FINAL TRANSCRIPT

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ICFI - Q4 2007 ICF INTERNATIONAL INC Earnings Conference Call

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PRESENTATION

Operator

Welcome to the ICF International fourth quarter and year end 2007 conference call. During the presentation all participants will be in a listen only mode. Afterwards, you will be invited to participate in the question and answer session.

(OPERATOR INSTRUCTIONS)

As a reminder, this conference is being recorded on Tuesday, March 11, 2008, and cannot be reproduced or rebroadcast without the permission from the Company. And now I would like to turn the program over to Mr. Doug Beck, Senior Vice President, Corporate Development. Please go ahead.

Doug Beck - *ICF International, Inc. - Senior VP, Corporate Development*

Thank you. Good evening, everyone, and thank you for joining us to review ICF's fourth quarter 2007 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, 2008, 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 we specifically disclaim any obligation to do so.

During this call we will refer you to non-GAAP financial measures, such as backlog and EBITDA. Our reconciliation of these measures to the most directly comparable GAAP measures is available in the Investor Relations section of our website. I will not turn the call over to our CEO, Sudhakar Kesavan, to discuss fourth quarter 2007 highlights. Sudhakar?

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

Thank you, Doug, and good evening, everyone. This was another quarter strong financial performance. This speaks of the very positive trends that we are seeing in our market and the increasingly greater recognition that ICF is gaining for its long-standing domain expertise in areas which have become front burner issues for government and commercial clients.

We are also seeing the benefits of expanding our domestic and global footprint for the acquisitions we completed in the last 15 months. We completed four acquisitions in 2007 and one in early 2008. ICF is a good consolidation platform for small and midsize companies seeking to grow. We have a solid track record of successful acquisitions, and the range of firms that we look for are not the typical ones that traditional government IT service providers seek out.

Let me take a moment here and spell out our strategic intent. Ours is a differentiated growth strategy, predicated on three distinct elements. First, growing revenue by strengthening our competitive position in our four key markets -- energy and climate change, environment and infrastructure, health, human service, and social programs, and homeland security and defense. Second, gain scale in our implementation business that provides IT and human capital solutions, and third, increasing profitability by doing more implementation work by winning larger contracts, building our business with commercial plants, and leveraging our corporate infrastructure. We intend to do this through strong organic growth supplemented by acquisitions in these markets.

We are also pleased, for the legacy ICF business has shown strong growth. Revenues from our core, advisory, and implementation services business, excluding all acquisitions and The Road Home program revenues, grew 20.8% for the fourth quarter of 2007 as compared to the fourth quarter of 2006.

Growth revenues for the fourth quarter of 2007, including acquisitions, but excluding The Road Home program revenue, grew 45.4% this quarter over the fourth quarter of 2006. The growth for the entire year, over the previous year, for the core business, excluding, now, all acquisitions and The Road Home program revenues, was 10.5%. In the call last year I had suggested that it was my goal that we reach a run rate of 10% to 12% organic growth by the end of the fourth quarter for our core business. I am pleased that we substantially exceeded that goal. We believe that over the past year we've executed well in completing complementary acquisitions and generating strong organic growth. I'm confident that we can continue this execution strategy over the next year.

Finally, I would like to note that yesterday we added two distinguished, independent directors to our Board. Eileen O'Shea Auen was most recently CEO of APS Healthcare and has significant experience in the managed health care industry.

Richard Feldt is CEO of Evergreen Solar, a public company on NASDAQ, and brings vast experience with the renewable energy and clean technologies industry. Both Eileen and Rick have tremendous track records in growing companies in the health care and energy industries, and we welcome their expertise and experience. I would now like to ask John Wasson, our Chief Operating Officer, to review our new business and operating activities and to describe the way we are integrating our acquisitions and addressing the growth opportunities they provide.

Doug Beck - *ICF International, Inc. - Senior VP, Corporate Development*

Thank you. John?

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

Thank you, Sudhakar, and good evening. First, let me give you an update on The Road Home contract. We completed 90,000 closings by the end of 2007, and we passed 100,000 closings milestone in early March, nearly nine months ahead of the original contract schedule. These closings have corresponded to over $6 billion in payment benefits to eligible homeowners.

The seventh amendment to our original contract was executed in December, 2007, and increased its value by $156 million. This increase was necessitated by the need to process approximately 50% more homeowner applications than stipulated in our original contract. While the complexity and dynamics associated with this contract require ICF to be ready to deal with unforeseen changes and events, we believe we are on track to meet the program performance parameters and that 95% of the closings will be completed by the end of the second quarter of this year.

Our remaining work involves performing final reviews of all the grant documentation, providing continued advice to homeowners, and supporting the small rental property program. This work will go through the first half of 2009, which is, in fact, the official end of the contract. Offsetting the anticipated falloff in Road Home revenues, however, is the growth in our core business, which has benefited from a strong demand, as well as the revenues in cross selling efforts relating to our recent acquisitions.

Exclusive of The Road Home contract, the backlog was $485.9 million (sic - see press release) at the end of the fourth quarter, or 46.4% above last year's levels. This was slightly below the $519 million we reported at the end of the third quarter, reflecting the seasonal factors in our traditional business. As we noted in our earnings release today, we have seen increasing demand for our core advisory and implementation services across all of our markets.

