

ICF International, Inc.  
Form 10-K  
February 27, 2019

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, 2018

Commission File Number: 001-33045

ICF INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

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

Registrant's telephone number, including area code:

(703) 934-3000

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

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

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

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

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

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 \$1,293 million based upon the closing price per share of \$71.05, as quoted on the NASDAQ Global Select Market on June 30, 2018. 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 22, 2019, 18,814,206 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 2019 Annual Meeting of Stockholders expected to be held in May 2019.

---

TABLE OF CONTENTS

<u>PART I</u>	4
ITEM 1. <u>Business</u>	4
ITEM 1A. <u>Risk Factors</u>	16
ITEM 1B. <u>Unresolved Staff Comments</u>	28
ITEM 2. <u>Properties</u>	28
ITEM 3. <u>Legal Proceedings</u>	28
ITEM 4. <u>Mine Safety Disclosures</u>	28
<u>PART II</u>	29
ITEM 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	29
ITEM 6. <u>Selected Financial Data</u>	32
ITEM 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	33
ITEM 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	51
ITEM 8. <u>Financial Statements and Supplementary Data</u>	52
ITEM 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	52
ITEM 9A. <u>Controls and Procedures</u>	52
ITEM 9B. <u>Other Information</u>	52
<u>PART III</u>	53
ITEM 10. <u>Directors, Executive Officers, and Corporate Governance</u>	53
ITEM 11. <u>Executive Compensation</u>	53
ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	53
ITEM 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	53
ITEM 14. <u>Principal Accountant Fees and Services</u>	53

PART IV 54

ITEM 15. Exhibits and Financial Statement Schedules 54

2

---

## 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 words. 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;
- Changes in federal government budgeting and spending priorities;
- Failure by Congress or other governmental bodies to approve budgets and debt ceiling increases in a timely fashion and related reductions in government spending;
- Failure of the Administration and Congress to agree on spending priorities, which may result in temporary shutdowns of non-essential federal functions, including our work to support such functions;
- Results of routine and non-routine government audits and investigations;
- Dependence of 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 lawsuit filed by the State of Louisiana seeking approximately \$220.2 million in alleged overpayments from the Road Home contract; and
- Additional risks as a result of having international operations.

Our forward-looking statements are based on the beliefs and assumptions of our management and the information available to our management at the time these disclosures were prepared. Although we believe the expectations reflected in these statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this 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 governments, 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, marketing, technology, and policy consulting and implementation services. We help our clients conceive, develop, implement, and improve solutions that address complex business, natural resource, social, technological, and public safety issues. Our services primarily support clients that operate in four key markets:

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

We provide services across these four markets that deliver value throughout the entire life cycle of a policy, program, project, or initiative. Our primary services include:

- **Advisory Services.** We research critical policy, industry, and stakeholder issues, trends, and behavior. We measure and evaluate results and their impact and, based on those assessments, provide strategic planning and advice to our clients on how to navigate societal, market, business, communication, and technology challenges.
- **Program Implementation Services.** We identify, define, and implement policies, plans, programs, and business tools that make our clients' organizations more effective and efficient. Our comprehensive, end-to-end solutions are implemented through a wide range of standard and customized methodologies designed to match our clients' business context.
- **Analytics Services.** We conduct survey research and collect and analyze wide varieties and large volumes of data to understand critical issues and options for our clients and provide actionable business intelligence. We provide information and data management solutions that allow for integrated, purpose-driven data usage.
- **Digital Services.** We design, develop, and implement cutting-edge technology systems and business tools that are key to our clients' mission or business performance, and include solutions to optimize the customer and citizen experience for our clients. We provide cybersecurity solutions that support the full range of cybersecurity missions and protect evolving IT infrastructures in the face of relentless threats.
- **Engagement Services.** We inform and engage our clients' constituents, customers, and employees to drive behavior and outcomes through public relations, branding and marketing, multichannel and strategic communications, and reputation issues management. Our engagement services frequently rely on our digital design and implementation skills, such as web and app development.

We perform work for both government and commercial clients. Our government clients include U.S. federal agencies, state and local governments, 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 which ensures that our solutions are beneficial. We believe that our domain expertise and the program knowledge developed from our advisory engagements further position us to provide our full suite of services.

We report operating results and financial data in one operating and reportable segment. We generated revenue of \$1,338.0 million, \$1,229.2 million, and \$1,185.1 million in 2018, 2017, and 2016, respectively. Our total backlog was approximately \$2,377.7 million, \$1,950.4 million, and \$2,122.7 million as of December 31, 2018, 2017, and 2016, respectively.

As of December 31, 2018, we had more than 7,000 full and part-time employees around the globe, including many recognized as thought leaders in their respective fields. We serve clients globally from our headquarters in the

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

Washington, D.C. metropolitan area, our more than 65 regional offices throughout the U.S., and more than 15 offices outside the U.S., including offices in the United Kingdom (“U.K.”), Belgium, China, India and Canada.

4

---



## 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 September 2006.

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.icf.com](http://www.icf.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. The SEC also maintains an internet website that contains reports, proxy, and information statements and other information, regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

## MARKET OPPORTUNITY, SERVICES, AND SOLUTIONS

Complex, long-term market factors, which include geopolitical, environmental and demographic trends, are changing the way people live and the way government and industry operate and interact. Some of these factors have significant impacts on the markets in which our clients operate.

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 ongoing focus on renewables, energy efficiency, climate change, and resilience; 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 both the physical realm and the cyber realms, and the intersection of those two.

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, as well as the concomitant growth of concerns about, and regulation of, data capture and exploitation for marketing and other private and public sector purposes.

In addition to these market-based factors, trends across all of our markets are increasing the demand for 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, offering transformational solutions, and deploying 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 also see opportunity to further leverage our digital and client engagement capabilities across our commercial and government client base. We believe that our institutional knowledge and subject matter expertise are a distinct competitive advantage in providing our clients with practical, innovative solutions, which are directly applicable to their mission or business, and deploying them quickly with the right resources. Moreover, we believe we will be able to leverage the domain expertise and program knowledge we have developed through advisory assignments and our experience with program management, technology-based solutions, and engagement projects to win larger engagements, which generally lead to increasing returns on business development investment and promote 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, 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 and to complete and successfully integrate strategic acquisitions. We will continue to focus on building scale in vertical and horizontal domain expertise; developing business with both our government and commercial clients; and replicating our business model geographically in selected 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.

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

Our portfolio includes a sizable amount of federal client work and we take active measures to minimize the impact of any federal government shutdown on our performance and our people. While a significant portion of our federal business was not impacted by the recent U.S. government shutdown, we did receive stop-work orders for several of our federal contracts which were lifted once operations resumed in the affected government organizations. We do not anticipate a material impact on our operations as a result of the shutdown. However, a federal government shutdown of any length is highly unpredictable for our impacted employees, for our clients, and for us as a company and, in the event of any future shutdowns, we cannot predict the impact on us or our operations.

#### 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, increasingly diverse sources of supply, and an increased demand for alternative sources of energy and/or energy storage;
- 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.

6

---

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 demand side management 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 and related demand side management programs, including policy and planning, determining technical requirements, and program implementation and improvement.

