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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007

OR

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

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)

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

22-3661438
(I.R.S. Employer
Identification No.)

22031
(Zip Code)

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

Not Applicable

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of April 16, 2007, there were 14,140,140 shares outstanding of the registrant's common stock.

ICF INTERNATIONAL, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE
QUARTERLY PERIOD ENDED MARCH 31, 2007

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****ICF International, Inc. and Subsidiaries****CONDENSED CONSOLIDATED BALANCE SHEETS****MARCH 31, 2007 AND DECEMBER 31, 2006**

(in thousands)

Assets

	<u>March 31, 2007</u> <i>(Unaudited)</i>	<u>December 31, 2006</u>
Current Assets:		
Cash and cash equivalents	\$ 1,274	\$ 2,997
Contract receivables, net	155,354	110,548
Prepaid expenses and other	3,062	2,659
Deferred income tax	3,270	2,494
Total Current Assets	<u>162,960</u>	<u>118,698</u>
Property and Equipment, net	5,204	5,388
Other assets:		
Goodwill	91,661	83,833
Other intangible assets	5,350	2,720
Restricted cash	5,135	3,703
Other assets	1,608	1,485
Total Assets	<u>\$ 271,918</u>	<u>\$ 215,827</u>

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

ICF International, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

Liabilities and Stockholders' Equity

	<u>March 31,</u> <u>2007</u> <i>(Unaudited)</i>	<u>December 31,</u> <u>2006</u>
Current Liabilities:		
Accounts payable	\$ 30,175	\$ 19,455
Accrued expenses	53,480	37,202
Accrued salaries and benefits	17,607	17,727
Deferred revenue	15,556	18,281
Income tax payable	6,115	3,682
Total Current Liabilities	<u>122,933</u>	<u>96,347</u>
Long-term liabilities:		
Long-term debt	18,927	—
Deferred rent	1,605	1,599
Deferred income tax	1,240	1,324
Other liabilities	2,599	2,610
Total Liabilities	<u>147,304</u>	<u>101,880</u>
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, par value \$.001 per share; 5,000,000 shares authorized; none issued	—	—
Common stock, \$.001 par value; 70,000,000 shares authorized; 14,134,611 and 13,933,074 issued; and 14,076,233 and 13,874,696 outstanding as of March 31, 2007 and December 31, 2006, respectively	14	14
Additional paid-in capital	101,816	98,995
Treasury stock	(428)	(428)
Accumulated other comprehensive income	239	227
Stockholder notes receivable	(540)	(562)
Retained earnings	23,513	15,701
Total Stockholders' Equity	<u>124,614</u>	<u>113,947</u>
Total Liabilities and Stockholders' Equity	<u>\$271,918</u>	<u>\$ 215,827</u>

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

ICF International, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(in thousands, except per share amounts)

	Three months ended	
	March 31,	
	2007	2006
Revenue	\$ 151,713	\$ 53,448
Direct Costs	108,152	31,626
Operating Expenses:		
Indirect and selling expenses	27,734	17,883
Depreciation and amortization	1,167	772
Total operating expenses	28,901	18,655
Earnings from Operations	14,660	3,167
Interest Expense	(324)	(1,052)
Other Income	278	26
Income before Income Taxes	14,614	2,141
Income Tax Expense	5,932	1,047
Net income	<u>\$ 8,682</u>	<u>\$ 1,094</u>
Net Income per Common Share:		
Basic	<u>\$ 0.63</u>	<u>\$ 0.12</u>
Diluted	<u>\$ 0.60</u>	<u>\$ 0.11</u>
Weighted-average Common Shares Outstanding:		
Basic	<u>13,753</u>	<u>9,225</u>
Diluted	<u>14,415</u>	<u>9,772</u>

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

ICF International, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three months ended March 31,	
	2007	2006
Cash Flows from Operating Activities		
Net income	\$ 8,682	\$ 1,094
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,167	772
Non-cash equity compensation	619	76
Accrued interest on stockholder notes	(11)	(21)
Deferred income taxes	(860)	—
Changes in operating assets and liabilities, net of the effect of acquisitions:		
Contract receivables, net	(41,648)	(4,336)
Prepaid expenses and other	(286)	(11)
Accounts payable	10,810	(2,621)
Accrued expenses	16,502	875
Accrued salaries and benefits	(809)	1,256
Deferred revenue	(2,725)	(708)
Income tax payable	1,563	(389)
Deferred rent	18	(47)
Other liabilities	(11)	(158)
Net Cash Used in Operating Activities	<u>(6,989)</u>	<u>(4,218)</u>
Cash Flows from Investing Activities		
Capital expenditures	(921)	(115)
Payments for trademark application	(15)	—
Capitalized software development costs	(178)	(24)
Additional payments for acquisition of Caliber Associates, Inc.	(500)	—
Payments for business acquisitions, net of cash acquired	(12,855)	—
Net Cash Used in Investing Activities	<u>(14,469)</u>	<u>(139)</u>
Cash Flows from Financing Activities		
Payments on notes payable	—	(1,467)
Advances from working capital facilities	52,406	27,484
Payments on working capital facilities	(33,479)	(20,645)
Restricted cash	(1,432)	(117)
Debt issue costs	(7)	(117)
Exercise of options	1,283	—
Tax benefits of stock option exercises	880	—
Net proceeds from initial public offering	12	(91)
Net payments for stockholder issuances and buybacks	27	100
Payments received on stockholder notes	33	14
Net Cash (Used In) Provided by Financing Activities	<u>19,723</u>	<u>5,161</u>
Effect of exchange rate on cash	12	(7)
Net (Decrease) Increase in Cash and Cash Equivalents	<u>(1,723)</u>	<u>797</u>
Cash and Cash Equivalents, beginning of period	<u>2,997</u>	<u>499</u>
Cash and Cash Equivalents, end of period	<u>\$ 1,274</u>	<u>\$ 1,296</u>
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	<u>\$ 213</u>	<u>\$ 1,467</u>
Income taxes	<u>\$ 4,364</u>	<u>\$ 1,486</u>