Year-end backlog number includes Z-Tech, a provider of implementation services to the Federal health care market and does include SH&E, which we acquired in early December, 2007. SH&E serves the commercial market and, therefore, has a smaller backlog. We will add that backlog to our reporting for the first quarter of 2008.

The total value of our contract wins in the fourth quarter was approximately $230 million. In addition to the increase in capacity, the Louisiana Road Home implementation contract, there were several additional key wins in the fourth quarter that were especially helpful to growing our climate change and health and human services businesses. They included a five year contract, valued up to $23 million, with the Environmental Protection Agency to provide clean energy and emissions production expertise.

A $7.5 million implementation contract with the Federal agency, a $4.8 million award with HHS for IT support services for children's programs, and over $10 million in new contracts with the Administration for Children and Families at the Department of Health and Human Services to provide technical assistance. In total, we won over 170 new engagements during the quarter across all of our government and commercial markets.

In addition, I would like to note two new wins since the beginning of the year. First, we announced yesterday that we were one of six winners for a $200 million, five year basic purchasing agreement to assist the Assistant Secretary of Defense for networks and integration in transforming information technology throughout the Department of Defense. This is our first Department of Defense IT vehicle as a prime, and it demonstrates our ability to provide competitive services against some of the premier IT service providers in this space.

We have also been informed that we have been selected for a new five year $42 million implementation support contract with a Federal agency, and we will be announcing the details tomorrow. We believe this contract is likely to be fully funded over its life. ICF's new business pipeline was $1 billion as of December 31 versus $927 million at the end of October and $794 million as of December 31, 2006. As of March 1st of this year, the pipeline stood at over $1.1 billion.

In addition to fostering a steady growth of our pipeline, we are also pleased that we are continuing to develop larger opportunities that combine both the advisory and implementation phases of our strategy. For example, some key targets in our active pipeline, being those leads that are already in capture, include $100 million series of contracts to provide nationwide support for the

Department of Health and Human Services, a $50 million IT support contract with the Department of Defense, and a $36 million contract with the Department of Justice.

This growing pipeline is certainly a function of the increased strength of our historical businesses, and it also reflects the speed at which we're able to integrate and build new opportunities as a result of our acquisitions. As you know, a primary strategic rationale of our acquisitions is the ability to bid on and win new contracts jointly, neither firm would have succeeded before.

I wanted to take a few minutes this evening to highlight some of the steps we have taken in integrating acquisition business development activity. As you are aware, we have three important acquisitions in the past eight months -- Z-Tech, SH&E, and Jones & Stokes. Z-Tech's added capabilities and achievement of CMMI Level Three status immediately helped us position for a number of multimillion dollar opportunities at the Department of Health and Human Services, and they were also very helpful in winning a subcontractor role on a major IT DPA at another Federal agency.

More recently, in the case of SH&E, we developed integrated teams of senior staff from each firm for climate change opportunities at airlines and airports and for joint opportunities at the Federal Aviation Administration and Transportation Security Administration. Each team has developed specific service offerings and tested them with existing clients before going to market.

Thus far, we have worked over two dozen specific joint opportunities, and we have won a major new training task at FAA for up to $5 million, and we have been asked to begin negotiations as the winner of an important new airport planning initiative for over $1.5 million in California, and we'll announce the details once the negotiations are completed. We are pleased with these quick wins.

Likewise, with Jones & Stokes we have organized integrated business development teams, centered on specific environmental markets, state and local transportation, and public sector climate change activities. We are currently working on over 20 initiatives and have already submitted a number of multimillion dollar proposals as a result of these efforts.

I should also note that Jones & Stokes was part of the team that has been asked to begin negotiations on the just mentioned airport planning effort in California. In sum, we are pleased with the progress of our acquisitions thus far and look forward to reporting to you an ever expanding pipeline and win portfolio as a result of them.

In addition to our focus on business development, we, of course, need to retain and attract top personnel. I'm pleased to note that our personal retention rate continues to be good. Total turnover in the fourth quarter, excluding The Road Home, was 4.1% and 5.2% with The Road Home. For 2007 as a whole, total turnover was 13.9% without The Road Home and 20% with The Road Home effort factored in. Now I would like to turn the call over to our Chief Financial Officer, Alan Stewart, for the 2007 financial highlights. Alan?

Alan Stewart - *ICF International, Inc. - CFO*

Thank you, John, and good evening to all. Our revenue for the fourth quarter ending December 31, 2007, was $186.4 million, an increase of $72.5 million, or 63.7%, from the $113.9 million reported in the comparable fourth of 2006. Revenue from The Road Home contract was $108.8 million compared to $60.5 million in the fourth quarter of 2006.

As Sudhakar noted, fourth quarter revenue from core advisory and implementation business, excluding The Road Home contract, grew 45.4% this quarter over the fourth quarter of 2006, by $24.3 million from the $53.3 million in Quarter Four of 2006 to $77.6 million in this quarter of -- the fourth quarter of '07.

Direct cost increased as a percentage of gross revenue to 71.8% from 68.6% in the fourth quarter of last year, primarily due to increased levels of subcontract and other direct costs associated with The Road Home contract. Gross profit margin for the quarter was 28.2%, slightly below the 31.4% reported in last year's fourth quarter, and an increase over the 25.8% reported in the third quarter of 2007.

