FINAL TRANSCRIPT

Thomson StreetEvents℠

ICFI - Q2 2009 ICF INTERNATIONAL INC Earnings Conference Call

Event Date/Time: Aug. 06. 2009 / 9:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Douglas Beck
ICF International - SVP, Director - Corporate Development

Sudhakar Kesavan
ICF International - Chairman, CEO

John Wasson
ICF International - EVP, COO

Alan Stewart
ICF International - CFO

CONFERENCE CALL PARTICIPANTS

Tim McHugh
William Blair & Co. - Analyst

Tim Quillin
Stephens, Inc. - Analyst

Tobey Sommer
SunTrust Robinson Humphrey - Analyst

Sam Hoffman
Lincoln Square Capital - Analyst

Joseph Vafi
Jefferies & Co. - Analyst

Matthew Cruz
Noble Financial - Analyst

Bill Loomis
Stifel Nicolaus - Analyst

Eric Olbeter
Pacific Crest Securities - Analyst

Eric Prouty
Canaccord Adams - Analyst

PRESENTATION

Operator

Welcome to the ICF International Second Quarter 2009 Conference Call. During the presentation, all participants will be in a listen-only mode. Afterward, you will be invited to participate in a question-and-answer session.

(Operator Instructions)

As a reminder, this conference is being recorded on Thursday, August 6th, 2009, and cannot be reproduced or rebroadcast without permission from the Company. And now I would like to turn the program over to Douglas Beck, Senior Vie President, Corporate Development. Please go ahead.

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

Thank you, and good afternoon. Thank you for joining us to review ICF's second quarter 2009 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 August 6th, 2009, press release and our SEC filings for discussions of those risks.

In addition, our statements during this call are based on our views as of today. We anticipate that future developments 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 cal over to our CEO, Sudhakar Kesavan, to discuss first quarter -- second quarter 2009 highlights. Sudhakar.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Thank you, Doug, and good afternoon, everyone. This was another quarter of solid core business growth for ICF. I am particularly pleased that we have to date successfully navigated this transition period, during which absorbed a 68% drop-off in Road Home revenues, as a contract was completed in mid June and we began the acquisition of our largest acquisition to date, Macro International.

I am also pleased to report that while our organic growth slowed in quarter two to 9.2%, we are on track to grow our core business, excluding Macro, by 15% 2009 compared to 2008. This is because we are seeing an acceleration in federal government contract awards. In fact, since the end of the second quarter we have won over $140 million in new contracts, some of which have been announced and other key wins will be announced in due course, once we have the required approval.

This positive momentum more than offsets the softness in our commercial aviation business, which appears to be stabilizing at current levels. Also, some state and local work that moved to the right in the second quarter is getting back on track. Therefore we are confident that we will reach the target of $500 million in core business revenues for full year 2009 without Macro, which we consider a very strong performance, particularly in the current business environment.

Our federal business accounted for 65% of our core business revenue in the second quarter and continued to perform very well, driven by significant growth in work for key federal agency clients, like the Department of Health and Human Services, the Environmental Protection Agency, the Department of Energy, the Department of State and the Department of Homeland Security, where we are well known and well positioned for advisory and implementation work.

At EPA alone, ICF has over 20 prime contracts and we have over 50 prime contracts across all the agencies in HHS. In the second quarter, the Health and Human Services and social programs market accounted for 48% of our core business revenues, and the environment in infrastructure was 43% and Homeland Security and Defense represented 9% of total revenues.

Our commercial business increased 22% in the second quarter, including Macro, and accounted for 18% of core business revenues. Growth is being led by ramp up of several energy efficiency contracts for utility clients and a broad range of advisory and implementation assignments relating to climate change, green house gas emissions issues and sustainability.

We are on schedule with the integration of our Macro International acquisition, and we are already identifying large opportunities that we can now pursue by leveraging our combined capabilities with agencies such as the Centers for Disease Control, the National Institutes of Health and the Substance Abuse and Mental Health Services Administration.

In fact, we are currently pursuing over 30 joint proposals. As we noted in the conference call at the time of the transaction, we estimate that it will take 12 to 18 months to get Macro's growth rate up to double digits. You may recall the Z-Tech that we made in June of 2007. It was a $25 million revenue company then, and since its acquisition we have won two new $60 million contracts that neither one could have won on its own, the first of which was awarded one year after our acquisition.

