ICF INTERNATIONAL, INC.
"ICF International Investor Call"

December 12, 2011, 5:30 PM ET
Doug Beck
Sudhakar Kesavan

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OPERATOR: Welcome to the ICF International conference call. During the presentation, all participants will be in a listen-only mode. Afterwards, you will be invited to participate in a question-and-answer session. At that time, if you have a question, please press star 1 on your touchtone phone to register for a question. As a reminder, this conference is being recorded on Monday, December 12, 2011, and cannot be reproduced or rebroadcast without permission from the company.

And now I would like to turn the program over to Doug Beck, Senior Vice President of Corporate Development with ICF International. Please go ahead, sir.

DOUG BECK: Thank you, Operator. Good evening, everyone, and thank you for joining us to review ICF's announcement of signing a definitive agreement to purchase Ironworks Consulting, LLC. With us today from ICF are Sudhakar Kesavan, Chairman and CEO, who will make the formal remarks. Joining him to assist with questions and answers are John Wasson, President and COO; Sandy Murray, Interim CFO; and Ellen Glover, Executive Vice President.

During this conference call, we will make forward-looking statements to assist you in understanding ICF management's expectations about our future performance in the acquisition of Ironworks. 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 December 12, 2011 press release and our SEC filings for discussions of those risks. Such risks and uncertainties include the possibility that the benefits anticipated from the Ironworks transaction will not be fully realized, the possibility the transaction may not close, and other risks in connection with the proposed transaction. 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 today's announcement. Sudhakar?

SUDHAKAR KESAVAN: Thank you, Doug, and good evening, everyone. Thank you for joining us on such short notice. We wanted to have a brief call to talk about today's announcement and respond to your questions on the transaction. As you know, we just announced the signing of the definitive agreement to acquire Ironworks Consulting, LLC, a 250-person consulting firm based in Richmond, Virginia. Ironworks provides interactive Web portal and content management solutions and business and IT alignment services for both government and commercial clients.

This transaction is emblematic of ICF's strategy to continuously expand our range of implementation service offerings in our markets. Ironworks adds a solid commercial client base in ICF's traditional markets, specifically health, energy, and financial services. With its record of sustained growth and deep client relationships in similar verticals, Ironworks strengthens our position in the fast-growing interactive digital services space. Like ICF, Ironworks is a firm of highly credentialed employees with a distinguished track record of delivering exceptional results on complex projects, and we believe that the cultural as well as business fit is excellent.

First, let me give you a better sense of their capabilities. Ironworks specializes in the design and implementation of enterprise-wide Web solutions. It provides services that help commercial and government enterprises engage their audiences through Web, mobile, and social media that build Internet-based systems to share content, knowledge, and data and utilize these technologies to improve business intelligence and performance. Their leadership team and senior consultants are amongst the most experienced in the industry in large-scale Internet and emerging technology solutions, and they blend together comprehensively both technology and creative disciplines to support their client’s interactive strategies. They do this, of course, in a market that is growing rapidly. Forrester estimates that U.S. companies will more than double their expenditures on digital interactive marketing from $34 billion in 2011 to $77 billion by 2016.

Let me also share with you the key drivers — the key value drivers of the acquisition. First, our capabilities are highly complementary. ICF already has some 300 employees who work on systems integration, large portal management, IT alignment issues, and marketing and communications projects in areas broadly related to Ironworks’ expertise. This combination allows us to offer a full range of end-to-end services in the digital interactive landscape, Web design, strategic communications, digital interactive applications, systems integration, and business consulting.

Second, Ironworks’ three largest verticals are in government, commercial health, and financial services, with a growing presence in energy and nonprofits, all of which are consistent with ICF’s market focus. Third, in commercial healthcare, Ironworks has long partnered with a number of well-known payers and providers and nonprofit-related — nonprofit health-related organizations. They use Ironworks’ expertise for business and IT strategy alignment services. They also use Ironworks’ services to improve the customer experience. We believe that this creates significant opportunities for us to align our respective health expertise in the area of the commercial health, health informatics, and public health. This will enable us to move further into sectors of the commercial health market with their combined expertise and market understanding.

