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CORPORATE PARTICIPANTS

Douglas Beck *ICF International, Inc. - SVP, Corporate Development*

Sudhakar Kesavan *ICF International, Inc. - Chairman and CEO*

John Wasson *ICF International, Inc. - President and COO*

James Morgan *ICF International, Inc. - EVP and CFO*

Sandy Murray *ICF International, Inc. - SVP and Interim CFO*

CONFERENCE CALL PARTICIPANTS

Tim McHugh *William Blair & Company - Analyst*

George Price *BB&T Capital Markets - Analyst*

Bill Loomis *Stifel Nicolaus - Analyst*

Stuart Gillespie *Stephens - Analyst*

Tobey Sommer *SunTrust Robinson Humphrey - Analyst*

PRESENTATION

Operator

Welcome to the ICF International second quarter 2012 conference call. (Operator instructions.)

As a reminder, this conference is being recorded on Thursday, August 2, 2012 and cannot be reproduced or rebroadcast without permission from the Company.

And now, I would like to turn the program over to Douglas Beck, SVP, Corporate Development. Please go ahead.

Douglas Beck - *ICF International, Inc. - SVP, Corporate Development*

Thank you, Operator. Good afternoon, everyone, and thank you for joining us to review ICF's second quarter 2012 performance. With us today from ICF International are Sudhakar Kesavan, Chairman and CEO, John Wasson, President and COO, James Morgan, CFO, and Sandy Murray, former Interim CFO.

During this conference call, we will make forward-looking statements to assist you in understanding ICF's management's expectations about our future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer you to our August 2, 2012 press release and our SEC filings for discussions of those risks.

In addition, our statements during this call are based on our views as of today. We anticipate that future developments will cause our views to change. Please consider the information presented in that light. We may, at some point, elect to update the forward-looking statements made today but specifically disclaim any obligation to do so.

I will now turn the call over to our CEO, Sudhakar Kesavan, to discuss first quarter 2012 highlights. Sudhakar?

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

Thank you, Doug, and good afternoon, everyone. Thank you for participating in our call to review this year's second quarter results and discuss our current outlook for the remainder of the year.

As you can see from our release, revenue for the period went up over 12% year-on-year, and net income and earnings per diluted share were up 15% and 16% respectively. We were able to achieve this strong performance thanks to our business mix and our acquisition strategy, which has strengthened ICF's position in each of our key markets.

The major growth driver in the second quarter was our commercial business, which increased 35% year-on-year and rose to 27% of total revenues, up from 22% this time last year. Based on our current forecast, our commercial business should continue to grow at double-digit rates for the rest of 2012. This is a key differentiator for ICF, as it enables us to report solid revenue and earnings growth in the face of the softness in our federal government business for the second quarter, which was virtually flat on a year-over-year basis.

Our results this quarter also benefited from our work with state and local governments, which was up 9% compared to last year's second quarter. Despite these difficult business conditions in the federal space, each of our (inaudible) posted higher year-over-year revenues in the second quarter. Energy, environment and infrastructure grew 13%, health, social program and consumer financial grew 15%, and together they accounted for over 85% of total revenues.

Revenues for our Public Safety and Defense market increased 3%. This broad-based revenue growth is due to continued organic growth and our strategy of making acquisitions that provide complementary services in our market, thereby deepening our domain expertise and expanding what we can offer to our clients.

As you know, our two most recent acquisitions were Ironworks and GHK, both excellent fits from a market perspective. They added substantially to our portfolio of non-federal business. It should be noted that both operating income and net income increased at a faster rate than revenue in the second quarter, reflecting the greater contribution of our commercial business and effective cost management. Our EBITDA margin increased to 10.2%, which is the highest level in nearly five years.

Organic growth rate was 1% for the second quarter and 3.9% for the first half. Our organic growth rates were affected in both quarters of 2012 by a reduction in subcontractor and other direct costs. However, our service revenue, which exclude these costs, and represent revenue generated by ICF consulting staff direct billing, grew organically by a mid single-digit rate for both second quarter and first half, and we expect a comparable growth rate for the second half of the year.

We completed a staffing realignment in the second quarter that is designed to ensure that we maintain EBITDA margins at or close to current levels. This involved eliminating certain staff positions [within] various areas of our federal business that we do not expect to grow over the near to intermediate term and, where possible, reassigning others to markets within our federal business where we continue to see growth opportunities, such as health, energy, and domain-driven IT services. Additionally, we have expanded our commercial new business development activity and continue to add to staff in commercial growth areas such as energy efficiency, digital interactive, aviation, and healthcare consulting.

