

ICF International, Inc.
Form 10-K
March 17, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

22-3661438
(IRS Employer
Identification Number)

9300 Lee Highway

Fairfax, VA
(Address of principal executive offices)

22031
(Zip Code)

Registrant's telephone number, including area code:

(703) 934-3000

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

Title of Each Class
Common Stock, \$0.001 par value

Name of Exchange on which Registered
The NASDAQ Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately \$135 million based upon the closing price per share of \$20.12, as quoted on the NASDAQ Global Select Market on June 29, 2007. Shares of the outstanding common stock held by each executive officer and director have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 1, 2008, 14,589,345 shares of the Registrant's common stock, \$0.001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the definitive proxy statement for the Annual Meeting of Stockholders expected to be held in June 2008.

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FORWARD-LOOKING STATEMENTS

Some of the statements in this Annual Report on Form 10-K constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. 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 these forward-looking statements carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other forward-looking information. The factors listed in Item 1A of Part I of this Annual Report on Form 10-K captioned Risk Factors, as well as any cautionary language in this Annual Report on Form 10-K, provide examples of risks, uncertainties, and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements, including but not limited to:

changes in the spending priorities of our clients;

failure by Congress or other governmental bodies to approve budgets in a timely fashion;

our dependence on contracts with state and federal government agencies and departments for the majority of our revenue;

performance by us and our subcontractors under a major contract with the State of Louisiana, Office of Community Development (The Road Home contract);

acceleration of performance and revenues under The Road Home contract, on the one hand, and significant audit risks associated with, and possible termination of, The Road Home contract, on the other hand;

uncertainty as to what extent we will be able to replace the revenue generated by The Road Home contract as it winds down;

results of government audits and investigations;

an economic downturn in the air transportation or energy sectors;

failure to receive the full amount of our backlog;

loss of members of management or other key employees;

difficulties implementing our acquisition strategy; and

difficulties expanding our service offerings and client base.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the

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date of this Annual Report on Form 10-K. We undertake no obligation to update these forward-looking statements, even if our situation changes in the future.

The terms *we* and *our* as used throughout this Annual Report on Form 10-K refer to ICF International, Inc. and its consolidated subsidiaries, unless otherwise indicated.

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PART I

**ITEM 1. BUSINESS
COMPANY OVERVIEW**

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

Our clients utilize our services because we combine diverse institutional knowledge and experience in their activities with the deep subject matter expertise of our highly educated staff, which we deploy in multi-disciplinary teams. Our federal government clients have included every cabinet-level department, including the Department of Health and Human Services (HHS), Department of Defense (DoD), Environmental Protection Agency (EPA), Department of Homeland Security (DHS), Department of Transportation (DOT), Department of Justice (DOJ), Department of Housing and Urban Development (HUD), and Department of Energy (DOE). Federal clients generated approximately 27% of our revenue in 2007. Our state and local government clients generated approximately 65% of our revenue in 2007. Revenue generated from our state and local government clients increased substantially in 2007, due primarily to a contract with the State of Louisiana that we were awarded in June 2006, and augmented in October 2006 and December 2007 (The Road Home contract, described below in Services and Solutions Health, Human Services, and Social Programs). We also serve commercial and international clients, primarily in the air transportation and energy sectors. Our commercial and international clients, including government clients outside the United States, generated approximately 8% of our revenue in 2007. We have successfully worked with many of these clients for decades, with the result that we have a unique and knowledgeable perspective on their needs.

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

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

Implementation Services. We implement and manage technological, organizational, and management solutions for our clients, often based on the results of our advisory services. Our implementation services include information technology solutions, project and program management, project delivery, strategic communications, and training.

Evaluation and Improvement Services. In support of advisory and implementation services, we provide evaluation and improvement services to help our clients increase the future efficiency and effectiveness of their programs. These services include program evaluation, continuous improvement initiatives, performance management, benchmarking, and return-on-investment analyses.

As of December 31, 2007, we had more than 3,000 employees, including many who are recognized thought leaders in their respective fields. We serve clients globally from our headquarters in the metropolitan Washington, DC area, our 28 domestic regional offices throughout the United States (as of December 31, 2007), and our five international offices in London, Moscow, New Delhi, Rio de Janeiro, and Toronto.

We generated revenue of \$331.3 million and \$727.1 million in 2006 and 2007, respectively. Our total backlog was approximately \$971.8 million and \$822.4 million as of December 31, 2006, and December 31, 2007, respectively. See Contract Backlog for a discussion of how we calculate backlog. See also our financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

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OUR COMPANY INFORMATION

Our principal operating subsidiary was founded in 1969. ICF International, Inc. was formed as a Delaware limited liability company in 1999 under the name ICF Consulting Group Holdings, LLC in connection with the purchase of our business from a larger services organization. A number of our current senior managers participated in this buyout transaction along with private equity investors. We converted to a Delaware corporation in 2003 and changed our name to ICF International, Inc. in 2006.

We completed our initial public offering (IPO) in October 2006. Since our IPO, we have completed several acquisitions, the most recent of which were the acquisitions of Simat, Helliesen & Eichner, Inc. in December 2007 and Jones & Stokes Associates, Inc. in February 2008, both of which are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations Acquisitions.

Our principal executive office is located at 9300 Lee Highway, Fairfax, Virginia 22031, and our telephone number is (703) 934-3000.

