

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **ICFI - Q3 2011 ICF International Inc Earnings Conference Call**

**Event Date/Time: Nov. 02. 2011 / 12:30PM GMT**



Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

## CORPORATE PARTICIPANTS

**Douglas Beck**

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

**Sudhakar Kesavan**

*ICF International, Inc. - Chairman and CEO*

**John Wasson**

*ICF International, Inc. - President and COO*

**Sandy Murray**

*ICF International, Inc. - SVP and Interim CFO*

## CONFERENCE CALL PARTICIPANTS

**Tim Quillin**

*Stephens Inc. - Analyst*

**Matt Hill**

*William Blair & Co. - Analyst*

**Tobey Sommer**

*SunTrust Robinson Humphrey - Analyst*

**A.J. Strasser**

*Cooper Creek Partners - Analyst*

**Erik Olbeter**

*Pacific Crest Securities - Analyst*

**Bill Loomis**

*Stifel Nicolaus - Analyst*

**Eric Prouty**

*Canaccord Genuity - Analyst*

**Mark Jordan**

*Noble Financial Group - Analyst*

**Rick Eskildsen**

*Wells Fargo Securities - Analyst*

## PRESENTATION

**Operator**

Welcome to the ICF International third-quarter 2011 conference call. During the presentation, all participants will be in listen-only mode. Afterwards you will be invited to participate in a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded on Wednesday, November 2, 2011, and cannot be reproduced or rebroadcast without permission from the Company.

Now I would like to turn the program over to Douglas Beck, Senior Vice President Corporate Development. Please go ahead.

Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

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

Thank you, operator. Good morning, everyone, and thank you for joining us to review ICF's third-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 November 2, 2011 press release and our SEC filings for discussions of those risks.

In addition, our statements during this call are based on our view as of today. We anticipate 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 third-quarter 2011 highlights. Sudhakar?

---

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

Good morning. Thank you and thank you for joining us. We have seen solid growth through 2011. Our third-quarter performance again demonstrated how well our domain expertise, our mix of government and commercial business, and our diversified client base fit together to drive strong year-over-year growth.

As you saw in today's earnings release, revenue and reported earnings per share came in at the high end of our range with net income growing at a rate that was more than twice revenue growth. We reported double-digit year-over-year revenue increases in our key markets.

Energy, environment and transportation was up 15.4% and health, education, and social programs was up 10.3%. Together these markets accounted for 86% of our third-quarter revenue. Homeland security and defense were virtually flat, coming in at 1.2% below last year's third quarter.

This was another strong quarter for our commercial business which increased 54.6% and for the first nine months of this year is up 49.7%. We have built a reputation as the go to firm for energy efficiency work and continue to grow that part of our commercial business along with managing large infrastructure projects.

As we have said over the past two quarters, our commercial business is benefiting from a pickup in advisory work on energy had related transactions but the volume of this business has not yet returned to where it was three years ago.

Our federal business was up 2% year-on-year, up from quarter two's growth rate and resulting in 3% growth for the nine months. We expect to see a higher federal growth rate in the fourth quarter. You will note that our state and local business picked up in the third quarter, increasing 17.5% year-on-year. This resulted from our work in an increased number of infrastructure projects on the West Coast, where revenues from bond issues and municipal sales taxes are providing a good funding source despite state budget issues and we are comparing against a relatively weak 2010 third quarter.

Profitability was markedly ahead of last year's levels, benefiting from a more favorable mix of business, greater productivity, and lower D&A costs.

This was an excellent sales quarter for ICS in dollar value as well as in strategic importance of our contract wins. The record \$632 million in awards this quarter brings our nine-month sales to \$1.1 billion, up 55% from last year, which was also a good year for us. We are bidding on more and larger contracts and our expanded qualifications are aligned with these opportunities.

Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

The accelerated business development activities we discussed in the last quarter's call are clearly paying off. Out of the \$632 million in new sales this quarter, more than 50% of the total sales revenue was represented by implementation contracts in excess of \$25 million with a combination of ICF domain expertise and IT capabilities differentiating our proposal.

Throughout the year, we have addressed uncertainty of the overall business environment by investing to gain share in our government and commercial markets while closely monitoring profitability and productivity. For the nine months, operating income increased 28%, net income was up 30%, and our EBITDA margin increased from 9.2% to 9.6%. We plan to continue with this investment strategy in the periods ahead.

We are focused on increasing our market share in government and commercial markets in our areas of expertise, bringing on senior professionals who add to our subject matter knowledge and exploring investments to gain greater scale for our international business, where we see growth opportunities in both developed and emerging markets.

