THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ICFI - Q1 2012 ICF International Earnings Conference Call

EVENT DATE/TIME: MAY 02, 2012 / 9:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

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

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

Sandy Murray *ICF International Inc. - Interim CFO*

CONFERENCE CALL PARTICIPANTS

Tim Quillin *Stephens Inc. - Analyst*

Bill Loomis *Stifel Nicolaus - Analyst*

Tim McHugh *William Blair and Company - Analyst*

George Price *BB&T Capital Markets - Analyst*

Tobey Sommer *SunTrust Robinson Humphrey - Analyst*

Rick Eskelsen *Wells Fargo Securities - Analyst*

PRESENTATION

Operator

Welcome to the ISC International first Quarter 2012 Conference Call. (Operator Instructions) As a reminder this conference is being recorded on Wednesday, May 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, Senior Vice President 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 first quarter 2012 performance. With us today from ICF International are Sudhakar Kesavan, Chairman and CEO, John Wasson, President and COO and Sandy Murray, Interim CFO.

During this conference call we will make forward looking statements to assist you in understanding ICF managements' 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 2nd 2012 press release in 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 late. 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 Kesavan.

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

Thank you Doug. Good afternoon and thank you for joining us today. ICF's solid first quarter performance was driven by the relative strength of the diversified markets we address, our business mix and the benefits of our acquisition strategy. We expect these drivers to continue to provide ICF with the resilience to produce double-digit revenue and earnings growth in 2012.

First quarter results were in line with our expectations and we were pleased to note that both of our recent acquisitions performed as expected. Similar to 2011 revenue growth was led by our commercial business which was up 51% year on year reflecting double digit growth in our legacy commercial business and the addition of our Ironwork acquisition.

Federal government growth of 6% reflected a mix of legacy and acquisition growth and the 23% increase in the state and local business was due primarily to additional infrastructure project management work. We also achieved strong growth across our two largest market groups, energy environment and infrastructure was up 25% and we reported a 19% increase in health social programs and consumer financial which we re-named to reflect our increased scale in the consumer financial verticals since the Ironworks acquisition.

Operating income grew at a faster pace than revenues even after our accounting for acquisition costs and a higher amortization expense related to a full quarter of the Ironworks acquisition and one month of the GHK transaction.

This growth and profitability levels that reflect the changing mix of our business and efficient execution. When you consider the track record of our legacy commercial business over the last five quarters and you add in the Ironworks acquisition there is substantial increase in commercial business as a percentage of our total revenue.

The rapid growth in our commercial business outstripping the single digit growth of our government work and we expect that our operating income and EBITDA [unintelligible] will continue to benefit from this shift.

This change is particularly important because it enables us to post double-digit revenue and earnings growth despite the current headwinds in federal spending. This is a similar situation to appear three years ago when we were transitioning from the road home contract. At that time our domain expertise in critical areas of health, social programs, energy and infrastructure combined with the benefits of acquisitions, not only enabled us to absorb the revenue fall off of that contract but also continue to grow at a rapid rate.

Today we remain very well [unintelligible] vis a vie client spending within our largest market. For example, in health, where we are well recognized for both our advisory and implementation capabilities, there is strong demand from the federal government despite budgetary pressures. Forecasts call for significant long-term growth, a 7.5% compounded annual growth rate for federal healthcare IT market over the next five years.

We have substantially broadened our IT qualifications thanks to our experience in working on large implementation projects and this has put us in an excellent position to bid for a wider range of government contracts.

Another example is energy efficiency. We work with federal, state and local governments and commercial clients. Total energy efficiency budgets, according to a survey done, [technical] electric efficiency, grew 20% in 2011 compared to 2010 and our [unintelligible] market in this sector is around $1.5 billion.

A word on our recent acquisition, the addition of Ironworks has broadened our implementation service offerings in the fast-growing digital interactive space and we are in the process of cross-selling these services to our existing clients.

Additionally, Ironworks has strategic advisory capabilities in the commercial health sector that we intend to invest in and build. Also, we are seeing good growth prospects from our GHK acquisition which we began to integrate in the last month of the quarter.

We now have more than 115 professionals serving the fast growing Asian market from Beijing, Hong Kong, Singapore, Bangkok, Manila and New Delhi, as well as over 160 professionals in Europe including a highly experienced business development team that can leverage ICF's qualifications and experience for work with European and Asian clients.