Carbon emissions have been 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 continues to be of global importance. We support governments at the federal and state and local level, including providing comprehensive support to NASA’s Global Change Research Program. Additionally, we support ministries and agencies of the government of the U.K. 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 environmental compliance programs for transportation (including aviation) and other 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 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 and aviation 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;

7

---

- Rampant substance abuse and widespread social and health impacts of the opioid abuse epidemic;
- 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;
- The need to recover from natural disasters such as hurricanes, wildfires, and earthquakes;
- 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, regional, national, 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 U.S. Department of Health and Human Services ("HHS") (including the National Institutes of Health ("NIH") and the Centers for Disease Control and Prevention ("CDC")) by 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 U.S. 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 U.S. Department of Housing and Urban Development ("HUD") and state, territorial, 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 U.K. 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 the societal issues they cause.

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

In addition, the U.S. 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;
- The increasing use of commercial cloud computing infrastructure and services to support the DoD enterprise; 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 DoD, the U.S. Department of Homeland Security (“DHS”), the U.S. Department of Justice (“DOJ”), and analogous Directorates-General at the European Commission. 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 critical infrastructure protection, environmental management, human capital assessment, military community research, and technology-enabled solutions. 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. At the European Commission, we provide support and analytical services related to justice and home affairs issues within the European context.

## Consumer and Financial Markets

In the area of consumer and financial markets, 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 operating results. We continue to strengthen our services in the fields of content and customer relationship management, loyalty marketing, and end-to-end e-commerce. In an effort to enhance our positioning and build awareness outside of our traditional client set, we have combined capabilities from strategic acquisitions to create a full-service, technology-rooted advertising 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 (including web, social, mobile, intranet 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.





## 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 clients' markets. Our thought leadership is based on years of training, experience, and education. We are able to apply our in-depth knowledge of our subject matter experts and our experience developed over 40 years of providing advisory services to address the problems and issues our clients are facing. As of December 31, 2018, approximately 34% 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, 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 client markets, services, and projects provide a stimulating work environment for our employees that 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 people 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 on 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 U.S. Environmental Protection Agency ("EPA") and HHS for more than 30 years, the U.S. Department of Energy ("DOE") for more than 25 years, DoD for more than 20 years, certain commercial clients in our energy markets for more than 20 years, the European Commission for more than 15 years, and we have multi-year relationships with many of our other clients in both our government and commercial client base. 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 experience working alongside our clients, gives us clearer visibility into future opportunities and emerging requirements. We believe our balance between government civilian and defense agencies, our commercial presence, and the diversity of markets in which our clients operate help mitigate the impact of policy or political shifts, as well as annual shifts in our clients' budgets and priorities.

Our advisory services position 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 a full suite of services across the entire life cycle of a particular policy, program, project, or initiative. As a result, we are able to understand our clients' requirements and objectives as they evolve over time. We then use this knowledge to provide continuous improvement across our entire range of services, which maintains the relevance of our recommendations.

Our technology-enabled solutions are driven by our subject matter expertise and creativity

Government and commercial decision-makers have become increasingly aware that, to be effective, technology-based solutions need to be seamlessly integrated with people and processes. We possess strong knowledge in information technology and a thorough understanding of organizational behavior and human decision 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 with less start-up time required to understand

client issues. In addition, many of our clients seek to deploy cutting-edge solutions to communicate and transact with citizens, stakeholders, and customers in a multichannel environment, and doing so takes both our constantly-refreshed technical know-how and world-class creativity.

Our proprietary tools, 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 to our clients 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. Our loyalty marketing services are often provided via our proprietary Tally software, software as a service. 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 clients 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 264 officers with the title of vice president or higher, possesses extensive industry experience and had an average tenure of 13.7 years with us as of December 31, 2018 (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 our key services. Our management team also has experience in acquiring other businesses and integrating those operations with our own. A number of our managers are industry-recognized thought leaders. We believe that our management's successful past performance and deep understanding of our clients' needs have been and will continue to be differentiating factors in competitive situations.

We have a broad global presence

We serve our clients with a global network of more than 65 regional offices throughout the U.S., and more than 15 offices in key markets outside the U.S., including offices in the U.K., Belgium, China, India and Canada. Our global presence also gives us access to many of the leading experts on a variety of issues from around the world, allowing us to expand our knowledge base and areas of functional expertise. Over the past year, we worked in dozens of countries, helping government and commercial clients with energy, environment, infrastructure, healthcare, marketing, interactive technology/e-commerce, and air transport matters.

## STRATEGY

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

Expand our commercial businesses

We plan to continue to pursue profitable commercial projects and we believe we have strong, global client relationships in both the commercial energy and air transport markets. We continue to see growth opportunities in our current commercial business in the utility sector, as well as significant potential for us to expand our business in other commercial areas, such as aviation and digital marketing services and strategic communications services, both domestically and internationally.

We view the energy industry as a particularly attractive sector for us over the next decade due to concerns over controlling energy costs and limiting climate and environmental impacts, increased state and federal regulation, the need for cleaner and more diverse sources of energy, and the concomitant need for infrastructure to transport, store, and/or convert those new energy sources. We also believe that the combination of our vertical domain expertise with our digital marketing expertise makes us a provider of choice for high value-added assignments in that arena. Although we believe the utility industry will continue to be a strong market for advisory services, particularly in light of the changing focus on regulatory actions and alternative energy sources, we intend to leverage our existing relationships and institutional expertise to pursue and capture additional, typically higher-margin opportunities. For example, we believe we can continue to expand our program and technology-based services in

areas such as assisting with the implementation of energy efficiency programs, information technology applications, and environmental management services for larger utilities. In addition, the growth of interest in sustainability and energy efficiency issues has created opportunities to offer these types of services to new clients beyond our traditional sectors. We believe these factors, coupled with our expansive national and global footprint, will result in a greater number of engagements that will also be larger in size and scope.

We expect that interest in energy advisory services will continue to expand as clients in a number of industries, including information service providers and companies engaged in travel and tourism, seek to better understand their energy consumption options and the positive benefits of demonstrating environmental stewardship. Our broad range of services to the aviation industry makes us well positioned to capitalize on significant industry changes, including substantial airline equipment upgrades to newer, more efficient aircraft models in a cost-constrained environment; renovations of older airports to adapt to newer aircraft; and changes to airport business models and strategy as they place increasing importance on passenger experience.

Our engagement services, including marketing, interactive technology, and strategic communications offerings, are well-positioned to support the continuing growth of multichannel engagement and e-commerce. We have broadened our client offerings, particularly in the areas of content management, marketing and digital services. We can now offer complete end-to-end solutions for chief marketing officers, chief communications officers, and chief technology officers as they invest in digital marketing platforms and solutions. We deliver cutting-edge digital strategy support, as well as the creative services that help brands, products and services succeed in a crowded marketplace. As a means of more comprehensively communicating and delivering our engagement services to customers in both the private and public sectors, ICF recently announced the creation of ICF Next, an umbrella under which all of ICF's engagement capabilities can be integrated, communicated, and delivered to clients.

Replicate our business model across government and industry in selected geographies

We believe the services we provide to our energy, environment, and infrastructure market have strong growth potential in selected geographies. Our domain expertise is well suited in Europe to meet the need for cutting-edge climate change, energy and environmental solutions, particularly with our offerings to the U.K. government and European Commission. We have also focused our geographic footprint, when prudent, by selectively closing or reducing the size of offices which appear to be unlikely to generate profitable growth in the near to medium term, generally in nations or regions undergoing either economic or political challenges.