We see this type of growth potential on a larger scale for Macro. We have been steadily building our new business pipeline across all of our key markets. In addition to increasing value to $2.4 billion at the end of the second quarter, our pipeline is becoming more robust with a larger number of contracts of $25 million or more, reflecting our strategy of leveraging our advisory work into larger implementation projects.

Our win rate so far in 2009 has averaged about 41%. We're also seeing an uptick in activity related to the federal stimulus package. There are some green shoots, but still not at a level commensurate with what would be expected, given the dollar amount of likely expenditures. As we have stated in the past, we believe that the most important opportunities for us there will come in 2010.

Beyond the stimulus plan, however, there are some mega-trends that ICF will benefit from. The activity in the healthcare reform and rethinking of a broad range of health and social problems and their service models is underway, which implies a significant change in the current delivery market.

No matter what form health legislation takes, the continued focus on regulatory solutions, budget pressures for program reinvention and the need to constantly evaluate results play to our strengths and ICF's leadership in this market.

Concerns about climate change, as reflected in the Waxman-Markey bill that has passed the House and growing interest in energy efficiency and environmental sustainability, are [going to] continue and legislative and regulatory developments. Our 40-year track record as experts on these issues puts us in a front and center position to capitalize on these developments.

All of this combines to make us quite optimistic about our growth prospects in the immediate future and over the next several years. At this point, I would like to turn the call over to John Wasson, our Chief Operating Officer, to give more information on our operations.

John Wasson - *ICF International - EVP, COO*

Thank you, Sudhakar, and good evening, everyone. As Sudhakar has noted, we are now seeing an acceleration in new sale awards that is positioning us for a strong second half of the year. Second quarter featured several important wins. I want to point out two in particular that have added significantly to our new business going forward.

For the second year in a row, our health informatics business, which was largely brought onboard with the Z-Tech acquisition, has unseated a major incumbent to win a new $60 million five-year contract. Specifically this past quarter we won a new contract to provide information services for biomedical and clinical services at the National Institutes of Health National Library of Medicine.

Just over a year ago, we unseated another strong incumbent to provide IT support to NIH's electronic research administration and its critical grants processing systems under another five-year, $60 million contract. In both cases, these wins are examples of ICF's ability to combine domain expertise with state-of-the-art IT services to offer distinctive credibility in health and bioinformatics.

The second key new sale was for a $17 million five-year task order with the State Department's Bureau of Consular Affairs to provide IT and program management support. This win is under the State Department's worldwide program management support services blanket purchase agreement, where we are regularly given the opportunity to compete against a small list of designated firms. This particular BPA, which we won last September has a ceiling of $300 million and is one of a half dozen BPA's and IDIQs we have strategically targeted and won in the past year, to increase our access to federal clients, so that we can provide them end-to-end services.

In addition to these key second quarter wins, we have announced a number of new wins in the past two weeks that will add to our organic growth in the second half of the year and beyond.

On Monday, we announced that we had won contracts valued at over $47 million to support four federal regions of the Head Start Program. Two of these regions we supported previously. We are pleased that we have essentially doubled our presence by also winning new contracts to support the Pacific Northwest and the nationwide American Indian/Alaska Native populations.

We also announced yesterday that we were selected to support the Department of Agriculture's rural utility service broadband program. This is our first major win of projects funded by stimulus dollars, and our team is already working to stand up the infrastructure necessary to process and evaluate grants. This contract is for five years, but we expect that the first two years will provide front-end-loaded revenue.

Sudhakar mentioned we're also continuing to grow our pipeline to new record levels. In our earnings call for the 2008 fourth quarter in March, I had noted that our pipeline at that time included 45 opportunities over $10 million, eight above $25 million and four above $50 million.

As of July 22nd, our pipeline included 52 opportunities over $10 million, 19 over $25 million, nine over $50 million. Therefore, you can see that we have made progress in each these size brackets. As one element of pipeline growth, I am pleased to report that the integration of Macro with ICF continues to go well. We are working closely to jointly bid on large contracts that we would not have been able to bid on separately.

Combining ICF's IT and program management qualifications, for example, with the world-class survey and health research capabilities of Macro has given us substantial scale to address larger procurements across the full range of health agencies within the Department of Health and Human Services and other agencies that address health issues, such as the Department of Defense and USAID.