Ironworks is a rapidly growing presence in many federal agencies, including the Centers for Disease Control, Department of Veterans Affairs, and the National Science Foundation. These are already important clients for ICF, and we plan to utilize our market position with federal government clients to introduce Ironworks’ digital interactive technology services and help them increase efficiencies and reach more stakeholders effectively.

In the energy sector, Ironworks is carving out a growing presence employing customer-focused, Web-based technologies that empower consumers to proactively manage their energy footprint and expenses as well as enhance their self-service capability. At ICF’s largest energy efficiency client as well as a few other utilities, Ironworks is already implementing a comprehensive digital strategy, including redesigning their Web presence and employing digital and mobile media to improve their customer experience. We see immediate applications in replicating these types of solutions across the utility client base that knows us well.

These are only a few examples of where we see that the combined ability of the two firms can enhance ICF’s ability to provide its customers with cutting-edge digital and interactive solutions and add to Ironworks’ ability to leverage its own capabilities into entirely new markets. As you know, ICF has had a successful track record of growth through acquisition by acquiring successful companies and where the cultural fit was right. In the case of Ironworks, we share a deep commitment to our work and our customers, a business approach applying strong institutional knowledge to complex and challenging issues, and geographic proximity, given that their two largest offices are in Richmond and here in Tysons Corner, Virginia.

Finally, let me provide some perspective on the deal itself. We expect Ironworks' 2011 revenues to come in around $57 million and their operating margin to exceed 20 percent. We will not officially update our guidance until sometime in the first quarter of next year, when the budgets are integrated and their statements are audited. However, we do expect that they will be able to continue to grow revenue at approximately 15 percent. Our cash purchase price of approximately $100 million will be financed through our revolving credit facility. The purchase price multiple is approximately 8.8 times trailing 12 months' operating income, and if you include the estimated $23 million net present value tax benefit that will accrue to us, the effective multiple is reduced to approximately 6.8 times trailing 12-month operating income.

Thank you very much, and now I will open the call to questions. Operator?

OPERATOR: We will now begin the question-and-answer session. To ask a question, you may press star, then 1 on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been answered and you would like to withdraw your question, please press star, then 2.

Our first question comes from Tim Quillin at Stephens Inc.

TIM QUILLIN: Hey, good afternoon, and congratulations. Greater than 20 percent is a little bit nebulous, but I think maybe you've given us the math to back into the exact margin, but when you said — I think you said, Sudhakar, 8.8 times trailing operating income, was that — is that based on 2011 or the trailing income ended September?

SUDHAKAR KESAVAN: Yeah, the reason why I gave you the approximate number is because we still, obviously, don't have audited accounts, but it's based on 2011 estimated operating income.

TIM QUILLIN: Okay. Okay. So it's just a little bit above 20 percent; is that right, the margins?

SUDHAKAR KESAVAN: Twenty percent is a good number.

TIM QUILLIN: Okay. Fair enough. And then in terms of — you talked about lots of cross-selling opportunities and, you know, given their margins right now, this — it sounds a little bit greedy, but do you — are there any margin enhancement opportunities as well?

SUDHAKAR KESAVAN: You know, we obviously would like to have margin enhancement opportunities, but at the moment, I think we will be pleased if we can continue with these margins going forward, and we'll always look for these opportunities going forward. I think if we can grow the topline, we might get some operating leverage, but at the moment, the 20 percent number is a good one.

TIM QUILLIN: Right. And is the interest rate on your revolver around 2 percent now? I know it's LIBOR-based. Is that about right?

FEMALE SPEAKER: Yes.

SUDHAKAR KESAVAN: Yeah.

TIM QUILLIN: Okay, thank you. Well, it sounds like — I've put that all together. It sounds like it could be more than 20 cents accretive to earnings. Is that just — is it too premature to come to that kind of math?

SUDHAKAR KESAVAN: Yeah, I think so.

TIM QUILLIN: Okay.

SUDHAKAR KESAVAN: I think it's premature, yeah.

TIM QUILLIN: Okay. Well, thank you. That sounds like you got a good deal.

SUDHAKAR KESAVAN: Thank you.

OPERATOR: The next question comes from Tobey Summer at SunTrust.

