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## PRESENTATION

**Operator**

Welcome to the ICF International Third Quarter 2013 Conference Call. (Operator instructions.) As a reminder, this conference is being recorded on Tuesday, November 5, 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, SVP, Corporate Development. Please go ahead.

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

Thank you, Operator. Good afternoon, everyone, and thank you for joining us to review ICF's third quarter 2013 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 November 5, 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 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 the third quarter 2013 highlights. Sudhakar?

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**Sudhakar Kesavan** - *ICF International - Chairman & CEO*

Thank you, Doug, and good afternoon, everyone, and thank you for joining us to review our third quarter, nine-month results and discuss our preliminary outlook for next year.

Our focus at ICF has always been on being a growth company. So, rather than maximizing profits by releasing investments, we've allocated substantial resources to support future growth.

One of the areas of investment has been in business development activities. The sustained growth of our commercial business has been a result of these investments and a major differentiator for ICF. For almost three years now, commercial revenue growth has outpaced that of our federal government business, a trend which continued in this year's third quarter.

Revenues from commercial clients increased 7.7% while our federal business remained flat on a year-over-year basis. In fact, if you exclude the large transmission that, as expected, was in a slower construction phase this quarter as compared to last year, commercial revenue growth would be 12.8%. In this year's fourth quarter, we will be comparing against exceptionally strong performance in our commercial business from 2012, but, for full year 2013, we expect revenue from commercial plants to be well ahead of last year.

As in previous quarters, the primary driver of our commercial growth was our energy efficiency business, which increased 18% year-on-year and accounted for 38% of our commercial revenue for the period. In the third quarter, we supported 40 individual utilities with the design and implementation of their energy efficiency program. These included several commercial and industrial energy efficiency programs, which is a market that we are successfully developing.

We also saw growth from our digital interactive business, as well as a modest pickup in our energy management consulting work. Our international government business was another growth area for ICF, with revenues up 33.8% year-on-year thanks to our greater scale in Europe, which has enabled us to win contracts that neither our GHK acquisition nor ICF could have successfully competed for on their own.

Revenue from federal government clients remained mostly flat on a year-over-year basis, but there were a number of bright spots for us in the energy, health, education and veteran's affairs markets, areas where ICF leads with deep domain expertise and has the IT capabilities to fully implement large projects. Our state and local business is off slightly this quarter, reflecting the uneven work schedule associated with large infrastructure projects.

Operating profitability increased in the third quarter but at a somewhat slower rate than revenue due to ongoing investments in business development and as a result of some items that our CFO, James Morgan, will comment on a little later.

Business development has been a faster turn investment for ICF. In the third quarter, the value of our contracts increased 33% to $480 million and was up 18% for the first nine months of the year to $943 million. Additionally, the flexibility that we have built into our business development program can be seen by the fact that a significant portion of our year-to-date 2013 revenues came from opportunities that were not in our pipeline in November of last year.

This reflects our ability to move quickly to win business surrounding emerging issues and projects in markets in which we have proven expertise. As you know, our key markets, energy and health, are very dynamic and provide us with substantial opportunities for business capture.

In today's earnings release, we estimated what we expect the cost of the 16-day government shutdown will be to ICF in terms of lost revenues and earnings in the fourth quarter, and consequently lower our guidance for full year 2013. At this point, we are not still certain as to how much of the lost revenues may be made up later in the fourth quarter or early next year, but this is our best estimate of the impact.

As we look ahead to 2014, we are positive in our outlook for solid growth in revenues and even better performance in operating income. The reason for this optimism is based on five factors. First, based on our current visibility, we expect to enter 2014 with a total contract backlog that is higher than levels at the beginning of 2013. Second, we're looking to continue growth in our commercial business. We have a robust pipeline of energy efficiency programs, and we plan to build on our initial success in penetrating the commercial and industrial subsegment of that market.

We see significant growth opportunities to roll out digital interactive business in ICF's key markets now that we have the full lifecycle of solutions from design through transaction. We're already working together at three of ICF's utility clients, and we intend to continue to capitalize on that cross-selling success. And our energy and aviation management consulting work is also positioned to grow significantly next year.

