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PRESENTATION

Operator

Welcome to the ICF International fourth-quarter and full-year 2012 conference call. During the presentation, all participants will be in a listen-only mode. Afterward, you be invited to participate in a question-and-answer session. (Operator Instructions) As a reminder, this conference is being recorded on Wednesday, February 27, 2013, 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 of Corporate Development. Please go ahead.

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

Thank you, operator. Good afternoon, everyone, and thank you for joining us to review ICF's fourth-quarter 2012 performance. With us today from ICF International are Sudhakar Kesavan, Chairman and CEO; John Wasson, President and COO; and James Morgan, 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 February 27, 2013 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 the 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 fourth-quarter 2012 and full-year highlights. Sudhakar?

Sudhakar Kesavan *- ICF International - Chairman & CEO*

Thank you, Doug, and good afternoon, everyone. Thank you for joining us to review fourth-quarter and full-year 2012 results and the outlook for 2013. Our strategy to diversify revenue mix and focus on markets that have the highest growth prospects paid off again in the fourth quarter and has been a key reason for our successful performance in 2012. Similar to previous quarters in 2012, the strength of our commercial business offset headwinds in the federal government arena, leading to ICF 8.4% year-on-year revenue growth for the period. Commercial work accounted for 29% of fourth-quarter revenue, up from 25% one year ago. If you add revenues from international clients to commercial clients, the percentage moves to 33% of our revenues, and with state and local government clients, it moves up to 42% of our total revenues. We did all of this while our federal business remained stable.

Of course we remain committed to the federal space, and we are allocating our resources to those areas that we expect to be more resilient and that overlap with our long-standing domain expertise, such as health, health informatics, energy, education, digital interactive, and cybersecurity. While 8.4% revenue growth puts us firmly ahead of the industry average, our service revenue performance was even better, increasing 10.6% in the fourth quarter and 13.8% for the full year. This represents revenue directly billed by ICF employees without the impact of subcontractor and other direct costs.

In terms of profitability, EBITDA growth continued to outpace revenue growth, increasing 9% in the fourth quarter and 14% for the full year. This directly relates to our actions in media when we eliminated certain positions and reassigned staff to align our resources at projected levels of client spending and to strengthen our ability to capture and support commercial business. EBITDA margin was 9%, lower than recent quarters due to a 50-basis-point net effect of fourth-quarter changes to employee benefit plans and to the treatment of certain compensation expenses. For the full-year, EBITDA margin was 9.6%.

Over the next 12 to 24 months, we expect that our commercial business will become an increasingly important contributor to total revenues. Specifically, there are five growth areas in our commercial business that will drive our growth. One, energy efficiency. Revenues from energy efficiency business increased 16.6% in 2012. We have been successful in winning strategically important multi-year contracts and are expanding our service offerings into new areas, as John Wasson will explain in more detail. Combined with other commercial wins, this led to a commercial book-to-bill ratio of 1.15 for 2012. Number two, energy infrastructure. ICF is well-positioned in the area of energy infrastructure. A joint ICF/Edison Electric Institute study estimates that by 2030, US energy infrastructure will need more than $1.5 trillion of expansion and upgrades in both physical infrastructure and the necessary cyber protection. ICF plans to be a leader in the planning, environmental management, and cyber requirements associated with this massive investment.

Number three, aviation. We are continuing to invest in the growth of our aviation consulting business, where revenues increased almost 47% in 2012. While we do not expect the same level of growth in 2013, we see significant opportunities to build on our successful airline and aerospace consulting work and our airport planning and development services. Number four, digital interactive work. This past year, we combined the Ironworks acquisition with our legacy web development and strategic communications business. This combined line of business expanded relationships with existing clients and added a half dozen new clients in 2012. By offering a robust set of capabilities in this area, we see significant opportunities in 2013 to build on the double-digit growth we achieved in serving commercial clients in 2012. And finally, number five, commercial healthcare. We set up a commercial healthcare advisory business as a distinct line of business in mid-2012, and based on the initial results, we expect to see another year of double-digit growth in 2013.

A comment on our international business, we are using our increased scale in Europe and Asia, following last February's acquisition of London-based GHK and our presence in Brazil and Canada to bid on larger commercial and government contract in these geographies. We expect our business outside the US to be a progressively greater contributor to revenues in 2013. With respect to our federal government business, like everyone else, we are watching developments unfold in DC. Our federal business has always been well diversified across multiple agencies, and we are well-positioned, as I stated earlier, in the most resilient federal markets.

I would now like to turn the call over to John Wasson, ICF's President, to provide more detail on the fourth-quarter and full-year operating highlights. John?

