

ICF International, Inc.
Form 10-K
March 08, 2016

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, 2015

Commission File Number: 001-33045

ICF INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of	22-3661438 (IRS Employer
incorporation or organization)	Identification Number)

9300 Lee Highway Fairfax, VA (Address of principal executive offices)	22031 (Zip Code)
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Registrant's telephone number, including area code:

(703) 934-3000

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

<u>Title of Each Class</u>	<u>Name of Exchange on which Registered</u>
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 \$655 million based upon the closing price per share of \$34.86, as quoted on the NASDAQ Global Select Market on June 30, 2015. 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 29, 2016, 18,963,141 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 Proxy Statement for the 2016 Annual Meeting of Stockholders expected to be held in June 2016.

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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, as amended. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. In some cases, you can identify these statements by forward-looking words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “should,” “will,” “would,” or similar. You should read statements that contain these words carefully. The risk 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 United States (“U.S.”) federal, state and local, and international governments, agencies and departments for the majority of our revenue;

- failure by Congress or other governmental bodies to approve budgets in a timely fashion and reductions in government spending including, but not limited to, budgetary cuts resulting from automatic sequestration under the Budget Control Act of 2011;

- results of routine and non-routine government audits and investigations;

- dependence of our commercial work on certain sectors of the global economy that are highly cyclical;

- failure to receive the full amount of our backlog;

- difficulties in integrating acquisitions generally;

- risks resulting from expanding our service offerings and client base;

- the claim arising from our completed Road Home contract with the State of Louisiana; and

- additional risks as a result of having international operations.

Our forward-looking statements are based on the beliefs and assumptions of our management and the information available to our management at the time these disclosures were prepared. Although we believe the expectations reflected in these statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this 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” or “federal government” refers to the U.S. federal government, and “state and local” or “state and local government” refers to U.S. state and local government, unless otherwise indicated.

PART I

ITEM 1. BUSINESS

COMPANY OVERVIEW

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

•Energy, Environment, and Infrastructure

•Health, Education and Social Programs

•Safety and Security

•Consumer and Financial

We categorize the revenue from our clients by key market based on what we consider to be the client's primary market. Near the end of fiscal year 2014, we acquired OCO Holdings, Inc. and its various subsidiaries, including Olson + Co., Inc. (collectively, "Olson"). This acquisition broadened our consumer and financial market revenue. As a result, in the first quarter of 2015, we made certain changes to our then existing three key markets to better reflect our current business. First, we began to break out our revenues into four markets instead of three by adding a new market related to our consumer and financial client revenue, which was previously included in the health, social programs, and consumer/financial market. Second, we changed the name of the health, social programs, and consumer/financial market to health, education and social programs. Finally, we changed the name of our public safety and defense market and renamed it safety and security to more accurately reflect the nature of our client base.

We provide services across these four markets that deliver value throughout the entire life cycle of a policy, program, project, or initiative, from research and analysis and assessment and advice to design and implementation of programs and technology-based solutions, and the provision of engagement services and programs. Our primary services include:

Research and Analytic Services. We research critical policy, industry, and stakeholder issues, trends, and behavior. We collect and analyze wide varieties of data to understand critical issues and options for our clients.

Assessment and Advisory Services. We measure and evaluate results and their impact and, based on those assessments, we provide advice to our clients on how to navigate societal, market, business, communication, and technology challenges.

Design and Management Services. We design, develop, and manage plans, frameworks, programs and tools that are key to our clients' mission or business performance. These programs often relate to the analytics and advice we provide.

Solution Identification and Implementation Services. We identify, define, and implement technology-based systems and business tools that make our clients' organizations more effective and efficient. These solutions are implemented through a wide range of standard and customized methodologies designed to match our clients' business context.

Engagement Services. We inform and engage our clients' constituents, customers, and employees through public relations, branding and marketing, multichannel and strategic communications, and enterprise training and communications programs. Our engagement services frequently rely on our digital design and implementation skills.

Within our four markets, we perform work for both government and commercial clients. Our government clients include federal clients, state and local clients, as well as governments outside the U.S. Our commercial clients include both U.S. and international clients. Our clients utilize our services because we offer a combination of deep subject-matter expertise, technical solutions, and institutional experience in our market areas. We believe that our domain expertise and the program knowledge developed from our research and analytic and assessment and advisory engagements (which we refer to hereafter as “research and advisory services”) further position us to provide our full suite of services.

We generated revenue of \$1,132.2 million, \$1,050.1 million, and \$949.3 million in 2015, 2014, and 2013, respectively. Our total backlog was approximately \$1.8 billion, \$1.9 billion, and \$1.7 billion as of December 31, 2015, 2014, and 2013, respectively. See further discussion in “Contract Backlog.”

As of December 31, 2015, we had more than 5,000 employees around the globe, including many recognized as thought leaders in their respective fields. We serve clients globally from our headquarters in the Washington, D.C. metropolitan area, our more than 55 regional offices throughout the U.S., and more than 10 offices outside the U.S., including offices in the United Kingdom (“UK”), Belgium, China, India and Canada.