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

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Notes to Condensed Consolidated Financial Statements

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

Note 1. Basis of Presentation and Nature of Operations

Interim Results

The unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). These rules and regulations permit some of the information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles (GAAP) to be condensed or omitted. In management's opinion, the unaudited consolidated financial statements contain all adjustments, that are of a normal recurring nature, necessary for a fair statement of the Company's results for the three-month periods ended March 31, 2007, and March 31, 2006. Operating results for the three-month period ended March 31, 2007, are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006 and the notes thereto included in the Company's Annual Report on Form 10-K, filed with the SEC on March 30, 2007.

Basis of Presentation and Nature of Operations

The accompanying condensed consolidated financial statements include the accounts of ICF International, Inc. (ICFI) and its subsidiaries (collectively, the "Company"). The Company provides management, technology, and policy professional services in the areas of energy, environment and infrastructure, health, human services and social programs, and homeland security and defense. The Company's major clients are the State of Louisiana and United States (U.S.) government agencies, especially the Department of Defense, the Department of Health and Human Services, the Environmental Protection Agency, the Department of Homeland Security, the Department of Transportation, and the Department of Justice; commercial entities, particularly electric and gas utilities and other energy market participants; and other government organizations throughout the United States and the world. The Company offers a full range of services to these clients, including strategy, analysis, program management, and information technology solutions that combine experienced professional staff, industry and institutional knowledge, and analytical methods.

The Company, incorporated in Delaware, is headquartered in Fairfax, Virginia, with 16 primary domestic regional offices and international offices in London, Moscow, New Delhi, Rio de Janeiro and Toronto.

Note 2. Acquisitions

During January of 2007, the Company acquired two companies.

The Company acquired 100% of the outstanding common stock of Energy and Environmental Analysis, Incorporated (EEA), a privately held company specializing in energy market analyses, modeling, transportation and energy technology, and environmental advisory services. The Company believes that the combination of EEA's modeling framework in the natural gas sector with ICF's modeling framework in the electricity sector will create a unique analytical platform for integrated energy analysis. The Company also believes that EEA's expertise in automotive emissions and fuel efficiency technologies will expand the capabilities of the Company's transportation practice.

The Company also acquired 100% of the outstanding common stock of Advanced Performance Consulting Group, Inc. (APCG), a privately held company that helps federal organizations develop and implement strategy, improve enterprise performance, manage change, support employee growth, and communicate effectively. APCG enjoys a reputation as a strategic advisor to senior-level federal clients. The Company believes the acquisition of APCG to be a good strategic fit and that there are growth opportunities in numerous areas for the combined businesses.

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Both acquisitions were accounted for in accordance with the provision of SFAS No. 141, *Business Combinations*. The aggregate purchase price of both acquisitions was \$13.4 million, including \$13.0 million of cash and \$0.4 million of transaction expenses. The results of operations for EEA and APCG are included in the Company's statement of earnings since January 1, 2007.

The Company has engaged an independent valuation firm to assist management in the allocation of the purchase price to goodwill and to other acquired intangible assets, but this allocation has not yet been finalized. The aggregate excess of the purchase price over the estimated fair value of the net tangible assets acquired was \$11.1 million. At this time, the Company has allocated \$7.8 million to goodwill and \$3.3 million to other intangible assets. Goodwill and intangibles are deductible for tax purposes. Supplemental pro forma data for the three-month period ended March 31, 2006 is not presented because the acquired companies' operating results were not material to the consolidated operations of the Company.

Note 3. Contract Receivables

Contract receivables consist of the following (in thousands of dollars):

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Billed	\$ 109,058	\$ 79,785
Unbilled	47,847	32,110
Allowance for doubtful accounts	(1,551)	(1,347)
Contract receivables, net	<u>\$ 155,354</u>	<u>\$ 110,548</u>

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

The allowance for doubtful accounts is determined based upon management's best estimate of potentially uncollectible contract receivables, taking into account management's expectations of future losses on a contract-by-contract basis. The Company writes off contract receivables when such amounts are determined to be uncollectible. Losses have historically been within management's expectations.

Note 4. Commitments and Contingencies

Litigation and Claims

Various lawsuits and claims and contingent liabilities arise in the ordinary course of the Company's business. The ultimate disposition of certain of these contingencies is not determinable at this time. The Company's management believes there are no current outstanding matters that will materially affect the Company's financial position or results of operations.