In energy efficiency, for example, we see double-digit growth over the foreseeable future because of both industry demand and ICF excellent performance in this area. Our addressable market in energy efficiency is currently above $1.5 billion domestically. Many of our utility clients have extended or expanded their programs with us, and we have a number of new prospects in our pipeline. We also expect our digital interactive business to grow at double-digit rates, given the rapid growth of these services and the cross-sell opportunities across all our markets.

Given our strong commercial sales, the diverse set of commercial opportunities in our pipeline, and the strong underlying business trends we see in our commercial businesses, we remain confident this market will remain a key growth driver for ICF for the remainder of 2012 and into 2013. This will put ICF in an excellent position for accelerated growth as federal government spending levels pick up.

At the end of the second quarter, our backlog was in excess of $1.5 billion, of which $716 million, or 46%, was funded, and our pipeline increased to $3.2 billion from $3 billion at the end of the first quarter. And despite the federal government's spending uncertainty, I can tell you that our bid and proposal activity is in high gear and as active as it has been in the last several years.

In a few moments, our new CFO, James Morgan, will provide a detailed financial review of second quarter results. We welcome him to his first ICF conference call. I would also like to thank Sandy Murray for her excellent work serving as interim CFO. Thank you, Sandy.

So before James, I would like to turn the call over to our COO, John Wasson. He will give you additional insight into our operating performance, continuing focus on profitability, and the nature of our investments in maintaining our growth in commercial and certain specific federal markets. John?

John Wasson *- ICF International, Inc. - President and COO*

Thank you, Sudhakar, and good afternoon. As Sudhakar discussed, our second quarter growth was primarily due to the performance of our commercial and state and local businesses and the addition of our two most recent acquisitions. Overall, our commercial market grew 35% over the prior year second quarter, with particularly strong growth coming from energy efficiency, which grew 23% over the prior year quarter, and aviation, which grew 75% over the prior year quarter.

The aviation business has finally turned the corner and returned to a growth trajectory due to new wins in the areas of airline restructuring and financial due diligence, and airport concession planning. Further, we continue to be pleased with the Ironworks acquisition, as it is delivering double-digit growth above the second quarter of 2011 when they were an independent company.

Commercial sales were $81 million for the second quarter and totaled $174 million for the first half of the year, representing 40% of the firm's total sales through each of these periods. Given that our commercial business is 27% of revenues for the quarter, this illustrates the increasing importance of commercial business to ICF's future growth.

As noted in our press releases, the largest commercial sales this past quarter were in the energy efficiency space, and the energy efficiency pipeline continues to be strong. In addition, we experienced strong commercial sales in areas including aviation, interactive data applications, environment management of infrastructure projects, and power market planning.

In our federal markets, we continued to experience uncertainty and headwinds in the second quarter. As we have discussed in the past, ICF typically sees a strong ramp-up in federal revenues beginning in Q2 and continuing into Q3 each year. This year, given the significant uncertainty in our federal markets, we experienced no ramp-up in federal revenues from Q1 to Q2, and we now expect no ramp-up of such revenues for Q3 or Q4. It is clear that the federal clients are being very cautious with their spending, given uncertainty about future budget, even when they have the funding in place.

We also continued to experience delays in the second quarter in our federal markets associated with client turnover, client-driven changes in project direction, reduced conference support activities for GSA and other clients, and delays in client approvals of subcontractors to ICF.

Even with these headwinds, we achieved several key sales in our federal business in Q2. Most notably, we were pleased to win several important indefinite quantity contracts. the first is the National Institute of Health's Chief Information Officer's Solutions and Partners $20 billion IDIQ, a new contract which focuses on supporting health and research IT, as well as broader IT application. The second is a $1.5 billion IDIQ contract, a recompete with HHS to provide research and training and technical services for the Substance Abuse and Mental Health Services Administration. And the third, a new $100 million IDIQ contract with the US Department of Labor to support program evaluation and performance improvement.

We also won two grants with a total value of $11.1 million with the US Department of Housing and Urban Development to provide capacity-building services. Further, we experienced a strong flow of federal proposal opportunities in Q2, and this is continuing into Q3.