At the same time we had a strong backlog at the end of the first quarter of $1.7 billion, of which 44% or $742 million was funded representing a diversified mix of contracts across our key markets.

Our new business pipeline was a record $3 billion at the end of the first quarter. I would now like to turn the call over to John Wasson, ICF's President to provide you with more insight into our operating performance. John.

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

Thank you, Sudhakar, and good afternoon everyone. This past quarter we had a good rate of sales given that the first quarter is normally one of our seasonally slow quarters. Our $233 million in sales represented 7.2% year-over-year growth and was well distributed across all of our markets showing strength in both the government and commercial side as reflected on our increase in funded backlog.

Many of our major sales continued to be in the energy efficiency space where we announced three of our largest wins valued at a total of up to $48.5 million. These contracts were a mix of new contracts and extension of existing work with major utilities. This mix reflects our market strength in continuing to capture new work and our ability to delivery successfully on complex programs such that we can secure extensions and expansion of existing work.

Although these were the largest sales in the commercial space this past quarter, I should again underscore that more than 300 commercial wins were logged, representing a well diversified range of our commercial service areas. In addition to other wins in energy efficiency these included environmental management, regulatory assessment for utilities, aviation and airport consulting and survey research and analysis for non-profits.

The addition of Ironworks has brought important new segments of commercial sales including interactive data applications in commercial health, retail, manufacturing and distribution and for non-profits. Their sales in the commercial space continue to be healthy and I will address joint efforts with both of our new acquisitions in a moment.

On the federal side, we are continuing to log sales at a good pace for a first quarter and the pipeline continues to be strong. Contract wins were well represented in all of our federal markets. Among the largest in public health we won an important $15.8 million contract for the Center for Disease Control to continue the design and implementation of critical benchmark surveys on youth-at-risk behaviors, thereby reaffirming our leadership in this important area of public health.

At EPA we won two contracts valued at a total of $39 million to continue our long history of supporting the energy star program and providing analytical and modeling support for the development and evaluation of mobile source emissions from any equipment that moves, such as vehicles, locomotives and aircraft.

Our acquisitions of Ironworks and GHK have been proceeding very well. We have already fully integrated ironworks financial systems into ICFs and developed numerous joint strategy and business development teams. Both company's financial progress is on track and we are enthusiastic about the joint possibilities we foresee.

At Ironworks on the commercial side, we had focused initially on jointly leveraging our capabilities in the commercial health and energy space where we are trying great synergies between our domain knowledge and their technical capabilities and added customer relationships. Joint client calls and proposals are well underway and similar efforts are underway on the federal side where we are focusing on telling the digital interactive story to legacy ICF clients.

At THK under [Jean Townen]s leadership as part of our new Europe Asia group we have created joint market focused teams to identify specific strategies and the way forward in such areas as international development, energy efficiency, climate change, transportation and social programs. We have already submitted a number of joint bids including bids adding ICF qualifications for specific areas within the EC directorates and have logged some early wins in client change, adaption and in ports and aviation. We are pleased with the early progress in this group.

As Sudhakar noted our pipeline has grown to a record $3 billion. In addition to continued growth overall we're also seeing more large opportunities. This pipeline includes 27 opportunities valued at $25 million or greater and 43 at $10 million or greater.

Finally our turn-over rate continues to be low. Beginning this quarter we will be reporting our turn-over in a slightly different way. You have been aware that our strategy of increasing our skills and implementation requires the operation of some back office infrastructure such as call centers and rebate processing facilities, many of which are being located at our new facility in Southern Virginia. Employees for these functions tend to be more seasonal with a different turn-over structure than the rest of the company. We believe that a more accurate picture of our turn-over rate would be to focus on the 97% of our employees who are not part of those business process operations. On this basis, for the first quarter the turn-over rate was a low 2.1%.

Now I would like to turn the call over to our interim CFO, Sandy Murray. Sandy.

Sandy Murray - *ICF International Inc. - Interim CFO*

Thanks John. Good afternoon everyone. Revenue for the first quarter was $227.6 million, a year-over-year increase of 17%. This year's results included a full quarter contribution from our Ironworks acquisition and one month of our GHK acquisition which closed on February 29, 2012. Excluding these acquisitions organic growth was 7%.Gross profit margin was 38.4% similar to last quarter's 38.6% but below the 39.3% of last year's first quarter when we had the impact of performance incentives.

