FINAL TRANSCRIPT

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ICFI - Q1 2008 ICF INTERNATIONAL INC Earnings Conference Call

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PRESENTATION

Operator

Welcome to the ICF International First Quarter 2008 Conference Call.

(OPERATOR INSTRUCTIONS)

As a reminder, this conference is being recorded on Thursday, May 8, 2008 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. Good afternoon, everyone, and thank you for joining us to review ICF's first quarter 2008 performance. With us today from ICF International are Sudhakar Kesavan, Chairman and CEO, John Wasson, COO and Alan Stewart, 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 May 8, 2008 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.

During this call we will refer you to non-GAAP financial measures such as backlog and EBITDA. Our reconciliation of these measures to the most directly comparable GAAP measures is available in the Investor Relations section of our website.

I will now turn the call over to our CEO, Sudhakar Kesavan, to discuss first quarter 2008 highlights. Sudhakar.

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

Thank you, Doug, and good afternoon, everyone. This was another strong quarter for ICF. Boasted strong revenue growth. Achieved solid profitability in line with our guidance and are successfully integrating our most recent acquisition.

First quarter revenue trends are quite positive with our core advisory and implementation business exclusive of The Road Home contract growing almost 68% on a year-over-year basis. If you exclude our three recent acquisitions, ICF's organic growth rate was 20.3% over first quarter 2007 level. The strong performance directly correlates to the excellent demand situation we are experiencing in our targeted markets.

As we noted in today's release, first quarter core business revenue growth was broad based, reflecting increased contributions from each of our four markets lead by energy, climate change, environment, homeland security and information technology services. Bookings across these sectors are running on an average at least 20% ahead of revenues. This gives you a sense of the positive momentum that is developing for us in our target markets which are the forefront of some of the key public policy issues and challenges that are being faced by government and commercial clients and where ICF has recognized longstanding domain expertise.

Prime contracts accounted for 92% of our first quarter 2008 revenue. Exclusive of The Road Home contract, that number was 85%. Also, we are seeing immediate benefits from our recent acquisitions. In addition to their revenue growth which is in line with our expectations, we have been able to leverage our combined sector expertise to capture contracts that we would not have qualified to pursue independently. Don Wasson, our Chief Operating Officer, will have more to say about these and other business development programs in a moment.

In addition to strong revenue growth, ICF posted solid profitability in the first quarter. EBITDA margin was 9.5% exclusive of a one-time benefit, in line with our guidance and indicative of the stable profitability of our business model as we increase relative weighting of ICF's core business and absorb the anticipated decline in Road Home contract revenues.

At the end of the first quarter our backlog, excluding The Road Home contract and the SH&E acquisition, reached $591.3 million, up 65% from last year's first quarter 2007 and a 22% sequential increase over fourth quarter 2007 levels. Exclusive of the Jones & Stokes acquisition, core business backlog was up 5% sequentially. On a trailing twelve-month basis the value of total contracts won in our core business exceeded $400 million.

We have been accelerating our recruitment efforts to meet increasing client demand for our services. Expanded geographic footprint has helped in this regard and we ended the first quarter with a core employee population of close to 2,400.

Now I would like to turn the call over to John Wasson to tell you more about our operations. John.

John Wasson - *ICF International Inc. - COO*

Thanks, Sudhakar, and good evening.

First, let me give you an update on The Road Home contract. By the end of the first quarter we had completed nearly 105,000 closings, greater than the projections for the original programg, some nine months ahead of the original schedule. These closings corresponded to some $6.2 billion in payment benefits to eligible homeowners and this amount already represents the largest housing reconstruction program in our nation's history.

Recently we signed performance metrics for the second quarter, which include the goal of reaching 116,000 closings. We believe that the second quarter performance metrics, while challenging, are achievable and provide an objective and transparent means of assessing the progress of the program. We believe that this will be helpful to us and to the State.

It now looks as though the total closings under the program will be approximately 25,000 less than originally anticipated. This will result in a reduction in the work that we will perform for the homeowner program in 2009.

As we approach the end of the homeowners program over the course of the summer, our remaining work on the contract, which continues through the first half of 2009, will involve performing final reviews of all the grant documentation, any additional disbursements that are required as a result of elevation or appeals, continuing advice to homeowners and the management of the small rental program.

