FINAL TRANSCRIPT

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ICFI - Q4 2008 ICF INTERNATIONAL INC Earnings Conference Call

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PRESENTATION

Operator

Welcome to the ICF International fourth quarter and year-end 2008 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.

(Operator Instructions)

As a reminder, this conference is being recorded on Wednesday. March 11, 2009 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 evening, everyone, and thank you for joining us to review ICF's fourth quarter 2008 performance. With us today from ICF International are Sudhakar Kesavan, Chairman and CEO; John Wasson, COO; and Alan Stewart, CFO.

During this conference call, we will make forward-looking statements to assist you in understanding ICF management's expectations about our future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer you to our March 11, 2009 press release and our SEC filings for discussions of those risks.

In addition, our statements during this call are based on our views as of today. We anticipate that future developments will cause our views to change. Please consider the information presented in that light. We may at some point elect to update the forward-looking statements made today, but specifically disclaim any obligation to do so.

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

I will now turn the call over to our CEO, Sudhakar Kesavan, to discuss fourth quarter 2008's highlights. Sudhakar?

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

Thank you, Doug, and good evening, everyone. Fourth quarter performance was in line with our expectations and represented another strong period of core business growth for ICF. Excluding The Road Home contract, which we completed in June of this year, revenues were up 42.9%. We reported organic growth for the fourth quarter of 16%. This growth points to the strength of our markets and the high level of demand for ICF's domain expertise and expanded implementation capabilities.

The fourth quarter mix of core business revenue remains similar to recent trends. Energy, environment and climate change together accounted for 57% of revenues; health, human services and social programs were 29%; and Homeland Security and defense accounted for about 14%. We achieved double-digit growth across most of these markets in the fourth quarter, which is a strong statement given the prevailing economic environment. Only Homeland Security and defense grew at a lesser rate, but was still up 3.5%.

EBITDA margin came in within our 9% to 10% guidance range as we worked effectively through another transition period on The Road Home contract, which as I said will be completed in June.

On the cost side, we are taking advantage of synergies related to recent acquisitions. Additionally, our ability to win larger contracts is helping us increase utilization and we continue to migrate to the higher-margin time and materials and fixed price contracts, which represented 89% of our core business revenues in 2008.

Looking at full-year 2008 results, it is clear that we have made significant progress on several fronts. We posted core business revenue growth of 61.6%; organic growth was 20.4% for the year. Our contract win rate, including recompetes, was 48%. Also it is important to note that no single contract represented more than 2% of core business revenues.

Looking ahead, we are pleased with our current new business pipeline, which is $1.67 billion today, after another solid quarter of contract wins. Core business backlog was $757 million, up 56% from last year's level, 3% sequential increase over 2008 third quarter.

We know that analysts and investors are interested in discussing the project opportunities for ICF that are likely due to the recently passed Stimulus Package. We believe there will be many and we are enthusiastic about these opportunities, too. However, we want to be realistic as to the likely timing for these opportunities to generate revenue. Congressional budget office estimates that only about one-fifth of the total budgeted outlays of $575 billion are expected to be committed before October 1 of this year. So yes, we are optimistic, but the timing and magnitude are not yet clear.

We recently added a section to our Web site that provides spot leadership on key administration priorities by our subject matter experts. These white papers propose specific action plan that address many of the initiatives outlined in the stimulus plan. They are available on our Web site at www.icfi.com/transition and we encourage you to take a look.

I would now like to turn the call over John Wasson, who will give you more details on contracts and business trends. John?

John Wasson - *ICF International Inc. - EVP & COO*

Thank you, Sudhakar, and good evening, everyone. As Sudhakar noted, fourth quarter performance was in line with our expectation and sales were seasonally strong. In fact, at $141 million, our sales for the quarter were almost twice last year's levels and were well diversified across our four major markets. Earnings release today summarized the key wins that we have announced throughout the quarter, but I want to note some highlights and their implications.

First, ICF continued to reinforce its position in supporting the Head Start Program by winning 14 state-based contracts budgeted over $40 million from the Administration of Children and Families at the Department of Health and Human Services. We also won two new contracts worth in excess of $10 million from the ACF to help plan and manage the Head Start Research Conference and to develop its National Youth and Transition Database.

In the Health IT arena, we were awarded a new $4 million contract with HHS to provide regionally based technical assistance to help prevent the transmission of HIV/AIDS and other sexually transmitted diseases.

We are pleased that we continue to win new work in an area marked by the new administration as one of its highest priorities. We also continue to win both new work and retain important contracts in Homeland Security. In the fourth quarter, we won a large task to support the National Exercise Division in a high-priority national-level terrorism prevention exercise. And we are continuing to provide project management, office services for Departments of Fraud Detection and National Security Branch by winning a $9.5 million contract re-competition to enhance the integrity of the legal immigration system.

