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PRESENTATION

Operator

Welcome to the ICF International Second Quarter 2015 Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded on Thursday, July 30, 2015, and cannot be reproduced or rebroadcast without permission from the Company. And now, I would like to turn the program over to Lynn Morgan of MBS Value Partners. Please go ahead.

Lynn Morgan *- MBS Value Partners - IR*

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

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 July 30, 2015 press release and our SEC filings for discussions of those risks. In addition, our statements during this call are based on our reviews 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 ICF's CEO, Sudhakar Kesavan to discuss second quarter 2015 performance. Sudhakar?

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

Thank you, Lynn, and thank you all for joining us this afternoon. As we expected, our profitability in the second quarter showed significant improvement over first quarter results. The revenue pickup that we saw early in the second quarter continued and as we stated earlier we were back at our originally expected run rate for the second half of the year. Recent contract wins, the status of our pipeline opportunities and our overall business trends are all quite positive and point to a strong second half, both in terms of revenue growth and profitability.

We have, therefore, reaffirmed our full year 2015 expectations for EPS and cash flow, but have adjusted the midpoint of our revenue guidance to the low end of the previous range based on year-to-date results.

ICF's revenue growth for the second quarter was driven by a 37% increase in our commercial business, which benefited from the contribution from our newly formed Digital Services Group, DSG, which is a combination of our legacy commercial and state and local digital services business, and our Olson acquisition.

We were named as winners of two large new contracts in July that point to the competitive advantages we are gaining through the combination of DSG's digital marketing expertise and ICF's existing capabilities. John Wasson will go into more detail on these later in the call.

From a strategic standpoint, these wins, one with an international government client and the other with a state government agency, are excellent examples of revenue synergies that we anticipated when we acquired Olson. These are awards that neither ICF nor Olson could have won on their own, and we believe they are replicable with similar clients in other geographies.

The DSG business consists of five areas - Brand Digital, Loyalty Programs, PR and Social Media, Strategy and Innovation, and Technology Implementation. In Brand, which accounts for about 20% of DSG's revenues, we are experiencing a temporary slowdown resulting from a leadership transition that took longer than anticipated to implement. A few weeks ago we named a new Chief Creative Officer who has excellent credentials and is very well known in the digital agency service arena. He comes onboard September 1, and we expect brand to be on the upswing by the end of the year.

As we have stated in the call announcing the acquisition of Olson, we have also added a number of new senior staff in DSG focused on sales and account management. John will discuss these personnel additions in his remarks.

DSG added more than 25 new commercial awards in the second quarter across a broad range of industries, including distribution, retail, health, energy, and financial services, and they have a joint collaboration under way with respect to a proposal to potential corporate clients in transportation, hospitality, travel, and aviation industries.

At the same time, we continue to see sequential increases in the dollar value of contracts won, reflecting combined capabilities enable us to bid on. The other main component of our commercial business, energy markets, comprised of energy efficiency and our energy advisory business, is set to grow at close to double-digit rates in the second half of this year compared to the first half. This trend is supported by the energy efficiency contracts we were awarded in the second quarter.

In fact, this was a record second quarter for us with respect to contract wins, which has set the stage for strong second half revenue growth and significantly improved profitability. New contract awards underscore our expectation that federal government revenues will be slightly up for full year 2015. Also, while federal government revenues for the first half of this year were essentially flat with last year's levels, we continue to grow in those areas in which we have both extensive domain expertise and scale, such as energy, health, and IT services.

Additionally, we expect state and local revenues to be slightly ahead of 2014 levels. This is because of a stronger pipeline and the extended timing of Superstorm Sandy related work. As expected, reported results from our international government business were significantly reduced in both the second quarter and the first half of this year as a result of the U.S. dollar strengthening against the euro, the British pound, and the Canadian dollar.

On a constant currency basis, we estimate that our international business grew year-over-year by approximately 9% in the second quarter, while the reported results show a decline of 9% in the second half of this year. In the second half of this year, we expect results to benefit from the recapture of a portion of the revenues and margins lost in the first half due to timing issues around the European Commission election.