I also want to update you on the protests on the two federal contracts that involved approximately $105 million of sales announced in the third quarter of 2011. Both protests, while not being sustained against us, have resulted in outcomes that mean we will not see near-term revenues from either opportunity. In the case of our largest win, in the health IT arena, the client ultimately decided to cancel the procurement and re-bid it later this year under several smaller task orders. We believe we are well positioned to win one or more of these smaller task orders, but this will not occur until the end of the year at the earliest.

In the other case, we did not lose the protest, but changes in the clients' programmatic direction led us to believe that, despite their willingness to reopen the bidding, we were not likely to be successful. We therefore decided not to continue with our proposal efforts on the reopen bid. Neither of these protested opportunities are in our backlog estimate.

As Sudhakar mentioned, we did take steps in the quarter to realign our staffing to achieve two key goals for the remainder of this year. First, we have invested additional resources in commercial business development in the short run to take full advantage of all the opportunities we are seeing across energy, health, aviation, and digital interactive. We also want to invest more in business development in select federal markets that continue to provide opportunities for growth. Second, we wanted to ensure that we maintain EBITDA margins at or about 10% for the remainder of the year as we make these additional investments.

To achieve these twin goals, we reduced our total annualized staffing costs by over $10 million in Q2. Staff reductions were made in areas where we did not see opportunities for growth in the near to intermediate term. An immediate priority for us, with a portion of these freed-up resources, is to add several senior commercial business development leaders in our corporate business development function, led by Isabel Reiff. These additional hires will allow us to further build out our commercial account management focus in the energy, aviation and health arenas, and will help to position us for continued growth in commercial markets for the remainder of 2012 and into 2013.

Let me now turn to providing a brief update on our recent acquisitions of Ironworks and GHK. First, as I've already noted, part of our optimism about our commercial business is because of the continued growth opportunities in front of Ironworks. The market for digital interactive and Web application services remains strong, and Ironworks continues to capture its fair share of that growth in both commercial and government areas. Integration with legacy ICF is going well, and we are particularly focused on jointly exploiting the commercial health, energy, and selected areas of the federal government, such as veteran's issues.

Although GHK focuses on non-US government markets, we have made great progress in planning our joint strategy globally. We have already mounted multi-million-dollar bids in the areas of energy efficiency market transformation and developing country education programs that neither firm would have had the qualification to bid on alone. We are developing joint offerings and building our pipeline of business opportunities in energy efficiency and clean energy, international development, and air and surface transportation projects globally.

Finally, I want to update you on several metrics that we report each quarter. First, our total sales for the quarter were $203 million. Second, as Sudhakar noted, our total active pipeline at the end of the quarter was $3.2 billion, and we continue to see a good proportion of larger opportunities, both in government and commercial market. Currently, we are actively targeting 28 opportunities greater than $25 million and 52 opportunities greater than $10 million.

Finally, each quarter we report the voluntary turnover we experience. And as you know, ICF maintains one of the lowest levels in the industry. This quarter, we are pleased to note that the voluntary turnover was 3%, and the annualized rate of turnover for the first half of the year is a low 10.3%.

I would like to turn the call over to our new CFO, James Morgan. James, welcome to your first earnings call with ICF.

James Morgan - *ICF International, Inc. - EVP and CFO*

Thanks, John. Good afternoon, everyone. I'm pleased to be participating in my first ICF conference call, and I look forward to meeting many of you in the coming months.

Revenue for the second quarter of 2012 was $239.6 million, a year-over-year increase of 12.3%. Excluding acquisitions, the year-over-year organic growth was 1% for the second quarter and 3.9% for the first half of 2012. As John mentioned earlier, our organic growth during the quarter was impacted by headwinds in the US federal government business.

Gross profit margin remains strong at 38.3%, an increase over the 37.4% in 2011 second quarter and similar to the 38.4% in 2012's first quarter. Indirect and selling expenses as a percentage of revenues were 28.1%, an increase from 27.7% in the second quarter of 2011, but below the 28.9% of 2012's first quarter. From an absolute dollar perspective, indirect and selling expenses were $67.4 million in the second quarter, an increase of 13.8% over last year's second quarter. The year-over-year increase was primarily due to our acquisitions of Ironworks and GHK, which were not in the comparable prior year period.

Our EBITDA margin for the second quarter of 2012 was 10.2%, an increase over the 9.7% in last year's second quarter and the highest it has been in nearly five years. The increase in EBITDA margins are a reflection of the growth of our more profitable commercial business and the ongoing efforts to appropriately manage indirect and selling expenditures.

