

**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 June 30, 2022

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number: 001-33045

ICF International, Inc.

(Exact name of Registrant as Specified in its Charter)

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)

Securities registered pursuant to Section 12(b) of the Act.

Title of each class	Trading Symbols(s)	Name of each exchange on which registered
Common Stock	ICFI	NASDAQ

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an 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.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 Exchange Act.

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 July 29, 2022, there were 18,818,604 shares outstanding of the registrant's common stock.

ICF INTERNATIONAL, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q FOR THE
PERIOD ENDED JUNE 30, 2022

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ICF International, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands, except share and per share amounts)

	June 30, 2022	December 31, 2021
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 6,063	\$ 8,254
Restricted cash	2,401	12,179
Contract receivables, net	218,807	237,684
Contract assets	190,506	137,867
Prepaid expenses and other assets	23,196	42,354
Income tax receivable	11,979	10,825
Total Current Assets	452,952	449,163
Property and Equipment, net	70,689	52,053
Other Assets:		
Goodwill	1,043,908	1,046,760
Other intangible assets, net	69,178	79,645
Operating lease - right-of-use assets	164,602	177,417
Other assets	49,473	44,496
Total Assets	\$ 1,850,802	\$ 1,849,534
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 15,000	\$ 10,000
Accounts payable	99,365	105,652
Contract liabilities	24,612	39,665
Operating lease liabilities - current	26,267	34,901
Accrued salaries and benefits	86,583	85,517
Accrued subcontractors and other direct costs	44,946	39,400
Accrued expenses and other current liabilities	45,102	61,496
Total Current Liabilities	341,875	376,631
Long-term Liabilities:		
Long-term debt	435,075	411,605
Operating lease liabilities - non-current	185,970	191,805
Deferred income taxes	47,643	41,913
Other long-term liabilities	20,822	24,110
Total Liabilities	1,031,385	1,046,064
Commitments and Contingencies (Note 19)		
Stockholders' Equity:		
Preferred stock, par value \$.001; 5,000,000 shares authorized; none issued	—	—
Common stock, par value \$.001; 70,000,000 shares authorized; 23,705,062 and 23,535,671 shares issued at June 30, 2022 and December 31, 2021, respectively; 18,818,604 and 18,876,490 shares outstanding at June 30, 2022 and December 31, 2021, respectively	23	23
Additional paid-in capital	393,224	384,984
Retained earnings	680,323	649,298
Treasury stock, 4,886,458 and 4,659,181 shares at June 30, 2022 and December 31, 2021, respectively	(241,566)	(219,800)
Accumulated other comprehensive loss	(12,587)	(11,035)
Total Stockholders' Equity	819,417	803,470
Total Liabilities and Stockholders' Equity	\$ 1,850,802	\$ 1,849,534

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

ICF International, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

<i>(in thousands, except per share amounts)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue	\$ 423,110	\$ 392,525	\$ 836,578	\$ 771,003
Direct costs	268,905	246,646	527,063	478,728
Operating costs and expenses:				
Indirect and selling expenses	114,403	106,178	231,855	216,160
Depreciation and amortization	5,063	4,728	9,901	9,998
Amortization of intangible assets	4,963	3,019	10,280	6,034
Total operating costs and expenses	124,429	113,925	252,036	232,192
Operating income	29,776	31,954	57,479	60,083
Interest expense	(4,103)	(2,612)	(6,800)	(5,295)
Other income (expense)	98	(46)	(271)	(463)
Income before income taxes	25,771	29,296	50,408	54,325
Provision for income taxes	7,374	8,984	14,149	15,662
Net income	\$ 18,397	\$ 20,312	\$ 36,259	\$ 38,663
Earnings per Share:				
Basic	\$ 0.98	\$ 1.08	\$ 1.93	\$ 2.05
Diluted	\$ 0.97	\$ 1.07	\$ 1.91	\$ 2.03
Weighted-average Shares:				
Basic	18,796	18,843	18,795	18,864
Diluted	18,954	19,022	18,991	19,078
Cash dividends declared per common share	\$ 0.14	\$ 0.14	\$ 0.28	\$ 0.28
Other comprehensive (loss) income, net of tax	(4,211)	432	(1,552)	3,212
Comprehensive income, net of tax	\$ 14,186	\$ 20,744	\$ 34,707	\$ 41,875

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

ICF International, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<i>(in thousands)</i>	Six Months Ended June 30,	
	2022	2021
Cash Flows from Operating Activities		
Net income	\$ 36,259	\$ 38,663
Adjustments to reconcile net income to net cash provided by operating activities:		
(Recovery of) provision for credit losses	(172)	7,782
Deferred income taxes	4,741	2,489
Non-cash equity compensation	6,507	6,163
Depreciation and amortization	20,181	16,032
Facilities consolidation reserve	(156)	(148)
Amortization of debt issuance costs	617	309
Impairment of long-lived assets	—	303
Other adjustments, net	868	1,365
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Net contract assets and liabilities	(71,612)	(13,698)
Contract receivables	17,520	(29,070)
Prepaid expenses and other assets	(5,758)	(3,108)
Operating lease assets and liabilities, net	(997)	(3,361)
Accounts payable	(5,801)	3,667
Accrued salaries and benefits	1,512	2,738
Accrued subcontractors and other direct costs	6,754	(37,035)
Accrued expenses and other current liabilities	(3,253)	20,619
Income tax receivable and payable	(1,572)	(7,193)
Other liabilities	771	(176)
Net Cash Provided by Operating Activities	6,409	6,341
Cash Flows from Investing Activities		
Capital expenditures for property and equipment and capitalized software	(11,026)	(7,475)
Proceeds from working capital adjustments related to prior business acquisition	2,911	—
Net Cash Used in Investing Activities	(8,115)	(7,475)
Cash Flows from Financing Activities		
Advances from working capital facilities	869,529	382,552
Payments on working capital facilities	(838,259)	(364,395)
Receipt of restricted contract funds	10,967	75,158
Payment of restricted contract funds	(20,550)	(117,399)
Debt issue costs	(4,776)	—
Proceeds from exercise of options	194	2,773
Dividends paid	(5,280)	(5,284)
Net payments for stock issuances and buybacks	(20,778)	(18,365)
Payments on business acquisition liabilities	(121)	(682)
Net Cash Used in Financing Activities	(9,074)	(45,642)
Effect of Exchange Rate Changes on Cash, Cash Equivalents, and Restricted Cash	(1,189)	699
Decrease in Cash, Cash Equivalents, and Restricted Cash	(11,969)	(46,077)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Period	20,433	81,987
Cash, Cash Equivalents, and Restricted Cash, End of Period	\$ 8,464	\$ 35,910
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest	\$ 6,473	\$ 5,319
Income taxes	\$ 12,373	\$ 20,714
Non-cash investing and financing transactions:		
Tenant improvements funded by lessor	\$ 20,243	\$ —

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

NOTE 1 - BASIS OF PRESENTATION AND NATURE OF OPERATIONS

Basis of Presentation

The accompanying consolidated financial statements include the accounts of ICF International, Inc. (“ICFI”) and its principal subsidiary, ICF Consulting Group, Inc. (“Consulting,” and together with ICFI, the “Company”), and have been prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“U.S. GAAP”). Consulting is a wholly owned subsidiary of ICFI. ICFI is a holding company with no operations or assets other than its investment in the common stock of Consulting. All other subsidiaries of the Company are wholly owned by Consulting. All significant intercompany transactions and balances have been eliminated.

Nature of Operations

The Company provides professional services and technology-based solutions to government and commercial clients, including management, marketing, technology, and policy consulting and implementation services, in the areas of energy, environment, and infrastructure; health, education, and social programs; safety and security; and consumer and financial. The Company offers a full range of services to these clients throughout the entire life cycle of a policy, program, project, or initiative, from research and analysis and assessment and advice to design and implementation of programs and technology-based solutions, and the provision of engagement services and programs.

The Company’s major clients are U.S. federal government departments and agencies, most significantly the Department of Health and Human Services, Department of State, and Department of Defense. The Company also serves U.S. state (including territories) and local government departments and agencies, international governments, and commercial clients worldwide. Commercial clients include airlines, airports, electric and gas utilities, health care companies, banks and other financial services companies, transportation, travel and hospitality firms, non-profits/associations, manufacturing firms, retail chains, and distribution companies. 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 (including territories) and local governments, unless otherwise indicated.

The Company, incorporated in Delaware, is headquartered in Fairfax, Virginia. The Company maintains additional offices throughout the world, including 50 offices in the U.S. and U.S. territories and more than 20 offices in key markets outside the U.S., including offices in the United Kingdom, Belgium, China, India, and Canada.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Areas of the consolidated financial statements where estimates may have the most significant effect include contractual and regulatory reserves, valuation and lives of tangible and intangible assets, contingent consideration related to business acquisitions, impairment of goodwill and long-lived assets, accrued liabilities, revenue recognition and costs to complete fixed-price contracts, bonus and other incentive compensation, stock-based compensation, reserves for tax benefits and valuation allowances on deferred tax assets, provisions for income taxes, collectability of receivables, and loss accruals for litigation. Actual results experienced by the Company may differ from management’s estimates.

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 (the “SEC”). These rules and regulations permit some of the information and footnote disclosures normally included in financial statements, prepared in accordance with U.S. GAAP, to be condensed or omitted. In management’s opinion, the unaudited consolidated financial statements contain all adjustments that are of a normal recurring nature, necessary for a fair presentation of the results of operations and financial position of the Company for the interim periods presented. The Company reports operating results and financial data in one operating segment and reporting unit. Operating results for the three and six month periods ended June 30, 2022 and 2021 are not necessarily indicative of the results that may be expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the fiscal year ended December 31, 2021 and the notes thereto included in the Company’s Annual Report on Form 10-K, filed with the SEC on February 25, 2022.

Recent Accounting Pronouncements

Recent Accounting Pronouncements Not Yet Adopted

Reference Rate Reform

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The standard is intended to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (“LIBOR”) and other interbank offered rates to alternative reference rates. The provisions of this ASU are elective and apply to all entities, subject to meeting certain criteria, that have debt or hedging contracts, among other contracts, that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The Company can elect to not apply certain modification accounting requirements to contracts affected by reference rate reform if certain criteria are met. Also, the Company can elect various optional expedients that would allow it to continue to apply hedge accounting for hedging relationships affected by reference rate reform if certain criteria are met. This guidance was effective beginning on March 12, 2020, and the Company may elect to apply the amendments prospectively through December 31, 2022.

On May 6, 2022, the Company entered into an Amended and Restated Credit Agreement (the “Restated Credit Agreement”) with a group of lenders to amend and restate in its entirety the Fifth Amended and Restated Business Loan and Security Agreement, entered into on March 3, 2020 (as amended, the “Existing Credit Agreement”; for additional information see Note 7—Long-Term Debt). The Restated Credit Agreement amended and restated the Existing Credit Agreement to include, among other things, replacing the LIBOR based interest pricing conventions with Secured Overnight Financing Rate (“SOFR”) based interest pricing conventions. The Company elected to apply the optional expedient that allows it to continue to qualify for the shortcut method to assess hedge effectiveness on the related LIBOR-based interest rate hedges (see Note 9—Derivative Instruments and Hedging Activities) and presumes perfect effectiveness. The optional expedient did not result in any impact on the Company’s operating results, financial position, or cash flows. The Company expects to amend the hedge contracts to a SOFR based interest index in the near future.

NOTE 2 – RESTRICTED CASH

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets for the periods presented to the total of cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows for the six months ended June 30, 2022 and 2021:

	June 30, 2022		June 30, 2021	
	Beginning	Ending	Beginning	Ending
Cash and cash equivalents	\$ 8,254	\$ 6,063	\$ 13,841	\$ 9,603
Restricted cash ⁽¹⁾	12,179	2,401	68,146	26,307
Total of cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	\$ 20,433	\$ 8,464	\$ 81,987	\$ 35,910

- (1) Under a contract with a customer that commenced in the fourth quarter of fiscal year 2020, the Company received advance payments to be used to pay providers of services to the customer, a separate third party. The advanced payments are treated as restricted cash - current as the Company is required under the contract to distribute the advanced funds to the third-party providers of services or return the advanced funds to the customer. Because the Company receives the advance payments from the customer, which must be refunded to the customer or remitted to a third party, the cash receipts are treated as borrowings rather than receipts for the provision of goods or services. Therefore, these cash receipts are presented in the consolidated statements of cash flows as financing cash inflows, “Receipt of restricted contract funds,” with the subsequent payments classified as financing cash outflows, “Payment of restricted contract funds.” See Note 6 – Accrued Expenses and Other Current Liabilities for the corresponding liability.