In transportation, we continue to maintain our leadership position in assessing federal regulatory issues by again winning a $10 million five-year contract to extend our assistance to the Federal Motor Carrier Safety Administrations work in promoting safe commercial vehicle operation.

In addition to some of these key wins, I should also note that we won over 70 new engagements in the commercial energy arena, especially in areas of climate change and energy efficiency. We also were again widely recognized for our market leadership in climate change.

In its ninth annual survey of some 1,600 participants, Environmental Finance Magazine named ICF as the winner of Best Adviser Awards in four climate change categories -- EU Emissions Trading, Kyoto Projects, North American Mandatory Markets, and North American Voluntary Markets. Commercial aviation business has softened somewhat in this economy, but it is still a small part of our business and we are aggressively managing cost there.

After another strong quarter of new sales, our pipeline stands at a record of $1.67 billion and we are seeing a growing trend at adding more projects in excess of $10 million into our pipeline. This reflects our strategy of focusing business development on larger assignments, which reflect the full program life cycle of our clients needs, from the advisory phases through implementation and evaluation.

As you know, our three-year Road Home contract ends in mid-June and we are in the wind down phase of that program. Today, we have completed nearly 123,000 closings worth some $7.8 billion, far ahead of the originally anticipated program size. Recently, as expected, the state announced the names of two firms that will carry on required IT support and maintenance, and close out the homeowners program once our contract is concluded. We had worked with the state for some time to develop a detailed transition plan in anticipation of this handoff.

Finally, our personal retention rate continues to be good. Year-to-year annualized rate of turnover was 12.9% without the Road Home contract.

Now I would like to turn the call over to our CFO, Alan Stewart, to review the fourth quarter financial highlights. Alan?

Alan Stewart - *ICF International Inc. - SVP & CFO*

Thank you, John, and good evening to all. Our gross revenue for the fourth quarter of 2008 was $161.9 million compared to the $186.4 million for the 2007 fourth quarter, reflecting the wind down of the Road Home contract. As Sudhakar noted, revenue from our core business increased significantly this quarter to $110.9 million or 42.9% above last year's $77.6 million core business revenue.

Revenue from the Road Home program was $51.1 million for this recent quarter, less than one half of the $108.8 million last year's fourth quarter.

This quarter's gross margin increased 8.6% to $57.1 million, primarily due to decreased levels of sub-contractor cost associated with the Road Home contract. Gross margin increased to 35.2%, up from the 28.2% reported in last year's fourth quarter. We expect the gross margin to progressively trend up to and reach our historical levels of approximately 40% after the Road Home contract is completed.

Indirect and selling expenses, excluding non-cash equity related compensation, were $40.4 million, down from the $42.8 in this year's third quarter. This $2.4 million quarter-over-quarter savings reflects the cost efficiency programs that we continue to implement. If you recall, the second quarter indirect expenses were $45.2 million, and this is the second consecutive quarter of a significant decline in the indirect costs as a result of these continuing actions.

Non-cash stock compensation expenses of $1.6 million in the fourth quarter of this year compared to $1.5 million in the fourth quarter of 2007. Interest expense was $1.0 million, up slightly from the $800,000 from this year's third quarter. We paid down a little over $10 million of the long-term debt, which stood at about $80 million at the end of the quarter. I would expect to pay down another $10 million of debt by the end of the first quarter of 2009.

The effective tax rate for the fourth quarter of 2008 was 43.2%, which brought the annual tax rate for 2008 to 41.9%. We believe there is upside in future periods concerning our tax rate as we determine the success of implementing our various initiatives to reduce our permanent differences and achieve the benefit of foreign tax credits concerning our international operations.

Fourth quarter 2008 net income was $6.1 million or $0.40 per fully diluted shares, which was at the high end of the guidance we provided at the time of our Q3 results.

In reviewing our balance sheet as of December 31, 2008, there were several points worthy of note. Our net accounts receivables balance was $150.8 million, slightly down from the Q3 balance of $156.2 million and down from $190.2 million balance as of December 31, 2007. This represents 83 days sales outstanding on December 31, 2008 compared to 80 DSOs on September 30 and 92 DSOs on December 31, 2007 respectively. If you deduct the amount of deferred revenue for these periods, the adjusted days of sales outstanding would be 77, 73, and 84 days respectively for those same periods. The decrease in DSOs from our December 31, [2000] ratio is primarily attributable to active management of our accounts. We continue to anticipate DSOs in the long-term to be in our 75 to 85 days historical average.

Turning to our cash flow statement for the 12 months ending December 31, cash flow from operations provided $28 million. We had cash capital expenditures for the year of $9.9 million, reflecting investments in corporate infrastructure to accommodate our rapid growth over the last year and our anticipated future growth. Payments for business of acquisitions totaled $51.4 million attributed to the Jones & Stokes acquisition in February 2008.