We maintain an internet Web site at www.icfi.com. We make available our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and other information related to us, free of charge, on this site as soon as reasonably practicable after we electronically file those documents with, or otherwise furnish them to, the Securities and Exchange Commission. Our internet Web site and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

MARKET OPPORTUNITY

An increasing number of complex, long-term factors are changing the way we live and the way government and industry must operate and interact. These factors include terrorism and changing national security priorities, increasing federal budget deficits, the need for emergency preparedness in response to natural disasters and threats to national security, rising energy demand, global climate change, aging infrastructure, environmental degradation, and an aging population and federal civilian workforce. Federal, state, and other governments react to these factors by evaluating, adopting, and implementing new policies, which drive government spending and the regulatory environment affecting industry. Industry, in turn, must adapt to this government involvement by realigning strategic direction, formulating plans for responding, and modifying business processes. Both the reaction by governments to these factors and the resulting impact on industry create opportunities for professional services firms that are expert in addressing issues at the intersection of the public and private sectors. Unless the context indicates otherwise, when we refer to government or governments in describing our business or clients, it includes U.S. federal, state, and local governments, as well as governments outside the United States.

Within the U.S. federal government, continuing budget deficits are forcing government departments and agencies to transform in order to provide more services with fewer resources. In addition, an aging workforce is retiring in large numbers from the federal government, resulting in diminished institutional knowledge and ability to perform services. This combination of forces provides opportunities for professional services firms with deep experience and expertise in the issues facing government and the ability to deliver innovative and transformational approaches to those issues. Further, these capabilities need to be combined seamlessly with strong information technology and other implementation skills. Government at every level recognizes the importance of information technology in fulfilling policy mandates, and there is increasing awareness among key government decision makers that, to be effective, technology solutions need to be properly integrated with the affected people and processes.

Energy and Climate Change

Significant factors affecting suppliers, users, and regulators of energy are driving private sector demand for professional services firms with expertise in this market. Oil and gas supplies have become increasingly constrained, partly due to the need to source from politically sensitive or physically challenging regions. Moreover, many industrialized countries are deregulating electric and gas utilities to stimulate competition at the generation, transmission, and retail levels. These factors, together with the continual search for alternative fuels, are driving profound and long-term restructuring in the energy industry.

As evidence mounts that sea levels are rising and climate volatility is increasing, reducing, or offsetting greenhouse gas (GHG) emissions is becoming a critical priority in both the public and private sectors. Voluntary carbon markets are growing in the United States, and many international markets are already well-developed. Legislation in the United States is

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actively being considered at both the federal and state levels. Adjustment to coming public sector and consumer sensitivity to climate change is now becoming a key element of energy industry strategy. Entirely new markets are being created in response to problems associated with carbon emissions. Although the regulatory landscape in this area is still evolving, the need to address carbon and other harmful emissions has significantly changed the way the world's governments and industries interact.

Consumers of energy are also reacting to deregulated energy markets, increasing environmental constraints, and rising costs. Pressure is increasing to manage demand through energy efficiency programs, demand response, and peak load management. Government programs and public-private partnerships are becoming more prevalent, pursuing sometimes overlapping and conflicting goals, such as reducing national dependence on foreign energy sources, limiting the growth of domestic power generation and the resultant pollutants, and reducing electricity and gas costs for businesses and consumers.

Environment and Infrastructure

A growing awareness of, and concern about, the effects of global warming, continued environmental degradation, and depletion of key natural resources has increased demand for professional services that address these environmental issues. Furthermore, natural disasters such as Hurricane Katrina have underscored the importance of long-term stewardship, while environmental reviews of new facilities have become increasingly complex. Solutions to these environmental issues need to integrate an understanding of evolving regulations, demands for improved infrastructure, and economic incentives, while providing equitable treatment of the various constituents involved in the political discourse related to these solutions.

Environmental and public health services are also needed to help decision makers keep pace with advances in science while developing public policies that are protective but not unduly restrictive. The private sector is anxious to bring new products to the market, including new pesticides and food additives, while product developers and regulators must perform human health and ecological risk assessments to ensure product safety. Product developers and regulators therefore must evaluate the environmental and public health tradeoffs of alternative materials used in manufacturing and new approaches for controlling air and water pollution. In addition, public policy priorities often create development pressures that present significant environmental challenges. For example, new energy demands foster the development of additional liquefied natural gas facilities and associated pipelines, as well as uranium enrichment and nuclear power facilities. Moreover, additional transportation infrastructure is required to meet needs for defense logistics, freight movements, and nuclear waste disposal. All of these pressures contribute to growing demand for firms with capabilities in environment and infrastructure.

Finally, important parts of the transportation infrastructure of the United States have suffered from under-investment for decades. The resurgence of city centers and rapid growth of international trade have put tremendous pressure on access points and exits around our major urban and port areas. In addition, throughout the world, pressures are being placed on government and industry to provide ground and air transportation in a more environmentally sound fashion. Both the public and private sectors will need assistance from experienced professional services firms that understand the economic, social, and environmental implications of the options available to improve the transportation infrastructure.

Health, Human Services, and Social Programs

A confluence of long-term factors is expected to drive an increased need for public spending in the United States on health, human services, and social programs, despite budgetary pressures. As the percentage of the population age 65 and older increases, so do the burdens on many public programs. Other major factors adding to pressure for more program support include continued immigration, more military personnel returning home with health and social service needs, faster population growth at the lowest income levels, and the rising cost of healthcare. Demand is also growing for professional services that plan for and respond to the health and social consequences of threats from terrorism, natural disasters, and epidemics.

We believe the resulting growth in demand for program services in this era of federal budget deficits will require agencies at all levels of government in the United States to utilize professional services firms with diverse expertise across social program areas. These areas include designing and enhancing programs to meet new threats; determining the effectiveness of programs; re-engineering current programs to increase efficiency (using both organizational and technology solutions); providing the required management and technical resources to support underlying knowledge management, training, and technical assistance; and managing widely dispersed people and information. In addition, we expect that government agencies in the United States will consolidate services with professional services firms with expertise across multiple social program areas to take advantage of best practices and extract additional efficiencies.