NOTE 3 – CONTRACT RECEIVABLES, NET

Contract receivables, net consisted of the following:

	June 30, 2022	December 31, 2021
Billed and billable	\$ 224,683	\$ 245,425
Allowance for expected credit losses	(5,876)	(7,741)
Contract receivables, net	\$ 218,807	\$ 237,684

NOTE 4 – GOODWILL

The changes in the carrying amount of goodwill during the six-months period ended June 30, 2022 were as follows:

Balance as of December 31, 2021	\$	1,046,760
Measurement period adjustments - ESAC acquisition		87
Measurement period adjustments - Creative Systems and Consulting acquisition		2,044
Effect of foreign currency translation		(4,983)
Balance as of June 30, 2022	\$	<u>1,043,908</u>

NOTE 5 – LEASES

The Company has operating leases for facilities and equipment which have remaining terms ranging from 1 to 17 years. The leases may include options to extend the lease periods for up to 5 years at rates approximating market rates and/or options to terminate the leases within 1 year. The leases may include a residual value guarantee or a responsibility to return the property to its original state of use. A limited number of leases contain provisions that provide for rental increases based on consumer price indices. The change in rent expense resulting from changes in these indices are included within variable rent.

The Company's lease cost is recognized on a straight-line basis over the lease term. Lease cost consists of the following:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Operating lease cost	\$ 9,436	\$ 8,654	\$ 18,938	\$ 17,447
Short-term lease cost	144	105	277	236
Variable lease cost	27	9	47	19
Sublease income	(28)	—	(38)	—
Total lease cost	<u>\$ 9,579</u>	<u>\$ 8,768</u>	<u>\$ 19,224</u>	<u>\$ 17,702</u>

Future minimum lease payments under non-cancellable leases as of June 30, 2022 were as follows:

June 30, 2023	\$	28,496
June 30, 2024		22,070
June 30, 2025		22,521
June 30, 2026		21,639
June 30, 2027		18,864
Thereafter		148,714
Total future minimum lease payments		<u>262,304</u>
Less: Interest		(50,067)
Total lease liabilities	\$	<u>212,237</u>
Operating lease liabilities - current	\$	26,267
Operating lease liabilities - non-current		185,970
Total lease liabilities	\$	<u>212,237</u>

Other information related to operating leases is as follows:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows for operating leases	\$ 19,983	\$ 9,102
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 4,885	\$ 772
Weighted-average remaining lease term		
Operating leases	11.7	5.8
Weighted-average discount rate		
Operating leases	3.2%	3.3%

NOTE 6 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

At June 30, 2022 and December 31, 2021, accrued expenses and other current liabilities consisted of the following:

	June 30, 2022	December 31, 2021
Deposits	\$ 23,794	\$ 21,088
Restricted contract funds	2,389	12,165
Accrued IT and software licensing costs	1,564	1,702
Accrued taxes and insurance premiums	1,800	5,267
Accrued facilities rental and lease exit costs	1,156	1,291
Accrued interest	276	212
Accrued professional services	3,377	3,068
Accrued dividends	2,622	2,643
Contingent and contractual liabilities from acquisitions	1,123	1,245
Interest rate swap liability - current	—	3,026
Forward contract agreements liability - current	392	—
Other accrued expenses and current liabilities	6,609	9,789
Total accrued expenses and other current liabilities	\$ 45,102	\$ 61,496

NOTE 7 – LONG-TERM DEBT

At June 30, 2022 and December 31, 2021, debt consisted of:

	June 30, 2022		December 31, 2021	
	Average Interest Rate	Outstanding Balance	Average Interest Rate	Outstanding Balance
Term Loan		\$ 296,250		\$ 182,500
Revolving Credit		158,574		241,055
Total before debt issuance costs	1.93%	454,824	1.65%	423,555
Unamortized debt issuance costs		(4,749)		(1,950)
Total		\$ 450,075		\$ 421,605
Current portion of long-term debt		\$ 15,000		\$ 10,000
Long-term debt - non-current		435,075		411,605
Total		\$ 450,075		\$ 421,605

On May 6, 2022, the Company entered into the Restated Credit Agreement with a group of lenders with (a) PNC Bank, National Association as the Administrative Agent and (b) PNC Capital Markets LLC, BOFA Securities, Inc., TD Securities (USA) LLC, Wells Fargo Securities, LLC and Citizens Bank, N.A., as joint lead arrangers. The various facilities under the Restated Credit Agreement are referred to as the "Credit Facility", which the Restated Credit Agreement governs. The Restated Credit Agreement amended and restated the Existing Credit Agreement to, among other things, (a) maintain the existing \$600 million revolving credit facility (together and inclusive of a \$75 million swing line sublimit and \$100 million sublimit for letters of credit); (b) increase the existing term loan facility from \$200 million to \$300 million; (c) provide for a new delayed draw term loan facility of \$400 million; (d) maintain the existing incremental credit facility to make, subject to approval of the lenders' making such loans, incremental term or revolving credit loan(s) in the aggregate principal amount of not more than \$300 million; (f) increase the maximum Consolidated Leverage Ratio (as such term is defined in the Restated Credit Agreement) from 4.00 to 1.00 to 4.50 to 1.00 (with temporary increases to 5.00 to 1.00 for the three fiscal quarters following a "Material Permitted Acquisition", as such term is defined in the Restated Credit Agreement); (g) maintain the minimum Consolidated Interest Coverage Ratio (as such term is defined in the Restated Credit Agreement) of 3.00 to 1.00; (h) increase the foreign currency debt limit in Euro and Sterling Pounds from \$30 million equivalent to \$200 million equivalent; (i) modify LIBOR based interest pricing conventions with SOFR based interest pricing conventions; (j) extend the maturity date of the Credit Facility until May 6, 2027; (k) incorporate various provisions and conventions encouraged by the Loan Syndication and Trade Association; and (l) modify certain definitions and certain covenants.

Under the Restated Credit Agreement, the Company has the option to borrow funds under the Credit Facility at interest rates based on both term SOFR (i.e. 1, 3, or 6-month rates) and the Base Rate (as defined herein), at its discretion, plus their applicable margins. The Base Rate is a fluctuating rate of interest equal to the highest of (a) the Overnight Bank Funding Rate (as defined in the Restated Credit Agreement), plus 0.5%, (b) the Prime Rate (as defined in the Restated Credit Agreement) and (c) the Daily Simple SOFR Rate (as defined in the Restated Credit Agreement) plus 1%, all as then adjusted to include the Applicable Margin (as defined in the Restated Credit Agreement) as then in effect (and as determined pursuant to the then current Consolidated Leverage Ratio).

The Credit Facility is collateralized by substantially all the assets of the Company and its material domestic subsidiaries and requires that the Company remain in compliance with certain financial and non-financial covenants including, but not limited to the Consolidated Leverage Ratio and the Consolidated Interest Coverage Ratio. The Credit Facility also includes other terms and conditions, covenants, and other provisions of the Restated Credit Agreement that are materially consistent with the Existing Credit Agreement.

As of June 30, 2022, the Company had \$454.8 million of long-term debt outstanding from the Credit Facility (including the term loan of \$296.3 million, exclusive of unamortized debt issuance costs of \$4.7 million), unused delayed draw term loan facility \$400.0 million, and unused borrowing capacity under the \$600.0 million revolving line of credit of \$438.1 million under the Credit Facility. The unused borrowing capacity is inclusive of nine outstanding letters of credit totaling \$3.3 million. Taking into account the financial, performance-based limitations, available borrowing capacity (excluding the accordion, the delayed draw term loan, and the term loan) was \$410.9 million as of June 30, 2022.

Future scheduled repayments of debt principal are as follows:

Payments due by	Term Loan	Revolving Credit	Total
June 30, 2023	\$ 15,000	\$ —	\$ 15,000
June 30, 2024	15,000	—	15,000
June 30, 2025	16,875	—	16,875
June 30, 2026	22,500	—	22,500
May 6, 2027 (Maturity)	226,875	158,574	385,449
Total	<u>\$ 296,250</u>	<u>\$ 158,574</u>	<u>\$ 454,824</u>

NOTE 8 – REVENUE RECOGNITION

Disaggregation of Revenue

The Company disaggregates revenue from clients, most of which is earned over time, into categories that depict how the nature, amount and uncertainty of revenue and cash flows are affected by economic and business factors. Those categories are client market, client type and contract mix. Client markets provide insight into the breadth of the Company's expertise. In classifying revenue by client market, the Company attributes revenue from a client to the market that the Company believes is the client's primary market. The Company also classifies revenue by the type of entity for which it does business, which is an indicator of the diversity of its client base. The Company attributes revenue generated as a subcontractor to a commercial company as government revenue when the ultimate client is a government agency or department. Disaggregation by contract mix provides insight in terms of the degree of performance risk that the Company has assumed. Fixed-price contracts are considered to provide the highest amount of performance risk as the Company is required to deliver a scope of work or level of effort for a negotiated fixed price. Time-and-materials contracts require the Company to provide skilled employees on contracts for negotiated fixed hourly rates. Since the Company is not required to deliver a scope of work, but merely skilled employees, it considers these contracts to be less risky than a fixed-price agreement. Cost-based contracts are considered to provide the lowest amount of performance risk since the Company is generally reimbursed for all contract costs incurred in performance of contract deliverables with only the amount of incentive or award fees (if applicable) dependent on the achievement of negotiated performance requirements.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2022		2021		2022		2021	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Client Markets:								
Energy, environment, and infrastructure	\$ 160,401	38%	\$ 167,309	43%	\$ 316,444	38%	\$ 330,533	43%
Health, education, and social programs	208,953	49%	167,640	43%	414,750	50%	325,906	42%
Safety and security	33,409	8%	29,618	7%	62,809	7%	60,816	8%
Consumer and financial	20,347	5%	27,958	7%	42,575	5%	53,748	7%
Total	<u>\$ 423,110</u>	<u>100%</u>	<u>\$ 392,525</u>	<u>100%</u>	<u>\$ 836,578</u>	<u>100%</u>	<u>\$ 771,003</u>	<u>100%</u>

	Three Months Ended June 30,				Six Months Ended June 30,			
	2022		2021		2022		2021	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Client Type:								
U.S. federal government	\$ 225,229	53%	\$ 182,241	46%	\$ 444,221	53%	\$ 358,225	46%
U.S. state and local government	64,056	15%	58,487	15%	130,165	16%	115,637	15%
International government	27,144	7%	37,148	10%	53,863	6%	73,894	10%
Total Government	316,429	75%	277,876	71%	628,249	75%	547,756	71%
Commercial	106,681	25%	114,649	29%	208,329	25%	223,247	29%
Total	<u>\$ 423,110</u>	<u>100%</u>	<u>\$ 392,525</u>	<u>100%</u>	<u>\$ 836,578</u>	<u>100%</u>	<u>\$ 771,003</u>	<u>100%</u>

	Three Months Ended June 30,				Six Months Ended June 30,			
	2022		2021		2022		2021	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Contract Mix:								
Time-and-materials	\$ 169,980	40%	\$ 162,249	41%	\$ 334,821	40%	\$ 322,085	42%
Fixed price	185,823	44%	160,288	41%	369,962	44%	307,757	40%
Cost-based	67,307	16%	69,988	18%	131,795	16%	141,161	18%
Total	<u>\$ 423,110</u>	<u>100%</u>	<u>\$ 392,525</u>	<u>100%</u>	<u>\$ 836,578</u>	<u>100%</u>	<u>\$ 771,003</u>	<u>100%</u>

Contract Balances:

Contract assets consist primarily of unbilled amounts resulting from long-term contracts when revenue recognized exceeds the amount billed often due to billing schedule timing. Contract liabilities result from advance payments received on a contract or from billings in excess of revenue recognized on long-term contracts due to billing schedule timing.

The following table summarizes the contract balances as of June 30, 2022 and December 31, 2021:

	June 30, 2022		December 31, 2021		\$ Change	% Change
	Dollars	Percent	Dollars	Percent		
Contract assets	\$ 190,506		\$ 137,867		\$ 52,639	38.2%
Contract liabilities	(24,612)		(39,665)		15,053	(38.0%)
Net contract assets (liabilities)	<u>\$ 165,894</u>		<u>\$ 98,202</u>		<u>\$ 67,692</u>	<u>68.9%</u>

The net contract assets (liabilities) as of June 30, 2022 increased by \$67.7 million as compared to December 31, 2021. The increase in net contract assets (liabilities) is primarily due to the timing difference between the performance of services and billings to and payments from customers. There were no material changes to contract balances due to impairments or credit losses during the period. During the six months ended June 30, 2022 and 2021, the Company recognized \$24.9 million and \$20.1 million in revenue related to the contract liabilities balance at December 31, 2021 and 2020, respectively.