Today's earnings release referenced major contract wins for three of our four target markets including a major new contract with EPA, a large IT blanket purchase agreement with the Department of Defense, business continuity services at the Department of Homeland Security and technical assistance to the AIDS.gov website maintained by the Department of Health and Human Services.

Our fourth market area, energy and climate change, typically has a large number of smaller engagements due to greater focus on commercial business. But I am pleased to report that the over 60 new contracts won in this market during the first quarter represented continued growth from what is our fastest growing sector.

We are particularly pleased that we are winning new business as a result of working together with our new acquisitions. Not only are they continuing to achieve the planned results in their respective business, but we are seeing a growing number of opportunities that neither ICF nor the acquired entity would have been able to achieve on its own.

As an example, we recently had the opportunity to expand our training and curriculum development capabilities that we use throughout the federal government into an opportunity for safety training with the FAA. Neither SH&E nor ICF would have had the capacity or expertise to respond to this need quickly but we jointly won a multiple award contract earlier this year.

Currently, we have won two tasks worth approximately $500,000 and are optimistic about our ability to expand in this area. ICF and Jones & Stokes jointly won a $600,000 project for an environment impact statement to evaluate the impacts of building and operating a wind farm on 31 acres of public land in southern California. We were also selected as the winner of an important new airport planning initiative in California so it's a joint effort between SH&E, Jones & Stokes and ICF.

ICF's new business pipeline continues to be strong. As of December 31st it was $!1billion and as of March 31st it stood at $1.2 billion without Jones & Stokes. We are pleased we are also strengthening our pipeline for both advisory and implementation services. Currently our pipeline numbers include ten leads that are in the capture and proposal stages, each worth $25 million and above.

Finally, our rate of personnel retention continues to be very good. Whereas, for last quarter we reported an annualized turnover of 13.9% without The Road Home and 20% with The Road Home, this quarter we are pleased that the corresponding levels have dropped to 11.4% and 15.1% respectively.

Now I'd like to turn the call over to our Chief Financial Officer, Alan Stewart, with the 2008 first quarter financial highlights. Alan.

Alan Stewart - *ICF International Inc. - CFO*

Thank you, John, and good evening to all. As you can see from our release, revenue for the 2008 first quarter was $175.1 million, up 15.4% from the $151.7 million reported in last year's first quarter. Revenue from The Road Home program was $82.9 million for this recent quarter compared to $96.8 million for the first quarter of 2007.

This quarter, direct costs decreased a percentage of gross revenue to 68.7% from 71.3% in the first quarter of last year, primarily due to decreased levels of subcontract costs associated with The Road Home contract as we continue to work through the homeowner closings.

Gross profit margin for the quarter was 31.3%, up from the 28.7% reported with last year's first quarter. We anticipate that the gross profit margin will continue to increase back to our historical levels as The Road Home revenue winds down and we replace this revenue with organic growth supplemented by acquisitions which have higher gross margins.

Indirect and selling expenses including non-cash equity related compensation were $37.2 million or 21.3% of revenue for the recent quarter compared to 27.7% or 18.3% of revenue for the first quarter of 2007. The increase in indirect and selling expenses was primarily due to the acquisitions of Z-Tech in June 2007, SH&E in December 2007 and the acquisition of Jones & Stokes in February 2008.

Non-cash stock compensation expense was $1.7 million in the first quarter of this year compared to $0.6 million in the first quarter of 2007. A non-recurring one-time credit of $900,000 related to a reduction of our headquarters facility cost was taken in this first quarter of 2008. In addition, our financial and SOX audit costs, including our public company expenses, aggregated approximately $1.1 million for this quarter.

EBITDA was $17.5 million, up 10.8% from the 15.8 million reported last year. EBITDA margin was 9.5% exclusive of this one-time credit. Depreciation and amortization expense increased to $2.8 million from $1.2 million in the first quarter of 2007, substantially due to increased amortization of purchased intangibles related to our recent acquisitions. The higher interest expense in this year's first quarter was also attributable to our recent acquisitions.

The effective tax rate was 41.9% compared to the 40.6% effective rate in the first quarter of 2007. This increase is attributable to a decline in tax credits and increased charges for FIN 48, related to ICF's foreign operations.