TOBEY SUMMER: Thanks. Sudhakar, could you describe kind of how you — how you got to know Ironworks and why this firm?

SUDHAKAR KESAVAN: You know, we are always looking for ways in which we can expand our, as I said, implementation service offerings. You know, clearly, you know, we have been working with federal clients on some of these issues. We also do a lot of IT strategy and alignment work with some of our utility clients, especially for these large energy efficiency programs, and we think that there's always this need for additional help with our large customers' needs on — including the federal government, especially in a time of austerity, where how can you improve efficiencies and serve your stakeholders? So we've always been looking for ways in which we can do this. We had looked a few years ago at another interactive digital firm, which didn't quite — we were not quite happy with the way it was positioned, so we didn't do it, but we're always looking to expand our implementation service offerings, and clearly Ironworks is well-known, and, we were aware of them, and then we got to know them better as they decided to [unintelligible] process, and that's how we got to know them.

TOBEY SUMMER: As far as ownership, is there going to be a significant ownership that remains with the — you know, the employees or anything like that?

SUDHAKAR KESAVAN: The ownership will — no, we are paying, cash for the whole business. We have spoken to the owners, and they will remain with the business going forward for some period of time. We hope that we can keep them for longer. We certainly — in the prior acquisitions we have done, we have managed to keep a number of the owners for much longer than I ever thought, so I think that the ownership will get the same incentive plans as we get with all our other employees, and I think that we certainly hope that those incentives both will be suitable so that they will all stay. But the question was will the ownership remain with the sellers? No, we are purchasing all the equity interest or the membership interest in the company.

TOBEY SUMMER: And without any earn-outs? That's kind of what I was getting at.

SUDHAKAR KESAVAN: No earn-outs, no.

TOBEY SUMMER: Last question from me. What will the — and you might have mentioned this in prepared remarks. I apologize if you did. What will the debt balance look like once the deal is consummated?

SUDHAKAR KESAVAN: You know, I don't know what the number was we gave you at the end of the third quarter. You know, we obviously will pay down some of that by the end of the year, and we will certainly tell you that number. Then just add $100 million to that, so I'll let you figure out the net numbers, because we haven't — the last number we gave you was I think $50 million or something on the third quarter call.

TOBEY SUMMER: Okay.

SUDHAKAR KESAVAN: Obviously, we'll pay down a little bit of that, and then we'll add $100 [million] to it, so we're somewhere — $50 [million] minus something, plus $100 [million].

TOBEY SUMMER: Okay, thank you. Look forward to seeing you in just a little bit. Thanks.

SUDHAKAR KESAVAN: Thank you.

OPERATOR: The next question comes from George Price at BB&T Capital Markets.

GEORGE PRICE: Hi. Thanks very much for taking my question. First of all, I'm not sure you specifically said, but just to be clear, when do you anticipate this thing closing?

SUDHAKAR KESAVAN: By the end of the year.

GEORGE PRICE: Okay. And so I guess you mentioned that you expect roughly 15 percent growth, revenue growth from then going forward. Can you talk about maybe what kind of — what the growth profile of the company has been like over the past few years, maybe kind of how it held up in the downturn? I'm justthinking about it was founded in 2001 and now being a $57 million company.

SUDHAKAR KESAVAN: Yeah, it's been in the 15 to 20 percent growth for the last few years.

GEORGE PRICE: I guess, specifically, what was the — what did it grow in — or what's it expected to grow in 2011? What's the growth rate on that $57 million?

SUDHAKAR KESAVAN: Now, I mean, from 2010 to 2011?

GEORGE PRICE: Yes.

SUDHAKAR KESAVAN: Twenty-four percent.

GEORGE PRICE: Okay. And is there any client concentration, any particularly large clients?

SUDHAKAR

KESAVAN: Ellen Glover is here.

ELLEN GLOVER: They actually have a good distribution across both their government and their commercial clients. There's nothing that's probably more than, I'd say, 10 percent of revenue for an individual client.

GEORGE PRICE: Okay. If there is a sizable client, I mean, what's the — can you talk about maybe the industry that that client is in, or clients?

SUDHAKAR KESAVAN: I think in the — do you have the [inaudible]?