With that, I would like to turn the call back to Sudhakar.

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

Thank you, Alan. Again, we are optimistic about our business prospects, but we want to be cautious in this environment. For the 2009 first quarter, we anticipate that the total revenues will range from $155 million to $160 million, of which core business revenues should be approximately 70% similar to the 2008 fourth quarter. EBITDA margin will be between 9% and 9.5% and earnings per diluted share are expected to range from $0.34 to $0.38.

Based on the visibility from our backlog and current business trends, we are reaffirming the preliminary full-year 2009 guidance we provided last quarter. This calls for total revenues of $530 million to $560 million, of which core business revenues are anticipated to be at least $500 million, representing an organic growth rate of approximately 15%. For full year, we're expecting EBITDA margins to remain in the 9% to 10% range.

Operator, I would like to now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Tim Quillin with Stephens Inc. Please proceed.

Tim Quillin - *Stephens Inc. - Analyst*

Good afternoon. On last year's conference call at this time, you gave explicit EPS guidance for the current year. Why not give EPS guidance this year?

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

I think what we are hoping to do is, as things become clearer on developments in terms of administration spending priorities, what we would like to do is get that in there and then give you some EPS guidance. So I think you can expect the EPS guidance in the call in May. We thought it's a little early to give EPS guidance at this time. It's just a judgment call by us.

Tim Quillin - *Stephens Inc. - Analyst*

Okay. Well, we have a couple of pieces of the puzzle, maybe you can give us a couple of other pieces of the puzzle. What are the expectations for D&A for '09?

Alan Stewart - *ICF International Inc. - SVP & CFO*

I would suggest using the -- I think it's approximately the D&A, the amortization of intangibles, and the depreciation and amortization we reported in the fourth quarter.

Tim Quillin - *Stephens Inc. - Analyst*

And that's run rate?

Alan Stewart - *ICF International Inc. - SVP & CFO*

Press release and the 10-K and send that out, and any variation of that's probably going to be minor.

Tim Quillin - *Stephens Inc. - Analyst*

And how about interest expense?

Alan Stewart - *ICF International Inc. - SVP & CFO*

Interest expense, I would tend to use roughly $1 million a quarter.

Tim Quillin - *Stephens Inc. - Analyst*

Okay. And tax rate?

Alan Stewart - *ICF International Inc. - SVP & CFO*

Tax rate, right now, we're using -- we look and see 43% for the first quarter. However, we're taking a look at a number of initiatives that we're trying to implement that we believe could result in a reduction of that rate as we go into the second and third quarter. Because we've not implemented those results yet, we are really not in a position to state a number until we see some success on those actions.

Tim Quillin - *Stephens Inc. - Analyst*

And order of magnitude if those actions were successful, could your tax rate for the year end up below 40% or just down a couple of points?

Alan Stewart - *ICF International Inc. - SVP & CFO*

I'd really prefer not to say at this point in time until I have more exact numbers. And I think we will be able to do that on the May 11 call or May call on the first quarter announcement.

Tim Quillin - *Stephens Inc. - Analyst*

Okay and thank you. I just have another question -- I'll let somebody else get in here and get back in the queue. But the guidance of $500 million plus in revenue in the core business is going to require a pretty rapid quarter-to-quarter growth off of your first quarter number, something like 8% plus in quarter-to-quarter growth in 2Q, 3Q, 4Q. Can you help us understand what the drivers of that type of growth might be? Thank you.

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

We think there are a number of procurements especially in the energy efficiency arena, which we think are going to start cranking up. We also have the new Head Start program revenues in the program and that program is also cranking up. So there are very specific programs which we believe are starting up, which should help our growth on that front.

Tim Quillin - *Stephens Inc. - Analyst*

Okay, thank you.

Operator

Your next question comes from the line of Tim McHugh with William Blair & Company. Please proceed.

Tim McHugh - *William Blair & Co. - Analyst*

Yes. First I want to ask, as you look at that $500 million of guidance for the year and given the backlog in contract wins from the fourth quarter, what type of visibility do you feel like you have at this point into that type of number? Can you just talk a little bit about that?

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

As I just pointed out to Tim Quillin, I think we have pretty good visibility. We feel reasonably comfortable talking about that number. As I said that, we have won some large energy efficiency implementation contracts, we won some Federal -- those are in the commercial arena. We won some large new federal contracts, which you've seen the announcements of. So we think we have pretty good visibility; so we are quite comfortable with that number.

Tim McHugh - *William Blair & Co. - Analyst*

And what type of revenue for the Road Home is in place? You gave the first quarter number, but that implies almost $50 million for the first quarter and if I take at least $500 million for the base business, I'm already at the full year or the high end of your full-year overall revenue guidance. Can you help me think about that?