This resulted in first quarter 2008 net income of $7.8 million or $0.51 per fully diluted share compared to net income of $8.7 million or $0.60 per fully diluted share in last year's first quarter. The acquisition of Jones & Stokes was closed in mid-February so only 1.5 months of their results of operations are reflected in this first quarter results. The fully diluted share count for the 2008 first quarter was 15,179 million

In reviewing our balance sheet at March 31, 2008, there are several points to note. Our net accounts receivable balance was $161.2 million compared to 190.2 million balance as of December 31st. This represents 83 day sales outstanding at March 31st compared to 92 days sales outstanding at December 31, 2007. If you also deduct the amount of deferred revenue for these periods, the adjusted DSOs would be 76 and 84 respectively for the March and December periods.

The decrease in DSOs resulted from the active management of our accounts. We continue to anticipate DSOs in the long-term to follow our more traditional 75 to 85 day historical average.

At the end of our first quarter our revolving bank debt was approximately $92.9 million after the expenditure of approximately $50 million for SH&E on December 3rd and Jones & Stokes which expended $50 million in February of this year.

And with that I'd like to turn the call back to Sudhakar.

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

Thank you, Alan. As you have heard there is a strong demand for our core advisory interpretation services. In fact, at the end of the first quarter our annualized run rate, exclusive of The Road Home contract, was over $400 million. We expect second quarter 2008 results to be similar to the first quarter with revenues in the range of $175 million to $180 million. EBITDA margins of about 9.5% and earnings per diluted share in the range of $0.48 to $0.52

We are also reaffirming our full year guidance which is based on our current portfolio business. Revenues for 2008 are expected to be in the range from $690 million to $720 million. EBITDA margins should be between 9% and 10% and earnings per diluted share are expected to be in the range from $1.85 to $2.10 based upon approximately 15.4 million shares outstanding.

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

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Operator

. (OPERATOR INSTRUCTIONS).

And your first question will come from a line of [Jason Cooperberg] with UBS.

Unidentified Participant

Hello, guys. This is Allison in for Jason. A couple quick questions. First of all, what type of run rate should we expect for the core business to grow at on an organic basis after beyond 2008?

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

Beyond 2008?

Unidentified Participant

Yes, just in general terms.

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

I think we have generally said 10% to 12% is the organic growth rate which we expect beyond going forward. I would just raise that to 12% to 15% going forward because we believe we are, our core business is doing well so I think I would use 12% to 15% going forward.

Unidentified Participant

Okay. Great. And then you've been pretty aggressive on closing acquisitions recently. Do you expect to continue pursuing new deals or do you plan to kind of take a step back now?

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

No. We are I think in all our acquisition activity is based on strategic fit. So we are continuing to look at acquisitions. We believe that if we find the right one we will certainly try and close it but, so we are certainly pursuing deals but you know there is no -- we want to do the right one.

Unidentified Participant

Okay. And then just lastly, are there any particularly large deals that stand out in your pipeline that we should be tracking. Maybe you could give us some detail about the customer. Potential size or timing of those deals.

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

We have quite a few deals. I think that just, you know, the larger ones are in the federal arena. We have traditionally not talked about the specific deals we are going after primarily for competitive reasons. So I would hate to talk about them extensively but --

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Unidentified Participant

Maybe you could talk about just the size of them. Or the timing.

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

Sure. The largest ones are. There's one which is around $100 million. The second, the next three or four are between $38 million and $50 million range. And the next five are all between $25 million and $32.5 million.

Unidentified Participant

Okay. Great. Thanks, guys.

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

Thank you.

Operator

Your next question will come from the line of Joseph Vafi with Jeffries and Company.

Joseph Vafi - *Jefferies and Company - Analyst*

Hello, gentlemen. Good afternoon.

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

Hello, Joe.

Joseph Vafi - *Jefferies and Company - Analyst*

I was wondering if we could get maybe just a little bit of an outlook on Road Home, if we expect their revenue to be up or down sequentially in Q2 versus what we saw here in Q1.

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

I think it's a little hard to predict but I would expect that the revenue would be around $275 million for the year and it will be reasonably similar for the next three quarters and then it will be down in the fourth quarter.

Joseph Vafi - *Jefferies and Company - Analyst*

Okay. All right. That's helpful.

And then secondly, I know you won a lot of business in 2007. Just kind of maybe an update. Maybe in specifics and broadly on how some of those contract vehicles are doing in terms of ramping up as we kind of look here in mid 2008.