Depreciation and amortization was $2.8 million in both the second quarter of 2012 and 2011. Amortization of purchased intangibles was $3.5 million in the second quarter of 2012, up from $2.3 million in the second quarter of last year. The increase was primarily due to our recent acquisitions and was in line with our expectations.

Operating income in the second quarter was $18.1 million, an increase of 16.3% over last year's second quarter, and operating income margin was 7.5%, up from 7.3% in 2011's second quarter. Net income was $10.3 million in the second quarter, up 15.4% from last year's second quarter, and diluted EPS was $0.52, up from $0.45 in the second quarter of 2011, an increase of 16%.

We paid down $8.6 million of debt in the second quarter, which resulted in long-term debt of $143.5 million, down from $152.1 million at March 31, 2012. We ended the second quarter with a debt to capital ratio of 26%, down from 27.4% at the end of the first quarter of 2012 and down from 27% at the end 2011.

Cash flow from operating activities was $28.4 million for the first half of the year, a slight decrease of 3.3% over the prior year -- prior period. Days sales outstanding for the quarter, including impact of deferred revenue, was 74 days compared to 69 in the prior year. As we have stated in the past, we expect our DSO days to be within the 70- to 75-day range.

Capital expenditures for the first half of 2012 were $8.1 million, primarily reflecting the opening of our Martinsville operations center and the consolidation of several of our Maryland offices in Rockville.

Now I'll update you on our full year expectations for certain line items. We are slightly lowering our estimate for amortization of intangibles to a range of $14 million to $14.5 million from $14.3 million to $14.8 million, subject to change based on final purchase price allocations for acquisitions. Additionally, we are slightly lowering our estimate for depreciation and amortization expense to a range of $10.5 million to $11 million from $11 million to $11.5 million due to a change in the timing of capital expenditures. We continue to expect capital expenditures ranging from $15.4 million to $16 million.

We are slightly lowering our expectation for interest expense to a range of $4 million to $4.5 million from $4.3 million to $4.7 million. Continue to expect a full year tax rate of 40%. And lastly, we expect fully diluted weighted average shares for the year of 20 million, just slightly lower than the first quarter estimate due to approximately 260,000 shares repurchased by the Company during the second quarter under the Company's share repurchase program.

With that, I'd like to turn the call back over to Sudhakar.

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

Thank you, James.

As you know, we did not see the sequential increase in federal government work from Q1 to Q2 that we have experienced in the past, and we have not seen evidence of meaningful sequential revenue growth so far in Q3. To put this in context, in 2010, our revenues increased 13.5% from Q1 to Q3. In 2011, they were up 12.1%. For 2012, we have now revised down our revenue growth expectations for the Q1 to Q3 period to about 5%.

As a result of this uncertainty in the federal arena, we have lowered our revenue growth guidance for 2012 by approximately this 7 percentage point variation to $930 million to $960 million, which at the midpoint represents 12.4% year-over-year revenue growth. Diluted EPS are expected to range from $1.90 to $2.00, which at the midpoint is equivalent to 11.6% growth over 2011 levels. Full year 2012 diluted EPS comparisons will be impacted by higher interest and amortization expense associated with our Ironworks and GHK acquisitions. EBITDA growth, however, is expected to outpace revenue growth in 2012.

For the 2012 third quarter, we expect revenue to range from $233 million to $247 million, and diluted EPS to be between $0.46 and $0.50, representing year-on-year growth at the midpoint of 9.7% and 2.1% respectively. As for the full year 2012, EBITDA is expected to grow at a faster rate than revenue. The Q3 EPS is a little lower than the Q2 EPS primarily due to the increase in investments mentioned by John Wasson in his remarks.

We've continued to generate significant cash flow and reaffirm our expectations that, for the year, cash flow from operations will exceed the $60 million reported in 2011.

In conclusion, our non-federal business continues to grow at double-digit growth rates on an organic and total revenue basis, which is shifting the balance of our commercial and government work. We are pleased with our strong presence in health, energy, infrastructure, and digital interactive markets, which are growing in both the government and commercial arena. Our unique business mix makes us a growing, stable, and an increasingly profitable business, and our geographical expansion positions us as a large global player in our areas of expertise.

With that, Operator, I would like to open the call to questions.

Sandy Murray - *ICF International, Inc. - SVP and Interim CFO*

Operator? Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions.) Tim McHugh with William Blair & Company.

Tim McHugh - *William Blair & Company - Analyst*

Yes. First wanted to ask, on the commercial business, did you see any impact from the macro environment in terms of companies becoming a little tighter with spending on the growth? And what was the organic growth for that piece?