Note 5. Debt

During the three months ended March 31, 2007, the Company made net borrowings of \$18.9 million under its revolving credit facility to finance two acquisitions and provide working capital.

Note 6. Accounting for Stock-Based Compensation**Stock Incentive Plans**

Effective with the Company's initial public offering of stock in September 2006, a new long-term equity incentive plan (the 2006 Plan) was adopted. The 2006 Plan permits the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, performance units and other incentive awards, including restricted stock units. Under the 2006 Plan, the Company may make awards of up to 1,000,000 shares, plus an annual increase on the first day of each of the Company's fiscal years, beginning in 2007, equal to the lesser of 3% of the number of outstanding shares of common stock outstanding as of January 1 of the particular year or a lesser amount as determined by the Board of Directors. Under this "evergreen provision," 416,241 additional shares were made available under the plan as of January 1, 2007 and thereafter registered. Persons eligible to participate in the 2006 Plan include all officers and key employees of the Company, as determined by the Compensation Committee of the Board of Directors, and all non-employee directors.

Stock-Based Compensation

The Company recognized stock-based compensation expense of \$0.6 million in the three months ended March 31, 2007, which is included in indirect and selling expenses. Net income for the three months ended March 31, 2007 also reflects income tax benefits relating to this expense of \$0.2 million. There was \$0.1 million of stock-based compensation expense in the three months ended March 31, 2006.

As of March 31, 2007, there was \$8.0 million of total unrecognized compensation cost related to unvested stock-based compensation agreements. These unrecognized compensation costs are expected to be recognized over a three- to five-year period on a straight-line basis.

Stock Options

All stock options granted through 2006 were under the 1999 Plan. All stock options granted in 2007 are under the 2006 Plan.

During the three months ended March 31, 2007, the Company granted stock options to purchase 210,000 shares of the Company's common stock at an exercise price of \$18.31 per share, the estimated fair value of the stock on the date of grant. The Black-Scholes-Merton weighted average fair value of the options granted during the three months ended March 31, 2007 was \$5.99 per share. These options expire in ten years and vest over three years. The Company is expensing the value of these option grants over the vesting period.

In accordance with SFAS No. 123(R), *Share-Based Payment*, for the period beginning January 1, 2006, excess tax benefits from the exercise of stock options are presented as financing cash flows. The excess tax benefits totaled approximately \$0.9 million for the three months ended March 31, 2007. There were no excess tax benefits for the three months ended March 31, 2006.

The following table depicts stock option activity for the three months ended March 31, 2007:

	Options Outstanding	
	Shares	Weighted-Average Exercise Price
As of December 31, 2006	1,487,082	\$ 6.01
Options granted in 2007	210,000	\$ 18.31
Options forfeited or cancelled	0	n/a
Options exercised	(199,717)	6.09
As of March 31, 2007	1,497,365	\$ 7.72

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Restricted Stock and Restricted Stock Units

Pursuant to the 2006 Plan, the Company awarded 16,500 restricted stock units (RSUs) to employees during the quarter ended March 31, 2007. The RSUs vest over three years under varying schedules. Upon vesting, the employee is issued one share of stock for each RSU he or she holds. The RSUs were valued based on the grant date value of a share of common stock. The weighted-average grant date fair value of the RSUs was \$15.94 per share.

The activity related to RSUs during the three months ended March 31, 2007 was as follows:

	<u>Shares</u>
Outstanding December 31, 2006	464,000
Granted	16,500
Forfeited	<u>(5,500)</u>
Outstanding March 31, 2007	<u>475,000</u>

Note 7. Income Taxes

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN No. 48), *Accounting for Uncertainty in Income Taxes*, which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. In addition, FIN No. 48 provides guidance on the derecognition, classification, accounting in interim periods, and disclosure requirements for uncertain tax positions. The Company adopted FIN No. 48 on January 1, 2007, and has developed and implemented a process based on the guidelines of FIN No. 48 to ensure that uncertain tax positions are identified, analyzed, and properly reported in its financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*.

Based on currently known facts and circumstances and current tax law, the Company believes that the total amount of unrecognized tax benefits as of March 31, 2007, is \$0.9 million, which includes \$0.1 million of accrued penalties and interest related to the unrecognized tax benefits. The unrecognized tax benefits, including the accrued penalties and interest, were recorded as an increase to income taxes payable and a reduction of retained earnings in the condensed balance sheets. Interest expense and penalty expense related to income taxes, if any, are included in interest expense and indirect and selling expenses, respectively, in the statement of earnings. For the three months ended March 31, 2007, the Company has not recorded any interest or penalty expense related to income taxes.

The total amount of unrecognized tax benefits as of March 31, 2007, if recognized, would have a \$0.9 million effect on income tax expense and would impact the effective tax rate. There are no tax positions the Company has taken for which it is reasonably possible that the unrecognized tax benefits will significantly increase or decrease over the next 12 months producing individually, or in the aggregate, a material effect on its result of operations, financial condition, or cash flows. The Company remains subject to examination by major tax jurisdictions for tax years 2003 through 2006.