John Wasson - *ICF International - President & COO*

Thank you, Sudhakar, and good afternoon. As Sudhakar stated, we continue to make progress in diversifying our portfolio, especially with commercial clients, where we continue to shows strong sales and revenue growth. Our commercial sales in Q4 represented over 40% of total sales, illustrating this momentum. We succeeded in winning a number of important energy-efficiency contracts in the fourth quarter, and we are continuing to expand our penetration of this growing market by focusing on growth among three important dimensions. First, in the US, we are adding new states to our coverage. Of the two large Q4 wins we announced on January 7 and 15, both were in states where ICF had not worked previously. And due to our excellent record of delivery, we do exceedingly well in new states where we gain a foothold. We currently are implementing programs in half of the 50 states and have significant room for growth.

Second, while we continue to expand our coverage of residential programs, where we are the market leader, we are aggressively targeting the large commercial and industrial market, known as C&I, where our current market share is much smaller. Our fourth-quarter win with the Energy Trust of Oregon for its existing buildings program is an excellent example. This two-year contract for $16 million with the potential for three more option years at the same the funding level underscores the success of our strategy of offering full life cycle support for commercial and industrial programs. We also recently announced a new $20 million win that is a Q1 sale, but is also a major new program for us in the C&I market.

Third, we are also expanding the suite of energy-efficiency-related services. We recently announced a preferred partner relationship with C3, whose enterprise platform is a leader in providing utilities and their customers with advanced data aggregation, analytics, and customer engagement applications. ICF will provide solution configuration, systems integration, customer analytics, and training wrapped around the C3 platform. When combined with the added energy-efficiency business intelligent assets of Symbiotic Engineering, which we acquired last September, we are offering utilities and their customers an unmatched set of data and system management tools that complement and enhance our leadership in the implementation of energy efficiency programs.

Aviation has also been a strong component of our commercial growth on a global basis, as Sudhakar noted. And our Q4 sales included a number of new engagements that involve airports and infrastructure, airlines, related manufacturing, and other aviation services in the US, Middle East, Asia, and Brazil. Our consulting for airlines is fueled by M&A activity in industry and the need to reposition and drive efficiencies to remain competitive. Growth in the aerospace and MRO, or maintenance, repair, and operations sectors, is due to continued improvement in aircraft performance and the evolution of maintenance programs. We are also helping airports who are continuing to exploit opportunities to tap into the buying power of the passengers while at the airport. This trend towards privatization of airports outside the US is also positive factor for our business.

On our last earnings call, Sudhakar noted that we have combined our legacy strategic communications and web development activities with Ironworks' digital interactive business to form a new division. We did this to provide end-to-end capabilities for helping businesses and organizations engage with their customers in a way that builds loyalty, satisfaction, and revenue in the case of businesses. In fact today's mention in our earnings release of the new work we won in support of EPA's Brownfields program was a direct result of the combination of our substantive environmental expertise, and with ICF Ironworks' interactive web-based approaches to stakeholder engagement with interactive data applications. Sudhakar also mentioned the small, but rapidly growing commercial health consulting business, which is applying a combination of customer engagement applications, advanced analytics, and domain knowledge of the regulatory and health technology environment, to build market share among leading payers and providers in the commercial health space.

Finally, you will note that yesterday we announced the continuation of our largest infrastructure environmental management project, related to the building of a major electrical transmission line with the signing of a $48-million three-year contract. The need for new energy infrastructure is yet another important driver of our commercial business.

Turning to the federal government side of our business, I think it is important to note that while the budget uncertainty we face continues to weight on that client group, it is still a huge market and dynamic environment that provides opportunities to further strengthen our position. In today's press release, we listed a number of areas that included our largest wins in the federal space in the fourth quarter. And the vast majority of those mentioned were new contracts, not re-competes. Thus, even in this somewhat constrained environment, agencies are finding ways to continue to advance their agendas in high priority areas. While we should not minimize the challenges, we continue to see opportunities in such areas as health and health informatics, energy, education, cyber security, and stakeholder engagement, as reflected in these wins in the fourth quarter.

As of this moment, it appears that the budget cuts, known as sequestration, will take effect on March 1. For the vast majority of our federal work, which is in the non-defense area, the overall budget tightening those agencies will face is about 5.3%. However, we have heard from some of our clients and other sources and believe that agencies have already been spending cautiously in anticipation of sequestration. We do not know what will happen under sequestration; we are carefully monitoring the situation and will react quickly in the case of any significant changes.

Finally, I want to update you on some metrics that we report each quarter. Our pipeline at the end of the quarter increased to $2.9 billion, 6% greater than last year this time. Not surprising, our commercial, state, and local and non-US government client groups showed strong growth. Currently, our pipeline includes 42 opportunities greater than $10 million and 20 greater than $25 million. In addition, our turnover continues to be low. For the full year, it was 10.7%, and therefore remains well below the industry average, which during the past quarter was nearly 16%. Now I would like to turn the call over to our CFO, James Morgan. James?