Strengthen our technology-based offerings

We continue to strengthen our services in the fields of content and customer relationship management, loyalty marketing, and end-to-end e-commerce. We are positioned to increase these services by expanding the technological underpinnings of our business, while bringing these marketing and e-commerce solutions, as well as expanded data management and analytics offerings, to our clients to better link them with consumers and other stakeholders.

Leverage advisory work into full life cycle solutions

We plan to continue to leverage our advisory services and strong client relationships to increase our revenue by winning longer term engagements. These engagements could include: information services and technology-based solutions, project and program management, business process solutions, marketing and communications delivery, 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 the resulting larger engagements. However, we will need to undertake such expansion carefully to avoid actual, potential, and perceived conflicts of interest.

Defend, expand, and deepen our presence in core U.S. federal and state and local government markets

Changing political priorities at the U.S. federal, state (including territories), and local government levels have created challenging market conditions for all competitors in the government services sector. We will focus not only on defending our current market footprint, but also on innovating to continue expanding across key growth markets, such as U.S. federal government health-related and cybersecurity initiatives, digital services, and disaster recovery work for state and local governments. We will continue to provide innovative solutions that help our public sector clients do more with less. We will specifically target deeper penetration of those agencies that currently procure

12

---

services only from one or two of our service areas. We believe we can leverage many of our long-term client relationships by introducing these existing clients, where appropriate, to our other services in order to better meet their needs. 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 and digital services. We can also offer clients our extensive performance measurement, program evaluation, and performance management services. Finally, having more than 65 offices across the U.S. allows us to focus more of our business development efforts on addressing the needs of U.S. federal and state and local government agencies with operations outside of the Washington, D.C. metropolitan area.

#### Pursue larger prime contract opportunities

We believe that continuing to expand our client engagements into services we offer as part of our end-to-end client solutions enables us to pursue larger prime contract opportunities, which should provide a greater return on our business development efforts and allow for increased 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 to grow our business.

#### Pursue strategic acquisitions

We plan to augment our organic growth with selective, strategic acquisitions when the target company will enable us to obtain new clients, increase our presence in attractive markets, and/or obtain capabilities that complement our existing portfolio of services, provided that the target company has a cultural compatibility and we expect that that the acquisition will have a positive financial impact.

These elements of our strategy permeate all of the Company and influence day-to-day decisions. We believe that, collectively, they support the overall long-term growth of the organization.

#### CLIENT AND CONTRACT MIX

Government clients (including U.S. federal, state (including territories) and local, as well as international, governments) accounted for approximately 64%, 62%, and 65% of our 2018, 2017, and 2016 revenue, respectively. Commercial clients (including U.S. and international clients) accounted for approximately 36%, 38%, and 35% of our 2018, 2017, and 2016 revenue, respectively. Our clients span a broad range of civilian and defense agencies and commercial enterprises. Commercial clients include non-profit organizations and universities, while government clients include the World Bank and the United Nations. In general, a client is considered to be a government client if its primary funding is from a government agency or institution. If we are a subcontractor, we classify the revenue based on the nature of the ultimate client receiving the services.

In the fiscal years 2018, 2017, and 2016, our three largest clients were HHS, DOS, and DoD. The following table summarizes the percentage of our total revenue for each of these.

	Year ended December 31,		
	2018	2017	2016
Department of Health and Human Services	17 %	20 %	19 %
Department of State	6 %	6 %	6 %
Department of Defense	5 %	5 %	5 %
Total	28 %	31 %	30 %



Most of our revenue is derived from prime contracts in which we work directly for the end customer, which accounted for approximately 92%, 91%, and 90% of our revenue for 2018, 2017, and 2016, respectively.

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. In 2018, 2017, and 2016, no single contract accounted for more than 4% of our revenue. Our 10 largest contracts by revenue collectively accounted for approximately 18%, 15%, and 14% of our revenue in 2018, 2017, and 2016, respectively.

International revenues increased by \$40.4 million for the year ended December 31, 2018 compared to the year ended December 31, 2017, as a result of both organic growth and growth through acquisitions, due to increases in our international government client services in the energy, environment and infrastructure and in the health, education, and social program client markets and increases in our international commercial client services in the consumer and financial client markets.

## 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 total 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 U.S. General Services Administration Multiple Award Schedule (“GSA Schedule”) contracts, other Indefinite Delivery/Indefinite Quantity (“IDIQ”) contracts, Master Service Agreements (“MSAs”), 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, 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 funded backlog. We do include expected revenue under an engagement in funded backlog when we do not have a signed contract, but only in situations when we have received client authorization to begin or continue working and we expect to sign a contract 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 the services we provide to commercial clients are provided under contracts or task orders under MSAs 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 estimate of unfunded backlog for a particular contract is based, to a large extent, on the amount of revenue we have recently recognized on the particular contract under the assumption that future utilization will be similar, our past experience in utilizing contract capacity on similar types of contracts, and our professional judgment. Accordingly, if contract utilization is different from our expectations, the revenue eventually earned on a contract may be lower or higher than that implied by our estimate, at a point in time or during the life of a contract, of total backlog, including unfunded backlog. Although we expect our total 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.

Our funded and estimates of unfunded and total backlog were as follows at December 31:

2018	2017	2016
------	------	------

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

	(in millions)		
Funded	\$1,140.1	\$1,060.0	\$1,020.3
Unfunded	1,237.6	890.4	1,102.4
Total backlog	\$2,377.7	\$1,950.4	\$2,122.7

There were no awards included in our 2018, 2017 or 2016 backlog amounts that were under protest.

14

---

## BUSINESS DEVELOPMENT

Our business development efforts are critical to our organic growth. Our business development processes and systems are designed to enable agility and speed-to-market over the business development life cycle, especially given the distinctions between commercial and government clients. Business development efforts in priority market areas, which include some of our largest federal agency accounts (HHS, DOS, DOE, U.S. Department of Transportation and EPA), 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, focusing on larger and strategically important pursuits, and utilize appropriate resources to win new work. Each team participates in regular executive reviews of marketing plans and proposal development process. Our non-federal government clients are served by account leaders from operating units and coordinated by senior executives with industry experience where such coordination is deemed appropriate to enhance our business development success. This account-based approach allows deep insight into the needs of current and future clients. It also helps us anticipate our clients' evolving requirements over the coming 12 to 18 months and position ourselves to meet those requirements. Each administrative group is responsible for maximizing sales in our existing accounts and finding opportunities in closely-related accounts.

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. The marketing group engages in brand marketing and strategic marketing program development and execution to raise awareness of our services and solutions across our markets, and to generate leads for further pursuit by sales personnel. Our contracts and administration function supports bid price development in partnership with the business development account teams.