At the end of the third quarter, our backlog was a record \$1.7 billion, up 27% from second quarter 2011 levels. Our pipeline even after this quarter's awards is at \$2.3 billion.

I would now like to turn the call over to John Wasson, our President and Chief Operating Officer, who will provide additional insight.

---

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

Thank you, Sudhakar, and good morning. As Sudhakar noted, we are especially pleased that our sales for Q3 set a new record and that we exceeded our third-quarter last year sales by over 60 percent fine. This clearly demonstrates that we continue to find a full range of opportunities in all of our major markets. And this year's Q3 proposal season which began in the second quarter was as busy as it has ever been.

We believe that this exceptional quarter underscored the continued strength of our value proposition, government and commercial markets offering the combination of unequal domain knowledge with first rate implementation capabilities.

In public health for example, we announced two new wins with the Centers for Disease Control in Atlanta. We received a new \$70 million contract to design, implement, and manage training and technical assistance for grantees of the Community Transformation Grant program which builds on our distinctive expertise in addressing the connection between health and surrounding environmental and social determinants. Such connections are critical in reducing the rates of chronic diseases such as obesity and heart disease.

We also won a \$9.7 million contract to continue our work of providing data management and technical support to programs that help CDC monitor HIV AIDS.

In addition to our public health work, we announced a number of new and re-compete wins across many of our federal markets including additional programs at the Department of Health and Human Services, the Department of Justice, and the Department of Homeland Security.

We were also pleased to win a \$21.5 million contract with the US Agency for International Development to work with corporate and government partners in up to 11 Asian countries in support of AIDs Low Emissions Asian Development or LEAD program. This not only reaffirms our leadership in low emission strategies but add significant scale to our Asian operations as we focus on growing our international business.

Of our \$632 million in third-quarter sales, two new contracts within the aggregate value of approximately \$105 million are being protested. As you know, this is becoming a more common occurrence in the federal space and many firms in our peer group

Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

have noted the same behavior. We think that the federal government conducted a fair and objective source selection process for these two new contracts and we believe there is a high probability that the contract awards to us will be upheld.

Of course the wins I have outlined this morning are only the largest wins among the hundreds that we counted across all of our markets. During the third quarter, for example, ICF logged nearly 300 wins in its commercial markets, which typically features smaller engagements of shorter duration.

Nevertheless, our commercial wins did include a few very large awards such as a new contract for up to \$55 million with Baltimore Gas & Electric to continue our management and implementation of their energy efficiency programs in the residential, industrial, and commercial sectors. And another \$6.7 million contract with a major utility to promote increased energy efficiency in residential and low income affordable new home construction, thereby increasing energy-efficient construction at the beginning of the housing lifecycle.

In addition to these large wins, we continue to see many opportunities to support a high-level of commercial growth and infrastructure for utilities and utility rate market and regulatory analysis.

As Sudhakar mentioned, our pipeline continues to be strong even though there were over \$1 billion of sales decisions in the third quarter. The current pipeline of \$2.3 billion includes 19 opportunities over \$25 million and 58 opportunities over \$10 million.

Finally, at the same time that we continue to gain market share in our areas of expertise, we have experienced an employee turnover rate well below the industry average. The third quarter's rate of 2.9% is identical to the rate of the second quarter.

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

---

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

Thanks, John, and good morning. Let me now review the financial results for Q3 and provide some guidance on certain items for the remainder of the year.

Revenue for the third quarter was \$218.7 million, an increase of 11% over the prior year third quarter. Year-to-date revenue was \$626.8 million, an increase of 10% over the prior year. As Sudhakar stated earlier, the revenue growth was driven by strong demand from our energy, environment and transportation and health, education and social program markets.

This quarter's gross profit margin was 37.2% compared to 37.3% in the prior year as the benefit of higher commercial business was offset by higher subcontractor costs related to our larger implementation contracts. The year-to-date gross profit margin was 37.9% compared to 37.6% in the prior year.

Indirect and selling expenses were \$60.3 million in the quarter, an increase of 9% over last year's third quarter and were \$177.5 million year-to-date, up 9% over the comparable 2010 period. The increases mostly reflect higher indirect labor expense primarily associated with ICF's growth and greater bid and proposal activity. Indirect and selling expense has remained stable as a percent of revenue. It was 27.6% in this year's third quarter compared to 28% last year and 28.3% year-to-date compared to 28.4% in last year's nine-month period.

As you can see, our indirect costs are growing but at a rate slightly less than our revenue growth and the increased spending is primarily related to increased B&P activity, which is reflected in our strong sales for Q3.

