annual revenue. We have the ability to borrow funds under the Credit Facility at interest rates based on both LIBOR and prime rates, at our discretion, plus their applicable margins. Interest rates on debt outstanding ranged from 1.97% to 2.14% during 2011.

***Financial Condition.*** There were several significant changes in our balance sheet during the year ended December 31, 2011. Contract receivables, net, increased by $32.5 million to $209.4 million in 2011, compared to $177.0 million in 2010. This increase in 2011 was primarily due to the acquisition of Ironworks and an increase in the amount of billable revenue compared to the prior year. Not including the impact of the acquisition of Ironworks, days-sales-outstanding were 75 days at December 31, 2011, and 72 days at December 31, 2010. Goodwill increased to $401.1 million as of December 31, 2011, from $323.5 million as of December 31, 2010, due to acquisitions in 2011. Current liabilities grew to $134.3 million as of December 31, 2011, from $116.2 million as of December 31, 2010, due to increases in accounts payable, accrued salaries and benefits, and accrued expenses. Not including the impact of the acquisition of Ironworks, days-payable-outstanding were 52 days at December 31, 2011, compared to 48 days at December 31, 2010. Long-term debt increased to $145.0 million on December 31, 2011, from $85.0 million on December 31, 2010, primarily as a result of the acquisition of Ironworks, partially offset by payments made on the Credit Facility due to operating cash flow, and a decrease in working capital requirements during the year. Total stockholders' equity grew to $393.0 million at the end of 2011, from $352.7 million at the end of 2010, due to net income of $34.9 million and an increase of additional paid-in capital.

***Liquidity and Borrowing Capacity.*** Short-term liquidity requirements are created by our use of funds for working capital, capital expenditures, and the need to provide any debt service. We expect to meet these requirements through a combination of cash flow from operations and borrowings under our Credit Facility. As of December 31, 2011, we had $145.0 million borrowed under our revolving line of credit, outstanding letters of credit of $1.7 million, resulting in unused borrowing capacity of $128.3 million on our Credit Facility, which is available for our working capital needs and for other purposes.

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

We believe that the combination of internally generated funds, available bank borrowings, and cash and cash equivalents on hand will provide the required liquidity and capital resources necessary to fund on-going

operations, customary capital expenditures, and other working capital requirements. We are continuously analyzing our capital structure to ensure we have sufficient capital to fund future acquisitions and internal growth. We monitor the state of the financial markets on a regular basis to assess the availability and cost of additional capital resources both from debt and equity sources. We believe that we will be able to access these markets on commercially reasonable terms and conditions if we need additional borrowings or capital.

***Cash and Cash Equivalents.*** We consider cash on deposit and all highly liquid investments with original maturities of three months or less when purchased to be cash and cash equivalents. Cash was $4.1 million and $3.3 million on December 31, 2011, and December 31, 2010, respectively.

***Cash Flow.*** The following table sets forth our sources and uses of cash for the following years.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | | (In thousands) | |
| Net cash provided by operating activities | $ 59,521 | $ 68,178 | $ 48,554 |
| Net cash used in investing activities | (118,243) | (7,677) | (197,177) |
| Net cash provided by (used in) financing activities | 59,799 | (59,366) | 149,505 |
| Effect of exchange rate on cash | (281) | (187) | (65) |
| Increase in cash | $ 796 | $ 948 | $ 817 |

Our operating cash flow is primarily affected by the overall profitability of our contracts, our ability to invoice and collect from our clients in a timely manner, and our ability to manage our vendor payments. We bill most of our clients monthly after services are rendered. Operating activities provided cash in each of the years 2011, 2010, and 2009 of $59.5 million, $68.2 million, and $48.6 million, respectively. Cash flows from operating activities for 2011 were positively impacted by net income, depreciation and amortization, and accounts payable, partially offset by contract receivables. Cash flows from operating activities for 2010 were positively impacted by net income, depreciation and amortization, and accrued salaries and benefits, partially offset by deferred income taxes and contract receivables. Cash flows from operating activities in 2009 were positively impacted by net income, depreciation and amortization and contract receivables, partially offset by accrued expenses and prepaid expenses and other assets.

Our cash flow used in investing activities consists primarily of capital expenditures and acquisitions. During the year ended 2011, we paid approximately $108.0 million for business acquisitions, net of cash acquired, and purchased capital assets totaling $10.2 million. During the year ended 2010, we paid for purchased capital assets totaling $7.3 million. During the year ended 2009, we paid approximately $188.7 million for business acquisitions, net of cash acquired, and purchased capital assets totaling $8.1 million.

Our cash flow from financing activities consists primarily of debt and equity transactions. For the year ended 2011, cash flow provided by financing activities was primarily due to a $60.3 million net increase on our Credit Facility. For the year ended 2010, cash flow used in financing activities was primarily due to a net pay down on our Credit Facility of $60.0 million. For the year ended 2009, cash flow provided by financing activities included approximately $83.3 million in net proceeds from our secondary offering and $65.0 million from our Credit Facility.

## ITEM 9A. CONTROLS AND PROCEDURES

***Evaluation of Disclosure Controls and Procedures.*** We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and interim Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). Based upon that evaluation, our Chief Executive Officer and interim Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance as of the end of the period covered by this report.

***Management's Annual Report on Internal Control Over Financial Reporting.*** Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and interim Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of the end of the period covered by this report, based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment under the framework in *Internal Control—Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of the end of the period covered by this report. Grant Thornton LLP, our independent registered public accounting firm, has audited the financial statements included in this report and issued an opinion on our internal control over financial reporting. This opinion appears in the Report of Independent Registered Public Accounting Firm on page F-1 of this Annual Report on Form 10-K.

This assessment excluded the internal control over financial reporting of Ironworks, which was acquired on December 31, 2011. The total acquired net assets, based on the preliminary purchase price allocation, is approximately 15% of the Company's consolidated total assets. Because the acquisition occurred on the last day of the year in 2011, the operations of Ironworks had no impact on the consolidated statement of earnings.

***Change in Internal Controls.*** During the fourth quarter of fiscal year 2011, there were no changes in our internal control over financial reporting that have materially affected these controls, or are reasonably likely to materially affect these controls subsequent to the evaluation of these controls.

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

## ITEM 9B. OTHER INFORMATION

Not applicable.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be included in our Proxy Statement for the 2012 Annual Meeting of Stockholders (the "2012 Proxy Statement") and is incorporated herein by reference.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be included in the 2012 Proxy Statement and is incorporated herein by reference.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be included in the 2012 Proxy Statement and is incorporated herein by reference.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be included in the 2012 Proxy Statement and is incorporated herein by reference.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item will be included in the 2012 Proxy Statement and is incorporated herein by reference.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

**(1) Financial Statements**


| | Page |
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| Consolidated Balance Sheets as of December 31, 2011 and 2010 | F-2 |
| Consolidated Statements of Earnings for the Years Ended December 31, 2011, 2010, and 2009 | F-3 |
| Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2011, 2010, and 2009 | F-4 |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010, and 2009 | F-5 |
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| Selected Quarterly Financial Data (unaudited) | F-28 |


**(2) Financial Statement Schedules**

None.

**(3) Exhibits**

The following exhibits are included with this report or incorporated herein by reference:

| Exhibit Number | Exhibit |
|---|---|
| 2.1 | Membership Interest Purchase Agreement by and among ICF Consulting Group, Inc., Scott K. Walker, William F. Loving, Thomas K. Luck, as trustee of the John D. Whitlock 2010 Irrevocable Trust, and Hot Technology Holdings, L.L.C., dated as of December 12, 2011. |
| 3.1 | Amended and Restated Certificate of Incorporation (Incorporated by reference to exhibit 4.1 to the Company's Registration Statement on Form S-8 (File No. 333-137975), effective as of October 12, 2006). |
| 3.2 | Amended and Restated Bylaws of ICF International, Inc. (Incorporated by reference to exhibit 3.1 to the Company's Form 8-K, filed on September 23, 2008). |
| 4.1 | Specimen common stock certificate (Incorporated by reference to exhibit 4.1 to the Company's Form S-1). |
| 4.2 | See exhibits 3.1 and 3.2 for provisions of the Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws of the Registrant defining the rights of holders of common stock of the Company. |
| 10.1 | 2006 Employee Stock Purchase Plan (Incorporated by reference to exhibit 10.3 to the Company's Form S-1). |
| 10.2 | ICF International, Inc. Nonqualified Deferred Compensation Plan (Incorporated by reference to exhibit 10.3 to the Company's Form 10-Q, filed May 12, 2008). |
| 10.3 | ICF International, Inc. 2010 Omnibus Incentive Plan (incorporated by reference to Exhibit A to the Definitive Proxy Statement on Schedule 14A relating to the Company's Annual Meeting of Stockholders held on June 4, 2010 and filed April 23, 2010). |
| 10.4 | Form of Restricted Stock Unit Award Under the 2010 Omnibus Incentive Plan. (incorporated by reference to exhibit 10.4 to the Company's Form 10-K filed March 4, 2011). |
| 10.5 | Form of Stock Option Award under the 2010 Omnibus Incentive Plan (incorporated by reference to exhibit 10.5 to the Company's Form 10-K filed March 4, 2011). |