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

Yes. I think the overall growth that you saw was 35%. I think our organic growth was -- about a quarter of that was the organic growth, and the balance was the acquisition growth.

If you look at the organic growth to some extent was impacted by one big infrastructure management project which slowed down, and if you basically took that out, it was in the same range as it was the prior quarter. So the organic growth overall was about a quarter of that 37%. With that one infrastructure management project out, it was in the high teens to the low 20s.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And have you changed the guidance reduction? Is this purely due to the federal business, or if you had a separate assumption for the commercial business? Is there any change to what you expect for the full year for that piece of the Company?

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

No, I think it's purely due to the federal business, because we expect step-ups in the federal business in Q2 and Q3, and we haven't seen those.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And then, the protest awards, how much -- I know you're saying basically you're just not seeing the contracts ramped up. Were there specific assumptions in the second half of the year for those contracts that were under protest and now you're not pursuing?

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

Yes. I think that the overall assumptions for the whole fiscal year -- for the whole financial year were about -- I think we had assumed about $22 million for those two contracts when we gave you the guidance, and those obviously will not happen. And so we have taken those out, and that's reflected in the guidance we've given.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And then last one, just you repurchased stock for the first time in that I can remember, and so just talk to us about uses of cash. There's also obviously some competitors struggling that can make it opportunistic time for some M&A as well. How are you thinking about the trade-off between repurchases and M&A right now?

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

Yes. You know, we have always said that we are a growth company. We want to spend our -- whatever of cash we have on acquisitions because we see -- I think there's an opportunity in the markets I mentioned. And we will continue to use cash primarily for that purpose.

I think we bought a little bit of stuff back. We mentioned it, and we think that the better use of cash is to make sure that we continue to grow and invest in growth, both from an organic perspective, as we are doing and as John mentioned, and in making sure that we do M&A. Whether it be systematic or opportunistic, we obviously are always looking at all the options which we have in front of us. So we will always be focused on using cash for that purpose, but when the opportunity presents itself, we'll certainly use the capacity we have to buy stock, which is what we did in the last quarter.

Tim McHugh - *William Blair & Company - Analyst*

Okay, great. Thanks.

Operator

George Price with BB&T Capital Markets.

George Price - *BB&T Capital Markets - Analyst*

(Inaudible) for taking my questions. Good afternoon. Just wanted to start off on the federal business. So you talked about not seeing the typical ramp-up on the second quarter and thus far into the third quarter, and not seeing any reason to expect that that continues in the third or fourth quarter. So a couple questions on that of, first, when did you really kind of start to feel that trend versus the expectations that you had and discussed in early May when you reported? Because at that point, I think you still expected a good third quarter.

Second question related to that is, in terms of not expecting further ramp-up, what do you expect your federal clients to do with the money as we go through the end of GFY '12?

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

Yes. I think that we basically traditionally think that these ramp-ups will happen towards the end of Q2 and beginning of Q3, and that's traditionally what we have seen happen, and that didn't happen. We were still hoping that that'll happen.

And as you saw, we had very significant backlog and very significant funded backlog, so there was no reason for us to think that the patterns are going to change because all the metrics seemed to indicate that that will happen. But that did not happen, and that was reflected in the guidance we have given you.

I'm sorry, I didn't catch the latter part of the question.

George Price - *BB&T Capital Markets - Analyst*

Just you mentioned, Sudhakar, that you don't see any reason to believe that you'll see sequential ramp-up through the third quarter or into the fourth quarter. And just does that imply -- I mean, what are your federal clients going to do with the money? I mean, just can you talk about mainly I guess what you're hearing from your clients, what you think is going to happen as you move through the end of GFY '12 into the fourth calendar quarter?

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

Well, we have tried to also gently talk to our clients and tell them that, based on our understanding of how sequestration, et cetera, is going to be done, you'll have to set a baseline, and if you use the funds, then the baseline will be higher than if you don't. And we can only do so much, and we really haven't seen the traction which we expected to see.

So I think that it's a good question, George. We are quite puzzled, and we have therefore taken the view that we are going to give you guidance based on what is visible to us. And if something happens to the better in Q3 and Q4, great. We will be happy to perform the services for the federal clients. But at the moment, we are basically focused on just what is clearly visible to us, and that's the basis of our (inaudible).

