FINAL TRANSCRIPT

Thomson StreetEvents℠

ICFI - Q3 2010 ICF INTERNATIONAL INC Earnings Conference Call

Event Date/Time: Nov. 04. 2010 / 9:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Douglas Beck
ICF International, Inc - SVP, Corporate Development

Sudhakar Kesavan
ICF International, Inc. - Chairman and CEO

John Wasson
ICF International, Inc. - COO

Ron Vargo
ICF International, Inc. - CFO

CONFERENCE CALL PARTICIPANTS

Eric Prouty
Canaccord Genuity - Analyst

Bill Loomis
Stifel Nicolaus - Analyst

Joseph Vafi
Jefferies & Company - Analyst

Tim McHugh
William Blair & Company - Analyst

Steve Ferazani
Sidoti, Inc. - Analyst

Jeremy Devaney
BB&T Capital Markets - Analyst

PRESENTATION

Operator

Welcome to the ICF International third quarter 2010 conference call.

During the presentation, all participants will be in a listen-only mode. Afterward, you will be invited to participate in a question and answer session.

(Operator Instructions)

As a reminder, this conference is being recorded on Thursday, November 4, 2010 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, operator.

Good afternoon everyone and thank you for joining us to review ICFs third quarter 2010 performance.

With us today from ICF International are Sudhakar Kesavan, chairman and CEO; John Wasson, President and COO; and Ron Vargo, CFO.

During this conference call we will make forward-looking statements to assist you in understanding ICF management's expectations about 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 November 4, 2010, press release in our SEC filings for discussions of those risks.

In addition, our statements during this call are based on our views as of today. We anticipate that future developments will cause our views to change. Please consider the information presented in that light.

We may at some point elect to update the forward-looking statements made today, but specifically disclaim any obligation to do so.

I will now turn the call over to our CEO, Sudhakar Kesavan, to discuss third quarter 2010 highlights.

Sudhakar?

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

Thank you, Doug. And good afternoon, everyone. And thank you for participating in today's call.

Our third quarter results were firmly within our guidance range and illustrate the continued strengths of our market. We continue to experience robust demand in our Federal Government business which accounted for 71% of the year's third quarter revenues.

Again, this quarter, revenue growth was broad based with each of our business areas showing year-over-year increases. Revenues increased 18.3% driven in large part by the significant momentum of our health human service from social programs business which is up 34% for the quarter.

This business addresses priority issues such as early childhood education, disease prevention, and assistance for returning veterans and their families. ICF has tremendous domain expertise and experience in this area.

One excellent example of how well we have leveraged our advisory work to gain larger implementation contract in this market is the recent contract win we announced to support the Centers for Disease Control. The CDC information management services contract, known as the CIMs contract.

Here, we brought together our long-standing presence in Atlanta which came from the Macro acquisition with the health informatics capability that we acquired with VTech to win an important contract that will develop CDCs IT infrastructure on the next decade.

Revenue from our energy, environment, and infrastructure market increased almost 5% in the third quarter with the ongoing demand for energy efficiency work from utility clients and environmental work from government agencies grew at a double-digit rate which more than offset the economy sensitive areas like commercial energy transactions and commercial aviation.

Homeland, security and defense were about 17% as a result of the Jacob & Sundstrom acquisition which we completed in mid December last year. I should mention here that the integration of this acquisition is going very well and business remain solid and we had good initial success in cross-selling our new cyber security capabilities into our energy company client base.

In summary, therefore, we are pleased with our positioning in each of these three growing markets.

In addition to strong revenue growth of 18.3% and organic revenue growth of 14.5%, we succeeded in again hosting a solid increase in operating income which is up 34% from last year third quarter.

EBITDA margin came in at 9.3%, up from 9% a year ago and 9.2% in this year's second quarter.

One of the major highlight for the quarter was our sales levels which we are pleased to report reached $393 million and represented business captured in a broad range of priority areas such as education, health informatics, environment, and cyber security.

Our business development efforts continue to benefit from our ability to combine domain expertise and IT solutions.

Backlog increased sequentially to $1.4 billion.

I would now like to turn the call over to John Wasson, our president and chief operating officer, to provide additional operating highlights and information on our recent wins.

John?

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

Thank you, Sudhakar, and good afternoon everyone.