Performance Obligations:

The Company had \$1.2 billion in unfulfilled performance obligations as of June 30, 2022 which primarily entail the future delivery of services for which revenue will be recognized over time. The obligations relate to continued or additional services required on contracts, including those that are either noncancellable or have substantive termination penalties, and were generally valued using an estimated cost-plus margin approach, with variable consideration being estimated at the most likely amount. The amounts exclude marketing offers, which are negotiated but unexercised contract options and indefinite delivery/indefinite quantity (IDIQ) and similar arrangements that provided a framework for customers to issue specific tasks, delivery, or purchase orders in the future. The Company expects to satisfy these performance obligations, on average, in one to two years.

NOTE 9 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company uses interest rate swap arrangements (the “Swaps”) to manage or hedge its interest rate risk. Notwithstanding the terms of the Swaps, the Company is ultimately obligated for all amounts due and payable under the Credit Facility. The Company does not use such instruments for speculative or trading purposes.

The Company designated the Swaps as cash flow hedges. Derivative instruments are recorded on the consolidated balance sheets at fair value. Unrealized gains and losses on derivatives designated as cash flow hedges are reported in other comprehensive income (loss) and reclassified to earnings in a manner that matches the timing of the earnings impact of the hedged

transactions. Management intends that the Swaps remain effective and, on a quarterly basis, evaluates them to determine their effectiveness or ineffectiveness and records the change in fair value as an adjustment to other comprehensive income or loss.

A summary of interest rate swap derivatives designated as cash flow hedges as of June 30, 2022 are as follows:

Date of Interest Rate Swap Agreement	Notional Amount (\$million)	Paid Fixed Interest Rate%	Dates of Effected Cash Flows	
			Beginning	Ending
September 30, 2016 ⁽¹⁾	\$ 100.0	-	January 31, 2018	January 31, 2023
August 31, 2017	\$ 25.0	1.8475%	August 31, 2018	August 31, 2023
August 8, 2018	\$ 50.0	2.8540%	August 31, 2018	August 31, 2023
August 8, 2018	\$ 25.0	2.8510%	August 31, 2018	August 31, 2023
February 20, 2020	\$ 100.0	1.2940%	February 28, 2020	February 28, 2025

(1) On December 1, 2016, the Company sold the interest rate hedge agreement. The fair value of the interest rate hedge, as of the date of the sale, was recorded in other comprehensive income, net of tax. The gain from the sale will be recognized into earnings when earnings are impacted by the cash flows of the previously hedged variable interest rate.

NOTE 10 – INCOME TAXES

The Company's effective tax rate for the three months ended June 30, 2022 and 2021 was 28.6% and 30.7%, respectively, and 28.1% and 28.8% for the six months ended June 30, 2022 and 2021, respectively.

The Company is subject to federal income tax as well as taxes in various state, local and foreign jurisdictions. Tax statutes and regulations within each jurisdiction are subject to interpretation and require the application of significant judgment. The Company's 2018 through 2020 tax years remain subject to examination by the Internal Revenue Service for federal tax purposes. Certain significant state, local and foreign tax returns also remain open under the applicable statute of limitations and, as such, are subject to examination for the tax years from 2017 to 2020.

The total amount of unrecognized tax benefits as of June 30, 2022 and 2021 was \$0.5 million and \$0.8 million, respectively, that would impact the effective tax rate if recognized.

The Company's policy is not to recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. The Company did not have any accrued penalty and interest at June 30, 2022 and 2021, respectively.

The Company has made no provision for deferred U.S. income taxes or additional foreign taxes on future unremitted earnings of its controlled foreign subsidiaries because the Company considers these earnings to be permanently invested.

Pursuant to the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, the Company exercised the option to defer payment of the employer portion of the Social Security tax, with 50% to be repaid by December 31, 2021 and the remainder by December 31, 2022. The Company deferred payment of approximately \$20.9 million of employer Social Security taxes during the year ended December 31, 2020 and repaid 50% during the third quarter of 2021. As of June 30, 2022 the remaining deferred payment is included in accrued salaries and benefits in the Company's consolidated balance sheets.

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss as of June 30, 2022 and 2021 included the following:

	Three Months Ended June 30, 2022			
	Foreign Currency Translation Adjustments	Gain on Sale of Interest Rate Hedge Agreement (1)	Change in Fair Value of Interest Rate Hedge Agreements (2)	Total
Accumulated other comprehensive (loss) income at March 31, 2022	\$ (10,700)	\$ 437	\$ 1,887	\$ (8,376)
Current period other comprehensive (loss) income:				
Other comprehensive (loss) income before reclassifications	(6,721)	—	1,793	(4,928)
Amounts reclassified from accumulated other comprehensive (loss) income (3)	—	(180)	596	416
Effect of taxes (4)	859	48	(606)	301
Total current period other comprehensive (loss) income	(5,862)	(132)	1,783	(4,211)
Accumulated other comprehensive (loss) income at June 30, 2022	\$ (16,562)	\$ 305	\$ 3,670	\$ (12,587)

	Three Months Ended June 30, 2021			
	Foreign Currency Translation Adjustments	Gain on Sale of Interest Rate Hedge Agreement (1)	Change in Fair Value of Interest Rate Hedge Agreement (2)	Total
Accumulated other comprehensive (loss) income at March 31, 2021	\$ (6,346)	\$ 965	\$ (5,945)	\$ (11,326)
Current period other comprehensive income (loss):				
Other comprehensive income (loss) before reclassifications	182	—	(325)	(143)
Amounts reclassified from accumulated other comprehensive (loss) income (3)	—	(180)	928	748
Effect of taxes (4)	(61)	48	(160)	(173)
Total current period other comprehensive income (loss)	121	(132)	443	432
Accumulated other comprehensive (loss) income at June 30, 2021	<u>\$ (6,225)</u>	<u>\$ 833</u>	<u>\$ (5,502)</u>	<u>\$ (10,894)</u>

	Six Months Ended June 30, 2022			
	Foreign Currency Translation Adjustments	Gain on Sale of Interest Rate Hedge Agreement (1)	Change in Fair Value of Interest Rate Hedge Agreements (2)	Total
Accumulated other comprehensive (loss) income at December 31, 2021	\$ (8,759)	\$ 569	\$ (2,845)	\$ (11,035)
Current period other comprehensive (loss) income:				
Other comprehensive (loss) income before reclassifications	(9,025)	—	7,302	(1,723)
Amounts reclassified from accumulated other comprehensive (loss) income (3)	—	(360)	1,498	1,138
Effect of taxes (4)	1,222	96	(2,285)	(967)
Total current period other comprehensive (loss) income	(7,803)	(264)	6,515	(1,552)
Accumulated other comprehensive (loss) income at June 30, 2022	<u>\$ (16,562)</u>	<u>\$ 305</u>	<u>\$ 3,670</u>	<u>\$ (12,587)</u>

	Six Months Ended June 30, 2021			
	Foreign Currency Translation Adjustments	Gain on Sale of Interest Rate Hedge Agreement (1)	Change in Fair Value of Interest Rate Hedge Agreement (2)	Total
Accumulated other comprehensive (loss) income at December 31, 2020	\$ (7,210)	\$ 1,096	\$ (7,992)	\$ (14,106)
Current period other comprehensive income (loss):				
Other comprehensive income before reclassifications	1,150	—	1,557	2,707
Amounts reclassified from accumulated other comprehensive (loss) income (3)	—	(360)	1,835	1,475
Effect of taxes (4)	(165)	97	(902)	(970)
Total current period other comprehensive income (loss)	985	(263)	2,490	3,212
Accumulated other comprehensive (loss) income at June 30, 2021	<u>\$ (6,225)</u>	<u>\$ 833</u>	<u>\$ (5,502)</u>	<u>\$ (10,894)</u>

(1) Represents the unamortized value of an interest rate hedge agreement, designated as a cash flow hedge, which was sold on December 1, 2016. The fair value of the interest rate hedge agreement, at the date of the sale, was recorded in other comprehensive income, net of tax, and is being reclassified to interest expense when earnings are impacted by the hedged items and as interest payments are made on the Credit Facility from January 31, 2018 to January 31, 2023 (see Note 9—Derivative Instruments and Hedging Activities).

- (2) Represents the change in fair value of interest rate hedge agreements designated as a cash flow hedges. The fair value of the interest rate hedge agreements was recorded in other comprehensive income, net of tax, and will be reclassified to earnings when earnings are impacted by the hedged items, as interest payments are made on the Credit Facility from August 31, 2018 to February 28, 2025 (see Note 9—Derivative Instruments and Hedging Activities).
- (3) The Company expects to reclassify \$0.4 million of net gains related to the Gain on Sale of Interest Rate Hedge Agreement and \$2.2 million of net gains related to the Change in Fair Value of Interest Rate Hedge Agreement from accumulated other comprehensive loss into earnings during the next 12 months.
- (4) The Company's effective tax rate for the three months ended June 30, 2022 and 2021 was 28.6% and 30.7%, respectively, and 28.1% and 28.8% for the six months ended June 30, 2022 and 2021, respectively.

NOTE 12 – STOCKHOLDERS' EQUITY

Changes in stockholders' equity for the three and six months ended June 30, 2022 and 2021 are as follows:

	Three Months Ended June 30, 2022							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Loss	Total
	Shares	Amount			Shares	Amount		
Balance at March 31, 2022	18,793	\$ 23	\$ 388,639	\$ 664,532	4,886	\$ (241,516)	\$ (8,376)	\$ 803,302
Net income	—	—	—	18,397	—	—	—	18,397
Other comprehensive loss	—	—	—	—	—	—	(4,211)	(4,211)
Equity compensation	—	—	2,944	—	—	—	—	2,944
Exercise of stock options	4	—	102	—	—	—	—	102
Issuance of shares pursuant to employee stock purchase plan and vesting of restricted stock units	22	—	1,539	—	—	—	—	1,539
Payments for stock buybacks	(1)	—	—	—	1	(50)	—	(50)
Dividends declared	—	—	—	(2,606)	—	—	—	(2,606)
Balance at June 30, 2022	<u>18,818</u>	<u>\$ 23</u>	<u>\$ 393,224</u>	<u>\$ 680,323</u>	<u>4,887</u>	<u>\$ (241,566)</u>	<u>\$ (12,587)</u>	<u>\$ 819,417</u>

	Three Months Ended June 30, 2021							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Loss	Total
	Shares	Amount			Shares	Amount		
Balance at March 31, 2021	18,859	\$ 23	\$ 372,420	\$ 604,441	4,602	\$ (214,325)	\$ (11,326)	\$ 751,233
Net income	—	—	—	20,312	—	—	—	20,312
Other comprehensive income	—	—	—	—	—	—	432	432
Equity compensation	—	—	2,888	—	—	—	—	2,888
Exercise of stock options	3	—	71	—	—	—	—	71
Issuance of shares pursuant to employee stock purchase plan and vesting of restricted stock units	20	—	1,243	—	—	—	—	—
Payments for stock buybacks	(22)	—	—	—	22	(2,028)	—	(785)
Dividends declared	—	—	—	(2,640)	—	—	—	(2,640)
Balance at June 30, 2021	<u>18,860</u>	<u>\$ 23</u>	<u>\$ 376,622</u>	<u>\$ 622,113</u>	<u>4,624</u>	<u>\$ (216,353)</u>	<u>\$ (10,894)</u>	<u>\$ 771,511</u>

	Six Months Ended June 30, 2022							
	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Loss	Total
	Shares	Amount			Shares	Amount		
Balance at December 31, 2021	18,876	\$ 23	\$ 384,984	\$ 649,298	4,659	\$ (219,800)	\$ (11,035)	\$ 803,470
Net income	—	—	—	36,259	—	—	—	36,259
Other comprehensive loss	—	—	—	—	—	—	(1,552)	(1,552)
Equity compensation	—	—	6,507	—	—	—	—	6,507
Exercise of stock options	8	—	194	—	—	—	—	194
Issuance of shares pursuant to employee stock purchase plan and vesting of restricted stock units	162	—	1,539	—	—	—	—	1,539
Payments for stock buybacks	(228)	—	—	—	228	(21,766)	—	(21,766)
Dividends declared	—	—	—	(5,234)	—	—	—	(5,234)
Balance at June 30, 2022	<u>18,818</u>	<u>\$ 23</u>	<u>\$ 393,224</u>	<u>\$ 680,323</u>	<u>4,887</u>	<u>\$ (241,566)</u>	<u>\$ (12,587)</u>	<u>\$ 819,417</u>

Six Months Ended June 30, 2021

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Loss	Total
	Shares	Amount			Shares	Amount		
Balance at December 31, 2020	18,910	\$ 23	\$ 369,058	\$ 588,731	4,395	\$ (196,745)	\$ (14,106)	\$ 746,961
Net income	—	—	—	38,663	—	—	—	38,663
Other comprehensive income	—	—	—	—	—	—	3,212	3,212
Equity compensation	—	—	6,163	—	—	—	—	6,163
Exercise of stock options	6	—	158	—	—	—	—	158
Issuance of shares pursuant to employee stock purchase plan and vesting of restricted stock units	173	—	1,243	—	—	—	—	1,243
Payments for stock buybacks	(229)	—	—	—	229	(19,608)	—	(19,608)
Dividends declared	—	—	—	(5,281)	—	—	—	(5,281)
Balance at June 30, 2021	<u>18,860</u>	<u>\$ 23</u>	<u>\$ 376,622</u>	<u>\$ 622,113</u>	<u>4,624</u>	<u>\$ (216,353)</u>	<u>\$ (10,894)</u>	<u>\$ 771,511</u>

NOTE 13 – ACCOUNTING FOR STOCK-BASED COMPENSATION

On April 4, 2018, the Company’s board of directors (the “board”) approved the 2018 Omnibus Incentive Plan (the “2018 Omnibus Plan”), which was subsequently approved by the Company’s stockholders and became effective on May 31, 2018 (the “Effective Date”). The 2018 Omnibus Plan replaced the previous 2010 Omnibus Incentive Plan (the “Prior Plan”). The 2018 Omnibus Plan was amended on May 28, 2020 to increase the number of shares available for issuance.