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Homeland Security and Defense

Homeland security programs continue to drive budgetary growth at the federal level and are also receiving increasing funding in state and local budgets. Over the last few years, homeland security concerns have broadened to include areas such as health, food, energy, water, and transportation safety and involve all levels of government in the United States, as well as the private sector. For example, in the aftermath of Hurricanes Katrina and Rita, domestic government policy makers are reassessing the emergency management function of homeland security in order to refocus spending and support to respond to natural disasters. The increased dependence upon private sector personnel and organizations as first responders also requires a keen understanding of the diversity and relationships among various stakeholders involved in homeland security.

DoD is undergoing major transformations in its approach to strategies, processes, organizational structures, and business practices due to several complex, long-term factors. These factors include the changing nature of global security threats and enemies, the implications of the Information Age, community and family issues associated with globally deployed armed forces, the continued loss of professional capabilities in the military and senior civilian workforce through retirement, and budgetary pressures for efficiency because of resource demands in Iraq and Afghanistan. Other factors include the increasing complexity of war-fighting strategies, the need for real-time information sharing and logistics modernization, network-centric warfare requirements, and the global nature of combat arenas. DoD and state and local governments are also grappling with domestic and international disaster relief requirements.

Finally, significant opportunities lie at the intersection of homeland security and defense. We believe the strengthened ties among traditional defense requirements, homeland security support, disaster preparedness, and response and recovery create significant demands for professional services. We believe that a major emphasis will be in the areas of strategy, policy, planning, execution, and logistics and that companies possessing deep domain expertise across these disciplines will be well positioned to partner with DoD, DHS, and state and local governments.

COMPETITIVE STRENGTHS

We possess the following key business strengths:

We have a highly educated professional staff with deep subject matter knowledge.

We possess strong intellectual capital that provides us with a deep understanding of policies, processes, and programs at the intersection of the public and private sectors. Our thought leadership is based on years of training, experience, and education. Our clients are able to draw on the in-depth knowledge of our subject matter experts and our corporate experience developed over decades of providing advisory services. As of December 31, 2007, approximately 43% of our professional staff, outside of The Road Home program implementation team, held post-graduate degrees in diverse fields such as economics, engineering, business administration, information technology, law, life sciences, and public policy. These qualifications, and the complementary nature of our markets, enable us to deploy multi-disciplinary teams to identify, develop, and implement solutions that are creative, pragmatic, and tailored to our clients' specific needs.

We believe our diverse range of markets, services, and projects provide a stimulating work environment for our employees and enhance their professional development. The use of multi-disciplinary teams provides our staff the opportunity to develop and refine common skills required in many types of engagements. Our approach to managing human resources fosters collaboration and significant cross-utilization of the skills and experience of both industry experts and personnel who can develop creative solutions by drawing upon their experiences in different markets. The types of services we provide, and the manner in which we do so, enable us to attract and retain talented professionals from a variety of backgrounds while maintaining a culture that fosters teamwork and excellence.

We have long-standing relationships with our clients.

We have a successful record of fulfilling our clients' needs, as demonstrated by our continued long-term client relationships. We have numerous contacts at various levels within our clients' organizations, ranging from key decision makers to functional managers. We have advised EPA for more than 30 years, DOE for more than 25 years, and DoD for more than 20 years, and have multi-year relationships with many of our other clients. Such extensive experience, together with increasing on-site presence and prime contractor position on a substantial majority of our contracts, gives us clearer visibility into future opportunities and emerging requirements. In addition, more than 300 of our employees hold federal security clearances, which afford us client access at appropriate levels and further strengthens our relationships. Our balance between defense and civilian agencies, our commercial presence, and the diversity of the markets we serve mitigate the impact of annual shifts in our clients' budgets and priorities.

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Our advisory services position us to capture a full range of engagements.

We believe our advisory approach, which is based on deep subject matter expertise and understanding of our clients' requirements and objectives, is a significant competitive differentiator that helps us gain access to key client decision makers during the initial phases of a policy, program, project, or initiative. We use this expertise and understanding to formulate customized recommendations for our government and commercial clients. Because of our role in formulating initial recommendations, we are well-positioned to capture the implementation services that often result from our recommendations. Implementation services, in turn, allow us to hone our understanding of the client's requirements and objectives as they evolve over time. We use this understanding to provide evaluation and improvement services that maintain the relevance of our recommendations. In this manner, we believe we are able to offer end-to-end services across the entire life cycle of a particular policy, program, project, or initiative.

Our technology solutions are driven by our deep subject matter expertise.

We possess strong knowledge in information technology and a deep understanding of human and organizational processes. This combination of skills allows us to deliver technology-enabled solutions tailored to our clients' business and organizational needs. Government and commercial decision-makers have become increasingly aware that, to be effective, technology solutions need to be seamlessly integrated with people and processes. An example of such a technology-enabled solution that we have developed is CommentWorks, a Web-based tool that enables federal agencies to collect and process public comments in connection with rulemaking or other activities.

Our proprietary analytics and methods allow us to deliver superior solutions to clients.

We believe our innovative, and often proprietary, analytics and methods are key competitive differentiators because they improve our credibility with prospective clients, enhance our ability to deliver customized solutions, and enable us to deliver services in a more cost-effective manner than our competitors. We have developed industry-standard energy and environmental models such as IPM (Integrated Planning Model) and UAM (Urban Airshed Model), which are used by governments and commercial entities around the world for energy planning and air quality analyses, respectively. We also have developed a suite of proprietary climate change tools to help the private sector develop strategies for complying with GHG emission reduction requirements, including the K-PRISM project risk evaluation system and the International Carbon Pricing Tool. We maintain proprietary databases that we continually refine and that are available to be incorporated quickly into our analyses on client engagements. In addition, we use proprietary project management methodologies that we believe help reduce process-related risk, improve delivery, contain costs, and help meet our clients' tight timetables.