As you know, the third quarter is typically our strongest for sales and this year was no exception. As Sudhakar noted we achieved 393 million in sales and we are pleased that they showed a good distribution across all of our markets.

Today I wanted to focus on some of the implications of the key wins.

We continue to see and capitalize on growing opportunities in the health and human services arena. For example, we noted in our releases that we won an 11.7 million new contract at the Centers for Disease Control to support new efforts to monitor the progress of programs designed to combat obesity and tobacco use as a part of a comprehensive Department of Health and Human Services wellness initiative.

This contract is the monitoring component of the program called Communities Putting Prevention to Work for which we won an announced a similar sized new contract in May to help in establishing the program.

We expect to see more opportunities and initiatives that encourage healthy eating and active living.

As Sudhakar noted in his remarks, we believe that our winning the management consulting and IT domains with the multiple award CDC Information Management Services ID/IQ is a very significant achievement. Total potential value for these two domains is up to 4 billion over 10 years.

There are three reasons for its importance to ICF.

First, this win is a result of the year-long truly joint effort among Legacy ICF business units and acquired firms such as VTech and the health informatics arena, and ICF Macro with this large research and evaluation presence at CDC. Each unit could not have won either domain independently and we think this validates our acquisition strategy and our success in integrating these companies.

Second, they reaffirm our overall corporate strategy of leading the domain knowledge to inform and enhance our IT and other implementation services. In short, domain knowledge combined with implementation excellence produces better solutions.

Third, we believe that CIMs creates a new dimension of opportunities in implementation areas at CDC and we've already identified a number of significant opportunity areas that we would be targeting over the coming year.

No potential revenues from this contract are in our 393 million sales figure or in our backlog.

Moving from health into other human services, we were very pleased to win a new 38 million award from the Department of Education to support the Race to the Top program. Race to the Top is the premier federal competitive grant program designed to encourage and reward states that are creating the conditions for education innovation and reform.

With this contract, ICF will be supporting all Race to the Top grantees as a source of advice, training and information about what works throughout the program. This positions ICF as an important source of best practices with the most innovative government educational agencies at the state level.

In the area of early education support, we also won four contracts supporting the Head Start program totaling 60 million.

This year, the Office of Head Start redesigned their technical support structure to combine state based and regional support.

ICF won all three re-compete contracts and one new region of coverage. And combines with other aspects of the program that were not re-competed, ICF moved from supporting four to five of the 12 Head Start regions.

As we stated in the press release, this will not entail a significant change in the revenue outlook. It does give us a larger footprint and wider exposure as a leader in early education.

As you know, among the hundreds of new and re-compete contracts that we close every quarter we issue press releases only for the most significant or strategic wins. For example, in Q3 we won nearly 200 contracts in the commercial sector raging from energy efficiency and fuels market assessments for the aviation consulting and environmental management contracts. Therefore, our views on the state of the business reflect a much larger ray of sales activity that we can cover in a limited number of announcements.

Because we bid on over $1 billion of contracts to achieve our wins this past quarter, it's to be expected that the pipeline now is at 2.2 billion. However, we continue to be bullish about the range and quality of opportunities we have and we expect to grow that pipeline throughout 2011.

Our current range of targets includes some 48 opportunities greater than 10 million and 17 opportunities greater than 25 million. And all three major markets as well as the federal state, local, and commercial sectors are represented.

Finally, our turnover continues to be low. Year-to-date turnover is 9% based to an annual rate of 12.1%.

Now, I'll turn the call over to our CFO, Ron Vargo, to view the third quarter financial highlights.

Ron?

Ron Vargo - *ICF International, Inc. - CFO*

Thanks, John, and good afternoon.

Total revenue for the third quarter of 2010 was 197.7 million, an increase of 18.3% over the 2009 third quarter revenue of 167.1 million.

This quarter's gross profit increased to 73.7 million compared to 65.5 million in last year's third quarter.

Our gross profit margin was 37.3% compared to 39.2% in the third quarter of 2009. This decrease in gross profit margin was impacted by an in increase in the use of subcontractors and by our overall contract mix.

Indirect and selling expenses were 55.3 million in the quarter, up from 50.4 million reported in the 2009 third quarter primarily reflecting cost associated with the growth in contracts and expense associated with the inclusion of Jacob & Sundstrom, the acquisition that we closed in December of 2009.

