

FINAL TRANSCRIPT

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ICFI - Q1 2010 ICF INTERNATIONAL INC Earnings Conference Call

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PRESENTATION

Operator

Welcome to the ICF international First Quarter 2010 Conference Call. During the presentation, all participants will be in a listen-only mode. Afterwards, you will be invited to participate in a question-and-answer session.

(Operator Instructions)

As a reminder, this conference is being recorded on Thursday, May 6, 2010 and it can not be reproduced or rebroadcast without permission from the Company. And now, I would like to turn the program over to Douglas Beck, Senior Vice President, Corporate Development. Please go ahead.

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

Thank you, operator. Good morning everyone and thank you for joining us to review ICF's first quarter 2010 performance. With us today from ICF International are Sudhakar Kesavan, Chairman and CEO; John Wasson, COO, and Ron Vargo, CFO.

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During this conference call, we will make forward-looking statements to assist you in understanding ICF 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 May 6, 2010 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 2010 highlights. Sudhakar?

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

Thank you, Doug, and good morning, and thank you for participating in today's call. This is Ron Vargo's first conference call in role as ICF's CFO. We are very pleased that he has joined our management team, and look forward to introducing him in person in the coming days.

I'm also pleased to report that our first quarter performance was firmly in line with the guidance we provided. Organic growth was almost 18% for the quarter reflecting the strength of our Federal business, which accounted for 72% of first quarter revenues.

Let me discuss our three markets. Health, Human Services and Social Programs almost tripled when excluding the Road Home program, reaching \$79 million for the quarter or 45% of revenues. This was a result of the Macro acquisition, as well as significant organic growth. Energy, Environment and Infrastructure increased 8% to \$70 million or 40% of revenue, all of which was organic growth. And Homeland Security and Defense was up 22% to \$25.4 million or [50%] of revenues due to the acquisition of Jacob & Sundstrom, the cyber securities firm we acquired in December of last year.

The integration of Jacob & Sundstrom is proceeding well and we are making progress in marketing our joint capabilities to our federal civilian agency clients, as well as our energy industry client base, where there's a significant focus on managing cyber security threats and vulnerabilities.

Our profitability improved in the first quarter. After taking to account the \$600,000 in unusual severance expenses reflected in the results for the quarter, EBITDA margin moved up to 9.4% compared to adjusted EBITDA of 9.1% in last year's fourth quarter. This is noteworthy as it reflects our ability to manage indirect costs as there has not been any meaningful pickup in our non-energy efficiency Commercial business.

On the sales front, this was a typical first quarter from a seasonal perspective. We saw a solid pickup in contract wins throughout the period, and the pace of new awards has accelerated in the second quarter. Our backlog at the end of the first quarter was about \$27 million less than it was at the end of the 2009 fourth quarter, which again is typical of the period.

Funded backlog is 42% of the total, up from 39% of the prior quarter and no contract in our backlog accounted for more than 3.5% of revenues. Our top line is robust reaching \$2.3 billion, up from \$2 billion at the end of 2009.

Now, I would like to turn the call over to John Wasson to provide more details on our operations. John?

John Wasson - *ICF International, Inc. - EVP & COO*

Thank you, Sudhakar, and good morning, everyone. Sales for the first quarter were \$129 million which, as Sudhakar mentioned, was consistent with our seasonal pattern. For the last three years, the first quarter has been our weakest sales quarter. Seasonally, our third quarter is the strongest, followed by the second, then the fourth quarter in sales volume. This pattern is heavily influenced by the pace of the federal government fiscal year.

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As Sudhakar also mentioned, we are already seeing signs that second quarter sales will be strong. In Q1, we won several strategically important projects. The largest project of the quarter was actually a win in the commercial space. We won a new three year \$34.4 million project with a major utility to support construction of a large transmission system.

For this project, we are providing biological surveys, environmental compliance services. This project is important not only for its size, but also because our experience here helps position us for other large utility infrastructure projects that will develop as a function of the growing needs for grid infrastructure throughout the country.

As you know, the department of housing and urban development has been important client for ICF for many years. We were pleased to win again a \$15.7 million contract with HUD to provide independent verification and validation for that agency's IT support contracts. This win reflects our ability to combine domain knowledge with our IT capabilities to continue to win large IT contracts, and it reinforces our track record of deep, long term relationships with several agencies on both the civilian and national security side.

