FINAL TRANSCRIPT

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ICFI - Q2 2011 ICF International Inc Earnings Conference Call

Event Date/Time: Aug. 01. 2011 / 9:00PM GMT

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PRESENTATION

Operator

Welcome to the ICF International second-quarter 2011 conference call. During the presentation, all participants will be in a listen-only mode. Afterward, you will be invited to participate in a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded on Monday, August 1, 2011, 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 of Corporate Development*

Thank you, Operator. Good afternoon, everyone, and thank you for joining us to review ICF's second-quarter 2011 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's management's expectations about our future performance. These statements are subject to a number of risks that could cause actual events or results to differ materially. And I refer you to our August 1, 2011 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 second-quarter 2011 highlights. Sudhakar?

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

Thank you, Doug, and thank you all for joining us this afternoon to review our results and current outlook.

This was another solid quarter for ICF, with year-over-year increases in operating income, net income, and earnings per share. Profits grew 25% on a 7% revenue increase, and EBITDA margin reached 9.7%, the highest level we have had since the second quarter of 2008.

Second quarter-performance demonstrates strength of our portfolio business, which is unique within our competitive set, and which provides ICF with significant operating leverage as well as greater resilience. Similar to this year's first quarter, our revenue growth was driven by strong demand from our energy environment and transportation markets, particularly on the commercial side, led by work in energy efficiency programs, infrastructure project management, and advisory services and energy-related transactions. In fact, our commercial business was up 52.3% and was one of the key drivers of the significant increase in our second-quarter profitability.

We have said for some time now that the move up in EBITDA margins past the midpoint of our target range of 9% to 10% would require a rebound in our commercial business, and we saw that this quarter.

Our federal business increased 0.5%, but keep in mind that we were comparing against exceptional revenue growth in last year's second quarter, which benefited from the accelerated ramp-up of our broadband contract. The first half of the year the federal business growth was 3.4%. For the second half of the year we are expecting federal business growth in the mid-to high single digits, with Q4 growing faster than Q3.

Sales this quarter were higher than we had initially expected, and for the first half of 2011, our sales were $426 million, 47% above the comparable period last year. In addition to the dollar amount of the wins, we are pleased with the strategic importance of several of them -- notably, the past quarter, we were awarded on the CDC SIMS ID/IQ contract. Our relationship with CDC goes back over 25 years, and now we have been able to leverage that domain expertise and the scale of our IT services to win a task order that ICF would not have qualified for two years ago.

We continue to see substantial growth opportunities in each of our key markets. On the federal side, we expect to continue to grow our business in 2011 by winning larger implementation contracts, and accelerating our business development activities to take advantage of our expanded capabilities in growth areas. We have brought in several new senior people since the beginning of the year whose reputations in their respective areas of expertise are well-known in our markets. And while we are focused on the larger awards, we still have a diversified base of business -- the largest single contract accounting for only 4% of trailing 12-month revenues.

We are also investing on the commercial side of our business so that we can take full advantage of the growing demand in areas that we are known for -- energy efficiency programs, environmental work, infrastructure project management, and energy-related advisory work. And we are exploring investments to gain additional scale for our international business, where we see significant growth opportunities in both developed and emerging markets.

Finally, our backlog was $1.3 billion and we entered the second half of the year with a pipeline of $2.9 billion, the highest in our history.

With that, I'd like to turn the call over to John Wasson, our President and Chief Operating Officer, who will provide additional insight. John?

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

Thank you, Sudhakar, and good afternoon. As Sudhakar noted, we were pleased that the second quarter was another strong one for sales in both the commercial and government sectors. The strong sales performance in the government space was highlighted by a number of larger bids, which were also strategically important.

The largest was a new prime contract with the Department of Energy valued at more than $40 million. This contract is with the DoE office, whose mission is to ensure that the US Energy Delivery System is secure, resilient, and reliable -- one of DoE's most important functions. ICF will be providing its critical infrastructure and cybersecurity assets, among others, to help this DoE office bolster the resiliency of the electric grid, and assist with restoration when major energy supply interruptions occur.

In the health and health informatics arena, we won two major contracts. Sudhakar mentioned the first one, a $25.9 million task order under the 10-year, $4 billion CDC SIMS IDIQ, which exemplifies our strategy of using our domain knowledge to enrich our implementation capabilities, and thereby provide competitive advantage in addressing a variety of public health issues.