Amortization of purchase intangibles was 3.1 million this quarter compared to 3.2 million in the third quarter of 2009. And depreciation and amortization was 2.7 million compared to 2.6 million last year.

Based upon our current portfolio business, both amortization and purchase intangibles and D&A continue to be in line with our calendar year forecast. We expect amortization of intangible assets to b 12.3 million for the year and depreciation and amortization to be about 10.7 million for the year. And we anticipate capital expenditures including capitalized software for the year to be approximately $8 million.

Operating income in the third quarter of 2010 was 12.5 million compared to 9.3 million in the third quarter of 2009, an increase of 34%.

The quarterly operating margin grew from 5.6% to 6.3% year-over-year as we grew our indirect and selling expenses and other operating cost more slowly than we grew our revenue.

Interest expense was approximately 0.8 million this quarter, down from 1.5 million reported in the third quarter of 2009 primarily due to a lower debt balance. And for the year we now anticipate interest expense of about 3.4 million.

The effective tax rate for the third quarter was 37.5% versus last year's 35.4%. During both quarters we had some favorable items that affected the rates.

We expect the full year rate to be about 39.2%.

Net income was 7.4 million in the quarter or $0.38 a share based on 19.6 million fully diluted weighted average shares compared to 5.1 million or $0.32 per share based upon 15.8 million fully diluted weighted shares in the third quarter of 2009.

And we now anticipate that the fully diluted weighted average shares for the fourth quarter will be 19.8 million and for the full year it will average 19.7 million.

Turning to balance sheet, our accounts receivable were 169.4 million compared to 174.1 at year-end 2009 representing 70 days sales outstanding at September 30 compared to 80 days outstanding at December 31. This calculation, as a reminder, includes the impact of deferred revenue. And if you remove that impact of $16.5 million in 2010 and 19.4 million as of December 2009, the adjusted DSO would be 77 days at September 30, 2010 compared to 90 days at December 31 '09.

And we continue to expect our day sales outstanding including the impact of deferred revenue will be in the range of 70 days to 80 days.

Cash flow from operating activities was 53.6 million for the first nine months compared to 38.2 million for the first nine months of 2009.

And we had cash CapEx including software during the period of about $5 million.

We were able to reduce our long term debt to 100 million at the end of the third quarter down to 120 million at the end of the second quarter, a decline of $20 million sequentially.

Thank you. And with that I'd like to turn it back over to Sudhakar.

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

Thank you, Ron.

As you saw in our earnings release we expect a solid finish to 2010.

We narrowed our revenue range to 760 million to 766 million, which represents organic growth of between 14% and 15%. Earnings per diluted share are expected to range from $1.35 to $1.40 for the year. It equates the fourth quarter revenues of $188 million to $194 million and earnings per diluted share between $0.33 and $0.38.

We also provided preliminary indications for 2011. Based on our current backlog level in our existing portfolio business we expect revenues to range from $830 million to $865 million representing an organic growth rate of between 9% and 13%. EBITDA margin is expected to be between 9% and 10%.

At this point, operator, we'd like to open the call for questions.

QUESTION-AND-ANSWER

Operator

(Operator Instructions)

Our first question comes from the line of Eric Prouty of Canaccord. Please proceed.

Eric Prouty - *Canaccord Genuity - Analyst*

OK. Thanks a lot.

First, just a quick housekeeping question. It looks like you've been able to work the tax rate down a little bit. As you look into 2011 do you have a preliminary look on what the tax rate might look for and look like in 2011?

Ron Vargo - *ICF International, Inc. - CFO*

You know, at this time -- it's Ron. At this time as we're going into the year and still, you know, a few months away, I would say for planning purposes we're using kind of our statutory rate. It would be somewhere between 40% and 40.5%.

Eric Prouty - *Canaccord Genuity - Analyst*

Great.

And then, Sudhakar, just a broader question for you. First, what are you seeing from a commercial standpoint? Is there's still a bit of economic overhang there with people not spending or folks loosening their belt a little bit on the commercial side yet?

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

Not yet. We don't see that happening as quickly as we'd like. You know, once in a while something opens up and then something else shuts down so our hopes go up. But then I think at the moment it's sort of, steady state hasn't really turned one way or the other.

Eric Prouty - *Canaccord Genuity - Analyst*

OK.