The 2018 Omnibus Plan, as amended, allows the Company to grant 1,600,000 shares using stock options, stock appreciation rights, restricted stock, restricted stock units (“RSU”), performance units and performance share awards (“PSA”), cash-settled restricted stock units (“CSRSU”), and other stock-based awards to all officers, key employees, and non-employee directors of the Company. Outstanding shares granted under the Prior Plan, totaling 22,333 as of June 30, 2022, remain subject to its terms and conditions, and no additional awards from the Prior Plan are to be made after the Effective Date. As of June 30, 2022, the Company had approximately 812,251 shares available for grant under the 2018 Omnibus Plan. CSRSUs have no impact on the shares available for grant under the Omnibus Plan, nor on the calculated shares used in earnings per share calculations.

During the six months ended June 30, 2022, the Company granted to its employees 117,196 shares in the form of RSUs with an average grant date fair value of \$91.79, and the equivalent value of 62,840 shares in the form of CSRSUs with an average grant date fair value of \$92.40. During the six months ended June 30, 2022, the Company also granted 35,705 shares in the form of PSAs to its employees with a grant date fair value of \$93.97 per share. The RSUs, CSRSUs and PSAs granted are generally subject to service-based vesting conditions, with the PSAs also having performance-based vesting conditions. The performance conditions for the PSAs granted in 2022 have a performance period from January 1, 2022 through December 31, 2024 and performance conditions that are consistent with the PSAs granted in prior years.

The Company recognized stock-based compensation expense of \$4.4 million and \$4.4 million for the three months ended June 30, 2022 and 2021, respectively, and \$9.0 million and \$10.6 million for the six months ended June 30, 2022 and 2021, respectively. Unrecognized compensation expense of approximately \$16.4 million as of June 30, 2022 related to unsettled RSUs is expected to be recognized over a weighted-average period of 2.0 years. The unrecognized compensation expense related to CSRSUs totaled approximately \$8.4 million at June 30, 2022 and is expected to be recognized over a weighted-average period of 1.8 years. Unrecognized compensation expense related to PSAs of approximately \$5.2 million as of June 30, 2022 is expected to be recognized over a weighted-average period of 1.4 years.

NOTE 14 – BUSINESS COMBINATION

On December 31, 2021, the Company acquired Creative Systems and Consulting, a premier provider of IT modernization and digital transformation solutions to federal agencies, for a cash purchase price of approximately \$159.5 million, subject to working capital adjustments. The Company initially recorded working capital of \$4.5 million and recognized fair value of the assets acquired and liabilities assumed and allocated \$126.1 million to goodwill and \$28.9 million to intangible assets. Intangible assets consist of \$24.5 million in customer relationships, \$3.7 million related to developed technology, \$0.6 million related to trade names and trademarks, and \$0.1 million related to non-compete agreements. The allocation of the total purchase price to the tangible and intangible assets and liabilities of Creative Systems and Consulting was based on management’s preliminary estimate of fair value, based on the best available information as of December 31, 2021 when the purchase price allocation was determined. During the three months ended June 30, 2022, the Company recorded \$2.0 million to goodwill as part of the measurement period adjustments (see Note 4—Goodwill). The Company expects to complete the purchase accounting during the 2022 fiscal year as it finalizes the determination of both working capital, as well as its estimates of future cash flows underlying the valuation of customer-related intangible assets. The pro-forma impact of the acquisition was not material to the Company’s results of operations.

A prior acquisition's purchase agreement included additional consideration in the form of warranty and indemnity hold back payments. As of June 30, 2022, one payment remains outstanding for approximately \$1.1 million, which is scheduled to be released in the fourth quarter of 2022 and is included in accrued expenses and other current liabilities (see Note 6—Accrued Expenses and Other Current Liabilities). The warranty and indemnity liability was recorded at its fair value at the date of the acquisition discounting the liability at 3.25%.

NOTE 15 – EARNINGS PER SHARE

The Company's 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 of stock options, RSUs, and PSAs were exercised or converted into stock. PSAs are included in the computation of diluted shares only to the extent that the underlying performance conditions: (i) are satisfied as of the end of the reporting period or (ii) would be considered satisfied if the end of the reporting period were the end of the related performance period and the result would be dilutive under the treasury stock method.

As of June 30, 2022, the PSAs granted during the year ended December 31, 2020 met the related performance conditions for the initial performance period and were included in the calculation of diluted EPS. However, the PSAs granted during the year ended December 31, 2021 and during the six months ended June 30, 2022 have not yet completed their initial two-year performance period and therefore were excluded in the calculation of diluted EPS. For the three months ended June 30, 2022 and 2021, there were no weighted-average shares excluded from the calculation of EPS because they were anti-dilutive. For the six months ended June 30, 2022 and 2021, there were 18 and 258 shares that were excluded because they were anti-dilutive. The anti-dilutive shares in both years were associated with RSUs.

The dilutive effect of stock options, RSUs, and PSAs for each period reported is summarized below:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Net Income	\$ 18,397	\$ 20,312	\$ 36,259	\$ 38,663
Weighted-average number of basic shares outstanding during the period	18,796	18,843	18,795	18,864
Dilutive effect of stock options, RSUs, and performance shares	158	179	196	214
Weighted-average number of diluted shares outstanding during the period	18,954	19,022	18,991	19,078
Basic earnings per share	\$ 0.98	\$ 1.08	\$ 1.93	\$ 2.05
Diluted earnings per share	\$ 0.97	\$ 1.07	\$ 1.91	\$ 2.03

NOTE 16 – SHARE REPURCHASE PROGRAM

In September 2017, the board approved a share repurchase program that allows for share repurchases in the aggregate up to \$100.0 million under approved share repurchase plans pursuant to Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934. In November 2021, the board amended and increased the limit under the previous authorization of \$100.0 million to \$200.0 million. The Restated Credit Agreement permits share repurchases provided the Company's Consolidated Leverage Ratio, prior to and after giving effect to such repurchases, is 0.50 to 1.00 less than the then applicable maximum Consolidated Leverage Ratio and subject to a net liquidity of \$100.0 million. Additionally, the Company can make share repurchases up to \$25.0 million per calendar year subject to no default.

Purchases under this program may be made from time to time at prevailing market prices in open market purchases or in privately negotiated transactions pursuant to Rule 10b-18 under the Exchange Act and in accordance with applicable insider trading and other securities laws and regulations. The purchases are funded from existing cash balances and/or borrowings, and the repurchased shares are held in treasury and used for general corporate purposes. The timing and extent to which the Company repurchases its shares will depend on market conditions and other corporate considerations at the Company's sole discretion.

During the fourth quarter of 2021, the board approved an updated Rule 10b5-1 plan element of the share repurchase program to repurchase a maximum of 165,000 shares, or a total of \$20.0 million, under the current program starting on December 20, 2021 and ending no later than June 30, 2022. Under this approved plan, the Company repurchased 140,200 shares at an average price of \$98.55 per share between January 1, 2022 and February 2, 2022. The repurchase plan was completed in the first quarter of 2022 with a total of 165,000 shares repurchased from December 20, 2021 to February 2, 2022 for a total of \$16.3 million. The Company also used \$3.1 million to repurchase an additional 36,175 shares in the open market during the first quarter of 2022 at an average price of \$87.00 per share.

For the six months ended June 30, 2022 and 2021, the Company used \$17.0 million to repurchase 176,375 shares and \$14.7 million to repurchase 173,000 shares, respectively, under the share repurchase program. As of June 30, 2022, \$111.9 million remained available for share repurchases under the repurchase program.

NOTE 17 – FAIR VALUE

Financial instruments measured at fair value on a recurring basis and their location within the accompanying consolidated balance sheets are as follows:

<i>(in thousands)</i>	June 30, 2022				Location on Balance Sheet
	Level 1	Level 2	Level 3	Total	
Assets:					
Interest rate swaps - current portion	\$ —	\$ 2,185	\$ —	\$ 2,185	Prepaid expenses and other assets
Interest rate swaps - long-term portion	—	2,701	—	2,701	Other assets
Deferred compensation investments in cash surrender life insurance	—	16,921	—	16,921	Other assets
Total	\$ —	\$21,807	\$ —	\$21,807	
Liabilities:					
Forward contract agreements	\$ —	\$ 392	\$ —	\$ 392	Accrued expenses and other current liabilities
Deferred compensation plan liabilities	—	17,653	—	17,653	Other long-term liabilities
Total	\$ —	\$18,045	\$ —	\$18,045	
December 31, 2021					
<i>(in thousands)</i>	Level 1	Level 2	Level 3	Total	Location on Balance Sheet
Assets:					
Forward contract agreements	\$ —	\$ 267	\$ —	\$ 267	Prepaid expenses and other assets
Deferred compensation investments in cash surrender life insurance	—	20,159	—	20,159	Other assets
Total	\$ —	\$20,426	\$ —	\$20,426	
Liabilities:					
Deferred compensation plan liabilities	\$ —	\$20,129	\$ —	\$20,129	Other long-term liabilities
Interest rate swaps - current portion	—	3,026	—	3,026	Accrued expenses and other current liabilities
Interest rate swaps - long-term portion	—	888	—	888	Other long-term liabilities
Total	\$ —	\$24,043	\$ —	\$24,043	

NOTE 18 – SUBSEQUENT EVENTS**Dividend**

On August 3, 2022, the board approved a \$0.14 per share cash dividend. The dividend will be paid on October 13, 2022 to shareholders of record as of the close of business on September 9, 2022.

Acquisition of SemanticBits

On July 13, 2022, the Company completed the acquisition of SemanticBits, LLC (“Semantic”), a 450-person Virginia limited liability company. Originally founded in 2005, Semantic is a premier partner to U.S. federal health agencies for mission-critical digital modernization solutions, provides a full suite of scalable digital modernization services using open-source frameworks, including end-to-end agile scale development capabilities, cloud-native solutions, data analytics and human-centered designs. The acquisition is expected to provide synergies and scalabilities to support federal agencies with advanced IT solutions, digital modernization, and health expertise to solve complex challenges. The purchase price was \$220.0 million in cash, subject to post-closing working capital adjustments. The purchase was funded by the existing Credit Facility. The acquisition will be accounted for as a business combination under Accounting Standards Codification (“ASC”) 805, Business Combination and the total purchase price will be allocated to the tangible and intangible assets acquired and liabilities assumed based on the fair value on the acquisition date of July 13, 2022, with the exception of contract assets and contract liabilities which will be measured in accordance with ASC 606, Revenue Recognition. The Company expects to complete the preliminary purchase price allocation in the third quarter of the 2022 fiscal year.

NOTE 19 – COMMITMENTS AND CONTINGENCIES

Litigation and Claims

The Company is involved in various legal matters and proceedings arising in the ordinary course of business. While these matters and proceedings cause it to incur costs, including, but not limited to, attorneys' fees, the Company currently believes that any ultimate liability arising out of these matters and proceedings will not have a material adverse effect on its financial position, results of operations, or cash flows.

Road Home Contract

On June 10, 2016, the Office of Community Development (the "OCD") of the State of Louisiana filed a written administrative demand with the Louisiana Commissioner of Administration against ICF Emergency Management Services, L.L.C. ("ICF Emergency"), a subsidiary of the Company, in connection with ICF Emergency's administration of the Road Home Program ("Program"). The Program contract was a three-year, \$912 million contract awarded to the Company in 2006. The Program ended, as scheduled, in 2009.