To sum up, in the second half of this year, revenues in each of our markets - commercial, federal, state, local, and international governments, are set to increase from first half levels. Importantly, our current revenue run rate and the strength of our recent contract award activity will significantly increase our utilization rates across the Company. And we expect second half EBITDA margin will be approximately 10.5%, at the high end of our initial guidance range and sustainable in the 10% to 10.5% range in 2016.

I also want to step back for a moment and reiterate that we have made significant progress in transforming the Company while balancing and diversifying the client base. At the end of the second quarter, we were almost evenly split between U.S. federal and all other clients. This is dramatically different from where we were two years ago.

We've also set the stage for profitable growth through earnings expansion as our non-U. S. federal business grows and the increased focus on the profitability of our international operations. Results in the second half of this year will demonstrate this outcome in a more meaningful way.

We continue to do the hard blocking and tackling work of building our pipeline. This entails taking full advantage of the synergies associated with combining our offerings and approaching new and existing clients with solutions that they will not find presented in an integrated way by any other service provider. We expect these initiatives to drive revenue growth in all of our client categories - commercial, federal, state and local, and international government, in our areas of domain expertise, health, energy, and digital services, and across our global footprint.

I would now like to turn the call over to John Wasson, our Chief Operating Officer, to provide more detail on operations and our new wins I referred to earlier.

John?

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

Thank you, Sudhakar, and good afternoon. The second quarter was a period of solid accomplishment for ICF. As Sudhakar noted, revenues and earnings improved from first quarter levels, and this was an excellent period for us in terms of contract wins, representing the strongest second quarter for sales in our history.

Looking at business mix by market, revenue from our commercial clients increased over 37% to $102.5 million, and represented 35% of total revenue compared to 28% in last year's second quarter. This growth was driven by the Olson acquisition, which combined with our legacy digital services business represented 44% of our commercial business.

Additionally, ICF was awarded approximately $85 million in commercial contract awards this quarter, most of which were won by the Digital Services Group and the energy efficiency part of our Energy Markets group.

During the quarter, DSG secured two new customer loyalty program awards with a combined value of $3.81 million--$3.8 million - one for a major hotel chain and one for a national retailer. This brings to 30 the number of commercial clients for whom we are running loyalty programs. And the list includes Amtrak, Luxottica, Wyndham, and Sun Country Airlines.

A third of our loyalty program clients use our proprietary CRM-driven platform called Tally, which is a robust software suite capable of reaching consumer, business, and employee audiences and delivering analytical insights from the results. This tends to be a relatively sticky business for us. Olson has not lost a loyalty program client in the eight years since Tally was developed. And we will be rolling out a customized offering of this platform in the sectors where ICF has a significant domain expertise, such as utilities, healthcare, aviation, and government, by early next year.

Other notable DSG commercial wins included two contracts to provide public relations and marketing programs, two digital content management contracts, and a large contract to support the marketing program of a major healthcare services company.

Before leaving DSG's commercial contracts awards, I think it is important to comment on a key contract that we recently won, thanks to successful collaborative selling of DSG's qualifications, and our utility sector knowledge. This $9.3 million contract is with the Canadian utility regulator to act as a service provider for a consumer oriented electricity program.

Based on our reporting metrics where the revenue is credited to the client category, it will be classified under international government revenues and not--will not be credited to commercial, although the rates are comparable to those paid by commercial digital clients. It is a clear example of the growth potential we added with the acquisition of Olson.

Lastly, we were recently notified of an intent to award us a $20 million-plus contract to provide marketing services support for a state lottery. This is another great example of how we were able to cross-sell our integrated digital services into a state and local market. As Sudhakar noted in his remarks, we are making significant progress in creating an integrated digital services business, spanning strategy, marketing services, and technology under one roof.

These two collaborative wins in the utility and lottery arenas demonstrate our ability to create value and win work that neither Olson nor ICF could have won as independent companies.

We have also added new key leadership talent into the Digital Services Group over the past several months. In addition to the hiring of the Chief Creative Officer that Sudhakar mentioned, we have hired a new head of Sales and Marketing for the DSG group who will help us with account management, and a head of Strategy for the Brand Digital business.