James Morgan - *ICF International - CFO*

Thank you, John. Good afternoon, everyone. Revenue for the fourth quarter of 2012 was $232 million, an increase of 8.4% compared to the prior year. And revenue for the full-year reached $937.1 million, or 11.5% ahead of last year. Gross profit margin was 36.7% for the fourth quarter, a decrease from 38.6% in the fourth quarter of 2011. Two items specific to the fourth quarter explain this reduction. First, in the fourth quarter of 2012, we changed the treatment of certain compensation-related expenses. Consistent with federal regulations, we reclassified these compensation expenses from unbillable indirect and selling costs to billable direct costs. Second, we had a change to our benefit plans. Specifically, effective with the start of 2013, we moved to a paid-time-off leave plan, or PTO plan, which led to a higher-than-normal usage of sick leave in the fourth quarter of 2012 before it expired. The resulting net impact of these two items was to reduce our fourth-quarter gross margin by 200 basis points. For the year, gross margin was 37.8%, inclusive of the two previously mentioned items, compared to 38.1% in 2011. As we go forward, we anticipate that our gross margin will be in the 38% to 39% range.

Indirect and selling expenses as a percentage of revenues were 27.7%, down compared to 29.7% of last year's fourth quarter and also below what we reported for the first three quarters of 2012. The fourth quarter benefited from our continued cost-reduction actions discussed earlier this year, as well as the previously mentioned reclassification of certain compensation expenses from indirect and selling to direct cost. Our EBITDA margin for the fourth quarter was 9%. EBITDA margin was negatively impacted in the fourth quarter by $1.1 million, or 50 basis points, due to the net impact of the previously mentioned -- or previously explained reclassification of compensation expenses and a spike in paid leave during the fourth quarter. EBITDA margin for the full year of 2012 was 9.6%, compared to 9.4% in 2011. Going forward, we expect our EBITDA margin to be in the 9.5% to 10.5% range.

Depreciation and amortization was $2.9 million in the fourth quarter of 2012 and $10.4 million for the year, compared to $2.7 million in the fourth quarter of 2011 and $10.8 million for the full year of 2011. Amortization of purchased intangibles was $3.6 million in the fourth quarter of 2012 and $14.1 million for all of 2012, up from $2.4 million in the fourth quarter of last year and $9.6 million for the full year of 2011, due to our acquisitions of Ironworks and GHK.

Operating income in the fourth quarter was $14.4 million, an increase of 3.7% over last year's fourth quarter. Operating income for the full year of 2012 was $65.6 million, an increase of 11.3% over 2011. Net income was $9.2 million in the fourth quarter, up 4.3% from last year's fourth quarter, and net income for the full year of 2012 was up year over year 9.2% to $38.1 million. Diluted EPS was $0.47, up from $0.44 in the fourth quarter of 2011. And diluted EPS for the full year of 2012 was up year over year 9.1% to $1.91 per share. I'm pleased to report that cash flow from operating activities was a record $87.2 million for the full year of 2012, an increase of 46.6% over the prior year. The increase was primarily due to the decrease in accounts receivable resulting from improved collections.

Day sales outstanding for the year, including the impact of deferred revenue, were 71 days compared to 75 days at the end of last year. As we have stated in the past, we expect our DSOs to be within the 70 to 75 day range. Due to our strong cash-flow generation, we paid down $10 million of debt during the fourth quarter of 2012 and $40 million of debt during the full year, resulting in a long-term debt of $105 million at year end. In addition to paying down $40 million of debt, we repurchased 470,000 shares for $10.5 million during 2012. This level of share repurchases essentially offset the dilutive impact of our employee equity awards, allowing for a fairly constant year-over-year diluted share count from 2011 to 2012. The last item I will mentioned regarding 2012 is that our capital expenditures for the full year were $13.6 million, an increase over 2012, primarily related to the opening of our Martinsville operations center and the consolidation of several of our Maryland offices in Rockville.

Now I will update you on our full-year expectations for certain 2013 line items. We expect amortization of intangibles to range from $9.5 million to $10 million, depreciation and amortization expense to range from $12 million to $12.5 million, and capital expenditures to range from $15.5 million to $16.5 million. We expect interest expense to range from $2.5 million to $3 million. We expect a full-year tax rate of approximately 39%, similar to the full-year tax rates that we have experienced in recent years. We expect fully diluted weighted average shares for the year of roughly $20 million. And lastly, we expect cash flow from operating activities of at least $70 million. With that, I would like to turn the call back over to Sudhakar.