| Exhibit Number | Exhibit |
|---|---|
| 10.6 | Restated Employment Agreement dated December 29, 2008 between the Company and Sudhakar Kesavan (Incorporated by reference to exhibit 10.1 to the Company's Form 8-K, filed December 30, 2008). |
| 10.7 | Restated Severance Protection Agreement dated December 29, 2008 between the Company and Sudhakar Kesavan (Incorporated by reference to exhibit 10.2 to the Company's Form 8-K, filed December 30, 2008). |
| 10.8 | Restated Severance Protection Agreement dated December 12, 2008 between the Company and John Wasson (Incorporated by reference to exhibit 10.2 to the Company's Form 8-K, filed December 18, 2008). |
| 10.9 | Amended Severance Letter Agreement dated December 12, 2008 between the Company and John Wasson (Incorporated by reference to exhibit 10.4 to the Company's Form 8-K filed December 18, 2008). |
| 10.10 | Employment Terms By and Between the Company and Ronald P. Vargo, dated January 28, 2010 (Incorporated by reference to exhibit 10.1 to the Company's Form 10-Q, filed May 6, 2010). |
| 10.11 | Severance Protection Agreement By and Between the Company and Ronald P. Vargo, dated March 1, 2010 (Incorporated by reference to exhibit 10.2 to the Company's Form 10-Q, filed May 6, 2010). |
| 10.12 | Severance Letter Agreement By and Between the Company and Sandra Murray, dated August 23, 2011 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q, filed November 3, 2011). |
| 10.13 | Second Amended and Restated Business Loan and Security Agreement dated as of February 20, 2008 by and among ICF International, Inc. and ICF Consulting Group, Inc., as Borrowers, Citizens Bank of Pennsylvania, as a Lender and Administrative Agent, Bank of America, N.A., as a Lender and Syndication Agent, CitiBank, N.A. and SunTrust Bank, as Lenders and Documentation Agents, Branch Banking and Trust Company, Commerce Bank, N.A., HSBC Bank USA, National Association, PNC Bank, National Association, and Chevy Chase Bank, N.A. as Lenders, and RBS Securities Corporation (d/b/a RBS Greenwich Capital), as sole and exclusive lead arranger and book running manager (Incorporated by reference to exhibit 10.1 to the Company's Form 8-K, filed February 25, 2008). |
| 10.14 | First Modification to Second Amended and Restated Business Loan and Security Agreement and other Loan Documents, dated as of March 31, 2009 By and Among Citizens Bank of Pennsylvania, ICF Consulting Group, Inc. and ICF International, Inc. |
| 10.15 | Second Modification to Second Amended and Restated Business Loan and Security Agreement and other Loan Documents, dated as of September 22, 2011, By and Among Citizens Bank of Pennsylvania, ICF Consulting Group, Inc. and ICF International, Inc. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q, filed November 3, 2011.) |
| 10.17 | Deed of Lease by and between Hunters Branch Leasing, LLC and ICF Consulting Group, Inc., effective April 1, 2010 (Incorporated by reference to exhibit 10.6 to the Company's Form 10-K, filed March 11, 2010). |
| 21.0 | Subsidiaries of the Registrant |
| 23.1 | Consent of Grant Thornton LLP. |
| 31.1 | Certificate of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a). |
| 31.2 | Certificate of the Principal Financial and Accounting Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a). |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of the Interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

| Exhibit Number | Exhibit |
|---|---|
| 101 | The following materials from the ICF International, Inc. Annual Report on Form 10-K for the year ended December 31, 2011 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Earnings, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flow and Notes to Consolidated Financial Statements.* |

* Submitted electronically herewith.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

March 2, 2012

ICF INTERNATIONAL, INC.

By: /s/ SUDHAKAR KESAVAN

**Sudhakar Kesavan**
**Chairman and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ SUDHAKAR KESAVAN<br>**Sudhakar Kesavan** | Chairman, Chief Executive Officer and Director (Principal Executive Officer) | March 2, 2012 |
| /s/ SANDRA B. MURRAY<br>**Sandra B. Murray** | Interim Chief Financial Officer (Principal Financial Officer) | March 2, 2012 |
| /s/ PHILLIP ECK<br>**Phillip Eck** | Controller (Principal Accounting Officer) | March 2, 2012 |
| /s/ EDWARD H. BERSOFF<br>**Dr. Edward H. Bersoff** | Director | March 2, 2012 |
| /s/ SRIKANT M. DATAR<br>**Dr. Srikant M. Datar** | Director | March 2, 2012 |
| /s/ JOEL R. JACKS<br>**Joel R. Jacks** | Director | March 2, 2012 |
| /s/ ERNEST J. MONIZ<br>**Ernest J. Moniz** | Director | March 2, 2012 |
| /s/ PETER M. SCHULTE<br>**Peter M. Schulte** | Director | March 2, 2012 |
| /s/ RICHARD M. FELDT<br>**Richard M. Feldt** | Director | March 2, 2012 |
| /s/ EILEEN O'SHEA AUEN<br>**Eileen O'Shea Auen** | Director | March 2, 2012 |

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## Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
ICF International, Inc., and Subsidiaries

We have audited the accompanying consolidated balance sheets of ICF International, Inc., and Subsidiaries (a Delaware corporation) (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. We also have audited the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. Our audit of, and opinion on, the Company's internal control over financial reporting does not include internal control over financial reporting of Ironworks Consulting, L.L.C., a wholly owned subsidiary, whose financial statements reflect total assets of 15 percent of the related consolidated financial statement amounts as of December 31, 2011. As indicated in Management's Annual Report on Internal Control Over Financial Reporting, Ironworks Consulting, L.L.C. was acquired on December 31, 2011 and therefore, management's assertion on the effectiveness of the Company's internal control over financial reporting excluded internal control over financial reporting of Ironworks Consulting, L.L.C.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ICF International, Inc., and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

/s/ Grant Thornton LLP

McLean, Virginia
March 2, 2012

**ICF International, Inc., and Subsidiaries**

**Consolidated Balance Sheets**
**(in thousands, except share amounts)**

| December 31, | 2011 | 2010 |
|---|---|---|
| ***Assets*** | | |
| **Current Assets** | | |
| Cash | $ 4,097 | $ 3,301 |
| Contract receivables, net | 209,426 | 176,963 |
| Prepaid expenses and other | 7,948 | 6,995 |
| Income tax receivable | 1,155 | 1,628 |
| Deferred income taxes | 7,963 | 4,973 |
| **Total current assets** | 230,589 | 193,860 |
| **Total property and equipment, net** | 21,067 | 18,887 |
| **Other assets:** | | |
| Goodwill | 401,134 | 323,467 |
| Other intangible assets, net | 33,740 | 26,148 |
| Restricted cash | 1,208 | 3,179 |
| Other assets | 6,877 | 7,278 |
| **Total Assets** | $694,615 | $572,819 |
| ***Liabilities and Stockholders' Equity*** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 38,685 | $ 29,866 |
| Accrued salaries and benefits | 46,215 | 40,750 |
| Accrued expenses | 29,252 | 25,522 |
| Deferred revenue | 20,180 | 20,034 |
| **Total Current Liabilities** | 134,332 | 116,172 |
| **Long-term Liabilities:** | | |
| Long-term debt | 145,000 | 85,000 |
| Deferred rent | 7,223 | 5,142 |
| Deferred income taxes | 9,247 | 10,068 |
| Other | 5,785 | 3,704 |
| **Total Liabilities** | 301,587 | 220,086 |
| **Commitments and Contingencies** | — | — |
| **Stockholders' Equity** | | |
| Preferred stock, par value $.001 per share; 5,000,000 shares authorized; none issued | — | — |
| Common stock, $.001 par value; 70,000,000 shares authorized; 19,887,459 and 19,618,659 shares issued; and 19,792,499 and 19,567,571 shares outstanding as of December 31, 2011, and December 31, 2010, respectively | 20 | 20 |
| Additional paid-in capital | 227,577 | 220,891 |
| Retained earnings | 168,502 | 133,637 |
| Treasury stock | (2,266) | (1,291) |
| Accumulated other comprehensive loss | (805) | (524) |
| **Total Stockholders' Equity** | 393,028 | 352,733 |
| **Total Liabilities and Stockholders' Equity** | $694,615 | $572,819 |

The accompanying notes are an integral part of these statements.