## COMPETITION

We operate in a highly competitive and fragmented marketplace and compete against a number of firms in each of our clients' key markets. Some of our principal competitors include: Abt Associates Inc.; AECOM Technology Corporation; Alliance Data Systems Corporation; Booz Allen Hamilton Holding Corporation; CACI International Inc.; Cambridge Systematics, Inc.; CRA International, Inc.; Deloitte LLP; Eastern Research Group, Inc.; Cardno ENTRIX, Inc.; L-3 Technologies, Inc.; Leidos Holdings, Inc.; Lockheed Martin Corporation; ManTech International Corporation; Navigant Consulting, Inc.; Northrop Grumman Corporation; Omnicom Group Inc.; PA Consulting Group; PricewaterhouseCoopers (PwC); Publicis Group; Science Applications International Corp; Research Triangle Institute; Tetra Tech Inc.; Westat, Inc., and WPP Plc. In addition, we have numerous smaller competitors, many of which have narrower service offerings and serve niche markets. Some of our competitors are significantly larger than we are and have greater access to resources and stronger brand recognition than we do.

We consider our principal competitive discriminators to be long-standing client relationships, good reputation and past performance of the firm, client references, technical knowledge and industry expertise of employees, quality of services and solutions, scope and scale of our service offerings, and pricing.

## INTELLECTUAL PROPERTY

We own a number of trademarks and copyrights that help maintain our business and competitive position. 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, software, analytical models and tools throughout our service offerings. Our staff regularly maintains, updates, and improves these software, models, and tools 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.

EMPLOYEES

As of December 31, 2018, we had more than 6,000 benefits-eligible (full-time or benefits eligible) employees, approximately 34% 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. Approximately 80% of our employees held a bachelor's degree or

15

---

equivalent or higher. 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” sets forth some of the most significant factors that may adversely affect our business, operations, financial position or future financial performance, reputation and/or value of our stock. 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. Because of the following factors, as well as other factors, whether known or unknown, affecting our business, operations, financial position or future financial performance, reputation and/or value of our stock, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

#### RISKS RELATED TO OUR INDUSTRY

The failure of Congress to approve appropriations bills in a timely manner for the federal government agencies and departments we support, or the failure of the Administration and Congress to reach an agreement on fiscal issues, could delay and reduce spending, cause us to lose revenue and profit, and affect our cash flow.

On an annual basis, Congress is required to approve appropriations bills that govern spending by each of the federal government agencies and departments we support. When Congress is, or Congress and the Administration are, unable to agree on budget priorities, and thus unable to pass annual appropriations bills on a timely basis, Congress typically enacts a continuing resolution. Continuing resolutions generally allow federal government agencies and departments to operate at spending levels based on the previous fiscal year. When agencies and departments operate on the basis of a continuing resolution, funding we expect to receive from clients for work we are already performing and for new initiatives may be delayed or cancelled. Recently Congress and the Administration have failed to agree on a continuing resolution, resulting in a temporary shutdown of non-essential federal government functions and our work on such functions. Thus, the failure by Congress and the Administration to approve appropriations bills in a timely manner can result in the loss of revenue and profit when federal government 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 shutdowns or delays in implementing existing or new initiatives. There is also the possibility that Congress will fail to raise the U.S. debt ceiling when necessary. This can also result in federal government shutdowns. The delayed funding or shutdown of many parts of the federal government, including agencies, departments, programs, and projects we support could have a substantial negative affect on our revenue, profit, and cash flows. The budgets of many of our state and local government clients are also subject to similar processes, and, as a result, subject us to similar risks and uncertainties.

In addition, in an effort to control the federal government deficit, Congress passed the Budget Control Act of 2011 (the “Budget Act”), which mandated the reduction of discretionary spending by the federal government by \$1.2 trillion over 10 years. While some of these reductions have been rescinded and certain spending caps were raised for Fiscal Years 2018 and 2019, the spending caps for Fiscal Years 2020 and 2021 remain in place and, unless they are also rescinded, could continue to constrain federal discretionary spending for the services we provide. Because we derive a significant portion of our revenue from contracts with federal government clients, a decline in federal government expenditures and/or a shift of expenditures away from programs in which we provide support, whether as a result of the Budget Act or otherwise, would likely have a negative impact on our business and results.

Government budgeting and spending priorities may change in a manner adverse to our business.

We derived approximately 41%, 45%, and 48% of our revenue in 2018, 2017, and 2016, respectively, from contracts with federal government clients, and approximately 23%, 17%, and 17% of our revenue from contracts with state and local governments and international governments in 2018, 2017, and 2016, respectively. Expenditures by our federal

government clients may be restricted or reduced by presidential or congressional actions, by action of the Office of Management and Budget, by action of individual agencies or departments, or by other actions. In addition, many state and local governments are not permitted to operate with budget deficits and nearly all state and local governments face considerable challenges in balancing their budgets. Accordingly, we expect, due to changing

government budgeting and spending priorities, that some of our government clients in the future may delay payments due to us, may eventually fail to pay what they owe us, and/or may delay certain programs and projects. For some government clients, we may face a difficult choice: turn down (or stop) work due to budget uncertainty with the risk of damaging a valuable client relationship or perform work with the risk of not being paid in a timely fashion or perhaps at all. Federal and/or state and local government 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 international, may lead to reduced spending by agencies and departments on projects or programs we support.

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

We must comply with laws, rules, and regulations that 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 that affect its contracts. Some of the more significant laws and regulations affecting the formation, administration, and performance of U.S. government contracts include:

- U.S. Federal Acquisition Regulation as well as Cost Accounting Standards, and agency and department regulations analogous or supplemental to federal regulation;
- U.S. Foreign Corrupt Practices Act;
- U.S. Truthful Cost or Pricing Data Act (formerly known as the Truth in Negotiations Act);
- U.S. Procurement Integrity Act;
- U.S. Civil False Claims Act and the False Statements Act; and
- U.S. 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.

Any failure to comply with applicable federal, and/or state and local government laws, rules and regulations 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/or state and local government agencies and departments, any of which could adversely affect our reputation, our revenue, our operating results, and/or the value of our stock.

In addition, the federal government and other governments with which we do business may 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, such as curtailing the use of services firms or increasing the use of firms with a “preferred status,” such as small businesses.

In addition to our U.S. operations, we also have a significant presence in key markets outside the U.S., including offices in the U.K., Belgium, China, India and Canada. Failure to abide by laws, rules and regulations applicable to us because of our work outside the U.S., such as the U.K. Bribery Act and European Union’s General Data Protection Regulation, could have similar effects to those described above.

We are subject to various routine and non-routine governmental and other reviews, audits and investigations, and unfavorable 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 departments and agencies and many state, territorial and local government clients review, audit and investigate our contract performance, pricing practices, cost structure, financial capability, and compliance with applicable laws, rules, and regulations. We have experienced growth in services related to disaster recovery in recent years, and those activities, by their nature, may involve interaction with a combination of federal, state, territorial and local governments, citizens and subcontractors that increase the risk of audits, investigations, reviews, monitoring and litigation. Any of these reviews, audits and investigations could raise issues that have significant adverse effects,



including, but not limited to, substantial adjustments to our previously reported operating results and substantial effects on future operating results. If a government review, audit, 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 state and local government agencies and departments, any of which could adversely affect our reputation, our revenue, our operating results, and/or the value of our stock. We may also lose business if we are found not to be sufficiently able to meet ongoing cash flow and financial obligations on a timely basis. 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 true or not. Federal government audits have been completed on our incurred contract costs only through 2010 and audits for costs incurred on work performed since then have not yet been completed. In addition, non-audit reviews by federal and state and local governments may still be conducted on all our government contracts, even for periods before 2010.