Sudhakar Kesavan - *ICF International - Chairman & CEO*

Thank you, James. This is of course a difficult moment to comment on prospects for 2013, with the possibility of sequestration just two days away. On the other hand, over the last three quarters, ICF has absorbed the impact as plants have been cutting back on spending in anticipation of the March 1 deadline. What we can say is the following. Our backlog at year-end represents 67% of the midpoint of our revenue guidance range of $935 million to $975 million for 2013. This guidance is based on our current portfolio of business, and does not include any additional impact from the formal commencement of sequestration. EBITDA, operating income, and net income are all projected to grow at a faster rate than revenue in 2013, thanks to continued productivity gains in expense management programs. We are guiding to earnings per diluted share of $2 to $2.10. We expect to continue to report strong operating cash flow in excess of $70 million, which provides ICF with important flexibility. And we continue to have an active acquisition pipeline. At this point, operator, I would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Tim Quillin, Stephens.

Tim Quillin - *Stephens Inc. - Analyst*

As you said, it is a difficult crystal ball right now on the federal market. But I'm just wondering, it will cross your business in federal right now, what feels safer in terms of funding? And what do you feel is a little bit more at risk?

Sudhakar Kesavan - *ICF International - Chairman & CEO*

I think just to give some sense, the first two months of this quarter, it has not been very different from what was going on in the last quarter. So it has been going along well. We don't know what is going to happen once the commencement runs, the sequestration gets formally in place on the first of March. At the moment, the things are -- seem to be in this same normal, semi-normal run rate state as they have been in the last few months. So certainly we have not explicitly heard anything from our clients. The civilian agencies certainly are -- we have not heard anything [specific] I think from one or two of our defense clients, which is small percentage, as you know, of our overall business. We have heard that they will be doing something, but specifically what they will be doing, we have not heard.

Tim Quillin - *Stephens Inc. - Analyst*

Understood. Second question is just on acquisitions, and first, if you could maybe give us the report card on how Ironworks and GHK performed versus your expectations when you made the acquisitions a year ago. And then if you could discuss what you are thinking about in terms of acquisitions in 2013 and going forward. Thank you.

Sudhakar Kesavan - *ICF International - Chairman & CEO*

Sure. Ironworks performed quite well. Their commercial business grew very nicely, slightly higher than what we had told you. We had told you 15%, and I think it certainly grew a little more than that. The US government business did not grow for good reason. So I think overall, they performed adequately, but their commercial business [remained] strong, and we think it will continue to be strong going forward.

GHK, we had told you they will remain at the same revenue level because of the fact that we have to consolidate and figure out what we were going to do there. We have a very strong pipeline with GHK. They are doing well. We have sent some senior staff over. As you know, Jeanne Townend is over there. So we are pleased with how they have done to date with excellent people. I think that business will do well going forward, and we are in the right market with good visibility in earnings, the European Commission and certain government markets, which are not affected at the moment by the downturn in the authority measures in the UK. So I think we are reasonably pleased with both the acquisitions, and we are certainly very pleased with the fact that the commercial business (inaudible) which continues to crank away.

Tim Quillin - *Stephens Inc. - Analyst*

How about in terms of the acquisition pipeline?

Sudhakar Kesavan - *ICF International - Chairman & CEO*

The acquisition pipeline is -- we are looking all over, but certainly we are -- our focus is on commercial firms doing -- working with commercial clients in areas which we know well. And we have described them today. I think we are also obviously looking in certain federal areas, but those acquisitions tend to be very expensive, the ones which people think are all going to -- and say at the VA or in certain healthcare areas. So our commercial pipeline of acquisitions is quite strong. It is quite active, and we think that it will be a year where just like in the past, we have done one to two acquisitions a year. We certainly continue to hope to continue that pace going forward.

Operator

Bill Loomis, Stifel Nicholas.

Bill Loomis - *Stifel Nicolaus - Analyst*

Good results in a tough time. Just looking at two things. One, just on the tax rate was low in the quarter, yet you had the plan cost change. What was the net impact if we took both those out and the net impact on EPS in the fourth quarter? And second, just on it looks like Hurricane Sandy, the federal grants will be over $50 billion, so what type of opportunities potentially are you seeing develop there for ICF? Thanks.

Sudhakar Kesavan - *ICF International - Chairman & CEO*

James, do want to answer the first? Go ahead, John.

John Wasson - *ICF International - President & COO*

This is John Wasson. I will tackle the Sandy question. I think that we have been following the Sandy funding very closely. I think it is still very early to say with any -- definitively what those opportunities will be and how we will go after them. We are doing some advisory work in somewhere between $0.5 million and $1 million to total advisory work working with the federal government, state governments and utilities in the affected region, around housing and energy and energy resilience. So we are involved in some advisory work. We are watching the opportunities very carefully. I think that we are monitoring it carefully, and if the right kind of opportunities materialize on the implementation side, either in the energy or the housing area, we will certainly take a hard look at them, and we will be quite aggressive. I think it is just a little too early to say how the states are going to -- what kind of programs they're going to create and how they're going to go about it. So we are certainly watching it very carefully.