Indirect and selling expenses were $33.0 million, or 17.7% of revenue for the recent quarter, compared to $19.9 million, or 17.5% of revenue for the fourth quarter of 2006. The charges for non-cash compensation attributable to equity was $1.5 million in the fourth quarter of 2007 compared to $0.5 million in the fourth quarter of 2006.

Indirect and selling expenses increased $3.3 million from the third quarter of 2007 to the fourth quarter of 2007, primarily due to the addition of $1.1 million of indirect and selling expenses of -- associated with the consolidation of SH&E, it was purchased in December, a $7 - a $0.7 million charge for due diligence cost, a $0.3 million increase in audit [stocks] related cost, and an additional $0.7 million in FAS 123R cost.

A significant pre-tax charge of $700,000, or roughly $0.3 per share, was taken in the fourth quarter of 2007 as a result of due diligence costs expended by ICF on a large potential acquisition target which the seller decided to take off the market after many months of due diligence by ICF and within three weeks of closing on the transaction.

Fourth quarter 2007 EBITDA was $19.5 million. The EBITDA margin was 10.5%. Exclusive of the non-cash stock compensation charge, adjusted EBITDA was $21 million, and the adjusted EBITDA margin would be 11.3%.Depreciation and amortization for the fourth quarter of 2007 was $2.1 million compared to $0.9 million in the fourth quarter of 2006. The increase is substantially due to increased amortization of purchased intangibles related to the multiple acquisitions ICF has made during the year.

Net interest expense for the fourth quarter of 2007 was $0.5 million compared to $0.1 million for the fourth quarter of 2006. The effective tax rate for the fourth quarter of 2007 was 43% compared to a rate of 39.4% effective rate fourth quarter of 2006. This increase in the tax rate in the fourth quarter is attributable to a decline in tax credits, an increase in non-tax deductible expenses as a percentage of taxable income, increased charges for FIN 48 related to foreign operations of ICF.

We anticipate an increase in our tax rate on an annual basis from the 41.3% reported in 2007 to approximately 42.5% in 2008 as these tax credits decline. This resulted in fourth quarter 2007 net income of $9.6 million, or $0.64 per fully diluted share. This compares to net income of $9.2 million, or $0.65 per fully diluted shares in the fourth quarter of 2006. Fourth quarter results do include one month of operating results in SH&E, which was acquired on December 3rd.

The fully diluted shares for the fourth quarter 2007 include $14.423 million for basic weighted average shares and 716,000 common stock equivalents for fully diluted total share count for the quarter of 15,139,000 shares. It should be noted that we issued 416,350 restricted stock units and stock grants in the fourth quarter of 2007.

Our revenue for the year ended December 31, 2007, was $727.1 million, an increase of $72.5 million, or 63.7% -- excuse me, from the $331 million reported for the year ending December 31, '06. Revenue from The Road Home contract this year was $459.4 million compared to $116.0 million for 2006. Direct cost increased as a percentage of gross revenue to 73.2% in 2007 from the 65.7% reported in 2006, primarily due to increased levels, as we mentioned, of subcontract and other direct costs associated with The Road Home contract.

Gross profit margin for 2007 was 26.8%, slightly below the 34.3% reported last year. As we continue to replace revenue from The Road Home program with revenue from organic growth and acquisitions, we would anticipate seeing a return to our higher historical gross margin levels over time. We are reporting for the year ending December 31, 2007, net income of $40.6 million, or $2.72 per fully diluted share. This compares to net income of $11.9 million, or $1.10 per fully diluted share, for the prior year.

In reviewing our balance sheet of December 31, 2007, there are several points to note. Our net accounts receivable balance was $190.2 million compared to the $157.2 million balance of September 30th. If you exclude the $8.7 million in net accounts receivable from the SH&E acquisition and add back deferred revenue, this would represent 81.1 days sales outstanding for the Company at the end of the year compared to 64.6 days and 62.8 days at September 30, 2007, and June 30, 2007, respectively.

The increase in DSO at year-end is primarily attributable to increased Road Home contract receivables as we accelerated work to reach the 90,000 closings at the end of the year. The DSOs on these contract receivables have been lower than the rest of the Company in the past, but at year-end they rose to levels normally seen by the historical rest of ICF business.

We anticipate a substantial improvement by the end of the first quarter 2008, as these contract receivables will have been collected, and the levels will drop back to a much lower level than at the year-end. We continue to anticipate DSOs in the long term for ICF to follow our more traditional 75 day to 85 day historical average.

At December 31, 2007, our revolving bank debt was approximately $47.1 million, and as of March 7th, it was approximately $80.4 million. It should be noted the debt levels in March were after the expenditures of approximately $51 million for the acquisition of SH&E Corporation on December 3rd and $50 million in expenditures for the acquisition of Jones & Stokes on February 14th.

In February we closed on a new syndicated debt facility with a revolving line of credit capacity to $275 million with an affording feature for financials $75 million addition to bring our capacity to $350 million. With our robust pipeline of acquisition targets, we see the potential for significant expansion in our business in the rest of 2008 and in 2009. And with that, I'd like to turn the call back over Sudhakar.