Our contracts may contain provisions that are unfavorable to us and permit our clients to, among other things, terminate our contracts partially or completely at any time prior to completion.

Our contracts may contain provisions that allow our clients to terminate or modify these contracts at their convenience on short notice. If a client terminates one of our contracts for convenience, we may only bill the client for work completed prior to the termination, plus any 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 contract 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. In addition, certain contracts with international government clients may have more severe and/or different contract clauses than what we are accustomed to with federal and state and local government clients, such as penalties for any delay in performance. If a client were to terminate, decline to exercise options under, or curtail further performance under one or more of our major contracts, our revenue and operating results could be adversely affected.

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

In recent years, we have expanded our work with commercial clients. Our commercial clients, which include clients outside the U.S., generated approximately 36%, 38%, and 35% of our revenue in 2018, 2017, and 2016, respectively. This increased reliance on commercial clients presents new risks and challenges. For example, our commercial work is heavily concentrated in industries which can be cyclical, such as: energy, air transportation, environmental, health, retail and financial services. Demand for our services from our commercial clients has historically declined when their industries have experienced downturns, and we expect a decline in demand for our services when these industries experience downturns in the future.

As we expand our national and global footprint, we may become involved in a greater number of engagements that will be larger in size and scope. The increase in size and scope of the engagements in which we become involved in subjects us to the potential for a larger impact of a change in the credit risk associated with certain larger customers, particularly among our commercial clients. Our customers may face unexpected circumstances that adversely impact their ability to pay their trade payables to us and we may face unexpected losses as a result. Such circumstances could lead to the customer filing for bankruptcy. This can ultimately lead to variations in our profit from period to period. We monitor the aging of receivables regularly and make assessments of the ability of customers to pay amounts due.

## RISKS RELATED TO OUR BUSINESS

Changes to U.S. tax laws may adversely affect our financial condition or results of operation and create the risk that we may need to adjust our accounting for these changes.

The Tax Cuts and Jobs Act (the “Tax Act”), enacted in late 2017, made significant changes to U.S. tax laws and included numerous provisions that affect businesses, including ours. For instance, as a result of lower corporate tax rates, the Tax Act tends to reduce both the value of deferred tax assets and the amount of deferred tax liabilities. It also limits interest rate deductions and the amount of net operating losses that can be used each year and alters the expensing of capital expenditures. Other provisions have international tax consequences for businesses like ours that operate internationally. The Tax Act is unclear in certain respects and will require interpretations and implementing regulations by the Internal Revenue Service, as well as state tax authorities, and the Tax Act could be subject to amendments and technical corrections, any of which could lessen or increase the adverse (and positive) impacts of the Tax Act. The accounting treatment of these tax law changes is complex, and some of the changes may affect both current and future periods. Others will primarily affect future periods

Maintaining our client relationships and professional reputation are critical to our ability to successfully win new contracts and renew expired contracts.

Our client relationships and professional reputation are key factors in maintaining and growing our business, revenue and profit levels under contracts with our clients. We continually bid for and execute new contracts, and our existing contracts continually become subject to re-competition and expiration. 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 may be adversely affected. On 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 asides for small businesses), or that we will be successful in any such re-procurements or in obtaining subcontractor roles. Any factor that diminishes client relationships and/or professional reputation with federal, state, territorial and local and international government clients, as well as commercial clients, could make it substantially more difficult for us to compete successfully for new engagements and qualified employees. To the extent our client relationships and/or professional reputation deteriorate, our revenue and operating results could be adversely affected.

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 elements of our success is our position as a prime contractor under GSA Schedule contracts and other IDIQ contracts and we believe this position is important to our ability to sell our services to federal government clients. However, these contract vehicles require us to compete for each delivery order and task order, rather than having a more predictable stream of activity during the term of a multi-year contract. In addition, we may spend considerable cost and managerial time and effort to prepare bids and proposals for contracts, delivery orders or task orders that we may not win. There can be no assurance that we will continue to obtain revenue from such contracts at current levels, or in any amount, in the future. To the extent that federal government agencies and departments choose to employ GSA Schedule contracts and other IDIQ 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.

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 conditioned on 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 under the assumption that future utilization will be similar, 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 do so. In addition, federal government contracts rely on congressional appropriation of funding, which is typically provided only partially at any point during the term of federal government 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. Protests of contracts continue to be common in our industry. We do not include contract awards that are subject to a pending protest in our calculation of backlog. If a contract previously included in backlog becomes the subject of a protest, we would adjust backlog to remove that amount and reassess following resolution of the protest. Our estimate of the portion of backlog that we expect to recognize as revenue in any future period may differ from actual results 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 to reflect modifications to or renewals of existing contracts, awards of new contracts, or approvals of expenditures, if we subsequently fail to realize revenue corresponding to our backlog, our revenue and operating results could be adversely affected.

Failure to identify, hire, train and retain talented employees who are committed to our mission and vision could have a negative effect on our reputation and our business.

Our business, which entails the provision of professional services to government and commercial clients, largely depends on our ability to attract and retain qualified employees. Additionally, as our business continues to evolve, as we acquire new businesses, and as we provide a wider range of services, we become increasingly dependent on the capabilities of our employees in order to meet the needs of our diverse client base. If we are unable to recruit and retain a sufficient number of qualified employees that are committed to our mission and vision, we may incur higher costs related to an increase in subcontractors, hiring, training and retention. Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution. Additionally, the loss of key personnel could impair our ability to effectively serve our clients and maintain and grow our business, and our future revenue and operating results could be adversely affected.

Because much of our work is performed under task orders and delivery orders and, on certain occasions, other 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, or otherwise, we may not be able to keep our staff profitably utilized, which may result in challenges related to retaining talented members of our staff and also adversely impact our financial results. There can be no assurance that we can profitably manage the utilization of, or retain, our staff.

If we are unable to accurately estimate and control our contract costs, then we may incur losses on our contracts, which could decrease our operating margins and reduce our profits. In particular, the unpredictability of our earnings could increase on our fixed-price contracts if we cannot accurately estimate and control our contract costs.

It is important for us to accurately estimate and control our contract costs so that we can maintain positive operating margins and profitability. As described elsewhere in this Form 10-K, we generally enter into three principal types of contracts with our clients: fixed-price, time-and-materials and cost-plus.

We derived 39%, 39%, and 39% of our revenue from fixed-price contracts 2018, 2017, and 2016, respectively. Under fixed-price contracts, we receive a fixed price irrespective of the actual costs we incur and, consequently, we are exposed to a number of risks. We realize a profit on fixed-price contracts only if we can control our costs and prevent cost overruns while also meeting contract requirements. Fixed-price contracts require cost and scheduling estimates that are based on a number of assumptions, including those about future economic conditions, costs, and availability of labor, equipment and materials, and other exigencies. We could experience cost overruns if these estimates are inaccurate as a result of errors or ambiguities in the contract specifications, or become inaccurate as a result of a change in circumstances following the submission of the estimate due to, among other things, unanticipated technical problems, difficulties in obtaining permits or approvals, changes in local laws or labor conditions, weather delays, or the inability of our vendors or subcontractors to perform. If cost overruns occur, we could experience reduced profits or, in some cases, a loss for that project. If a project is significant, or if there are one or more common issues that impact multiple projects, costs overruns could increase the unpredictability of our earnings, as well as have an adverse impact on our business and earnings.