ELLEN GLOVER: There are several government clients that probably represent their largest customers, so National Science Foundation, Department of Veterans Affairs, and then there's a financial services and a health — a commercial health client that are their third and fourth client size.

GEORGE PRICE: Okay. Okay. And what's the financial services exposure for Ironworks, and I'm assuming you don't want to be too particular about the clients specifically, but if maybe you could kind of, is it — what client base within financial — and I'm thinking, is it commercial versus I-banks versus — just given that that's a —an area that's in a lot of people's minds given what's going on these days.

ELLEN GLOVER: It's not in I-banks. We're not in a position to talk about their specific commercial clients, because we don't have all the permissions in place, or we're not aware of those yet.

GEORGE PRICE: Yeah.

ELLEN GLOVER: But not I-banks, and the financial services sector represents about 12 to 13 percent of their revenue stream.

GEORGE PRICE: Okay. Okay. All right. And I guess the last question I'd ask is just from an integration perspective, you know, notwithstanding that ICF has also developed its own implementation capabilities and grown them nicely, I guess it strikes me as the two may potentially have rather — could potentially have some significant cultural differences, given they're weighted more on the commercial side and ICF more on the government side. And, Sudhakar, I was wondering if maybe you could talk a little bit just about integration and how you're thinking about, going through that.

SUDHAKAR KESAVAN: Yeah. We have a very substantial commercial business. You know, we have over $200 million of commercial business as we speak, so I think that it's not like we are unfamiliar with the way the commercial business operates, and it's as you've seen in the last two quarters, we've grown that substantially. So I think we are aware of how we deal with the cultural issues associated with the commercial business. I think one of the things which, when we talk to the management of Ironworks, the fact that they like the fact that the government and commercial work is not separated. We don't necessarily separate it, for example. We run some of the energy efficiency programs, both government and commercial, under the same division.

Similarly here, you know, the skill sets are certainly fungible from one client to the other, and they — the Ironworks folks also run the government and commercial work together. So we are quite familiar with their culture. They happen to have a 65/35 split, 65 commercial, 35 government, but, you know, they're very similar to us in the way they deal with the government/commercial split, so I don't see any big differences. We just happen to have a slightly reversed number, but, you know, we're in the process — we think that we're quite familiar with the cultural issues. We've looked at them and done diligence quite carefully, and we believe that we're able to manage the cultural fit. In fact, we think it's a very good one.

GEORGE PRICE: Okay, terrific. Thanks very much for taking the time on my questions.

OPERATOR: The next question comes from Tim McHugh at William Blair.

TIM McHUGH: Yes, thank you. I guess first with some of the numbers too, can — when you're saying operating profit that you're — is that EBITDA, or are you talking about true kind of accounting/operating profit, EBIT, I guess?

SUDHAKAR KESAVAN: Yeah, we are talking about operating margin, because we can't use any non-GAAP related terms going forward. So we're talking about operating margin. The minimal — the D and A is minimal, and we're talking about EBIT.

TIM McHUGH: Okay. And then the tax benefit, is that a 338 election, or is there something else going on there?

SUDHAKAR KESAVAN: It's a purchase of membership interest, which is sort of like a 338(h)(10) election.

TIM McHUGH: Okay. And can you — I mean, what prompted Ironworks to sell or to be considering selling? Was it the process or something else?

SUDHAKAR KESAVAN: I think they have some investors, private equity investors, they've been in it for a while. The company was founded in 2001. They've got some investments, and I think they decided that it was time to sell, and then they ran a process to sell it.

TIM McHUGH: Okay. Are there any small business set-asides or anything like that you have to worry about with this?

SUDHAKAR KESAVAN: No.

TIM McHUGH: Okay. And then lastly, I guess probably a little deeper question than those first few, but can you talk about, I mean, the importance of domain expertise in terms of selling this service? It's obviously — you do a little bit of this, but how important was it to them, and is that what you see the strategy here, that you can leverage the domain to differentiate in the commercial markets for interactive digital services? I ask because there's obviously a lot larger companies that focus purely on digital advertising type of work, and so to be successful there, it seems like, you know, the strategy here has to be able to differentiate yourself with that domain expertise.