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

Thanks, Alan. Before ending our formal remarks I would like to go over our outlook for the full year 2008 and for the first quarter. Based on currently available information, we expect our existing portfolio business to generate revenues of $690 million to $720 million for the full year 2008, of which about 60% would be the traditional core ICF business and 40% The Road Home revenues. This is an important swing from 2007, when Road Home was about 60%, and the core business was about 40%.

EBITDA margins should be within the range of 9% to 10%. This will equate to earnings per diluted share of $1.85 to $2.10, based upon approximately 15.4 million weighted shares -- average shares outstanding.

For the first quarter of 2008, we expect revenues to range between $175 million and $180 million, EBITDA margins of approximately 9.5%, and earnings per diluted share to range from $0.48 to $0.52, based upon approximately 15.2 million weighted average shares outstanding. With that, Operator, I would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS)

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

Allison Heiken - *UBS - Analyst*

Hi, guys, this is Allison Heiken in for Jason. Just wondering, first off, if there's any potential for add-on work to extend Louisiana beyond mid-2009?

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

Well, see now, the contract currently ends in the middle of June 2009. I think we are looking at several other contracts we could bid in Louisiana that would allow to continue to support the state on The Road Home contract beyond June of 2009. We've had indications from the client that they will -- would like continued support on several aspects of the program, information technology and other, that would go beyond July -- or June of 2009. So I think we certainly believe those opportunities are there.

Allison Heiken - *UBS - Analyst*

Okay, great. And then, can you just discuss your acquisition pipeline in areas that are of most interest to you?

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

Sure. I think that for us, as I said, that our strategic intent of our plan right from the beginning was we are looking for strength and depth in the four areas which we have traditionally been in, which I have spelled out in the call, and we are also looking to get more scale in our IT and human capital business. So I think, as long as we understand the business and as long as we think that we can grow the top line faster and reduce -- and have some consolidation in costs and get some cost efficiencies, and it is in a size range which is amenable to our whole integration activity, we will go ahead and do that. So I think we basically are looking for those four areas and scale in the IT and human capital arena.

Allison Heiken - *UBS - Analyst*

Okay, great. And then just lastly, would you mind commenting on cash flow guidance for '08?

Alan Stewart - *ICF International, Inc. - CFO*

I would expect -- I think our target is 9% to 10% of EBITDA. I would use that as a proxy for cash flow. I do say as the Louisiana revenue goes through the contract, and we start to collect those receivables, we'll probably see a quarter or two where we'll have greater cash from collecting those receivables to pay down the debt. It's difficult to determine at what month that may occur at this point, more likely in the second and third quarter. But I would continue to use 9% to 10% EBITDA on these projections as a rough proxy for cash flow at the present time.

Allison Heiken - *UBS - Analyst*

Okay, great. Thanks, guys. Nice quarter.

Operator

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

Joseph Vafi - *Jefferies & Company - Analyst*

Hi, guys. Good afternoon, and can add my congratulations here on the quarter as well.

Alan Stewart - *ICF International, Inc. - CFO*

Thank you.

Joseph Vafi - *Jefferies & Company - Analyst*

Maybe we could start a little bit on the core business. I know you talked a fair bit about pipeline and some of the recent deals and the like. If we kind of look at the sustainability of the kind of -- the current organic growth rates. what could get in the way of that sustainability here, if we look out to '08 -- as we look into '08, I guess?

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

I think that if you're talking about the legacy business, I think that it's a question of us making sure that we continue to recruit aggressively, make sure that we have the delivery capability to service all the business which is being generated and ensure that as the business comes in, especially in the legacy areas which are growing very strongly, especially, as I pointed out, energy and climate, as well as environment and infrastructure, the whole transportation arena, health and human services.

Those three are certainly growing quite strongly, and I think that for us, it's all a question of making sure that we recruit aggressively and make sure that we have the delivery capability to stay slightly ahead of the curve, and it's always a fine balance between recruiting too much, too many people and then recruiting just enough to make sure that the timing is right. So that's what we are trying to balance.

So I think that we see strong trends. It's just a question of getting the right people and making sure that we get them at the right time, and they are available pretty quickly after they come on -- come into the Company. So I think that's what we are. So I think people is the main constraint at the moment.

I think we should be able to continue to stay strong. Will we stay as strong as 20% a quarter? I mean, I don't want you to go away thinking that that'll be the case. As I've always said, we want to be in the 10% to 12% range, and we want to add another 10% to 12% to acquisitions. So in the overall 25% range. So I would again guide you to that overall number, but we certainly will take whatever growth we can get, and right now we are constrained only by the delivery capability in these markets, which I mentioned.

Joseph Vafi - *Jefferies & Company - Analyst*

Okay.

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

The acquisition of Jones & Stokes and SH&E in the geographical expansion of ICF hopefully gives us broader areas to recruit from that can help sustain this.

Joseph Vafi - *Jefferies & Company - Analyst*

Okay. That's very helpful. So it really just sounds like a lot -- you have good visibility in terms of contract vehicles at this point in, if you want to call it, the legacy business or the non --

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

Road Home business.

Joseph Vafi - *Jefferies & Company - Analyst*

The non Road Home business, I guess.

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

Right.

Joseph Vafi - *Jefferies & Company - Analyst*

Is there -- maybe just a little color on that. Has there been really -- has there been a change in the overall demand environment, say, from the IPO days in your core markets, or do you think this is also maybe a function of maybe a little bit more aggressiveness on ICF's part in business development?