We are led by an experienced management team.

Our senior management team (consisting of some 180 officers) possesses extensive industry experience and has an average tenure of more than 12 years with our Company. Our managers are experienced not only in generating business but also in successfully managing and executing advisory and implementation assignments. Our management team also has experience in acquiring other businesses and integrating those operations with our own. A number of our managers are industry-recognized thought leaders. We believe that our management's successful past performance and deep understanding of our clients' needs have been key differentiating factors in competitive situations.

STRATEGY

Our strategy to increase our revenue, grow our Company, and increase stockholder value involves the following key elements:

Strengthen our end-to-end service offerings

We plan to leverage our advisory services and strong client relationships to increase our revenue from implementation services, which include information technology solutions, project and program management, project delivery, strategic communications, and training. We have traditionally generated most of our revenue from advisory services, although, with the addition of The Road Home contract in 2006, most of our revenue currently comes from implementation services. We believe our advisory services provide us with insight and understanding of our clients' missions and goals and, as a result, position us to capture a greater portion of the implementation engagements that directly result from our advisory services. Expanding our client engagements into implementation, evaluation, and improvement services will increase the scale, scope, and duration of our contracts and thus accelerate our growth. However, we will need to undertake such expansion carefully to avoid actual, potential, and perceived conflicts of interest. See **Risk Factors** **Risks Related to our Business** **The diversity of the services we provide and the clients we serve may create actual, potential, and perceived conflicts of interest and conflicts of business that limit our growth and lead to liability for us.**

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Grow our client base and increase scope of services provided to existing clients

We intend to grow our client base, while maintaining strong relationships with our current clients, by expanding our geographic presence domestically in the United States and internationally. Within the United States, we plan to increase our presence at key federal and state government client sites. Our strong record of past performance with government clients, highly skilled multi-disciplinary teams, and growing information technology implementation capabilities should facilitate this expansion. We also are increasing our presence in new locations through acquisitions to service commercial clients; for example, our 2007 acquisition of Simat, Helliesen & Eichmer, Inc. (SH&E) provides us with locations in New York and Cambridge, Massachusetts, and augments our presence in London. We also intend to take advantage of the growing need for our climate change, energy, and environmental advisory services in Europe, Asia, and Latin America through our existing offices in these regions. Expansion of our advisory services in these markets will help enhance our existing client relationships, reinforce our expertise in key markets that are global, broaden our client base, and set the stage for us to expand further into implementation and improvement services. In addition, we intend to invest in development and marketing initiatives to strengthen our brand recognition among potential clients. Finally, we intend to focus on additional opportunities in our existing client base by increasing the scope of our services, such as by identifying and offering clients new skill sets and implementation and improvement services that complement ongoing advisory services.

Expand into additional markets at the intersection of the public and private sectors

We have a strong record of providing services that address complex issues at the intersection of the public and private sectors, where experience with markets and public/private partnerships is valued. Our strength in these areas is represented, for example, by our strong presence in energy efficiency, climate change, and fostering communities of practice in transportation. We believe there are additional opportunities for us to expand into other markets that are affected by government involvement. In the next three to five years, we expect key markets for these opportunities to include education, social and criminal justice, and veterans affairs. Although we believe we are well qualified to serve these additional markets, we have not yet fully capitalized on these additional opportunities and have only limited presence in these markets.

Focus on higher-margin projects

We plan to pursue higher-margin commercial projects and continue to shift our federal, state, and local government contract base to increase margins. In addition, we are expanding into other higher-margin commercial projects related to air transportation, climate change, and other environmental issues. In light of recent oil price increases, their impact on other forms of energy, and the need for government and industry to react to these conditions, we view the energy industry as a particularly attractive market for us over the next decade, and we have strong global client relationships in this market. Historically, our margins on engagements in this market have been higher than those in our government business. We believe the size and scope of these assignments will grow in the future due to the major changes facing the energy industry. In addition, we will continue our efforts in federal, state, and local government markets to shift our contract mix from cost-based contracts toward fixed-price contracts and time-and-materials contracts, both of which, in our experience, typically offer higher margins.

Pursue strategic acquisitions

We plan to augment our organic growth with selected acquisitions. During the past few years, we have acquired a number of businesses, including Synergy, Inc. (Synergy) in January 2005; Caliber Associates, Inc. (Caliber) in October 2005; Energy and Environmental Analysis, Inc. (EEA) and Advanced Performance Consulting Group, Inc. (APCG) in January 2007; Z-Tech Corporation (Z-Tech) in June 2007; SH&E in December 2007; and Jones & Stokes Associates, Inc. (Jones & Stokes) in February 2008. Our more recent acquisitions are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations Acquisitions. We plan to continue a disciplined acquisition strategy to obtain new customers, increase our size and market presence, and obtain capabilities that complement our existing portfolio of services, while focusing on cultural compatibility and financial impact.

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SERVICES AND SOLUTIONS

The following chart provides an overview of our end-to-end services and solutions in our four key markets.