The second, the $27.5 million award at the National Institutes of Health, directly supports the NIH Office of the Chief Information Officer to establish IT strategies and governance mechanisms around improving investment decisions, enhancing efficiency, and mitigating operational and technical risk. Working at this level is recognition of ICF's ability to provide a full range of implementation services at the most senior level, supporting critical priorities at health-related agencies.

In our commercial business, our revenue growth is fueled by a higher level of sales activity. Of course, the strong interest in launching and improving energy efficiency programs continues to be an important driver of our commercial business. In any given quarter, we normally secure a number of smaller wins that range up to $5 million, that are enhancements to existing programs or early phases of larger programs.

In addition, we also won two additional contracts valued at $13.6 million to enhance the commercial and industrial program we already started last year at a major utility, and to start a new residential program at the same utility. We now manage and support significant energy efficiency programs in more than 25 states.

Yet, as we noted over the past few quarters, the growth in our commercial energy business has been more broadly based than solely in energy efficiency. Among the hundreds of commercial projects we won in Q2 were a number of studies around grid reliability and security; gas and renewable strategy and market assessments; environmental management of infrastructure assets, especially transmission systems; and additional uses of our power sector models for due diligence and regulatory assessments.

In addition to this strong sales activity, our pipeline growth has been excellent. Despite the headlines of solar recovery and federal gridlock, we continue to find high quality opportunities in all of our markets. And our current pipeline exceeds $2.9 billion, our highest ever. Within this mix are some 24 opportunities at over $25 million, and 52 opportunities at $10 million or above.

While our sales and pipeline growth were exceptionally strong in Q2, Sudhakar already mentioned that we did not experience the revenue growth in the federal space that we have seen in the past and expect to see in the future. This past quarter was not only affected by an unusually strong comparable in Q2 of last year, but also by a handful of large new projects moving to the right unexpectedly. There were several reasons for the delays, including agency personnel turnover; a slowdown in the normal approval cycle; and uncertainty around the federal budget. Our continued strong sales performance, however, and the nature of these delays give us confidence in projecting growth in the federal space the remainder of the year.

We have recently announced the hiring of additional senior credentialed experts in all of our major markets, thereby adding exceptional expertise and substantive experience to aid in the business development process. We've already issued news releases on key hires in the Veterans, Health and Environmental area, and we will be announcing more as they come onboard. These hires enable us to continue to brand and deliver on exceptional domain expertise across our client base, all of whom want firms that truly understand their business and challenges at a world-class level, so that they can cope with providing more services with tighter budgets.

Finally, our rate of personnel turnover, which was 2.9% in the second quarter, continues at a stable pace well below the industry average.

Now let me turn the call over to our Interim CFO, Sandy Murray, to review the second-quarter financial results. Sandy?

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

Thanks, John, and good afternoon. It is always good to have positive materials for your first earnings call, so I'm especially pleased to report on second-quarter results and provide you with guidance on certain financial line items for the rest of 2011.

Revenue for the second quarter was $213.4 million, an increase of 7% over last year's second quarter; and first-half revenue was $408.1 million, up 9% year-on-year. As Sudhakar mentioned, this quarter's revenue growth was driven by strong demand from our energy, environment, and transportation markets, which increased 16.7% from last year's second quarter.

Gross profit margin was 37.4%, similar to last year's levels, reflecting certain one-time write-offs and higher fringe benefit costs. First-half gross profit margins was 38.3% compared to 37.8% in the prior year, more reflective of the growth in our commercial business.

Indirect and selling expenses were $59.3 million in the quarter, or 27.7% of revenue compared to $56.1 million, or 28.1% of revenues in last year's second quarter. The dollar amount of our indirect cost has increased due to higher indirect labor expense, primarily related to bid and proposal activity, but at a lower rate than revenue growth. Amortization of purchased intangibles was $2.3 million in the second quarter, in line with expectations.

Operating income in the second quarter was $15.5 million, an increase of 22.5% over the 2010 second-quarter and operating income margin was 7.3%, up from 6.3%. First-half 2011 operating income was $28.9 million, an increase of 27.1% over the prior year, and operating income margin was 7.1% compared to 6.1% in the 2010 first-half. The increase in operating income and operating income margin for the quarter and year-to-date periods reflects increased leverage, as our revenue growth continued to outpace growth in operating costs.