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

I think there have been certainly -- in the climate energy arena there has been a significant change from a year and a half ago. I mean, you can't pick up the paper without reading something on climates nowadays. So it has become a front burner issue for a number of companies, and we are surprised at the companies which have interest in this issue.

Of course, the government also is currently analyzing all kinds of potential regulations. There are at least ten bills in Congress which we are analyzing for different Federal agencies, using our modeling framework. So there's been a significant change there, plus I think we've also, because of the public aspect of it, we've also had some significant success in recruiting, which comes as a surprising benefit. I hadn't anticipated it, where we get people just wanting to join us because of the fact that we are perhaps a little more visible.

So I think both -- we have been a little more aggressive, but I wish I could say it was all because of our aggression. I think it's also because of the fact the markets have significantly shifted, and I think that there is enormous interest in this issue. I gave a speech at the Northern Virginia Technology Counsel, which is an IT forum, on ICF going carbon neutral, and 550 people showed up to listen to me, which I was anticipating 50 people. So I think that does give you a sense of general interest in a community which is -- which traditionally would not really focus on these issues.

Joseph Vafi - *Jefferies & Company - Analyst*

Okay, that's helpful. So if we looked at the backlog, obviously nice growth year over year, but I guess there's some acquisition related additions to that backlog, if we were looking at it. Is that -- that's true?

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

Correct, yes. But I think that generally the backlog has stayed up quite well. We -- in fact, in the last earnings call we showed you the backlog without acquisition. That was up, too.

So I think that if you look at the backlog quarter to quarter, it -- all through the third quarter of 2007, if you take out any of the acquisitions, we were up. From quarter three '07 to quarter four '07 the ICF quarter backlog without acquisitions was about flat, and then the Z-Tech backlog went down a little bit, so -- which is why the slight adjustment in the backlog downwards.

But otherwise, I think our backlog has been pretty strong right through the quarters. I think in the fourth quarter, traditionally, not much happens, and given the continuing resolution, I think the government doesn't have enough of the money, and therefore, they don't necessarily add a lot of work.

Alan Stewart - *ICF International, Inc. - CFO*

Right. And it should be noted that the December backlog does not include anything for SH&E and -- or Jones & Stokes, which was acquired in February, so as we go through their processes into our contract numbers and scrub, we should be able to then report their numbers in the upcoming quarters.

Joseph Vafi - *Jefferies & Company - Analyst*

Okay, that's helpful. Now just one housekeeping question, and I'll turn it over on -- how should we be looking at interest expense here in '08? I mean, because you've done some recent acquisitions, might not be fully showing up on the balance sheet and the P&L at this point.

Alan Stewart - *ICF International, Inc. - CFO*

As I indicated, we've -- between Jones & Stokes and SH&E we spent about $101 million. We had, I think, $47 million at the end of the year and $80 million as of last Friday in total debt. The requirements of The Road Home can swing anywhere from zero to $30 million at any point in time, but again, as we collect those receivables, I would hope, as we get through the middle of the year, we'd be able to pay off a substantial amount of that debt. So we have a lot of capacity, and then four new acquisitions under this new agreement.

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

Interest.

Alan Stewart - *ICF International, Inc. - CFO*

And then to interest expense. I'm modeling probably a little north of $1 million plus a quarter as a rough gauge at the present time.

Joseph Vafi - *Jefferies & Company - Analyst*

Okay. And -- but it sounds like you want to pay this off. It's going to get paid off -- [X] any more acquisitions, it's going to get paid off somewhat quickly.

Alan Stewart - *ICF International, Inc. - CFO*

That's my hope. Yes.

Joseph Vafi - *Jefferies & Company - Analyst*

Okay. Very good. Thanks. Great quarter, guys.

Alan Stewart - *ICF International, Inc. - CFO*

Thank you.

Operator

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

Bill Loomis - *Stifel Nicolaus - Analyst*

Hi, thanks. Good quarter. Can you look the -- just talk about The Road Home revenue, how you expect it to fall out in 2008? So if we take the 40% of the high in the guidance, get about $288 million in Road Home revenue. You did $574 million since inception, so that's $862 million, and I think that contract ceiling is something around $912 million. So do you still expect it to come up to that ceiling and the remainder falling in '09?

And then, also, in '08, if you give us some sense of how you expect that revenue to fall out in '08, particularly, at least for the first quarter, what a range of revenue -- obviously, it has to be higher than 40%, I would guess, but what the range might be for first quarter Road Home revenue?

Alan Stewart - *ICF International, Inc. - CFO*

Well let me say first, I think we certainly expect to expend the full $912 million by the end of the contract in June of '09. I think we've modeled approximately $275 million in 2008, the remainder in 2009, which is somewhere on the order of approximately $60 million. In terms of how it will play out in '08, I think the first half of the year will certainly be stronger than the second half of '08. In terms of a first quarter number?

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

It's -- it just depends on how many closings we can do and what -- so it's a little hard, but I think for us to give you exact numbers for -- I think you're right in terms of the $40 million, $60 million number will obviously be higher in the first quarter. But I think that I would take the run rate in the fourth quarter and adjust it a little downwards, and that would be the number for Road Home in the first quarter is all I can tell you. I mean, it's kind of hard for us to exactly -- which is why we are a little careful what we want to say here.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay. Can you tell me how much revenue from just the SH&E revenue acquisition was in the December quarter?