Third, our international government business is expected to continue to benefit from the ramp-up of certain contracts won this year, greater scale and access to our business development platform. We believe that the aggregate of ICF's commercial and international businesses could represent 35% of our total 2014 revenues, up from 32% at the end of this year's first nine months.

Fourth, we are mobilizing to take advantage of opportunities with commercial and government clients within our proven areas of domain expertise that we expect to materialize in 2014 and 2015, in areas such as healthcare, energy infrastructure, and disaster recovery. And fifth, we have a solid pipeline of potentially accretive acquisitions that we are exploring, and I anticipate that we will complete one or two in the next six to 12 months.

With that, I would like to ask John Wasson to comment on our third quarter and nine-month operating highlights. John?

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**John Wasson** - *ICF International - President & COO*

Thank you, Sudhakar, and good afternoon. We were pleased with our third quarter performance, and particularly encouraged by the strong sales growth we achieved, consistent with our previous comments that sales in the second half of 2013 will be substantially ahead of this year's first half.

Our year-to-date book-to-bill ratio of 1.31 is ahead of last year's 1.13, and year-to-date, federal sales are now up 22% from the similar period in 2012 despite a slow start in the first quarter. Although there is continued uncertainty surrounding the federal procurement environment, third quarter sales in this segment were particularly strong, nearly equaling our record-setting 2011 third quarter.

Our biggest federal award last quarter was winning the recompetition of our largest contract to assist the Agency for International Development Bureau of Public Health in implementing demographic and health surveys. These multi-country surveys are important benchmarks for major donor nations in monitoring developing country progress in health and living standards. Winning this $189 million five-year contract underscores our leadership in collecting and analyzing high-quality health and nutrition data around the world. Known as the Demographic and Health Survey, (or DHS) 7, we are proud to have led this project for over 25 years.

The Environmental Protection Agency has been one of ICF's larger federal clients for many years. And in the third quarter, we won three important implementation contracts which complement the broad array of policy analysis that we conduct at EPA via other contracts. One of these wins, valued at $20 million, continues our 20-year support of managing an EPA laboratory in the Bay area to support its Superfund program, while another, valued at up to $11 million, is a new win that adds our support of a similar laboratory and its support functions in the mid-Atlantic region.

The third announced EPA win was a $14.6 million award to continue providing technology solutions for identity, credential and access management as part of the Homeland Security Presidential Directive, known as HSPD 12.

As a result of the government shutdown, it has taken us longer than usual to receive the requisite client approvals to announce our most significant wins via press releases. You may have noticed that we have just released in the past few days four Q3 wins at the Centers for Disease Control and Prevention in Atlanta.

Two contracts, valued at $10.2 million, were to continue our collection, preparation, and reporting patient data on cancer and other chronic diseases. We also secured a new $8.2 million contract to provide secure data management in support of two CDC agencies focused on toxicological research. Finally, we won another new contract valued at approximately $8 million to conduct survey research for this year's National Adult Tobacco Survey.

Outside of the federal space, other government sales continued to outpace last year on a year-to-date basis. At the state and local level, we are realizing more wins to help the affected states recover from last year's super-storm Sandy, including additional disaster recovery analytical and program support for one of the affected states and providing outreach support for recovery fund applications in another affected state.

Additionally, we continue to show strong sales -- strong growth in sales in the international government markets, especially where our combination of legacy ICF and our GHK acquisition is resulting in significant gains in both the European Union and UK government. In the third quarter, we had another multi-million dollar win providing urbanization and infrastructure evaluation support for a UK foreign aid program.

Finally, although commercial sales performance tends to be more uneven on a quarterly basis, our largest commercial wins from among over 350 awards this quarter featured a balanced mix of interactive data applications and commercial health consulting, energy infrastructure work, and of course energy efficiency program management. Moreover, our commercial pipeline continues to expand. Compared to this time last year, the active commercial pipeline increased by over 50% and continued to grow quarter over quarter, as well.

Looking forward, our pipeline remains strong across all of our markets. Our total active pipeline stands at $3.2 billion, up from $2.7 billion at the same time last year. And all client categories except for federal, where we had such large wins, [namely] state and local, international government and commercial, already higher than they were last quarter. Our large contract pipeline is also very strong, 24 opportunities greater than $25 million and 57 opportunities greater than $10 million.