## ICF International, Inc., and Subsidiaries

## Consolidated Statements of Stockholders' Equity
## (in thousands)

| Years ended December 31, 2011, 2010 and 2009 | Common Stock | | Additional Paid-in Capital | Retained Earnings | Treasury Stock | | Stockholder Notes Receivable | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | Shares | Amount | | | |
| **January 1, 2009** | 15,107 | $ 15 | $120,550 | $ 84,110 | 82 | $(1,474) | $ (12) | $(272) | $202,917 |
| Net income | — | — | — | 22,356 | — | — | — | — | 22,356 |
| **Other Comprehensive Income** | | | | | | | | | |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | (65) | (65) |
| **Total Comprehensive Income** | | | | | | | | | 22,291 |
| Issuance of shares pursuant to secondary offering | 3,565 | 4 | 83,290 | — | — | — | — | — | 83,294 |
| Equity compensation | — | — | 7,192 | — | — | — | — | — | 7,192 |
| Exercise of stock options | 337 | — | 1,093 | — | (93) | 1,739 | — | — | 2,832 |
| Issuance of shares pursuant to vesting of restricted stock units | 409 | — | (3,914) | — | (141) | 3,914 | — | — | — |
| Net payments for stockholder issuances and buybacks | (139) | — | 88 | — | 152 | (4,179) | — | — | (4,091) |
| Tax impact of stock option exercises and award vesting | — | — | 3,113 | — | — | — | — | — | 3,113 |
| Proceeds on stockholder notes | — | — | — | — | — | — | 12 | — | 12 |
| **December 31, 2009** | 19,279 | $ 19 | $211,412 | $106,466 | — | $ — | $— | $(337) | $317,560 |
| Net income | — | — | — | 27,171 | — | — | — | — | 27,171 |
| **Other Comprehensive Income** | | | | | | | | | |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | (187) | (187) |
| **Total Comprehensive Income** | | | | | | | | | 26,984 |
| Equity compensation | — | — | 7,533 | — | — | — | — | — | 7,533 |
| Exercise of stock options | 110 | — | 966 | — | — | — | — | — | 966 |
| Issuance of shares pursuant to vesting of restricted stock units | 207 | 1 | — | — | — | — | — | — | 1 |
| Net payments for stockholder issuances and buybacks | (28) | — | 66 | — | 51 | (1,291) | — | — | (1,225) |
| Tax impact of stock option exercises and award vesting | — | — | 914 | — | — | — | — | — | 914 |
| **December 31, 2010** | 19,568 | $ 20 | $220,891 | $133,637 | 51 | $(1,291) | $— | $(524) | $352,733 |
| Net income | — | — | — | 34,865 | — | — | — | — | 34,865 |
| **Other Comprehensive Income** | | | | | | | | | |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | (281) | (281) |
| **Total Comprehensive Income** | | | | | | | | | 34,584 |
| Equity compensation | — | — | 6,658 | — | — | — | — | — | 6,658 |
| Exercise of stock options | 39 | — | 478 | — | — | — | — | — | 478 |
| Issuance of shares pursuant to vesting of restricted stock units | 176 | — | — | — | — | — | — | — | — |
| Net payments for stockholder issuances and buybacks | 9 | — | 77 | — | 44 | (975) | — | — | (898) |
| Tax impact of stock option exercises and award vesting | — | — | (527) | — | — | — | — | — | (527) |
| **December 31, 2011** | 19,792 | $ 20 | $227,577 | $168,502 | 95 | $(2,266) | $— | $(805) | $393,028 |

The accompanying notes are an integral part of these statements.

## ICF International, Inc., and Subsidiaries

### Consolidated Statements of Cash Flows
### (in thousands)

| Year ended December 31, | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Cash Flows from operating activities** | | | |
| Net income | $ 34,865 | $ 27,171 | $ 22,356 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Bad debt expense | (64) | 543 | 241 |
| Deferred income taxes | (4,623) | (5,224) | 2,203 |
| (Gain) loss on disposal of fixed assets | (13) | 110 | (14) |
| Non-cash equity compensation | 6,658 | 7,533 | 7,192 |
| Depreciation and amortization | 20,307 | 23,101 | 20,553 |
| Deferred rent | 2,235 | 1,153 | 106 |
| Changes in operating assets and liabilities, net of the effect of acquisitions: | | | |
| Contract receivables | (18,147) | (3,386) | 15,948 |
| Prepaid expenses and other assets | (1,043) | (778) | (3,962) |
| Accounts payable | 7,996 | 2,396 | (3,763) |
| Accrued salaries and benefits | 4,703 | 8,677 | (2,517) |
| Accrued expenses | 2,822 | 5,832 | (17,503) |
| Deferred revenue | (692) | 664 | 4,341 |
| Income tax payable | 466 | 2,547 | 1,150 |
| Restricted cash | 1,971 | (1,056) | 2,135 |
| Other liabilities | 2,080 | (1,105) | 88 |
| **Net Cash Provided by Operating Activities** | 59,521 | 68,178 | 48,554 |
| **Cash Flows from Investing Activities** | | | |
| Capital expenditures | (10,206) | (7,283) | (8,068) |
| Payments for business acquisitions, net of cash received | (108,009) | — | (188,672) |
| Capitalized software development costs | (28) | (394) | (437) |
| **Net Cash Used in Investing Activities** | (118,243) | (7,677) | (197,177) |
| **Cash Flows from Financing Activities** | | | |
| Advances from working capital facilities | 213,138 | 43,317 | 315,784 |
| Payments on working capital facilities | (153,138) | (103,317) | (250,784) |
| Debt issue costs | (8) | (21) | (655) |
| Proceeds from secondary offering, net | — | — | 83,294 |
| Proceeds from exercise of options | 478 | 966 | 2,832 |
| Tax benefits of stock option exercises and award vesting | 227 | 914 | 3,113 |
| Issuances of stock | 77 | 66 | 88 |
| Shares reacquired in net share issuance | (975) | (1,291) | (4,179) |
| Payments received on stockholder notes | — | — | 12 |
| **Net Cash Provided by (Used in) Financing Activities** | 59,799 | (59,366) | 149,505 |
| **Effect of Exchange Rate on Cash** | (281) | (187) | (65) |
| **Increase in Cash** | 796 | 948 | 817 |
| **Cash, beginning of period** | 3,301 | 2,353 | 1,536 |
| **Cash, end of period** | $ 4,097 | $ 3,301 | $ 2,353 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the period for: | | | |
| Interest | $ 2,334 | $ 3,873 | $ 4,664 |
| Income taxes | $ 26,411 | $ 18,977 | $ 7,644 |

The accompanying notes are an integral part of these statements.

## NOTE A—BASIS OF PRESENTATION AND NATURE OF OPERATIONS

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

The accompanying consolidated financial statements include the accounts of ICF International, Inc. ("ICFI"), and its subsidiary, ICF Consulting Group, Inc. ("Consulting"), (collectively, "the Company"). Consulting is a wholly owned subsidiary of ICFI. ICFI is a holding company with no operations or assets, other than its investment in the common stock of Consulting. The operations of Consulting are conducted within the following subsidiaries:

- ICF Resources, L.L.C.
- ICF Associates, L.L.C.
- ICF Consulting Limited (U.K)
- ICF Consulting India Private, Ltd.
- ICF International Consulting (Beijing) Company Ltd. (China)
- ICF Consulting Canada, Inc.
- ICF Consulting Pty. Ltd. (Australia)
- ICF/EKO (Russia)
- ICF Services Company, L.L.C.
- ICF Consulting Services, L.L.C.
- ICF Consultoria do Brasil, Ltda.
- Systems Applications International, L.L.C.
- ICF Incorporated, L.L.C.
- ICF Emergency Management Services, L.L.C.
- Caliber Associates, Inc.
- Advanced Performance Consulting Group, Inc.
- ICF Z-Tech, Inc.
- ICF SH&E, Inc.
- ICF SH&E Limited (UK)
- ICF Jones & Stokes, Inc.
- ICF Macro, Inc.
- ICF Jacob & Sundstrom, Inc.
- Ironworks Consulting, L.L.C.

All subsidiaries are wholly owned by Consulting. All significant intercompany transactions and balances have been eliminated.

**Nature of Operations**

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

The Company, incorporated in Delaware, is headquartered in Fairfax, Virginia, with over 60 domestic regional offices (as of December 31, 2011), and international offices in Beijing, New Delhi, Singapore, Ottawa, Toronto, Brussels, London, Moscow, and Rio de Janeiro.

**Reclassifications**

Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the current year presentation.

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## NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Revenue Recognition**

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

- **Time-and-Materials Contracts.** Revenue for time-and-materials contracts is recorded on the basis of allowable labor hours worked multiplied by the contract-defined billing rates, plus the costs of other items used in the performance of the contract. Profit and losses on time-and-materials contracts result from the difference between the cost of services performed and the contract-defined billing rates for these services.
- **Cost-Based Contracts.** Revenue under cost-based contracts is recognized as costs are incurred. Applicable estimated profit, if any, is included in earnings in the proportion that incurred costs bear to total estimated costs. Incentives, award fees, or penalties related to performance are also considered in estimating revenue and profit rates based on actual and anticipated awards.
- **Fixed-Price Contracts.** Revenue for fixed-price contracts is recognized when earned, generally as work is performed. Services performed vary from contract to contract and are not always uniformly performed over the term of the arrangement. We recognize revenue in a number of different ways on fixed-price contracts, including:
  - ***Proportional Performance:*** Revenue on certain fixed-price contracts is recorded each period based upon certain contract performance measures (labor hours, labor costs, or total costs) incurred expressed as a proportion of a total project estimate. Thus, labor hours, labor costs, or total contract costs incurred to date are compared with the total estimate for these items at

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

- ***Contractual Outputs:*** Revenue on certain fixed-price contracts is recognized based upon outputs completed to date expressed as a percentage of total outputs required in the contract or based upon units delivered to the customer multiplied by the contract-defined unit price.
- ***Straight-Line:*** When services are performed or are expected to be performed consistently throughout an arrangement, revenue on those fixed-price contracts is recognized ratably over the period benefited.
- ***Completed Contract:*** Revenue on certain fixed-price contracts is recognized at completion if the final act is so significant to the arrangement that value is deemed to be transferred only at completion.