Energy and Climate Change

We assist energy enterprises and energy consumers worldwide in their efforts to develop, analyze, and implement strategies related to their business operations and the interrelationships of those operations with the environment and applicable government regulations. Our clients include integrated energy enterprises, power developers, regulated electricity transmission and distribution companies, unregulated enterprises, municipal power authorities, energy traders and marketers, oil and gas exploration and production companies, gas transmission companies, pipeline developers, local distribution companies, industry associations, investors, financial institutions, law firms, and regulators in the United States and throughout the Americas, Europe, and Asia. We also support government and commercial clients in designing, implementing, and improving effective and innovative demand-side management strategies in a wide range of areas, including energy efficiency and peak load management.

For more than 25 years, we have helped commercial and regulatory clients in the energy sector deal with complex and challenging regulatory and litigation issues. We provide advisory services in asset and contract valuation, rate structure and price analysis, resource planning, market structures, and environmental compliance. Our expert testimony and support for scores of litigated cases reinforce our reputation for deep industry knowledge backed by our proprietary analytical models.

For more than 20 years, ICF International has supported public and private clients on issues related to global climate change. Over that time, ICF has amassed significant expertise addressing the emissions of GHGs in the public and private sectors. ICF offers a wide-range of climate-change-related advisory and implementation services, including climate strategy and policy, emissions inventory, carbon market analysis, mitigation, and corporate strategies to internalize the cost of emissions.

Environment and Infrastructure

For more than three decades, we have been providing services for the design, evaluation, and implementation of environmental policies and projects across all environmental media land, air, and water. We work with government and commercial clients to assess, establish, and improve environmental policies using interdisciplinary skills ranging from finance and economics, to the earth and life sciences, to information technology and program management. Because of the wide range of potential environmental impacts of changes in transportation, energy, and other types of infrastructure, our in-

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depth environmental knowledge is often critical to providing comprehensive solutions. In addressing infrastructure issues, however, we go beyond environmental questions to address problems at the nexus of transportation, energy, economic development, and the environment. We have particular expertise in air transportation economics, safety, operations, and environmental issues. Our solutions are based on skills in transportation planning, urban and land use planning, environmental science, economics, information technology, financial analysis, policy analysis, and communications.

Health, Human Services, and Social Programs

We provide research, consulting, implementation, and improvement services that help government, industry, and other stakeholders develop and manage effective programs in the areas of health, human services, and social programs at the national, regional, and local levels. Clients utilize our services in this market because we have deep subject matter expertise in complex social areas, including education, children and families, public health, economic development, disaster recovery, housing and communities, military personnel recruitment and retention, and substance abuse. We partner with our clients in the public, private, and non-profit sectors to increase their knowledge base, support program development, enhance program operations, evaluate program results, and improve program effectiveness. For example, we help federal agencies such as HHS implement human and social programs by managing technical assistance centers, providing instructional systems, conducting studies and analyses, developing information technology applications, and managing clearinghouse operations. We also provide extensive training, technical assistance, and program analysis and support services for many of the housing and community development programs of HUD.

Currently, our largest single contract, representing approximately 63% of our revenue in 2007, is The Road Home contract for the State of Louisiana. As a result of Hurricanes Rita and Katrina, more than 200,000 homes and rental units were severely damaged or destroyed, leaving 780,000 Louisiana residents displaced. In response, HUD allocated \$11.4 billion of Community Development Block Grant funds to assist the State of Louisiana in its long-term recovery efforts. Of that amount, \$8.1 billion, together with \$4.0 billion added later by the federal and Louisiana governments due to the increased size of the program, is being used to implement The Road Home program, which is designed to help the affected population repair, rebuild, or relocate by providing reimbursements to qualified homeowners and small rental unit landlords for their uninsured, uncompensated damages. In 2006, our subsidiary, ICF Emergency Management Services, LLC (ICF EMS), was awarded a three-year contract to manage The Road Home program for the State of Louisiana's Office of Community Development. By the end of 2007, ICF EMS and its subcontractors had:

Opened and begun operating 12 housing assistance centers in Louisiana and Texas to meet with applicants;

Secured and trained a staff of more than 2,000, the majority of whom are Louisiana residents;

Recorded more than 185,000 grant applications from homeowners;

Conducted initial personal appointments with 166,000 applicants;

Sent letters to nearly 144,000 applicants describing their benefit options;

Closed on more than 90,000 applications; and

Conducted more than 1,400 public meetings as part of a nation-wide outreach and public education campaign to provide information on The Road Home program.

The total value of the contract over three years was initially \$756 million. In December 2007, that ceiling was amended to \$912 million to accommodate the increase in the size of the program by nearly 50% over original projections. More than 30 subcontractors perform a substantial portion of the work under the contract.

Homeland Security and Defense

At DHS, we are at the forefront of shaping and managing three critical programs to ensure the safety of communities today and in the future. We are a national leader in the development of critical infrastructure protection plans and processes; we are leading the support to establish goals and capabilities for national preparedness at all levels of government in the United States; and we manage the national program to test radiological emergency preparedness at the state and local levels in communities adjacent to nuclear power facilities. We support DoD by providing high-end strategic planning, analysis, and technology solutions in the areas of logistics management, operational support, and command and control. We also provide strong capabilities to the defense sector in environmental management, human capital assessment, military community research, and technology-enabled solutions.