Note 8. Earnings Per Share

Basic earnings per share (EPS) is computed by dividing reported net income by the weighted-average number of shares outstanding. Diluted EPS considers the potential dilution that could occur if common stock equivalents were exercised or converted into stock. The difference between the basic and diluted weighted-average equivalent shares with respect to the Company's EPS calculation is due entirely to the assumed exercise of stock options and the vesting of restricted stock and RSUs. The dilutive effect of stock options, restricted stock, and RSUs for each period reported is summarized below:

	<u>Three Months Ended March 31,</u>	
	<u>2007</u>	<u>2006</u>
Net Income	\$ 8,682	\$ 1,094
Weighted-average number of basic shares outstanding during the period	13,753	9,225
Dilutive effect of stock options, restricted stock, and RSUs	662	547
Weighted-average number of diluted shares outstanding during the period	14,415	9,772
Basic earnings per share	<u>\$ 0.63</u>	<u>\$ 0.12</u>
Diluted earnings per share	<u>\$ 0.60</u>	<u>\$ 0.11</u>

Note 9. Recent Pronouncements

On February 15, 2007, the FASB issued FASB Statement No. 159 (SFAS No. 159), *The Fair Value Option for Financial Assets and Liabilities*, including an amendment of FASB Statement No. 115. SFAS No. 159 provides for the option to recognize most financial assets and liabilities and certain other items at fair value. SFAS No. 159 requires each company to provide additional information that will help investors and other users of financial statements more easily understand the effect of the company's choice to use fair value on its earnings. SFAS 159 is effective for us beginning January 1, 2008. We are evaluating the statement to determine its effect, if any, on our future financial statements and related disclosures.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

F ORWARD-LOOKING STATEMENTS

Some of the statements in this Quarterly Report on Form 10-Q constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will," "would" or similar words. You should read statements that contain these words carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other forward-looking information. The factors described in our filings with the SEC, as well as any cautionary language in this Quarterly Report on Form 10-Q, 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:

- changes in the spending priorities of our clients;
- failure by Congress to approve budgets in a timely fashion;
- our dependence on contracts with state and federal government agencies and departments for the majority of our revenue and our ability to win large-value procurements;
- performance by us and our subcontractors under a major contract with the State of Louisiana, Office of Community Development (The Road Home contract);
- possible acceleration of performance and revenues under The Road Home contract including the effects of the accelerated distribution of available program funds, on the one hand, and significant audit risks associated with, and possible termination of, The Road Home contract, on the other hand;
- results of government audits and investigations;
- an economic downturn in the energy sector;

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- failure to receive the full amount of our backlog;
- loss of members of management or other key employees;
- difficulties implementing our acquisition strategy; and
- difficulties expanding our service offerings and client base.

Additional factors that may affect our results are discussed in our Annual Report on Form 10-K for the year ended December 31, 2006 in Part I, Item 1A, entitled “Risk Factors.” Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update these forward-looking statements, even if our situation changes in the future.

The terms “we” and “our” as used throughout this Quarterly Report on Form 10-Q refer to ICF International, Inc. and its consolidated subsidiaries, unless otherwise indicated.

OVERVIEW

We provide management, technology and policy consulting and implementation services to government, commercial and international clients. We help our clients conceive, develop, implement and improve solutions that address complex economic, social and national security issues. Our services primarily address four key markets: energy; environment and infrastructure; health, human services and social programs; and homeland security and defense. Increased government involvement in virtually all aspects of our lives has created opportunities for us to resolve issues at the intersection of the public and private sectors. We believe that demand for our services will continue to grow as government, industry and other stakeholders seek to understand and respond to geopolitical and demographic changes, budgetary constraints, heightened environmental and social concerns, rapid technological changes, and increasing globalization.

Our clients utilize our services because we combine diverse institutional knowledge and experience in their activities with the deep subject matter expertise of our highly educated staff, which we deploy in multi-disciplinary teams. Our federal government clients have included every cabinet-level department, including the Department of Defense, the Department of Health and Human Services, the Environmental Protection Agency, the Department of Homeland Security, the Department of Transportation, the Department of Justice, and the Department of Energy. U.S. federal government clients generated approximately 27% of our revenue for the three months ended March 31, 2007, and 49% of our revenue in 2006. Our state and local government clients include the states of Louisiana, New York, Pennsylvania, and California. State and local government clients generated approximately 66% of our revenue for the three months ended March 31, 2007 and approximately 40% of our revenue in 2006. Revenue generated from our state and local government clients increased substantially in 2006 and the first three months of 2007, due primarily to The Road Home contract. The Road Home contract accounted for approximately 64% of our revenue for three months ended March 31, 2007, and approximately 35% of our revenue in 2006. We also serve commercial and international clients, primarily in the energy sector, including electric and gas utilities, oil companies and law firms. Our commercial and international clients, including government clients outside the United States, generated approximately 7% of our revenue for the three months ended March 31, 2007, and 11% of our revenue in 2006. We have successfully worked with many of these clients for decades, with the result that we have a unique and knowledgeable perspective on their needs.