We provide digital marketing services in highly competitive and constantly evolving markets. Our success in these markets depends on our ability to develop and integrate new technologies into our business and enhance our existing products and services, as well as our ability to respond to rapid changes in technology in order to remain competitive.

In our consumer and financial market, we provide digital marketing services in highly competitive markets. We compete principally with large systems consulting and implementation firms, traditional and digital advertising and marketing agencies, offshore consulting and outsourcing companies, and clients' internal information systems departments. To a lesser extent, other competitors include boutique consulting firms that maintain specialized skills and/or are geographically focused. We expect these competitors to devote significant effort to maintaining and growing their respective market shares. If we cannot respond effectively to advances by our competitors in this market, or grow our own business efficiently, our overall business and operating results could be adversely affected.

Our success in this competitive market depends in part on our ability to adapt to rapid technological advances and evolving standards in computer and mobile device hardware and software development and media infrastructure, changing and increasingly sophisticated customer needs, newly-developed digital marketing services and platform introductions and enhancements. If, within this market, we are unable to develop new or sufficiently differentiated products and services, to enhance and improve our products and support services in a timely manner or to position and/or price our products and services to meet demand, our overall business and operating results could be adversely affected.

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 (“ICF Emergency”), was awarded the Road Home contract by the State of Louisiana, Office of Community Development (the “OCD”), 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 “Program”). With an aggregate value of \$912 million, the Road Home contract was our largest contract throughout its three-year duration, which ended on June 11, 2009.

The Road Home contract provided us with significant opportunities, but also created substantial risks. A number of these risks continued beyond the term of the contract. We still have lawsuits pending, and other claims have been made against us in connection with this contract. New lawsuits may be filed, and new claims may be made against us in the future including, but not limited to, claims by subcontractors and others who are dissatisfied with the amount of money they have received from, or their treatment under, the Program. We have defended such lawsuits and claims vigorously and plan to continue to do so, but we 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 legal 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. The outstanding contract receivables related to defending and paying claims were fully reserved as of December 31, 2018.

In addition, as discussed in “Note 19—Commitments and Contingencies – Road Home Contract” in our financial statements, on June 10, 2016, the OCD filed a written administrative demand (the “Administrative Demand”) with the Louisiana Commissioner of Administration against ICF Emergency in connection with the administration of the Program. In its administrative demand, the OCD sought approximately \$200.8 million in alleged overpayments to Program grant recipients. The OCD separately supplemented the amount of recovery it is seeking in total approximately \$220.2 million. The State of Louisiana, through the Division of Administration, also filed suit (the “Proceeding”) in Louisiana state court on June 10, 2016 broadly alleging and seeking recoupment for the same claim made in the Administrative Demand. On September 21, 2016, the Commissioner of the Division of Administration notified the OCD and the Company of his decision to defer jurisdiction of the Administrative Demand. In so doing, the Commissioner declined to reach a decision on the merits, stated that his deferral would not be deemed to grant or deny any portion of the OCD’s claim, and authorized the parties to proceed on the matter in the Proceeding. The Company continues to believe that neither the Administrative Demand nor the Proceeding has any merit, intends to vigorously defend its position, and has therefore not recorded a liability as of December 31, 2018.

As discussed above, the Road Home contract has been, and may continue to be, the subject of audit, investigations, and reviews by federal and state government authorities and their representatives. These activities may consume significant management time and effort. Further, the contract provides that we are subject to audits for a period after the date of the last payment made under the contract. Findings from any audit, investigation, review, monitoring, or similar activity could subject us to civil and criminal penalties and administrative sanctions from federal and state government authorities, which could substantially adversely affect our reputation, our revenue, our operating results, and the value of our stock.





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;
- 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;
- Expense and delay that may arise if our competitors protest or challenge awards made to us pursuant to competitive bidding, as discussed in the risk factor below; and
- Opportunity cost of not bidding on and winning other contracts we may have otherwise pursued.

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.

Our business could be adversely affected by delays caused by our competitors protesting contract awards received by us, which could stop our work. Likewise, we may protest the contracts awarded to some of our competitors, a process that takes the time and energy of our management and we may incur additional legal and consultant costs.

Due in part to the competitive bidding process under which government contracts are awarded, we are at risk of incurring expenses and delays if one or more of our competitors protest contracts awarded to us. Contract protests remain common in our industry and may result in a requirement to resubmit offers for the protested contract or in the termination, reduction, or modification of the awarded contract. It can take many months to resolve contract protests and, in the interim, the contracting government agency or department may suspend our performance under the contract pending the outcome of the protest. Even if we prevail in defending the contract award, the resulting delay in the startup and funding of the work under these contracts may adversely affect our operating results.

Moreover, in order to protect our competitive position, we may protest the contract awards of our competitors. This process takes the time and energy of our executives and employees, is likely to divert management's attention from other important matters and could cause us to incur additional legal and consultant costs.

Our international operations pose additional risks to our profitability and operating results.

We have offices in the U.K., Belgium, China, India and Canada, among others, and expect to continue to have international operations and offices, some of which are in underdeveloped countries that do not have a well-established business infrastructure. We also perform work in some countries where we do not have a physical office. Some of the countries in which we work have a history of political instability or may expose our employees and subcontractors to physical danger. Expansion into selective 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 international operations are subject to risks associated with operating in, and selling to and in, countries other than the U.S., that could, directly or indirectly, adversely affect our international and domestic operations and our overall revenue, profit, and operating results including, but not limited to:

- Compliance with the laws, rules, regulations, policies, legal standards, and enforcement mechanisms of the U.S. and the other countries in which we operate, including bribery and anti-corruption laws, economic sanctions, trade restrictions, local tax and income laws, and local labor and employment laws, which are sometimes inconsistent;
- Restrictions on the ability to repatriate profits to the U.S. 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 inability to protect our property rights; and/or
- Difficulties in managing and staffing such operations, including obtaining work permits or visas, identifying qualified local employees, operating according to different local labor laws and regulations, dealing with different local business cultures and practices, and collecting contract receivables.

In addition, because of our work with international clients, certain of our revenues and costs are denominated in other currencies, then translated to U.S. dollars for financial reporting purposes. Our revenues and profits may decrease as a result of currency fluctuations and devaluations and limitations on the conversion of foreign currencies into U.S. dollars and in the conversion between foreign currencies. We currently have forward contract agreements (“hedged”) related to our operations in the E.U. hedging the translation between the Euro and the pound sterling. We recognize changes in the fair-value of the hedges in our results of operations. We may increase the number, size and scope of our hedges as we analyze options for mitigating our foreign exchange risk. We cannot be sure that our hedges will be successful in reducing the risks to us of our exposure to foreign currency fluctuations and, in fact, the hedges may adversely affect our operating results.

Our business in the U.K. and the European Union could be negatively affected by the timing and terms of, and uncertainties related to, the U.K.’s exit, and potential other exits, from the European Union.