We report operating results and financial data in one operating and reportable segment. See our revenue, net income and total assets as presented in the consolidated financial statements and the related notes included elsewhere in this Annual Report.

OUR COMPANY INFORMATION

ICF International, Inc. began as a Delaware limited liability company formed in 1999 under the name ICF Consulting Group Holdings, LLC. It was formed to purchase our principal operating subsidiary, which was founded in 1969, from a larger services organization. A number of our current senior managers participated in this 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 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.

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 (the “Exchange Act”), 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 four key market areas.

In the energy, environment, and infrastructure market, these factors include: the changing mix of sources used to generate electricity and the related policy and infrastructure issues resulting from those changes; the changing position of the U.S. in the world's energy markets overall; an increasing focus on renewables, energy efficiency, and climate change; an aging transportation infrastructure; increasing drought and need to invest in water infrastructure and conservation; and environmental degradation.

In the health, education and social programs market, these factors include: the increasing level of healthcare expenditures and efforts at healthcare reform; global public health and health security issues, including potential global epidemics; aging populations across the globe; 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 desire to find more efficient means to deliver social and educational programs.

In the safety and security market, these factors include: the continuing spectrum of all-hazard threats, including cybersecurity threats, terrorism, severe weather and climatological changes, as well as infrastructure protection.

In the consumer and financial market, these factors include increased use of interactive data technologies to link organizations with consumers and other stakeholders in more varied and personalized ways, and less reliance on traditional print and television marketing; changing industry structures in marketing and advertising services; the desire for greater return on marketing investment; and the continued elevation of data analytics as a business management and marketing tool.

In addition to these market-based factors, secular trends across all of our markets are increasing the demand for research and advisory services that drive our business. These trends include: increased government focus on efficiency and mission performance management; generational changes; the emphasis on transparency and accountability; and an increased demand for combining domain knowledge of client mission and programs with innovative technology-enabled solutions. We see growth opportunities for technology-based solutions involving digital services and strategic communications across all of our markets.

We believe that demand for our services will continue as government, industry, and other stakeholders seek to understand and respond to these and other factors. We expect that our government clients will continue to utilize professional services firms with relevant domain expertise to assist with designing new programs, enhancing existing ones, and offering transformational solutions based on applicable experience evaluating and improving such programs, and to deploy innovative information and communications technology. 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. More broadly, we believe our commercial clients will demand innovative services and solutions that can help them connect with customers and stakeholders in an increasingly connected and crowded marketplace. We believe that our institutional knowledge and subject-matter expertise in our four key markets are distinct competitive advantages in providing our clients with practical, innovative solutions, which are 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 research and advisory assignments and our experience with program management, technology-based solutions, and engagement projects to win larger engagements, thereby increasing returns on business development investment and driving higher employee utilization. Rapid changes in technology, including the omnipresent influence of mobile, social, and cloud technologies, also demand new ways of communicating, evaluating and implementing programs across all of our markets, and we are focused on leveraging our expertise in technology to capitalize on those changes.

Our future results will depend on the success of our strategy to capitalize on our competitive strengths, including our success in maintaining our long-standing client relationships, to seek larger engagements across the program life cycle in our four key markets and to complete and successfully integrate strategic acquisitions. In our four key markets, we will continue to focus on building scale in vertical and horizontal domain expertise; developing business with both our government and commercial clients; and replicating our business model geographically in selective regions of the world. In doing so, we will continue to evaluate strategic acquisition opportunities that enhance our subject matter

knowledge, broaden our service offerings, and/or provide scale in specific geographies.

Energy, Environment, and Infrastructure

For decades, we have advised on energy and environmental issues, including the impact of human activity on natural resources, and have helped 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 those 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, the U.S. EPA's Clean Power Plan, and an increased demand for alternative sources of energy;

- Ongoing efforts to upgrade energy infrastructure to meet new power, transmission, environmental, and cybersecurity requirements and to enable more distributed forms of generation; and

- The need to manage energy demand and increase efficient energy use in an era of environmental concerns, especially regarding carbon and other emissions.

We assist energy enterprises 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 commercial 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 assist commercial and government clients in designing, implementing, and evaluating energy efficiency programs both for residential and for commercial and industrial sectors. Utility companies must balance the changing demand for energy with a price-sensitive, environmentally conscious consumer base. We help utilities meet these needs, guiding them through the entire life cycle of energy efficiency programs, including policy and planning, technical requirements, implementation and improvement.

Carbon emissions are an important focus of federal government regulation, international governments, many state and local governments, 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 interest in energy efficiency. Moreover, how government and business adapt to the effects of climate change is growing in importance. We support governments at the federal and state and local level, including providing comprehensive support to NASA’s Global Climate Research Program. Additionally, we support ministries and agencies of the government of the UK and European Commission, as well as commercial clients, on these and related issues.