Given this progress to-date in creating the Digital Services Group, adding new leadership talent to it and winning several large new contracts, leveraging the new group's integrated capabilities, we remain excited and confident that we are building an engagement services business that will be a home run for us in 2016 and beyond. This effort is requiring significant focus and change this year, but it will be transformative for us in the coming years.

Let me now shift to our Commercial Energy business. We have several interesting energy efficiency contract awards this quarter, one involves two contracts for a combined value of $14 million that we were awarded by a major utility. This represents the continuation of a residential program that we have been working with the client on for eight years, as well as the expansion of a contract to include commercial and industrial programs, which are areas that we have targeted for growth.

In addition, while it was not a high dollar amount, we won a strategically interesting contract with a major southwest utility to administer an energy efficiency program. This program is at the nexus of energy in the water-starved southwest and leverages our domain expertise to help use less water and less energy, while still providing the same level of irrigation to crops.

The final ruling on the proposed EPA clean power plan is expected next week and we foresee an extensive multi-year process ahead as states and utilities formulate plans to comply with the new regulations. We expect to see an uptick in advisory work with utility clients as soon as this rule is announced, focused on providing updated strategy and regulatory analyses. There will also be a long term tail of larger implemental opportunities in response to this final rule.

Turning to our federal government business, revenues were in line with last year's second quarter, totaling $135.4 million, and accounted for 47% of total revenue, compared to 52% one year ago. This was an outstanding quarter for federal government sales, and the value of these awards more than doubled from a year ago. This resulted in a book-to-bill ratio of 1.74.

One of our most important wins in the quarter was with the U.S. Department of Health and Human Services for the Head Start program. We started working with Head Start in 2003 and have continued to grow this engagement, which involves providing training and technical support, program management, fiscal operation, and quality improvement services.

In addition to the four re-competes in four different regions that we were awarded this quarter, we won a $25.8 million new award for Region 11, which greatly increases our footprint within this program. Region 11 is a new and significant program for us as it covers 26 states and serves the American Indiana and Alaska native populations.

Another great example of our staying power and ability to grow an engagement is the Energy Star program. We have supported this energy efficiency program since inception in the early 1990s, and won a $38 million contract this quarter to provide technical support for Energy Star labeled products and residential programs.

We also expanded our contract with the U.S. Army Contracting Command to a total of $35 million to provide field service sustainment systems worldwide. We have historically worked on part of this program, but we were able to make this an additional portion of this program--take an additional portion of this program from a competitor, and thus expand our footprint.

Overall, both the dollar value and the strategic value of this quarter's contract awards were excellent and position us well for improved results in the second half of the year. Our pipeline remains solid at $3.7 billion, representing a 7% sequential increase after our record second quarter sales. It includes 29 opportunities greater than $25 million and 63 opportunities greater than $10 million. Finally, our turnover in the second quarter was 4%, which translates into an annualized rate of 14.6%.

Now, James Morgan, our CFO, will continue with the financial review.

James?

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

Thanks, John. Good afternoon, everyone. Our 2015 second quarter results represent sequential improvement in both profitability and revenue growth. We firmly expect that with the recent contract award activity we will achieve our previously provided full year profit cash flow guidance. In fact, our utilization rates at the end of the second quarter support our second half of 2015 profitability expectations.

With regard to second quarter financial results, total revenue was $289 million, or 9.5% above last year's second quarter. Service revenue increased 9.6% to $215.4 million. As expected, international revenues were affected by the strengthening of the U.S. dollar, particularly against the British pound, the euro, and the Canadian dollar, which reduced second quarter reported revenues by approximately $5.2 million.

We are pleased to report a year-over-year increase in gross margin due mainly to the higher mix of our more profitable commercial business. Second quarter 2015 gross margin was 38.3%, a significant increase over the 36.8% reported in the second quarter of last year.

Indirect and selling expenses for the second quarter were $83.8 million, a year-over-year increase of 12.9%, as a result of the Olson acquisition.

Operating income was $18.7 million for this year's second quarter, up 6.6% year-over-year. Adjusted to exclude the amortization of intangibles related to the acquisition of Olson, operating income was $21.6 million, 22.6% above the similar period last year, and notably ahead of our 9.5% revenue growth rate for the second quarter.