George Price - *BB&T Capital Markets - Analyst*

Okay. Could you just -- I know DHS and DOD for ICF is relatively small, but just curious if, even within that part of the business versus your broader civilian government businesses, are you seeing any differences in terms of demand trends, weakness, delays, et cetera, between those different parts of the business? Is civilian materially weaker than DOD or DHS? Are there particular pockets of weakness even within the civil markets?

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Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

I think it's not a question of weakness. As you can see, our funded backlog is through 46%, so it appears not so much a weakness. It appears to be a lack of intention of trying to give instructions to get the work done. And so, we don't see anything particularly weak.

I mean, I mentioned that the RFP activity is cranking away in very normal ways. So traditionally, what happens is that the RFP activity cranks up. We are spending a lot of resources on business development responding to these RFPs. And those costs are in our guidance for Q3, but the traditional ramp-up of revenues in Q3 will generate some additional margin, which takes care of those costs, is not reflected clearly, as we have pointed out to you.

So I think that it appears that there is certainly an intention for the federal government to continue to do the work which they are mandated to do. It's just that this period appears to be an uncertain period, and we hope that, over the next few months, things resolve themselves. As you all well know, we all know what the situation is. And once these things resolve themselves, then things will back up, and the federal government will continue to use the contract vehicles and the other things -- and the funding, which we currently have.

George Price - *BB&T Capital Markets - Analyst*

Okay. Last question just on the backlog, total backlog down a couple hundred million quarter-over-quarter. Was that de-booking the two protested contracts you mentioned? Was there anything else de-booked beyond that?

John Wasson - *ICF International, Inc. - President and COO*

No. This is John Wasson. I think we de-booked the largest of the two contracts in this quarter, so about $65 million of it was due to de-booking a contract, one of the protested contracts. The rest was I think just burning off the backlog.

George Price - *BB&T Capital Markets - Analyst*

Okay. But, I mean, you still had a pretty good overall book to bill, though. It just was a little surprising. I mean, there must have been something that came out of there.

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

Yes. I think that we had a book to bill for Q2 of 0.85, and I think six months ended 2012, the book to bill is 0.93. So yes, I think it's a pretty healthy book to bill.

I mean, there are lots of little things which go in and out, so there's nothing of concern to us. I think our book to bill has remained pretty steady over the last few quarters. And traditionally, we were also expecting that the book to bill in Q3 would be strong and, as is traditionally the case because of the RFP activity and the fact that hopefully the federal government will make some decisions as the quarter ends. And if they do, then it will be the similar pattern as we've had in the last year.

So in the RFP activity, in the sales activity, et cetera, everything seems to be phenomenal pattern. But in the spending, as I pointed out, the pattern doesn't seem to have adhered to the normal trend which we have seen in the last two years.

George Price - *BB&T Capital Markets - Analyst*

All right, thanks very much. I'll turn it over.

Operator

Bill Loomis with Stifel Nicolaus.

Bill Loomis - *Stifel Nicolaus - Analyst*

Hi, thank you. Good afternoon. Looking at international, what was the total international in the quarter? Because I know you guys changed your segments. I just want to be clear, because this is the first full quarter with GHK in it.

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

I think if you look at the other government, which is what -- I think that part of the reason, Bill, is that it's about -- the full international is about $20 million or so.

Bill Loomis - *Stifel Nicolaus - Analyst*

$20 million? Okay. And then, just looking at the federal, so you thought as late as a month or two ago that the third quarter you'd see that sequential ramp-up. How is this filtering up? How is this -- I'm trying to understand kind of what the customer behavior is here.

Were there things that they just pushed to the right? You had mentioned that direct labor was growing about 5%, and you expected the same in the second half. So I'm having a tough time reconciling what does that mean exactly. It sounds like they're going forward with funding ICF labor on programs, but you're getting less pass-through subcontractor work, and why.

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

We've seen -- in specific agencies, we've had subcontracts which have been sitting -- where we have (inaudible), we have these subcontracts sitting there, and they don't approve them.

And we've tried like (expletive), because we do get some fee based on these subcontracts. But there have been delays in those subcontract approvals, and I think, as you know, there's lots of work which we do in some of the social program side, but that's an important -- conferences and other things which are held which have fairly large conferences which have been delayed and have been pushed to the right, and those conferences traditionally require lots of ODCs and other things. So all those, because of all the GSA issues, et cetera, which you are familiar with have not happened.

So I think that I pointed out the service revenue numbers only because of the fact that I thought that demonstrates that underlying business is pretty strong. It's going along quite nicely. And by the way, there's also that -- it's just that we are puzzled. We don't really know why the government doesn't approve the subcontract. We are trying like (expletive) to make sure that it happens, but it doesn't, then the conference stuff I think will not happen for a few months, I'm sure, until such time as the noise over these conferences subside.