From an operations standpoint, our focus at the end of Q3 and into Q4 was, of course, on a 16-day federal shutdown. From a business and human capital perspective, we believe that ICF distinguished itself by keeping our staff informed and engaged during a difficult period. We also worked hard to cover staff by redeploying them to other market areas and granting extra leave.

As a result, employee feedback during and after the shutdown were supportive and appreciative of the way we handled a very difficult situation. The vast majority of our contracts resume in two or three days after the government reopened, and it is good to concentrate again on serving our clients and growing the business.

Finally, our turnover was 3.6% for the third quarter, giving us a year-to-date total of 8.4%.

Now, I'd like to turn the call over to our CFO, James Morgan. James?

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**James Morgan** - *ICF International - CFO*

Thanks, John. Good afternoon, everyone. I'm pleased to report our third quarter 2013 financial results.

Revenue for the third quarter of 2013 was $244.1 million, an increase of 2.6% as compared to the prior year. As Sudhakar noted, the year-over-year increase was driven by our commercial revenues, inclusive of our recent acquisition of UCA, which were up 7.7%. Government revenues remained essentially flat as compared to the third quarter of 2012. The first nine months of the year, revenue was $719.5 million, up 2% over the prior year period, also driven by growth in commercial revenues, which were up 8.9%, as well as our acquisition of GHK in March of 2012.

Gross profit margin was 36.9% for the third quarter, down from 37.7% in last year's third quarter, and it was 37.7% for the first nine months of 2013 as compared to 38.1% for the 2012 similar period. Gross margins in the third quarter were adversely impacted by more than 100 basis points due to two items. First, as you may recall from our 2012 Q4 earnings call, we changed the treatment of certain compensation-related expenses from unbillable indirect and selling expense to billable direct cost. This change did not have a significant impact on our operating income margin. However, it did adversely impact gross margin for the third quarter of 2013 as compared to 2012.

Second, we experienced an unusually high amount of medical expense during the third quarter of 2013 due to several large claims. The increased medical costs adversely impacted both gross margins and operating margin for the third quarter of 2013.

Indirect and selling expenses for the third quarter were up $1.3 million, or 1.9% as compared to 2012 due to the higher medical expenses and the higher indirect labor associated with business development efforts. These increases [and] indirect selling expenses were partially offset by lower non-labor G&A cost and the previously mentioned reclassification of certain compensation expenses related to -- related expenses from indirect and selling expense to direct cost.

Our EBITDA margin was 9.2%, down from 9.8% in last year's third quarter, and it was 9.4% for the first nine months, down from 9.8%. The year-over-year reduction in the 2013 third quarter EBITDA margins was the result of previously discussed higher indirect and selling expenses.

Depreciation and amortization expense was $2.8 million, similar to prior levels. Amortization of purchased intangibles was $2.5 million in the third quarter of 2013, down from $3.5 million in the third quarter of last year. The decrease in year-over-year amortization expense is primarily due to the reduced amortization of intangible assets related to the acquisition of Ironworks and Macro.

Operating income in the third quarter was $17.2 million, an increase of 0.9% over last year's third quarter. Operating income margin for the third quarter was 7% compared to 7.1% in last year's third quarter and was 7.2% for the first nine months of 2013 as compared to 7.3% for the first nine months of 2012.

The effective tax rate was 33.8% as compared to 40% reported in the third quarter of 2012 and is 37.4% for the first nine months of 2013. The tax rate reduction is primarily related to favorable provision to return adjustments and favorable settlements of certain state income tax audits during the third quarter. We now expect the full year effective tax rate for 2013 to be no more than 38%, down from the previous estimate of no more than 39%.

Net income was $11.1 million for the third quarter of 2013, an increase of 16.3% compared to the $9.6 million reported in last year's third quarter, benefiting from lower tax and interest expenses. Diluted EPS was $0.55 compared to $0.48 in the third quarter of last year. For the first nine months of 2013, net income was $31.6 million, and diluted EPS was $1.57, up 9% over 2012.

We paid down an additional $10.9 million of debt during Q3 after the purchase of UCA, resulting in long-term debt of $64.1 million at the end of the quarter. The first nine months of 2013, we have paid down $40.9 million of debt.