We partner with our clients to solve complex problems and produce mission-critical results. Across our markets, we provide end-to-end services that deliver value throughout the entire life of a policy, program, project or initiative:

- **Advisory Services.** We help our clients analyze the policy, regulatory, technology and other challenges facing them and develop strategies and plans for responding. Our advisory and management consulting services include needs and markets assessment, policy analysis, strategy and concept development, change management strategy, enterprise architecture and program design.

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- **Implementation Services.** We implement and manage technological, organizational and management solutions for our clients, often based on the results of our advisory services. Our implementation services include information technology solutions, project and program management, project delivery, strategic communications and training.
- **Evaluation and Improvement Services.** In support of advisory and implementation services, we provide evaluation and improvement services to help our clients increase the future efficiency and effectiveness of their programs. These services include program evaluation, continuous improvement initiatives, performance management, benchmarking and return-on-investment analyses.

We have more than 2,000 employees, including many who are recognized thought leaders in their respective fields. We serve clients globally from our headquarters in the metropolitan Washington, D.C. area, our 16 primary domestic regional offices throughout the United States, and our five international offices in London, Moscow, New Delhi, Rio de Janeiro and Toronto.

On October 3, 2006, we completed our IPO. In connection with the IPO, we issued 3,659,448 shares of common stock at an offering price of \$12 per share. On October 23, 2006, in accordance with the terms of our agreement with the underwriters of the IPO, we sold an additional 700,500 shares at \$12 per share, representing a full exercise of the underwriters' over-allotment option. Including the over-allotment option, we issued a total of 4,359,948 shares of common stock in the IPO.

Prior to and in connection with the closing of the IPO, on September 26, 2006, the Company increased the amount of authorized common shares from 20,000,000 shares to 70,000,000 shares and changed the par value of common stock from \$.01 per share to \$.001 per share. The Company also amended its Certificate of Incorporation to provide the authority to issue 5,000,000 shares of preferred stock with a par value of \$0.001 per share. Dividends, if any, on outstanding shares of preferred stock shall be paid or declared and set apart for payment before any dividends shall be paid or declared and set apart for payment on shares of common stock with respect to the same dividend period. If upon any liquidation, dissolution or winding up of the Company, assets are insufficient to pay the preferred shareholders the amounts to which they are entitled, any such assets shall be distributed ratably among the shareholders in accordance with their respective priorities and preferential amounts (including unpaid cumulative dividends, if any). No shares of preferred stock had been issued as of March 31, 2007.

DESCRIPTION OF CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, services have been rendered, the contract price is fixed or determinable, and collectibility is reasonably assured. We enter into contracts that are either time-and-materials contracts, cost-based contracts or fixed-price contracts.

Time-and-Materials Contracts. Revenue under time-and-materials contracts is recognized as costs are incurred. Revenue for time-and-materials contracts is recorded on the basis of allowable labor hours worked multiplied by the contract-defined billing rates, plus the costs of other items used in the performance of the contract. Profit and losses on time-and-materials contracts result from the difference between the cost of services performed and the contract-defined billing rates for these services.

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Cost-Based Contracts. Revenue under cost-based contracts is recognized as costs are incurred. Applicable estimated profit, if any, is included in earnings in the proportion that incurred costs bear to total estimated costs. Incentives, award fees, or penalties related to performance are also considered in estimating revenue and profit rates based on actual and anticipated awards.

Fixed-Price Contracts. Revenue for fixed-price contracts is recognized when earned, generally as work is performed in accordance with the provisions of SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*. Services performed vary from contract to contract and are not uniformly performed over the term of the arrangement. Revenue on certain fixed-price contracts is recorded each period based on contract costs incurred to date compared with total estimated costs at completion (cost-to-cost method). Performance is based on the ratio of costs incurred to total estimated costs where the costs incurred represent a reasonable surrogate for output measures of contract performance, including the presentation of deliverables to the client. Progress on a contract is matched against project costs and costs to complete on a periodic basis. Clients are obligated to pay as services are performed, and in the event that a client cancels the contract, payment for services performed through the date of cancellation is negotiated with the client. Revenue on certain fixed-price contracts is recognized ratably over the period benefited. Revenue on certain other fixed-price contracts is recorded based on units delivered to the customer multiplied by the contract-defined unit price.

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

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

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

Goodwill and the Amortization of Intangible Assets

Costs in excess of the fair value of tangible and identifiable intangible assets acquired and liabilities assumed in a business combination are recorded as goodwill, in accordance with SFAS No. 141, *Business Combinations*. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are instead

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reviewed annually (or more frequently if impairment indicators arise) for impairment in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-lived Assets*.

We have elected to perform the annual goodwill impairment review as of September 30 of each year during the fourth quarter. Based upon management's review, including a valuation report issued by an investment bank, we determined that no goodwill impairment charge was required for 2005 or 2006.

We follow the provisions of SFAS No. 144 in accounting for impairment or disposal of long-lived assets. SFAS No. 144 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell.

New Accounting Standards

On February 15, 2007, the FASB issued FASB Statement No. 159 (SFAS No. 159), *The Fair Value Option for Financial Assets and Liabilities*, including an amendment of FASB Statement No. 115. SFAS No. 159 provides for the option to recognize most financial assets and liabilities and certain other items at fair value. SFAS No. 159 requires each company to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. SFAS No. 159 is effective for us beginning January 1, 2008. We are evaluating the statement to determine its effect, if any, on our future financial statements and related disclosures.