The Program was primarily intended to help homeowners and landlords of small rental properties affected by Hurricanes Rita and Katrina. In its administrative demand, the OCD sought approximately \$200.8 million in alleged overpayments to the Program's grant recipients, and separately supplemented the amount of recovery it sought in total to approximately \$220.2 million. The State of Louisiana, through the Division of Administration, also filed suit in Louisiana state court on June 10, 2016. The State of Louisiana broadly alleges and sought recoupment for the same claim made in the administrative proceeding submission before the Louisiana Commissioner of Administration. On September 21, 2016, the Commissioner of the Division of Administration notified OCD and the Company of his decision to defer jurisdiction of the administrative demand filed by the OCD. 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 previously filed judicial proceeding. The Company continues to believe that this claim has no merit, intends to vigorously defend its position, and has therefore not recorded a liability as of June 30, 2022.

Executive Chair Retirement

On November 15, 2020, the Company's former Executive Chair gave notice of his retirement effective December 31, 2020. In connection with his retirement, the former Executive Chair is entitled to receive compensation and benefits as provided in his employment agreement for a termination of employment on the basis of "good reason." As of June 30, 2022, there were PSAs totaling 17,287 shares which were originally granted during 2020 to be satisfied through the normal course of the PSA equity award plan (see Note 13—Accounting for Stock-Based Compensation) and subject to adjustment from rTSR performance.

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

FORWARD-LOOKING STATEMENTS

Some of the statements in this Quarterly Report on Form 10-Q (this "Quarterly Report") 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 our filings with the Securities and Exchange Commission (the "SEC"), as well as any cautionary language in this Quarterly Report, provide examples of risks, uncertainties, and events that may cause actual results to differ materially from the expectations described in the 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 reduction 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;
- Effects of the novel coronavirus disease ("COVID-19"), or any other future pandemic, and related national, state and local government actions and reactions on the health of our staff and that of our clients, the continuity of our and our clients' operations, our results of operations and our outlook;
- Results of routine and non-routine government audits and investigations;
- Dependence of commercial work on certain sectors of the global economy that are highly cyclical;
- Failure to realize the full amount of our backlog;
- Risks inherent in being engaged in significant and complex disaster relief efforts and grants management programs involving multiple tiers of government in very stressful environments;
- Risks resulting from expanding service offerings and client base;
- Difficulties in identifying attractive acquisitions available at acceptable prices;
- Acquisitions we undertake may present integration challenges, fail to perform as expected, increase our liabilities, and/or reduce our earnings;
- 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 Quarterly Report. 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 Quarterly Report, refer to ICF International, Inc. and its 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 and the governments of U.S. territories. The following discussion and analysis is intended to help the reader understand our business, financial condition, results of operations, and liquidity and capital resources. You should read this discussion in conjunction with our consolidated financial statements and the related notes contained elsewhere in this Quarterly Report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 filed with the SEC on February 25, 2022 (our "Annual Report").

OVERVIEW AND OUTLOOK

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 to our diverse client base that deliver value throughout the entire life cycle of a policy, program, project, or initiative. Our primary services include:

- Advisory Services;
- Program Implementation Services;
- Analytics Services;
- Digital Services; and
- Engagement Services.

Our clients utilize our services because we combine diverse institutional knowledge and experience with the deep subject matter expertise of our highly educated staff, which we deploy in multi-disciplinary teams. We believe that our domain expertise and the program knowledge developed from our research and analytic, and assessment and advisory engagements further position us to provide a full suite of services.

We report operating results and financial data as a single segment based on the consolidated information used by our chief operating decision-maker in evaluating the financial performance of our business and allocating resources. Our single segment represents our core business: professional services for government and commercial clients. Although we describe our multiple service offerings to clients that operate in four markets to provide a better understanding of the scope and scale of our business, we do not manage our business or allocate our resources based on those service offerings or client markets. Rather, on a project-by-project basis, we assemble the best team from throughout the enterprise to deliver highly customized solutions that are tailored to meet the needs of each client.

Notwithstanding the near-term impact of COVID-19 and its variants, we believe that, in the long-term, 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 the environment and use of clean energy and energy efficiency; health promotion, treatment, and cost control; the means by which healthcare can be delivered effectively on a cross-jurisdiction basis; natural disaster relief and rebuild efforts; and ongoing homeland security threats. In the wake of the major hurricanes (Harvey, Ida, Irma, Maria, Laura, and Michael) that devastated communities in Texas, Florida, North Carolina, Louisiana, the U.S. Virgin Islands, and Puerto Rico, the affected areas remain in various stages of relief and recovery efforts. We believe our prior and current experience with disaster relief and rebuild efforts, including those from Hurricanes Katrina and Rita and Superstorm Sandy, put us in a favorable position to continue to provide recovery and housing assistance, and environmental and infrastructure solutions, including disaster mitigation, on behalf of federal departments and agencies, state, territorial and local jurisdictions, and regional agencies.

We also see significant opportunity to further leverage our digital and client engagement capabilities across our commercial and government client base. Our future results will depend on the success of our strategy to enhance our client relationships and seek larger engagements that span the entire program life cycle, and to complete and successfully integrate additional strategic acquisitions. We will continue to focus on building scale in our vertical and horizontal domain expertise, developing business with both our existing government and commercial clients as well as new customers, and replicating our business model in selective geographies. In doing so, we will continue to evaluate strategic acquisition opportunities, such as our recent acquisitions of ITG in 2020, ESAC and Creative Systems and Consulting in 2021, and SemanticBits, LLC in the third quarter of 2022, that enhance our subject matter knowledge, broaden our service offerings, and/or provide scale in specific geographies.

Although we continue to see favorable long-term market opportunities, there are certain business challenges facing all government service providers. Administrative and legislative actions by the federal government to address changing priorities or in response to the budget deficit could have a negative impact on our business, which may result in a reduction to our revenue and profit and adversely affect cash flow. Similarly, the very nature of opportunities arising out of disaster recovery mean they can involve unusual challenges. Factors such as the overall stress on communities and people affected by disaster recovery situations, political complexities and challenges among involved government agencies, and a higher-than-normal risk of audits and investigations 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. We believe that the combination of internally generated funds, available bank borrowings, and cash and cash equivalents on hand will provide the required liquidity and capital resources necessary to fund on-going operations, potential acquisitions, customary capital expenditures, and other working capital requirements.

Impact of the COVID-19 Pandemic

On March 11, 2020, the World Health Organization characterized the novel strain of coronavirus disease COVID-19 as a global pandemic. There continues to be significant uncertainty as to the effects of this pandemic on the global economy, which may impact, among other things, our operations, balance sheet, results of operations or cash flows. Adverse events such as health-related concerns about working in our offices or our client's offices, the inability to travel, the potential impact on our employees, clients, subcontractors and other suppliers and business partners, a slow-down in customer decision-making that affects procurement cycles, a reprioritization of client spending, and other matters affecting the general work and business environment have harmed, and could continue to harm, our business and delay the implementation of our business strategy. We cannot fully anticipate all the ways in which the current global health crisis, economic disruption, and financial market conditions could adversely impact our business in the future. The long duration of the pandemic, the advent of new strains of the virus, and challenges faced in the vaccination of eligible individuals, continue to create uncertainty, and could have an adverse effect on our business, financial position, results of operations and/or cash flows.

We are primarily a service business, and our staffing, and that of our subcontractors, has been maintained, substantially on a work from home basis, fortunately with little COVID-19 illness among our staff. To date, we have experienced continuity in the majority of our work for our government clients, which accounted for approximately 75% of our revenues for both our three and six months ended June 30, 2022, respectively. There have been postponements of events and challenges around project work requiring travel and personal contact to perform services under the contracts, but overall, our government clients have continued to require our services. There has also been additional demand from federal agencies such as the Center for Disease Control and Prevention, the Department of Health and Human Services, and the Federal Emergency Management Agency, as well as state and local and international government agencies.

Of the remaining 25% of our total revenue for both our three and six months ended June 30, 2022, the majority was generated from commercial energy markets and commercial marketing services. In commercial energy, where we work primarily for utility clients, we have experienced trends similar to those with our government clients, although some aspects of energy efficiency programs have been altered to reduce direct interaction with consumers. The commercial marketing services include public event management and marketing technology, which was impacted based on the deferral or cancellation of marketing events. Some of our commercial clients perform work in travel-related markets and have been severely impacted by the COVID-19 pandemic and the restriction upon travel worldwide. As a result, we continue to monitor that business area closely. These two elements of commercial marketing services combined for 7% of our total company-wide revenues during each of the three and six months periods ended June 30, 2022, respectively.

We are monitoring the evolving situation related to the COVID-19 pandemic and continue to work with our stakeholders to assess further possible implications to our business and to take actions in an effort to mitigate adverse consequences. To protect employee health and safety while COVID-19 remains a threat, we continued to deliver a majority of our services to clients remotely. Additionally, in response to President Biden's Executive Order 14042, which requires federal contractors to be vaccinated against COVID-19 by December 8, 2021 and later amended to January 4, 2022, we implemented a requirement for our U.S. employees to be fully vaccinated or receive an approved exemption/accommodation by November 30, 2021 regardless of employment type or work location—remote, hybrid, or on-site. We started our phased return to in-office work in the U.K. and China on a reduced capacity during the third quarter of 2021 and formally re-opened our offices in North America starting on April 25, 2022.

In 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was passed that allows for the deferral of payments of the employer portion of the Social Security tax. As permitted by the CARES Act, we deferred payment of approximately \$20.9 million of employer Social Security taxes during the twelve months ended December 31, 2020, of which 50% has been repaid as of December 31, 2021 and the remaining 50% is expected to be repaid by the deadline of December 31, 2022.

As part of management actions to counter the impact of COVID-19, we have aligned our costs with anticipated revenues. In the U.S. and in our international operations, we used staff reductions, furloughs, and other temporary wage reduction programs in response to the pandemic during 2020. However, we did not have as many staff reductions, furloughs, or wage reductions as a result of COVID-19 after 2020. During 2020, we also participated in three international government subsidy programs whose objective was to encourage eligible companies to keep employees on the payroll during the COVID-19 pandemic. We minimally participated in two subsidy programs during the first quarter of 2021 but did not participate in such programs subsequently.

Employees and Offices:

We have approximately 8,000 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 Washington, D.C. metropolitan area, our 50 regional offices throughout the U.S. and more than 20 offices in key regions outside the U.S., including offices in the United Kingdom, Belgium, China, India and Canada.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion of our financial condition and results of operations is based on our consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). The preparation of these consolidated financial statements requires us to make certain estimates, assumptions, and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses and our application of critical accounting policies, including revenue recognition, impairment of goodwill and other intangible assets, and income taxes. If any of these estimates, assumptions or judgments prove to be incorrect, our reported results could be materially affected. Actual results may differ significantly from our estimates under different assumptions or conditions. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Note 2 – Summary of Significant Accounting Policies” in our Annual Report and “Note 1—Basis of Presentation and Nature of Operations” in the “Notes to Consolidated Financial Statements” in this Quarterly Report for further discussions of our significant accounting policies and estimates.

We periodically evaluate our critical accounting policies and estimates based on changes in U.S. GAAP and the current environment that may have an effect on our financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting standards are discussed in “Note 1—Basis of Presentation and Nature of Operations—Recent Accounting Pronouncements” in the “Notes to Consolidated Financial Statements” in this Quarterly Report.

SELECTED KEY METRICS

In order to evaluate operations, we track revenue by key metrics that provide useful information about the nature of our operations. Client markets provide insight into the breadth of our expertise. Client type is an indicator of the diversity of our client base. Revenue by contract mix provides insight in terms of the degree of performance risk that we have assumed. Significant variances in the key metrics are discussed under the revenue section of the results of operations. For further discussion see “Note 8—Revenue Recognition” in the “Notes to Consolidated Financial Statements” in this Quarterly Report.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2022 Compared to Three Months Ended June 30, 2021

The table below sets forth certain items from our unaudited consolidated statements of comprehensive income, the percentage of revenue for such items in the periods provided, and the period-over-period rate of change and percentage of revenue for the periods indicated.