Indirect and selling expenses as a percentage of revenues declined to 28.9% from 29.7% in the first quarter of 2012. Indirect and selling expenses were $65.9 million in the quarter, an increase of 14% over last year's first quarter including $600,000 in acquisition related expenses. Out EBITDA margin was 9.5%, similar to last years. Adjusted to reflect acquisition expenses of $625,000, EBITDA margin was 9.8%.

Depreciation and amortization was $1.8 million this quarter compared to $2.8 million in last year's first quarter. In part due to a change in the estimated useful life of certain technology related assets, and partially due to other assets that had been fully depreciated as of March 31, 2012. Amortization of purchased intangibles was $3.5 million in the first quarter, up from $2.4 million last year. The increase was attributed to our recent acquisitions and in line with our expectations.

Operating income in the first quarter was $16.2 million, an increase of 21% over last year's first quarter, and operating income margin was 7.1% up from 6.9% in the 2011 first quarter. Interest expense increased $700,000, reflective of our higher average debt balance. The effective tax rate in both quarters was 40%. Net income was $8.9 million in the first quarter, up 16% from last year's first quarter and diluted earnings per share was $0.45 up from $0.39.

Primarily as a result of the acquisition of CHK, our long-term debt increased $152 million from $145 million at December 31, 2011. We ended the quarter with a debt to capital ratio of 27%. Cash flow from operating activities was $11 million for the quarter. Day sales outstanding for the quarter including the impact of deferred revenue and excluding THK was 78 days compared to 74 in the prior year. While there is some impact from the increase in our commercial business, we believe this number will normalize in the 70 to 75 day range in remaining quarters of the year.

Capital expenditures in the quarter were $5.6 million primarily reflecting the opening of our Martinsville operations center and the consolidation of several of our Maryland offices in Rockville.

Now, to update you on our full year 2012 expectations for certain line items. We continue to expect the amortization of intangibles to be approximately $14.3 million to $14.8 million subject to change based on final purchase price allocations for acquisitions.

We are lowering our estimate for depreciation and amortization expense to a range of $11 million to $11.5 million from $12.6 million to $13.1 million due to a change in estimated useful life of certain technology related assets and the timing of capital expenditures.

We are slightly raising our expectation for interest expense of $4.3 to $4.7 million from $4.1 million to $4.5 million. We continue to expect capital expenditures ranging from 15.4 million to $16 million, a full year tax rate of 40% and fully diluted rated average shares for the year of $20.2 million.

Thank you and with that I'd like to turn the call back over to Sudhakar.

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

Thank you, Sandy. Based on our current backlog and our new business pipeline we continue to expect to achieve significant growth in 2012. For the second quarter we expect revenues to range from $247 million to $253 million, which at the midpoint is equivalent to 17.2% growth, and earnings per diluted share to range from $0.52 to $0.56, representing 20% growth at the midpoint.

To reaffirm, our full year guidance which calls for revenues in the range of $1 billion to $1.04 billion and fully diluted earnings per share of $2.05 to $2.15. Additionally we continue to be a strong cash flow generating company and for full year 2012 we expect cash flow from operating activities to exceed last year's $60 million.

Operator I would now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And your first question comes from the line of Tim Quillin of Stephens Inc.

Tim Quillin - *Stephens Inc. - Analyst*

Hey, good afternoon. You may have said this, or maybe you have it at the tip of your fingers there, but I'm wondering on the growth rates between the U.S. commercial, U.S. federal and state and local that you gave, what's the organic rates for each of those lines?

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

We've not traditionally, not given our organic growth by line. We traditionally give organic growth overall for the Company, so we have not done that. But I think a good approximation would be -- not for the state and local but for the commercial and for the government business, sort of half and half.

Tim Quillin - *Stephens Inc. - Analyst*

Okay, no that's fair. And, I think last quarter, you had talked about mid single-digit growth for the federal business. I mean, there's a lot of choppiness and uncertainty out there, I mean do you feel good about -- still feel good about that 5% growth level or where do you think that will shake out?

