

ICF International, Inc.  
Form 10-Q  
May 08, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009**

OR

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

Commission File Number: 001-33045

**ICF International, Inc.**

(Exact name of Registrant as Specified in its Charter)

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

**Delaware**  
(State or Other Jurisdiction of

**22-3661438**  
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

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

**22031**  
(Zip Code)

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

**Not Applicable**

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

As of May 1, 2009, there were 15,261,582 shares outstanding of the registrant's common stock.

**Table of Contents**

**ICF INTERNATIONAL, INC.**

**QUARTERLY REPORT ON FORM 10-Q FOR THE**

**PERIOD ENDED MARCH 31, 2009**

**TABLE OF CONTENTS**

<b><u>PART I. FINANCIAL INFORMATION</u></b>	<b>3</b>
Item 1. <u>Financial Statements</u>	3
<u>Consolidated Balance Sheets at March 31, 2009 (Unaudited) and December 31, 2008</u>	3
<u>Consolidated Statements of Earnings (Unaudited)</u>	5
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Forward-Looking Statements</u>	12
<u>Overview</u>	12
<u>Outlook</u>	13
<u>Description of Critical Accounting Policies</u>	13
<u>Direct Costs</u>	15
<u>Operating Costs and Expenses</u>	15
<u>Income Tax Expense</u>	16
<u>Results of Operations</u>	16
<u>Selected Key Metrics</u>	17
<u>Capital Resources, Financial Condition, and Liquidity</u>	19
<u>Off-Balance Sheet Arrangements and Contractual Obligations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4. <u>Controls and Procedures</u>	21
<b><u>PART II. OTHER INFORMATION</u></b>	<b>22</b>
Item 1. <u>Legal Proceedings</u>	22
Item 1A. <u>Risk Factors</u>	22
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
Item 3. <u>Defaults Upon Senior Securities</u>	22
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	22
Item 5. <u>Other Information</u>	22
Item 6. <u>Exhibits</u>	22

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ICF International, Inc. and Subsidiaries****CONSOLIDATED BALANCE SHEETS AT****MARCH 31, 2009 (UNAUDITED) AND DECEMBER 31, 2008**

(in thousands)

**Assets**

	<b>March 31, 2009</b> <i>(Unaudited)</i>	<b>December 31, 2008</b>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 2,049	\$ 1,536
Contract receivables, net	184,337	150,778
Prepaid expenses and other	5,270	4,507
Income tax receivable		3,530
Restricted cash	2,180	2,180
Deferred income taxes	8,134	4,186
<b>Total current assets</b>	<b>201,970</b>	<b>166,717</b>
<b>Total property and equipment, net</b>	<b>23,457</b>	<b>13,373</b>
<b>Other assets:</b>		
Goodwill	299,650	198,724
Other intangible assets, net	42,101	16,844
Restricted cash	1,534	2,078
Other assets	4,257	3,281
<b>Total assets</b>	<b>\$ 572,969</b>	<b>\$ 401,017</b>

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

**Table of Contents****ICF International, Inc. and Subsidiaries****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share amounts)

**Liabilities and Stockholders' Equity**

	<b>March 31, 2009</b> <i>(Unaudited)</i>	<b>December 31, 2008</b>
<b>Current Liabilities:</b>		
Accounts payable	\$ 34,937	\$ 27,740
Accrued expenses	30,970	35,295
Accrued salaries and benefits	33,344	27,405
Income taxes payable	1,642	
Deferred revenue	14,671	12,352
<b>Total current liabilities</b>	<b>115,564</b>	<b>102,792</b>
<b>Long-term liabilities:</b>		
Long-term debt	226,008	80,000
Deferred rent	2,055	2,361
Deferred income taxes	12,571	10,849
Other	5,532	2,098
<b>Total Liabilities</b>	<b>361,730</b>	<b>198,100</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity:</b>		
Preferred stock, par value \$.001 per share; 5,000,000 shares authorized; none issued		
Common stock, \$.001 par value; 70,000,000 shares authorized; 15,189,741 and 15,188,320 issued; and 15,179,094 and 15,106,522 outstanding as of March 31, 2009, and December 31, 2008, respectively	15	15
Additional paid-in capital	121,911	120,550
Treasury stock, at cost	(143)	(1,474)
Accumulated other comprehensive income	(524)	(272)
Stockholder notes receivable	(12)	(12)
Retained earnings	89,992	84,110
<b>Total stockholders' equity</b>	<b>211,239</b>	<b>202,917</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 572,969</b>	<b>\$ 401,017</b>

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

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

(in thousands, except per share amounts)