As Sudhakar mentioned, at the present time, we are jointly pursuing over 30 opportunities. The larger ones include information services, IDIQs, management of health information contact centers, vaccine reporting systems and consumer education and outreach in areas beyond health, such as for state energy programs.

I would also like to update you on several large energy efficiency implementation contracts that we've mentioned in our last call that we have received notification that we had won. At that time, we indicated that we had won three new energy efficiency implementation contracts with utilities.

Negotiation of these contracts has taken longer than expected. As of this call today, two of the three contacts, whose total value exceeds $40 million, have been signed. The third will be signed shortly. We've also seen positive developments on the sales front in our commercial aviation business.

Business has stabilized, and we will be announcing two new wins in the million dollar range for an international air carrier and for a US government agency shortly. While our revenue outlook is bright, some of the changes in the business environment that we have experienced have required careful attention to our costs, as well. We are continuing to global manage our costs across all of our business areas to ensure strong and sustained earnings.

Finally, our personnel retention rate continues at historical lows. The annualized rate of turnover for the core business in the second quarter was 8.7%. Now I'd like to turn the call over to our CFO, Alan Stewart, to review the second quarter highlights. Alan?

Alan Stewart - *ICF International - CFO*

Thank you, John, and good afternoon. Our gross revenue for the second quarter of 2009 was $175.4 million, compared to $184.1 million for the 2008 second quarter, reflecting the completion of the Road Home contract.

As Sudhakar noted, revenue from our core business, including the recent Macro acquisition, increased significantly this quarter to $160.6 million, up 41% from last year's $113.7 million. This points to our success in replacing revenue from the Road Home contract through a combination of organic growth and acquisitions. Revenue from the Road Home contract was $14.8 million for this recent quarter, a decline of $55.6 million from last year's second quarter revenue of $70.4 million.

This quarter's gross profit increased 10.4% to $71.5 million, compared to the second quarter of 2008, due to decreased levels of subcontractor cost associated with the Road Home contract. Our gross profit margin trended up to 40.8%, from 37.1% in the 2009 first quarter and 35.2% that was recorded in last year's second quarter. We expect the gross profit margin to continue at our historical levels of approximately 40% now that the Road Home contract is now completed. Indirect and selling expenses were $55.7 million for this quarter, which included $8.8 million attributable to the Macro acquisition.

Excluding that and non-cash stock compensation, indirect and selling expenses were up slightly from the $43.6 million in the first quarter to $44.9 million in this recent quarter. This increase was due to integration, marketing and proposal efforts, as well as a higher than planned indirect labor cost in the commercial transportation area.

Interest expense was $1.5 million, up from the $0.7 million from this year's first quarter. We paid down approximately $4 million of long-term debt this quarter and our revolver balance stood at $221.7 million as of June 30th.

The effective tax rate for the second quarter of 2009 was 41.5%, and we estimate the annualized tax rate will be 40.5% for the full year of 2009. Second quarter 2009 net income was $5.2 million, or $0.33 per fully diluted share, based on 15.7 million fully diluted shares outstanding.

Some important points to note, this is the first full quarter that the operations of Macro International are included with ICF's operations. Our net accounts receivable balance was $169.5 million, which includes $35.3 million from the Macro acquisition. Without Macro, the accounts receivable balance was $134.2 million, down from the $147.7 million at March 31st and the $150.8 level at December 31st, 2008. Including Macro, this represents 87 days sales outstanding at June 30th, compared to 84 days sales outstanding at March 31st, 2009, and 83 days sales outstanding that was reported at December 31, 2008.

If you deduct the amount of deferred revenue from these periods, the adjusted sales outstanding would be 80 days for the June 30 recent quarter, 77 days for the March '09 quarter and December periods, equally. We continue to anticipate DSOs in the long term to be at our 75 to 85 day historical average.

Cash flow from operations in the first half provided $17.5 million and we had cash capital expenditures of $2.6 million over the same period. Regarding 2009 full-year guidance, we currently anticipate amortization from purchased intangibles and depreciation and amortization will be approximately $11.3 million and $9.3 million, respectively. Interest expense is estimated at $5.5 million for the year, with the tax provision estimated at 41.6% for the next quarter, with an annualized rate for the year of 40.5%.

We expect cash capital expenditures of approximately $12 million for the full year, reflecting our continued investments in corporate infrastructure to accommodate our rapid growth over the last year and our anticipated future growth. This will be slightly higher than the $10 million we spent last year.