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

We are, I think, pretty much winding down that contract quite rapidly. We are in the process of reducing the staff there. So I think that they will just be a few million dollars more, may be $8 million to $10 million more in the second quarter, in addition to what we do in the first quarter. So there is not going to be that much more in the second quarter. We are just trying to figure out what the -- makes sure the transition goes well, work with the state to ensure that all the things happen in a concerted sort of way, which is smooth. So there is not much left to do there. So we don't anticipate that much more revenues in the second quarter.

Tim McHugh - *William Blair & Co. - Analyst*

Okay. And the new contract wins, $140 million that just the -- even the headlines you list in the press release maybe get you half of the way there, and the overall number was a lot more than just tracking maybe your press releases throughout the quarter. Were there a lot of small wins, was there -- can you talk a little about the type of contract wins that you had that push that number up?

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

Yes, I think we'd basically add up everything we won, and that's the number we should put out there. There are lots and lots of wins. As I said, there are 70 projects. We don't generally issue press releases which are less than $1 million or at least it's unusual or less than $2 million. It's quite unusual. So as John pointed out, that we won 70 energy contracts. So that in itself could be in the tens of millions, we tend not to put those out. So, but we can certainly give you a flavor for it. I don't have it right here, all the whole long list, but it's hundreds of small contracts which are less than $2 million across all the sectors. So it's quiet -- it's not lumpy in any specific sector.

Tim McHugh - *William Blair & Co. - Analyst*

Okay. And then lastly, in the SH&E business, you mentioned some weakness there. Is that what you saw earlier in the year in terms of the airline securitization work or was there some incremental weakness as the economy turned down in the fourth quarter there?

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

I think it is the same thing. We just wanted to make sure that you understand that there is some weakness there. We think that we are managing the cost aggressively there and we're making sure the profitability stays up there. But I think that the overall revenue run rate right now is about 10% lower than what we were expecting. So I think it's about $3 million or $4 million less than what we anticipated for the year. But we think it's a small part of the business, but I think we will more than make up for it in all the other areas, but it certainly is slower than what we would like.

Tim McHugh - *William Blair & Co. - Analyst*

Okay, thank you.

Operator

Your next question comes from the line of Jason Kupferberg with UBS. Please proceed.

Jason Kupferberg - *UBS - Analyst*

Thanks. Just wanted ask a follow-up on the full-year outlook for the core business to make sure I understand the drivers here. It sounds like what you are saying is that, while Q1 for the core business will be flattish with Q4 '08, you're depending on a lot of contract ramp up activity, I guess, over the remaining three quarters of '09 to get you to that at least 500 number for the full year. Is that right?

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

I think that it's traditionally -- if you look at our numbers, they're traditionally quiet. The first quarter -- even if you look at last year -- the first quarter starts up slow, second and third ramps up, and then fourth quarter slows down again.

So you are right -- the numbers for the fourth quarter and the first quarter this year might be similar, but just as it follows the traditional seasonality associated with our business in the core business, I think you will find that we expect the same seasonality this year. So by the end of the year, we should be in reasonably good shape. But the number of working days also might differ in each quarter.

Jason Kupferberg - *UBS - Analyst*

Okay. So even though we are in a year where obviously there is transition within the administration and all the various federal agencies, that's not a concern from a timing standpoint just in terms of kind of seeing that revenue ramp up or a typical seasonality pattern play out?

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

We haven't seen it, but it's always a concern, but we anticipate that the seasonality issues will be similar to what they were last year.

Jason Kupferberg - *UBS - Analyst*

Okay, all right. And Alan, can you give us a sense of your free cash flow expectations for the full year '09? Now that Road Home is running down, hopefully some of that working capital is a little easier to get your arms around.

Alan Stewart - *ICF International Inc. - SVP & CFO*

Yes, I would say I guess, I look at the last two quarters of third and fourth quarter and if I look at our cash flow from operations on our cash statement, we had $9 million in cash flow from operations positively in the third quarter, almost $12 million in the fourth quarter. For the first quarter of this year, I would expect somewhere around $10 million. I would expect probably a nominal amount of CapEx in the first quarter and at least the present time that's probably what I expect looking out over the near-term next quarter.

Jason Kupferberg - *UBS - Analyst*

Okay. And for full year, any thoughts?

Alan Stewart - *ICF International Inc. - SVP & CFO*

I prefer until May 11th, when we give the full year guidance and see if there is any adjustments based on that.

Jason Kupferberg - *UBS - Analyst*

What's the current split of advisory versus implementation work for you guys and where would you like to see that mix go over time?