Education and health are among the most important topics that drive public policy and program initiatives at all levels of government. As a consequence, we were pleased to win a \$7.2 million contract that contributes to both public policy knowledge in both topical areas.

Every six years the Centers for Disease Control and Preventions division of Adolescent and School Health conducts a massive school health study that covers all 50 states and the District of Columbia across a broad sample of school districts, schools and classrooms.

The information collected on health, safety, support and community services in the school environment is the nation's largest survey of school and health programs. This is the third time in a row that ICF, through its Macro subsidiary, has conducted this survey, thus reinforcing our survey and research leadership in health and educational markets.

While these are the largest wins, I should again note that our total of \$129 million includes several hundred individual wins in our public sector markets. In addition, there are over 200 wins in the commercial space that range from energy efficiency services to power and fuels market analysis, to air industry strategy and financial studies, although the Transactional Energy and Aviation businesses remain soft.

In terms of business development, we've been very active with Macro, where leveraging our combined capabilities over the past year has resulted in \$40 million in new contract wins over and above the work that either ICF or Macro would have won on their own.

Additionally, at the beginning of the second quarter, we won two significant projects with the Centers for Disease Control and Prevention in Atlanta that represent over \$25 million in revenue, and we will be announcing these details in the next couple of weeks. The pipeline has increased substantially to \$2.3 billion. This comprised of 61 opportunities equal to or greater than \$10 million and 16 opportunities at or above \$25 million.

The pipeline now stands at approximately three times projected revenue for the year; a level that we feel is a healthy benchmark for continued growth. Finally, we are again pleased to report that our turnover rate continues to remain at historical lows. For the quarter, turnover was at an annualized rate of 6.4%.

I will turn the call over to our new CFO, Ron Vargo. Ron, welcome aboard.



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Ron Vargo - *ICF International, Inc. - CFO*

Thanks, John, and good morning. Total revenue for the first quarter of 2010 was \$174.4 million and was comprised entirely of core business revenue. This was a 55% increase over the 2009 first quarter core business revenues of \$112.3 million. And in last year's first quarter \$45.5 million of revenue came from our Road Home contract, bringing the total revenues to \$157.9 million.

This quarter's gross profit increased to \$66.9 million, compared to last year's first quarter of \$58.6 million and our gross profit margin improved to 38.3%, up from 37.1% in the first quarter of 2009.

Indirect and selling expenses were \$51 million in the quarter, up from \$45.3 million reported in the 2009 first quarter, primarily reflecting the additional indirect cost for Macro International and Jacob & Sundstrom, the acquisitions that we closed in March and December 2009 respectively. And you'll see as my comments go along that those acquisitions had an impact on some of the other reported numbers as well.

Amortization of purchased intangibles was \$3.1 million this quarter, compared to \$1.7 million in the first quarter of 2009. And, again, this increase is attributable to amortization related to the Macro and Jacob & Sundstrom acquisitions. And depreciation and amortization for the quarter was \$2.7 million compared to \$1.6 million last year, reflecting both the impact of Macro and of higher levels of capital spending in 2008 and 2009. We currently expect 2010 capital expenditures of approximately \$8 million.

For calendar year 2010 based upon our current portfolio of business, we expect amortization of purchased intangibles to be about \$12.3 million, and depreciation and amortization to run between \$10.5 million and \$11 million.

Interest expense was approximately \$1 million this quarter, up from \$0.7 million reported in the first quarter of 2009, and for the full year we anticipate interest expense of approximately \$4 million. The effective tax rate for the first quarter was 40.8% versus last year's 37.8%. In the first quarter of 2009 we benefited from the positive impact of certain one-time discreet items, and for the full year 2010 we continue to expect our effective rate to be approximately 41%.

Net income was \$5.4 million in the quarter or \$0.28 per share, based on 19.5 million fully diluted weighted-average shares, compared to \$5.9 million or \$0.38 per share, based upon 15.6 million fully diluted weighted-average shares in the first quarter of 2009. We anticipate that fully diluted weighted-average shares for the second quarter of this year and for the full year will be approximately 19.8 million and 19.9 million respectively.