And then, just a follow on to that is, we hear of all this kind of austerity talk coming out of Washington that it might come to pass, it might not. But from an internal standpoint, I mean, are you folks going to -- obviously, a lot of your business is federal government related, that's not going away, but is there any focus on trying to grow out maybe the commercial side a little bit more given there might be some more risk to the federal business going forward?

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

You know, we've always had a very strong commercial business. We are always investing in it, making sure that we continue to grow it. We think that as long as it's in our domain areas we will do what we can to grow it. We don't aim at any specific percentage so, absolutely.

As the market come back especially in our areas -- and we think obviously they will -- you know, we certainly hope to grow it. In fact we -- as you know we've done acquisitions which are fairly commercial in our area of expertise.

So we certainly hope to grow both the businesses and I think we think of the strength of the company. That we have a strong presence in our domain areas in the commercial sector and we -- if the commercial market come back we certainly will grow that business as intensively as we can and direct our resources to where we can pluck the low hanging fruits so to speak.

So, I think that we are actually very focused on making sure that we are agile and do what we need to make sure that we don our business development dollars for the maximum effectiveness.

Eric Prouty - *Canaccord Genuity - Analyst*

Great.

And then, finally, some of your areas of focus have attracted attention lately. Some of your competitors have might have been a bit more, say, defense focused or had other array and market focuses. Any change that you're seeing in the competitive landscape? Or is it some -- generally a bump and into the same cast of characters that you've always been?

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

I think it's the same cast of characters. You know, the labels change a little bit, one person sells and talk to somebody else and they start calling themselves something else. But I don't know that there's that much change in the active or in the competitive landscape so to speak. You know, it's -- we haven't seen any change in competition. It remains competitive as it always has been, but I think acquisition of one with the other doesn't necessarily change sort of the realities on the ground.

Eric Prouty - *Canaccord Genuity - Analyst*

Great. Thanks a lot.

Operator

Our next question comes from the line of Bill Loomis of Stifel Nicolaus. Please proceed.

Bill Loomis - *Stifel Nicolaus - Analyst*

Hi, thank you.

Just looking at the fourth quarter guidance and the revenue guidance and the EPS guidance, it seems, you know, we've got sequential declines in both of those. And by my calculation it looks like organic growth could go to mid single digits. So a pretty massive slow down from the first three quarters, it seems, in contrast with the good award and backlog growth. Can you talk about that both on revenue side and then on the margin side as well or to the bottom line?

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

I think, traditionally, as you know, we always see a slow down in the fourth quarter, you know, so it would not be very different from what we traditionally see. Last year fourth quarter we had a very strong fourth quarter. There was a lot of ramp up based on the wins last year. The wins this year are more traditional. Last year, some of the wins were much more sort of stimulus dollars which we had to ramp p very quickly so we thing that while we will see a nice move ramp-up of the wins this quarter we won't see as accelerated ramp-up as we saw last year. So, I think just a question of the timing of the ramp-ups in each of the two quarters and the fact -- the number of days which are available in the fourth quarter are lesser because the holidays and other things done in the third quarter.

So we think that we still have organic growth rate for the year of 14% to 15% with an expected slow down in the fourth quarter. And the comparative basis to slow down looks a little more sharp because of the strong fourth quarter we had, but we are not -- it doesn't concern us in any way.

Bill Loomis - *Stifel Nicolaus - Analyst*

So, just -- you know, last year you did have a strong organic growth. I think it was around 22% in the fourth quarter so a tough comparison. But, you know, even besides that, you know, and particularly at the lower end of your guidance, are there any work that's dropped off relative to the third quarter or anything, you know, unusual in the business?

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

Not, really. There's nothing unusual. You know, we basically have not seen any -- I think that the only thing which has happened is that, you know, the comparison is a tough one and we always anticipated it. And I think we talked about it the last time too. So, it's not a big change.

Bill Loomis - *Stifel Nicolaus - Analyst*

And looking on the margin side your EBITDA guidance preliminary for next year is 9% to 10%. And, what are some of the initiatives that you're doing to cause that expansion because it looks like -- at least in the federal space -- we're probably not

THOMSON REUTERS

seeing a lot of margin expansion, in fact, the opposite next year. Are you anticipating some improvement commercial or is it some other corporate initiatives for margin expansion in 2011?