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CONTRACTS

Domestic government clients (including U.S. federal, state, and local governments), commercial clients, and international clients (including government clients outside the United States) accounted for approximately 89%, 7% and 4%, respectively, of our 2006 revenue and approximately 92%, 6%, and 2%, respectively, of our 2007 revenue. Our clients span a broad range of defense and civilian agencies and commercial enterprises. We had more than 1,500 active contracts during 2007, including task orders and delivery orders under General Services Administration Multiple-Award Schedule (GSA Schedule) contracts, each of which we consider a separate contract. Our contract periods typically extend from one month to as much as seven years, including option periods. Many of our government contracts provide for option periods that may be exercised by the client. Our largest contract in 2007, The Road Home contract with the State of Louisiana, accounted for approximately 63% of our revenue for the year. In 2007, no other contract accounted for more than 1% of our revenue. In 2006, The Road Home contract accounted for approximately 35% of our revenue. In 2005 and 2006, no single contract accounted for more than 2% of our revenue. Including The Road Home contract, our top 10 contracts in 2007 collectively accounted for approximately 69% of our revenue. In 2005 and 2006, during which we did not have The Road Home contract for the full year, our top 10 contracts accounted for approximately 22% and 46%, respectively, of our total revenue. The dramatic increase from 2005 to 2006 was due to our award of The Road Home contract in June 2006. In 2007, we received approximately 63%, 5%, and 5% of our revenue, respectively, from our three largest clients, the State of Louisiana, HHS, and DoD. Most of our revenue is derived from prime contracts, which accounted for approximately 86%, 89%, and 94% of our revenue for 2005, 2006, and 2007, respectively. Unless the context otherwise requires, we use the term *contracts* to refer to contracts and any task orders or delivery orders issued under a contract.

Our U.S. and international clients accounted for revenues of approximately \$167.6 million and \$9.6 million, respectively, in 2005; \$319.2 million and \$12.1 million, respectively, in 2006; and \$711.1 million and \$16.0 million, respectively, in 2007. Our U.S. clients include federal, state, and local governments and domestic commercial clients. Non-profit entities and universities are considered commercial clients. The World Bank, the International Monetary Fund, and the United Nations are considered international clients, while the State Department and the U.S. Agency for International Development are considered U.S. government clients. In general, a client is considered international if it is located outside the United States. If we are a subcontractor, then the client is not considered to be the prime contractor but rather the ultimate client receiving the services from the prime contractor team. Our foreign operations pose special risks, as discussed below in *Risk Factors* *Risks Related to Our Business*. Our international operations pose special and unusual risks to our profitability and operating results.

CONTRACT BACKLOG

We define *total backlog* as the future revenue we expect to receive from our contracts and other engagements. We generally include in backlog the estimated revenue represented by contract options that have been priced, but not exercised. We do not include any estimate of revenue relating to potential future delivery orders that might be awarded under our GSA Schedule contracts, other Indefinite Delivery/Indefinite Quantity (IDIQ) contracts, or other contract vehicles that are also held by a large number of firms and under which potential future delivery orders or task orders might be issued by any of a large number of different agencies and are likely to be subject to a competitive bidding process. We do, however, include potential future work expected to be awarded under IDIQ contracts that are available to be utilized by a limited number of potential clients and are held either by us alone or by a limited number of firms.

We include expected revenue in *funded backlog* when we have been authorized by the client to proceed under a contract up to the dollar amount specified by our client, and this amount will be owed to us under the contract after we provide the services pursuant to the authorization. If we do not provide services authorized by a client prior to the expiration of the authorization, we remove amounts corresponding to the expired authorization from backlog. We do include expected revenue under an engagement in funded backlog when we do not have a signed contract if we have received client authorization to begin or continue working and we expect to sign a contract for the engagement. In this case, the amount of funded backlog is limited to the amount authorized. Our funded backlog does not represent the full revenue potential of our contracts because many government clients, and sometimes other clients, authorize work under a particular contract on a yearly or more frequent basis, even though the contract may extend over several years. Most of our services to commercial clients are provided under contracts with relatively short durations. As a consequence, our backlog attributable to these clients is typically reflected in funded backlog and not in unfunded backlog.

We define *unfunded backlog* as the difference between total backlog and funded backlog. Our revenue estimates for purposes of determining unfunded backlog for a particular contract are based, to a large extent, on the amount of revenue we have recently recognized on that contract, our experience in utilizing contract capacity on similar types of contracts, and our

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professional judgment. Our revenue estimate for a contract included in backlog is sometimes lower than the revenue that would result from our client utilizing all remaining contract capacity.

Although we expect our contract backlog to result in revenue, the timing of revenue associated with both funded and unfunded backlog will vary based on a number of factors, and we may not recognize revenue associated with a particular component of backlog when anticipated, or at all. Our government clients generally have the right to cancel any contract, or ongoing or planned work under any contract, at any time. In addition, there can be no assurance that revenue from funded or unfunded backlog will have similar profitability to previous work or will be profitable at all. Generally speaking, we believe the risk that a particular component of backlog will not result in future revenue is higher for unfunded backlog than for funded backlog.

Our estimates of funded, unfunded, and total backlog at the dates indicated were as follows:

	2007	December 31, 2006 (In millions)	2005
Funded	\$ 522.2	\$ 762.9	\$ 133.0
Unfunded	300.2	208.9	93.8
Total	\$ 822.4	\$ 971.8	\$ 226.8

The backlog estimates at December 31, 2007, include backlog of approximately \$336.6 million associated with The Road Home contract, which was awarded in June 2006. The backlog estimates do not include backlog from the SH&E acquisition. See Risk Factors Risks Related to Our Business We may not receive revenue corresponding to the full amount of our backlog, or may receive it later than we expect, which could materially and adversely affect our revenue and operating results.

BUSINESS DEVELOPMENT

Our business development efforts drive our organic growth. A firm-wide business development process, referred to as the Business Development Life Cycle (BDLC), is used to guide sales activities in a disciplined manner from lead identification, through lead qualification, to capture and proposal. An internally developed, Web-based tool is used to track all sales opportunities throughout the BDLC, as well as to manage our aggregate sales pipeline. Major sales opportunities are each led by a capture manager and are reviewed by management during their lifecycle to ensure alignment with our corporate strategy and effective use of resources.