Turning to the balance sheet, our accounts receivables were \$166.9 million compared to \$174.1 million at year end 2009, representing 86 days sales outstanding at March 31st compared to 90 days at December 31st. And, if you deduct deferred revenue from these periods the adjusted DSO would be 78 days at March 31st versus 80 days at December 31st '09. And we continue to anticipate DSOs in the long term to be at our 75 to 85 days historical average.

Our revolving debt balance was \$135 million at the end of March, compared to \$145 million at December 31st, a decline of \$10 million as we expected. Cash flow from operating activities was \$15.9 million and we had cash capital expenditures during the period of about \$1.5 million, reflecting our continued investments in corporate infrastructure.

Than you. And with that, I'd like to turn the call back over to Sudhakar.

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

Thank you, Ron. As you saw from today's release we're looking ahead to another strong quarter. For the second quarter we expect revenue to range between \$187 million and \$192 million, representing 13% to 16% organic growth. Earnings per diluted share are expected to be between \$0.33 and \$0.36.

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We are pleased to reaffirm our guidance for the full year 2010 which calls for core business revenues of \$740 million to \$775 million, representing year-over-year growth of 21% to 26% organic growth of 11% to 16% EBITDA margin, or 9% to 10% and diluted EPS of \$1.33 to \$1.43.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Joseph Vafi with Jefferies & Company. You may proceed.

Joseph Vafi - Jefferies & Company - Analyst

Hi, guys. Good morning. And, Ron, welcome aboard. I was wondering if we could talk about some of the bookings activity you saw in Q1 and so far in Q2. Just if you could give us a little more color by industry or by governmental agencies -- we've seen a lot out of the DoD from other companies here this quarter.

I was wondering if you could give us a flavor of bookings strength and award activity strength in some of the civilian agencies versus the government. And then, I think you said that energy was strong in the private sector, but others weren't that strong.

Sudhakar Kesavan - ICF International, Inc. - Chairman & CEO

I think that -- Ron, just to give you some color, I think fundamentally most of our strength has been -- there have been strong bookings in health -- in the overall health arenas, especially in HHS agencies. Energy efficiency continues to be strong and we also continue to win environmental work -- the big \$34 million contract which we won on [environmentally impact] assessments for a utility, as if they were transmissions facility.

So, I think that we see a lot more activity in those areas going forward and that's where think we will continue to do well. So I think in the civilian agency space, I think the health is good, energy is good. Environment -- we are seeing a lot more activity, both in government as well as in the commercial space.

I would also add that education and housing are areas where we see great promise and we are well positioned in both those areas as we move forward. So I think -- I don't know where that gives you enough overall sense of where we're going. But I think -- let me repeat, health, energy, some environment, certainly strong in education and housing.

Joseph Vafi - Jefferies & Company - Analyst

And your DoD business -- Sudhakar, how is that tracking these days?

Sudhakar Kesavan - ICF International, Inc. - Chairman & CEO

DoD is flat. We continue to see in sourcing issues there. We're certainly trying hard to deal with that, but DoD is not a place where we're seeing a lot of activity at the moment.



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John Wasson - *ICF International, Inc. - EVP & COO*

Though I would add, I think there are some aspects of DoD that we are focused on, I think particularly around the more health related issues, returning veterans, Yellow Ribbon related programs, family issues for returning veterans. And so, I think the health and family issues we're seeing opportunities, but certainly the DoD market as Sudhakar said been flat.

Joseph Vafi - *Jefferies & Company - Analyst*

Right, okay. Just wanted to get a little color on that. And then if we come to look at the sequential increase in revenue -- I know obviously you've got more of a -- your revenues are a little bit more, a function of your bookings and bookings strength throughout the year.

Would you say that a lot of sequential uptick here to the revenue guidance for Q2 versus a Q1 actuals is a function of some of these large contracts that you've highlighted here this morning, including your utility win here in environment? Is that what's driving the sequential increases here, or are there other things that we should be aware of that are kind of converting out of the backlog here in Q2?

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

If you recall, Joe, we had said that we entered the year with 69%, in the last earnings call -- if you look at the transcript, 69%. So, we had pretty strong backlog coming into the year. Every win helps, but none of the wins which you've explicitly stated here are going to make a huge difference in the second quarter.

So there is -- we have good momentum coming into the year and I think we are just continuing to work the backlog and make sure that we work off some of that backlog, and hopefully add to it in the second and third quarter going forward.