Cash flow from operating activities was $46.8 million in the first nine months of 2013, a decrease from the $66.9 million reported in last year's first nine months. The year-over-year variance was driven by a change in days sales outstanding resulting from normal fluctuations in the timing of cash collections associated with our contracts.

More specifically, cash flow from operating activities during the first nine months of 2012 benefited from a reduction in days sales outstanding from 75 days as of December 31, 2011 to 71 days as of September 30, 2012. However, for 2013, days sales outstanding for the quarter increased to 73 days from 71 days at December 31, 2012, which adversely impacted 2013 cash flow. As we have stated in the past, we expect our DSOs to be within the 70 to 75 day range at year-end, including the impact of deferred revenue. Our capital expenditures for the first nine months were $10.1 million, in line with our expectations.

Now, I will turn to our expectations for the remainder of the year. As we have stated previously, while we were still assessing the full impact of the government shutdown in October, we are revising certain guidance to reflect the impacts that we currently anticipate. We now think our gross margins will be approximately 38%, our EBITDA margin will be between 9% and 9.5%, full year depreciation and amortization expense is now expected to be in the range of $11 million to $11.5 million, cash flow from operating activities is now anticipated to be greater than $65 million. We are reaffirming our full year expectations for amortization of intangibles of $9.5 million to $10 million, full year interest expense of $2.5 million to $3 million, capital expenditures of $15.5 million to $16.5 million, and fully diluted weighted average shares of approximately $20 million over the year.

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

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**Sudhakar Kesavan** - *ICF International - Chairman & CEO*

Thanks, James. To sum up, as a result of the government shutdown, we've moved down our revenue guidance range for 2013 to $945 million to $960 million, which at the midpoint represents modest year-over-year growth of 1.7%, and our EPS range is now $1.95 to $2.00, equating to 3.4% growth at the midpoint.

As I mentioned earlier, we are optimistic about ICF's likely performance in 2014. We will be providing firmer guidance for next year at the time of our fourth quarter results.

Operator, we would now like to open the call to questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator instructions.) Bill Loomis, Stifel Nicolaus.

**Bill Loomis** - *Stifel Nicolaus - Analyst*

Hi, thank you. Good quarter.

Just looking at the fourth quarter guidance, so when I run the midpoint numbers for revenue and EPS, I get about a 6% operating margin in the fourth quarter, and obviously you had the shutdown impact. But, just looking to '14, how quickly can that margin come back? So, if we look through the quarters, the first quarter was the highest margin, and then sequentially every quarter has gone lower on operating margin, and then obviously the shutdown impact in the fourth quarter. But, as we look to '14, do the margins come back pretty quickly in the first quarter, or are the investments going to continue to hold down overall margins?

**Sudhakar Kesavan** - *ICF International - Chairman & CEO*

I think we have pretty traditional investments. I don't think -- we try and make sure that we have a balance between the investments and the margins. So, I think the margins will jump back to the 38% -- normal 38%, 39% levels in the first quarter next year, operating margin, so I think that--.

**James Morgan** - *ICF International - CFO*

--That's gross margin.

**Sudhakar Kesavan** - *ICF International - Chairman & CEO*

That's gross margin. But, I think they should come back. So, there shouldn't be a lag in the margin coming back, Bill, because I think these contracts are now up and running, and we should be in good shape.

**Bill Loomis** - *Stifel Nicolaus - Analyst*

But, just I guess beyond that, just excluding the shutdown and the rebound from that, just again the margins through the first three quarters were down sequentially each quarter, and we talked about higher investments. But, how should we think about it in '14? I mean, are [those] investments paying off so we're not going to see the lower margins year-over-year through the period?

**Sudhakar Kesavan** - *ICF International - Chairman & CEO*

Yes, I think the investments are paying off. I think that the intent is certainly to keep the margins up while we do the investment. At this point here, we were trying pretty hard to make sure that the investment in business development continues. And I think, as you can see, the third quarter has paid off. So, we don't intend to reduce it that much. We'll certainly be cautious about making sure that we balance it and sure that the margins are reflective of the normal margins, which we should be more like the first and second quarter than what has been in the third quarter.

**James Morgan** - *ICF International - CFO*

Yes. I would say the only cautionary note is certainly our margins are impacted by the timing of energy efficiency incentive payments, and that could change fluctuations whether it's Q1 or Q2, or when those would happen. So, depends on how much comes in in Q4 actually this year versus Q1.