Ron Vargo - *ICF International, Inc. - CFO*

Yes. Hi, Bill, it's Ron.

I'd say, you know, a couple of things that can generate some margin expansion. One is, I think, just some operating leverage that we could see just with top line growth. And we're not going to grow our, you know, indirect and selling expenses as fast. So, that's number one.

And number two, yes, commercial, we're not forecasting tremendous uplift from the commercial market, but we think it'll be better next year than it is this year.

Bill Loomis - *Stifel Nicolaus - Analyst*

OK. Thank you.

Operator

Our next question comes from the line of Joseph Vafi of Jefferies. Please proceed.

Joseph Vafi - *Jefferies & Company - Analyst*

Hi, guys. Good afternoon. Good quarter here.

I was wondering if you could maybe talk a little bit about some of the emerging -- well, first of all, if we could talk a little bit about the airline business, some of the stuff where we have seen some headwinds here in the past few quarters. What's your expectation there as we move ion to 2011? It does seem like the air carriers are doing better adding flights and posting good profits.

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

You know, we certainly are -- we are -- you know, we cheer that. We hope that as the airline industry improves and becomes healthy, you know, the -- you know, our airline business will improve and we certainly think there's -- it will which is why Ron suggested that there was some optimism about the commercial business next year.

So, I think that we also have some additional, you know, alliance which we did announce on -- in the airline space, I think, with SkyWorks which is an investment bank in the airline space which we think will get us additional revenues in growth. So, we are optimistic about the fact that, you know, there might be -- there's some upside in the airline business in terms of, you know, from this year.

How quickly that's going to happen and how it's going to happen is something which we cannot predict at the moment. But things will get clearer over the next few months.

So, I think that, you know, we are feeling that things will turn around especially given your observation about the fact that the industry is doing better.

Joseph Vafi - *Jefferies & Company - Analyst*

OK.

And, do you have an idea off the top of your head about how much business is airline business in 2010?

Unidentified Company Participant

I would -- in the airline business -- I mean, the commercial line business is probably in the 25 to 30 range. Maybe 27 million, 28 million. You know, we do have some public sector related work with [FAAT] as stated, but 25 million to 30 million.

Joseph Vafi - *Jefferies & Company - Analyst*

OK, that's helpful.

How is the energy efficiency initiatives going with some of the utilities and what's the pipeline? And current update on the pipeline there would be helpful to.

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

This is John Wasson, again. You know, the energy efficiency space will continue to see significant opportunities. The pipeline is quite strong. I think that part of the business continues to grow quite well and we continue to build the pipeline. So I think we remain quite optimistic about the energy efficiency space as we look into 2011. That's certainly a bright spot for us.

Joseph Vafi - *Jefferies & Company - Analyst*

OK.

And then, I guess to follow up on that 2011, on the guidance and the energy efficiency business, I know those are generally kind of -- those projects ramp and then trail-off. Do that 2011 guidance assumes some trail-off of some of the current energy efficiency business?

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

I don't think it assumes any significant trail-off. Most of the energy efficiency deals we've won the last year to 18 months, you know, tended to be, you know, three -- two to year contracts if not longer. And so, I don't expect any significant trail-off in 2011 of current projects in energy efficiency space.

Joseph Vafi - *Jefferies & Company - Analyst*

OK.

And then, I think that's about it for me. Thanks, guys.

Unidentified Company Participant

Thanks, Joe.

Unidentified Company Participant

Thanks, Joe.

Operator

Our next question comes from the line of Tim McHugh of William Blair and Company. Please proceed.

Tim McHugh - *William Blair & Company - Analyst*

Yes. Yes, one follow up from one of the first questions about some of the -- can I say [brattling] that's been talked about in Washington right now? And, can you talk about, you know, your exposure or as well as if there's opportunities that would be created by some of the suggestions of making changes to healthcare reform or maybe impacting the funding levels for HHS?

You know, you probably have better knowledge of some of the things that have been discussed or proposed right now by some of the Republicans taking a bigger role in Washington. I just want to get your reaction to that and, you know, how you think about it.

Unidentified Company Participant

You know, I think that, you know, we've -- we have -- had strong sales this year. As you can see we have 70% of our 2011 revenue on backlog which is higher than what we had in the prior year. I think that the areas which we work in -- where we have potential business, obviously is one which we've discussed which are of interest, I think, to all sides -- energy efficiency, renewal energy, health programs, as you say, education, veterans need, cyber. So all these things are, I think, of interest to -- and areas which will be presumed by, you know, in a way where there could be some common ground.