John Wasson - *ICF International, Inc. - EVP & COO*

But I would just add, if you recall the third of last year, we had record sales by a significant amount. And I do think we are -- you are seeing now the effects of really ramping up some of those major implementation programs and we're hitting stride on those. And I would agree Sudhakar, he contracts we've won in the last quarter, we will be ramping up in the next quarter -- several quarters.

Joseph Vafi - *Jefferies & Company - Analyst*

Okay, great. Thanks very much, guys.

Operator

Your next question comes from the line of Michael Lewis with BB&T Capital Markets. You may proceed.

Michael Lewis - *BB&T Capital Markets - Analyst*

Good morning. Thank you for taking my question and, again, welcome to Ron. Let me just follow up on one of Joe's questions. CDC contract -- the two CDC contracts came in at around \$25 million. That's good for bookings in the second quarter, but I wanted to talk a little bit more about some of the other moving parts of bookings for the second quarter, and what your expectation will be for book-to-bill by the end of next quarter. Can you talk a little bit around that?



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

Yes, as we -- as I think John stated in his conference call remarks, second and third quarter bookings traditionally are stronger. So, we certainly expect that the second and third quarter numbers book-to-bill ratios would be much higher than what they were in the first quarter. And as we demonstrated last year, the third quarter bookings were very high -- the book-to-bill ratio in the third quarter of '09 was very high.

So, I think that we certainly expect the book-to-bill ratio to go up in the second and third quarter and then go down again in the fourth quarter, as is the traditional seasonal pattern. We don't report the book-to-bill numbers, but we certainly report the backlog numbers.

And I think that you have seen again an uptick in the funded backlog elements going forward. So I think that, we certainly hope that -- and we've seen signs in the first month that the backlog numbers for the second quarter will be strong. So, we've just given you two examples of CDC because those are -- that is an area where we think that they'll be -- continue to be strength. But I think the -- we're optimistic about bookings in the second quarter.

Michael Lewis - *BB&T Capital Markets - Analyst*

Okay, so trends essentially remain in line with the past. Let me shift gears to EBIT margins very quickly. Was there about a 30 basis point impact to the EBIT as a result of the severance payment in the quarter? Are there any other issues related to the core business on margin basis?

For example, we are witnessing some pricing pressures in the DoD area and albeit, this is a smaller portion of your revenue pie, I just want to kind of get an update on whether you are experiencing some of the same things as some peers are out in that portion of the revenue stream.

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

No, I think that we haven't seen anything which will concern us at the moment. I think we are in areas where some of our comparables are not, and we hope to continue to be in areas where some of our comparables are not, so that we don't experience these pressures. So, I think that we are okay.

We haven't changed any of our pricing strategies or anything going forward. I think we continue to do well on our pricing issues. So, I think we are quite pleased with even our current pipeline and the bid pricing we have in the current pipeline.

Michael Lewis - *BB&T Capital Markets - Analyst*

And new margin impact in the quarter?

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

Yes, I think that you will see -- if you look at the -- if you work the math on the guidance for the second quarter, you'll see that the -- that our margins are consistent with the margins after the impact of severance. So, I think you'll basically see that these will -- our EBITDA will move higher and we certainly hope to keep moving them higher, but clearly the commercial markets have to come back for us to get to the 10% number as I've said many, many times. But I think the margins certainly are moving up.

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Michael Lewis - *BB&T Capital Markets - Analyst*

Got you. That's what I was looking for. Thank you very much.

Operator

Your next question comes from the line of Tim McHugh with William Blair & Company. You may proceed.

Tim McHugh - *William Blair & Company - Analyst*

Yes, good morning, guys. First can I ask, the two CDC contracts, what was the length of those -- the \$25 million of revenue? Was that over one year, or over a couple of years?

Unidentified Company Representative

Those are multiyear contracts. I don't remember the specifics. I think, typically three to four year contracts, I believe.

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

Tim, we will be releasing press releases on those --

Unidentified Company Representative

-- press releases in the next couple of weeks.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And then can you update us on the acquisition environment as you look out there? Your balance sheet -- you had good cash flow here, so it's getting even stronger and it should give you some room to consider some opportunities.

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

Yes, we are -- as you know, Tim, we are always looking for opportunities. We clearly have as you have seen in the past, as we have done this acquisition we do them in areas where we have great strength so that we can mitigate the risk associated with any acquisition in terms of the broad areas.