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

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

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

Approximately 66%, 71%, and 60% of the Company's revenue for the years 2011, 2010, and 2009, respectively, were derived under prime contracts and subcontracts with agencies and departments of the U.S. federal government.

The approximate percentage of revenue by contract type was as follows:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Cost-based | 23% | 23% | 20% |
| Time-and-materials | 49% | 49% | 51% |
| Fixed-price | 28% | 28% | 29% |
| Total | 100% | 100% | 100% |

For the years ending December 31, 2011, 2010, and 2009, revenue from various branches of the HHS accounted for approximately 22% or $184.5 million, 21% or $157.7 million, and 17% or $113.6 million, respectively, of the Company's revenue. The accounts receivable due from HHS contracts as of December 31, 2011 and 2010 was approximately $17.2 million and $25.0 million, respectively.

In June of 2006, the Company was awarded a contract by the State of Louisiana, which ended in June 2009. For the year ending December 31, 2009, revenue from the State of Louisiana accounted for approximately 9% or $60.4 million of the Company's revenue.

Payments to the Company on cost-based contracts with the U.S. government are provisional payments subject to adjustment upon audit by the government. Such audits have been finalized through December 31, 2006 and any adjustments have been immaterial. Contract revenue for subsequent periods has been recorded in amounts that are expected to be realized upon final audit and settlement of costs in those years.

***Cash and Cash Equivalents***

The Company considers cash on deposit and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

***Property and Equipment***

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

***Goodwill and Other Intangible Assets***

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

The Company performs its annual goodwill impairment review as of September 30 of each year. For the purposes of performing this review, the Company concluded that it is one reporting unit. The Company estimates fair value of its one reporting unit using a market based approach.

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

***Capitalized Software***

The Company capitalizes eligible, internally developed costs for enhancements and upgrades to software. Amortization expense is recorded on a straight-line basis over the expected economic life, typically five years.

***Equity Compensation***

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

***Long-lived Assets***

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

***Foreign Currency Translation***

As of December 31, 2011 and 2010, the Company held approximately $2.2 million and $3.0 million, respectively, in foreign financial institutions.

The financial positions and results of operations of the Company's foreign affiliates are based on the local currency as the functional currency and are translated to U.S. dollars for financial reporting purposes. Assets and liabilities of the affiliates are translated at the exchange rate in effect at year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included in accumulated other comprehensive income (loss) in stockholders' equity. Gains and losses resulting from foreign currency transactions included in operations are not material for any of the periods presented.

***Deferred Rent***

The Company recognizes rent expense on a straight-line basis over the term of each lease. Lease incentives or abatements received at or near the inception of leases are accrued and amortized ratably over the life of the lease.

***Fair Value of Financial Instruments***

The Company believes the carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, and other current liabilities approximate their estimated fair values at December 31, 2011, due to their short maturities. The Company believes the carrying value of its lines of credit payable approximate the estimated fair value for debt with similar terms, interest rates, and remaining maturities currently available to companies with similar credit ratings at December 31, 2011.

***Income Taxes***

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The Company evaluates its ability to benefit from all deferred tax assets and establishes valuation allowances for amounts it believes are not more likely than not to be realizable. For uncertain tax positions, the Company uses a more likely than not recognition threshold based on the technical merits of the income tax position taken. Income tax positions that meet the more likely than not recognition threshold are measured in order to determine the tax benefit recognized in the financial statements.

***Treasury Shares***

Treasury shares are accounted for under the cost method.

***Segment***

The Company has concluded that it operates in one segment based upon the information used by its chief operating decision maker in evaluating the performance of its business and allocating resources. This single segment represents the Company's core business, professional services primarily for government clients. Although the Company describes multiple service offerings to three markets to provide a better understanding of the Company's business operations, the Company does not manage its business or allocate resources based upon those service offerings or markets.

***Risks and Uncertainties***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and contract receivables. The majority of the Company's cash transactions are processed through one U.S. commercial bank. Cash in excess of daily requirements is used to reduce any amounts outstanding under the Company's Credit Facility or invested in overnight investment sweeps. To date, the Company has not incurred losses related to cash and cash equivalents.

The Company's contract receivables consist principally of contract receivables from agencies and departments of, as well as from prime contractors to, the U.S. government, other governments, and commercial organizations. The Company extends credit in the normal course of operations and does not require collateral from its clients.

The Company has historically been, and continues to be, heavily dependent upon contracts with the U.S. government and is subject to audit by audit agencies of the government. Such audits determine, among other things, whether an adjustment of invoices rendered to the government is appropriate under the underlying terms of the contracts. Management does not expect any significant adjustments, as a result of government audits, that will adversely affect the Company's financial position.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

***Accounting Pronouncements Recently Adopted***

*ASU 2011-08, Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment.* In September 2011, the Financial Accounting Standards Board ("FASB") revised the guidance related to testing goodwill for impairment. The new guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, as a basis for determining whether it is necessary to perform the first step of the two-step goodwill impairment test required under existing guidance. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If, upon assessing the qualitative factors in their totality, an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then performing the two-step impairment test is unnecessary. However, if an entity determines that it is more likely than not, then it is required to perform the first step of the two-step impairment test. In addition, an entity is no longer permitted to carry forward its detailed calculation of a reporting unit's fair value from a prior year as previously permitted. Early adoption is permitted for annual and interim goodwill impairment tests and the Company has elected to do so. As a result of the adoption, the Company determined that it was not more likely than not that the fair value of its one reporting unit was less than its carrying value and therefore did not perform any further testing.

*ASU 2009-14, Software (Topic 985): Certain Revenue Arrangements That Include Software Elements.* In October 2009, the FASB also revised the guidance related to software revenue and multiple-element arrangements with software components. The new guidance related to software revenue recognition excludes arrangements with tangible products containing software and non-software components that function together to deliver a product's essential functionality. Prior to the new guidance, vendor-specific-objective-evidence ("VSOE") of fair value was required for the undelivered elements in the arrangement in order for the Company to account for the elements separately. However, as a result of the new guidance noted below with respect to multiple-deliverable arrangements and the guidance related to software revenue recognition, VSOE may not be required if another topic of the accounting standards codification provides guidance on how to allocate the consideration for contract deliverables. Thus, if there are software and non-software components within the same contract and the software components fall within the scope of the *Software Elements* topic of the code, but that topic addresses solely separation and not allocation, one can now refer back to the *Multiple Deliverables* topic of the codification for guidance on consideration allocation. The *Multiple Deliverables* guidance allows consideration to be allocated based upon a relative fair value basis using the entity's best estimate of fair value, which is no longer limited to VSOE or third-party evidence, but may entail management's best estimate of selling price. The guidance was effective for the Company beginning January 1, 2011. The new guidance did not have a material impact on the Company's financial condition or results of operations.

*ASU 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements.* In October 2009, the FASB revised the accounting guidance pertaining to revenue arrangements with multiple deliverables. Prior to this guidance, in order for deliverables within an arrangement to be separated, the items must have stand-alone value as defined by the statement and there must be objective and reliable evidence of fair value for all elements or at a minimum the undelivered elements within the arrangement. Objective and reliable evidence of fair value meant there was VSOE of fair value, which consisted of the price charged when the deliverable was sold separately or a price established by management with the authority to establish the price for the item before it was to be sold separately. If VSOE did not exist, third-party evidence was also acceptable. The new standard allows for the use of an estimated management selling price to determine the value of deliverables within an arrangement when VSOE or third-party evidence does not exist. The new guidance also eliminated the use of the residual method of allocation allowed in the previous guidance. The guidance was effective for the Company beginning January 1, 2011. The new guidance did not have a material impact on the Company's financial condition or results of operations.

## NOTE C—CONTRACT RECEIVABLES

Contract receivables consisted of the following at December 31:

| | 2011 | 2010 |
|---|---|---|
| Billed | $147,248 | $126,448 |
| Unbilled | 59,637 | 49,102 |
| Retainages | 2,477 | 2,331 |
| Other | 1,810 | 1,004 |
| Allowance for doubtful accounts | (1,746) | (1,922) |
| Contract receivables, net | $209,426 | $176,963 |

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

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

## NOTE D—PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

| | 2011 | 2010 |
|---|---|---|
| Leasehold improvements | $ 8,324 | $ 8,003 |
| Software | 21,602 | 19,430 |
| Furniture and equipment | 10,765 | 7,991 |
| Computers | 21,244 | 15,707 |
| | 61,935 | 51,131 |
| Accumulated depreciation and amortization | (40,868) | (32,244) |
| | $ 21,067 | $ 18,887 |

Depreciation expense for property and equipment for the years ended December 31, 2011, 2010, and 2009, was approximately $10.3 million, $10.3 million, and $9.0 million, respectively.