**Bill Loomis** - *Stifel Nicolaus - Analyst*

Okay, great. Thank you.

**Operator**

Tobey Sommer, SunTrust.

**Frank Atkins** - *SunTrust - Analyst*

Hi, this is actually Frank for Toby. A quick follow-up question on the margins. Can you talk a little bit about the difference in margins from the commercial side versus the government side? Is there much separation there? Is there any trends that are different?

**Sudhakar Kesavan** - *ICF International - Chairman & CEO*

I mean, I think that the way we think about it is traditionally, and (inaudible) to margins, that the multiples we get in the commercial side are much higher than the multiples of labor we get on the government side, and therefore the margins are certainly higher.

So, there is a, I think, significant difference in the margins. It's just a question of the utilization traditionally in the commercial side is slightly lower than the government utilization. So, we need to -- we always have to balance the utilization numbers and the margin to ensure that they stay in balance, and therefore the margins are more higher, and then the net margins are higher on the commercial side. So, that's the way we have traditionally thought about it, because certainly commercial margins are higher than the government margins.

**Frank Atkins** - *SunTrust - Analyst*

Okay, that's helpful. And as you look back on the government shutdown, you said you were still going through a few things. But, can you give us any more color in terms of specific areas that were impacted, or was it primarily workers at client sites, or any trends or comments that you could make to give us a little more color there?

**John Wasson** - *ICF International - President & COO*

Yes, this is John Wasson. I would say the major impacts we experienced were certainly at the Environmental Protection Agency, the Center for Disease Control, and certain parts of the National Institutes of Health. But, I think we were shut down very quickly and very early in the shutdown, both at EPA and CDC pretty much across the board in those agencies.

**Sudhakar Kesavan** - *ICF International - Chairman & CEO*

And we were surprised -- EPA was not a surprise, because we [stated] that 17 years ago when I was here, when the first government shutdown happened. But, the CDC was certainly a surprise, because I think that we had 2013 money, and we potentially could keep going. But, the general policy decision was made that, if they were not working, we were not working.

That's not the case for a number of other federal agencies where we continued to work, and in fact some of the clients thanked us for working even though they were not working.

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**Frank Atkins** - *SunTrust - Analyst*

All right, great. Thank you very much.

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**Operator**

Tim McHugh, William Blair.

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**Tim McHugh** - *William Blair & Company - Analyst*

Yes, thank you. Can you -- I apologize if I missed it in the press release, but did you specifically quantify the impact from the government shutdown both I guess in terms of revenue and then the flow-down in terms of operating profit for the fourth quarter?

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**James Morgan** - *ICF International - CFO*

It wasn't specifically quantified. I think we can look at that as really the change in the midpoint of our guidance, Tim. And if you look at the change in the midpoint of our guidance, certainly the large majority of that change is driven by our estimation of what we think the government shutdown would be, the impact of the government shutdown.

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**Tim McHugh** - *William Blair & Company - Analyst*

Okay. Is that true at the revenue and the operating income line? I'm trying to understand--.

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**James Morgan** - *ICF International - CFO*

--Yes, that's true on both.

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**Tim McHugh** - *William Blair & Company - Analyst*

Okay, all right. And then, I guess as we think about -- one just numbers question, though. The tax rate, as we think towards 2014, what's -- I'm assuming it's higher than 2013, but what's a fair number to use?

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**James Morgan** - *ICF International - CFO*

We'll certainly talk more about that later, but I would say that, if you look at kind of our normal effective tax rate, it's roughly around 40%. As we can identify discreet one-time items that we are able to include in the filings [of] our tax returns, we will certainly take advantage of those. So, for right now, that's probably too early to call with regard to what we think our tax rate will be for 2014, so I would probably use more of an [unadjusted] number of around 40%.

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**Tim McHugh** - *William Blair & Company - Analyst*

Okay. And I thought in the last quarter or two you've talked about an improving outlook for the revenue contribution from some of those large kind of transmission line and infrastructure projects. But, it was a still decent-size drag on this quarter. Are you still of the view that, in the next couple quarters here, that should -- that drag should lessen, or will we be seeing a drag from those projects for a while still?