John Wasson - *ICF International, Inc. - President and COO*

Yes. So if I could just add -- it's John Wasson -- I mean, I do think that some of the projects where we've experienced delays are some of our larger implementation projects, or if we've experienced client turnover where we would have a heavier use of subcontracts, and so that's impacted [capacities] that we were -- excepted on those types of projects.

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

And if you look at the pass-through number, last year I think we were about 2, 2.5 percentage points lower in terms of pass-throughs. And if you just multiply that, you would be $5 million or $6 million or $7 million more than what we are currently in terms of gross revenue.

So I think that - and with the associated ODCs, we'd be pretty consistent with our Q2 guidance. But we don't see those pass-throughs coming through. We see some continued service revenue growth, but again, we do need all the other stuff to happen in order for us to come up with the growth which we had initially thought will happen.

Bill Loomis - *Stifel Nicolaus - Analyst*

And what gives you confidence that that direct labor -- that ICF direct labor can continue to grow in mid-single digits? Who's to say that doesn't go below zero?

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

Yes. I think, basically, when I gave you the numbers, that was organic revenue growth across our business, both federal and commercial. So I think that I'm talking about service revenue across the business, and so we have pretty good visibility in the federal arena. We know how much work will be required in terms of visibility, and we see that the commercial business is growing, and a lot of that is done by our guys.

And that requires more of our folks and less sub work because, in the commercial arena, there's less -- in certain parts of the commercial arena, there's much less sub work. So I think that that's the basis on which we have given you the estimate. So we have pretty good visibility on the federal side. We think, on the commercial side, we have good momentum, and that momentum will carry us through. So service revenue, therefore, should grow continually for the next two quarters.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay. Thank you.

Operator

(Operator instructions.) Stuart Gillespie with Stephens.

Stuart Gillespie - *Stephens - Analyst*

Hi, thanks for taking my question. I wanted to see if you could talk a bit about the funding extension in Washington and any impact you think that might have on your federal. Thanks.

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

You mean the continuing resolution?

Stuart Gillespie - *Stephens - Analyst*

Yes.

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

It certainly helps that there's clarity. I think it makes our clients more comfortable, and we hope that that will help them get [some] more confidence that the intent is to continue to spend at levels which they have set.

And there's still the issue of how -- there's still some uncertainty, [fairly recently] uncertainty, and we just have to watch how all the sequestration issues, which have still got to be resolved, play out. So it certainly is a good first step, and is a good first step in reducing uncertainty, but there are a number of things to happen in order for the uncertainty to reduce further.

Stuart Gillespie - *Stephens - Analyst*

Okay, thank you.

Operator

George Price with BB&T Capital Markets.

George Price - *BB&T Capital Markets - Analyst*

Thanks for letting me back in. Didn't think I'd get in so quick.

First thing, I just wanted to circle back around on the staff reductions you mentioned in the federal business. I know it's a sensitive topic, of course, but was wondering if maybe you could talk about how many people are affected. I mean, how is this going to impact your headcount?

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

Yes. Let's say about 75 people, round numbers, were affected, and the headcount is going to go up in the commercial arena obviously because of the increased growth there. But we'll be very careful in the federal arena.

So I think that, overall, Q-on-Q headcount at least for this quarter was flat. And this was a reduction and realignment of staff at all levels, so we certainly did what we had to do. And I think that we are redeploying, as John said, the staff in places where we can, where there's growth, and otherwise those folks are on our (inaudible). So that's basically what -- I think I answered that question. Those are the numbers.

George Price - *BB&T Capital Markets - Analyst*

Okay. Actually, a good segue in another question I had, which is flipping over to the commercial business and a little bit more on the investments that you talked about and the business development side there. What kind of operating margin do you see that business having, going forward, given these investments?

Now that you've had it, you've done some integration work, you've had the ability and the time to evaluate it and see -- you obviously see some investments that need to be made. So what kind of operating margin do you see that business having versus the upper teens to I think close to 20% level I think you discussed when you acquired it? And this is primarily, I guess, directed at Ironworks.

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

Yes, they continue to do good, solid profitability of the kind you mentioned. I think, overall, we are basically making sure that we meet the EBITDA targets which we have set. And we have managed to get an earnings expansion here, and I think that's due to the fact that we have businesses which are more profitable.