DIRECT COSTS

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

We generally expect the ratio of direct costs as a percentage of revenue to decline when our own labor increases relative to subcontracted labor or outside consultants. Conversely, as subcontracted labor or outside consultants for clients increase relative to our own labor, we expect the ratio to increase. This increase has in fact occurred, primarily due to the relatively high level of subcontractor costs associated with The Road Home contract.

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

OPERATING EXPENSES

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

Indirect and Selling Expenses

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

Non-Cash Compensation

Our results for the three months ended March 31, 2007 reflect non-cash compensation charges arising from grants of stock options and restricted stock units. We adopted SFAS No. 123(R), relating to accounting for stock-based compensation, effective January 1, 2006.

We recognized stock-based compensation expense of \$0.6 million in the three months ended March 31, 2007, which is included in indirect and selling expenses. Net income for the three months ended March 31, 2007 also reflects income tax benefits relating to this expense of \$0.2 million. There was stock-based compensation expense of \$0.1 million in the three months ended March 31, 2006.

As of March 31, 2007, there was \$8.0 million of total unrecognized compensation cost related to unvested stock-based compensation. These unrecognized compensation costs are expected to be recognized over a three- to five-year period on a straight-line basis.

Depreciation and Amortization

Depreciation and amortization include the depreciation of computers, furniture, and other equipment; the amortization of the costs of software we use internally; leasehold improvements; and the amortization of intangible assets arising from acquisitions.

INCOME TAX EXPENSE

Our effective tax rate of 40.6% for the three months ended March 31, 2007 was higher than the statutory tax rate primarily due to permanent tax differences related to expenses not deductible for tax purposes, prior year adjustments, decreased by a federal tax credit.

RESULTS OF OPERATIONS

The following table sets forth certain items from our unaudited condensed consolidated statements of operations and the period-over-period rate of change in each of them and expresses these items as a percentage of revenue for the periods indicated.

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	Three Months Ended March 31,				Year-to-Year Change	
	2007	2006	2007	2006	2006 to 2007	
	Dollars (In Thousands)		Percentages		Dollars (In Thousands)	Percent
Revenue	\$ 151,713	\$ 53,448	100.0%	100.0%	\$ 98,265	183.9%
Direct Costs	108,152	31,626	71.3%	59.2%	76,526	242.0%
Operating Expenses						
Indirect and selling expenses	27,734	17,883	18.3%	33.5%	9,851	55.1%
Depreciation and amortization	1,167	772	0.8%	1.4%	395	51.2%
Total Operating Expenses	28,901	18,655	19.1%	34.9%	10,246	54.9%
Earnings from Operations	14,660	3,167	9.6%	5.9%	11,493	362.9%
Other (Expense) Income						
Interest expense, net	(46)	(1,026)	0.0%	(1.9)%	980	(95.5)%
Income before Income Taxes	14,614	2,141	9.6%	4.0%	12,473	582.6%
Income Tax Expense	5,932	1,047	3.9%	2.0%	4,885	466.6%
Net Income	\$ 8,682	\$ 1,094	5.7%	2.0%	\$ 7,588	693.6%

Three Months ended March 31, 2007 compared to Three Months ended March 31, 2006

Revenue. Revenue for the three months ended March 31, 2007 was \$151.7 million, compared to \$53.4 million for the three months ended March 31, 2006, representing an increase of \$98.3 million or 183.9%. The increase was primarily due to revenue of \$96.8 million associated with The Road Home contract in the three months ended March 31, 2007.

Direct costs. Direct costs for the three months ended March 31, 2007 were \$108.2 million, or 71.3% of revenue, compared to \$31.6 million, or 59.2% of revenue, for the three months ended March 31, 2006. This 242.0% increase resulted primarily from the corresponding increase in activities under The Road Home contract. The increase in direct costs as a percentage of revenue was primarily attributable to the large percentage of work (\$59.1 million during the three months ended March 31, 2007) that was subcontracted to other parties on The Road Home contract.

Indirect and selling expenses. Indirect and selling expenses for the three months ended March 31, 2007 were \$27.7 million, or 18.3% of revenue, compared to \$17.9 million, or 33.5% of revenue for the three months ended March 31, 2006. The 55.1% increase in indirect and selling expenses was due principally to indirect labor and non-labor expenses related to the growth of the Company. This increase was significantly less than the proportional increase in revenue.

Depreciation and amortization. Depreciation and amortization for the three months ended March 31, 2007 were \$1.2 million, or 0.8% of revenue, compared to \$0.8 million, or 1.4% of revenue for the three months ended March 31, 2006. This 51.2% increase in depreciation and amortization resulted primarily from the amortization of intangible assets recorded as a result of our 2007 acquisitions.

Earnings from operations. For the three months ended March 31, 2007, earnings from operations were \$14.7 million, or 9.6% of revenue, compared to \$3.2 million, or 5.9% of revenue, for the three months ended March 31, 2006. Earnings from operations increased primarily due to the increased volume of services from The Road Home contract.