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

Yes, I think, you know, we did mid single-digit this time, we expect things to remain sort of the same for -- going forward, unless -- you know and if things change we'll certainly tell you. But at the moment I think we are okay.

Tim Quillin - *Stephens Inc. - Analyst*

Okay, and Sandy, on the D and A, the full year guidance of 11 to 11.5, I guess assumes that it pops up quite a bit from the 1Q levels. What's driving that and does it immediately pop up in 2Q?

Sandy Murray - *ICF International Inc. - Interim CFO*

In Q2 I think it will be about the same level. So the 11.5 -- the 11.0, 11.5 million that we are citing is for the full year, and you know the -- we brought it down from our guidance previously. So --

---

Tim Quillin - *Stephens Inc. - Analyst*

-- So to make sure I have the right numbers, but I think it's $1.8 million in the first quarter—

Sandy Murray - *ICF International Inc. - Interim CFO*

-- Right.

Tim Quillin - *Stephens Inc. - Analyst*

-- So that would be kind of a $7.2 million run rate, so I guess that would assume there's some kind of depreciation coming on in the back half of the year?

Sandy Murray - *ICF International Inc. - Interim CFO*

Yes, you know, we will be making -- because I think you see our capital expenditures are quite high this year, and so they will be -- as they come on, obviously, we will start depreciating them.

Tim Quillin - *Stephens Inc. - Analyst*

Okay, okay, and then just lastly, and you've talked about the discussions you're having with Ironworks right now across your customer sets, but I don't know if you had any specific wins or you know victories that you can talk about that have demonstrated that cross-selling potential. Thanks.

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

Yes, I'll give you an example. There's a commercial client they have which who needed some work on, sort of, a whole bunch of communication technology issues which they took us into and we have since won the work and we have, I think, four or five people working sort of full time on that work for the last month or so. So I think that's been the first early success.

We have taken them into a bunch of utilities. Traditionally utilities take some time to decide. We are quite optimistic about [technical difficulty] decisions from them, but we are pleased that their clients gave us the first opportunity instead of the other way around.

Tim Quillin - *Stephens Inc. - Analyst*

That sounds good. Thank you.

Operator

Your next question comes from the line of Bill Loomis, Stifel Nicolaus.

Bill Loomis - *Stifel Nicolaus - Analyst*

Thank you. Good quarter. What's the -- you know, just looking at the award levels, the $233 million's obviously quite strong and you've had stronger -- strong awards over the past four quarters. Why do you think, particularly in the federal, aren't we see that organic growth go even higher? You know, what's the -- you're winning the business like for example in the third quarter last year the record amount of business you won. Have you seen all of that staff up or has there been some slowness in the customer and staffing some of those wins up?

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

You know I think that, as we've discussed, I think we do continue to experience some contract-specific delays and some uncertainty with our clients and so I think we talked about that last quarter. I think that we continue to see that. We haven't seen a change in that environment since the last quarter but there certainly is -- we certainly are experiencing some delays and uncertainties that's slowing the translation the backlog into revenue.

Bill Loomis - *Stifel Nicolaus - Analyst*

Any way that you can split that award wins as roughly federal versus the rest of the business?

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

I think about -- we had government versus commercial. So if we can give you that. That includes -- yes I think two-thirds is government, a third is commercial.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay, thank you.

Operator

Your next question comes from the line of Tim McHugh of William Blair and Company.

Tim McHugh - *William Blair and Company - Analyst*

Yes, just on the guidance to the revenue for the year, can you talk about, kind of, what you're assuming about the second half of the year? It seems to get to, I guess, even the lower end of the range; you need a little faster growth in the second half of the year. Are you expecting some of the projects that you won late last year and early this year to start to ramp up in the federal sector or are there any other issues that you're expecting to benefit the second half of the year more so than the first half.

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

Yes -- I mean we certainly expect the second half of the year to be stronger than the first half and we would expect a ramp up across several of our markets, certainly federal and commercial we would expect to see a stronger second half than the first half, based on the sales, you know, the sales we had in Q3 and Q4 and obviously this quarter was recently good sales too.

Tim McHugh - *William Blair and Company - Analyst*

What type of visibility do you have into that at this point? I mean, given things are moving out to the right. I mean are there specific projects that you are looking at that you feel pretty confident on or is it just kind of vague expectation that given the sales you've had that it has to, kind of, has to start to flow through at some point?