Alan Stewart - *ICF International, Inc. - CFO*

Only one month, and it was around approximately $3 million.

Bill Loomis - *Stifel Nicolaus - Analyst*

And my -- okay. My final question on just looking at the profitability in the margins. You have it going down in the first quarter sequentially. If you could just explain the rationale there. And then as Road Home continues to drop off even more quickly in the back half, how do you see the profitability playing the costs and so forth, as that revenue drops?

Alan Stewart - *ICF International, Inc. - CFO*

Well, I think as we -- again, as we are able to grow these acquisitions or organic growth, I would say our gross margins will continue to start shifting up over time. I think one thing that's clearly depressing earnings initially are the FAS 123 costs, the depreciation and amortization. And I do have a little bit of a higher tax rate in '08 from '07, mainly due to the drop-off of these tax credits that I had the advantage of last year.

So I think those three elements probably are the prime contributors. Clearly, as we continue to make these acquisitions and are able to get some scalability of using our personnel for greater growth, as we're able to maybe combine offices where we have offices for both acquired target and ICF in a particular city, we may see some savings out of that, but that may take [nine] -- that may take three or four quarters before we can work through that. And also, we have -- in the last piece of The Road Home contract, we do have another series of rate negotiations and audit. So we want to be a bit cautious on how we see The Road Home revenue in this area.

Bill Loomis - *Stifel Nicolaus - Analyst*

What's the next deadline on Road Home or target? Can you give us the next either reschedule or rate negotiation or specific closings deadlines or anything like that that may be outstanding?

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

I think that the current focus of the state is to try and get us to commit to 95% of the closings by the end of the second quarter. They're quite keen to make sure that 95% of the work, in terms of the homeowner program, which is the most politically visible program, is done by the third anniversary of Katrina, which is August 29th. So I think that -- so we haven't quite negotiated those metrics yet, and we are in the process of doing that, but that is going to be the next deadline, which is the end of June of this year.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay. Thanks a lot.

Operator

(OPERATOR INSTRUCTIONS)

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

Tim McHugh - *William Blair & Company - Analyst*

Yes, I want to first, just a numbers question. The EBITDA margin guidance shown in the press release -- that's a -- not before backing out stock based comp. Am I understanding that correctly?

Alan Stewart - *ICF International, Inc. - CFO*

That's correct.

Tim McHugh - *William Blair & Company - Analyst*

So that's not an adjusted EBITDA?

Alan Stewart - *ICF International, Inc. - CFO*

No, it's [purely taking operating income plus D&A but not adjusting for FAS 123R charges.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And then on the core business, you guys are doing well there. Can you talk about -- it seems, obviously, you're winning a lot of new contracts, but any of the energy and environmental work that you're seeing more demand as of late from corporations. Any hesitancy there lately, given the macro concerns, or do corporations continue to make this a greater focus?

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

No, I -- we haven't seen any hesitation, because there isn't -- this is one area where, at least the companies we are dealing with, which is primarily the utility industry and a lot of the transportation companies, are all going to be hit by regulations. So the large or middle are all doing stuff because of the fact that they can't afford not to, because 15 minutes after the next President, regardless of which of the three it is, there's likely to be some sort of regulatory initiative, because all three have positions on this -- in this arena, which are quite similar. So I think the large or middles, which we traditionally work with, are all quite keen on making sure something happens.

The aviation industry is going to be regulated by the airplane union and has been told it's going to be regulated, starting 2012, so they have to make preparations now. So I think in the large or middles, there is an enormous amount of concern, and so there will be work there.

Even amongst the financial services industries, which we don't do much work for at all, they, in fact, see this as a growth area. So, in fact, we are getting calls from them, because their portfolios and ways in which they could potentially profit from this, they're looking at ways. And they're getting calls from their clients to see how the carbon market will affect their portfolio, so they are also looking for ways in which they could profit. And, in fact, we might benefit from these larger financial services companies trying to find another market, especially the carbon market -- the carbon emissions trading market.

So I think, both in Europe, as well as potentially here, so we are not seeing any diminishing. I would also add that the government is also cranking up and getting ready to do a lot of work in this arena. And, in fact, we have won quite a bit of work with them, and there appears to be a significant change in the way they approach things, because climate change has not been in the forefront over the last six years of this administration. But I think there has been a change there. And there has been a lot more work with the Federal government too. So I think it's both in the corporate sector as well as in the Federal government, this is one area which appears to be quite strong.

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

If I could just add to that, I think we're also seeing, on the corporate side, kind of nontraditional ICF clients -- technology companies, media companies, who either for banding purposes or because they are energy intensive in their use of energy, are approaching us on climate issues and energy issues, and we're actually finding quite a few nontraditional clients for us around these issues. And that's continued strong.

Tim McHugh - *William Blair & Company - Analyst*

Okay, given that strength that you just talked about, can you talk about the competitive environment? Are you seeing any more companies try and target this area more aggressively?