Amortization of purchased intangibles was \$2.4 million in the third quarter, in line with expectations. Operating income in the third quarter was \$16.1 million, an increase of 28.7% over the prior year third quarter and operating income margin was 7.4%

Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

compared to 6.3% in the prior year. Operating income year-to-date was \$45 million, an increase of 27.7% over the prior year and operating income margin was 7.2% compared to 6.2% year.

Primarily as a result of lower debt balances, interest expense decreased approximately \$0.2 million in the third quarter and \$0.9 million year-to-date. Due to our strong cash flow, we were able to reduce our long-term debt to \$50 million, down from \$85 million at the end of fourth quarter of 2010. We ended the quarter with a debt to capital ratio of 12%.

Net income was \$9.3 million in the d quarter, up 26% year-over-year and year-to-date. Net income was \$26 million, up 30% from the comparable 2010 period. Diluted earnings per share was \$0.47 for the third quarter and \$1.31 for this year's first nine months.

Cash flow from operating activities for the first nine months of 2011 was \$46.8 million. Days Sales Outstanding including the impact of deferred revenue was 68 compared to 70 in the prior period.

In the third quarter, our capital expenditures totaled \$2.7 million, bringing year-to-date capital expenditures to \$6.9 million. Full-year 2011, we are revising down our projected cash expenditures to \$11 million to \$12 million from \$12 million to \$14 million.

Looking ahead for full year of 2011 based on our current portfolio of business, 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%. Finally, we anticipate fully diluted weighted average shares in the fourth quarter and for the full year to be \$19.9 million.

Thank you and with that, I would like to turn the call back over to Sudhakar.

---

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

Thank you, Sandy. We expect a solid fourth-quarter performance that reflects the seasonality of our business. Our guidance range for fourth-quarter revenues is \$211 million to \$218 million and diluted earnings per share of \$0.42 to \$0.46 represent a year-on-year increases of 10% and 22.2% of the midpoints respectively. For the full year, we are anticipating revenues in the range of \$838 million to \$845 million and diluted earnings per share of \$1.73 to \$1.77, which at the midpoint equates to 10% revenue growth and 26.8% earnings growth from 2010 levels.

Looking ahead to 2012 and based on our current portfolio of business, our preliminary estimates of revenues of \$910 million to \$940 million and an EBITDA margin in the range of 9% to 10%.

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

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Tobey Sommer, SunTrust. We will move to our next question which will come from the line of Tim Quillin, Stephens Inc.

---

Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

**Tim Quillin** - *Stephens Inc. - Analyst*

Good morning, nice results. You may have said this in your prepared remarks but in terms of the bookings, how much of that was new versus renewal?

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

The number was 39%. Let me see -- 37% was recompetes. 63% was new.

**Tim Quillin** - *Stephens Inc. - Analyst*

That's great. Did you say that \$300 million of the bookings were commercial?

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

No, I think we said 300 contracts we won.

**Tim Quillin** - *Stephens Inc. - Analyst*

300 contracts, thank you, thank you. I thought that sounded a little bit high.

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

300 million no. It was 300 contracts.

**Tim Quillin** - *Stephens Inc. - Analyst*

Right, right. Thank you. Then in terms of the margins guidance, I think I ask this every year when you give the 9% to 10% range, but is 9% a legitimate possibility?

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

The only reason we included 9% was because I think that we will have a better sense -- traditionally nobody gives guidance so early for the following year. If you look at all our comparables, they all give guidance in February or March of next year for the year. So we are just giving you broad ranges and we will have a better sense and we will be able to narrow that guidance when we talk to you next year. So why don't we leave it at that and we will come back to that issue next year?

**Tim Quillin** - *Stephens Inc. - Analyst*

Okay, that's fair. And I am sure you will have a better sense of this as well on the next conference call, but maybe in broad strokes if you can talk about the relative growth expectations for 2012 in federal, state, and local and commercial. Obviously commercial is growing very, very fast this year. Do you expect that to continue next year?

Federal, you talked about picking up in the fourth quarter. Can that momentum continue into next year? State and local has perked up as well and kind of what you expect there in 2012. Thank you.

Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

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

Yes, let me give you -- broad brush strokes is what you asked, so I will do that. I think the federal business will -- we think we can keep up the momentum but it's not going to be very different from, say high single digits. I think we have one in our federal work and we think that there's enough in the pipeline which will -- and in the backlog which will drive good growth going forward.

I think the commercial business certainly will grow more rapidly than the federal business. The state and local business is a small part of our business and it's I think right now we have reasonable momentum. We just have to see how that business progresses. But we are -- we think that will be sort of not 17.5% as we had this quarter but I think somewhere between the federal and commercial.

---

**Tim Quillin** - *Stephens Inc. - Analyst*

Thank you. Nice quarter.

---

**Operator**

Tim McHugh, William Blair & Company.