I think in the health arena we, you know, we don't -- we do, you know, we do a lot of work associated with, you know, with NIH and with CDC and others which I think is, you know, likely to be areas which will continue.

Now, we can't -- we really don't have any reason to believe that there will be any changes. There is going to be -- if there is change it's likely to happen, perhaps, you know, in the budgets which are out coming in 2012, et cetera. But again, changes have been good to us so I really don't contradict here as to what's going to happen, but I think we're quite bullish about the fact that we have, you know, lot's of stuff in backlog and the area of interest to us are, I think, over just to all sides.

So, you know, that's all I can say at the moment. We will just have to watch it as we move forward. And I think we traditionally have tended to manage, you know, health IT, health informatic contracts, you know, program management stuff.

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

You know, I think we -- you know, we've been through these things a few times when -- during presidential transition this is the transition of one part of the Congress so, you know, we will, I'm sure, deal with it in a fairly and just the kind of way as we always have, watch it carefully and see where the emphasis is and make sure that we are agile in targeting those areas where we're most spending.

Tim McHugh - *William Blair & Company - Analyst*

Ok. Thanks. That helps.

Can you also talk about the JASI? How that acquisition is performing? Are there any, you know, any particular large cyber security contracts or anything that you maybe jointly won, but any update on the kind of the business development and the ongoing performance of that?

Unidentified Company Participant

I thin, you know, JASI continues to do well. I think we're quite pleased with that acquisition.

We did announce a significant contract with them, I think, for Social Security Administration, related to HSPD-12 which is a presidential initiative related to cyber and so identity management. And so -- that was a $10.5 million contract so we're quite pleased about that.

I think we're also, you know, begun leveraging them into the energy space around cyber related issues. I think we've won a couple of contracts with major utilities related to cyber leveraging the Jacob and Sundstrom capability. So, I think, quite positive on that.

We continue to see opportunities to leverage it both in the civilian space and the energy space. And I think they've continued to grow nicely this year and certainly performed to our expectations. So, I think it's been quite -- we're quite pleased with that acquisition.

Tim McHugh - *William Blair & Company - Analyst*

OK.

And then, following up on the M&A front, I was -- the cash flow has been excellent and it's driven a quick deleveraging in the balance sheet. You know, the -- you haven't made an acquisition since JASI. Is it -- is that a reflection of the opportunities you see out there whether in terms of the quality of them or the pricing amount or is there an opportunity that you're waiting for something that you think will -- might come together at some point down the road? How should we kind of think about the M&A environment view?

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

We are quite active on the M&A side. We see lots and lots of, you know, we see a lot of companies. We talk to them, we -- you know, we've just not been able to find anything which fits in with us at , you now, in the right way. So, it's not for lack of trying, it's just that the opportunity set which we see has just not gelled and we continue to be quite active on that front.

So, we are not waiting to -- for the right thing to come up and show itself. We certainly go out there and do the outreach necessary to make sure that we try and make things happen.

You know, it's one of those things where it can't be predicted and we are trying quite hard and quite intensively. But we will not do anything which doesn't fit in with our overall business. And which basically is something which we cannot deliver on.

You know, on the Macro and on the VTech and all the other acquisitions we've done, I think we have done a good job of growing them organically even though when we acquired them they were not growing that much and I think we need to have the right fit and the right kind of company.

And there are opportunities out there. It's just that, not all of them are exactly what you think they are once you get in

---

Tim McHugh - *William Blair & Company - Analyst*

OK. Great.

And, Ron, if I can slip one more in the numbers. Do you have any idea for 2011 yet on intangible amortization? Does it stay at that level or do you start to see it fall off?

Ron Vargo - *ICF International, Inc. - CFO*

It falls off. And I think if you go to the schedule in our 10-K you'll see that it falls off to about 9.3 million from the 12.3. So that will be a significant adder to the earnings just as a standalone item falling off $3 million.

Tim McHugh - *William Blair & Company - Analyst*

OK. Great. Thank you.

Ron Vargo - *ICF International, Inc. - CFO*

Yes.

Operator

(Operator Instructionss).