SUDHAKAR KESAVAN: Yeah, I think that we're — Ellen will answer the question, but— we're not talking about developing ways in which they can reach the customer, so it's much more technology-based than advertising. Obviously there's a lot of creativity associated with it, and at some point, you work with advertising agencies, but I think that it's more about the technology and the creativity associated with how you design the customer Web experience and then use it to make sure that you interact with your customers. And certainly domain, we think, would play a very significant role, because we think that we understand the customer and what the customer wants to do and what kind of experience the customer needs, because we understand the business. So with that, I'll let Ellen answer.

ELLEN GLOVER: I think Sudhakar has really touched on it. I mean, their expertise is a lot — is very technical expertise and creative expertise, so on the design of that customer relationship, particularly as you work in social media or mobile technology, they have great capabilities around that, and then they have very strong breadth and depth capabilities in portal and content management, so they can operate in any of the major content management system software vendors that are out there. And they're often drawn in to their clients because they are recognized as being very good implementers of those content management systems. So it's the combination of those two pieces of expertise.

SUDHAKAR KESAVAN: I would also add that they have — for example, in their commercial health vertical, they have people who are management consultants who understand the Affordable Care Act. That is a very fundamental reason why they have — not only do they work on the strategy issues associated with the — with what the implications are of the Affordable Care Act, but then they can then advise them on how the customer experience should work, and then they bring the technologies in. So we've been impressed by the consulting expertise some of their folks have, and we think that that's going to serve us well, because we can then replicate what they do with our resources and perhaps add to that expertise and penetrate our markets in a much more significant way.

So we clearly think that we can distinguish ourselves in our markets using this expertise because we think, just for the reason why customers have found our implementation expertise in our traditional advisory services world helpful is because they think we understand that world, and we think that this is an additional service offering which we can provide to that customer base, and the customer will be much more comfortable giving it to us than giving it to one of these firms you talked about. So —

TIM McHUGH: Okay, and then —

SUDHAKAR KESAVAN: That is how we think we will grow the business.

TIM McHUGH: Okay, that's helpful. And just one clarifying — when you say healthcare, can you be — I mean, are you talking providers, are you talking about medical device companies, is it broad or is it specific in terms of —

ELLEN GLOVER: It's mostly payers and some providers.

TIM McHUGH: Okay. Thank you.

OPERATOR: The next question comes from Bill Loomis at Stifel Nicolaus.

BILL LOOMIS: Hi, thank you, and good announcement today. Just looking — is there going to be any — in the first year, any unusual like accelerated intangible charges, you know, or any sense of what that intangible amortization might be in the first year?

SUDHAKAR KESAVAN: I think — yeah, I think we will basically be able to give you those numbers, but there will be significant intangible amortization charges in the first year.

BILL LOOMIS: Accelerated?

ELLEN GLOVER: I don't think it's going to be accelerated.

BILL LOOMIS: Okay. So it will be over a period of, what, two, three years, you imagine?

ELLEN GLOVER: Yes.

BILL LOOMIS: And then on — just trying to understand, obviously, in the — in this type of business, we tend to see much higher employee turnover and shorter contract terms. Can you — what's the experience at Ironworks in terms of what's their employee turnover been over the last year, and kind of what's their average contract length on the commercial side?

SUDHAKAR KESAVAN: Yeah, I think the employee turnover, we've been very impressed by. You know, usually we don't come across too many firms which have employee turnovers lower than ours, but they come pretty close. They're about 4 percent, and so — for the last three years, and so we think that it's been — it's very impressive that they've been able to maintain their staff, and we've been very impressed with the staff, so we certainly hope that we can continue to keep that turnover really quite low. The size of the assignments, I think, in the government arena, they are larger. In the commercial arena, they are smaller, but not that small.

BILL LOOMIS: Okay, and then kind of what's the average term on the commercial side for a contract? Is this six-month jobs, or is it longer?

ELLEN GLOVER: I would say it's six- to twelve-month jobs. I mean, they tend to do things like develop a strategic roadmap that will take place over a number of years, and then they'll get those in project chunks that will be six to twelve months in length.

SUDHAKAR KESAVAN: And they do the work under master service agreements, so, you know, they do have schedules, just like IDIQ [unintelligible] contracts, with the commercial clients, so I think that that helps too.