---

**Matt Hill** - *William Blair & Co. - Analyst*

Good morning. This is actually Matt Hill in for Tim McHugh this morning. My first question is kind of related to the new contract value growth. Good number. Would you say, this is kind of related to the better-than-expected government flush at the end of September? Also can you kind of help us bridge the gap between that large contract growth and the 10% revenue guidance?

---

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

Yes, again on the second question, the revenue guidance issues, we will have a better sense of all this sometime in the early part of next year and therefore we will give you a better sense of it. As you know, there's uncertainty associated with federal spending and we are just trying to be cautious as we move into the next year and as things become a little clearer, we will be able to give you better guidance on the growth rates.

On the win, I don't think there was anything particular about the government flush. I think that clearly quarter three is traditionally a strong quarter because the government closes its fiscal year. But we had a very strong quarter and we won a slightly more significant amount of our bids than we normally expect, so I think the win rate was a little higher. But I don't think the awards or the pace of awards was any different from our traditional seasonal up in Q3 because of the government fiscal year ending.

---

**Matt Hill** - *William Blair & Co. - Analyst*

Okay, then on the commercial side, have you seen any changes or weakness in any of your clients or in the markets they are in?

---

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

I think as I said in my remarks that the transaction activity is up but not up to the levels which we would like to see it three years ago. So clearly there's still some weakness there. We think that there's some upside there if that activity increases and if there's more transactional stuff, we will do better both in our commercial businesses and all the ones which we have. So I think that it's not -- it's improving, but it's not in back to a healthy state.



Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

**Matt Hill** - *William Blair & Co. - Analyst*

Okay, and then just one more about the share repurchase agreement. Did you have any plans how aggressive you kind of think you are going to be with that?

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

You know, we have announced a plan. We obviously are not going to talk about the parameters as to what we will do when, but we certainly think that given the market's reaction at times to our performance, I think fundamentally we have a strong company, a strong backlog, strong growth, and we believe that that should be reflected. If it's not, then we will take some action.

**Matt Hill** - *William Blair & Co. - Analyst*

Okay, thank you.

**Operator**

Tobey Sommer, SunTrust.

**Tobey Sommer** - *SunTrust Robinson Humphrey - Analyst*

Thank you, sorry about that before. On the commercial side, growth was very good. Where do you think you sit in terms of a capability to generate additional revenues without making some meaningful hires? Thanks.

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

I think obviously the commercial business is growing quite robustly. We see significant opportunity certainly in the energy space with energy efficiency and the infrastructure work. I think that as the business grows, we certainly need to be adding staff and I think we have a very robust program to do that. We make significant investments in recruiting and I think we have been quite successful in finding the talent and getting them on board.

So we've been doing that for the last 18 months and certainly the energy efficiency business has grown quite robustly and also as our infrastructure-related energy business has grown. So I think we have a robust pipeline and we are working the recruiting side very hard.

So we have not been limited. Our growth has not been limited by a lack of ability to hire and onboard the new talent. We have been able to find the talent and get them on board as we grow the business.

**Tobey Sommer** - *SunTrust Robinson Humphrey - Analyst*

Okay, the contract awards in the third quarter, historically ICF's customer set hasn't been one that's really participated in so-called budget flush. Did you see anything you would attribute to that kind of customer behavior in the quarter?

Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

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

As I said to the prior question, I think it was from William Blair, we didn't see any difference in the behavior this quarter versus the prior quarter. I think we basically won, as I said, a greater share than what we did. Perhaps that's an indication of some takeaways from some of the other companies which were -- in similar areas. But we didn't necessarily see a flush, so to speak.

**Tobey Sommer** - *SunTrust Robinson Humphrey - Analyst*

So was that the improved win rate was a function of an improved rate on bids for new work?

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

Yes, I think we bid more new work and we won more of the new work we bid.

**Tobey Sommer** - *SunTrust Robinson Humphrey - Analyst*

Okay, thank you very much.

**Operator**

A.J. Strasser, Cooper Creek Partners.

**A.J. Strasser** - *Cooper Creek Partners - Analyst*

Thanks for taking my question. Great quarter, guys. Could you elaborate a little bit on -- I understand your need to be conservative on next year's guidance, but could you elaborate a little bit on how much of the backlog you typically burn on a one-year forward basis? Of that 1.7, just what's sort of the average maturity or duration of a contract? And just to give us a sense of your assumptions for coming up with next year's top line?

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

The average duration of the backlog would be -- the bulk of it would be 18 to 24 months tailing away. You know, we have \$796 million of funded backlog, which is more likely to be shorter-term duration than the one which is unfunded, so clearly the \$796 million is a funded amount and that you can take to be backlog which is likely to be used for in the immediate 12 to 18 months, with some exceptions. So I don't know whether that gives you some sense of what backlog we have.