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

• Increased focus on the proper stewardship of natural resources;

- Aging water, energy, and transportation infrastructure, particularly in the U.S.;

• The increasing exposure of infrastructure to damage and interference by severe weather events influenced by a changing climate;

• Under-investment historically in U.S. transportation infrastructure; and

Changing patterns of economic development that require transportation systems and energy infrastructure to adapt to new patterns of demand.

By leveraging our interdisciplinary skills, which range from finance and economics to earth and life sciences, information technology, and program management, we are able to provide a wide range of services that include complex environmental impact assessments, environmental management information systems, air quality assessments, program evaluation, transportation planning and operational improvement, strategic communications, and regulatory reinvention. We help clients deal specifically with the interrelated environmental, business, and social implications of issues surrounding all 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, urban and land use planning, industry management practices, financial analysis, environmental sciences, and economics.

Health, Education and Social Programs

We also apply our expertise across our full suite of services in the areas of health, education and social programs. We believe that a confluence of factors will drive an increased need for public and private focus on these areas, including, among others:

- ◆ Expanded healthcare services to underserved segments of the population;
- ◆ Rising healthcare expenditures, which require 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 U.S. and other countries' educational systems;
- ◆ The need for greater transparency and accountability of public sector programs;
- ◆ A continued high need for social support systems;
- ◆ A changing regulatory environment; and
- ◆ Military personnel returning home from active duty with health and social service needs.

We believe we are well positioned to provide our services to help our clients develop and manage effective programs in the areas of health, education and social programs at the international, national, regional, and local levels. Our subject-matter expertise includes public health, mental health, international health and development, health communications and associated interactive technologies, education, child and family welfare needs, housing and communities, and substance abuse. Our combination of domain knowledge and our experience in information technology-based applications provides us with strong capabilities in health and social programs informatics and analytics, which we believe will be of increasing importance as the need to manage information grows. We partner with our clients in the government and commercial sectors to increase their knowledge base, support program development, enhance program operations, evaluate program results, and improve program effectiveness.

In the area of public health, we support many agencies and programs within the Department of Health and Human Services (“HHS”), including the National Institutes of Health (“NIH”) and the Centers for Disease Control and Prevention (“CDC”), 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. Increasingly, we provide multichannel communications and messaging for public health programs using capabilities similar to our commercial marketing business. We also provide training and technical assistance for early care and educational programs (such as Head Start), 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 disaster recovery programs of the Department of Housing and Urban Development (“HUD”) and state and local governments. In addition, we provide research, program design, evaluation, and training for educational initiatives at the federal and state level. We provide similar services to a variety of UK ministries, as well as several Directorates-General of the European Commission.

Safety and Security

Safety and security programs continue to be a critical priority of the federal government, state and local governments, international governments (especially in Europe), and in the commercial sector. We believe we are positioned to meet the following key safety concerns:

- Vulnerability of critical infrastructure to cyber and terrorist threats;
- Increasing risks to enterprises' reputations in the wake of a cyber-attack;
- Broadened homeland security concerns that 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;
- Safety issues around crime and at-risk behavior;
- Increased dependence on private sector personnel and organizations in emergency response; and
- The need to ensure that critical functions and sectors are resilient and able to recover quickly after attacks or disasters.

These security concerns create demand for government programs that can identify, prevent, and mitigate key cybersecurity and disaster impacts and the societal issues they cause.

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 need for real-time information sharing and logistics modernization and network-centric planning requirements, and the global nature of conflict arenas.

We provide key services to the Department of Homeland Security (“DHS”), Department of Justice (“DOJ”), DoD, and analogous Directorates-General at the European Commission. 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 U.S., and managing the national program to test radiological emergency preparedness at the state and local government levels in communities adjacent to nuclear power facilities. At DOJ, we provide technical and communications assistance to programs that help victims of crime and at-risk youths. We support DoD by providing high-end strategic planning, analysis, and technology-based 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. At the European Commission, we provide support and analytical services related to justice and home affairs issues within the European context.

Consumer and Financial

In the area of consumer and financial, we combine our expertise in strategic communications, marketing and creative services and public relations with our strengths in interactive and mobile technologies to help companies develop stronger relationships and engage with their customers and stakeholders across all channels, whether via traditional or digital media, to drive better business results. In an effort to enhance our positioning and build awareness outside of our traditional client set, we have combined capabilities from our recent acquisitions to create a full-service, technology-rooted agency that guides brands digitally through informed strategy, inspired creative design, and technical know-how. We have the capability to complete projects big or small across all channels, such as web, social, mobile, intranets and emerging platforms, through end-to-end technology-based implementations for local and global clients. Target customer areas include airlines, airports, electric and gas utilities, oil companies, banks and other financial services companies, transportation, travel and hospitality firms, non-profits/associations, law firms, manufacturing firms, retail chains, and distribution companies.