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

Yes, I think we see a lot of companies with interest in this area and entering this market. I think that we've been working in this market for 15 years or 20 years. We have quite a sizeable staff of people. I think we have a culture here that allows us to retain a staff, so it'll be of a significant advantage in that we -- we're obviously a very early player in the market. We have significant scale, but we're certainly seeing a lot of firms trying to enter. But we certainly find ourselves in a very strong, competitive position and able to win a significant portion of the work.

Tim McHugh - *William Blair & Company - Analyst*

Okay, great. And then lastly, can you just clarify for me. Did you say the 2008 guidance assumes a 10% to 12% organic growth rate?

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

Yes, I think we -- that's what we have been consistently saying, that 10% to 12% organic. We achieved 10.5% this past year, if you exclude all the acquisitions and if you exclude The Road Home program revenue. So I think that 10% to 12% for our non Road Home work would be a good marker to move with, yes.

Tim McHugh - *William Blair & Company - Analyst*

Okay, thank you very much.

Operator

Your next question is a follow-up question from the line of Joseph Vafi with Jefferies & Company. Please proceed.

Joseph Vafi - *Jefferies & Company - Analyst*

Hi, guys. Just maybe a quick follow-up -- a couple follow-ups. Do you think you could quantify how big energy and climate is now as a percent of the business?

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

I can give you the number of people, because we have people across different groups which work on it. In terms of -- we have -- if you look at our energy and climate business and the environment and transportation business, because there's a whole bunch of people who work across different groups. Here, there are approximately 1000 professionals in those two groups, so at any one time there would be a significant number working on those, so I think that internal organization is such that those two groups comprise about 1000 people.

But they do a whole range of work in energy, climate, environment, and transportation. So those are the four areas we see 1000 people work on, and climate is such a broad area that everything -- every major sector is affected in some way or the other by these. So I think it could be -- the revenues could be, at any time, between -- around $75 million or so would be the number for energy, climate associated revenues across the firm.

Joseph Vafi - *Jefferies & Company - Analyst*

Okay. That's helpful.

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

Just again (inaudible). I don't have -- I wouldn't hold me to the number. It could be a little higher, or it could be a little lower, but --.

Joseph Vafi - *Jefferies & Company - Analyst*

Right. Okay. Just trying to get a, kind of, a gauge for it all. And then just back, just one more on the acquisitions here. The acquisition activity has clearly picked up, and, obviously, based on your press release, there was another acquisition that didn't quite get across the finish line, how should we be looking at all this acquisition activity?

Would you have done all of these larger acquisitions -- would you have done the two acquisitions that you already had done if this other one had fallen -- not fallen through, and should we be -- how should we be thinking about this stepped up acquisition activity here? I mean, obviously, Road Home's a -- is a big piece of business that's not going to be there, but I'm just trying to just get a little more comfort here on the strategy behind all the acquisitions.

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

Let me just make sure that -- make a point here that if you look at the acquisitions we have done, if you look at, say, the latest one, Jones & Stokes, it isn't a business which, for a lot of our competitors is not a sexy business. The whole environment and natural resources business, but it is the business we are in for a large part of our Company.

So we are trying to do these acquisitions based on our understanding of the business and based on the fact that we should be able to mitigate the risk if bad things happen. That is our -- we are pretty conservative in looking at these things, and we understand bad business extremely well.

On the SH&E business, it is an exact analog to our commercial energy business, and they work with a whole set of clients who are actually similar, other than, of course -- and we have worked with airports, and we, in fact, were working with airlines, too, on climate change issues, but they've brought us a whole slew of airlines and airport clients whom we could take our business into. So again, there is a strong relationship with the kind of business we acquire and what we have done, so we have to -- we need to understand that business really well.

Prior to that, we did Z-Tech, and Z-Tech was a Federal Department of Health and Human Services business, and I think that that was again a business which was clearly something which we understood well, because we have a strong presence at HHS.

In terms of your specific question of would we have done these acquisitions? Yes. In fact, at one point we were doing both the Jones & Stokes purchase agreement and this other acquisition purchase agreement at the same time. And we were a little surprised that they withdrew their company. And in fact it had not been sold. It just -- they just took it off the market. So it does not happen to -- I'm sure it happens all the time, but this was the first time it happened to us.

Joseph Vafi - *Jefferies & Company - Analyst*

So does that mean maybe it'll -- chance it could come back?

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

I mean, it's hard to say, because it's -- it's hard to say. It's a large company selling a division. You never know, so I would not speculate.

Alan Stewart - *ICF International, Inc. - CFO*

Joe, this is Alan. One comment I would like to add is I think one thing that's unusual for ICF is the large amount of senior talent, program manager and consultants that we have and that I think as part of this acquisition in pulling back some of those senior staff in Louisiana, we've been able to deploy a fair number of them to help us on the integration of these acquisitions, to be more systematic on business development, and the system integration side.

So I think we've got very good capacity with professionals that have been with ICF ten, 15 years, 20 years, it can really help us to make sure that we integrate these companies well, get them in our culture, get the business development pipeline moving, and I think we do have the capacity, now both in the credit facility as well in management talent to be able to handle multiple acquisitions.

Joseph Vafi - *Jefferies & Company - Analyst*

Okay, great. Thanks for the color.

Operator

Your next question comes from the line of Tim Quillin with Stephens Incorporated. Please proceed.

Tim Quillin - *Stephens, Incorporated - Analyst*

Hey, good afternoon.