**A.J. Strasser** - *Cooper Creek Partners - Analyst*

That's helpful. Then just piggybacking off of that, what percentage of your top line year to date has been commercial and what percentage of the forward-looking guidance is expected to be commercial?

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

I think our commercial work as stated in the release if you look at it is 20%, 19% or 20%, 19% nine months and 20% for the three months ending September 30. And so the balance 80% is federal and state and local there's some international work, 4% in addition to 20%. 24% is non-federal -- non-US federal, non-US state and local. And so backlog traditionally is for government work but we do have some large energy efficiency contracts in the federal arena which have strong backlog, too.

Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

So I think that if you simply look at 80% of our revenue for next year, 80% or \$910 million is \$720 million or so, we have \$796 million in funded backlog, so that gives you some sense as to the visibility of the revenue and earnings.

---

**A.J. Strasser** - *Cooper Creek Partners - Analyst*

Thank you. Just lastly on the buyback plan, could you just elaborate on that? Is this your first buyback plan in place? What specifically prompted it here at these levels?

---

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

Yes, it is our first buyback plan. I think it was prompted by the fact that we saw (inaudible) at some point, at certain points the valuation, Company valuation is not quite what it should be given the fundamentals of the business and the Board thought that it is important to make sure that we have a buyback plan.

There are three ways of providing shareholder value. One is organic growth. Second is making sure that you increase your earnings. The third is you repurchase your shares to some extent to -- and that obviously helps on the EPS side.

So I think that we are trying to use all the levels to make sure that shareholders are pleased with our performance and with the valuation which the Company has.

---

**A.J. Strasser** - *Cooper Creek Partners - Analyst*

Thank you very much for taking my question.

---

**Operator**

Erik Olbeter, Pacific Crest.

---

**Erik Olbeter** - *Pacific Crest Securities - Analyst*

Congratulations as well. In terms of the \$105 million that are protested, have you included that either in total backlog or funded backlog?

---

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

Yes, both those contracts we did sign and we began work, so they are -- were included in the sales number and the funded backlog numbers that we've reported.

---

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

Both funded and non-funded.

---

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

Both funded and unfunded backlog for those two contracts.

Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

**Erik Olbeter** - *Pacific Crest Securities - Analyst*

Okay, helpful. As we think about 2012 guidance, of course we have the super committee who's meeting trying to figure out if they can avoid sequester, if they can't, it appears like we're going to get a 9% cut in the budget in what would be your fourth quarter of 2012.

As you -- how do you think about that in terms of guidance? Is that something you considered when you sort of put forward this guidance and have you effectively derisked?

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

I don't know if anyone can effectively derisk what Congress and what's currently happening. We are trying to do the best we can and as I've said, we will know more by hopefully the early part of -- towards the end of this year and early part of next year. And we will give you better guidance.

I think we feel reasonably good about 2012, but as you point out, there are some risks in the fourth quarter of 2012 and we just -- we have we think accounted for them a little bit but it's not clear that we have accounted for them fully or whether we have over accounted for them. So we will know more by the end of the year and early part of next year.

**Erik Olbeter** - *Pacific Crest Securities - Analyst*

All right, great. Thank you.

**Operator**

Bill Loomis, Stifel Nicolaus.

**Bill Loomis** - *Stifel Nicolaus - Analyst*

Thank you, good quarter. Just had a couple questions, but first on the awards, for example, can you tell me like the BG&E work? Did you consider that recompetes or new business, the \$55 million?

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

We actually considered that new business. There was no competition for that. It is a difference -- there is a different stage for -- it is a different stage of the work and it was a contract that certainly we didn't anticipate any kind of recompetes when we won the first contracts. So we are pleased to continue this work.

**Bill Loomis** - *Stifel Nicolaus - Analyst*

Does that continue at current revenue levels from predecessor or is that incremental growth?

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

No, I think it continues at the same level, probably.

Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

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

About the same level. It might be slightly higher but about the same level.

**Bill Loomis** - *Stifel Nicolaus - Analyst*

Okay, on the federal revenue last year, I know you have some pass-throughs in the second and third quarter but you had a sequential drop on federal from roughly \$140 million to \$133 million looking this year with your roughly \$144 million in federal business, do you expect a similar sequential drop this year or do you think it will be more sequentially flat in the federal business?

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

You mean in the fourth quarter?

**Bill Loomis** - *Stifel Nicolaus - Analyst*

From third quarter to fourth quarter of this year, yes.

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

We do expect a sequential drop, right? Because traditionally it drops in the fourth quarter.