Interest expense decreased approximately $0.4 million in the second quarter and $0.7 million year-to-date, primarily as a result of lower debt balances. Due to our strong cash flow, we were able to reduce our long-term debt to $63.4 million, down from $85 million at the end of the fourth quarter 2010, a decline of $21.6 million. We ended the quarter with a debt to capital ratio of 15%. Net income was $9 million in the second quarter or $0.45 per share, an increase in EPS of 23%. And year-to-date net income was $16.7 million, or $0.84 per share, an increase in EPS of 30%.

Cash flow from operating activities was $29.4 million in the 2011 first-half, a decrease of 5% compared to prior-year, driven largely by the timing of cash receipts and tax payments. Days sales outstanding, including the impact of deferred revenue, were 69 compared to 68 in the prior-year. Second-quarter capital expenditures were $2.5 million, primarily related to investing in the Company's infrastructure. Year-to-date capital expenditures were $4.2 million.

Looking ahead for the full year 2011, based on our current portfolio of business, our line item guidance remains the same. We expect the amortization of intangibles to be approximately $9.5 million; depreciation and amortization to be $11 million; interest expense of $2.2 million; and the full-year tax rate to be 40%. We are raising our projected capital expenditures to $12 million to $14 million from $10 million to $11 million, which accounts for the Southern Virginia Operations Center that was announced in April. The increase in CapEx will have a nominal impact on 2011's depreciation and amortization.

Finally, we anticipate fully diluted weighted average shares in the third quarter and for the full year to be 20 million and 19.9 million, respectively.

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. Our second-quarter performance reflected the strength and resiliency of our business portfolio, and we expect to continue to post solid results for the remainder of the year. Based on first-half performance, funded backlog levels, and our existing portfolio business, we are narrowing our full-year 2011 revenue guidance and increasing our guidance for earnings per diluted share.

Revenues for the first year are expected to be within the range of $835 million to $850 million, which, at the midpoint, represents 10.2% growth over 2010. Fully diluted earnings per share expected to range from $1.69 to $1.77, equivalent to 25.4% growth at the midpoint. For the third quarter of 2011, we expect revenues to range from $214 million to $220 million, and earnings per diluted share to range from $0.43 to $0.47.

At this point, Operator, I would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Tim McHugh, William Blair & Company.

Tim McHugh - *William Blair & Company - Analyst*

First, I wanted to ask just in looking at the contract wins, which continue to look very good, but the backlog growth being slower, is that just the commentary, John, you gave around some of the work being pushed out to the right? Or is there anything else going on there in terms of contract cancellations? And I guess, as you give that color, what do you -- what gives you any sort of confidence that you may be through the worst of that? Or is it just too hard to tell at this point?

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

I would say a couple of things. I mean, I think in terms of -- obviously, we're very pleased with the sales, which were quite strong. I think that, in terms of the backlog, I would say a couple of things. One is that, first, for some of the larger implementation contracts that we won in the quarter, I think, were -- they're first-time contracts for us. We don't have history in working on them, so I think we're being conservative in terms of the expected backlog on those contracts. And so I think we're taking a conservative view there, given they're new for us.

And then I would say on the commercial side, obviously, there, the velocity of the cycle from sales to backlog to revenue is quite quick. And so there, given that's driving a lot of our growth, again, we can have strong sales book to backlog and then book to revenue all in the same quarter. So I think part the reason you're not seeing the increase in the backlog is also because the commercial cycle is quite a bit quicker than the government cycle.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And then as we look at the year-ago, you mentioned the tough comp from the broadband contract. Can you give us any sort of numbers in terms of thinking about how difficult that comp was? And then how it gets easier in the second half of the year? It sounded like that was a big part of why you expect organic growth to be higher as we get to the back half of the year.

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

We have -- the broadband contract was significant in that the numbers would be higher, around the mid-single digits if you basically included -- didn't have the broadband contract to compare against. So it's not like the growth would be more in the mid-single digits for the first half of the year, which is what we expect in the second half of the year, mid to high-single digits. So -- but since the last year, I think growth in the second quarter was really high. Basically, the broadband contract ramped up that year. So I think it would be instead of 0.5%, it would be more like in the mid-single digits.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And then the last question I had would be on the margins here, especially given the commercial business picking up. Where are you in terms of productivity and margins for that commercial business? Have we seen essentially a recovery back to full strength and full productivity levels? Or is there room for further improvement in those operations?

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

Yes, I think that there's room for improvement because, as we've said, the energy business -- the commercial energy business is really doing well. If our aviation business did as well as our commercial energy business, that would increase -- that would give us a further [fill-up] in our margins. So I think there is room for improvement.