(dollars in thousands)	Three Months Ended June 30,				Year-to-Year Change Three Months Ended June 30, 2021 and 2022	
	Dollars		Percentages		Dollars	Percent
	2022	2021	2022	2021		
Revenue	\$ 423,110	\$ 392,525	100.0%	100.0%	\$ 30,585	7.8%
Direct Costs	268,905	246,646	63.6%	62.8%	22,259	9.0%
Operating Costs and Expenses:						
Indirect and selling expenses	114,403	106,178	27.0%	27.0%	8,225	7.7%
Depreciation and amortization	5,063	4,728	1.2%	1.2%	335	7.1%
Amortization of intangible assets	4,963	3,019	1.2%	0.8%	1,944	64.4%
Total Operating Costs and Expenses	124,429	113,925	29.4%	29.0%	10,504	9.2%
Operating Income	29,776	31,954	7.0%	8.2%	(2,178)	(6.8%)
Interest expense	(4,103)	(2,612)	(1.0%)	(0.7%)	(1,491)	57.1%
Other income (expense)	98	(46)	—	—	144	(313.0%)
Income before Income Taxes	25,771	29,296	6.0%	7.5%	(3,525)	(12.0%)
Provision for Income Taxes	7,374	8,984	1.7%	2.3%	(1,610)	(17.9%)
Net Income	\$ 18,397	\$ 20,312	4.3%	5.2%	\$ (1,915)	(9.4%)

Revenue. Revenue for the three months ended June 30, 2022 was \$423.1 million, compared to \$392.5 million for the three months ended June 30, 2021, representing an increase of \$30.6 million or 7.8%. The increase in revenue was due to increases of \$43.0 million and \$5.6 million from our U.S. federal government and our U.S. state and local government clients, respectively, offset by decreases of \$10.0 million and \$8.0 million from our international government and our commercial clients, respectively. The \$43.0 million increase of our U.S. federal government revenue was from increases of \$37.9 million, \$2.9 million, and \$2.2 million in our health, education, and social program, safety and security, and energy, environment, and infrastructure client markets, respectively. The increase of \$5.6 million from our U.S. state and local government clients was from increases of \$4.1 million and \$1.5 million in our health, education, and social programs and energy, environment, and infrastructure client markets, respectively. The decrease of \$10.0 million in revenue from our international government clients was from a decrease of \$11.5 million in our energy, environment, and infrastructure client market offset by increases of \$0.9 million and \$0.6 million from our safety and security and health, education, and social programs client markets, respectively. The decrease of \$8.0 million from our commercial clients was from decreases of \$7.5 million, \$2.0 million, \$2.0 million, \$0.2 million and \$0.1 million from our U.S. consumer and financial, U.S. health, education, and social programs, international energy, environment, and infrastructure, international consumer and financial, and U.S. safety and security client markets, respectively, offset by increases of \$2.9 million and \$0.7 million from our U.S. energy, environment, and infrastructure and international health, education, and social programs client markets, respectively.

Direct Costs. Direct costs for the three months ended June 30, 2022 were \$268.9 million compared to \$246.6 million for the three months ended June 30, 2021, an increase of \$22.3 million or 9.0%. The increase in direct costs was driven by increases of \$16.6 million in direct labor and associated fringe benefit costs and \$5.7 million in subcontractor and other direct costs. The increases were attributable to higher headcounts, primarily as a result of our recent acquisitions of ESAC and Creative Systems and Consulting in the fourth quarter of 2021, that combined with additional work performed during the three months ended June 30, 2022 compared to the same period in 2021. Direct costs as a percent of revenue were 63.6% for the three months ended June 30, 2022, compared to 62.8% for the three months ended June 30, 2021. Direct labor and associated fringe benefit costs as a percentage of revenue was 36.0% and 34.5% for the three months ended June 30, 2022 and 2021, respectively, and subcontractor and other direct costs as a percentage of revenue was 27.6% and 28.3%, for the three months ended June 30, 2022 and 2021, respectively. Direct labor and associated fringe benefit costs as a percentage of direct costs was 56.6% and 54.9% for the three months ended June 30, 2022 and 2021, respectively, and subcontractor and other direct costs as a percentage of direct costs was 43.4% and 45.1% for the three months ended June 30, 2022 and 2021, respectively.

Indirect and selling expenses. Indirect and selling expenses for the three months ended June 30, 2022 was \$114.4 million compared to \$106.2 million for the three months ended June 30, 2021, an increase of \$8.2 million or 7.7%. The increase in indirect and selling expenses was primarily due to investments related to growth initiatives resulting in an increase in indirect labor and associated fringe benefit costs of \$6.2 million and \$2.0 million increase in general and administrative costs. Indirect labor and associated fringe benefit costs increased due to higher headcounts compared to the prior year. The major drivers for the increase in administrative costs were higher contract labor and professional fees of \$1.3 million each, respectively, travel expenses of \$1.0 million, software licenses of \$0.5 million, and insurance expense of \$0.4 million, offset by a decrease in credit loss expense of \$2.4 million compared to the same period in 2021. Indirect and selling expenses as a percent of revenue were unchanged at 27.0% for the three months ended June 30, 2022 and for the three months ended June 30, 2021.

Depreciation and amortization. Depreciation and amortization was \$5.1 million for the three months ended June 30, 2022 compared to \$4.7 million for the three months ended June 30, 2021. The increase in depreciation and amortization is the result of an increase in amortization expense of \$0.8 million offset by a decrease in depreciation expense of \$0.4 million.

Amortization of intangible assets. Amortization of intangible assets for the three months ended June 30, 2022 was \$5.0 million compared to \$3.0 million for the three months ended June 30, 2021. The \$2.0 million increase was primarily due to amortization of intangible assets acquired in our acquisitions of ESAC and Creative Systems and Consulting in the fourth quarter of 2021.

Operating Income. Operating income was \$29.8 million for the three months ended June 30, 2022 compared to \$32.0 million for the three months ended June 30, 2021, a decrease of \$2.2 million or 6.8%. The decrease in operating income was due to an increase in direct costs of \$22.3 million, indirect and selling expenses of \$8.2 million, amortization of intangible assets by \$2.0 million, and depreciation and amortization expense of \$0.3 million, offset by an increase in revenue of \$30.6 million. Operating income as a percentage of revenue was 7.0% for the three months ended June 30, 2022, compared to 8.2% for the three months ended June 30, 2021, primarily due to the increase in amortization of intangible assets.

Interest expense. Interest expense was \$4.1 million and \$2.6 million for the three months ended June 30, 2022 and 2021, respectively. The increase of \$1.5 million in interest expense was primarily due to our average debt balance of \$488.5 million during the three months ended June 30, 2022 as compared to \$363.5 million during the same period in 2021. In addition, our average interest rate on borrowings was 2.46% for the three months ended June 30, 2022 compared to 1.60% for 2021.

Other income (expense). Other income was \$0.1 million for the three months ended June 30, 2022 and compared to less than \$0.1 million other expense for the same period in 2021. The change of \$0.1 million is not considered to be material.

Provision for Income Taxes. For the three months ended June 30, 2022, provision for income taxes was \$7.4 million compared to \$9.0 million for the three months ended June 30, 2021, a decrease of \$1.6 million or 17.9%. The effective income tax rate for the three months ended June 30, 2022 and 2021 was 28.6% and 30.7%, respectively. The decrease in the effective income tax rate was

primarily due to windfall tax benefits of employee share-based compensation and foreign return-to-provision adjustments partially offset by non-deductible losses on investments and executive compensation.

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

The table below sets forth certain items from our unaudited consolidated statements of comprehensive income, the percentage of revenue for such items in the periods provided, and the period-over-period rate of change and percentage of revenue for the periods indicated.

(dollars in thousands)	Six Months Ended June 30,				Year-to-Year Change Six Months Ended June 30, 2021 and 2022	
	Dollars		Percentages		Dollars	Percent
	2022	2021	2022	2021		
Revenue	\$ 836,578	\$ 771,003	100.0%	100.0%	\$ 65,575	8.5%
Direct Costs	527,063	478,728	63.0%	62.1%	48,335	10.1%
Operating Costs and Expenses:						
Indirect and selling expenses	231,855	216,160	27.7%	28.0%	15,695	7.3%
Depreciation and amortization	9,901	9,998	1.2%	1.3%	(97)	(1.0%)
Amortization of intangible assets	10,280	6,034	1.2%	0.8%	4,246	70.4%
Total Operating Costs and Expenses	252,036	232,192	30.1%	30.1%	19,844	8.5%
Operating Income	57,479	60,083	6.9%	7.8%	(2,604)	(4.3%)
Interest expense	(6,800)	(5,295)	(0.8%)	(0.6%)	(1,505)	28.4%
Other expense	(271)	(463)	—	(0.1%)	192	(41.5%)
Income before Income Taxes	50,408	54,325	6.1%	7.1%	(3,917)	(7.2%)
Provision for Income Taxes	14,149	15,662	1.7%	2.0%	(1,513)	(9.7%)
Net Income	\$ 36,259	\$ 38,663	4.4%	5.1%	\$ (2,404)	(6.2%)

Revenue. Revenue for the six months ended June 30, 2022 was \$836.6 million, compared to \$771.0 million for the six months ended June 30, 2021, an increase of \$65.6 million or 8.5%. The increase in revenue was driven by increases of \$86.0 million and \$14.5 million from our U.S. federal government and U.S. state and local government clients, respectively, offset by decreases of \$20.0 million and \$14.9 million from our international government and commercial clients, respectively. The increase of \$86.0 million from our U.S. federal government clients was driven by \$77.4 million, \$6.9 million, and \$1.7 million in revenue from our health, education, and social programs, energy, environment, and infrastructure, and safety and security client markets, respectively. The increase of \$14.5 million in revenue from our U.S. state and local government clients was driven by \$11.4 million and \$3.1 million from our health, education, and social programs and energy, environment, and infrastructure client markets, respectively. The decrease of \$20.0 million in revenue from our international government clients was from a decrease of \$22.6 million from our energy, environment, and infrastructure client market offset by increases of \$2.3 million and \$0.3 million from our health, education, and social programs and safety and security client markets, respectively. Commercial clients revenue decreased by \$14.9 million due to decreases of \$12.1 million, \$2.8 million, and \$2.2 million from our U.S. consumer and financial, U.S. health, education, and social programs, and international energy, environment, and infrastructure client markets, respectively, offset by increases of \$0.9 million, \$0.8 million, \$0.4 million, and \$0.1 million from our international consumer and financial, U.S. energy, environment, and infrastructure, international health, education, and social programs, and international safety and security client markets, respectively.

Direct Costs. Direct costs for the six months ended June 30, 2022 were \$527.1 million compared to \$478.7 million for the six months ended June 30, 2021, an increase of \$48.3 million or 10.1%. The increase in direct costs was driven by an increase of \$32.7 million in direct labor and associated fringe benefit costs and \$15.6 million in sub-contractor and other direct costs. Direct labor and associated fringe benefit costs increased primarily due to higher headcounts, primarily as a result of our recent acquisitions of ESAC and Creative Systems and Consulting in the fourth quarter of 2021, that combined with additional work performed during the six months ended June 30, 2022 compared to the same period in 2021. Direct labor and fringe benefit costs for the six months ended June 30, 2022 was 57.2% of direct costs compared to 56.1% for the six months ended June 30, 2021, and 36.0% as a percentage of revenue for the six months ended June 30, 2022 compared to 34.8% for the six months ended June 30, 2021. The increase in sub-contractor and other direct costs was primarily due to additional work performed during the six months ended June 30, 2022 compared to 2021. Sub-contractor and other direct costs as a percentage of total direct costs was 42.8% for the six months ended June 30, 2022 compared to 43.9% for the same period in 2021, and 27.0% as a percentage of revenue for the six months ended June 30, 2022 compared to 27.2% for the six months ended June 30, 2021. Direct costs as a percent of revenue increased to 63.0% for the six months ended June 30, 2022, compared to 62.1% for the six months ended June 30, 2021.

Indirect and selling expenses. Indirect and selling expenses for the six months ended June 30, 2022 were \$231.9 million compared to \$216.2 million for the six months ended June 30, 2021, an increase of \$15.7 million or 7.3%. The increase in indirect and selling expenses was primarily due to investments related to growth initiatives resulting in increases of \$15.3 million and \$0.4 million

in indirect labor and associated fringe benefit costs and general and administrative expenses, respectively. The main driver for the increase in indirect labor and associated fringe benefit costs was a higher headcount at June 30, 2022 compared to June 30, 2021. Our general and administrative costs saw an increase of various expenses such as contract labor of \$2.8 million, travel of \$1.3 million, software licenses of \$1.2 million, insurance of \$1.0 million, professional fees of \$0.8 million, recruiting \$0.4 million, and other general expenses totaling \$0.9 million, offset by a decrease in credit loss expense of \$8.0 million. Indirect and selling expenses as a percent of revenue decreased to 27.7% for the six months ended June 30, 2022, compared to 28.0% for the six months ended June 30, 2021.

Depreciation and amortization. Depreciation and amortization was \$9.9 million for the six months ended June 30, 2022 compared to \$10.0 million for the six months ended June 30, 2021. The \$0.1 million decrease is not considered to be material.

Amortization of intangible assets. Amortization of intangible assets for the six months ended June 30, 2022 was \$10.3 million compared to \$6.0 million for the six months ended June 30, 2021. The \$4.2 million increase was primarily due to amortization of intangible assets acquired in our acquisitions of ESAC and Creative Systems and Consulting in the fourth quarter of 2021.