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**John Wasson** - *ICF International - President & COO*

This is John Wasson. I think that we're of the view that that drag should lessen, Tim, and it should -- we should see an improvement in Q4. Then, as we go into next year, I think we -- we're still seeing some impact of that drag in Q3, but I think, as we move into Q4 next year, it should certainly improve.

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**Tim McHugh** - *William Blair & Company - Analyst*

Is it still a drag on growth in Q4, or is it actually additive, I guess, or not a drag?

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**Sudhakar Kesavan** - *ICF International - Chairman & CEO*

Yes. The numbers basically the second half of the year for one of the commercial infrastructure project is certainly much higher than the first half of the year, but they're still lower than the second half of last year. But, the difference in the numbers comes down, but they're still lower than last year, which is why the Q4 number for the commercial transmission project last year was quite high, and it's about $700,000 to $800,000 lower this year for Q4, while the difference in Q3 was almost $2.5 million, $3 million. So, the drag is reduced, as John says, but doesn't completely go away from a comp perspective. You see what I'm saying?

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**Tim McHugh** - *William Blair & Company - Analyst*

Yes, sure. Yes, that's helpful. And then, you talked about the pipeline, I guess, and the contract awards this quarter, which were obviously strong. Are you still in a position, given where the pipeline is, that we can continue to see a robust set of new contract wins here going into Q4, or is it -- I guess is it a typical year where most of the contract wins now for the year we've seen in Q3, or is the opportunities of decisions you're still looking out there still robust for Q4? I'd imagine more so on the commercial side.

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**Sudhakar Kesavan** - *ICF International - Chairman & CEO*

Yes. We have a very systematic way of going about calculating this. So, if we look at our forecast for Q4, and the forecast turns out to be true based on the timing of the awards and [using our probability] win rates, we could have a record sales year, and the Q4 numbers should be quite strong and better than Q4 last year, substantially better than Q4 last year. But, some of these things move around a little bit, and therefore I can't categorically tell you that that will be the case. But, if things fall in the way they should, then the Q4 this year should be quite strong, and the overall numbers should be near a record sales year for us.

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**James Morgan** - *ICF International - CFO*

Yes. But certainly, Q3 is our best quarter, and as you would typically expect in a year. It's just that we think Q4 could end up being a little better than what we've historically seen.

**Tim McHugh** - *William Blair & Company - Analyst*

I guess how's the win rate compared to the prior years as you got through this award season?

**John Wasson** - *ICF International - President & COO*

Win rates are generally in line. I don't think we've seen any significant change in our win rates. I think on average, they're what we would expect, and are in line. The only other comment I'd make on the pipeline is I do think, when you look at the commercial pipeline, as you start looking into 2014, we do have a robust commercial pipeline. I think that we would -- certainly are optimistic about the commercial sales as we look into 2014.

**Tim McHugh** - *William Blair & Company - Analyst*

Okay, thank you.

**Operator**

(Operator instructions.) Edward Caso, Wells Fargo.

**Rick Eskelsen** - *Wells Fargo Securities - Analyst*

Hey, good evening, it's Rick Eskelsen on for Ed. Curious about your government client behavior since they've come back from the shutdown. Have they jumped back into things? Are they more cautious than normal? And any view on how the January deadline for the CR and potentially another shutdown showdown could be impacting them?

**John Wasson** - *ICF International - President & COO*

Yes, I guess -- this is John Wasson -- I would say that certainly our government clients have jumped back in. I think we're back to work and are busy. We really haven't seen any shift in -- or caution in terms of how they've gotten back to work and got us back to work.

In terms of the government shutdown in January, I mean, I--.

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

--Yes. Hi, this is Doug. I would just say right now -- you're not surprised to hear it's really too early to tell. Everything's behind closed doors. I think everybody believes that they are very gun-shy about another government shutdown, but we've still got a long way to go. So, I'm sorry we can't be more definitive than that.

**Rick Eskelsen** - *Wells Fargo Securities - Analyst*

No, that's helpful. And then, just a question on the state and local. Has there been any impact or flow-through on the state and local market from the shutdown and potential lower funding from the federal government to some of the states?