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

I would say that I think there are specific contracts that we can look at and expect to see stronger second half growth, some of our larger implementation contracts in the energy area, and expectation that we'll see additional ramp-up in our federal business like we typically do in Q3 from a seasonality point of view. So I think it's a bit of both. It's very specific large implementation contracts where we have confidence we'll ramp up nicely in the second half or the year, and, kind of an expectation that we will see the usual seasonal uptick in federal markets.

Tim McHugh - *William Blair and Company - Analyst*

Okay, great, and then the commercial business -- it's actually grown very quickly, but the growth on a year-over-year basis, at least organically, was slower than you saw in the second half of the year. Are we just coming up against tough comps or was there any part of that that I guess slowed down in terms of the pace of the demand environment that you see out there?

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

I think it's hard to grow 50% organic every year. You know, the --I think that we, we don't see any slow down. I think it's doing quite well. Our traditionally slow commercial areas are also looking -- you know we are quite optimistic about them. So I think that generally the pace -- the general environment seems pretty positive and we think that we'll be able to continue to do this going forward.

Tim McHugh - *William Blair and Company - Analyst*

Okay, great. Thank you.

Operator

Your next question comes from the line of George Price, BB&T Capital Markets.

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

Hi. Good afternoon everyone, and good job in a tough market. On the -- just kind of following that on the revenue side, just maybe asking it in a little bit different way. You know, the commercial demand environment -- I mean, are you seeing any impacts from, you know, from global macro uncertainty? Any pricing impacts or competitive impacts perhaps any investment issues or needs that might negatively impact your Ironworks, you know, margin expectations?

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

No I don't think we've seen any of that. I don't think we've seen any kind of global macroeconomic issues impacting the demand for our commercial services, or the pricing of those services. I think our commercial markets remain robust, and even our [ediaton] market which may be one of the most, kind of, sensitive to, you know, global economic environment, is actually showing an improvement and is growing, or grew in the past quarter. So I don't think we -- we certainly haven't seen any kind of the impacts coming from a global economic or any of those kinds of issues.

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

Okay, and just, I guess it may be kind of obvious, but, the revenues, you know, toward the low end of guidance in the quarter -- I mean, was this inner driven at all by the uncertainty in delays and so forth that you've seen on the federal side, or, you know, was there anything else happening in any other part of the business?

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

I think it's primarily driven by, you know, the uncertainty we've talked about for the last couple of quarters on the federal side, I don't -- that's, you know, that's really driven -- it's nothing in our other markets.

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

Okay and a couple of housekeeping questions, Sandy. What were the one-time acquisition related expenses in the quarter?

Sandy Murray - *ICF International Inc. - Interim CFO*

Six hundred and twenty-five thousand.

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

Okay, and do you have a more specific acquired revenue number for the quarter, for the combined GHK and Ironworks.

Sandy Murray - *ICF International Inc. - Interim CFO*

No. We don't provide that.

George Price. Okay, and you mentioned accounts receivables, DSO's were higher, even when you make adjustments for GHK and factor in deferred revenues, and you know you mentioned some commercial business impact that was behind that, but you think that will normalize. Can you give us a little bit more color on what's going on there?

Sandy Murray - *ICF International Inc. - Interim CFO*

Well, historically, if you look, Q1 is usually -- DSO is much higher than Q2, so we expect to see that same trend. You know the commercial receivables, if there's nothing changed, we have no problems so we do expect it to normalize.

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

Okay, but was there something more specific on the commercial side? You know, what you're seeing on the commercial side -- you know, any different -- structurally than you expected or --

Sandy Murray - *ICF International Inc. - Interim CFO*

No, not really. You know, I think, you know, as you've seen, our DSO has been coming up a little bit as our commercial's been growing. Commercial, historically, is not as quick a pay as you know the prompt payment act by the government, so you will see a slight impact but I think we can keep it to a minimum.

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

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

Operator

Your next question comes from the line of Tobey Sommer, SunTrust.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you. I was wondering if you could give us an update on your new facility in rural Virginia, if the ramping of employees there is progressing nicely? Most of my other questions have been answered. Thanks.