And so, we are constantly looking for to convince companies and we have multiple conversations on at any one time, and we only want to do those which we have fit in. We don't have any specific things to report at the moment, but we certainly are quite active on that front.

It's all up to us to convince companies to become part of our platform, and I think that's what our intent is. We have seen an uptick in the number of books we get from the bankers, but that is helpful but not necessarily inclusive that will help us do any acquisition because unless it fits we won't do it.

So, I think the -- at the moment we are looking actively, pounding the pavement and making sure that we touch base -- but, we have nothing to report at the moment.



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Tim McHugh - *William Blair & Company - Analyst*

What is the competition as you are looking at these opportunities? Are you seeing the pressure on the DoD side get some of your competitors to be more aggressive and competing for these deals, or and -- have you not really seen much of a change?

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

We certainly -- some of the DoD folks are looking or knocking around, but I think culturally it's very hard for these DoD folks through the acquisitions we do because the cultural fit of a energy efficiency company or an environmental services company or a health policy company is very different from the culture fix which -- the culture within these organizations.

I am not commenting on the culture, I am just saying that the fit is very hard. And I think that is -- certainly price plays the role. And we will always -- if you sign a big check it will always make a difference. But I am not -- I do not believe that that is going to be the constraint for us.

I think for us it's a question of finding the best fit and filling the gap in our existing environment -- existing client base, and I think that is what we are focused on. There is definitely a knocking around. I think we also see private equity firms also out there, but we believe that we can overcome those hurdles, it's a question of fit with us and what gap does it fill.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And lastly, your comment about the Commercial business excluding the energy efficiency stuff not really rebounding yet. Are there any signs of life there, or signs of optimism? Or, does it remain a pretty subdued market that you won't expect much improvement for the rest of the year, let's say.

Unidentified Company Representative

Well, I would say as we noted, certainly the energy efficiency remained strong, I think for the transactional energy side of the business and the commercial aviation, I would say it remains subdued it remains soft. We really haven't seen signs of significant improvement there based on the first quarter. So, I think we are -- we certainly haven't seen -- we are not seeing signs based on the first quarter of improvement.

Tim McHugh - *William Blair & Company - Analyst*

Okay. Thank you.

Operator

The next question comes from the line of Tim Quillin with Stephens Incorporated. You may proceed.

Tim Quillin - *Stephens Incorporated - Analyst*

Good morning, nice quarter.

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

Thank you.

Tim Quillin - *Stephens Incorporated - Analyst*

In terms of the margins and -- sequentially you might see from your 2Q into 3Q and 4Q is that mostly a function of just leverage on your overhead?

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

I didn't follow the question.

Tim Quillin - *Stephens Incorporated - Analyst*

The EBITDA margin -- do you expect the EBITDA margins to be I think roughly flat with 1Q and your second quarter, but I think you expect -- I think your guidance implies some gross margin - or some excuse me, some EBITDA margin in 3Q and 4Q as well, or maybe I am wrong. You tell me.

Unidentified Company Representative

I guess I would say, obviously, we would expect improved utilization as we go into Q2, Q3 as we grow on the organic side. So, that should certainly drive up the EBITDA margins through improved utilization. So, I think that's going to be the primary driver in terms of improved EBITDA the next several quarters.

As we said, I don't think we are seeing the pickup on the commercial side so we are not going to -- we won't see the -- we won't see improvement from the commercial side, but we will certainly get it from the organic growth on the federal side.

Tim Quillin - *Stephens Incorporated - Analyst*

And so, what might you expect to be exiting -- what kind of EBITDA margin which you expect to be exiting the year at, assuming that the Commercial business does not bounce back?

Ron Vargo - *ICF International, Inc. - CFO*

Yes, this Ron Vargo. We maintained our range of 9% to 10% and were -- at this point, at after three months in the year, I don't think we are going to try to fine tune that any more than that range. But I think, as John said, with better utilization in Q2 and Q3, you should see overall the financials improved on a sequential basis from Q1 to Q2 and we expect second half obviously to be better than the first half.

Tim Quillin - *Stephens Incorporated - Analyst*

Right. And just generally, Sudhakar, so the market it seems like the market is becoming more challenging, we have this freeze and lot of federal civilian agencies and maybe exceptions, but how do you feel about long-term growth in terms of achieving your double digit growth goal over the next few years? Is it still a target rich environment for you? Thank you.