Interest expense, net. For the three months ended March 31, 2007, interest expense, net, was less than \$0.1 million, compared to \$1.0 million for the three months ended March 31, 2006. The 95.5% decrease was due primarily to lower levels of debt resulting from the completion of our IPO in the fall of 2006.

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Income tax expense. Our effective income tax rate for the three months ended March 31, 2007 was 40.6% compared to 48.9% for the three months ended March 31, 2006. The effective tax rate decreased due to a significant decrease in non-tax-deductible expenses as a percentage of estimated income and a federal tax credit.

SELECTED KEY METRICS

Revenue

We earn revenue from services that we provide to government and commercial clients in four key markets:

- energy;
- environment and infrastructure;
- health, human services and social programs; and
- homeland security and defense.

The following table shows our revenue from each of our four markets as a percentage of total revenue for the periods indicated. For each client, we have attributed all revenue from that client to the market we consider to be the client's primary market, even if a portion of that revenue relates to a different market. The Road Home Contract is classified in our health, human services and social programs market.

	Three Months Ended March 31,	
	2007	2006
Energy	9%	19%
Environment and infrastructure	8%	28%
Health, human services and social programs	74%	25%
Homeland security and defense	9%	28%
Total	100%	100%

Our primary clients are the State of Louisiana and agencies and departments of the U.S. federal government. The following table shows our revenue by type of client as a percentage of total revenue for the periods indicated.

	Three Months Ended March 31,	
	2007	2006
U.S. state and local government	66%	9%
U.S. federal government	27%	75%
Domestic commercial	5%	11%
International	2%	5%
Total	100%	100%

Revenue generated from our state and local government clients has increased in 2007, due primarily to our work in connection with The Road Home contract.

Contract Mix

Our contracts with clients include time-and-materials contracts, cost-based contracts (including cost-based fixed fee, cost-based award fee and cost-based incentive fee, as well as grants and cooperative agreements), and fixed-price contracts. Our contract mix varies from year to year due to numerous factors, including our business strategies and the procurement activities of our clients. Unless the content requires otherwise, we use the term "contracts" to refer to contracts and any task orders or delivery orders issued under a contract. The following table shows our revenue from each of these types of contracts as a percentage of total revenue for the periods indicated.

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	Three Months Ended March 31,	
	2007	2006
Time-and-materials	53%	44%
Cost-based	9%	30%
Fixed-price	38%	26%
Total	<u>100%</u>	<u>100%</u>

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

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

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

Contract Backlog

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

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pursuant to the authorization. If we do not provide services authorized by a client prior to the expiration of the authorization, we remove amounts corresponding to the expired authorization from backlog. We do include expected revenue under an engagement in funded backlog when we do not have a signed contract if 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 government clients, and sometimes other clients, generally authorize work under a particular contract on a yearly or more frequent basis, even though the contract may extend over a number of years. Most of the services we provide to commercial clients are provided under contracts with relatively short durations that authorize us to provide services and, as a consequence, our backlog attributable to these clients is typically reflected in funded backlog and not in unfunded backlog.

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

Although we expect our contract backlog to result in revenue, the timing of revenue associated with both funded and unfunded backlog will vary based upon 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 estimates of funded, unfunded and total backlog at the dates indicated were as follows:

	Three Months Ended	
	March 31,	
	2007	2006
Funded	\$ 677.3	\$ 130.4
Unfunded	\$ 224.9	\$ 128.2
Total	\$ 902.2	\$ 258.6

The backlog estimates at March 31, 2007, include an estimated funded backlog of \$543.2 million associated with The Road Home contract, which was awarded in June 2006.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Financial Condition. Contract receivables, net increased to \$155.4 million as of March 31, 2007 compared to \$110.5 million as of December 31, 2006, due to the timing of customer receipts, most significantly under The Road Home contract. The other significant change in our assets from December 31, 2006 was an increase in goodwill from \$83.8 million to \$91.7 million as of March 31, 2007, resulting from our acquisitions of Energy and Environmental Analysis, Incorporated (EEA) and Advanced Performance Consulting Group, Inc. (APCG) in January 2007.

Our current liabilities increased to \$122.9 million as of March 31, 2007 from \$96.3 million as of December 31, 2006 due primarily to a \$10.8 million increase in accounts payable and a \$16.5 million increase in accrued expenses. Both of these increases were primarily attributable to activity levels (including those of subcontractors) under the The Road Home contract. Our long-term debt increased from \$0 as of December 31, 2006 to \$18.9 million as of March 31, 2007, due primarily to the acquisitions of EEA and APCG, which were funded through bank debt. The increase in debt also reflects borrowings used to fund a portion of our ongoing working capital needs associated with operations.

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Liquidity. Short-term liquidity requirements are created by our use of funds for working capital, capital expenditures, and the need to provide debt service. We expect to meet these requirements through a combination of cash flow from operations and borrowings under our Amended and Restated Credit Agreement.

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

Under the terms of our Amended and Restated Credit Agreement, we are required to comply with financial and non-financial covenants. We were in compliance with all such covenants as of March 31, 2007.

Cash and Cash Equivalents. We consider cash on deposit and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalents, including marketable securities, was \$1.3 million on both March 31, 2007 and March 31, 2006.