And we will continue to focus on that, which is why, as I said at the end, that as we grow the commercial business, the earnings will expand. I think we'll grow the business. And we also have the benefit of the federal business, which is very stable. May not be growing at the moment, but -- so [we] have both the advantage of the profitability as well as earnings expansion and growth. So I think we are focused on that 10% number, around 10%, and certainly the more profitable commercial business helps.

George Price - *BB&T Capital Markets - Analyst*

Okay. And were there any one-time acquisition expenses in the quarter, anything lingering?

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

No.

George Price - *BB&T Capital Markets - Analyst*

Okay. Last question, I know you gave an organic growth number for the quarter, 1%. And if you gave this, I apologize if I missed it. But did you give, or could you give, an acquired revenue number for the quarter, and, if possible, maybe break it down between the Ironworks and GHK? Thanks.

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

No, we haven't done that, George. I don't think we're going to do that now. But I think I gave you broad indications as to where the overall commercial growth, the organic, et cetera, so I'll just stop at that.

George Price - *BB&T Capital Markets - Analyst*

Okay. All right, fair enough. Thank you very much.

Operator

Tobey Sommer with SunTrust.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Hi. Wanted to ask a little bit about pricing. Are you seeing other competitors make a move towards more commercial space? Are you running into new entrants? Has there been any pricing changes either on that commercial side or the federal side?

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

We have lots of competitors I think in the commercial space. For example, if you look at the Ironworks space, they have their traditional set of competitors. I don't think there are any new ones which they have seen or they have pointed out to us. If you look at our Aviation business, we have a traditional set of competitors both in the United States and in Europe.

So I don't see any new competitors, but it's a pretty competitive space, but I think traditionally there, there is a certain acceptance of the rates which they do. So I think, from terms of margins, if you're asking this from a question of is there margin pressure, I think [every possible] businesses have been pretty -- and I think in that world, that's the kind of margins they get. And we certainly have been competitive, and Ironworks loses its share of work because of types, but that's not because of the fact that it's any different from any other normal situation.

I think, at least in the aviation and in the digital interactive space, they have that traditional set of competitors.

John Wasson - *ICF International, Inc. - President and COO*

Yes, it's John Wasson. I would say, in the energy space, I don't think we've seen any new participants, the same set of firms we typically compete with. And generally, like Sudhakar said, I think it is a competitive environment, but I don't think we've seen any intense increases in price pressure. Obviously, as we do recompetes at [that thing], the established programs, we need to pay attention to [price], and we do. But we certainly haven't seen -- no new entrants on the energy side recently.

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

Yes. And I think when we gave you the 10% guidance, we obviously looking at the pricing and looking at things which we are doing, and we are trying very hard to make sure that we do that 10% EBITDA with all the attendant pressures which we have on pricing and other things. So there's (inaudible) our goal.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Okay, great. And I may have missed it, but did you give CapEx guidance for the year?

James Morgan - *ICF International, Inc. - EVP and CFO*

We did give CapEx guidance for the year, and it was a range of $15.5 million to $16 million for the full year.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Okay, great. And just you had a couple nice contract wins with major US utilities. Can you talk a little bit about the demand environment on that side, how early we are in that developing, and what type of horizon you see out there?

John Wasson - *ICF International, Inc. - President and COO*

Yes, sure. This is John Wasson. I mean, I think, as we've discussed in the past, I think that we continue to see a robust demand for energy efficiency programs in the United States.

I think we've talked many times about the fact that there's, I think, somewhere between 25 and 30 states that have public good charges in place to fund energy efficiency programs. The Public Utility Commissions have put those in place. The utilities typically manage, in many cases, to outsource those programs, and I think we're probably the largest provider of energy efficiency programs in that market.

And so, I think there's still -- I think, over time, additional states will put those kinds of charges in place, and so there'll be market expansion from that. And then, I think there's certain states where we don't have as large a market position as we believe we ultimately can and should have, particularly in California, which spends billions of dollars each year on energy efficiency.

So I think it's a long-term market with, I think, long-term positive trends. We're a market leader, and there's significant potential. So I think we're quite bullish and believe that can be a key driver of growth here for the next several years.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

All right, great. Thank you very much.

Operator

There are no questions at this time. I would now like to turn the call over to Management for closing remarks.

Sudhakar Kesavan - *ICF International, Inc. - Chairman and CEO*

So thank you for your interest. We look forward to speaking with you at our next earnings call. Thank you again.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a great day.