***Capitalized Software***

Capitalized software development costs of $1.5 million are included in other assets for the years ended December 31, 2011 and 2010, respectively. Aggregate amortization expense for 2011 was $0.3 million. There was no amortization in 2010. These costs are for enhancements and upgrades to software used in our project management services.

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**NOTE F—BUSINESS COMBINATIONS**

***Ironworks***

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

The aggregate purchase price of approximately $102.9 million in cash, including the working capital adjustment required by the stock purchase agreement, was funded by the Company's Credit Facility. The Company has engaged an independent valuation firm to assist management in the allocation of the purchase price to goodwill and to other acquired intangible assets. The excess of the purchase price over the estimated fair value of the net tangible assets acquired was approximately $89.5 million. The Company has preliminarily allocated approximately $74.3 million to goodwill and $15.2 million to other intangible assets. The intangible assets consist of approximately $14.7 million of customer-related intangibles that are being amortized over seven years, and $0.5 million of marketing-related intangibles that are being amortized over one year. Ironworks was an asset purchase for tax purposes, and therefore the goodwill and the amortization of intangibles are deductible over a fifteen-year period and will give rise to certain deferred tax assets and liabilities. The results of operations for Ironworks have been included in the Company's financial statements as of December 31, 2011; however, because the acquisition occurred on the last day of the year in 2011, the operations of Ironworks had no impact on the statement of earnings. The Company is still evaluating the fair value of acquired assets and liabilities and pre-acquisition contingencies; therefore, the final allocation of the purchase price has not been completed.

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

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

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

| | |
|---|---|
| Cash | $ 1,108 |
| Contract receivables | 12,584 |
| Other current and non-current assets | 200 |
| Customer-related intangibles | 14,726 |
| Marketing-related intangibles | 484 |
| Goodwill | 74,260 |
| Property and equipment | 1,609 |
| Total Assets | 104,971 |
| Accounts payable | 872 |
| Accrued salaries and benefits | 365 |
| Billings in excess of costs | 837 |
| Total Liabilities | 2,074 |
| Net Assets | $102,897 |

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

**Pro forma Information (Unaudited)**

The following unaudited condensed pro forma information presents combined financial information as if the acquisition of Ironworks had been effective at the beginning of each twelve-month period presented. The pro forma information includes adjustments reflecting changes in the amortization of intangibles, acquisition-related expense, and interest expense, and records income tax effects as if Ironworks had been included in the Company's results of operations:

| Year Ended December 31 (in thousands except per share amounts) | 2011 | 2010 |
|---|---|---|
| Revenue | $898,528 | $811,316 |
| Operating income | 63,061 | 48,778 |
| Net income | 36,309 | 27,021 |
| Earnings per share: | | |
| Basic earnings per share | $ 1.84 | $ 1.39 |
| Diluted earnings per share | $ 1.82 | $ 1.38 |

***AeroStrategy***

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

***Marbek***

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

***JASI***

Effective December 2009, the Company acquired all of the outstanding common stock of JASI, an information technology firm specializing in providing cybersecurity and identity management services to U.S. federal civilian and defense agencies. The acquisition was immaterial to the financial statements taken as a whole. With the acquisition, the Company is able to offer an expanded range of advisory and implementation solutions across our federal and energy industry client base to assist in mitigating emerging cybersecurity threats and vulnerabilities.

***Macro***

Effective March 2009, the Company acquired all of the outstanding common shares of Macro. Macro provides research and evaluation, management consulting, marketing communications, and information services to key agencies and departments of the federal government. Macro is recognized for its expertise in research, evaluation, consulting, and implementation services, particularly in federal health programs, covering a wide range of health issues in the U.S. and internationally. In addition to its health-related expertise, Macro has strong

credentials in housing, labor, and veterans affairs issues. The Company undertook the acquisition to expand its health-related and large project implementation capabilities across key federal markets, to add service offerings and clients in one of its largest markets, and to provide significant growth potential and cross-selling opportunities.

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

## NOTE G—ACCRUED SALARIES AND BENEFITS

Accrued salaries and benefits consisted of the following at December 31:

| | 2011 | 2010 |
|---|---|---|
| Accrued vacation | $15,264 | $12,368 |
| Accrued salaries | 14,487 | 13,569 |
| Accrued bonuses and commissions | 12,593 | 10,656 |
| Accrued medical | 2,085 | 2,027 |
| Other | 1,786 | 2,130 |
| | $46,215 | $40,750 |

## NOTE H—ACCRUED EXPENSES

Accrued expenses consisted of the following at December 31:

| | 2011 | 2010 |
|---|---|---|
| Accrued subcontractor costs | $14,987 | $12,985 |
| Deposits | 3,861 | 5,402 |
| Accrued incentives | 2,297 | — |
| Accrued IT and software licensing costs | 2,120 | 2,437 |
| Accrued insurance premiums | 1,138 | 1,125 |
| Accrued professional services | 710 | 584 |
| Accrued taxes | 442 | 461 |
| Accrued rent | 165 | 335 |
| Other accrued expenses | 3,532 | 2,193 |
| | $29,252 | $25,522 |

**NOTE I—LONG-TERM DEBT**

The Company entered into its Credit Facility on February 20, 2008, with a syndication of nine commercial banks to allow for borrowings of up to $350.0 million for a period of five years (maturing February 20, 2013) under a revolving line of credit. The Credit Facility provides for borrowings of up to $275.0 million without a borrowing base requirement and also provides for an "accordion feature," which permits additional revolving credit commitments of up to $75.0 million, subject to lenders' approval. The Credit Facility provides for pre-approval by the lenders for acquisitions with individual purchase prices of up to $75.0 million, if certain conditions are met. The Credit Facility is collateralized by substantially all of the assets of the Company, and requires that the Company remain in compliance with certain financial and non-financial covenants. The financial covenants, as defined by the Credit Facility, require that the Company maintain, on a consolidated basis for each quarter, a Fixed Charge Coverage Ratio of not less than 1.00 to 1.25 and a Leverage Ratio of not more than 1.0 to 3.5. As of December 31, 2011, the Company was in compliance with the covenants under the Credit Facility.

On March 31, 2009, the Credit Facility was amended to allow for the acquisition of Macro, for permission to sell capital stock in one or more offerings (provided that the proceeds are used to pay down the Credit Facility), and to increase the interest rate margins the Company pays to borrow funds under the Credit Facility. The Company has the ability to borrow funds under its Credit Facility at interest rates based on both LIBOR and prime rates, at its discretion, plus their applicable margins. Interest rates on debt outstanding ranged from 1.97% to 2.14% in 2011.

The Company's debt issuance costs are amortized over the term of indebtedness. Amortizable debt issuance costs were $2.6 million, as of December 31, 2011 and 2010. Accumulated amortization related to debt issuance costs was $2.0 million and $1.5 million, as of December 31, 2011 and 2010, respectively. Amortization expense of $0.5 million, $0.5 million, and $0.4 million was recorded for the years ended December 31, 2011, 2010, and 2009, respectively.

Long-term debt consisted of the following at December 31:

| | 2011 | 2010 |
|---|---|---|
| Revolving Line of Credit/Swing Line provides for borrowings up to $275 million and matures in February 2013. Outstanding borrowings bear daily interest at a base rate (based on the U.S. Prime Rate, which was 3.25% at December 31, 2011, and 3.25% at December 31, 2010, plus a spread) or LIBOR (1, 3, or 6 month rates) plus a spread, payable monthly . . . . . | $145,000 | $85,000 |

***Letters of Credit***

At December 31, 2011 and 2010, the Company had outstanding letters of credit totaling approximately $1.7 million. These letters of credit are renewed annually.