Operating Income. Operating income was \$57.5 million for the six months ended June 30, 2022 compared to \$60.1 million for the six months ended June 30, 2021, a decrease of \$2.6 million or 4.3%. The change was largely due to increases in direct costs of \$48.3 million, indirect and selling expenses of \$15.7 million, and amortization of intangible assets of \$4.2 million, offset by an increase in revenue of \$65.6 million and a decrease in depreciation and amortization expense of \$0.1 million. Operating income as a percentage of revenue decreased to 6.9% for the six months ended June 30, 2022, compared to 7.8% for the six months ended June 30, 2021, primarily due to the increase in amortization of intangible assets of \$4.2 million.

Interest expense. For the six months ended June 30, 2022, interest expense was \$6.8 million compared to \$5.3 million for the six months ended June 30, 2021, an increase of \$1.5 million or 28.4%. The increase in interest expense was primarily due to our average debt balance of \$474.9 million during the six months ended June 30, 2022 as compared to \$344.6 million during the same period in 2021. In addition, our average interest rate on borrowings was 1.93% for the six months ended June 30, 2022 compared to 1.74% for 2021.

Other expense. For the six months ended June 30, 2022 other expense was \$0.3 million compared to \$0.5 million for the six months ended June 30, 2021. The change of \$0.2 million is not considered to be material.

Provision for Income Taxes. For the six months ended June 30, 2022, provision for income taxes was \$14.1 million compared to \$15.7 million for the six months ended June 30, 2021, a decrease of \$1.5 million or 9.7%. The effective income tax rate for the six months ended June 30, 2022 and 2021 was 28.1% and 28.8%, respectively. The decrease in the effective income tax rate was primarily due to windfall tax benefits of employee share-based compensation and foreign return-to-provision adjustments partially offset by non-deductible losses on investments and executive compensation.

NON-GAAP MEASURES

These following tables provide reconciliations of financial measures that are not U.S. GAAP (“non-GAAP”) to the most applicable U.S. GAAP measures. While we believe that these non-GAAP financial measures may be useful in evaluating our financial information, they should be considered supplemental in nature and not as a substitute for financial information prepared in accordance with U.S. GAAP. Other companies may define similarly titled non-GAAP measures differently and, accordingly, care should be exercised in understanding how we define these measures.

Service Revenue

Service revenue represents revenue less subcontractor and other direct costs (which include third-party materials and travel expenses). Service revenue is not a recognized term under U.S. GAAP and should not be considered an alternative to revenue as a measure of operating performance. This presentation of service revenue may not be comparable to other similarly titled measures used by other companies because other companies may use different methods to prepare similarly titled measures. We believe service revenue is a useful measure to investors since, as a consulting firm, a key source of our profit is revenue obtained from the services that we provide to our clients through our employees. For the three months ended June 30, 2022, service revenue was \$306.3 million compared to \$281.4 million for the three months ended June 30, 2021, an increase of \$24.9 million or 8.9%. Service revenue was 72.4% and 71.7% of total revenue for the three months ended June 30, 2022 and 2021.

The table below presents a reconciliation of revenue to service revenue for the periods indicated:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue	\$ 423,110	\$ 392,525	\$ 836,578	\$ 771,003
Subcontractor and other direct costs	(116,791)	(111,140)	(225,689)	(210,051)
Service revenue	<u>\$ 306,319</u>	<u>\$ 281,385</u>	<u>\$ 610,889</u>	<u>\$ 560,952</u>

EBITDA and Adjusted EBITDA

Earnings before interest and other income and/or expense, tax, and depreciation and amortization (“EBITDA”) is a measure we use to evaluate operating performance. We believe EBITDA is useful in assessing ongoing trends and, as a result, may provide greater visibility in understanding our operations.

Adjusted EBITDA is EBITDA further adjusted to eliminate the impact of certain items that we do not consider to be indicative of the performance of our ongoing operations. We evaluate these adjustments on an individual basis based on both the quantitative and qualitative aspects of the item, including their size and nature as well as whether or not we expect them to occur as part of our normal business on a regular basis. We believe that the adjustments applied in calculating adjusted EBITDA are reasonable and appropriate to provide additional information to investors.

EBITDA and adjusted EBITDA are not recognized terms under U.S. GAAP and should not be used as alternatives to net income as a measure of operating performance. This presentation of EBITDA and adjusted EBITDA may not be comparable to other similarly titled measures used by other companies because other companies may use different methods to prepare similarly titled measures. EBITDA and adjusted EBITDA are not intended to be measures of free cash flow for management’s discretionary use as these measures do not include certain cash requirements such as interest payments, tax payments, capital expenditures and debt service.

The following table presents a reconciliation of net income to EBITDA and adjusted EBITDA for the periods indicated.

(in thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Net income	\$ 18,397	\$ 20,312	\$ 36,259	\$ 38,663
Other (income) expense	(98)	46	271	463
Interest expense	4,103	2,612	6,800	5,295
Provision for income taxes	7,374	8,984	14,149	15,662
Depreciation and amortization	10,026	7,747	20,181	16,032
EBITDA	39,802	39,701	77,660	76,115
Adjustment related to impairment of long-lived assets (1)	—	—	—	303
Special charges related to acquisitions (2)	2,262	54	3,581	149
Special charges related to severance for staff realignment (3)	185	318	1,411	809
Special charges related to facilities consolidations and office closures (4)	—	(61)	—	139
Special charges related to the transfer to our new corporate headquarters (5)	1,882	—	3,764	—
Special charges related to retirement of the Executive Chair (6)	—	—	—	224
Total special charges and adjustments	4,329	311	8,756	1,624
Adjusted EBITDA	\$ 44,131	\$ 40,012	\$ 86,416	\$ 77,739

- (1) Adjustment related to impairment of long-lived assets: We recognized impairment expense of \$0.3 million in the first quarter of 2021 related to impairment of a right-of-use lease asset.
- (2) Special charges related to acquisitions: These costs consist primarily of consultants and other outside third-party costs and integration costs associated with our acquisitions and/or potential acquisitions.
- (3) Special charges related to severance for staff realignment: These costs are mainly due to involuntary employee termination benefits for our officers, and/or groups of employees who have been notified that they will be terminated as part of a consolidation or reorganization.
- (4) Special charges related to facilities consolidations and office closures: These costs are exit costs or gains associated with office lease contraction, terminated office leases, or full office closures. The exit costs include charges incurred under a contractual obligation that existed as of the date of the accrual and for which we will continue to pay until the contractual obligation is satisfied but with no economic benefit to us.
- (5) Special charges related to the transfer to our new corporate headquarters: These costs are additional rent as a result of us taking possession of our new corporate headquarters in Reston, Virginia, during the fourth quarter of 2021 while maintaining our current headquarters in Fairfax, Virginia. We intend to complete the transition to our new corporate headquarters by the end of 2022 when our Fairfax lease ends.
- (6) Special charges related to retirement of the former Executive Chair: Our former Executive Chair retired effective December 31, 2020. These costs relate to unvested equity awards that, as a result of his employment agreement, the departing officer was able to maintain certain equity awards beyond the date of employment.

Non-GAAP Diluted Earnings per Share

Non-GAAP diluted earnings per share (“EPS”) represents diluted EPS excluding the impact of certain items such as impairment of long-lived assets, acquisition expenses, severance for staff realignment, facility consolidations and office closures, the change of our corporate headquarters, and an adjustment related to the retirement of the former Executive Chair (which are also excluded from adjusted EBITDA, as described further above), as well as the impact of amortization of intangible assets related to our acquisitions and income tax effects. While these adjustments may be recurring and not infrequent or unusual, we do not consider these adjustments to be indicative of the performance of our ongoing operations. Non-GAAP diluted EPS is not a recognized term under U.S. GAAP and is not an alternative to basic or diluted EPS as a measure of performance. This presentation of non-GAAP diluted EPS may not be comparable to other similarly titled measures used by other companies because other companies may use different methods to prepare similarly titled measures. We believe that the supplemental adjustments applied in calculating non-GAAP diluted EPS are reasonable and appropriate to provide additional information to investors.

The following table presents a reconciliation of diluted EPS to non-GAAP diluted EPS for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Diluted EPS	\$ 0.97	\$ 1.07	\$ 1.91	\$ 2.03
Adjustment related to impairment of long-lived assets	—	—	—	0.02
Special charges related to acquisitions	0.12	—	0.19	0.01
Special charges related to severance for staff realignment	0.01	0.02	0.07	0.04
Special charges related to facilities consolidations and office closures	—	—	—	0.01
Special charges related to the transfer to our new corporate headquarters	0.10	—	0.20	—
Special charges related to retirement of Executive Chair	—	—	—	0.01
Amortization of intangibles	0.26	0.16	0.54	0.32
Income tax effects on amortization, special charges, and adjustments ⁽¹⁾	(0.13)	(0.06)	(0.28)	(0.12)
Non-GAAP EPS	<u>\$ 1.33</u>	<u>\$ 1.19</u>	<u>\$ 2.63</u>	<u>\$ 2.32</u>

(1) Income tax effects were calculated using an effective U.S. GAAP tax rate of 28.6% and 30.7% for the three months ended June 30, 2022 and 2021, respectively, and 28.1% and 28.8% for the six months ended June 30, 2022 and 2021, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Borrowing Capacity. Short-term liquidity requirements are created by our use of funds for working capital, capital expenditures, debt service, dividends and share repurchases. We expect to meet these requirements through a combination of cash flow from operations and borrowings. Our primary source of borrowings is from our Credit Facility, as described in “Note 7—Long-Term Debt” in the “Notes to Consolidated Financial Statements” in this Quarterly Report. As of June 30, 2022, we had \$438.1 million, or \$410.9 million after taking into account the financial and performance-based limitations, available under the Credit Facility to fund our ongoing operations, future acquisitions, dividend payments, and share repurchase program. Should the need arise, we intend to further increase our borrowing capacity in the future to provide us with adequate working capital to continue our ongoing operations.

In March 2020, the World Health Organization characterized the novel COVID-19 virus as a global pandemic. Although we continue to face risks and uncertainties related to COVID-19 and its variants, to date we have not experienced any significant impacts on our liquidity and capital resources which remain available to us.

In addition to the continued COVID-19 pandemic, there are other conditions, such as the ongoing war in Ukraine and the recent increase in inflation, both in the U.S. and globally, that create uncertainty in the global economy, which in turn may impact, among other things, our ability to generate positive cash flows from operations and our ability to successfully execute and fund key initiatives in the near future. However, our current belief is that the combination of internally generated funds, available bank borrowings, and cash and cash equivalents on hand will provide the required liquidity and capital resources necessary to fund on-going operations, customary capital expenditures and acquisitions, quarterly cash dividends, share repurchases and organic growth. Additionally, we continuously analyze our capital structure to ensure we have capital to fund future strategic acquisitions. We monitor the state of the financial markets on a regular basis to assess the availability and cost of additional capital resources from both debt and equity sources. We believe that we will be able to access these markets at commercially reasonable terms and conditions if, in the future, we need additional borrowings or capital.

Financial Condition. There were several changes in our consolidated balance sheet as of June 30, 2022 compared to the consolidated balance sheet as of December 31, 2021. The more significant changes are discussed below.

Cash and cash equivalents decreased to \$6.1 million as of June 30, 2022, from \$8.3 million on December 31, 2021 and restricted cash decreased to \$2.4 million as of June 30, 2022 from \$12.2 million on December 31, 2021. These balances and the changes to the balances of cash and cash equivalents and restricted cash are further discussed in “Cash Flow” below and in “Note 2—Restricted Cash” in the “Notes to Consolidated Financial Statements” in this Quarterly Report.

Contract receivables, net of allowance for expected credit losses, as of June 30, 2022, decreased to \$218.8 million from \$237.7 million on December 31, 2021, primarily due to the timing of our billings and collection of clients’ invoices. Contract receivables are a significant component of our working capital and may be favorably or unfavorably impacted by our collection efforts, including timing from new contract startups, and other short-term fluctuations related to the payment practices of our clients.

Contract assets and contract liabilities represent revenue in excess of billings and billings in excess of revenue, respectively, both of which generally arise from revenue recognition timing and contractually stipulated billing schedules or billing complexity. At June 30, 2022, contract assets and contract liabilities were \$190.5 million and \$24.6 million, respectively, compared to \$137.9 million and \$39.7 million, respectively, at December 31, 2021.

Prepaid expenses and other assets decreased from \$42.4 million at December 31, 2021 to \$23.2 million at June 30, 2022, primarily from application of lease incentives allowances toward tenant improvements for our Reston office.

We evaluate our collections efforts using the days-sales-outstanding ratio (“DSO”), which we calculate by dividing total accounts receivable (contract receivables, net and contract assets, less contract liabilities), by revenue per day for the trailing 90-day period. DSO was 82 days for the quarter ended June 30, 2022, same as the 82 days for the quarter ended June 30, 2021. The DSO, excluding the Puerto Rico disaster relief and rebuild efforts due to complex reporting and billing requirements and therefore slow to pay our invoices, was 77 days for the quarter ended June 30, 2022 compared to 74 days for the quarter ended June 30, 2021.