Based on these projections, we would expect to pay down an additional $17 million of debt by the end of the calendar year, and with that I'd like to turn the call back over to Sudhakar.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Thank you, Alan. To sum up, we are quite optimistic and confident of our prospects of continued core business growth, considering ICF's leading position in the health, human service and social programs market and the energy, environment and infrastructure market, as well as our thriving commercial energy and climate business.

Therefore we are reaffirming our full year 2009 guidance for total revenues ranging from $660 million to $680 million, core business revenues, exclusive of the Macro acquisition, to approximate $500 million, and earnings per diluted share of $1.30 to $1.35.

Our estimate is for the third quarter is total revenues of $165 million to $170 million, organic growth of between 11% and 15% and earnings per diluted share of $0.28 to $0.30. Operator, I would now like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). And your first question comes from the line of Tim McHugh with William Blair & Company. Please proceed.

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

Yes, first want to ask about the push-out of contracts that you mentioned at the state and local level. Could you expand on that a little more? Was that Jones & Stokes, and do you have any visibility when it will come back and what maybe you're assuming in your guidance for when those contracts might start?

John Wasson - *ICF International - EVP, COO*

Yes, I think on the state and local front, I think the primary impact is obviously in California, due to the Jones & Stokes acquisitions, and I think we've seen delays in projects or projects being stretched out due to the California budget situation and some of the pressure on state and local budgets.

I think that we're just seeing it shifting to the right and that we really haven't seen projects canceled in the state and local markets and so it just really is shifted to the right. I think we see -- we don't see any further decline and we see the improvement as we go into later in the year and into next year. So it really is just a push to the right for the state and local markets -- state and local market.

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

Okay, and the if I can ask another question about the guidance, obviously you gave Q3 guidance there and there's an implicit Q4 guidance left over after we do that. It seems as though unless there' a relatively steep ramp in revenue or profit margins during the fourth quarter, we're kind of looking at the low end of the guidance range. So is that the case or is there something about maybe some of the recent contract wins that you'll tell us you'll see revenue grow sequentially in the fourth quarter by a decent amount or anything with the expense base that you can describe?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Yes, I think that you're right. There is obviously the implicit fourth quarter guidance once you give the third quarter. So we do think that there is going to be a revenue ramp up based on the existing contracts we have won. We also think that all the contracts we won over the second and third quarter will be fully ramped up and cranking away in the fourth quarter. So we certainly see that the fourth quarter growth number, based on the existing wins we have, are going to be higher than those in the third quarter.

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

Okay, and then lastly you kind of suggested beyond the contracts you've won already that there's some more that you're waiting on announcing. Can you comment at all just size wise? Re they significant contracts, even if you can't say what they are?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Yes, I think that some of the contracts that are likely to be significant, the energy efficiency ones especially are significant, so we certainly think that they are all going to be fairly substantial contracts which are going to help us both in the second half of the year, as well as in 2010. And the only reason we are -- we have not announced them yet is because we have a certain process for seeking approvals from the client for those contracts. So as and when we get approvals, we will start announcing them, so we believe they will be significant.

I think -- I have gotten complaints from some of the folks who follow us that we don't announce some of the smaller ones, but we have tended to bias ourselves towards the larger contracts, but we are starting to announce some of the smaller ones, too. So we do think they will be significant and you will see them in the next week or so.

John Wasson - *ICF International - EVP, COO*

I would just add, in terms of the pipeline too, I think we -- as we mentioned in the remarks in terms of the size of the opportunities we're seeing in the pipeline, I think there are opportunities in the pipeline that we would expect would be awarded late in the third quarter, early in the fourth quarter, that could be material to the Company as we go into the fourth quarter and enter early next year. So there are also additional pipeline opportunities that I think would help us as we get later into the year.

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

Okay, thank you.

Operator

And your next question comes from the line of Tim Quillin with Stephens, Incorporated. Please proceed.

Tim Quillin - *Stephens, Inc. - Analyst*

In terms f the gross margins, you talked about 40% going forward. It just looks like even if your Road Home contract had a higher than typical 20% gross margin that you're significantly above that level right now. So should we look for something a little bit above 40% for the rest of the year?