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

Sure. I think that at that facility -- we're continuing to ramp that facility up. I think as you know we opened it up and began operation there as of the first of the year. I think we're north of 150 staff in that facility. I think we've found that we can hire a high quality people at very competitive wages in Southern Virginia, so, I think, we're already seeing -- you know, we're quite optimistic about the benefits of that facility and are confident that we'll be able to fully leverage that facility and fill it up in the next 18 months, and so it's proceeding quite nicely. I think we have a ribbon cutting next week to officially open that facility with the governor of Virginia and so we're quite excited about that, and so it's all going quite nicely.

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

And if you've like to come we'd be pleased to have you.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you, Sudhakar. I appreciate that personal invitation. Do you see this endeavor and kind of initiative in a rural market where the compensation structure can be a little different, is that something that you think you need to explore more fully or does this facility give you the avenue you need for now? Thanks.

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

I think this facility, you know, obviously gives us the capacity and the capability to leverage the lower cost structure, lower wage structure, for both the, kind of, operational or implementation related work, rebate processing, call centers. You know, I think, we ultimately hope to have north of 500 people in this facility so we certainly have room to grow. I will say that we also hope to put more of our classic advisory and implementation consultants into that facility and so we are taking a hard look can we hire folks with college degrees into that facility to do more of our classic advisory related consulting? You know, there's a dozen colleges within a hundred miles of that facility, so we're also hoping that by doing that we can find ways to be even more cost competitive and improve our profit -- raise our profitability on the advisory and evaluation side hiring staff into that facility. So we're certainly exploring all avenues to leverage that facility and I think, you know, we're quite optimistic about it. And obviously if we fill up that facility with 500 people we'll look at opening another one down the road, but I think right now we're focused on filling up the one we have.

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

And just to expand on that, I think we have built the facility to accommodate folks with -- you know, in an office setting, with the traditional way we do it in Virginia or anywhere else -- in Fairfax or anywhere else. So I think the facility has both the traditional operation center kind of space, as well as office space -- traditional office space, so that we can have both kinds of people co-located in that facility.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you very much.

Operator

Your next question comes from the line of [Del Wormington], Delaware Capital Management.

Unidentified Participant

Yes, in reference to the revenue, about markets. Right now, energy environment and infrastructures is, you know, 44%, moving from 41%. Going forward, do you expect this sector to move in that direction and become a bigger part of your revenue, because it seems to me like the public sector and defense has been reduced and that has been picked up by the energy and environmental sector. So going forward do you expect this sector to [unintelligible] get a bigger part of your revenue?

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

I think that all of our sectors contain government work, so it's not only government revenue -- it's not only commercial revenue in the energy environment and infrastructure sector. It's got both government and commercial revenue, so I think we expect, you know -- obviously if the commercial business grows more rapidly, most of the commercial revenue at the moment is in the energy environment business so I think that will be a bigger percentage of our overall business. But I think given the size of the business, I think it will change, but I don't see any dramatic changes going forward.

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

I would just add, I mean I do think that, you know, I think as all of you know, the health side of our business is the major part of our business. I think we continue to see major growth opportunities there. Obviously -- and continue to see growth opportunities in the federal space there, and there is a portion of Ironworks business that -- especially on the commercial health side. So I agree with Sudhakar that a larger portion of our commercial business is in the energy side, but I think both will continue to grow, and it's not out of the question -- you know if we win a large health opportunity on the federal space that it could move that needle, so I think there are growth opportunities on both the health and the energy environment side.

Unidentified Participant

Okay, and one last question, in terms of revenue, what percent of the revenue came from the backlog this quarter?

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

I don't know if we typically report it -- what percentage is from backlog.

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

I mean I think, yes, I mean I don't exactly know what the question actually means because is it backlog as of the end of the year? Because all of the revenue has to come from, you know, stuff we win, so I think that -- but we don't do it -- that's hard to answer the question.

Unidentified Participant

Well in other words, then, was any of the revenue came from business you signed within --between January and March?

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

Oh, we don't traditionally calculate that. I think most of the revenue we have -- a general rule of thumb is that the federal revenue has to be in backlog and the commercial revenue [unintelligible]. But that again is hard to exactly calculate that.

Unidentified Participant

Okay, thanks.

Operator

Your next question comes from the line of Edward Cassel, Wells Fargo Securities.