Business development efforts in priority market areas, which include our largest federal agency accounts (DoD, DHS, and EPA) and our commercial business, are executed through account teams, each of which is headed by a corporate account executive and supported by dedicated corporate business development professionals and senior staff from the relevant operating units. Each account executive has significant authority and accountability to set priorities and bring to bear the correct resources. Each team participates in regular executive reviews. This account-based approach allows deep insight into the needs of our clients. It also helps us anticipate their evolving requirements over the coming 12 to 18 months and position ourselves to meet those requirements. Each of our operating units is responsible for maximizing sales in our existing accounts and finding opportunities in closely related accounts. Their efforts are complemented by our corporate business development function, which is responsible for large and strategically important pursuits.

The corporate business development function also includes a market research and competitive intelligence group, a proposal management group, and a strategic capture unit. In addition, we have a marketing and communications group that is responsible for our Web site, press releases, sales collateral, and trade show management. Pricing is not handled by the corporate business development function. Our contracts and administration function leads our pricing decisions in partnership with the business development account teams and operating units.

COMPETITION

We operate in a highly competitive and fragmented marketplace and compete against a number of firms in each of our four key markets. Some of our principal competitors include Abt Associates Inc.; BearingPoint, Inc.; Booz Allen Hamilton, Inc.; CRA International, Inc.; L-3 Communications Corporation; Lockheed Martin Corporation; Navigant Consulting, Inc.; Northrop Grumman Corporation; PA Consulting Group; SAIC, Inc.; SRA International, Inc.; and Westat, Inc. In addition, within each of our four key markets, we have numerous smaller competitors, many of which have narrower service offerings

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and serve niche markets. Some of our competitors are significantly larger than us and have greater access to resources and stronger brand recognition than we do.

We consider the principal competitive factors in our market to be client relationships, reputation and past performance of the firm, client references, technical knowledge and industry expertise of employees, quality of services and solutions, scope of service offerings, and pricing.

INTELLECTUAL PROPERTY

We own a number of trademarks and copyrights that help maintain our business and competitive position. We have no patents. Sales and licenses of our intellectual property do not comprise a substantial portion of our revenue or profit; however, this situation could change in the future. We rely on the technology and models, proprietary processes, and other intellectual property we own or have rights to use in our analyses and other work we perform for our clients. We use these innovative, and often proprietary, analytical models and tools throughout our service offerings. Our domestic and overseas staffs regularly maintain, update, and improve these models based on our corporate experience. In addition, we sometimes retain limited rights in software applications we develop for clients. We use a variety of means to protect our intellectual property, as discussed in Risk Factors Risks Related to Our Business. We depend on our intellectual property and our failure to protect it could enable competitors to market services and products with similar features, which may reduce demand for our services and products, but there can be no assurance that these will adequately protect our intellectual property.

EMPLOYEES

As of December 31, 2007, we had 2,743 benefits-eligible (full-time and regular part-time) employees and 399 non-benefits-eligible (variable part-time) employees. As of December 31, 2007, outside of The Road Home program implementation team, approximately 43% of our professional staff held post-graduate degrees in diverse fields such as economics, engineering, business administration, information technology, law, life sciences, or public policy, and approximately 85% held a bachelor's degree or equivalent or higher. More than 300 of our employees hold a federal security clearance.

Our professional environment encourages advanced training to acquire industry-recognized certifications, rewards strong job performance with advancement opportunities, and fosters ethical and honest conduct. Our salary structure, incentive compensation, and benefit packages are competitive within our industry.

ITEM 1A. RISK FACTORS

RISKS RELATED TO THE ROAD HOME CONTRACT

In June 2006, our subsidiary, ICF EMS, was awarded a contract by the State of Louisiana, Office of Community Development, to manage a program designed primarily to help homeowners and landlords of small rental properties affected by Hurricanes Rita and Katrina by providing them compensation for the repair, rebuilding, or relocation of homes and small rental properties for uninsured, uncompensated damages. The contract has a stated term of three years, but, due to the acceleration of the program, we do not expect spending to be evenly distributed over the contract term, and we have earned revenues faster than we originally projected. This program acceleration, together with the challenges of predicting potential future program changes, makes it difficult for us to forecast the revenues and earnings associated with the contract, and has accelerated to earlier periods our need to win new business to replace the revenues from the contract.

The Road Home contract accounted for approximately 35% of our revenue for 2006 and approximately 63% of our revenue for 2007. We expect it to continue to be our largest contract over the remaining life of the program.

The Road Home contract has provided us with significant opportunities, but it has also created substantial risks, including those described below. If we are unable to satisfy the requirements of The Road Home contract, our profitability could be reduced and we could suffer a loss. In addition, the contract could be terminated for a number of reasons, including for cause, for convenience, or for lack of sufficient grant monies. Adverse publicity surrounding this contract, or its premature termination, could damage our reputation and our ability to win future assignments, and could adversely affect our stock price. In short, The Road Home contract significantly increases the risk profile of our business.

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The Road Home contract entails substantial funding and performance risks.

The contract contemplates three phases of work. Phase One extended from June through October 2006, and Phase Two began in October 2006. Although contract amendments were executed for Phases Two and Three in October 2006 and December 2007, there is no assurance that the State of Louisiana will continue to fund the contract, particularly if it is not satisfied with our performance or our subcontractors' performance.

The project's complexity presents a number of performance and management risks. For example, we must manage a large staff working under difficult deadlines and intense public scrutiny. We must also manage many subcontractors who collectively perform a substantial portion of the work on the contract. Effectively organizing and managing these subcontractors presents an ongoing performance challenge.