Our next question comes from the line of Steve Ferazani of Sidoti. Please proceed.

Steve Ferazani - *Sidoti, Inc. - Analyst*

Hi, good evening everyone.

Borrowing any near term acquisitions what would be the timetable for the debt pay down? It looks like in baseline cash flow you could probably pay it all off the next five quarters or sic quarters. Would that be your intention?

Ron Vargo - *ICF International, Inc. - CFO*

Well, as we -- you know, we focus on cash flow, number one. And I think we've done a good job of generating cash flow during the year.

You know, in the third quarter, I'll point out, you guys are crack analyst, that we did have a working capital benefit there that will probably reverse in the fourth quarter. But not withstanding that it was still a very strong cash flow quarter. And as we continue to generate, cash flow continue to pay debt down.

But, you know, our expectation is, that we'll find something attractive in the M&A market that will, you know, absorb some of that debt capacity that we have.

Steve Ferazani - *Sidoti, Inc. - Analyst*

OK.

Second quarter where the gross margin was perhaps a little bit lower than historical? I know this was addressed the last quarter on perhaps more subcontractor usage. What's the thought moving forward the next few quarters? Does it move back up or is there still greater subcontractor usage?

Ron Vargo - *ICF International, Inc. - CFO*

Yes. So, you're right. The last two quarters we've had higher than historical averages in both subcontractors in some of our other direct cost. And, you know, I believe we'll start seeing levels that are closer to these levels rather than levels that we saw historically. And that's a result of some of these larger implementation contracts that we've signed.

It's below volatile and some of the contracts, you know, quarter-to-quarter can generate significant more contractor cost, but on the whole we've now got two quarters behind us, I think, with a little bit higher than normal levels. And, you know, I think that's probably the new norm going forward, is kind of gross margins in that kind of range.

But, you know, as I mentioned earlier, I think we're doing a more effective job of managing the indirect cost. And so, you know, if you point out, the EBIT margins have been pretty healthy relative to last year.

Steve Ferazani - *Sidoti, Inc. - Analyst*

OK.

Last one for me is just on Race to the Top. Significant education win. Can you sort of outline what you see is the potential in the education space? Also, you've done this before, what's the opportunity to work with the states in filing for Race to the Top wins? I know that's gotten extremely competitive. Is that a potential as well?

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

I think -- this is John Wasson. I mean, obviously we're quite pleased to win the Race to the Top contract. I think this is a strong position obviously at the federal level. We'll be working quite closely with the states so I think we -- for certain there will be opportunities at the state level and we'll take a hard look at those opportunities and take advantage of the ones that are a good fit for us.

You know, I think we're in a very strong position vis-a-vis Race to the Top, we're in a very, very strong position on early childhood education. We certainly see education as a significant growth market for us going forward both at the federal and state levels, and so I think we're in a strong position and we have significant subject matter expertise here and we're also winning these larger implementation contract leveraging that so we see this as an area where we can really, again, be a leader on advisory and leverage and implementation.

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

Yes. And this is Doug. Just to add one thing. I think the of the reasons we're especially excited about this is that as you know everybody now is interested in what works, what doesn't work, educational reform, and trying to look at ways to deal with some obvious issues. And we are going to be the knowledge broker in essence among the various state local entities that are Race to the Top winners so that we will be distributing, staying on top of, and I think associated more with the -- some of the leading edge, cutting edge reforms that are really making a difference. And I think that that enables us to build a knowledge base and really increase our reputation in those areas of education that can make a real difference to us in the long term.

Steve Ferazani - *Sidoti, Inc. - Analyst*

That's great. Thanks a lot, everyone.

Operator

Our next question comes from the line of Jeremy Devaney of BB&T Capital Markets. Please proceed.

Jeremy Devaney - *BB&T Capital Markets - Analyst*

Good evening gentlemen. Great quarter.

Taking a look at the life cycle nature of your business, I was wondering if you could help us understand where bookings are shaking out? Are you seeing more at the front end in terms of the advisory consulting side business or are you seeing more in the implementation and analysis?

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

I would say that -- this is John Wasson, again. I think all phases of the business are growing. So advisory implementation and evaluation we're seeing strong trends in our key market.

I think, obviously, the implementation work tends to be the larger longer term contracts. So, on a percentage basis, you know, in terms of total dollars, you know, I think the implementation is certainly the fastest growing piece of the three phases, but all three phases are growing and growing nicely.