Bill Loomis - *Stifel Nicolaus - Analyst*

From what I've seen so far, it looks likes a lot of -- it's going to be, looks like the way these grants are getting parsed out, it is fairly small grants to local level programs. It looks like it is going to be quite different than what we saw with Hurricane Katrina. Is that what you are seeing so far?

John Wasson - *ICF International - President & COO*

Yes, I would say that we are seeing more grants, more local players. But again, I still think it is early, Bill. I'm not sure I would give up completely on there being material opportunity for us there. But so far, I would not disagree with what you said.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay.

James Morgan - *ICF International - CFO*

Bill, this is James. With regard to the tax rate and impact on the fourth quarter, I would first say that the tax rate that we experienced for the year and what we saw in the fourth quarter is not that much different than what we have experienced in the prior years. It is pretty similar. So depends on what basis you are comparing it to. But if you are comparing that to a 40% rate, it is roughly a $0.03 to $0.04 impact on EPS, or pickup on EPS.

Bill Loomis - *Stifel Nicolaus - Analyst*

But we had a $0.055 knock on pre-tax EPS with the plan change, right, with the $1.1 million? What was the -- so I'm trying to get the net impact, so I just subtract those two and get the net impact? Is that how to look at it?

James Morgan - *ICF International - CFO*

Yes. The $1.1 million is a pretax number. I'm trying to understand exactly where you are going with that.

Bill Loomis - *Stifel Nicolaus - Analyst*

Was the task rate on those expenses at a full tax rate, or was there a different type of a tax rate associated with those benefits because it was a change?

James Morgan - *ICF International - CFO*

No, it's the same tax rate. There was no difference on that tax -- on those expenses versus others.

Operator

George Price, BB&T Capital Markets.

George Price - *BB&T Capital Markets - Analyst*

First thing, Sudhakar, I just wanted to make sure I heard you correctly. You said that your guidance does not assume anything in terms of the impact of the formal sequester? Did I hear that right?

Sudhakar Kesavan - *ICF International - Chairman & CEO*

Yes, I think that to some extent we think there will be already over the last quarter or two have been in a sequestration mode. But we certainly cannot predict what and how the federal government is going to react to it. So we are -- our guidance is based on the fact that we have a certain amount of backlog, which is very comparable to what we had in prior years as we transitioned from one year to the next. And if things remain the way they are, then the guidance is very consistent with our backlog and with the run rates in the first two months of the year.

George Price - *BB&T Capital Markets - Analyst*

Okay. Stepping back, we have full-year guidance that I guess potentially does not take into account everything that could happen as a result of sequestration. Obviously a lot of uncertainty. I noticed that you are not giving any forward quarterly guidance at this point. I would assume I guess because of the uncertainty, but maybe you could address that. But I guess my question is, why give full-year guidance at all at this point?

Sudhakar Kesavan - *ICF International - Chairman & CEO*

We basically -- let me talk about the quarterly guidance issue. The quarterly guidance, we didn't -- given the timing of the call and given that we have 30 more days to go in the quarter, we really don't know and have gotten no guidance from our clients about how they're going to deal with this. Whether there is any e-mail we will get or some communication we will get from them saying this is happening or that is happening. If you did not know the sequestration was going to go into effect in two days, you would think this is a pretty normal situation. Everything is going along at similar rates to what has been true in the last few months. So I think that it is just one of those things where that is why we're not giving quarterly guidance, because it is just prudent not to give quarterly guidance at the moment, given this big effectiveness of something which is happening.

In terms of why give full-year guidance? Because given all the metrics we have traditionally used for full-year guidance, and given that we have good visibility, we have some confidence that if things go on the way that they are, then we will do the revenues which we have restated for the full year. Our commercial business is pretty strong. Some of the energy efficiency utilities work we have won is long term. That gives us visibility in the commercial market, and we are confident in commercial market is double-digit growth. So I think that we have made certain assumptions and we have said that if things go along with federal government flat to slightly declining and commercial markets growing at double digits, this is what we will do. So that is basically what our guidance is based on, and we think that that is something which we can share with you, with the provision that things don't dramatically change over this whole sequestration thing.

George Price - *BB&T Capital Markets - Analyst*

Right okay. I appreciate expanding on that question very much. Just one last thing maybe on the energy efficiency and the infrastructure work. A couple of things, one, you have seen some new wins in the e-market, which is nice. And I guess is that -- is there any pickup in focus for any particular reason by utilities, or is it just more effective marketing on your part? Maybe if you could give us an update on the California opportunity as well, sizing, timeframe, stuff like that. Thank you.