BILL LOOMIS: And then how many employees does Ironworks have?

SUDHAKAR KESAVAN: 250.

ELLEN GLOVER: 250.

BILL LOOMIS: 250? And — let's see. And in your business, are you doing this type of work — I mean, it doesn't sound, at least in your commercial space, that you're not doing the type of work that Ironworks does. Are you doing the type of work that Ironworks does in your federal market now, or is this, you know, really a new area for you?

ELLEN GLOVER: Now, we are doing this kind of work. We have about 300 people across our IT and strategic communications group that are doing this type of work, primarily for federal clients, but not exclusively. We also do it for some of our utility clients as well. But this will bring us a much deeper and broader set of capabilities in that market.

BILL LOOMIS: So you'll be able to put the recruiting engine you have now in place for this type of work in this area, because I know that it's always tough to hire people for this type of work, good people.

ELLEN GLOVER: Yeah, we think that that will be one of the things that we can help them with is recruiting across the United States.

BILL LOOMIS: Okay. Okay, thank you. Congratulations.

OPERATOR: The next question comes from A.J. Strasser at Cooper Creek Partners.

A.J. STRASSER: Hey, thank you for taking my question. Congratulations on the deal. Just a few questions. Can you talk a little bit about the growth rates on the commercial side and on the government side for the business, what they've been over the last year and historically?

SUDHAKAR KESAVAN: We just looked at the overall numbers. I think both their businesses have grown quite nicely. I can't give you the exact numbers.

A.J. STRASSER: Okay. And how should we think about the mix, that 65/35 percent, next year versus this year?

ELLEN GLOVER: We don't expect it to change substantially.

A.J. STRASSER: Okay. And then on the operating margin side, could you share with us what the operating margin was in '11 or expected to be in '11?

SUDHAKAR KESAVAN: I thought we — that's what we said. It would be around 20 percent.

A.J. STRASSER: Okay. And then just lastly on the debt side — you may have said this. I apologize. But should we expect sort of a 2 percent financing fee for the $100 million acquisition?

SUDHAKAR KESAVAN: Yes, around that.

A.J. STRASSER: Okay. And then just lastly on the growth rate expectation of 15 percent for next year, and just coming off a '10 to '11 growth rate of roughly 25 percent, is there — is there a reason that you expect such deceleration, or is it just kind of too early at this point to tell? I'm just curious, you know, why 15 percent versus 25?

SUDHAKAR KESAVAN: You know, we basically looked at what they think they can do, and we've given you the number which —we have done some diligence, and we think that that's a good number, which we've worked with them on, so I think that as the base becomes larger, we certainly hope that the growth will — we'll be able to accelerate the growth going forward, but at the moment, for the next 12 months, we have to work with management to see what exactly they think they can do, and that's a number which is a good number for them to aim at.

A.J. STRASSER: Could you just — just lastly on the on the deal being accretive, you said it's too early to put a number on it, but maybe you could just help — I mean, if I assume a 15 percent growth rate on $57 million of revenue at a 20 percent operating margin, $2 million or so in interest and about $3 million or so in amortization of intangibles, it looks like the deal is well north of 20 cents accretive. Is there a chance that that amortization of intangibles is much higher than we're assuming?

SUDHAKAR KESAVAN: Yes. I think that is certainly the case, but we will certainly get into that detail as we give you guidance going forward, but the amortization of intangibles would be higher, yes.

A.J. STRASSER: Okay. All right. Well, thank you. Congratulations.

OPERATOR: The next question comes from Erik Olbeter at Pacific Crest.

ERIK OLBETER: Hey, thanks, guys, and congratulations on the deal. You know, maybe just a broader question. As you look at the acquisition, broadly, you've purchased a company which gives you another arrow in the quiver to go after existing customers, really over, you know, much of the same customer footprint you have now. I mean, do you expect further M&A deals to look like this, where you're actually sort of adding additional services to the existing offering and going after that energy/healthcare client across government and commercial spaces?

SUDHAKAR KESAVAN: You know, at the moment, we are pleased that we've got this deal.

ERIK OLBETER: I know, we're always asking for something else, aren't we?