Credit Facility and Borrowing Capacity. Our Amended and Restated Credit Agreement provides a revolving line of credit that permits us to borrow the lesser of \$65 million or our borrowing base. As of March 31, 2007, we had a borrowing base of \$65 million, with \$18.9 million outstanding on our revolving line of credit and letters of credit outstanding totaling \$0.5 million, resulting in a borrowing availability of \$45.6 million.

Cash Flow. The following table sets forth our sources and uses of cash for the three months ended March 31, 2007 and March 31, 2006:

	Three Months Ended	
	March 31, 2007	March 31, 2006
	(in thousands)	
Net cash used by operations	\$ (6,989)	\$ (4,218)
Net cash used in investing activities	(14,469)	(139)
Net cash provided by financing activities	19,723	5,161
Effect of exchange rate on cash	12	(7)
Net (decrease) increase in cash	\$ (1,723)	\$ 797

Our operating cash flow is primarily affected by the overall profitability of our contracts, our ability to invoice and collect from our clients in a timely manner, and our ability to manage our vendor payments. We bill most of our clients monthly after services are rendered. Operating activities used cash of \$7.0 million for the three months ended March 31, 2007 as compared to using \$4.2 million for the three months ended March 31, 2006. Cash flows from operating activities for the first three months of 2007 were negatively impacted by the timing of customer receipts.

Our cash flow used in investing activities consists primarily of capital expenditures and acquisitions. In the three months ended March 31, 2007, we paid \$13.4 million for business acquisitions net of cash received and invested \$0.9 million in capital assets. During the three months ended March 31, 2006, we made no business acquisitions and invested \$0.1 million in capital assets.

For the three months ended March 31, 2007, cash flow provided by financing activities was attributable primarily to an \$18.9 million increase in debt, which we used to finance our acquisitions and working capital. For the three months ended March 31, 2006, cash flow provided by financing activities was attributable primarily to making \$1.5 million in principal payments on our term debt and drawing \$6.8 million from our revolving line of credit.

OFF -BALANCE SHEET ARRANGEMENTS

For the three months ended March 31, 2007, we did not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the disclosures discussed in the section entitled “Quantitative and Qualitative Disclosures About Market Risk” in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2006.

Item 4. Controls and Procedures

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting. As of March 31, 2007, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in our reports filed with the SEC under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and (2) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There have been no significant changes in our internal controls over financial reporting during the period covered by this Quarterly Report on Form 10-Q or, to our knowledge, in other factors that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

P ART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in various legal matters and proceedings concerning matters arising in the ordinary course of business. We currently believe that any ultimate liability arising out of these matters and proceedings will not have a material adverse effect on our financial position, results of operations, or cash flows.

Item 1A. Risk Factors

There have been no material changes in those risk factors discussed in the section entitled “Risk Factors” disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There have been no changes to the “Recent Sales of Unregistered Securities” disclosed in Part II, Item 5 of our Annual Report on Form 10-K for the year ended December 31, 2006. There have been no purchases of equity securities by the issuer during the three months ended March 31, 2007.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Exhibit</u>
3.1	Amended and Restated Certificate of Incorporation (Incorporated by reference to exhibit 4.1 to the Company’s Registration Statement on Form S-8 (File No. 333-137975), effective as of October 12, 2006).
3.2	Amended and Restated Bylaws (Incorporated by reference to exhibit 3.2 to the Company’s Registration Statement on Form S-1 (File No. 333-134018) and amendments thereto, declared effective September 27, 2006 (the “Form S-1”).
4.1	Specimen common stock certificate (Incorporated by reference to exhibit 4.1 to the Company’s Form S-1).
4.2	See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws of the Registrant defining the rights of holders of common stock of the Company.
4.3	Form of Amended and Restated Registration Rights Agreement (Incorporated by reference to exhibit 4.2 to the Company’s Form S-1).

**Certification of the Principal Executive Officer
Pursuant to Rule 13a-14(a) and 15d-14(a)**

I, Sudhakar Kesavan, Chief Executive Officer of the registrant, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ICF International, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or person performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

May 15, 2007

/s/ Sudhakar Kesavan

Sudhakar Kesavan,
Chairman, President Chief Executive Officer
(Principal Executive Officer)

**Certification of the Principal Financial Officer
Pursuant to Rule 13a-14(a) and 15d-14(a)**

I, Alan R. Stewart, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ICF International, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or person performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

May 15, 2007

/s/ Alan R. Stewart

Alan R. Stewart,
Chief Financial Officer
(Principal Financial and Accounting Officer)

**Certification of Principal Executive Officer
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)**

In connection with the Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (the "Report") of ICF International, Inc. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Sudhakar Kesavan, Chief Executive Officer of the Registrant, hereby certify that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

May 15, 2007

/s/ Sudhakar Kesavan
Sudhakar Kesavan,
Chairman, President Chief Executive Officer
(Principal Executive Officer)

**Certification of Principal Financial Officer
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)**

In connection with the Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (the "Report") of ICF International, Inc. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Alan R. Stewart, Chief Financial Officer of the Registrant, hereby certify that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

May 15, 2007

/s/ Alan R. Stewart

Alan R. Stewart,
Chief Financial Officer
(Principal Financial and Accounting Officer)