Tim McHugh - *William Blair & Company - Analyst*

Okay, thank you.

Operator

Joseph Vafi, Jefferies.

Joseph Vafi - *Jefferies & Company - Analyst*

Good afternoon and good results. I was wondering if we could maybe talk a little bit on the bookings front. You did pretty well, I think, here, especially relative to some comps out there that had much lower book to bills this quarter. And I know, generally, Q2, Q3 are generally the seasonally strong bookings quarter for ICF. Everyone else has been talking about really basically Q3 as being a big strong bookings quarter because of the delays and the like. And I was wondering if you share that sentiment as you look at your short-term pipeline here, and what you maybe won already this quarter.

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

I think let me emphasize that our Q3 is easily the strongest quarter, so we do believe that Q3 will continue -- will be strong. I'd just point out that, in our case, Q1 and Q2 have been pretty strong, stronger than last year. So we think that, as we've always said, Q1 is low, Q2 is higher, Q3 is higher than that.

So I think the trend will continue and we certainly expect to see a stronger Q3. And we believe that the first three quarters of this year, we anticipate the sales activity to be higher than the first three quarters of last year. So I think that we will continue to, I think, demonstrate the seasonality of our sales process. And I think we will see higher sales in the third quarter than we have in the first two.

Joseph Vafi - *Jefferies & Company - Analyst*

Okay. That's helpful, Sudhakar. And then just going back to the gross margin in the quarter, would it be fair to say that some of the commercial business helped boost Q2 growth margin? And that was maybe potentially offset by some of these delays on some of the contracts that you might have had on federal? And that delay may have resulted in a little bit lower gross margin than you would have seen in the quarter otherwise?

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

Yes, this is Sandy Murray. I think you could say a little bit of that; but as we stated in the discussion, that we have some one-time write-offs that occurred. And we had a little bit of a higher fringe rate. That, and on a year-to-date basis, trues up back to our Q2 rates. So I think you're going to see -- we would have been operating in the 37.5 to 38.5 range. So I think we are seeing the improvement. And if we had not had those two incidents happen, you would have seen the same result for Q2.

Joseph Vafi - *Jefferies & Company - Analyst*

Okay, that's helpful. And then I know, I think, maybe John, you mentioned that a couple of those projects had moved to the right. Do you have visibility on to when they're going to start? Or if they have already started? And how good do you feel about that?

And then I guess is there risk that there could be other projects that could move to the right that were supposed to start this quarter?

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

Yes, I think we -- I think some of those projects have already started here in Q3, but I think we've seen at least a couple of them turn back on. Obviously, with the sales we had in the second quarter with new projects between DoD and CDC SIMS, we expect that those will start in the third quarter. And so I think that gives us confidence that we'll certainly see the growth in the second half of the year in the mid- to high-single digits, as Sudhakar mentioned.

I think we've been pretty conservative. I mean, we don't expect anything else to move to the right. Obviously, unexpected things could happen, but at this point, I think we've taken a pretty conservative view in terms of the risk of -- any additional risk of things moving to the right in our guidance.

Joseph Vafi - *Jefferies & Company - Analyst*

Okay. And then just one final question -- if you're expecting a pretty healthy acceleration here towards -- kind of towards double digits here in the second half of the year in the federal business, are you modeling the commercial business more conservatively at this point? Because it just feels like, with that type of acceleration there, you're modeling a deceleration here on the commercial business.

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

You know, the commercial business grew 52.3% this quarter. We hesitate to think that it will continue to happen, so we have taken slightly more conservative assumptions on the commercial business for the next two quarters. But we certainly hope that it grows at the rate it has grown, in which case, we can report those results. But I think that we have taken a very realistic view, I think.

There is -- we have looked at our federal business quite carefully. We looked at the projects which have started up. We have looked at our commercial business. And we have modeled it, I think, in a way which we think we are confident of delivering. And we're hoping that there will be some positive surprises. But at the moment, I would say that we have a pretty realistic sense of what we will be able to do for the booked balance part of the year.

Joseph Vafi - *Jefferies & Company - Analyst*

All right, great. Thanks, Sudhakar. Thanks, everyone.

Operator

Bill Loomis, Stifel Nicolaus.