	<b>Three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Gross Revenue	\$ 157,862	\$ 175,148
Direct Costs	99,237	120,407
Operating costs and expenses:		
Indirect and selling expenses	45,289	37,237
Depreciation and amortization	1,559	1,008
Amortization of intangible assets	1,747	1,775
Total operating costs and expenses	48,595	40,020
Operating Income	10,030	14,721
Interest expense	(735)	(1,210)
Other income	166	(50)
Income before taxes	9,461	13,461
Provision for income taxes	3,579	5,646
Net income	\$ 5,882	\$ 7,815
Earnings per Share:		
Basic	\$ 0.39	\$ 0.54
Diluted	\$ 0.38	\$ 0.51
Weighted-average Shares:		
Basic	15,079	14,482
Diluted	15,572	15,179

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

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

(in thousands)

	<b>Three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 5,882	\$ 7,815
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,306	2,783
Non-cash compensation	1,714	1,670
Loss on disposal of fixed assets	1	102
Deferred income taxes	(2,226)	(3,244)
Changes in operating assets and liabilities, net of the effect of acquisitions:		
Contract receivables, net	3,026	46,733
Prepaid expenses and other	(349)	723
Accounts payable	3,925	(36,801)
Accrued expenses	(8,224)	(6,658)
Accrued salaries and benefits	(2,381)	(11,860)
Deferred revenue	(255)	(2,488)
Income tax payable	5,172	7,750
Deferred rent	(29)	(22)
Other liabilities	(66)	(413)
<b>Net cash provided by operating activities</b>	<b>9,496</b>	<b>6,090</b>
<b>Cash flows from investing activities</b>		
Capital expenditures	(702)	(1,236)
Capitalized software development costs	(118)	(63)
Payments for business acquisitions, net of cash acquired	(154,856)	(50,652)
<b>Net cash used in investing activities</b>	<b>(155,676)</b>	<b>(51,951)</b>
<b>Cash flows from financing activities</b>		
Advances from working capital facilities	172,418	101,121
Payments on working capital facilities	(26,410)	(55,297)
Restricted cash	544	23
Debt issue costs	(585)	(1,211)
Proceeds from exercise of options	448	455
Tax benefits of stock option exercises	609	607
Net payments proceeds for stockholder issuances and buybacks	(79)	17
<b>Net cash provided by financing activities</b>	<b>146,945</b>	<b>45,715</b>
Effect of Exchange Rate on Cash	(252)	(20)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>513</b>	<b>(166)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1,536</b>	<b>2,733</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,049</b>	<b>\$ 2,567</b>

**Supplemental disclosure of cash flow information**

Cash paid during the period for:

Interest	\$	703	\$	924
Income taxes	\$	183	\$	617

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

---

**Table of Contents****Notes to Consolidated Financial Statements**

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

**Note 1. Basis of Presentation and Nature of Operations****Interim Results**

The unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). These rules and regulations permit some of the information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) to be condensed or omitted. In management's opinion, the unaudited consolidated financial statements contain all adjustments, that are of a normal recurring nature, necessary for a fair statement of the Company's results for the three-month periods ended March 31, 2009, and March 31, 2008. Operating results for the three-month period ended March 31, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008, and the notes thereto included in the Company's Annual Report on Form 10-K, filed with the SEC on March 13, 2009.

**Basis of Presentation and Nature of Operations**

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

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

**Note 2. Acquisitions**

**Macro International Inc.** Effective March 31, 2009, the Company acquired 100 percent of the outstanding common shares of Macro International Inc. ( Macro ). Macro provides research and evaluation, management consulting, marketing communications, and information services to key agencies of the federal government. The company 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 acquisition was accounted for as a purchase in accordance with the provisions of SFAS No. 141(R), *Business Combinations* ( SFAS No. 141(R) ). The aggregate purchase price was approximately \$155.0 million in cash, which was funded by our revolving credit facility. The stock purchase agreement contains a working capital adjustment provision that will affect the final purchase price. The effect of the working capital adjustment is not expected to be material at this time. 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, but this allocation has not yet been finalized. The excess of the purchase price over the estimated fair value of the net tangible assets acquired was approximately \$127.9 million. The Company has preliminarily allocated approximately \$100.9 million to goodwill and \$27.0 million to other intangible assets. The intangible assets consist of approximately \$27.0 million of customer-related intangibles that are being amortized over seven years. Macro was purchased under the election provisions of Internal Revenue Code 338(h)(10), and therefore, goodwill and the amortization of intangibles are deductible for tax purposes. The results of operations for Macro will be included in the Company's statement of earnings after March 31, 2009. The effect of the acquisition is reflected in the Company's March 31, 2009 balance sheet and related notes. Due to the recent closing of the acquisition, the Macro financial information necessary for the pro forma presentation is in the process of being compiled.



**Table of Contents**

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

The fair values as reported below represent management's estimates of the fair values as of the acquisition date and are based on our initial analysis of supporting information. Due to the timing of the acquisition, management is still in the process of analyzing the fair value of the acquired intangibles. The final results of our analysis may differ from our preliminary purchase price allocation.

The preliminary purchase price allocation is as follows:

Cash	\$ 136
Contract receivables	36,585
Other current assets	633
Customer-related intangibles	