Reported EBITDA was $26.9 million for the quarter, 17.2% higher than the $23 million reported in last year's second quarter. EBITDA margin was 9.3% for the second quarter of 2015, as compared to 8.7% in the second quarter of last year.

Excluding two facility related items, one dealing with the consolidation of office space in Northern Virginia, and a second associated with Olson's Minneapolis headquarters, our EBITDA margin was 9.5% for the second quarter.

Adjusted EBITDA for the second quarter, which excludes acquisition related and special charges related to office closures, was $26.9 million, or 9.3% of revenues. This performance was 8.8% higher than the $24.7 million adjusted EBITDA reported in last year's second quarter. But it was below our EBITDA margin target range as a result of lower average utilization rates during Q2. As I mentioned previously, I am pleased to report that by the end of the second quarter utilization rates had increased to a level that supports the 10.5% EBITDA margin we are guiding to for the second half of the year.

Depreciation and amortization expense was $3.9 million, up from $3.2 million in 2014's second quarter. The amortization of intangibles was $4.3 million in the second quarter of 2015, up from $2.2 million in 2014's second quarter. Both year-over-year increases were primarily due to the acquisition of Olson.

The effective tax rate was 39.1% for the quarter, as compared to 38.2% reported in the second quarter of 2014. We expect a full year tax rate of 38.5% or below.

Reported net income was $9.2 million, or $0.47 per diluted share, for the second quarter of 2015, inclusive of $0.03 in special charges related to realized foreign currency losses associated with international office closures. Non-GAAP EPS, which excludes amortization of intangibles and special charges, was $0.63 for the second quarter of 2015, as compared to $0.64 in the prior year.

On a year-to-date basis through the second quarter, we reported cash provided by operating activities of $5 million, compared to cash used in the first half of 2014 of $7.8 million. We continue to expect our full year cash flow from operating activities to be in the range of $90 million to $100 million.

As a result of temporary billing and collection timing issues, days sales outstanding for the quarter were 78 days, as compared to 74 days at the end of 2014. As a reminder, we anticipate year-end DSO to be in the 72-day to 77-day range, including the impact of deferred revenues. Capital expenditures for the first half of 2015 were $7.1 million.

We repurchased 183,331 shares in the second quarter of 2015 under our share repurchase plan. As stated previously, we intend at a minimum to make share repurchases in 2015 at a level to offset the dilution caused by our employee incentive programs and to maintain fully diluted weighted average shares of no more than 20 million for the year. We currently expect our year-end fully diluted weighted average shares to be approximately 19.8 million.

Full year 2015 depreciation and amortization expense is expected to be in the $16 million to $17 million range. And consistent with our prior guidance and based on our current business portfolio, we are forecasting an amortization of intangibles of $17.2 million. Full year interest expense to range from $9 million to $10 million, and capital expenditures to be in the $18 million to $20 million range. And as I mentioned earlier, we expect the full year tax rate to be no more than 38.5%.

With that, I would like to turn the call back to Sudhakar.

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

Thank you, James. We believe that ICF is very well positioned for strong performance in the second half of this year and into 2016. Our comprehensive digital services capabilities are resonating with both commercial and government clients, federal government spending is picking up, and we believe that we have successfully aligned our resources with the fastest growing parts of our business.

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

QUESTIONS AND ANSWERS

Operator

And thank you. (Operator Instructions) Bill Loomis, Stifel.

Bill Loomis - *Stifel Nicolaus - Analyst*

Hi. Good afternoon or evening. Just a question on organic growth. What was the organic growth on the commercial business? Any way to just look at the DSG side - that would be great - or commercial overall?

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

Yes. I think domestic commercial was flat, Bill, for organic growth.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay. And how do you see that playing out as we get into the second half, based on what you won?

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

Mid-single digits.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay. And then, on the new hires, were these replacements because people have left, or what's going on in terms of the turnover on that organization?