## NOTE J—INCOME TAXES

Income tax expense consisted of the following at December 31:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Current: | | | |
| Federal | $20,632 | $17,661 | $ 7,959 |
| State | 4,274 | 3,447 | 1,431 |
| Foreign | 801 | 627 | 652 |
| | 25,707 | 21,735 | 10,042 |
| Deferred: | | | |
| Federal | (3,173) | (4,142) | 2,840 |
| State | (630) | (931) | 99 |
| Foreign | (9) | (151) | (355) |
| | (3,812) | (5,224) | 2,584 |
| Income Tax Expense | $21,895 | $16,511 | $12,626 |

Deferred tax assets (liabilities) consisted of the following at December 31:

| | 2011 | 2010 |
|---|---|---|
| **Deferred Tax Assets** | | |
| Current: | | |
| Stock option compensation | $ 106 | $ 175 |
| Allowance for bad debt | 416 | 686 |
| Accrued vacation | 5,184 | 3,857 |
| Accrued bonus | 5,016 | 4,216 |
| Foreign tax credits | 81 | 62 |
| Other | 208 | 650 |
| Total current deferred tax asset | 11,011 | 9,646 |
| Non-current: | | |
| Foreign net operating loss (NOL) carry forward | 159 | 148 |
| Stock option compensation | 2,090 | 1,827 |
| Deferred rent | 2,361 | 1,028 |
| Deferred compensation | 990 | 668 |
| Foreign tax credits | 688 | 591 |
| Other | 2,045 | 1,241 |
| Total non-current deferred tax assets | 8,333 | 5,503 |
| **Total Deferred Tax Assets** | 19,344 | 15,149 |
| **Deferred Tax Liabilities** | | |
| Current: | | |
| Retention | (762) | (704) |
| Section 481(a) adjustment | (674) | (1,934) |
| Prepaids | (1,229) | (936) |
| Payroll taxes | (383) | (454) |
| Amortization | — | (645) |
| Total current deferred liability | (3,048) | (4,673) |
| Non-current: | | |
| Depreciation | (3,450) | (2,438) |
| Amortization | (12,841) | (11,160) |
| Section 481(a) adjustment | (674) | (1,347) |
| Other | (615) | (626) |
| Total non-current deferred tax liabilities | (17,580) | (15,571) |
| **Total Deferred Tax Liabilities** | (20,628) | (20,244) |
| **Total Net Deferred Tax Asset (Liability)** | $ (1,284) | $ (5,095) |

The need to establish valuation allowances for deferred assets is based on a more-likely-than-not threshold that the benefit of such assets will be realized in future periods. Appropriate consideration is given to all available evidence, including historical operating results, projections of taxable income, and tax planning alternatives.

Effective January 1, 2009, the Company has made no provisions for deferred U.S. income taxes or additional foreign taxes on any unremitted earnings of our controlled foreign subsidiaries because the Company considers these earnings to be permanently invested. If these earnings were repatriated, in the form of dividends or otherwise, the Company would be subject to U.S. income tax on these earnings. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable due to the complexities associated with this hypothetical calculation; however, unrecognized foreign tax credit carry forwards would be available to reduce some portion of the U.S. tax liability. The Company has $0.8 million of foreign tax credits available for carry forward related to deemed dividend inclusions from its controlled foreign corporations, as well as its foreign branch operations as of December 31, 2011.

The total amount of unrecognized tax benefits as of December 31, 2011, and December 31, 2010, were $1.1 million and $0.9 million, respectively. Included in the balance at December 31, 2011, and December 31, 2010, were $0.5 million of each year, of tax positions that, if recognized, would impact the effective tax rate.

The Company does not anticipate a significant increase or decrease to the total unrecognized tax benefit during 2011. Its 2008 through 2011 tax years remain subject to examination by the Internal Revenue Service for U.S. federal tax purposes.

The unrecognized tax benefit reconciliation, excluding penalty and interest, is as follows:

| | |
|---|---|
| Unrecognized tax benefits at January 1, 2009 | $ 1,240 |
| Increase attributable to tax positions taken during a prior period | 92 |
| Increase attributable to tax positions taken during the current period | 361 |
| Decrease attributable to settlements with taxing authorities | (168) |
| Decrease attributable to lapse of statute of limitations | (211) |
| Unrecognized tax benefits at December 31, 2009 | 1,314 |
| Decrease attributable to tax positions taken during the prior period | (15) |
| Increase attributable to tax positions taken during the current period | 147 |
| Decrease attributable to settlements with taxing authorities | (83) |
| Decrease attributable to lapse of statute of limitations | (419) |
| Unrecognized tax benefits at December 31, 2010 | 944 |
| Increase attributable to tax positions taken during a prior period | 117 |
| Unrecognized tax benefits at December 31, 2011 | $ 1,061 |

During 2008 and 2009, the Company filed federal, state, and foreign tax returns for prior years related to one of its 2007 acquisitions. The effect of these returns was to reduce our unrecognized tax benefits by a total of $1.1 million and for us to pay total net tax of $0.4 million.

The Company's policy is to not recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. The Company had approximately $0.4 million of accrued penalty and interest at December 31, 2009. During 2011, there was less than a $0.1 million change, which was adjusted through the penalty and interest expense and reflected in indirect and selling expenses and interest expense, respectively. The Company had approximately $0.5 million of accrued penalty and interest at December 31, 2011.

The Company's provision for income taxes differs from the anticipated United States federal statutory rate. Approximate differences between the statutory rate and the Company's provision are as follows:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Taxes at statutory rate | 35.0% | 35.0% | 35.0% |
| State taxes, net of federal benefit | 4.6% | 4.6% | 4.6% |
| Foreign tax rate differential and U.S. unrepatriated earnings | — % | (0.1)% | (0.6)% |
| Other permanent differences | 0.6% | 0.8% | 1.6% |
| Change in valuation allowance | — % | — % | (0.4)% |
| Prior year tax adjustments and changes in unrecognized tax benefits | (1.2)% | (1.3)% | (3.4)% |
| Tax credits | (0.4)% | (1.2)% | (0.7)% |
| | 38.6% | 37.8% | 36.1% |

## NOTE K—ACCOUNTING FOR STOCK-BASED COMPENSATION

### *Stock Incentive Plans*

On June 4, 2010, the Company's stockholders ratified the ICF International, Inc. 2010 Omnibus Incentive Plan (the "Omnibus Plan"), which was adopted by the Company on March 8, 2010. The Omnibus Plan replaced the 2006 Long-Term Equity Incentive Plan (the "2006 Plan"), which the Company had used for equity and incentive awards since becoming a publicly traded company in 2006. The Omnibus Plan provides for the granting of options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance shares, performance units, cash-based awards, and other stock-based awards to all officers, key employees of the Company, and non-employee directors. The Omnibus Plan, upon adoption by the Company on March 8, 2010, allowed for the Company to grant an additional 1.8 million shares in addition to the remaining shares from the 2006 Plan, for a total of approximately 2.7 million shares. Shares awarded that are not stock options or stock appreciation rights are counted as 1.9 shares deducted from the Omnibus Plan for every one share delivered under those awards. Shares awarded that are stock options or stock appreciation rights are counted as a single share deducted from the Omnibus Plan for every one share delivered under those awards. As of December 31, 2011, the Company had 1.8 million shares available to grant under the Omnibus Plan.

Total compensation expense relating to stock-based compensation was approximately $6.7 million, $7.5 million, and $7.2 million for the years ended December 31, 2011, 2010, and 2009, respectively.

As of December 31, 2011, the total unrecognized compensation expense related to non-vested stock awards totaled approximately $16.5 million. These amounts are expected to be recognized over a weighted-average period of 2.5 years.

The assumptions of post-vesting employment termination forfeiture rates used in the determination of fair value of stock awards issued during calendar year 2011 were based on the Company's historical ten-year average. The expected annualized forfeiture rates used varied from 3.6 percent to 6.3 percent, and the Company does not expect these termination rates to vary significantly in the future.

### *Stock Options*

Option awards are granted with an exercise price equal to the fair value of the Company's common stock on the date of grant. All options outstanding as of December 31, 2011, have a 10-year contractual term. The Company expenses the value of these option grants over the requisite service period, generally, the vesting period. The Company recorded approximately $1.1 million, $0.6 million, and $0.5 million of compensation expense related to stock options for the years ended December 31, 2011, 2010, and 2009, respectively. The fair

value of the options is estimated on the date of grant using the Black-Scholes-Merton pricing model. The fair value assumptions for awards in 2011 were 5.6 years for the expected life, 42.3% for historical volatility, and 2.2% for the risk-free rate. The fair value assumptions for awards in 2010 were a range of 5.1 to 5.5 years for the expected life, a range of 45.0 percent to 45.7 percent for historical volatility, and a range of 2.3% to 2.6% for the risk-free rate. No options were granted during the year ended December 31, 2009. At December 31, 2011, unrecognized expense related to stock options totaled approximately $2.0 million, and these costs are expected to be recognized through 2014.

The following table summarizes the changes in outstanding stock options:

| | Shares | Weighted-Average Exercise Price | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|
| Outstanding at January 1, 2009 | 658,832 | $10.19 | $ 9,474 |
| Exercised | (336,956) | $ 8.40 | $(6,200) |
| Forfeited/Expired | (8,903) | $ 9.98 | $ (150) |
| Outstanding at December 31, 2009 | 312,973 | $12.12 | $ 4,594 |
| Exercised | (110,237) | $ 8.76 | $(1,870) |
| Granted | 196,133 | $24.44 | $ 251 |
| Forfeited/Expired | (6,500) | $ 6.16 | $ (127) |
| Outstanding at December 31, 2010 | 392,369 | $19.32 | $ 2,511 |
| Exercised | (39,487) | $12.11 | $ (500) |
| Granted | 190,552 | $21.77 | $ 574 |
| Forfeited/Expired | (82,781) | $21.85 | $ (243) |
| Outstanding at December 31, 2011 | 460,653 | $20.50 | $ 1,972 |
| Vested plus expected to vest at December 31, 2011 | 451,573 | $20.46 | $ 1,951 |
| Exercisable at December 31, 2011 | 206,538 | $17.67 | $ 1,468 |

The aggregate intrinsic value in the preceding table is based on the Company's closing stock price of $24.78 as of December 31, 2011. The weighted average grant date fair value of options granted was $9.18 and $10.64 per share for the years ended December 31, 2011, and 2010, respectively. As of December 31, 2011, the weighted-average remaining contractual term for options vested and expected to vest was 7.3 years, and 5.5 years for exercisable options.