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

I don't know. I have said in the past that I would like it to go to, for every dollar advisory, we get $5 to $6 of implementation. So I don't know that we are there yet, but I would say that we are making progress. I think, we started off as, say, one-on-one move to two-to-one. I think it's right now to be between $2 and $3 to $1. So I think that we have still not fully exploited the potential we have with -- the relationships we have with our advisory clients fully, and we are in the process of making sure that we do that in a systematic way.

Jason Kupferberg - *UBS - Analyst*

And I guess just last question, the win rate, the 48% I think you said does include rebids. So if you stripped out all the new stuff excluding the rebids, what would that number look like? Is that a number that you are comfortable with? Obviously, it's okay to have a lower win rate, reflects that you're taking a shot at some broader pipeline. But how do you guys think about an optimal win rate on both new and renewal business?

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

I think that's a good question. I think, right now, our win rate just to answer your question directly is 35.5% on new business. I think we have made progress there. For those of you who are familiar with me, I would like it to be around 30% because then we are bidding on more things, and one in three is a pretty good opportunity win rate for me. So we did 35.5%. I think we are used to be in the low-40s. Now I think we have gone to 35.5% as of the year. So I think we are making progress there. But 30% is the number which I will be comfortable with.

Jason Kupferberg - *UBS - Analyst*

Okay. All right, thanks for the comments.

Operator

Your next question comes from the line of Joseph Vafi with Jefferies & Co. Please proceed.

Joseph Vafi - *Jefferies & Co. - Analyst*

Gentlemen, good afternoon, good quarter. I was wondering if we could just circle back through the guidance just one more time and maybe you could give us a flavor of the core business guidance you have provided relative to how much visibility you have to the year and compare that to last year's core business guidance relative to the visibility you had at that point in time?

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

I think, let me give you some numbers that might be helpful. We did $432 million in the core business in 2008. So if you add 15% to that, it comes around $500 million. So that's why I'm suggesting to you that $500 million is a good number. We have good visibility. If you look at our backlog at the end of last year, it wasn't as robust in the core business as it is this year because, Jones & Stokes, the acquisition came with a lot of backlog and our backlog has improved in quality. So I would suggest you that the visibility we have this year is better than the visibility we had last year.

Joseph Vafi - *Jefferies & Co. - Analyst*

Okay, that's helpful. And is there a change in the nature -- is it a longer-term backlog or would that imply that potentially you have slightly more conservative base business guidance at this point in time, at least in revenue?

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

I think that the backlog as I said, the nature of the business hasn't changed very much other than the fact that we have won some longer-term implementation contracts. So to that extent, there is longer-term backlog available. And I think that for us, as I had suggested earlier, we are trying to get a better sense of our year and there were some earlier questions about guidance which we will provide to you in May. So we are working through a number of moving parts here. So the guidance we are providing is, I would suggest, comfortable. I don't know that I have used the word conservative.

Joseph Vafi - *Jefferies & Co. - Analyst*

Okay, that's helpful. And then maybe you could talk a little bit about some of the margin rate right now. I think it was Alan who was talking about a little bit more utilization, a little more fixed price, a little more T&M, and then I think the indirects there being some efficiency gains there. How much more do we have, do you think, in those buckets or how much is achievable I guess in '09 versus say kind of what we saw here towards the later part of '08?

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

We obviously have been quiet focused on making sure that, as we transition from Road Home, we make sure that we manage our indirect costs and ensure the profitability. So we've certainly taken pretty significant steps over the last year, last six or eight months. I think the other gains which we can potentially get are, as we get more synergies from some of these acquisitions which we've not fully gotten, but that is going to take a longer time period because it's a slow process to integrate a number of these functions and it takes some time. So I think there are some more synergies there. I would suggest to you that the bulk of them have been achieved.

Alan Stewart - *ICF International Inc. - SVP & CFO*

I would add as I said before, as the Road Home contract is closed out, I would fully expect our gross margin to be at least 40%. There is a potential upside of a couple of points looking at the last few quarters and the strength of the core business. So I think we are very strong in achieving at least a level of 40% on a gross margin basis.

Joseph Vafi - *Jefferies & Co. - Analyst*

Okay. And is that -- clearly part of that's mix, right, as Road Home trails off, versus further gains in gross margin in the core business?

Alan Stewart - *ICF International Inc. - SVP & CFO*

Exactly.

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

Right. And I think part of the indications which Alan is suggesting to you is that some of the commercial energy efficiency work might have higher gross margins.

Joseph Vafi - *Jefferies & Co. - Analyst*

Right, okay. I know it's a little bit longer term, but here on the stimulus, would you expect -- if you start seeing programs put out to bid that would be in your areas of expertise, would you expect to see some very large programs get put out to bid or basically, do you think that the nature of your kind of very diversified contract portfolio could get a little more concentrated as a result of some of the things coming out of the stimulus?