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

I guess the premise of the question I would disagree with a little bit, as I have emphasized, when there is a freeze over a \$500 billion budget that is sort of interesting to us, but we are little fly in the overall scheme of things. And we believe that in areas where we have strength there is going to be continued strong spending.

So, the freeze is obviously an important aspect if we were a \$30 billion company, but we are not; we certainly hope to one day, but we are not yet. And so, to the extent that we are in the areas we are in, we believe that is going to continue to grow. Our pipeline as expanded as you have seen, it is up to \$2.3 billion. We see lots of possibilities to bid on.

So, we haven't seen any constraints on the number of opportunities which we have -- which constrain us, the healthcare reform bill passed. I know there was a lot of skepticism last time in the call whether -- and in some of the conversations I have had, where people wondered what will happen there. there is enormous opportunity in health informatics and comparative effectiveness research, prevention and wellness, obesity issues.

So, in the overall health arena, there is lots of work is going to happen. And then in addition, I pointed out education, housing, energy. So I think the premise of the question is a good one in a very macro view, but when we look at -- when we do our work and we maneuvered a bit on specific RFPs, we do it on specific RFPs and we think there are lots of places where we can bid on.

Tim Quillin - *Stephens Incorporated - Analyst*

Perfect. Thank you.

Operator

Your next question comes from the line of Bill Loomis with Stifel Nicolaus. You may proceed.

Bill Loomis - *Stifel Nicolaus - Analyst*

Hi, thanks. Good quarter, guys. Just looking at the focusing on state local and then commercial, can you tell me what the percentage of revenues those were in the quarter? And then first, on state and local -- and then I will have a follow up on commercial, but on state local what are you seeing there, any growth opportunities other pressures related to budget?

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

Percentages on state and local - let me see. State and local --I am just looking, just to make sure it was ten

Ron Vargo - *ICF International, Inc. - CFO*

I'll jump in. Yes it's Ron. I've got it handy here. Yes, state and local was 10% of revenues and domestic commercial was 14%, international is 4%. So, as I think we alluded to earlier federal government continues to dominate at 72% of the total revenues in the quarter.

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

The state and local markets actually are okay. They are not as without life as the commercial markets. In fact, the state and local for us is -- in fact, there are signs of life. So, I think that state and local actually we are okay with. It's not -- and I think some of the stimulus dollars are starting to flow to the state and local markets, and therefore we are seeing some more activity there.

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So, I think that in the state and local arena certainly there is activity and there are signs of life.

Bill Loomis - *Stifel Nicolaus - Analyst*

So, is the state and local -- is it showing any single digit organic growth or where do you stand on that? And then also how profitable is it relative to the corporate average?

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

I think, the state and local --. Do you want to take this?

Unidentified Company Representative

No, I guess I will say this -- state and local -- I will say we are seeing single digit organic growth. The ICF Jones & Stokes acquisition, I think will certainly show -- will return to growth this year. I think that large transmission project that we mentioned in our remarks, we will work with them - (inaudible) them, and so that will certainly return into both at this year.

I think the profitability is typical for rest of ICF there is nothing unusual there.

Bill Loomis - *Stifel Nicolaus - Analyst*

But I mean it's not double digit margins or anything like that at the corporate average?

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

Bill we have never talked about specifically the State and Local business, so we're hesitant to tell you exactly what it is, but I think we are happy with the margins. And I think that if the market -- if the opportunities are -- that we have reasonable opportunity. So, why don't we leave it that?

Bill Loomis - *Stifel Nicolaus - Analyst*

On the domestic commercial at 14% of revenues, obviously you have areas that's strong with energy efficiency, but how much of that domestic commercial would be there troubled areas that you see in terms of transactional systems -- and on the energy side and transportation? And when you say you are not seeing any life, is that business declining or is it some RFPs out there? Where do you stand on that?

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

I think that its 3% or 4% of our overall business. I'm (inaudible) a guess, so don't hold to me the number, but it is around that magnitude. And I think that clearly -- we are holding on our, it's not like that we are the only ones who are goofing off, it's just that the whole world is sort of coping with these issues. And we -- basically, there is work there and we continue to do some stuff, but it is not healthy as it was 18 months ago.