SUDHAKAR KESAVAN: We hope that there are many more deals going forward, but I can safely say that we are focused on this one in this specific marketplace, and we certainly hope that we can make it very successful, and we work with management to see if there are other things which we can do in terms of acquisitions going forward. So we are certainly excited about the prospects, and we hope that we can do that.

ERIK OLBETER: Great. Thanks, guys.

OPERATOR: As a reminder, if you'd like to ask a question, you may press star, then 1.

And our next question comes from Edward Caso at Wells Fargo.

EDWARD CASO: Yeah, thanks for taking my call — questions. The rate on your revolver on your incremental debt will be about what?

SUDHAKAR KESAVAN: Around 2 percent, slightly more than 2 percent.

EDWARD CASO: Two percent, great. Was the company running particularly hot last year utilizationwise? It seems like a very strong revenue per billable and operating margin for this kind of company. Just trying to get a sense where — and also maybe are they sort of fully loaded on an infrastructure basis? Are they — and needed more sales or something like that?

SUDHAKAR KESAVAN: Well, they've done pretty well, you know, in terms of their growth. Clearly we think that, you know, with more resources, they will do even better. I think it will take us, as it has over the last few years of any acquisition, it takes about 12 months to see how we can crank up the business development engine, and we think that — we hope that they can go more rapidly going forward. I think in terms of utilization, Ellen, —

ELLEN GLOVER: They have been pretty consistent over the past few years in terms of their utilization, so we don't think it was particularly hot last year.

EDWARD CASO: Okay. that's terrific. And are they going to stay as a separate unit, or are you going to sort of meld them into the rest of the company?

SUDHAKAR KESAVAN: I think they will be separate. They'll be a division which will be supervised by Ellen Glover, and we think that would be the best way to do it. So obviously, we will integrate the back office, but I think in terms of just the client-facing work, et cetera, they will stay as-is, and in due course over the next 12 months, we'll figure out how we can grow their business, and, you know, we'll come up with a strategy to increase the numbers and go after [inaudible].

EDWARD CASO: Last question. Are there any obvious contract vehicles that either you own or they own that could be immediately leverageable?

SUDHAKAR KESAVAN: Yeah.

ELLEN GLOVER: Well, in the government health sector, we're a prime on the CDC CIMS contract, and we have been through the down-select so far on CIO-SP3. We think both of those vehicles will be very useful for them.

EDWARD CASO: Great. Thank you very much.

OPERATOR: The next question comes from George Price at BB&T Capital Markets.

GEORGE PRICE: Hey, thanks very much. Just wanted to throw one more in there, just maybe stepping back, kind of a bigger picture or macro question. Sudhakar, I guess, what should we read from this acquisition given its focus and mix, if anything, in terms of your view on the U.S. Government market, the growth opportunities, the potential, impact of budget cuts, et c.? I mean, is just the two-thirds commercial mix, you know, just happens to be, you know, you found a great company, and it just happens to be that mix, or is this more a concerted, effort, I guess, to really pull away from the — from the government space in any way, shape, or form? Thank you.

SUDHAKAR KESAVAN: You know, we do a lot of government work. We like the government work. We've liked it for over 40 years. Even if we wanted to pull away, as you say, I don't think there's any possibility of pulling away. We like the government business. It gives us enormous ability to grow intellectual property, as has been proven many, many times. We think that it so happens that they have a mix, which is 65/35, which is great. We have bought companies with 100 percent commercial work too. I don't think there's any signal to be taken from this. I think we are pleased with the fact that they have the mix they have. We think that it helps us, again, get skill sets and get domain expertise, especially in the health area, which we've always wanted, and we think that we can grow this. So I wouldn't walk away with any signals associated with this. We are quite pleased with our government business, and I think given that its focus, you know, it will, we think, continue to grow.

GEORGE PRICE: Great. Great, thanks very much. Congratulations again.

OPERATOR: This concludes the question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

SUDHAKAR KESAVAN: Thanks again for joining us on such short notice. I know that I'm sure we didn't please anyone to have a call at 5:30, but we do appreciate the fact that you took the time. Thanks again, and we'll see you all soon. Take care.

OPERATOR: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.