**Bill Loomis** - *Stifel Nicolaus - Analyst*

Now last year you had some unusual pass-throughs. If I look back in my note, did you have the same this year or do you expect the extent of a drop that you had last year sequentially?

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

I'm sorry, Bill. Maybe I misunderstood the question. Are you talking about the subcontract revenues or are you talking about the federal -- amount of federal business?

**Bill Loomis** - *Stifel Nicolaus - Analyst*

Amount of federal business in total, the total revenues.

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

I think it will drop by about \$10 million from -- or so or slightly lower than that from Q3 to Q4.

**Bill Loomis** - *Stifel Nicolaus - Analyst*

Okay, then you had strong awards in the third quarter. Did you see any momentum in awards early in the fourth quarter so far? Do you think -- I know it's not going to be what the third quarter was, but do you think it could be a -- still a solid awards quarter or do you think things will quiet down?



Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

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

Normally things quieted down. We think that there is some award activity ongoing in the fourth quarter. We certainly got a good, strong third quarter, so we anticipate that the fourth quarter will be slower, significantly slower. If it is better, it would be great.

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

I would say that. I would expect the fourth quarter this year to be a lot like the fourth quarter of last year. We do have a seasonality but I don't think there is -- I would expect a similar quarter to last year.

**Bill Loomis** - *Stifel Nicolaus - Analyst*

Okay, and then on some of the awards you won in the third quarter, with the exception of the two that are being protested, are all of those -- the newer businesses, is that staffed and starting to contribute here in the fourth quarter?

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

Yes, I would say they are starting to contribute. We are ramping them up and bringing the new staff on board and so I think there will be a ramp up in the fourth quarter and we should be as we go into 2012 fully up and running. So we are in a ramp up period here.

**Bill Loomis** - *Stifel Nicolaus - Analyst*

How did you see pricing on some of these new contracts you won versus say a year ago or so?

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

I think the pricing -- the pricing environment, we really haven't seen a significant change certainly in the public health or in the civilian contracts. Pricing is -- it's a competitive environment but it's -- I would say that the pricing is similar to what we've seen in the last several quarters. We are not under intense pricing pressure on these awards.

**Bill Loomis** - *Stifel Nicolaus - Analyst*

Okay, and then on the -- any change on the commercial side in terms of pricing or anything like that, any change in trend on commercial given the slowdown in the global economy? I know most of it is domestic, but obviously some of your bigger customers have a lot of international work as well.

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

I don't think there's been any change in the commercial environment. I think we are not under -- the rates have remained consistent, so we haven't seen any changes in the pricing or competitive environment on the commercial side.

**Bill Loomis** - *Stifel Nicolaus - Analyst*

Okay, thank you.

Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

**Operator**

Eric Prouty, Canaccord.

**Eric Prouty** - *Canaccord Genuity - Analyst*

Thank you and good quarter. Quick question back in the commercial side. Should we be seeing a -- as commercial continues to grow faster than the rest of the business, should we be expecting a good positive mix shift on the gross margin for the total Company?

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

No, no, we should not. I think you see we have been running this year anywhere from a high of 39.3% to this quarter 37.2% and I think we will be running approximately there. It will depend on what the percentage of our revenues is driven by subcontractor revenues versus our service revenue.

**Eric Prouty** - *Canaccord Genuity - Analyst*

Okay, so the commercial in general is not carrying a higher gross margin than the rest of the business?

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

No, absolutely it is. Absolutely it is. However, if our subcontractor portion of our revenues grows along with that commercial growth, it offsets some of the improved margins we see on the commercial work.

**Eric Prouty** - *Canaccord Genuity - Analyst*

Okay.

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

As the implementation work continues and the sub pass-through increases, then the gross margin tends to get offset. The increased commercial gross margin tends to get offset by the fact that we have increased pass-throughs. However, if the increased -- if the subs remains for example hypothetically exactly the same percentage and the commercial work grows up, you're right, Eric, the gross margin will go up.

**Eric Prouty** - *Canaccord Genuity - Analyst*

Right. Sudhakar, on international in particular, it seems like the business is kind of stuck in a certain level here. Can that business be grown robustly organically or do you think it's going to take an acquisition or two to really jumpstart the international?

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

I think as you point out, it is a little hard to grow because of the lack of scale. I think it will take an acquisition or two to make it really grow and as we pointed out in the prior quarters, we certainly are working hard at making sure that we make some progress on that front.



Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

**Eric Prouty** - *Canaccord Genuity - Analyst*

Okay, and then finally on commercial, what are you seeing out there as far as either business you are executing or business opportunities outside of kind of the core utilities/energy efficiency work? Are there other pockets of opportunity out there that you guys are pursuing to diversify the commercial a little bit?