Bill Loomis - *Stifel Nicolaus - Analyst*

Thanks, good quarter, guys and ladies. (multiple speakers) Can you talk about -- when I run the numbers on the guidance range for the third quarter and then back into the fourth quarter, it looks like at least at the higher end, you can -- we can -- could get a higher EPS in the fourth quarter than we have in the third, for example. And I know the fourth quarter has always been the weakest for ICF.

What's going on there? Is that acceleration of the federal? Or just the impact of the acceleration of the commercial? You mentioned that some of these slower projects were getting started again. So are we going to not have that normal pattern where your fourth quarter is usually the lower margin quarter?

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

Yes, I think that we think that the fourth quarter, as you can deduce from our guidance, is likely to have an earning -- you know, margins would be pretty similar to Q3 and we think that it will be a better quarter than usual. And so we think that that's slightly different from what it has been in the past. So I don't know whether that explains it, but that's certainly true, both these things which you mentioned.

Bill Loomis - *Stifel Nicolaus - Analyst*

All right. And then just looking at the awards, I mean, is that dependent upon very strong September quarter awards period? Or is that based on your current book of business going forward through the year, plus a more normal amount of awards this quarter?

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

I think it's more based on our normal book of business. I don't think we need an extraordinarily strong third quarter to deliver those results. I think we think we're in pretty good shape with those results through the end of the year.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay. And looking at the federal, just some of the budget discussions that's been going on, what insights can you share with us as you talk to your customers on how they're viewing life, particularly over the next year? What are they thinking about in terms of some of their -- the larger education and health and human service projects that seem to be in the press as potential targets? Obviously, the President supports them but others don't.

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

You know, we -- I think since this deal is so new, it's going to be hard -- we haven't gotten any feedback from our existing client base. As we've pointed out, there have been some projects which have moved to the right because of some uncertainty and they have restarted -- at least, two of them. So we think that there is some impact but, hopefully, it will all start up again.

I think we have looked at the budget deal quite carefully, and based on at least what we know -- and I'm sure you know more than we'd know -- but at least looking at 2012 numbers, in terms of especially expenditure cuts compared to 2011, the cuts are very minimal and they're shared with the Defense Department, with DoD. So there's less focused completely on the civilian discretionary spending and they are more evenly spread between DoD and the civilian agencies.

And from what we can see, there is a 2% reduction for 2011 numbers in 2012, based on at least what we've seen, [to see the] estimates. So for us, as we pointed out in a number of investor presentations which we do -- because we have, over the last many years, seen significant growth in our market share, despite the fact that the federal budget perhaps has not grown as rapidly as we -- as our organic growth has been in the federal business.

So I think that if you look at the last few years, nondiscretionary growth has been pretty low, but always our growth has been much higher, our organic growth. So I think that we are pretty confident that whether it's 2% or 3% or 1%, that we should be able to find niches which will help us continue to grow organically in our areas of expertise. And we're quite focused in our areas of expertise. So that's the basis for our estimates, I think, going forward for the year.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay, great. Thank you.

Operator

George Price, BB&T Capital Markets.

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

Thanks for taking my questions and nice job. Congratulations on the strong commercial growth, too. A couple of questions on the commercial growth. First, I was wondering if you could talk a little bit about looking out, where you think we are in terms of the flow of new work around energy efficiency?

And I guess kind of the same question relating to what you mentioned in the press release on energy transaction activity picking up. I mean, how much further, how much additional work do you think is out there over what time frame, maybe what's driving the pickup in the latter?

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

Yes, I think that we continue to see significant opportunities, and I still think that there will remain significant opportunities as we look out over the next year or two. I think, as I mentioned in the conference call remarks, on the energy efficiency front, we're working in 25 states now. We're working in about half the states, so obviously there's new opportunities with new states and utilities in those states.

And then also we -- there's still significant share that we can increase in the 25 states we're working in. For example, in California, we have several million dollars worth of work in California; but I think on an annual basis, they spend well north of $100 million a year -- several-hundred-million dollars a year on energy efficiency programs. And we're making a real push out there. So I think there's still significant opportunity for us in energy efficiency.

We also see a -- continue to see a lot of opportunity around transmission-related infrastructure, investments in terms of doing the environmental impact assessment and environmental monitoring around new transmission lines. I think that trend will continue for the next couple of years. And there certainly has been, with the economy picking up, a rebound in M&A and assets-related transactions in the energy space. And so I think that will remain a strong trend for the next several years. And so I think in the core energy business, there's still significant opportunity for us, significant market share, and very strong trends.