THOMSON REUTERS

Alan Stewart - *ICF International - CFO*

I would say in the second quarter we did have some fixed price contract pickups that did help a little bit typically, but we have run kind of around the 41%, 41.5%, 42%, occasionally above that on the core business gross revenue. And I think obviously I'm very comfortable with 40%, but I think there's definitely upside chance for us beyond that, particularly to the extent energy efficiency, commercial picks up. I think we do have an upside on that gross margin.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Yes, I would just emphasize, as Alan said, if the commercial contract, commercial business picks up, we will certainly see an expansion in that gross margin percentage.

Alan Stewart - *ICF International - CFO*

And the energy efficient contracts, I guess the two that have already been signed, are those -- would those be expected to ramp up here in the back half of '09 and contribute to some margin expansion?

John Wasson - *ICF International - EVP, COO*

Well, they'll certainly ramp up in the back half of 2009. I would expect them to ramp up within a number of weeks and certainly have an important impact in the latter half of the year and I would expect them to help on the gross margin front.

Tim Quillin - *Stephens, Inc. - Analyst*

Okay, and operating expenses, was there anything unusual in the 2Q numbers, or can you come down from that level in 3Q and 4Q and do you still expect to get to around 9.5% EBITDA margin in 2010? Thank you.

Alan Stewart - *ICF International - CFO*

I would say on the indirect expense side, for ICF, core indirects, excluding Macro and excluding FAS 123 cost, we really increased Q1 to Q2 by about $1.3 million, $1.26 million. Again, we had some integration costs, we had some additional bid and proposal marketing costs, part of the joint efforts with Macro.

I think we see a likelihood of dropping let's say $3.5 million to $4 million in the fourth quarter through a combination of indirect costs, through a combination of increased utilization, contribution margin from ICS legacy practices and just squeezing down on some consulting and other costs in the current environment. So we see a likely drop of ICF indirect costs. However, Macro was probably roughly the same and I would say FAS 123 costs are going to be likely the same in the third quarter as the second quarter.

Tim Quillin - *Stephens, Inc. - Analyst*

And still expect to get to 9.5% EBITDA margin in 2010.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

You're asking us to make a commitment on 2010 in the middle of 2009. We are always striving to increase and expand our EBITDA. We will have a better sense as the year ends.

Tim Quillin - *Stephens, Inc. - Analyst*

Okay, thank you.

Operator

And your next question comes from the line of Tobey Sommer with SunTrust Robinson Humphrey. Please proceed.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you. In your discussion of pipeline comparisons firsts quarter and second quarter, I was wondering if the extent to which that is kind of the core business for some of those green shoots you described about stimulus may be helping to increase those different contract levels.

Alan Stewart - *ICF International - CFO*

Yes, I think it's primarily the core business. There's probably a handful of opportunities around the stimulus dollars, but by and large the momentum in the pipeline I think is in the core business. And, particularly, again, identifying and finding the right kind of larger implementation opportunities that leverage the core ICF kind of advisory capability and now starting to also leverage the macro capabilities.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you, and then, Sudhakar, if I gathered from your prepared remarks correctly, generally you're saying that there is acceleration in the federal contracting and that obviously it looks like your July and August to date have been very good. Is that to say even including the relative slow pace of stimulus, you're still fairly pleased that things are kind of picking up for you?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Yes, absolutely. The only contract we announced which was stimulus was the broadband implementation contract for the Rural Utility Service. Otherwise, all the other wins were the normal core business wins. So we are quite pleased with the fact that the core business momentum has picked up.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

And then I just wanted to ask you one other question. In terms of the little slower pace of signing the energy efficiency implementation contracts, anything that you've learned from that process that will help facilitate the pace of singings of perhaps future contracts? Thanks.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

I think the only thing we've learned is that based n the four I think we have signed to date, the larger ones, it is a very complicated process because there are three parties involved. There is us involved, the utility involved and then the public service commission involved.

So because of that it always takes a long time, so I don't know that I have a solution to make these go quicker, but I certainly can tell you that they will take a long time, based on our experience, and the ones we have signed, because of the fact that they are complicated transactions, not so much between us and the utility, but because the utility needs to get all kinds of approval before they sign them from public entities which are not under the utility's control or our control.

So I think that -- I wish I could tell you that I have now learned and therefore I could get them signed quickly, but I doubt that that's going to be the case. It also will differ state to state and utility to utility, too, so it could be all over the case.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Okay, and one last kind of housekeeping question. I don't think I was able to jot down fast enough when you were going over the amortization, D&A and interest. Would you mind saying that again, please?