Goodwill, as discussed in “Note 4—Goodwill” in the “Notes to Consolidated Financial Statements” in this Quarterly Report, decreased from \$1,046.8 million at December 31, 2021 to \$1,043.9 million at June 30, 2022 mainly due to a decrease of \$5.0 million due to the impact of foreign currency translation offset by increases of \$2.0 million and \$0.1 million resulting from measurement period adjustments from our Creative Systems and Consulting and ESAC acquisitions. Other intangible assets decreased to \$69.2 million at June 30, 2022 from \$79.6 million on December 31, 2021 due to amortization of intangible assets related to prior acquisitions that we had made.

The decrease in our operating lease right-of-use assets from \$177.4 million at December 31, 2021 to \$164.6 million at June 30, 2022 was due to the amortization of right-of-use assets, and the decreases in our current and non-current operating lease liabilities from \$34.9 million and \$191.8 million at December 31, 2021, respectively, to \$26.3 million and \$186.0 million at June 30, 2022, respectively, due to rent payments.

Accounts payable decreased to \$99.4 at June 30, 2022 from \$105.7 million at December 31, 2021, and our accrued expenses totaled \$176.6 million at June 30, 2022 as compared to \$186.4 million at December 31, 2021. The changes in our accounts payable and accrued expenses are primarily due to the timing of invoices from our vendors and subcontractors for services rendered and subsequent payments of those invoices.

Long-term debt (exclusive of unamortized debt issuance costs) increased to \$454.8 million on June 30, 2022 from \$423.6 million on December 31, 2021, primarily due to the net advance on our Credit Facility of \$31.2 million. The average debt balances on the Credit Facility for the three months ended June 30, 2022 and 2021 were \$488.5 million and \$363.5 million, respectively, and \$474.9 and \$344.6 million, respectively for the six months ended June 30, 2022 and 2021. The average interest rate on the Credit Facility, excluding any fees and unamortized debt issuance costs, for the three months ended June 30, 2022 and 2021 was 2.46% and 1.60%, respectively, and 1.93% and 1.74%, respectively. We generally utilize cash flow from operations as our primary source of funding and turn to our Credit Facility to fund any temporary fluctuations, such as increases in contract receivables, reductions in accounts payable and accrued expenses, purchase of treasury stock, payment of declared dividends, additional capital expenditures, and to meet funding requirements for new acquisitions.

The increase in accumulated other comprehensive loss of \$1.6 million, net of taxes, was driven by a \$9.0 million change, before taxes, in the value of certain foreign currencies relative to the U.S. dollar (primarily the British Pound, Euro and Canadian dollar) and \$0.3 million in gains from the previous sale of an interest rate hedge reclassified to income, before taxes, offsets by a change in unrealized gains of \$7.3 million in the fair value of the interest rate hedging instruments and \$1.5 million in previously unrealized net losses reclassified to comprehensive income related to hedging instruments, before taxes. The net tax effects of the transactions totaled \$1.0 million. See “Note 11—Accumulated Other Comprehensive Loss” in the “Notes to Consolidated Financial Statements” in this Quarterly Report.

We have entered into floating-to-fixed interest rate swap agreements (the “Swaps”) with expiration dates through August 2023 and February 2025 for a total notional amount of \$200.0 million in order to hedge a portion of our floating rate Credit Facility. As of June 30, 2022, the fair value of the Swaps was an unrealized gain of \$4.9 million included in prepaid expenses and other assets on the balance sheet. See “Note 9—Derivative Instruments and Hedging Activities” and “Note 17—Fair Value” in the “Notes to

Consolidated Financial Statements” in this Quarterly Report. On a quarterly basis, management evaluates the Swaps to determine their effectiveness and record the change in fair value of the Swaps as an adjustment to accumulated other comprehensive loss. Management intends that the Swaps remain effective.

We have explored various options for mitigating the risk associated with potential fluctuations in the foreign currencies in which we conduct transactions. We currently have forward contract agreements (“currency hedges”) in an amount proportionate to work anticipated to be performed under certain contracts in Europe. We recognize changes in the fair value of the currency hedges in our results of operations. We may increase the number, size, and scope of our currency hedges as we analyze options for mitigating our foreign exchange and interest rate risk. The current impact of the foreign currency hedges to the consolidated financial statements is immaterial.

Inflation. Our business and results of operations have not been materially affected by inflation and changing prices during the period presented and we do not expect to be materially affected in the future due to the nature of our business as a provider of professional services with contracts that can be negotiated with new prices.

Share Repurchase Program. The objective of our share repurchase program has been to offset dilution resulting from employee stock compensation. Under the program, purchases can be made from time to time at prevailing market prices in open market purchases or in privately negotiated transactions pursuant to Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance with applicable insider trading and other securities laws and regulations. The timing and extent to which we repurchase our shares will depend upon market conditions and other corporate considerations, as may be considered in our sole discretion. The purchases will be funded from existing cash balances and/or borrowings, and the repurchased shares will be held in treasury and used for general corporate purposes. The Restated Credit Agreement permits share repurchases, provided the Company’s Consolidated Leverage Ratio, prior to and after giving effect to such repurchases, is 0.50 to 1.00 less than the then applicable maximum Consolidated Leverage Ratio and subject to a net liquidity of \$100.00 million. Additionally, the Company can make share repurchases up to \$25 million per calendar year subject to no default.

In September 2017, the Company’s board of directors (the “board”) approved a share repurchase program that authorizes share repurchases in the aggregate up to \$100.0 million. In November 2021, the board approved an increase to the share repurchase program to a new limit of \$200.0 million, inclusive of the prior limit. During the fourth quarter of 2021, the board approved an updated Rule 10b5-1 plan element of the share repurchase program to repurchase a maximum of 165,000 shares or a total of \$20.0 million, whichever is reached first. The plan commenced on December 20, 2021 and ended during the first quarter of 2022 with a total of 165,000 shares repurchased from December 20, 2021 to February 2, 2022 for a total of \$16.3 million.

During the six months ended June 30, 2022, we repurchased 176,375 shares under this program at an average price of \$96.18 per share. As of June 30, 2022, \$111.9 million remained available for share repurchases.

Dividends. Cash dividends declared thus far in 2022 are as follows:

Dividend Declaration Date	Dividend Per Share	Record Date	Payment Date
February 23, 2022	\$ 0.14	March 25, 2022	April 13, 2022
May 4, 2022	\$ 0.14	June 10, 2022	July 14, 2022
August 3, 2022	\$ 0.14	September 9, 2022	October 13, 2022

Cash Flow. We consider cash on deposit and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. The following table sets forth our sources and uses of cash for the six months ended June 30, 2022 and 2021:

(in thousands)	Six Months Ended	
	June 30,	
	2022	2021
Net Cash Provided by Operating Activities	\$ 6,409	\$ 6,341
Net Cash Used in Investing Activities	(8,115)	(7,475)
Net Cash Used in Financing Activities	(9,074)	(45,642)
Effect of Exchange Rate Changes on Cash, Cash Equivalents, and Restricted Cash	(1,189)	699
Decrease in Cash, Cash Equivalents, and Restricted Cash	<u>\$ (11,969)</u>	<u>\$ (46,077)</u>

Our operating cash flows are primarily affected by the overall profitability of our contracts, our ability to invoice and collect from our clients in a timely manner, and the timing of vendor and subcontractor payments in accordance with negotiated payment terms. We bill most of our clients on a monthly basis after services are rendered.

Operating activities provided \$6.4 million in cash for the six months ended June 30, 2022 compared to \$6.3 million for the six months ended June 30, 2021, a change of \$0.1 million. The increase in cash flows from operations for the six months ended June 30, 2022 compared to the prior year was primarily due to lower net use of cash for our payables, expenses, and vendor payments offset by decrease in net income, inclusive of adjustments for non-cash expenses and higher contract assets and lower cash collections of our receivables.

Investing activities used cash of \$8.1 million for the six months ended June 30, 2022, compared to \$7.5 million for the six months ended June 30, 2021. Our cash flows used in investing activities during the six months ended June 30, 2022 were for capital expenditures for property and equipment and capitalized software offset by cash received as a result of working capital adjustment related to an acquisition we had previously made.

Our cash flows used in financing activities consisted primarily of debt and equity transactions. For the six months ended June 30, 2022, cash flows provided by financing activities was \$9.1 million, consisting of net advances and payments on our Credit Facility totaling \$31.3 million and proceeds from exercise of options of \$0.2 million, offset by net payments for stock issuances and buybacks of \$20.8 million, primarily representing shares repurchased under our share repurchase program, net receipts and payments of restricted contract funds of \$9.6 million, payments of cash dividends totaling \$5.3 million, payments of debt issuance costs of \$4.8 million, and payments on business acquisition liabilities of \$0.1 million. For the six months ended June 30, 2021, cash flows used in financing activities was \$45.6 million. The cash flow was primarily from net advances and payments on our Credit Facility of \$18.2 million and proceeds from exercise of options of \$2.8 million, offset by net receipts and payments of restricted contract funds of \$42.2 million, cash used for net payments for stock issuances and buybacks of \$18.4 million, primarily representing shares repurchased under our share repurchase program, payments of cash dividends totaling \$5.3 million, and payment on business acquisition liabilities of \$0.7 million.

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.

Item 4. Controls and Procedures

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting. As of the period covered by this report, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act. We performed the evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based on 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, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f), during the periods covered by this Quarterly Report 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, have been or will be detected. Because of the inherent limitations in any control system, misstatements due to error or fraud may occur and may not be detected.

Item 1. Legal Proceedings

We are involved in various legal matters and proceedings arising in the ordinary course of business. While these matters and proceedings cause us to incur costs, including, but not limited to, attorneys' fees, we currently believe that any ultimate liability arising out of these matters and proceedings will not have a material adverse effect on our financial position, results of operations, or cash flows.

Item 1A. Risk Factors

There have been no material changes in the risk factors discussed in the section entitled "Risk Factors" disclosed in Part I, Item 1A of our Annual Report.

The risks described in our Annual Report are not the only risks that we encounter. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also materially adversely affect our business, financial condition, and/or operating results.

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

Purchase of Equity Securities by Issuer. The following table summarizes our share repurchase activity for the three months ended June 30, 2022:

Period	Total Number of Shares Purchased (1)(2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (3)
April 1 - April 30	—	\$ —	—	\$ 111,869,762
May 1 - May 31	502	\$ 98.02	—	\$ 111,869,762
June 1 - June 30	—	\$ —	—	\$ 111,869,762
Total	502	\$ 98.02	—	

- (1) The total number of shares purchased of 502 includes shares from employees to pay required withholding taxes related to the settlement of any restricted stock units in accordance with our applicable long-term incentive plan.
- (2) During the three months ended June 30, 2022, we repurchased 502 shares of common stock from employees in satisfaction of tax withholding obligations at an average price of \$98.02 per share.
- (3) The current share repurchase program authorizes share repurchases in the aggregate up to \$200.0 million. The Restated Credit Agreement permits share repurchases, provided the Company's Consolidated Leverage Ratio, prior to and after giving effect to such repurchases, is 0.50 to 1.00 less than the then applicable maximum Consolidated Leverage Ratio and subject to a net liquidity of \$100.00 million. Additionally, the Company can make share repurchases up to \$25 million per calendar year subject to no default. For additional information on the share repurchase program, see "Note 16 – Share Repurchase Program" in the "Notes to Consolidated Financial Statements" in this Quarterly Report.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Exhibit
31.1	Certificate of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a). *
31.2	Certificate of the Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a). *
32.1	Certification of the Executive Chairman pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
101	The following materials from the ICF International, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2022 formatted in Inline eXtensible Business Reporting Language (iXBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements.*
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Submitted electronically herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ICF INTERNATIONAL, INC.

August 4, 2022

By: /s/ John Wasson
John Wasson
President and Chief Executive Officer
(Principal Executive Officer)

August 4, 2022

By: /s/ Barry Broadus
Barry Broadus
Chief Financial Officer
(Principal Financial Officer)

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

I, John Wasson, President and 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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.

August 4, 2022

/s/ John Wasson

John Wasson
President and Chief Executive Officer
(Principal Executive Officer)

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

I, Barry Broadus, Chief Financial 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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.

August 4, 2022

/s/ Barry Broadus

Barry Broadus
Chief Financial Officer
(Principal Financial 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 June 30, 2022 (the "Report") of ICF International, Inc. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, John Wasson, President and 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.

August 4, 2022

/s/ John Wasson

John Wasson

President and 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 June 30, 2022 (the "Report") of ICF International, Inc. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Barry Broadus, 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.

August 4, 2022

/s/ Barry Broadus

Barry Broadus
Chief Financial Officer
(Principal Financial Officer)