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

Okay. And how about the demand environment, I guess, in the more aviation-related business? As I recall, that had been a little slower to pick up post-downturn. Where do you see things standing there, given there's been some activity lately, I guess, in the commercial aviation space?

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

Yes, you know, we really haven't seen a pickup in the aviation space in our business. So there, I think, we're still -- we just haven't seen that pickup. So I think, as Sudhakar mentioned, we do see -- certainly if that does pick up, there is additional room for improvement in our commercial business on that front. We have not seen a pickup there yet.

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

Okay, okay. And then I was just wondering, I know you had a release out talking about a re-win or an extension of a contract that we are subbed to Lockheed working with the FAA. And obviously, with your exposure in the aviation space, I was wondering what the -- if you're seeing any impact from the lack of FAA funding, the furloughs, et cetera?

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

No, we have not seen any impact yet. We continue to work under that contract and have not seen any impact.

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

Okay. And last question, I guess, Sandy, what was the acquired revenue in the quarter?

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

The acquired revenue? (multiple speakers)

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

Yes.

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

We had, what? -- [$1.2 million] or -- nonorganic, if that --?

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

It's about around $1 million.

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

Right. (multiple speakers) It's about $1 million.

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

Around $1 million of total revenue. (multiple speakers)

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

Right.

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

Okay. Great. And I guess, last question maybe could you -- you talked about it a little bit in the -- in your prepared remarks, but could you give us maybe a little bit more color on the international opportunities demand environment you're seeing there? And to the extent you can talk more about how you'd like to pursue inorganically what that might look like?

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

Yes, we both pursue both organically and inorganically. You know, we have been making sure that we get infrastructure-related work in China and in Indiana. I mean, you know, there are projects which will obviously grow our business but perhaps will not

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move the needle immediately in an organic way. We are looking at ways in which we could do more in the energy environment space in Europe. We think there is significant opportunity there, and there are possibilities of perhaps making acquisitions at valuations which are reasonable, which will expand our footprint there as well as give us some scale in emerging Asia.

So I think we are looking at both ways in which we can invest and focus the business in areas where there's lots of money being spent in Asia and Europe, as well as making acquisitions, which would give us more scale there. So I think that, most importantly, we are focused on a scale, and scale is important in order to win bigger projects. And that will -- certainly something which is -- which will happen if we can make the right acquisitions.

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

Do you think we could see something before the end of this year in that regard?

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

You can never predict on acquisitions. As we've said -- I've been asked a number of questions over the last year and a half why haven't we made any substantial acquisitions? It's not for lack of trying. It's always a question of figuring out once you like something, whether it's really as good as you thought it was. And we will not do something which is not solid and growing, which we feel good about. So, again, it's hard to say, but we're certainly actively looking.

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

Great. Thank you very much.

Operator

Tim Quillin, Stephens Inc.

Tim Quillin - *Stephens Inc. - Analyst*

Sandy, back on the gross margins, could you quantify the amount of the one-time write-off? And maybe give us a little more color on what the fringe benefits (multiple speakers) [issued] --?

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

I would say between the two of those items, Tim, it would have taken our gross margin up from 37.3% to about 38.1%. And that's the combination of the two of them.

Tim Quillin - *Stephens Inc. - Analyst*

I mean, is the right way to think about this that the EBITDA margin could have been 10.5% without those issues?

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

Well --

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

We [certainly] even had the 9.7 --

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

Right, right. (laughter)

Tim Quillin - *Stephens Inc. - Analyst*

I'm just trying to say, I mean, that's a big number, I'm just trying to (multiple speakers) --

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

The math would work that way.

Tim Quillin - *Stephens Inc. - Analyst*

(laughter) Right. I'm just trying to -- I guess I'm trying to extrapolate that, of course, for the rest of the year and then some. But is that a sustainable or achievable EBITDA margin as you go forward?

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

Yes, I would go with the -- I would suggest that you work backward from our EPS guidance and come up with the EBITDA number. So I wouldn't go beyond what we have given you, obviously. But we certainly think it's achievable. We've done it in the past when there were large volumes of work and we think that we can do it again going forward. And we certainly strive for that. So it's certainly achievable.

Tim Quillin - *Stephens Inc. - Analyst*

Right. No, that's encouraging. And I guess one benefit to margins, EBITDA margins, in the first half of the year with the stock comp's been a little bit lower year-over-year? I think probably had something to do with the stock price, but what should we expect in terms of stock comp -- stock compensation for the next couple of quarters?