Alan Stewart - *ICF International - CFO*

Sure.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Yes, just give us a second.

Alan Stewart - *ICF International - CFO*

For the annual numbers?

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Yes, that'd be great. Thank you.

Alan Stewart - *ICF International - CFO*

What I said was regarding 2009 full year guidance, amortization from purchased intangibles should be $11.3 million of the calendar year and D&A for the full calendar year should be about $9.3 million. And interest expense, if you missed that, our view is that should be $5.5 million for the year.

Alan Stewart - *ICF International - CFO*

Perfect, thank you very much.

Operator

And your next question comes from the line of Sam Hoffman with Lincoln Square Capital. Please proceed.

Sam Hoffman - *Lincoln Square Capital - Analyst*

Hi. Can you help us out just in terms of how we should interpret the results on the quarter. Someone who takes an optimistic view might say after all you guys had 41% growth, 10% sequential growth organically, at the time that you were transitioning from Road Home, consumed with integrating the Macro acquisition and also had a very difficult comparable from 23.5% organic in the second quarter of '08.

But the pessimist might say that organic was only 9%. The economy is severely impact the business, more than expected, and there's been a delay in the available mandates and possible even at worst poor execution relative to the past. And so I guess my question is how should we interpret the results in this quarter?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

I would certainly take the former view. No, just to elaborate, you could -- I think we have good reason. We think we have given you some good reasons as to why things were slightly slower in the second quarter from an organic growth perspective, and I think over the last few weeks they certainly have -- we have certainly seen an acceleration of wins in our core business, which should give some comfort to those who are following us that there is likely to be revenues accruing from these wins in the second half of the year.

Since we've been a public company, we've not been known to tout or numbers or say anything which is very aggressive. So I would certainly be on the former scenario you noted. I would also note that we are -- our execution, no one has called into question our execution. We've won some of the grants management work, especially on the [error] front, as well as some of the other grants management work at different places at NIH and other places over the last year or two, because of the fact that we have very strong qualifications in that arena and we have done some of the largest grants [plans] and contracts now in the history of the nation.

So I think that if there were issues with that, we wouldn't have won at least three contracts on grants management systems, which we have since, and obviously, based on past performance, that being a major consideration, that would not have worked if we didn't have good past performance. So I wouldn't think that that is an issue, but I'm certainly -- as I said, I'm pretty optimistic about the future and I've not necessarily been too aggressive in my forecast, at least based on the track record we have in the past three years.

Sam Hoffman - *Lincoln Square Capital - Analyst*

Okay, so basically what you would have us look at is that guidance essentially maintained at $1.30 to $1.35 of earnings, it may not have been the best quarter from a signing up new business standpoint, but it doesn't really matter because earnings are the same and then we could look forward to 15-plus organic growth starting next year?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

I don't know that I can make any predictions about next year. We will give you next year guidance when we give you guidance. At the moment, we're giving you guidance for the balance part of the year and we're optimistic about the future, and hopefully you will continue to follow us and think well about us, and hopefully you'll be on the call in November and we'll tell you what -- or perhaps later we'll tell you what we think about 2010.

Sam Hoffman - *Lincoln Square Capital - Analyst*

Terrific, thank you.

Operator

And your next question comes from the line of Joseph Vafi with Jefferies. Please proceed.

Joseph Vafi - *Jefferies & Co. - Analyst*

Thanks, good afternoon, guys. How are you?

John Wasson - *ICF International - EVP, COO*

Good, Joe. Thank you.

Joseph Vafi - *Jefferies & Co. - Analyst*

Let's see here. Let's just kind of -- let me just kind of focus on book to bill a little bit and we kind of think about the future. And your model is maybe a little bit different than some of the other models, where we've got a lot of bigger, longer-term contracts. If we kind of look at the next few quarters, what kind of book to bill do you think that we need to see based on kind of your unique business model to kind of continue double-digit organic growth moving forward? Is it a book to bill that's in line with what an organic growth assumption would be? So do a 15% organic growth then we'd have to have a 1.15 book to bill, or are there other puts and takes to it?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

I think that, Joe, 1.15 would be a good number to take. I think that I would just remind you that some of the -- some of our business is commercial and some of that book to bill doesn't even -- it's booked and billed pretty much simultaneously. So when you compare our book to bill with some of the larger government IT shops which have no small contracts and only large ones, I think the 1.15 or 1.2 for 15% or 20% growth would work more consistently. We could potentially have 15% growth rate even with a lower than 1.15 book to bill because of the fact that the velocity of some of the contracts on the commercial and state and local arena could be more rapid through our books.