Geopolitical events in the European Union (“E.U.”) may adversely impact our business. On June 23, 2016 voters in the U.K. approved an exit from the E.U. On March 29, 2017 the U.K. initiated the process under Article 50 of the Treaty on the European Union, commencing a period of up to two years for the E.U. and other E.U. member states to negotiate with the U.K. the terms of a withdrawal (often referred to as “Brexit”). Such an exit from the E.U. is unprecedented, and it is still unclear how the U.K.’s access to the E.U. Single Market, and the wider commercial, legal and regulatory environment in which we, our customers and our counterparties operate, will be impacted. Our U.K. and Belgian operations have traditionally serviced most of our European clients, including the E.U., and these operations could be disrupted by Brexit, particularly if there is a change in the U.K.’s relationship to the E.U. Single Market. Completion of a so-called “hard/ no-deal Brexit,” whereby the U.K. exits the E.U. with no negotiated market access or agreements on issues such as customs and citizen mobility, would likely cause economic, logistical, and legal disruptions, any or all of which could adversely affect our operations and financial results. Such an event, potentially driven by Parliament’s failure to approve Prime Minister May’s negotiated Brexit plan, could also induce other actions, such as further movement towards secession from the U.K. by Scotland or other elements of the U.K., with different but significant negative consequences. It is also possible that the U.K. and E.U. will agree to extend the deadline for withdrawal, thus extending the uncertainty. The uncertainties surrounding the timing and terms of the U.K.’s exit and its consequences could adversely impact customer and investor confidence, result in additional market volatility and adversely affect our businesses and results of operations. These impacts could derive from delays or reductions in contract awards, canceled contracts, changes in exchange rates, difficulty in recruiting or in gaining permission to employ existing staff, or less favorable payment terms.

Other member states or portions thereof may conduct similar referenda leading to an exit from the E.U. or demands for greater freedom from the strictures deriving from the E.U., resulting in a reduction in funding for the European Commission that could lead to a decrease in the funding and scope of our work for that client. In addition, security and

sovereignty and financial system stability issues resulting from geopolitical events, or the E.U. negotiations driven by those events, could change the current balance of responsibility established between the European Commission and member nations, or affect the results of the E.U. budget-setting process, either of which could also reduce the funding and scope of our work for that client.

As we develop new services, clients and practices, enter new lines of business, and focus more of our business on providing a full range of client solutions, our operating risks increase.

As part of our corporate strategy, we are attempting to leverage our advisory services to sell our full suite of services across the life cycle of a policy, program, project, or initiative, 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 selected geographic locations. As we focus more on our delivery of a full range of consulting services from advisory through implementation and attempt to develop new services, clients, practice areas and lines of business these efforts could be unsuccessful and adversely affect our results of operations.

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, business development, and selling, marketing and other actions that are expensive and increase risk. We may need to invest more in our people and systems, controls, compliance efforts, policies and procedures than we anticipate. Further, we may need to enhance or modify our systems or processes, or transition to more efficient or effective ones, and these changes and how we handle them may impact the business in short- or long-term. Therefore, even if we do grow, the demands on our people and systems, controls, compliance efforts, policies and procedures may adversely affect the quality of our work, our operating margins, and our operating results, at least in the short-term, and perhaps in the long-term.

Efforts involving a different focus, new services, new clients, new practice areas, and new lines of business, include risks associated with our inexperience and competition from mature participants in those areas. Our expansion of services may result in decisions that could harm our profit and operating results. In particular, implementation and improvement services often relate to the development, implementation and improvement of critical infrastructure or operating systems that our clients may view as “mission critical,” and if we fail to satisfy the needs of our clients in providing these services, our clients could incur significant costs and losses for which they could seek compensation from us.

The diversity of the services we provide, and the clients we serve, may create actual, potential, and perceived conflicts of interest and business conflicts that limit our growth and could lead to potential liabilities 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 and adversely affect our operating results. 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, may lose future business for not preventing the conflict from arising, and our reputation may suffer. Particularly as we continue to grow our commercial business, we anticipate that conflicts of interest and business conflicts will pose a greater risk.

Our relationships with other contractors are important to our business and, if disrupted, could cause us damage.

We derive a portion of our revenue from contracts under which we act as a subcontractor or from “teaming” arrangements in which we and other contractors jointly bid on particular contracts, projects, or programs. As a subcontractor or team member, we often lack control over fulfillment of a contract, and poor performance on the contract, whether resulting from our performance or the performance of another contractor, could tarnish our reputation, result in a reduction of the amount of our work under, or termination of, that contract or other contracts, and cause us not to obtain future work, even when we perform as required. Moreover, our revenue, profit and operating results could be adversely affected if any prime contractor or teammate does not pay our invoices in a timely

fashion, chooses to offer products or services of the type that we provide, teams with other companies to provide such products or services, or otherwise reduces its reliance upon us for such products or services.

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 incorporate in our products and utilize to provide our services. 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. Government clients typically retain a perpetual, worldwide, royalty-

free right to use the intellectual property we develop for them in a manner defined within government regulations, including providing it to other government agencies or departments, as well as to our competitors in connection with their performance of government contracts. When necessary, we seek authorization to use intellectual property developed for the government or to secure export authorization. Government clients may grant us the right to commercialize software developed with government funding, but they are not required to do so. If we improperly use intellectual property that was even partially funded by government clients, these clients could seek damages and royalties from us, sanction us, and prevent us from working on future government contracts. Actions could also be taken against us if we improperly use intellectual property belonging to others besides our government clients. In addition, there can be substantial costs associated with protecting our intellectual property, which can also have an adverse effect on our results of operations.

We may be harmed by intellectual property infringement claims.

We have been subject to claims, and are likely to be subject to future claims, that the intellectual property we use in delivering services and business solutions to our clients infringes upon the 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 acquire or obtain rights to use intellectual property through mergers or acquisitions of other companies, engage third parties to assist us in the development of intellectual property and 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
- Re-design 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: (i) the 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; (ii) the failure of network, software and/or hardware systems; and (iii) 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 reputation or 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, revenue, profits and operating results could be adversely affected.

Improper disclosure of confidential and personal data and breaches of, or disruptions to, our information technology systems or those of our third-party providers, could adversely affect our business and could result in liability and harm our reputation.

We store and process increasingly large amounts of confidential information concerning our employees, customers and vendors, as well as confidential information on behalf of our customers (such as information regarding applicants in programs on which we perform services through our contractual relationships with customers). Therefore, we must ensure that we are at all times compliant with the various privacy laws, rules, and regulations in all of the countries

within which we are operating. These laws, rules, and regulations can vary significantly from country to country, with many being more onerous than those in the U.S. For example, the European Union adopted a new regulation that became effective in May 2018, called the General Data Protection Regulation (“GDPR”), which requires companies to meet stringent requirements regarding the handling of personal data, including its use, protection and transfer and the ability of persons whose data is stored to correct or delete such data about themselves. Failure to meet the GDPR requirements could result in significant penalties, including

25

---



finances up to 4% of annual worldwide revenue. The GDPR also confers a private right of action on certain individuals and associations. Moreover, we must ensure that all of our vendors who have access to such information also have the appropriate privacy policies, procedures and protections in place. There can be substantial costs associated with protecting confidential information and maintaining compliance with the various privacy laws, rules and regulations, which could have an adverse effect on our results of operations. In addition, any inability, real or perceived, to adequately address privacy and data protection concerns, even if unfounded, or comply with applicable laws, regulations, policies, industry standards, contractual obligations, or other legal obligations (including at newly acquired companies), could result in additional cost and liability to us, damage our reputation, inhibit our ability to win new contracts, and otherwise adversely affect our business.