**John Wasson** - *ICF International - President & COO*

Yes, this is John Wasson again. We haven't seen that. I don't think we've seen any direct impact of a government shutdown on our state and local funding, or on our state and local clients. So, no, we haven't seen anything on that front.

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**Rick Eskelsen** - *Wells Fargo Securities - Analyst*

Okay. Then, just last question on the cash flow, were there any one-time items in Q3, or any one-time items expected in Q4? The reason I ask is because it seems like from your guidance you're expecting a slight sequential improvement in Q4, but that's not been the case in the prior year. So, just wondering if there's anything one-time or moving in and out of the quarters.

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**James Morgan** - *ICF International - CFO*

Yes, I think that -- I think we'll have a little bit of a pickup from just the overhang hopefully of the government shutdown may help us a little bit. But, there's nothing too significant. I mean, actually, if you go through and kind of look at what expected net income will be in the noncash items, basically what we're anticipating that $65 million, it works out exactly pretty much what we anticipate. So, there's nothing unusual, significantly unusual occurring.

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**Rick Eskelsen** - *Wells Fargo Securities - Analyst*

Okay, great. Thanks a lot.

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**Operator**

George Price, BB&T Capital Markets.

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

Hi, thank you. Just first thing on the higher than expected medical expenses, I was wondering if you could quantify that, I guess incrementally, how much higher than expected. And is that something that continues, to the best of your knowledge, in the fourth quarter?

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**James Morgan** - *ICF International - CFO*

I mean -- this is James -- I would say certainly it's tough to estimate whether it continues. We do have -- we had a number of fairly large claims associated with the premature babies, things of that nature, and we are self-insured up to a certain level, and then we have a stop-loss after that. So, we're hoping that Q4 we'll not see quite as much from a medical expense perspective. We just had a fairly large, unusual surge for Q3. And from a number -- I would say from a basis point perspective, you're looking at having an impact of roughly somewhere in the neighborhood of 50-plus BPs of impact on just EBITDA alone for the quarter.

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

In 3Q, okay. And then, just on M&A, you mentioned you had a good pipeline of potential opportunities. Perhaps maybe you could give a little bit more color on what types of businesses. I'm assuming you're looking predominantly in the commercial and international side, but maybe test that hypothesis. And if you can give any more color on what types of businesses, what areas, that'd be helpful. Thank you.

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**Sudhakar Kesavan** - *ICF International - Chairman & CEO*

Yes, I think you said it right. We basically are looking certainly for commercial, international. We will also look at certain federal areas. We haven't ruled out federal. If federal is in certain areas of our competence, like health or specific areas, (inaudible) Veteran's Affairs and things like that, we will certainly look at those deals, too. So, we are focused geographically, as you say, from a market perspective, commercial international, certain specific federal, and certainly technology associated with the digital business, which -- interactive business, which we think is a good, strong business to be in, where we have certain domain expertise in certain of our markets where we can certainly leverage that expertise and do more as the world becomes more digital and does more over the Web.

So, I think all those areas are open for us, and we are looking around, and it's a good pipeline.

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

One clarification on that if I could. Just are -- can you call out anything perhaps unusual in terms of size? Are you potentially looking at larger acquisitions maybe than you have historically, or is -- are we still looking at smaller to mid-size typical of what we've seen over the past few years?

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**Sudhakar Kesavan** - *ICF International - Chairman & CEO*

No, we are looking at large ones, too. Our capacity at the moment is fairly substantial. We could do, depending on -- $100 to $300 million we could potentially deploy. So, we certainly are looking at large ones. I think that those are usually harder to find. We have looked over the last few years at some of them. And we are looking at the other small ones, too.

So, I think that what I've found is that we are quite focused on what the Company does and how it will help us and how one plus one can be equal to three. And we'd prefer large ones, but we will do the medium size ones, too, and we'll do some of the small ones, which add niche expertise, which we can then leverage through our business development platform. So, I think that we are quite -- we are not -- like to do a large one, but it's kind of hard because there are not too many of them around.

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

Yes. Yes. Okay, thanks very much.

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**Operator**

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

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**Sudhakar Kesavan** - *ICF International - Chairman & CEO*

Thank you for participating in today's call. We look forward to speaking with you again after the release of the fourth quarter results. Thank you. Take care.

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**Operator**

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

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