John Wasson - *ICF International - President & COO*

Sure, this is John Wasson. I think on energy efficiency, certainly our focus on the commercial industrial markets, we -- on the residential side, we are certainly a market leader. We have a significant market share there. I think on the commercial and industrial side, there certainly is more opportunities for growth there and more room for us to run. I think we are seeing on the commercial industrial side some of these more bundled programs that do play to our strengths, and I think that has been a reason for some of our success. I think that there are additional opportunities out there in the commercial industrial space that certainly give us confidence that we can continue to grow the energy efficiency business.

In California, we do have -- obviously we have a presence in California on the West Coast. We are doing energy-efficiency work for the major utilities out there. I think that we're -- the more significant larger opportunities we think are later this year or early next year, there is a cycle out there where they -- every three or two or -- I think it's every three years, they rebid many of their major contracts, and so we are waiting for that next cycle to occur. But I think we certainly believe we can continue to grow our work in California and we will do so. So we see significant opportunity there, but I would certainly emphasize the CNI play, and then again that there are -- we are working about half the states. We do think additional states will adopt these programs and provide opportunity to.

Sudhakar Kesavan - *ICF International - Chairman & CEO*

George, were you talking about the California opportunity we just announced?

George Price - *BB&T Capital Markets - Analyst*

No, I think John hit it in terms of the re-competes coming up that you guys have talked about before.

Operator

Tobey Sommer, SunTrust.

Unidentified Participant - *SunTrust Robinson Humphrey - Analyst*

This is Frank in for Toby. I wanted to ask if there was any expected indirect impact on the aviation or energy business from sequestration? Do see any impact on that side?

John Wasson - *ICF International - President & COO*

The aviation business is obviously a (inaudible) commercial business, they also do it for airports) I don't see any direct impact on the aviation business from sequestration. We do do a little work for the FAA; it is not that material. But for our core aviation business, I don't see any impact there. What was the second sector? Aviation and --

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Unidentified Participant - *SunTrust Robinson Humphrey - Analyst*

Energy.

John Wasson - *ICF International - President & COO*

Yes I think that we do still support the EPA Energy Star programs. We are supporting the DOE Energy Efficiency programs. So there is the potential for impact of sequestration there. We have not seen any yet, and we're monitoring it carefully. But there is some potential there, but we have not seen any yet.

Sudhakar Kesavan - *ICF International - Chairman & CEO*

With the numbers -- I think the numbers we gave you for growth in the commercial business are all based on our commercial clients and do not -- when we say aviation grew 47%, that is all based on commercial aviation growth. That does not include any of the other stuff. We count the FAA and the other work all in the federal arena.

John Wasson - *ICF International - President & COO*

And Sudhakar mentioned -- I think the press release mentioned the energy-efficiency growth that was in the commercial space too. So we certainly see the commercial side of the business on energy efficiency and aviation and it's continuing to grow and not be impacted by sequestration.

Unidentified Participant - *SunTrust Robinson Humphrey - Analyst*

Okay great. And just a quick confirmation, the guidance does not include any share repurchase, does it? And what's your thoughts in terms of potential share repurchase?

James Morgan - *ICF International - CFO*

The guidance does -- this is James. It does not consider any share repurchases. As far as going forward, I think we have stated in the past that our primary capital allocation priorities will be to focus on using our cash to invest in driving growth, which will be investing internally and investing in the acquisition. So that is going to be our primary goal. And we will certainly look to try to maintain a weighted average diluted share count that is at least flat year over year. So that is really what we are considering for this coming year, and that is what is in our guidance for currently.

Unidentified Participant - *SunTrust Robinson Humphrey - Analyst*

Okay great. And finally, we are seeing a lot of government services companies getting more heavily involved in the commercial space at commercial exposure seems more attractive. Are you seeing anything in terms of pricing pressure or margin pressure or increased competition on that side that you have not seen before?

Sudhakar Kesavan - *ICF International - Chairman & CEO*

From government services firms in the commercial sector, which we are in?

Unidentified Participant - *SunTrust Robinson Humphrey - Analyst*

That's correct.

John Wasson - *ICF International - President & COO*

This is John Wasson. I don't think we have seen anything unusual. I don't think we have seen any new pressures on that front. I would say no, we have not seen that.

Operator

Tim McHugh, William Blair & Company.

Tim McHugh - *William Blair & Company - Analyst*

First want to ask, I was trying to back into the organic growth rate for the commercial business, but it's a little tough given Ironworks' mix. Can you give us any color on what the organic growth rate was for that business?

Sudhakar Kesavan - *ICF International - Chairman & CEO*

Tim, since we normally don't give the organic growth rate for that business, but basically, if you -- a few basic -- it was in the high single digits if you include the infrastructure management project, which we -- which slowed down, which we talked about the last quarter. But it was in the -- it was much higher, in the 12% to 15% range, towards the higher end of that range if you exclude that project. So basically, it was in the higher teens if you include -- exclude [PTRTP] project

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Tim McHugh - *William Blair & Company - Analyst*

Okay, that's helpful. And then the comment in the press release about -- I'm not sure if it was the transmission line project, but there is a comment about one of the large projects being in a public comment period right now. Can you elaborate on that and how much of a drag was that? And how long does that continue?