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

Joe, it's hard to say at the moment because there isn't -- we are following it quite closely and I think the major priorities for us clearly are energy efficiency, early education and infrastructure and environment. Those are the things which we are focused on. They are still in the process of figuring out how and what is going to be done. And we will -- to some extent that uncertainty is something which we would like to narrow, and then come and talk to all of you about that sometime in the next two months. So I think that we are in the process of saving our [livestock]. I really couldn't even have a guess at the moment.

Joseph Vafi - *Jefferies & Co. - Analyst*

Okay, fair enough. It's a little early. And then just a last question here on your pipeline. You mentioned there is a lot more $10 million and up yields, I guess, is the change in the pipeline in the size. Is there anything going on there we should be aware of that in more larger deal size, are you bidding larger deals in your core areas, or does it mean there is more implementation work in some of these deals that's pushing the deal size higher, or any other factors that we should be aware of?

John Wasson - *ICF International Inc. - EVP & COO*

I think we are certainly seeing larger deals. I think we've had quite a focus on our corporate business development on identifying and getting in to capture the larger longer-term implementation deals. Let me just give you a little flavor of the breakdown of the pipeline, by the number of opportunities.

Right now, we have about 45 total opportunities that are higher than $10 million total contract size and four of those are in the range of $50 million to $100 million total contract value, four in the range of $25 million to $50 million, and then we have 37 total opportunities in the range of $10 million to $25 million. So that total number has certainly gone up quite a bit for us. I would say that the energy efficiency and energy arena, we are seeing a quite a few opportunities. So we are seeing more opportunities and a stronger implementation focus in those opportunities.

Joseph Vafi - *Jefferies & Co. - Analyst*

All right. That's helpful. Thank you very much.

Operator

Your next question comes from the line of Steve Ferazani with Sidoti & Co. Please proceed.

Steve Ferazani - *Sidoti & Co. - Analyst*

Good evening. You talked a little about the commercial energy efficiency program wins. Can you talk a little bit about what you are expecting customer mix-wise '09 versus '08, government versus commercial, any big shift there?

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

You mean in the energy efficiency business?

Steve Ferazani - *Sidoti & Co. - Analyst*

Just in general. Would you expect to see the commercial percentage of your total product mix or customer mix rising? Is that going to help drive the gross margin, or is the economic slowdown affecting your ability to win more commercial business?

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

I think the energy efficiency -- the commercial business actually is quite a robust, the pipeline. I think the mix of the commercial and the government business for us has always been sort of in the 75% to 80% range government and the balance is commercial. I think it could be 25% commercial and 75% government; it varies between that 75% to 80%. So there is certainly a tendency to have more commercial because the energy efficiency opportunities are actually up quite large and we believe the pipeline is very robust.

So I think that we don't see the mix changing very much now. As Joe asked the question about the size of opportunities on the stimulus front, we will know more in the next two months. So if the size of opportunities which come out of the stimulus front are very, very large, then clearly that will have some impact on our government business on the revenue front. But I think generally, if the sizes of the opportunities stay as John wasn't specified in terms of the pipeline nature of the pipeline, then I think we should be in that ballpark.

Steve Ferazani - *Sidoti & Co. - Analyst*

Okay. Then also, obviously, a lot of the headlines around cap and trade the last few weeks. Seems like they are likely sort of something emerging is growing. How much can that drive your commercial energy efficiency opportunities and are you at this point beginning to position yourself as some sort of cap and trade emerges?

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

I think most of these opportunities actually in fact are being driven by this anticipatory situation where there is likely to be some sort of carbon based regulations. So it's not a coincidence that suddenly the opportunities on energy efficiency are, the pipeline is so robust. So I think clearly as legislation comes about and as the imminence of legislation increases, I think the pipeline is only going to become more robust.

So I think that is the factor which will drive up the commercial business. On the other hand, the stimulus spending will drive up the government business too. So hopefully we can become much larger and the mix could potentially stay sort of the same.

Steve Ferazani - *Sidoti & Co. - Analyst*

Okay. Last question was just on the transition out of Road Home. Typically, the revenues will come down before expenses. How closely are you going to be able to pull down your headcount as Road Home winds down and can we see any reduction in SG&A related to the end of Road Home?

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

We've discussed this before. I think we have been winding down the contract. I think a lot of the costs associated with the contract are associated with the contract, all the leases and everything that are coincident with the end of the contract, so -- and the equipment is owned by the state, the computers, the furniture and everything. So we are just going to transition all the fixed assets as well as everything else to whomever the state wants us to transition it to and move on.

So I think as I've said before, we are likely to retain some of the senior people and all the rest of them were project-based individuals. And most of them are aware of the fact that we are winding down. Some of them have been given warn notices, which are legal requirement for 60-day termination of this. So I think that we are working through a transition plan and a wind-down plan, where the cost are actually quite congruent with the revenues associated with those costs. So there isn't likely to be much residual. Alan, do you want add?