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

I think that part of the reason why I think our organic growth rate is as good as it is is because we won all that work in '06 and '07 so they're all sort of doing well. Most of our federal business is doing actually quite well. The Homeland Security for example is doing well. It's ramped up. We won a bunch of Homeland Security contracts.

We won a bunch of private contracts in the climate change arena. If you recall in the last year there were three large ones we won. So those have ramped up and we've also been winning lots of jobs in the commercial energy space, which we have won over the last year, which they don't all get done within six months. They take six months to a year to get done. And so they're all sort of cranking along quite nicely.

So I think all the contracts are ramping up reasonably well and I think that we believe that, our growth can stay, you know, in this accelerated mode for, going forward, as I said, we as you know, Joe, you accused us of being conservative. Instead of 10% to 12% I just said 12% to 15%.

So I think that we are reasonably optimistic about our core business and I think that we see that our pipeline is solid and our backlog is growing and I think that we will do well going forward.

Joseph Vafi - *Jefferies and Company - Analyst*

Okay, great. And then just one quick one. I apologize. I jumped on the call a little late and I'm not, I don't have the press release in front of me but did you disclose what the organic growth rate was in the core business or ex- the acquisitions.

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

Yes 20.3%.

Joseph Vafi - *Jefferies and Company - Analyst*

I'm sorry. What was it?

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

20.3%.

Joseph Vafi - *Jefferies and Company - Analyst*

Okay, great. Thanks a lot, gentlemen.

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

Thank you.

Operator

Your next question comes from the line of Tim McCue with William Blair. Please proceed.

Tim McCue - *William Blair & Company - Analyst*

Yes, I want to ask about the demand environments for some of the recent acquisitions you've seen are done. Particularly, the airline industry for SH&E and the construction environment for Jones & Stokes.

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

They have been performing quite well. They are hitting all the numbers which they had given us in terms of the forecast for the year. On the SH&E front, they do a lot of work for airlines and airports. So their airport business is doing quite well.

Their airline business is actually also doing quite well because most of the work they do over the last year or so has been for airlines which are not in the United States, which are primarily in the Middle East and in Asia and in Europe. So I think that they are also performing consistent with the pro forma they gave us.

On the Jones & Stokes front, there is enormous activity on the whole environmental impact assessment front on construction, infrastructure projects, et cetera.

So I think that based on their numbers they're doing fine and their backlog is very strong. We added, they nearly had $82 million of backlog. A round number like that which we added to our backlog. And you know their run rate, annual run rate at least last year was $66 million or $65 million.

So I think that their backlog is strong and I think their numbers, at least based on the numbers we've seen, are pretty consistent with what they said, so it looks very strong based on the numbers in the backlog.

Tim McCue - *William Blair & Company - Analyst*

As you've integrated that acquisition, could you update your thoughts on whether that kind of type of works looks more or less attractive as an area you might be able to consolidate over the next few years.

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

Yes, I think that we will certainly be able to consolidate. That area looks quite strong, not only domestically but also internationally. We have, there's a lot of oil and gas exploration going on all around the United States as well as overseas. And we just announced this morning we won two large contracts, projects at least for that kind of business pretty large in Brazil. We have won another project in Russia which is over $2 million, which we really didn't announce in the press release only because we couldn't reveal the client for confidential reasons. So we didn't get the permission from the client.

But I think that we have won a lot of work which is exactly in their sweet spot both domestically and internationally. And we believe that there are huge opportunities for consolidation. It just gives you a sense that we are a little different from the traditional government services firm because we are the only ones doing this kind of work and consolidating this kind of business in the four domain areas we have.

And I think that is reflected in some of our organic growth rates. Because we believe the demand environment for all our markets is actually quite strong and those markets are slightly different from the ones which you traditionally see in the government IT space.

Tim McCue - *William Blair & Company - Analyst*

Have you seen any change in the demand environment, which you said generally remains strong, in between corporations versus the government for climate change related projects?

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

Not really. We have seen that the government, let me give you two examples. On the government side, you could see that last year we won three very large contracts between, I think, $20 million and $42 million. There were three contracts. I don't recall exact numbers but they were quite large, which were on climate change issues with EPA. And then now we are seeing a lot of large contracts coming out from utilities on energy efficiency.

These are large contracts in that they are in the tens of millions of dollars. And given that oil prices and generally oil and gas prices are going to stay strong, I foresee a lot more RFPs coming out for large energy efficiency implementation projects across the utility sector. So I see the demand environment for as you say broadly climate, which includes energy efficiency, very strong.