John Wasson - *ICF International - President & COO*

That's a large (inaudible) project we're doing out in California around environmental work related to the Bay Delta. That's been a significant project for us over the last year. It certainly was a strong driver of state and local growth last year. In Q1, as we said, we did wrap up (inaudible) report is in a comment period. We do expect it to pick up in the next several quarters. So I don't know, James, have we done announcements of what we expect?

James Morgan - *ICF International - CFO*

What we've -- it was in a comment period. We have a little bit of a slow down in the first quarter associated with that, but we expect that contract to ramp up to normal levels in the second quarter timeframe.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And then lastly, the EBITDA margin guidance of 9.5% to 10%, given a relatively flattish type of revenue, is there really a significant enough mix between commercial and the government sectors to drive an actual improvement in the margins? Or are you going to get more aggressive on managing the costs and that's why there potentially could be a margin improvement this year?

Sudhakar Kesavan - *ICF International - Chairman & CEO*

I think the margin is basically -- the commercial part of the business is growing consistent with what our expectations were. So we certainly think there's an opportunity to drive margins there. And certainly the cost is going to be a significant portion of our -- controlling cost is certainly going to be something which we continue to do. But I do think that the mix of business as it changes will increase our margins, and therefore, there is a possibility of the margins going up, just as we have stated in the past. So I do think that as the [potion] changes and as the growth of the commercial business exceeds the federal business, I think that weighted average will start making the margins go up.

John Wasson - *ICF International - President & COO*

Right, and this is John Wasson. I would also add that as the commercial business grows, we are also trying to drive the utilization up over time, so you can both get higher margins on the contract. And as you drive the utilization up, that can certainly help quite a bit too. I would certainly agree with what Sudhakar said.

Operator

Edward Caso, Wells Fargo.

Rick Eskelson - - *Analyst*

It's Rick [Eskelson] on for Ed. Just a follow-up on the -- talking about the clients being prepared for sequestration, I just want to clarify. It sounds like the civilian agencies, are they less prepared for sequestration or just getting less conversation with you about what they expect for sequestration?

Sudhakar Kesavan - *ICF International - Chairman & CEO*

We -- it is hard to tell how prepared they are, because we deal with them on specific individual contracts. And I think we have been asking them about guidance, and they have shared with us whatever guidance they have. So, we don't have any explicit directions. We certainly have seen the guidance DOD has given its different components, and that is far more detailed than the guidance we have gotten than the civilian agencies have given. And when we talk to our industry, the Professional Services Council, which keeps tabs on the industry association here, they basically have shared the fact that the civilian agencies have not given guidance in as detailed a form as DOD has. So I don't know what conclusions to draw from that, but it's certainly the case that the nature of the guidance is very different in terms of the level of detail which people have gotten, and certainly our contracting officers have not gotten any specific instructions as to what to do on our contracts, which we deal with them in the civilian agencies.

Rick Eskelson - - *Analyst*

Thanks, that's actually really helpful. And then just on the other parts of the market, international and state and local, wondering if you could give a little more granularity on that? We have heard of improvements in state and local. And then on international, can you just remind us the split, Europe versus Asia and the trends you're seeing in those two regions?

Sudhakar Kesavan - *ICF International - Chairman & CEO*

Yes, I think the state and local business, we do a very substantial portion in California, 67% of our state and local business in California. And the California fiscal situation has certainly improved, and we are seeing some green shoots in that market. So we are watching that closely to see how that transpires. We resumed mid to slightly high single-digit growth in our state and local business this year. And we certainly expect that this is something which we can achieve.

On the international business, we currently do around $40 million or so in Europe. Most of it is in Europe, a little bit in Asia. It depends on how you count it. If you count it, if it was funded by European agencies working in Asia, then it's is one number. I think it's -- and it's a mix of government and commercial, more government, less commercial. And certainly we have seen international growth, again, we have said in the mid-to high single-digits. We will see whether that is something which we can achieve. We had given guidance of flat when we did the acquisition of GHK, because we thought that we need to understand the markets before we start understanding how we can grow them. So I think that we are quite confident that will happen.

We are -- the Asian markets, we are basically in China, in Chinese -- in Southeast Asia and in South Asia. And those are good markets to be in. The infrastructure business in China we have done quite a bit of work in, both energy and in aviation and that's growing. It is not enough to move the needle, so to speak, for our overall revenues of the business. But we certainly think that it can in due course, and it's certainly a slight midterm play for us. But the European business can certainly increase, and we already have a good pipeline of work, primarily focused on governments where we are trying to do more energy efficiency work and more environmental work.