Information regarding stock options outstanding as of the dates indicated is summarized below:

| | OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding As of 12/31/11 | Weighted Average Remaining Contractual Term | Weighted Average Exercise Price | Number Exercisable As of 12/31/11 | Weighted Average Exercise Price |
| $ 5.00 - $ 7.00 | 7,021 | 0.35 | $ 6.10 | 7,021 | $ 6.10 |
| $ 7.01 - $10.00 | 32,000 | 3.41 | $ 8.17 | 32,000 | $ 8.17 |
| $18.01 - $23.00 | 294,094 | 7.54 | $20.30 | 125,000 | $18.31 |
| $23.01 - $25.00 | 127,538 | 8.25 | $24.84 | 42,517 | $24.84 |
| $5.00 to $25.00 | 460,653 | 7.34 | $20.50 | 206,538 | $17.67 |

***Restricted Stock Awards***

Pursuant to the Omnibus Plan, the Company issued 48,356 shares of restricted stock awards to its directors in the year ended December 31, 2011. The average grant date fair value of these restricted stock awards was $24.32 per share.

Compensation expense related to restricted stock awards computed under the fair value method for the years ended December 31, 2011, 2010, and 2009, was approximately $0.8 million, $0.6 million, and $0.7 million, respectively. Unrecognized expense related to restricted stock awards was approximately $0.4 million for the year ended December 31, 2011, and is expected to be recognized over a weighted-average period of 0.4 years.

A summary of the Company's restricted stock awards is presented below.

| | Number of Shares | Weighted-Average Grant Date Fair Value | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|
| Non-vested restricted stock awards at January 1, 2009 | 58,025 | $13.62 | $ 1,555 |
| Granted | 7,615 | $25.99 | $ 204 |
| Vested | (54,346) | $14.54 | $(1,456) |
| Cancelled | (4,500) | $12.00 | $ (121) |
| Non-vested restricted stock awards at December 31, 2009 | 6,794 | $21.20 | $ 182 |
| Granted | 20,002 | $24.38 | $ 514 |
| Vested | (23,400) | $23.92 | $ (601) |
| Cancelled | — | $ — | $ — |
| Non-vested restricted stock awards at December 31, 2010 | 3,396 | $21.19 | $ 87 |
| Granted | 48,356 | $24.32 | $ 1,198 |
| Vested | (17,088) | $23.87 | $ (423) |
| Cancelled | — | $ — | $ — |
| Non-vested restricted stock awards at December 31, 2011 | 34,664 | $24.23 | $ 859 |

The aggregate intrinsic value in the preceding table is based on the Company's closing stock price of $24.78 as of December 31, 2011.

***Restricted Stock Units***

During the year ended December 31, 2011, the Company awarded 350,375 restricted stock units to employees that vest over four years. Upon vesting, the employee is issued one share of stock for each restricted stock unit he or she holds. Restricted stock units were valued based on the grant date value of a share of common stock and are expensed on a straight-line basis over the vesting period of the award. The weighted-average grant date fair value of restricted stock units granted during the year ended December 31, 2011 was $21.69 per share.

Compensation expense related to restricted stock units computed under the fair value method for the years ended December 31, 2011, 2010, and 2009, was approximately $4.8 million, $6.3 million, and $6.0 million, respectively.

At December 31, 2011, unrecognized expense related to restricted stock units totaled approximately $14.1 million. These costs are expected to be recognized over a weighted-average period of 2.7 years. The aggregate intrinsic value of restricted stock units at December 31, 2011 that are expected to vest was approximately $18.1 million.

A summary of the Company's restricted stock units is presented below.

| | Number of Shares | Weighted-Average Grant Date Fair Value | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|
| Non-vested restricted stock units at January 1, 2009 | 623,671 | $19.16 | $ 16,714 |
| Granted | 306,883 | $25.78 | $ 8,244 |
| Vested | (409,084) | $28.33 | $(10,963) |
| Cancelled | (35,453) | $21.13 | $ (950) |
| Non-vested restricted stock units at December 31, 2009 | 486,017 | $15.48 | $ 13,025 |
| Granted | 423,092 | $24.90 | $ 10,882 |
| Vested | (206,400) | $24.62 | $ (5,298) |
| Cancelled | (50,385) | $25.64 | $ (1,296) |
| Non-vested restricted stock units at December 31, 2010 | 653,324 | $25.05 | $ 16,803 |
| Granted | 350,375 | $21.69 | $ 8,682 |
| Vested | (176,251) | $22.56 | $ (4,367) |
| Cancelled | (58,429) | $24.01 | $ (1,448) |
| Non-vested restricted stock units at December 31, 2011 | 769,019 | $23.67 | $ 19,056 |
| Restricted stock units expected to vest in the future | 730,354 | $24.78 | $ 18,098 |

The aggregate intrinsic value in the preceding table is based on the Company's closing stock price of $24.78 per share as of December 31, 2011.

## NOTE L—EARNINGS PER SHARE

***Earnings Per Share***

Basic earnings per share (EPS) is computed by dividing reported net income by the weighted-average number of shares outstanding. Diluted EPS considers the potential dilution that could occur if common stock equivalents were exercised or converted into stock. The difference between the basic and diluted weighted-average equivalent shares with respect to the Company's EPS calculation is due entirely to the assumed exercise of stock options and the vesting of restricted stock and restricted stock units. The effect of 653 and 541 restricted stock units had no impact upon the years ended December 31, 2011, and 2010, because they were anti-dilutive to EPS. The dilutive effect of stock options and awards for each period reported is summarized below:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| | | (in thousands) | |
| Basic weighted-average shares outstanding | 19,684 | 19,375 | 15,433 |
| Effect of potential exercise of stock options and unvested restricted stock and restricted stock units | 244 | 251 | 481 |
| Diluted weighted-average shares outstanding | 19,928 | 19,626 | 15,914 |

## NOTE M—SHARE REPURCHASE PROGRAM AND SECONDARY OFFERING

In 2011, the Company's Board of Directors approved a share repurchase program, authorizing the Company to repurchase in the aggregate up to $35.0 million of its outstanding common stock. Purchases under this program may be made from time to time at prevailing market prices in open market purchases or in privately-negotiated transactions 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 the Company repurchases its shares will depend upon market conditions and other corporate considerations as may be considered in the Company's sole discretion. As of December 31, 2011, the Company had not repurchased any shares under the share repurchase program.

On December 16, 2009, the Company sold 3,565,000 shares of its common stock at $24.56 per share in conjunction with a secondary public offering, which included 465,000 shares sold following exercise by the underwriters of their over-allotment option to purchase additional shares. The $83.3 million of proceeds (net of underwriting fees and expenses) from the sale of stock was applied to repayment of outstanding borrowings incurred under the Company's Credit Facility.

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## NOTE N—CONTINGENCIES AND COMMITMENTS

### *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 our financial position, results of operations, or cash flows.

### *Road Home Contract*

Although no legal proceeding has been commenced, the Company has received correspondence from the Office of Community Development of the State of Louisiana, claiming that the Company is responsible for the overpayment of Road Home program grant funds. The Company believes this claim has no merit, and intends to vigorously defend its position, and has therefore not recorded a liability as of December 31, 2011.

### *Operating Leases*

In April 2011, the Company entered into a new lease for operating space in Gaithersburg, Maryland, which will consolidate certain operations into a single location. Rent expense will be recognized on a straight line basis over the term of the lease beginning in the second quarter of 2012. Aggregate rent expense over the 12-year, 8-month period will be approximately $43.8 million.

On March 8, 2010, the Company entered into a new lease that replaced its prior headquarters lease, which was due to expire in October 2012. The new lease is initially for 201,707 square feet, with 57,025 square feet of additional space to be subsequently added. The lease commenced on April 1, 2010, and will expire on December 31, 2022. Base rent under the agreement is approximately $0.5 million per month with annual escalations fixed at 2.5% per year, yielding a total lease commitment of approximately $89.3 million over the twelve-year term of the lease. The Company did not incur any early termination penalties for the termination of the original lease.

The Company has entered into various other operating leases for equipment and office space. Certain facility leases may contain fixed escalation clauses, certain facility leases require the Company to pay operating expenses in addition to base rental amounts, and seven leases require the Company to maintain letters of credit. Rent expense is recognized on a straight-line basis over the lease term. Rent expense and sub-lease income for operating leases were approximately $32.0 million and $0.2 million, respectively, for 2011, approximately $31.2 million and $0.3 million, respectively, for 2010, and approximately $29.5 million and $0.9 million, respectively, for 2009.