The continued occurrence of high-profile data breaches of other companies provides evidence of an external environment increasingly hostile to information security. In particular, cybersecurity attacks are evolving, and we face the constant risk of cybersecurity threats, whether from deliberate attacks or unintentional events, including computer viruses, attacks by computer hackers, malicious code, cyber and phishing attacks, and other electronic security breaches, including unauthorized access to our and our clients' systems, that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information and/or corruption of data. In particular, as a federal government contractor, we face a heightened risk of a security breach or disruption with respect to personally identifiable, sensitive but unclassified, classified, or otherwise protected data resulting from an attack by computer hackers, foreign governments and/or cyber terrorists. Improper disclosure of this information could harm our reputation and affect our relationships with business partners, lead to legal exposure, or subject us to liability under laws, rules and regulations that protect personal or other confidential data, resulting in increased costs or loss of revenue. Although we devote significant resources to our cybersecurity programs and have implemented security measures to protect our systems and to prevent, detect and respond to cybersecurity incidents, there can be no assurance that our efforts will prevent these threats. As these security threats continue to evolve, we may be required to devote additional resources to protect, prevent, detect and respond against cybersecurity attacks, system disruptions and security breaches. Moreover, we also rely in part on third-party software and information technology vendors to run our information systems. Any failure of these third-party systems, which are outside of our control but still impact us, could have similar adverse effects.

## RISKS RELATED TO ACQUISITIONS

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

One of our growth strategies is to make strategic acquisitions. When we complete acquisitions, it may be challenging and costly to integrate the acquired businesses due to operating and integrating new accounting systems, differences in the locations of personnel and facilities, differences in corporate cultures, disparate business models, or other reasons. If we are unable to successfully integrate acquired companies, our revenue and operating results could suffer. In addition, we may not successfully achieve the anticipated cost efficiencies and synergies from these acquisitions. Also, our costs for managerial, operational, financial, and administrative systems may increase and be higher than anticipated. During and following the integration of an acquired business, we may experience attrition, including losing key employees and/or clients of the acquired business, which could adversely affect our future revenue and operating results and prevent us from achieving the anticipated benefits of the acquisition.

Businesses we acquire may have liabilities or adverse operating issues, or both, that we either fail to discover through due diligence or underestimate prior to the consummation of the acquisition. These liabilities and/or issues may include the acquired business' failure to comply with, or other violations of, applicable laws, rules, or regulations or contractual or other obligations or liabilities. As the successor owner, we may be financially responsible for, and may suffer harm to our reputation or otherwise be adversely affected by, such liabilities and/or issues. An acquired business also may have problems with internal controls over financial reporting, which could in turn cause us to have significant deficiencies or material weaknesses in our own internal controls over financial reporting. These and any

other costs, liabilities, issues, and/or disruptions associated with any past or future acquisitions, and the related integration, could harm our operating results.

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 write-downs that would adversely affect our operating results.

All of our acquisitions have involved purchase prices well in excess of tangible asset values net of liabilities assumed, resulting in the creation of a significant amount of goodwill and other intangible assets. As of

December 31, 2018, goodwill and purchased intangibles accounted for approximately 59% and 3%, respectively, of our total assets. Under U.S. generally accepted accounting principles (“U.S. GAAP”), we do not amortize goodwill and intangible assets acquired in a purchase business combination that are determined to have indefinite useful lives. Instead, we review them for impairment annually (or more frequently if impairment indicators arise). 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 operating results.

## RISKS RELATED TO OUR CORPORATE AND CAPITAL STRUCTURE

Provisions of our charter documents and Delaware law may prevent or deter potential acquisition bids to acquire us and other actions that 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:

- Our board of directors is divided into three classes, making it more difficult for stockholders to change the composition of the board;
- Directors may be removed only for cause;
- Our stockholders are not permitted to call a special meeting of the stockholders;
- All stockholder actions are required 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;
- Our stockholders are required 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
- The approval of the holders of capital stock representing at least two-thirds of our voting power is required 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.

There are risks associated with our outstanding and future indebtedness which could reduce our profitability, limit our ability to pursue certain business opportunities and reduce the value of our stock.

As of December 31, 2018, we had an aggregate of \$200.4 million of outstanding indebtedness under a credit facility that will mature on May 17, 2022. Subject to the limits contained in the agreements governing our outstanding debt, we may incur additional debt in the future. Our ability to pay interest and repay the principal for our indebtedness, as well as meet our financial and operating covenant requirements, is dependent upon our ability to, among other things, manage our business operations, and generate sufficient cash flows to service such debt. If we are unable to comply with the terms of our financing agreements or obtain additional required financing, this could ultimately result in a significant adverse effect on our financial results and the value of our stock. Among other things, our debt could:

- Make it difficult to obtain additional financing for working capital, capital expenditures, acquisitions, or other general corporate purposes;
- Result in a substantial portion of our cash flows from operations being dedicated to the payment of the principal and interest on our debt, as well as used to make debt service payments;
- Limit our flexibility in planning for, and reacting to, changes in our business and the marketplace;
- Place us at a competitive disadvantage relative to other less leveraged firms; and
- Increase our vulnerability to economic downturns and rises in interest rates.



Should any of these or other unforeseen consequences arise, they could have an adverse effect on our business, financial condition, results of operations, future business opportunities and/or ability to satisfy our obligations under our debt.

We cannot assure you that we will pay special or regular dividends on our stock in the future.

The board of directors authorized, declared and paid regular dividends in each quarter of 2018 for the first time in the Company's history. The declaration of any future dividends and the establishment of the per share amount, record dates and payment dates for any such future dividends are subject to the discretion of the board of directors taking into account future earnings, cash flows, net income, dividend yield and other factors. Authorization of dividends by the Board is subject to adherence/compliance with the Company's credit facility. There can be no assurance that the board of directors will declare any dividends in the future. To the extent that expectations by market participants regarding the potential payment, or amount, of any special or regular dividend prove to be incorrect, the price of our common stock may be materially and negatively affected and investors that bought shares of our common stock based on those expectations may suffer a loss on their investment.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2. PROPERTIES

We lease our offices and do not own any real estate. As of December 31, 2018, we leased approximately 313,658 square feet of office space at our corporate headquarters at 9300/9302 Lee Highway, Fairfax, Virginia (in the Washington, D.C. metropolitan area) through December 2022 (the "Fairfax Offices"). The Fairfax Offices house a portion of our operations and almost all of our corporate functions, including most of our staff within executive management, treasury, accounting, legal, human resources, business and corporate development, facilities management, information services, and contracts.

As of December 31, 2018, we had leases in place for approximately 1.2 million square feet of office space in more than 80 office locations throughout the U.S. and around the world, with various lease terms expiring over the next nine years. As of December 31, 2018, approximately 13,325 square feet of the space we leased was subleased to other parties. We believe that our current office space, as well as 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.

An update on litigation related to our Road Home contract is discussed in "Note 19— Commitments and Contingencies — Road Home Contract" in our financial statements.

#### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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."

Holder

As of February 22, 2019, there were 32 registered holders of record of our common stock. This number is not representative of the number of beneficial holders because many of the