Alan Stewart - *ICF International Inc. - SVP & CFO*

Yes. There is a very little directly attributable indirect expenses to the program, because most things are truly covered and I think it's over 60% subcontract to work under this. So as that winds down, that's really not an issue. The controlled indirect expenses are a lot more complex because of the management of utilization of labor.

We need to apply people on few large contracts that are ramping up, managing the integration of all these acquisitions, get some synergies out of that, and just being very good in managing our costs and working out thorough, which we have many programs in place and we've seen the benefits of those in the last two quarters.

Steve Ferazani - *Sidoti & Co. - Analyst*

Great. Thanks a lot, guys.

Operator

Your next question comes from the line of Will Loomis with Stifel Nicolaus. Please proceed.

William Loomis

Thanks. Good quarter. Two things, one on the other income line, what was that increase about $0.5 million? And then second, can you just walk through the commercial businesses again? I understand the transportation, but just some of your others including the energy. We're almost here through the first quarter as economy continues to worsen? Can you tell us a little bit about why you think that commercial that quarter of your business is resistant to that slowdown we are seeing globally? Thanks.

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

Let me answer the second half of the question and then Alan will answer the first half of the question, Bill. On the commercial business, the energy efficiency business is driven by. Obviously, there's a lot of government energy efficiency work, which we are currently doing and we anticipate there will be more of it.

Then there is the whole commercial energy efficiency work, which is done by utilities which are trying to reduce emissions, and the utilities basically reduce emissions based on programs, which are approved traditionally by the regulators as the Service Commission in a specific state approves the program. And the costs of the program have become part of the rate base.

So once the Public Service Commission approves the program and the program becomes part -- the cost becomes part of the rate base, then you have -- the money is available for us to do the program, which is the way to fund it. So I think that while clearly the economic environment has an impact on a lot of things, once the budgets are there and once the utilities feels that they are going to recover the money from the consumers, I think we go ahead.

So the public benefits charge funded program are the ones which are robust and have a strong pipeline and they are quite large. Their range, the BG&E one, the Baltimore Gas and Electric one which we have announced, was over $50 million. There are others in the range of $10 million to $20 million. So most of these programs are funded by public benefits charges. So while the steady economy always has some impact in the medium term, I think the money is available immediately as soon as the Public Service Commission approves these programs.

So that's just the commercial business and I think that the size of the programs are such that the downturn in some of our commercial transportation business I think is going to be more than made up for by the scale of these programs. So that's why the commercial business we think will continue to do well for this year because of the nature of the funding mechanisms, which are used for the commercial energy efficiency business.

Alan Stewart - *ICF International Inc. - SVP & CFO*

And on the other income, it's really the release of some several year-old reserves that no longer are necessary, and the auditors insisted, for recapture about between those other incomes and that is a reduction of current expenses. So it was a one-time item of just several years ago of cleaning up some reserves because they were no longer needed.

William Loomis

Okay. And so outside the energy efficiency side of your commercial business and transportation, you had some other bids. So you are comfortable that they are holding up there?

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

Yes, I think that they are holding up. Our commercial business primarily is commercial energy, (inaudible) energy efficiency and commercial aviation. So those are the -- that consumes the bulk of the business and I think the energy portion, which is a much larger portion is holding up quite well.

William Loomis

Okay. Thank you.

Operator

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

Eric Prouty

Great, thanks a lot. Guys, can I assume given the cloudiness of stimulus dollars, when that might hit, that you have little or no stimulus dollars baked into the $500 million number?

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

Yes, I think that's a good assumption because I think Joe Vafi's question was, how much visibility do you have? I think our current projections are based on the current backlog and the current sense of our business.

Eric Prouty

So what's your best guess at this point when the stimulus dollars would probably be a September, December quarter impact, I mean it's probably not likely to impact before then right?

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

Yes. Again, I wish I could tell you, I think I'm reading the Congressional Budget Office Estimates, which with CBO is the perhaps the most non-partisan analytical place out here. So basically, I think they will be committed by October 1 as I said. How they will be spent is something which we are trying to figure out. First, we need the commitment and then we will figure out how they spend the money. So as I said, I couldn't even have a good guess at the moment.

Eric Prouty

Sure. And then you guys discussed cap and trade a little bit, just curious what type of other increase from your commercial customer base are you getting that are obviously the expected regulatory change driven? Are you getting a lot of inbound calls on what specifically, how is that different than what you saw during the Bush years? So there are more concerns or different concerns out there from your commercial base?