Alan Stewart - *ICF International, Inc. - CFO*

Hi.

Tim Quillin - *Stephens, Incorporated - Analyst*

Three questions. One, can you just give us a sense of the timing and magnitude of new opportunities that you might have with the state of Louisiana?

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

I think that that's a little difficult to predict. I think that the new opportunities I would assume would be in '09, and as I said, I think we will have work there -- it's quite likely we'll have work beyond June of '09. We'll need to find additional contract vehicles to continue with that and the size of that, it's really difficult to predict.

Tim Quillin - *Stephens, Incorporated - Analyst*

Is it just -- order of magnitude, are we talking a presence of $5 million a year, or are we talking $40 million a year?

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

I think it's difficult to tell -- say, Tim -- I mean, it's -- we right now have a very strong presence there, and what we are currently focused on is trying to get our work done and finishing it well. And then we'll see what happens in the future, because I think for us it's a question of making sure that we get everything done, and then if the state requires assistance and additional help, we will certainly look at it at that point and see what we can do. And -- but it's hard to predict, and it's hard to tell you exactly what the number will be. I mean, we really would be really speculating, and I would hate to do that on this call.

Tim Quillin - *Stephens, Incorporated - Analyst*

No, that's fair. Second question is with regards to the -- your tolerance and maybe the bank's tolerance for debt. The $350 million of capacity is pretty high relative to your expected EBITDA this year, which includes a pretty good contribution from Road Home. I mean, how high are you willing to go in terms of leverage relative to EBITDA?

Alan Stewart - *ICF International, Inc. - CFO*

Our debt covenants have a capacity of three and a half times to one of debt to EBITDA. I think that's within, sort of, the government contractor marketplace. I think this is a five year facility, so it's something that we don't have to renew for five years and gives us a chance at capacity to use it over the five year period, so --.

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

And we also, as we grow, we require working capital, and I think this does give us some scope for additional working capital needs, because I think our intent is directly to continue to grow. So I think both for acquisitions and for working capital, we certainly will -- we're not looking to leverage up any more than what we --.

Alan Stewart - *ICF International, Inc. - CFO*

Truly need.

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

Truly need.

Tim Quillin - *Stephens, Incorporated - Analyst*

Right. Now in terms of three and a half to one, that's on a trailing basis, I assume. Is that -- would that include EBITDA contribution from Road Home? I mean, would you think of it -- would you think of going up to three and a half one -- [3.5 times] with Road Home?

Alan Stewart - *ICF International, Inc. - CFO*

The credit agreement is on a trailing 12 month basis of what ICF has on its consolidated reporting numbers, as well as if we do any acquisitions, and doing it -- trailing 12 months of their numbers pre-closing with ours. So that's the calculation.

Tim Quillin - *Stephens, Incorporated - Analyst*

Okay. And you would go up to 3.5 times right now, including The Road Home EBITDA, just to be clear?

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

I don't really understand the question. I mean, if -- there is no reason for me to go up to three and a half to one. Right now I'm -- I have just -- we've just gone through the call, and we said we're going to pay down most of our debt.

Alan Stewart - *ICF International, Inc. - CFO*

Right, which is only at $80 million right now.

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

Which is at $80 million, so I really -- it would be purely speculative to say that what are we willing to do and what are we not willing to do. Right now we are not even at --

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Alan Stewart - *ICF International, Inc. - CFO*

One times one.

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

One times one, and, in fact, we are going to pay most of that down. So I think the situation doesn't quite arise at the moment, and it's just one of those things where we will deal with the issue when it arises.

Tim Quillin - *Stephens, Incorporated - Analyst*

Okay, fair. And then lastly, the -- do you have the current mix with SH&E and Jones & Stokes -- what the current mix by customer might be in terms of commercial, international, defense, federal, civilian? Do you have that in front of you by chance?

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

2007. Yes. On a pro forma basis or on our 2007 numbers?

Tim Quillin - *Stephens, Incorporated - Analyst*

Pro forma would be great, but --

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

Oh, don't have.

Tim Quillin - *Stephens, Incorporated - Analyst*

Whatever you have. (inaudible)

Alan Stewart - *ICF International, Inc. - CFO*

We really don't have it at this --

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

We don't have it at this point. We can --

Alan Stewart - *ICF International, Inc. - CFO*

Not on [J& S]

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

In the -- I think it will be in the - won't it be in the 10K? It will be in the 10K.

Alan Stewart - *ICF International, Inc. - CFO*

For '07 but not pro forma.

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

For '07 -- it'll be in the 10K for '07, Tim, which we'll be filing sometime in the next few days, so information should be there.

Tim Quillin - *Stephens, Incorporated - Analyst*

How about just this question? How big is the commercial business, order of magnitudes or percent or revenue now, with the acquisitions?

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

$75 million to $80 million.

Tim Quillin - *Stephens, Incorporated - Analyst*

Okay. Thanks. I appreciate your patience.

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

Sure.

Operator

Ladies and gentlemen, we have no more questions in queue. I would like to turn the call over to ICF's management for closing remarks.

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

We'd like to thank you all for participating this evening. We are pleased with our fourth quarter performance and the year, and we look forward to keeping you up to date on the developments of ICF. Thank you again, and good evening.

Operator

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