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

I think that the Chief Creative Officer, we basically were aware of the fact that person was going to leave. So we were looking for someone. It took a little longer for us to get someone on board. But that was a replacement. But all the others are additions in that, as we have mentioned, when we had done the--when we had talked about the Olson acquisition when we first did it. We needed to make sure that we do more account management, et cetera. So we have hired someone very senior to be the sales person for the overall Digital Services Group. So that's an addition. We have also hired some additional strategy folks in the Brand business, which is also an addition.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay. If I can--.

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

--I'm sorry, Bill. It's John Wasson. I was just going to echo what Sudhakar said. I do think that the hires for head of Sales and the strategy position we're really hiring people to work across the larger platform. We've obviously created a larger group here, $200 million of revenue. And so, we were trying to get experienced industry professionals that have worked across an integrated platform at the scale that we've created here. And so, they were new hires. We kept the existing sales marketing strategy people in the other parts of the business, but we hired more senior folks to work at the platform level.

Bill Loomis - *Stifel Nicolaus - Analyst*

And then, just one quick one on international government. What--how should we think about that in terms of--I know you had some timing delays with the elections in the first half, but how should we think about that? And also, in the context of currency, any guidelines as we look at the dollar? What kind--maybe on a currency adjusted basis, what are we--what are you expecting in the second half on guidance?

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

Yes. I think in terms of on a constant currency basis, I think we're thinking high single-digit to low double-digits, like 9% to 11% or 12% growth on a constant currency basis. When you factor in currency, that number is probably in the negative 8%, 9%, 10% range.

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

It's probably closer to flat, I think, because we are expecting certainly a pick up on our international government going forward.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay.

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

So it's more--it's closer to flat for--.

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

--With--.

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

--Constant.

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

With the currency.

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

Yes.

Bill Loomis - *Stifel Nicolaus - Analyst*

And is that second half or is that for the full year in the guidance?

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

That's for the second half.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay, great. Thank you.

Operator

Tim McHugh, William Blair.

Tim McHugh - *William Blair & Co. - Analyst*

Yes. Thanks. So I guess just backing into I guess the organic number you gave for commercial, is Olson around $28 million for the quarter? Is that a fair number?

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

Tim, as you know, we don't report Olson separately. So it is for the (inaudible) Digital Services Group. And I think that--I think you are trying to get the Olson number to see how Olson generally is doing. So let me just clarify a little bit that, for example, these two contracts we mentioned, which are going to be international government and state and local--the two new contracts we won which are quite large--would not be reflected in the commercial DSG revenues which we talk about, because they are not--they are--they will be in state and local and international government. But the DSG group does broadly commercial and state and local. But we don't give group-wide revenues either.

We only give you DSG commercial revenue. So if the intent is to try and see how Olson is doing, it's better to look at the DSG group broadly than just look at Olson, because some of these revenues which are coming in are not going to be necessarily just Olson quote-unquote revenues. There'll be DSG and then also other groups within ICF.

Tim McHugh - *William Blair & Co. - Analyst*

Oka. And that's fair. But I guess I was trying to get to Olson on a standalone. And I guess just looking at a model, the acquired revenue in the first two quarters of this year has been a fair amount less than I would have thought, based on the run rate from Olson. And so, that's what I'm trying to understand. I know there's some seasonality in there as well. But you also talked about some weakness. So I guess--maybe I guess given the comment around the brand part of Olson, relative to what you would have expected, what's--how much of a shortfall or hit has that been in the first half of the year? Or can you give us some sense of Olson's trajectory relative--even recognizing some of the revenue in the future is going to come in the other segments. How is it performing relative to--?

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

--Yes, I think--.

Tim McHugh - *William Blair & Co. - Analyst*

--What we thought?

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

Yes. I think that other than the brand part of the business, the rest of the business is actually growing at a high single-digit level. The brand business is down double-digits. Does that give you a sense?

Tim McHugh - *William Blair & Co. - Analyst*

Okay. So the 20% is down double-digits?

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

Right.

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Tim McHugh - *William Blair & Co. - Analyst*

So overall, that--I'm assuming that implies relatively flattish type of total Olson.

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

Yes, that would be a reasonable assumption. Yes.