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

I think there is more activity, is the way I would put it. During the Bush years, there wasn't any imminence of any kind of cap and trade system. So I think as it became evident over the last year even prior to the election that there is likely to be some sort of imminent legislation. There was a lot of activity we did on analyzing potential different bills, which were introduced in Congress -- for both the federal government as well as for the stakeholders who will likely get effective like utilities and other transportation companies and other things.

We did quite a bit of work for example a lot of utilities and alternative ways of designing the cap-and-trade system, so which is what we traditionally do. So because as you know there is a cap-and-trade system currently which exists in the United States, which is why acid rain legislation which was done on the Clean Air Act. And so we are very familiar with that. In fact, we have designed that system in the late '80s, early '90s.

So, I think that we have done all the analysis on the Board in congress for the hill, for the executive branch, as well as for the industries, which are likely to be affected. So it certainly picked up and everybody is keen on understanding what different assumptions will mean for them and that's something which we have traditionally done, which we help them with.

So the pace of activity has picked up. I don't think that the nature has changed of the kinds of work we do. But clearly, with the new administration putting it in the new budget blueprint, we think there will be a lot more analysis and other associated activities with the cap-and-trade.

Eric Prouty

And any other hot button issues for your commercial clients besides cap-and-trade that are popping up more than normal?

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

I think there is a lot more believe it or not emphasis on green clean pack everybody wants to know sustainability and what it means. I think there is some movement there despite the economic sort of environment. So we have done a fair bit of work for especially the technology companies, which are looking at this quite closely, there is also a whole effort to include green house gas reporting systems and existing large commercial entities who have traditional monitor management systems, but don't have anything to do with me green house gases.

So there is a lot of effort to try and figure out -- how if the federal government requires greenhouse gas reporting, how that's going to have an impact on their systems and how they can perhaps get ready for that imminent change, which is likely some of you have read over last week. We do a lot of work for EPA on the full reporting, greenhouse gas reporting, design of these systems, so I think and how and what should be done. So I think that we certainly anticipate that there will be a lot more of that work also.

Eric Prouty

And then just finally on some of the energy efficiency work you are doing with utilities et cetera, is the issues surrounding the coupling for instance going to prevent a quick adoption, will that be mired in debate for sometime or do you think that's an issue, that's a bit over blown?

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

Perhaps not, what is the coupling, the coupling of what?

Eric Prouty

Just really how you do an incentive for efficiency with the utility that obviously needs to recoup a cost of capital et cetera, et cetera? Are you finding these efficiency programs, are they being quickly adopted by utilities or are they viewing that as almost self defeating their generation?

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

No, they are all lining up. There is no, I think some of them have no option, because for example, the BG&E case the State of Maryland basically put in a law saying they are going to cut greenhouse gas emissions by a certain percentage by 2020, and they went to the majors including the utilities and said what you're going do about it?

So I think the utilities are lining up. We have, as I said, a number of opportunities in the pipeline and I think that I perhaps don't understand the cost of capital issue. But I think most of the capital comes from the consumers as I explained to you in the public benefits charge system. So it's something the utilities want to do and are going to do and my sense is that most cases they will be asked to do.

Eric Prouty

Right, okay. Thanks a lot guys.

Operator

(Operator Instructions). Your next question is a follow-up coming from the line of Tim Quillin with Stephens Inc. Please proceed.

Tim Quillin - *Stephens Inc. - Analyst*

Thank you for taking my follow-up. And in terms of your indirect expenses, you were at about $42 million in the fourth quarter. Is that the type of number we should be thinking about throughout 2009 annualizing that number and you're holding that steady as Road Home winds down?

Alan Stewart - *ICF International Inc. - SVP & CFO*

I think we are evaluating, but I think there is some very strong and continued push on evaluating our efficiency and effectiveness, looking where we can get maximum bang for our dollar. So I think we'll have to work through this as we go through the second and third quarters. I wouldn't say that the first quarter indirect expenses what will remain for the remaining quarters.

Tim Quillin - *Stephens Inc. - Analyst*

Okay. That was a good political answer, by the way, and a good political non-answer. And this last question is on the -- can you update us on where you are in terms of the BG&E contract and what next ups are there? Thanks, guys.

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

We have been working with them and I think that we are getting the full-scale implementation by April 1. I think the Public Service Commission approved all the plans, so we should be up and cranking away towards -- in the second quarter, we should be in full production mode.

Tim Quillin - *Stephens Inc. - Analyst*

Should we expect to achieve the run rate at the full production mode?

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

Yes, we'll quickly get to full production mode. We have been preparing to ramp that up for some time. So, we'll get there very quickly.

Tim Quillin - *Stephens Inc. - Analyst*

Excellent. Thank you.

Operator

With no further questions in the queue, I would like to turn the call back over to the management for closing comments.

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

Thank you very much for joining us. We appreciate it. We will see you again in May. Thank you.

Operator

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