Rick Eskelson - - *Analyst*

Thanks, and then two quick ones, one on the quarterly guidance. Is your intent to give quarterly guidance once we are past sequestration, or are you switching to annual only? Do you have a thought there?

Sudhakar Kesavan - *ICF International - Chairman & CEO*

We have a thought at the moment. We are -- we have traditionally given quarterly and annual guidance. We will -- to some extend it will depend on what we see happening with the sequestration situation. So we are still thinking about, and we will certainly get back to as and when we decide, but we have not decided one way or the other.

Rick Eskelson - - *Analyst*

Okay, then last one on the cash deployment, you talked about investments for growth. Didn't say anything about debt pay down. What's your thoughts on debt? Are you happy and comfortable with the debt level where it is?

Sudhakar Kesavan - *ICF International - Chairman & CEO*

I think --

James Morgan - *ICF International - CFO*

We're fine where we are from a debt-level perspective. Certainly, if we have a line of credit that allows us to borrow up to $500 million if you exercise the accordion feature. And we are at a roughly $100 million, $105 million at year end. So we're very comfortable as far as where we are and the acquisition fire powder that we have. But certainly as we end up moving forward, depending on the timing of when the acquisition opportunities may arise, we will obviously look at either paying down our debt as we move forward.

Sudhakar Kesavan - *ICF International - Chairman & CEO*

I think that if you are asking about debt levels, which we can tolerate -- we have said before that we can go up to 3 times, 3.25 times our trading (inaudible) EBITDA, and we are certainly comfortable doing that. We have been there many times and we have paid it down. So I think that we have -- so that is a debt level which I think we can take. At the moment, we are using all the cash generation to pay down debt

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Rick Eskelson - - *Analyst*

I was just wondering whether we should assume more debt pay down or not, but you answered the question. Thank you very much.

Operator

George Price, BB&T Capital Markets.

George Price - *BB&T Capital Markets - Analyst*

Just going back to a couple of the questions that were recently asked about some of the different segments and the commercial organic growth and so forth. I'm just wondering if maybe you had any thoughts coming into 2013 in perhaps providing some additional clarity into the business by maybe breaking out some of these key growth segments like energy efficiency, aviation, etc? Maybe breaking down the market segments by

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commercial and government. There is a number of different ways you could skin the cat. But it just seems like as you push more into the commercial side, and that is a bigger part of the story and a bigger growth driver for the business, getting some more granular information around that would be helpful. Any thoughts?

Sudhakar Kesavan - *ICF International - Chairman & CEO*

We are pretty granular right now. We have given you growth rates for energy efficiency; we have given growth rates for on the aviation side. It is to some extent, we are -- we can certainly think about that. But we have traditionally not done that for our federal business. We don't give you agency by agency growth rates, etc. So I think that we don't really have -- or it's not so -- to some extent there is a competitive reasons why we would not want to do that. We have tried to make sure we give you as much information as we can to understand the business without necessarily trying to make sure (inaudible) telegraph the whole world what we are doing. So it is a balancing act; we can certainly think about it.

George Price - *BB&T Capital Markets - Analyst*

Okay. And then, just going back to confirm something, the assumptions. You're basically assuming about flattish federal business in 2013, and again, double-digit growth in commercial. Is that right?

Sudhakar Kesavan - *ICF International - Chairman & CEO*

Yes, flat to slightly down federal business.

George Price - *BB&T Capital Markets - Analyst*

Flat to slightly down, okay. The commercial double-digit growth, can you quantify that at all in terms of low teens, midteens, upper teens, where?

Sudhakar Kesavan - *ICF International - Chairman & CEO*

10% to 15%.

George Price - *BB&T Capital Markets - Analyst*

State and local?

Sudhakar Kesavan - *ICF International - Chairman & CEO*

Mid single digits.

Operator

(Operator Instructions) Tim Quillin, Stephens.

Tim Quillin - *Stephens Inc. - Analyst*

Amortization was I think $14 million in 2012, and the guidance is $9.5 million to $10 million. So presumably, there is a step down in intangible amortization associated with some acquisition in the past. Maybe you can confirm that. But when precisely does that step down happen? Is that all right in the first quarter or is it later in the year? Thank you.

James Morgan - *ICF International - CFO*

It is due to a step down associated with the amortization of some of our acquisitions. And it will start happening regularly throughout the year.

Tim Quillin - *Stephens Inc. - Analyst*

So that it will go down -- amortization will go down throughout the year?

James Morgan - *ICF International - CFO*

Yes.

Operator

We have no further questions at this time. I'll now turn the call back over to management for closing comments.

Sudhakar Kesavan - *ICF International - Chairman & CEO*

Thank you very much for your interest. We look forward to speaking with you in May. Thank you.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.