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

This is Doug, I just want to remind you that in any given quarter, again, we had about a couple -- almost a couple of hundred wins as John mentioned in the commercial sector and a little bit more than half of those were in the energy sectors. So, there is still work there, but it's just obviously not at the pace that we would like to see.

Bill Loomis - *Stifel Nicolaus - Analyst*

And then, Sudhakar, when you said 3% to 4% is that the percent of revenue that would be in the slower growth commercial areas? Is that what you are saying?

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

Yes.

Bill Loomis - *Stifel Nicolaus - Analyst*

And then is it growing, or is it not growing that 3% to 4%?

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

I don't know how many ways I can say it, it is -- we have said that is little signs of life so --.

Bill Loomis - *Stifel Nicolaus - Analyst*

So, not growing -- okay. I mean -- I know that's usually very high margin business that lack of growth I guess is that putting a significant pressure on the overall commercial margins?

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

We've managed the Commercial business reasonably carefully. So the margin clearly are good in the Commercial business, but if it was not flat -- let me explicitly come out and say that -- after it was growing then our margins would be -- the proportion would be higher and makes a big difference to our margin.

So, I think the -- its not any more pressure than it has over the last three or four quarters, but it certainly could help diminish the pressure if it cranked up.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay.

Ron Vargo - *ICF International, Inc. - CFO*

And I just would want to again state the if you take a look at overall Energy business including the energy efficiency portion of the Commercial business the totality of our Commercial Energy business is growing, its growing double digit. Because our --energy efficiency continues to perform very strongly; it certainly is case of the transactional portion of the Commercial Energy business.

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And the Commercial Aviation business is flat, and that's where when those markets return either -- a certainly upside there.

Bill Loomis - *Stifel Nicolaus - Analyst*

Right. And that's the upper end of your 10% EBITDA guidance ranges is those business coming back more strongly in the second half, correct?

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

Correct. Yes.

Bill Loomis - *Stifel Nicolaus - Analyst*

Thanks.

Operator

Your next question comes from the line of Tobey Sommer with SunTrust. You may proceed.

Frank Brown - *SunTrust - Analyst*

Hi, this is Frank in for Tobey. My first question had to do with organic growth in the guidance; I guess you posted about 18% this quarter, you mentioned some strong signs of strong contract wins. Your guidance was 11% to 16%, is there some conservatism build in that? Or, what might cause that kind of be in a little bit of lower range?

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

11% to 16% is for the year, we have given you 13% to whatever -- 16% for the second quarter which includes Macro, which is well within the range of what we gave you for the year. And I know there was concern a year ago about the Macro and that fact that it was flat and wasn't growing.

So clearly, we expect the combined business to grow 13% to 16% because of the first quarter Macro will be in on an organic growth basis year-over-year. So, we just had three months of -- and we did 18% in the first month, but when you weight it across the year, I think it will be within the range, So, I don't believe there is anything conservative. In fact if we -- it's a reasonable number, we expect certainly to make the numbers and be within the range.

Ron Vargo - *ICF International, Inc. - CFO*

Yes I will just add -- maybe a little more color that, obviously with the Macro acquisition when we acquired them they were outstanding company, highly profitable, but have been flat for several years. And I think one year into the acquisition now, I think we have confidence going forward that we can grow them on a double digit basis.

And so, I think we have come a long way with Macro, and I think double digit growth from Macro is build into these numbers, and I think we see more upside over time. But, I would say that we have come a long way with Macro in the past year. As Sudhakar said going forward from second quarter on they now will be our organic growth numbers.

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Frank Brown Great, that's helpful. And I wanted to ask, are you seeing changes in trends in terms of the bidding and proposal cost, or just tone of the procurement environment?

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

No I think we haven't seen anything different in the procurement environment. We are bidding on larger things and as you bid on larger things you see bigger competitors, but that's because we have stepped up. But other than that, I don't see any trend change or anything.

Frank Brown Okay. And then lastly, maybe the -- touch on the hiring environment, you had a nice low turnover rate this quarter, how is -- things working out in the hiring side? And also was there any impact of weather in the quarter?

Unidentified Company Representative

On hiring front, I think we have a robust recruiting program, I think we work up a pipeline constantly. I think we are finding the staff we need and we are working that very hard, so I don't notice any change in the recruiting environment. Our ability to track top talent, I think we continue to do well there. In terms of the weather I think we believe at the end of the day it had very little -- no material impact on us in the first quarter.