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

Approximately -- I would say around the same levels that we ran in Q2, maybe a little higher, but not much. I mean, I was looking at the trend from last year and that looks like how we trend, so.

Tim Quillin - *Stephens Inc. - Analyst*

Right. Okay. Good. And then just lastly, so commercial was 20% of revenue in the quarter. What has it been -- what has commercial been as a percentage of bookings over the past couple of quarters, if you either know that number precisely or just generally?

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

Yes, I think we -- what I would tell you is that the commercial revenue, the wins have been close to the share. I think the velocity of these wins are so high that at any instant, we win it and we do the work within the quarter. So sometimes it's sort of hard to exactly calculate that number. But I would go with the response we gave you, I think, last quarter, which was that in proportion to our business, the wins are sort of reasonably in proportion to our business.

Tim Quillin - *Stephens Inc. - Analyst*

Got it. Great. Thanks. Nice results.

Operator

Edward Caso, Wells Fargo.

Edward Caso - *Wells Fargo Securities - Analyst*

Thanks for taking my call. You talked to George about international M&A. Is there any focus on US-based M&A?

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

Sure -- George asked the question focused on international M&A, so I answered that question. We're certainly focused on US M&A, that's where we've done a number of deals and we continue to look for things here.

Edward Caso - *Wells Fargo Securities - Analyst*

Can you talk a little bit about your visibility at this time of year into your guidance, relative to, say, the same time in the last several years?

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

I think our visibility is pretty good. As John mentioned, we have our current book of business, which we think is solid enough, we think, to deliver the numbers, which we are telling you we will deliver. So I think that visibility is pretty good. Compared to last year, I think -- I don't see any big difference in last year to this year.

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

I would agree. I don't see any big difference. I think our visibility this year is similar to our visibility last year. There hasn't been a material change there.

Edward Caso - *Wells Fargo Securities - Analyst*

Great, thanks. And finally, given all the noise the last few months with inside the Beltway, is there anything that causes you to maybe rethink some of the focus areas, now that we're starting to see maybe where some of the spending priorities are shifting to?

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

No, I think that we basically are really happy with our areas. I think the Department of Transportation on one, on the other side we have health and other social programs. We are planning for budgets not to -- which has been the case over the last year and a half, budget not necessarily expanding in any significant way. And those areas are pretty good.

We have a nice cybersecurity business, which has been growing quite nicely, which we've also taken into the energy industry. So we are quite pleased with the areas we're in. We're not looking to expand into other areas. We think there's enough runway to continue to grow in those areas.

Edward Caso - *Wells Fargo Securities - Analyst*

Thank you.

Operator

Tobey Sommer, SunTrust.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Fortunately, many of my questions have been answered, so I'll just ask a couple. Within the commercial businesses, which ones have historically been the most profitable?

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

Well, I think that, obviously, the commercial energy business, the more transactional M&A portion of the business is the most profitable, although the energy efficiency is quite profitable too. So I would say that across the board in the commercial energy space, the profitability is quite strong and quite high. We do quite well across the entire arena of work we do there.

We do do some litigation work; obviously, litigation support is the most profitable, but that's a small portion. But I would just say across the board, the commercial energy business is quite a profitable business for us.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

And when the aviation business is working well, is its profitability -- does it rival the energy piece? Or not quite that elevated?

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

No. If it's -- if the aviation business is going strong, it rivals the commercial energy business. It can do as well as that business. So I think that's why we do believe that if that business improves, there's certainly room for continued leverage from our commercial business.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Okay. In the proportions, the mix between the two -- is the aviation a substantially smaller piece by now?

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

Yes, the commercial business I would say in very round terms -- and I'm talking round terms, I mean, I think that the energy business is probably two-thirds -- 70%, maybe 85% of the total commercial business. So of our total revenues being 15% to 20% commercial, the aviation is maybe 15% of that.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Got you. Okay. And then just wanted to ask a question about generally wages and hiring -- your margins are pretty elevated right now and I guess the guidance contemplates being able to sustain those levels. What sort of compensation increase have you been seeing so far this year? And has that changed at all in the last couple of quarters?

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

No, I wouldn't say the compensation levels have increased in the last several quarters. I think there -- we haven't really seen a major change there. And so there's been no surprises on the compensation front.