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

I think we have any number of different opportunities diversifying commercial business. In the existing client set, we have utilities. We have tech companies. We have -- as you know, airlines, airports, financial services companies which are not exactly great sources of revenue at the moment. But I think in the other three or four areas I mentioned, even the utility sector for example I know energy efficiency we've talked about a lot, but the utilities are large customers and we haven't fully exploited the fact that we could be providing significant additional services to utilities across the spectrum of all their different operational aspects.

For example, we do some work on energy efficiency. We do some work on asset transactional stuff. We do some work on the infrastructure side in terms of helping them do environmental impacts, but there's a whole bunch of work which we can do with them uniformly across a large number of utilities, say, on increased environmental work. We can do increased labor force work. We can do increased amounts of work which we currently are doing with them on the transactional stuff. We can do increased cyber security work.

So we haven't fully exploited the fact that we have great relationships with the utilities. Each of these utilities as big some of them as federal departments. And as you can see in our federal space, we have tens of millions of dollars of work with each federal department. There is really no reason why we shouldn't have tens of millions of dollars of work with -- a variety of work with each of the utilities.

So I think -- we think over the next year or two we certainly think that we can expand that fairly significantly. And there's also a greater certainty in funding there because utilities have funding sources which are -- the customer base and the customer base is a good source. You don't have any appropriations issues, etc. So the risk associated with the backlog utilities also is lower than in the federal arena.

So I think that the utilities are a good source. I know that you would like me to say that there's all kinds of other industries, but we still have to first explore the utilities before you move on to other industries.

**Eric Prouty** - *Canaccord Genuity - Analyst*

Sure, great, thank you very much.

**Operator**

Tim Quillin, Stephens.

**Tim Quillin** - *Stephens Inc. - Analyst*

Thank you for taking my follow-up. Can you tell us what contracts are being protested?



Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

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

We were waiting for that question to be asked, Tim.

**Tim Quillin** - *Stephens Inc. - Analyst*

So was I. But I had to ask it myself.

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

We will not get into that at the moment because then we'll have to get into who is protesting and what's happening and all that sort of stuff. So we will just let it be and we will hopefully get resolved and then we can tell you it's all resolved.

**Tim Quillin** - *Stephens Inc. - Analyst*

I had to try. How about this? Do you have some kind of estimated timeline for resolution on either of the protests?

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

Yes, one of them will be done by the end of the year, the other one by February, I think. End of January, early February.

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

As you know, the GAO has 100 days to rule.

**Tim Quillin** - *Stephens Inc. - Analyst*

Right. Okay. Very good. And then on -- you've had some success here at CDC and you've talked previously about the pipeline of opportunities there. What's the pipeline look right now look like right now?

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

At CDC?

**Tim Quillin** - *Stephens Inc. - Analyst*

At CDC, yes, thank you.

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

I think we have one task order still waiting to hear on award and I think we expect the next round of task orders to come out I think sometime in the spring we will see another round of new task orders coming out. So we've still have one more to be awarded here on the award and then we are in capture on a set of opportunities that we expect will RFP to be released later this spring.

Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

**Tim Quillin** - *Stephens Inc. - Analyst*

Got it, thank you. Then just lastly, you alluded to potential for international acquisitions but maybe if you can talk just more generally about acquisitions you are looking for and how much dry powder you think you have in terms of borrowing capacity or what leverage ratios you would be comfortable with in making an acquisition? Thank you.

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

I think that we have -- we're looking at acquisitions in our domain areas of expertise clearly in markets which I alluded to to some extent earlier in my responses to certain questions. And in -- anyplace where we think that the potential for growth is significant and the margins are strong, we are looking at domestically. And as I said, we are also looking internationally to expand to what we currently do again in our areas of expertise. So we are looking at both.

In terms of dry powder, we have -- I think it's public information -- we had \$[225] million credit line of which \$50 million is drawn at the moment, so we clearly have a fair bit of capacity. We also has a \$75 million accordion on top of that, so in terms of leverage ratios, we would be comfortable with leverage ratios which in the 3 range, up to 3 multiple of our trailing 12 months EBITDA. So we don't see any trouble in doing that and depending on the backlog and other profiles of any companies we are looking at, could become comfortable at slightly higher rates.

We come from a -- we have over the last 10 years we have had significant amounts of leverage and we managed our cash quite conservatively, so I think we are comfortable. We obviously don't want to over leverage, but want to make sure that we take advantage of opportunities as they present themselves.

**Tim Quillin** - *Stephens Inc. - Analyst*

Great, that's perfect. Thank you.