Other performance challenges include ensuring that applications for the programs are processed and funds are disbursed in a timely fashion, developing and implementing means of detecting and deterring fraud and theft by actual and purported beneficiaries of the programs and others without unduly delaying program implementation, ensuring the physical safety of all those working on the program, and complying with a significant number of federal and state legal requirements, some of which have changed since the contract started. Processing each application from a homeowner involves many different, inter-related steps for which we are responsible, including: meeting with each applicant in person to ensure that the required information has been provided; visiting each property; determining the pre-storm value and extent of damage; obtaining information from numerous sources concerning insurance benefits and other compensation already received by each applicant; verifying that the applicant owned and occupied the home as his or her main residence at the time of the storm; calculating benefits under the different options available to each applicant; handling applicant concerns; and conducting a closing to disburse the funds based on the option selected by the homeowner. Last, we are responsible for designing and implementing a system to archive millions of hard-copy and electronic records with the state during the closeout phase of the project. To accomplish all of these steps, we have had to develop, implement, and maintain a reliable, secure management information system.

For the Small Rental Property Program, additional challenges include conducting lead inspections for properties constructed prior to 1978, gathering property environmental and historical information, and conducting a final inspection to verify compliance with all the terms of the award.

The State of Louisiana has the right to cancel The Road Home contract, a right it could exercise at any time, but particularly if we fail to perform or are simply perceived as failing to perform under the contract, whether or not we are actually in compliance with its terms. Any termination of the contract or significant change in it could have an adverse effect on our operating results and stock price. Any termination of the contract would also likely result in substantial disputes and litigation with the State of Louisiana and others and would divert management attention from other matters. Even a threat or perceived threat of such action could adversely affect our stock price and be a distraction to management.

The Road Home contract presents both pricing and financial risks.

The Road Home contract has a fixed-price component. There is no assurance that this component will yield any profit, and it could result in a loss. In addition, the State of Louisiana is compensating us for services being provided under the contract based on hourly rates and unit prices, and there can be no assurance that we can profitably perform these services for such rates and unit prices. Some of these hourly rates and unit prices have changed during the course of the performance of the contract, and future negotiations with the state could result in additional changes in such rates and prices during the remainder of the contract, further increasing this risk.

The Road Home contract has been amended to include performance measures, with financial penalties for failure to achieve these measures. We have, in fact, been subject to some of these penalties. Although contract modifications must be agreed to by both parties, in the future, the contract could be further amended in ways that prove to be unfavorable to us. There is, therefore, no assurance that this contract can be performed profitably. Because of the size of The Road Home contract, poor financial results from this contract would adversely affect our overall operating results and the value of our stock.

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The Road Home contract exposes us to many different types of liability, some of which could be substantial.

Homeowners, rental housing owners, or others dissatisfied with the amount of money they have received from, or their treatment under, this program may take action against the State of Louisiana and us, including possible class action or other substantial litigation. These actions could disrupt the program significantly by diverting substantial management time and resources and could result in substantial liability for us. Lawsuits have been filed; however, these suits have not disrupted the program to date.

Due to the acceleration of the program, we may be forced to terminate employees working under The Road Home contract earlier than initially anticipated. If and when the terminations occur, those former employees may take action against us, whether or not merited, including possible class action or other litigation.

Although much of the work under the contract will be performed by subcontractors, the State of Louisiana considers us responsible for the timely, satisfactory performance of all aspects of the contract, as is typical for prime contractors.

We and our subcontractors gather and maintain sensitive information concerning potential and actual program participants. Failure to maintain and secure such information properly and failure to take appropriate action to prevent fraud could result in substantial liability for us.

Although the contract provides that, with several exceptions, we may charge as an expense under the contract reasonable costs and fees incurred in defending and paying claims brought by third parties arising out of our performance, there can be no assurance that all of our costs and fees will be reimbursed. The contract also provides that we will indemnify the State of Louisiana for certain liabilities. Such liabilities could be substantial and exceed the amounts of, or may not be covered by, available insurance. In fact, given the size, scope, and pace of this contract, it is generally recognized that errors are inevitable; however, there remains a risk that the federal government or the state will seek reimbursement for any excess amounts paid to grant recipients.

Because of its size and scope, The Road Home contract subjects us to increased public scrutiny and pressure, particularly to operate at a fast pace, as well as to numerous additional audits, reviews, and investigations, all of which divert management attention and increase our costs.

The Road Home contract may be the largest non-construction contract ever awarded by the State of Louisiana. As a result, members of both the executive and legislative branches of the state government have paid, and will continue to pay, substantial attention to this contract. Both houses of the state legislature have held numerous hearings at which our management has been asked to testify. Recent elections in Louisiana have resulted in a new governor and changes in the state legislature and the Louisiana Recovery Authority, which may lead to increased scrutiny of The Road Home contract and our efforts related to it. We expect that there will continue to be intense public and political pressure associated with The Road Home contract, particularly to continue to operate the program at a fast pace.

In addition, the contract has been, and we expect it to continue to be, audited, investigated, reviewed, and monitored frequently by federal and state authorities and their representatives. These activities consume significant management time and effort; further, we are obligated to support audits for approximately five years after the contract. Despite our best efforts, there is no assurance that these audit and review activities will not yield adverse results or publicity. The large number of parties scrutinizing our performance under The Road Home contract significantly heightens the risk of adverse findings. Such findings from any audit, investigation, review, monitoring, or similar activity could subject us to civil and criminal penalties and administrative sanctions from state or federal authorities, including partial or complete termination of The Road Home contract, repayments of amounts already received under the contract, forfeiture of profits, suspension of payments, fines, claims for reimbursement for the costs resulting from any errors or omissions in our performance under the contract, and suspension or debarment from doing business with the State of Lou