Operator

(Operator Instructions)

Our next question comes from the line of Ed Caso with Wells Fargo Securities. You may proceed.

Chris Whitman - *Wells Fargo Securities - Analyst*

Hi, good morning. This is Chris Whitman for Ed Caso. Can you compare the level of pass through in macro this quarter versus last quarter and how should we think about that going forward, should we expect some improvements throughout the year?

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

Just one moment -- let me just -- let's just find out as to what it was.

Ron Vargo - *ICF International, Inc. - CFO*

I think overall levels of pass-throughs were down quarter-over-quarter I don't have -- this is Ron again. I don't have the breakdown, and can't really speak to the reason for macros impact on it, but first quarter was a little lower than normal on pass-throughs.

Chris Whitman - *Wells Fargo Securities - Analyst*

So, it should maybe pick up I guess a little bit going forward throughout the year? Just trying to get a flavor of that. Did you show some improvement?

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Ron Vargo - *ICF International, Inc. - CFO*

Yes.

Unidentified Company Representative

-- Q2 and Q3 showed some improvement.

Ron Vargo - *ICF International, Inc. - CFO*

Yes.

Chris Whitman - *Wells Fargo Securities - Analyst*

Okay, thank you. And outside if stimulus driven initiatives how did you characterize the tone of demand in state and local -- I guess trying to think -- assuming a flat economic environment I guess the tail of stimulus funds kind of tail off, how should we be thinking about that? Or, how are you thinking about it?

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

We basically -- the stimulus money in the overall scheme of things is not very large, as I pointed out in the prior conference calls, I think the stimulus monies are about maybe \$75 million or \$80 million over four or five years is what we will get out of it. We -- I think the -- we believe that these monies will last for the next year or two, in fact.

And we certainly hope that the infrastructure environment as the infrastructure investments continue transmission lines are built, pipelines are built and all that sort of stuff happens there is a certain momentum associated with it going forward.

So, we certainly think that the -- once these expenditures start in these areas that the economic situation in the state and local arena over the next two years will improve and their fiscal situation will be better, so that those markets sort of come back to some extent.

But we think that the stimulus money that at least in the state local arena will continue to stimulate demand over the next 18 to 24 months because it's actually just started -- we are always wondering where the stimulus moneys are, well they are just starting to flow.

Chris Whitman - *Wells Fargo Securities - Analyst*

Sure okay. And, Sudhakar, can provide us with an update on your expectations around the climate build this year, it seems as though we are close to same one a few weeks ago?

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

I know I am in Washington, but I read the same news as you do. I think we have spoken to our folks who work the -- who understand the politics of the situation better. I don't think anyone can say explicitly -- three or four months ago no one knew whether the healthcare reform will pass.

I remain optimistic about the fact that something is going to happen on the energy side going forward. My sense is -- actually this on a pure speculation and my personal opinion that immigration reform is unlikely to happen in a hurry. And I think President

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has said that and I think some of the important policymakers on - Senate and the Hill have indicated that. So, I believe that as immigration reform is not on the fast track then the energy bill will move forward. So, again, don't bet any money on what I am telling you.

Chris Whitman - Wells Fargo Securities - Analyst

Okay. And lastly, I guess as the Gulf spill that has happened here -- I mean is that an opportunity potentially for ICS? I know you have a remediation business.

Sudhakar Kesavan - ICF International, Inc. - Chairman & CEO

Its one of these things were we are not doing anything on the oil spill at the moment, we certainly hope that it gets capped because it is a -- but all these things take time. And if there is some work we do on it I am sure it will happen, but it's just -- I think this is just the beginning.

Whenever there is major mammal disaster like this -- there is lots of stuff the government does, but it takes a while for the government to get -- to understand the needs and what they want to do. Just as in the case of the earlier hurricanes and other things, the work happened quite a few months after the disaster.

So, I think that we are clearly following the situation and we are certainly assistance the federal government wants. But, right now, we are not doing anything.

Chris Whitman - Wells Fargo Securities - Analyst

Thanks for taking my questions.

Operator

There are no further questions. I will turn the call back to management for closing remarks. Please, proceed.

Sudhakar Kesavan - ICF International, Inc. - Chairman & CEO

Well, thank you for joining us. We look forward to seeing you next time -- next earnings call in August. Thank you.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect, and have a great day.

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