Future minimum rental payments under all non-cancelable operating leases are as follows:

| Year ending December 31, | |
|---|---|
| 2012 | $ 30,870 |
| 2013 | 27,554 |
| 2014 | 22,377 |
| 2015 | 22,019 |
| 2016 | 21,012 |
| Thereafter | 127,593 |
| | $251,425 |
| Less: Sublease Income | (234) |
| | $251,191 |

***Long-Term Agreements***

The Company entered into an amended and restated employment agreement with Chief Executive Officer Sudhakar Kesavan as of the effective date of the initial public offering, which was subsequently amended on December 29, 2008, to bring it into compliance with Section 409A of the Internal Revenue Code. Mr. Kesavan may terminate this agreement by giving 45 days prior written notice to the Company, and the Company may terminate this agreement either without cause upon 30 days prior written notice or at any time for cause upon written notice. Absent a change in control, if he is involuntarily terminated without cause or resigns for good reason, as defined in the agreement, he will be paid all accrued salary, a severance payment equal to two times his base salary payable in 24 equal monthly installments, and bonus and other incentive compensation prorated through his termination date and payable pursuant to its regular payment schedule. Additionally, the vesting of his unvested options, if any, on his termination date will be accelerated in connection with such a termination and exercisable for the balance of their term(s).

The Company has entered into severance protection agreements with Messrs. Kesavan and Wasson (Chief Operating Officer and President), allowing them to receive certain payments and benefits if they are terminated without cause or resign for good reason within 24 months following a change in control. In the event of such termination, the executive will receive, among other payments and benefits, (i) his base salary earned through the date of termination and pro rata bonus for the year of termination and (ii) a lump-sum payment equal to three times the executive's average annual taxable W-2 compensation during the three years prior to termination subject to reduction after taking into account the excise tax under Section 4999 of the Internal Revenue Code to maximize the net amount after taxes.

The Company has also entered into other severance arrangements with Mr. Wasson pursuant to a separate severance letter agreement, entitling him to certain payments in the event of termination of employment by the Company other than for cause. In the event of termination under such circumstances, Mr. Wasson would be entitled to (i) continuation of his base salary for 12 months and (ii) an amount equal to the average annual bonus paid to him over the three years prior to his termination.

On September 6, 2011, the Company entered into a severance letter agreement with Sandra B. Murray, the Company's Interim Chief Financial Officer and Senior Vice President. Ms. Murray's severance agreement will remain in effect until the earlier of (i) June 30, 2012 or (ii) a new Company CFO, other than Ms. Murray, is selected and the Company has no other viable position for her or one in which she is interested in performing. Subject to certain restrictions and terms, her severance agreement generally provides that, in the event the Company involuntarily terminates Ms. Murray's employment without Cause (as defined in the severance agreement) or she elects to voluntarily resign due to the selection of a new CFO, then she is entitled to the following benefits: (i) a pro-rated share of her targeted bonus of $150,000 based on the number of months she acts in the capacity of Interim CFO in the calendar year in which her appointment ends; (ii) seven months'

severance benefits calculated based upon her current annualized salary of $305,594 plus her last paid bonus, to be paid out over 15 biweekly pay dates following her separation from service; and (iii) Ms. Murray and her dependents will be provided with health care coverage on the same terms in effect on her separation from service date, for the period of time that severance benefits are paid.

## NOTE O—EMPLOYEE BENEFIT PLANS

### *Retirement Savings Plan*

Effective June 30, 1999, the Company established the ICF Consulting Group Retirement Savings Plan (the Retirement Savings Plan). The Retirement Savings Plan is a defined contribution profit sharing plan with a cash or deferred arrangement under Section 401(k) of the Internal Revenue Code.

Participants in the Retirement Savings Plan are able to elect to defer up to 70% of their compensation subject to statutory limitations, and were entitled to receive 100% employer matching contributions for the first 3% and 50% for the next 2% of their compensation. Contribution expense related to the Retirement Savings Plan for the years ended December 31, 2011, 2010, and 2009, was approximately $10.3 million, $9.2 million, and $7.7 million, respectively.

### *Deferred Compensation Plan*

Certain key employees of the Company are eligible to defer a specified percentage of their cash compensation by having it contributed to a nonqualified deferred compensation plan. Eligible employees may elect to defer up to 80% of their base salary and up to 100% of performance bonuses, reduced by any amounts withheld for the payment of taxes or other deductions required by law. Participants are at all times 100% vested in their account balances. The Company funds its deferred compensation liabilities by making cash contributions to a Rabbi Trust at the time the salary or bonus being deferred would otherwise be payable to the employee. Gains or losses on amounts held by the Rabbi Trust are fully allocable to plan participants. As a result, the plan has no net impact on the Company's results of operations and the liability to plan participants is fully funded at all times.

### *Employee Stock Purchase Plan*

The Company has a 2006 Employee Stock Purchase Plan ("ESPP"). The ESPP allows eligible employees to purchase shares of the Company's stock at a discount not to exceed 5% of the market value on the date of purchase. The Company does not recognize compensation expense related to the ESPP.

## NOTE P—SUBSEQUENT EVENTS

### *Acquisition of GHK Holdings Limited (GHK)*

In February 2011, the Company completed the acquisition of GHK Holdings Limited (GHK). With its headquarters in London, GHK is a multi-disciplinary consultancy serving government and commercial clients on environment, employment, health, education and training, transportation, social policy, business and economic development, and international development issues.

## NOTE Q—SUPPLEMENTAL INFORMATION

***Valuation and Qualifying Accounts***

**Allowance for Doubtful Accounts**

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Balance at beginning of period | $1,922 | $2,333 | $ 3,378 |
| Additions | — | 543 | 463 |
| Recoveries/write-offs | (176) | (954) | (1,508) |
| Balance at end of period | $1,746 | $1,922 | $ 2,333 |

**Allowance for Deferred Tax Assets**

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Balance at beginning of period | $— | $— | $ 115 |
| Additions | — | — | — |
| Releases and other reductions | — | — | (115) |
| Balance at end of period | $— | $— | $ — |

## NOTE R—SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q |
| Contract revenue | $194,742 | $213,395 | $218,691 | $213,947 | $174,438 | $199,647 | $197,711 | $192,938 |
| Operating income | 13,419 | 15,504 | 16,094 | 13,867 | 10,100 | 12,661 | 12,505 | 11,647 |
| Net income | $ 7,726 | $ 8,963 | $ 9,334 | $ 8,842 | $ 5,420 | $ 7,201 | $ 7,393 | $ 7,157 |
| Earnings per share: | | | | | | | | |
| Basic | 0.39 | $ 0.46 | $ 0.47 | $ 0.45 | 0.28 | $ 0.37 | $ 0.38 | $ 0.37 |
| Diluted | 0.39 | 0.45 | 0.47 | 0.44 | 0.28 | 0.37 | 0.38 | 0.36 |
| Weighted-average common shares outstanding | | | | | | | | |
| Basic | 19,580 | 19,688 | 19,728 | 19,738 | 19,282 | 19,351 | 19,413 | 19,489 |
| Diluted | 19,780 | 19,847 | 19,860 | 19,956 | 19,504 | 19,568 | 19,630 | 19,751 |

Note: Amounts do not sum to annual numbers in all cases due to rounding.

## Board of Directors

**Eileen O'Shea Auen**
Chairperson and CEO
PMSI, Inc.

**Dr. Edward H. Bersoff**
Business Consultant

**Dr. Srikant M. Datar**
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Harvard Business School

**Richard M. Feldt**
CEO and Director
Advanced Electron Beams

**Joel R. Jacks**
Managing Partner
CM Equity Partners

**Sudhakar Kesavan**
Chairman and CEO
ICF International, Inc.

**Dr. Ernest J. Moniz**
Professor & Director of Energy Initiative
Massachusetts Institute of Technology

**Peter M. Schulte**
Managing Partner
CM Equity Partners

## Transfer Agent

American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, New York 11219
1-800-937-5449

## Independent Auditor

Grant Thornton LLP
2010 Corporate Ridge Road
Suite 400
McLean, VA 22102
1-703-847-7500

## Investor Contact

Lynn Morgen/Betsy Broad
MBS Value Partners
424 Madison Avenue
Suite 400
New York, New York 10017
1-212-750-5800

## Executive Leadership

**Sudhakar Kesavan**
Chairman and Chief Executive Officer

**John Wasson**
President and Chief Operating Officer

**Sandra Murray**
Interim Chief Financial Officer & Senior Vice President

**Dr. Frank Abramcheck**
Senior Vice President
Market Research & Business Processing

**Dr. Douglas Beck**
Senior Vice President
Government Affairs & Investor Relations

**Gerald Croan**
Executive Vice President
Corporate Strategy

**Ellen Glover**
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**Candice Mendenhall**
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Human Resources

**Philip Mihlmester**
Senior Vice President
Energy, Environment & Transportation

**Sergio Ostria**
Executive Vice President
Energy, Environment & Transportation

**Isabel Reiff**
Executive Vice President
Corporate Growth & Strategic Accounts

**Barbara Rudin**
Senior Vice President
Health, Education & Social Programs

**Jeanne Townend**
Executive Vice President
Europe and Asia

**Donald Zimmerman**
Executive Vice President
Defense/Intelligence Group

## Corporate Office

ICF International, Inc.
9300 Lee Highway
Fairfax, VA 22031
1-703-934-3000
info@icfi.com

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FSC
www.fsc.org