Jeremy Devaney - *BB&T Capital Markets - Analyst*

All right.

And then...

Unidentified Company Participant

And we expect that trend to continue. I think we would expect to continue the broad implementation more so in the business most quickly as we look forward.

Jeremy Devaney - *BB&T Capital Markets - Analyst*

I guess more directly, I'm trying to get a sense of how that frontend business -- the consulting and advisory business -- is sort of trending versus the backend in the longer leg business in the sense of, you know, how the growth in the frontend is working relative to the rest of the business.

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

Let me see if I can answer. I think that we have always made, you know, our basis and the intent has always been that unless we are really strong on the advisory side it's going to be very hard for us to win implementation contracts and provide the discriminatory, you know, what discriminates us from everybody else is the fact that we understand the mission of the client on the advisory side well. So when they want to implement our advice, we can do it in a much more effective and potentially cheaper way because they don't have to teach us what the specific mission of the subject matter content is.

So, we have always emphasized the fact that the advisory working those smaller in size and perhaps more -- they're more smaller contract and therefore you have to work harder at it is really quite important to emphasize. So, I think that we have not tended to, you know, give up on any advisory work, but we have certainly focused on making sure that we get the implementation contracts which follow on from some of the advisory work which we do and our focus has been quite intensive on that.

So, I don't know that I can tell you off hand what the relative growth for each of those areas is, but we certainly know that the implementation is growing much more rapidly in the advisory only because it is so much larger and longer term. So, I think that the advisory was very important for us to grow the implementation work and when you win the implementation contract, the rate of growth of the overall firm increases primarily because of the fact that they're much larger contracts.

Jeremy Devaney - *BB&T Capital Markets - Analyst*

Great. Excellent. I understood.

Ron Vargo - *ICF International, Inc. - CFO*

It's Ron Vargo. Let me just -- I want to go back to something I said because it triggered the thought that I don't want to mislead you.

When we talked about these larger contracts and the fact that the, you know, these -- the gross margins as I addressed them were kind of in the range that we've seen more recently, I'm speaking more on the government contracts. So, clearly, if we see a pick up on the commercial side, you'd see a pick up on the gross margin as well. OK.

Jeremy Devaney - *BB&T Capital Markets - Analyst*

All right. Excellent. That's helpful.

Sudhakar, within that advisory portion of the business, is there any particular one or two verticals that you see pick up in business where you have a sense that it may lead to increased implementation work later? Are there any hot spots that you're advising on currently?

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

Yes. I think, you know, as you can see in the growth the health and education are the two areas where we see strong, you know, we do a lot of advisory work and that's leading to a lot of implementation. You know, we had -- we've done a lot of advisory work for CDC, that lead to a lot of implementation work now. So, I think that those two areas, I believe, you see more -- you know, a lot of growth.

Jeremy Devaney - *BB&T Capital Markets - Analyst*

Great.

And then, last question and I'll get out of the way here. Looking at the backlog, you know, you had great book to bill this quarter. What's yours sense in terms of contract flow looking ahead? I mean, is this a one-time flip or do you have a feel like the contracts are really beginning to get led out of the offices here?

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

I think, you know, we've -- I've been asked this question before. You know, we didn't really see any change or any slow down with the way the contracts are being led. I know they have read other analysts reports in other companies which said that there was some issues associated with some contract led outs in certain agencies, but we didn't see any real slowdown or acceleration in any of the contract led outs.

So we think that, you know, as is traditional and it has certainly repeated itself this year, you know, the first quarter was slow, second was better, third has been better than the first two and the fourth is not going as good as the third but could be as good as the second, you know, or something. So, I think it's one of those things where it goes up to the third quarter and then slows down in the fourth.

And I think that's exactly what we will see going forward. So, we don't see any lack of opportunity, any lack of slow down of any RSPs coming out.

We think that things look, you know, reasonable at the moment and so we anticipate to continue on the same trend going forward.

Jeremy Devaney - *BB&T Capital Markets - Analyst*

Perfect. Thank you for the answers.

Operator

That concludes our question and answer session. I would now like to hand the call back to management.

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

Thank you for participating in today's call and we'll see you next earnings call sometime in March.

Thank you, again, and happy new year.

Operator

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