**Operator**

Mark Jordan, Noble Financial.

**Mark Jordan** - *Noble Financial Group - Analyst*

Good morning, gentlemen. Question relates to stimulus funding. How much of your awards over the last year or two have been funded out of the original stimulus program and how long does that funding last? Do you see any of those activities continuing once that funding is fulfilled?

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

We haven't thought about the stimulus, Mark, for a while. I remember answering questions a little while ago I think last year or something where the numbers were -- I really -- I think in the past, it was around 2%, 3%, 4% of the overall number. How much it is right now, I don't -- I can't tell you.

**Mark Jordan** - *Noble Financial Group - Analyst*

Do you know if that once the funding cycle is complete, are those programs funded under sources or do they terminate?



Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

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

No, some of them actually have been funded under other sources so I think one of the CDC programs continued under another more permanent funding source. And some of them will -- I think some segments, some of them already are sunsetting. So I think that it's a mixed bag.

**Mark Jordan** - *Noble Financial Group - Analyst*

All right, and a final question relative to M&A activity, obviously with the repurchase agreement or buyback activity you initiated, you are selling at about 6 times next year's EBITDA. Do you see that this is a fundamental shift in looking at the attractiveness of acquisitions vis-a-vis purchasing your own stock?

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

Yes, I've been asked this question. I don't think so. I think when we do these acquisitions we have tended to buy them effectively at a much lower multiple than our trailing because of the fact that we do well in terms of growing them and increasing their profits. Not that we buy anything which is not already pretty healthy, but we can make it healthier and grow more rapidly, as was the situation in Macro. The Macro multiple when we acquired it may have been a little higher than our trailing 12-month multiple but effective multiple a year or two years later when you looked back was a much lower multiple than what we are trading at because we grew the business very rapidly and we've been very successful in leveraging it to get additional work.

And so it's not -- there's not fundamental shift. I think that we were struck by the fact that the valuation obviously are much lower than what we thought and sometimes the reaction of the markets to our -- to the Company is not consistent with the fundamentals. So we thought that we'd put something in place to make sure that we take care of that eventuality.

**Operator**

Edward Caso, Wells Fargo Securities.

**Rick Eskildsen** - *Wells Fargo Securities - Analyst*

Thanks very much. It's actually Rick Eskildsen on for Ed. Just one quick question on the protest. Have you seen an increase for your book of business in terms of protests and sort of you are seeing that happening more and more in your business as it's become a bigger deal throughout the federal market?

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

Not across the board, but in certain specific sectors in this case, we are seeing it in a specific area. But I wouldn't say that it's across the board.

**Rick Eskildsen** - *Wells Fargo Securities - Analyst*

Okay, thank you very much.

**Operator**

(Operator Instructions). A follow-up from A.J. Strasser, Cooper Creek Partners.

Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

**A.J. Strasser** - *Cooper Creek Partners - Analyst*

Thanks, guys, for taking up my follow-up question. I just wanted to kind of dig a little bit into the bookings for the quarter. You have never been -- you've been sort of hanging around in the \$1.3 billion to \$1.4 billion backlog range and then all of a sudden it goes to \$1.7 billion and it's great. I am just trying to understand have you -- has something changed here? Is it a function of scale? Is it a function of reputation? Are you winning more awards because you are larger now?

I just -- it impresses the point I'm trying to understand whether or not we are in a new sort of paradigm and to the extent that you can tell us what your historical win rate has been and then what your win rate was this quarter? That would be great, too. Thanks.

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

You know, I think it's -- as the Company grows, we have more resources that we will bid more and the theory of the firm works. You basically bid more, you have a bigger pipeline. You win more and therefore you grow more. And so as we have -- as we've grown, we've invested more in business development. We have grown the pipeline and we have won more.

So I think that the fact that the pipeline, the fact that backlog has gone up, I think is consistent with the fact it has to go up in order for us to deliver increased revenues the following year. So I think certainly that is happening.

Historically our win rates have been in the 40s -- 40% range dollar weighted and this quarter it's more in the 50s.

**A.J. Strasser** - *Cooper Creek Partners - Analyst*

Has it ever been in the 50s?

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

Not since we've been monitoring it carefully as a public company.

**A.J. Strasser** - *Cooper Creek Partners - Analyst*

Okay, thank you very much.

**Operator**

At this time we have no further questions in queue. I would like to turn the call back over to management for closing comments.

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

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

Nov. 02. 2011 / 12:30PM, ICFI - Q3 2011 ICF International Inc Earnings Conference Call

**Operator**

Thank you for your participation in today's conference. This concludes your presentation. You may now disconnect. Good day, everyone.

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2011, Thomson Reuters. All Rights Reserved.