Tim McCue - *William Blair & Company - Analyst*

Okay, then lastly. I think you ,Sudhakar, made a comment earlier about bookings running 20% ahead of revenue. Were you referring to specifically climate change related revenue or was that commercial work or more broadly the legacy revenue.

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

No, I think I was referring to those four areas. Across both commercial and government. In those four areas. The bookings on average are running 20% ahead of revenues. So I gave you that number just to give you a sense of the fact that there's momentum. And that we believe that you know the momentum will continue. It was energy, climate change environment, homeland security and IT services is what I said.

Tim McCue - *William Blair & Company - Analyst*

Okay. Great. Thank you.

Operator

Your next question will come from a line of Tim Quillan from Stevens Incorporated.

Tim Quillan - *Stevens Incorporated - Analyst*

Good afternoon.

Tim McCue - *William Blair & Company - Analyst*

Good afternoon.

Tim Quillan - *Stevens Incorporated - Analyst*

With regards to The Road Home contract. I just want to make sure that I'm clear in terms of your expectations for 2Q. When you say, about the same, if we plug in, about the same revenue, as 1Q and then get a full quarter of Jones & Stokes that would theoretically put you over the guidance range. So is there anything in the core business that would be going down or are you saying that Road Home might be slightly lower?

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

Yes, I'm saying that The Road Home might be slightly lower because it's hard to predict the ups and downs on Road Home revenues. So I don't believe there is any softness in our core business. I believe that it's strong and those numbers are solid. I think that what I would suggest is that we can't predict exactly what The Road Home revenues would be in the second quarter.

Tim Quillan - *Stevens Incorporated - Analyst*

Okay. But they would probably stay at that level into 3Q and then drop down a little bit. And I missed a little bit of the discussion about 2009 on Road Home but presumably you still expect to realize the remaining contract value that you have booked but are there other changes in expectations as you go into 2009.

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

Yes, I think that as John said there are changes in expectations because we believe that the number of closings is 25,000 less than what was anticipated. And therefore the homeowner program will complete earlier. And therefore we believe that we will not need the full amount we have to do the work so I think that we believe that The Road Home program will complete earlier because of the fact the number of closings was much less than what was anticipated.

Tim Quillan - *Stevens Incorporated - Analyst*

I'm sorry to follow up on this but does that mean that you won't realize the full value of contracts that have been awarded which I think have been a total of $912 million, because of the reduced numbers?

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

Yes, I think that for the homeowner program part of it, yes. That is true. That next year in 2009 we do not believe that the revenues will accrue for the homeowner program to the fullest extent.

Tim Quillan - *Stevens Incorporated - Analyst*

Okay. Can you give us some. I was expecting about a $62 million tail into 2009. Can you give us some sense of what we should expect now?

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

I really cannot give you the number. We are in discussions with the state. The state will, the state is doing, we are working with the state doing a budgeting exercise and as soon as we know we will, I'm sure there will be an announcement. So I really cannot give you a sense.

There will be the other programs. As John pointed out there are other programs which we are doing, which will continue, but I think the homeowner program will slow down. How much that will be, there will be some revenue in 2009 but how much that will be we don't know.

Tim Quillan - *Stevens Incorporated - Analyst*

Okay. No problem. That's fair. On the $900,000.00 facilities related benefit. Where exactly was that? Was that taken in the SG&A line?

Unidentified Company Representative

Yes, in the facility pool primarily in the indirect expense line.

Tim Quillan - *Stevens Incorporated - Analyst*

And yes, just lastly. Can you discuss your cash flow expectations for the full year? Thank you.

Unidentified Company Representative

I would say I would expect for the second and probably the third quarter that the cash flow produced from operations will be of a rough proxy of the EBITDA expected but as we get into the fourth quarter and we collect some of the receivables, there could be a little bit of acceleration in the fourth quarter going in the first quarter. But we can't determine that amount at this point in time.

Tim Quillan - *Stevens Incorporated - Analyst*

Thank you.

Operator

(OPERATOR INSTRUCTIONS). There are no further questions at this time. I would now like to turn the call back to management for closing comments.

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

Thank you again for joining us today. We started the year off very well and we look forward to keeping you up-to-date on ICS progress. Thank you.

Operator

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