Obviously, as you know, I mean, our compensation includes salary and bonuses and stock. So, obviously, as the business does better, people can expect -- there's more upside on the bonus side. But in any event, we haven't really seen an impact on the compensation levels. And I think, certainly, on the government side with the uncertainty, we haven't seen it there, either.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Okay. Thank you very much.

Operator

(Operator Instructions). A.J. Strausser, Copper Creek Partners.

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

Hello? Operator, are you still online?

Operator

Yes, sir. Your next question comes from the line of Eric Prouty with Canaccord. Please proceed.

Eric Prouty - *Canaccord Genuity - Analyst*

Great, thanks. Good quarter from me also, guys. A quick question -- with all the talk about the federal side of the business, maybe just spend a couple of minutes on what you see going on, on the state and local side. Obviously, we've had similar budgetary problems there -- some shutdowns in different states. Has that impacted the business at all?

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

Well, you know, I think -- this is John Wasson -- our state and local business is in the range of flat to up to mid-single digit growth. So I think we -- which is not a big change for us over the last several quarters. And so I think we haven't seen any material or significant change in our state or local business in this quarter.

Eric Prouty - *Canaccord Genuity - Analyst*

Okay. And then just a second question -- if we look back to Macro, and now that you've had a lot of time to digest that and integrate it into the business model, again, can you just give a minute or two commentary on what you went in thinking you'd get out of that acquisition? And if that thesis played out now that it's been fully integrated in?

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

Yes, I think we are very pleased with the Macro acquisition. We think that it has given us significant scale in our health and social programs business. And that scale has allowed us to have a presence with clients whom we did not really have a strong presence at. For example, the CDC thing, which we have talked to you many, many times. I think the fact that we have more than 100 people in the Atlanta office who know the client well, has enabled us to leverage that client base into larger implementation projects.

I think we've demonstrated that we could win these large projects once you know the client and the client trusts you from a domain-specific perspective, you can win large contracts. And I think that we've done that with Macro two or three or four times. We did it with VTech -- acquisition we made in Maryland, we did Health IT. We won many large implementation contracts, or two at least, I can recall with NIH -- $60 million and up a few years ago.

And so I think in all these cases, we've been able to grow these businesses in a way which is -- which they would not have been able to do if they had continued to be stand-alone businesses, by combining their client relationships with our implementation capabilities, and allowing them to bid on contracts where they would have been a sub if we had not been there to give them scale.

So I think that looking back we -- at the value -- at the valuation, et cetera, of these businesses which we paid, I think the effective multiple has been much, much lower -- two, three, four times lower than what the actual number we paid was, primarily because of the fact that we've been able to grow the business much more rapidly and really get significant leverage out of those businesses. So we're very pleased with all these acquisitions which we've done. And we're always looking to see how we can replicate that success in the various areas we have a presence in. So it's been quite successful for us.

Eric Prouty - *Canaccord Genuity - Analyst*

Sudhakar, just a follow-up to that. If we look at your indirect expenses, how much more leverage is there -- it's a bit of a follow-up to the EBITDA margin question. Can we still squeeze more out as a percent of revenue out of the indirect and selling as we scale the business larger and larger? Or are we getting to the peak efficiencies from an overhead standpoint?

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

This is Sandy Murray. I think the -- in Q2, we ran like 27.8% SG&A as percentage of revenue. And historically, we've been around the 28%, 28.5% mark. And I think we're continually looking to how we can monitor that indirect spending and hope to lower the percentage as we scale higher. And some of them -- I think you know some of those we have to invest in infrastructure, but there are instances where our fixed costs obviously will not rise in our SG&A area. So I'm thinking, as we continue to grow topline, you will see that as a percentage of revenue drop.

Eric Prouty - *Canaccord Genuity - Analyst*

Great.

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

I think, just to follow-up, I don't think we are at the peak there. I think some of the indirect labor which is in the SG&A expenses would potentially be more productive to use. So we are constantly looking for ways in which that could happen. So that has a significant impact on that. And as Sandy says, the fixed cost would not rise that rapidly. So I think that we are not quite there yet. We still have a little way to go.

Eric Prouty - *Canaccord Genuity - Analyst*

Great. Okay, thank you very much.

Operator

And at this time, I'd like to turn the call back over to management for closing remarks.

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

Thanks very much for joining us, and we look forward to speaking to you on the next earnings call in early November. Thank you again.

Operator

We thank you for your participation in today's conference. This does conclude your presentation. You may now disconnect and have a great day.