Tim McHugh - *William Blair & Co. - Analyst*

Okay. All right. And then, energy efficiency. You talked about some wins there, I guess. But talk about the competitive environment I guess in the context, too, of what you had last quarter where a client took it in-house. How is competition for new awards and even retention of clients, I guess, looking at this point?

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

Let me start, and then John can continue. I think that we just looked at the energy efficiency pipeline for the third quarter. We have--it's a huge pipeline. It's about over $200 million in the pipeline, of which $125 million is new contracts. So we are quite pleased with the pipeline and we are bidding all the work which we can. The competitive landscape has not changed very much. We have three or four major competitors. We haven't seen any change, anything repeated of the kind which resulted in the split of the contract into two. In fact, the one we won is a combined contract. So that's a positive sign. But the competitive landscape is as it has been over the last few months and I think will continue to be that. But we are--we'll win our fair share.

John, do you want to add to that?

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

No. I think that's a fair summary. I mean, we have a strong pipeline. I think we're--expect to submit well north of $100 million worth of bids here in the next several months.

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

New bids.

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

There are new bids that should set us up for next year. We expect the final rule on the clean power plan I'd say in the next week or two, which in the long run should drive further growth in the energy efficiency market. And so, I think the competitive landscape really hasn't changed, as Sudhakar said. So I think we--I think as we have talked about, as we look out certainly into next year and over the next several years we expect a robust growth there - high single-digit, double-digit growth there.

Tim McHugh - *William Blair & Co. - Analyst*

Okay. And then, I guess just circling back to Olson. Sorry. Can you give us--we never saw the seasonal split in revenue. I mean, can you give us some perspective for historically what was the build in the second half of the year versus the first half of the year, if we're trying to think about the revenue contribution?

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

Yes. I think that basically the seasonal split there--I know you are consistent--you are quite--you really want to know everything about Olson, even though I want you to talk about the Digital Services Group, Tim. But the seasonal split for Olson is the same as for ICF. So Q1 is low, Q2 is higher, Q3 is higher than Q2, and then Q4 goes down.

Tim McHugh - *William Blair & Co. - Analyst*

Okay. Thanks.

Operator

Thank you. (Operator Instructions) Tobey Sommer, SunTrust.

Frank Atkins - *SunTrust Robinson Humphrey - Analyst*

Hi, this is Frank for Tobey. I'll ask about the Digital Service Group. How do you feel in terms of the capacity for your sales function there? Do you think that additional headcount needs to be added or are you pretty comfortable with the levels where it's been?

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

Yes. I think that it's an excellent question. I think we are pleased with the performance of the sales function to date. We did win these two large contracts, which we are very pleased about. I think that we do need to add additional sales people. We are constantly adding them. And I think that we will--we are also setting up a whole inside sales operation, which basically will generate leads based on sort of the whole marketing function which we are doing.

So I think more sales is always better. But I think just to repeat that, I think that we are pleased with what our existing sales people have done. But we are always looking to see how we can invest more in sales.

Frank Atkins - *SunTrust Robinson Humphrey - Analyst*

And in terms of the new work on that side in DSG, what are you seeing in terms of pricing trends?

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

I think the pricing trends are constant. There isn't--.

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

--(Inaudible) commercial business. I mean, if we're winning international or state and local business, I think the pricing is consistent with the commercial business. So--.

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

--So unlike our normal state and local work in the energy or environment area, it's very different the market here. When you do digital agency work, even the governments pay you at commercial rates.

Frank Atkins - *SunTrust Robinson Humphrey - Analyst*

Okay, that's helpful. And then, moving to the government side, typically 3Q is your largest quarter in terms of awards. Are you seeing any signs that there will be a typical seasonality in the flow of contracts?

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

Yes. Yes, we do see that, Frank. We do see that Q3 will be higher than Q1 or Q2 in sales.

Frank Atkins - *SunTrust Robinson Humphrey - Analyst*

All right, great. Thank you very much.

Operator

And thank you. At this time, we have no further questions. I will now turn the call over to Management for closing comments.

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

Thank you for participating in today's call. We will speak to you again at our upcoming investor conferences and at our next call to review Q3 results. Thank you.

Operator

And thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.