Rick Eskelsen - *Wells Fargo Securities - Analyst*

Hi, it's actually Rick Eskelsen on for Ed. Just two quick questions. The first one I was wondering if you could update us on the status of the two protests that you had outstanding.

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

There's been no resolution of those protests.

Rick Eskelsen - *Wells Fargo Securities - Analyst*

Are you still expecting for at least one of them that it will happen sometime in the second quarter?

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

I think we're assuming that for one of them there will be -- it will be resolved by June, but I think -- so that contract we have assumptions about revenue in the second half of the year, but I don't believe there's really any material amount in the second quarter for that contract.

Rick Eskelsen - *Wells Fargo Securities - Analyst*

Okay, and then just a second one, now that you've closed the GHK and have a few months, I think you mentioned that you were baking in no growth from the acquisition. I was wondering if that was still the case and if you had an update there.

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

It's just been one month since we closed GHK, so it's too early to tell, so I would just stick to what we said earlier and we'll certainly update you in case things change.

Rick Eskelsen - *Wells Fargo Securities - Analyst*

Okay, thanks a lot for taking my question.

Operator

Your next question comes from the line of [Joseph Fothey, Gray Gable Partners].

Unidentified Participant

Hey guys, good afternoon.

Unidentified Participant

I thought -- just circling back to the backlog, I was wondering if we should start thinking about the backlog slightly differently than we did say, when commercial wasn't as large a percentage of the business? You know, obviously, most commercial business and IT services doesn't have much of a backlog to it. They're not really backlogged based businesses as much as federal business is. So should we start looking at that backlog number any differently given the mix of business, as it stands today?

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

I think that, you know, it's a great observation. I think business -- the commercial business has certainly increased in percentages, but still the business does have, you know -- federal certainly is a majority of the business and then we have some state and local government business, so I think it is good to start thinking about that because I do think that that will be the case as the commercial increases as a percentage.

But at the moment the backlog is a good measure of visibility revenue and earnings, and I do think that -- I do believe that at the moment the reason why the backlog is not translating into revenue, as John was mentioning, as quickly as we think, is because of some uncertainties with the contract issues, so I think that will return to normal. And that will, again, give us a pretty good sense of at least the government revenues going forward. Not necessarily [unintelligible] revenues will be the government portion of the IT revenues going forward.

Unidentified Participant

Okay, and, I guess, just to follow up on that, is it fair to say that your commercial business has not as much backlog to it so as that business grows maybe we should look at a book to bill in maybe some discounted way to a certain degree based on the size of commercial?

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

Yes I think it is true but I would just caution that some of the energy efficiency work which we have had backlogged because they are [unintelligible] contracts we --in fact and that backlog is --doesn't go through the appropriations process. So in fact if you a three-year contract you get three years of backlog. So, having said, that the other kinds of commercial business we have, for example in the litigation support area or in certain aviation projects and some of the other work we do for commercial clients is the kinds of work which you were talking about. So that is correct the book to bill [unintelligible] would be more important.

Unidentified Participant

Okay, that's helpful, and then just on a couple of the lines of business. I know, John, I think you mentioned that the airline business was up a little bit -- trended up here in Q1. Do you think that is sustainable based on what you see? And then the state and local business, obviously, was very strong -- kind of a small base, but is there -- are there some specific things going on there that we should be aware of in terms of continued outsized growth or was that just, you know, a little positive lumpiness?

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

First, I think on the airlines and airports the aviation looks -- you know includes both airlines and airports, I think it's -- you know that business has certainly improved in the last couple of quarters and I think we see a pipeline there, so I think we're cautiously optimistic on that business that we've turned the corner and are back to growing it.

The state and local I think -- you know, we have -- there's one or two specific contracts that we've won that have been key drivers in growing that business and so there I think is a smaller base. You know you will see more lumpiness up and down because, you know, if you win a large contract and work it, you know, it's just a smaller base. But what has been driving that is one or two contracts we've won in the state and local market.

Unidentified Participant

All right, great. Thanks a lot guys.

Operator

And that concludes the Q and A session, and I'd like to turn the call back over to management for closing remarks.

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

Thank you for your interest and thank you for joining us. We look forward to speaking at our next earnings call. Thank you.

Operator

Ladies and gentlemen, that concludes the presentation. Thank you for your participation. You may now disconnect. Have a great day.