So I think that for purposes of analysis, I think taking a 1.15 number of 15% growth would be a good one.

John Wasson - *ICF International - EVP, COO*

I would just add that it's important -- obviously that number can vary quarter to quarter given that government awards can occur in a lumpy way. So I think if you take -- so quarter to quarter you'll see some variation, but I agree with Sudhakar, the long run, a 1.15 will certainly give folks comfort that we can sustain the growth.

Joseph Vafi - *Jefferies & Co. - Analyst*

Okay, that's helpful. And I was just throwing 1.15 out there. I mean, it's not that that's what I think we're looking for or anything. It was just for example purposes.

But next question, just kind of update on BG&E and how that's going in terms of that energy efficiency work you're doing over there?

THOMSON REUTERS

John Wasson - *ICF International - EVP, COO*

Yes, we've started that program and have several components of that program running. I think we've met all the initial deadlines on that program and I think we're executing quite successfully on that contract. I think we're quite pleased with the way that contract has started up and is progressing and I think the client is quite satisfied with our performance.

Joseph Vafi - *Jefferies & Co. - Analyst*

Okay, that's helpful And then let's see here. I know on that -- the Department of Ag, the rural broadband initiative, you said that that was going to be a little bit front end loaded. Is that a particular reason, the nature of the work they're doing, that makes that front end loaded revenue?

John Wasson - *ICF International - EVP, COO*

I think that under that program I think there's a real push to get the grants out as quickly as possible, and so I think there's a real focus on the first year to 18 months to getting the funds out to get the broadband technology investments going. And so I think we're going to have a real push here in the next year to 18 months to do that. So that's going to drive I think the front end loaded nature of that work.

Joseph Vafi - *Jefferies & Co. - Analyst*

Okay, that's helpful. And then on Macro, is there -- I mean, it hasn't been that long yet since the business has been added to ICF. Is there a timeline we should be looking for to see maybe some of the first maybe combined wins that might give us more insight into accelerating the growth at Macro in 2010?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Yes, as I said that we certainly are bidding on a lot of work. To some extent, given that it's, as you know, a 12 to 18-month cycle, it takes that much time for things to -- in the federal arena to cook and to finally come out the other end. So I think that I would suggest towards the end of the first quarter is what you should be anticipating. There could be some smaller ones which might pop before that, but the end of the first quarter of next year would be the ones where I would start looking for something happening.

Alan Stewart - *ICF International - CFO*

And I think it's worth mentioning that they reported $36.6 million of revenue for the second quarter ending June 30th. And if we look at the first quarter of revenue that we include in our 8-K filed in May after the acquisition, they did $35.4 million in the first quarter, before we bought them. We bought them at the end of the quarter, so they're really up 3.2% just on a quarter-over-quarter basis in that one quarter.

Joseph Vafi - *Jefferies & Co. - Analyst*

Okay, that's helpful. And then finally, Alan, I know that this time of year is probably better utilization rates for your -- since we now kind of have Road Home out of the mix a little bit in terms of gross margins and stuff, should we be kind of looking at seasonality in the gross margin line with maybe more billing days in certain quarters and maybe less or more variation. Should we looking at some seasonality in the gross margin line by quarter moving forward?

Alan Stewart - *ICF International - CFO*

I mean, typically, third quarter is our strongest. Fourth quarter is usually a little lighter because of vacation holidays, but I think the new wins and depending on how fast they ramp up. So this could be a case where the fourth quarter is actually stronger than the third, which would be unusual from our historical seasonal patterns.

Joseph Vafi - *Jefferies & Co. - Analyst*

All right. Very good. Thanks, guys.

Operator

And your next question comes from the line of [Matthew Cruz] with Noble Financial. Please proceed.

Matthew Cruz - *Noble Financial - Analyst*

Yes, thank you. Just wanted to talk just briefly about some other opportunities that might not have talked about before, specifically [SmartPower]. I think there has been a push in the foreign policy. So if I could get your opinion on the opportunities there, maybe a potential size of a market and if you see what kind of competition out there versus your traditional competition base.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

I'm sorry, we didn't follow. Smart what?

Matthew Cruz - *Noble Financial - Analyst*

SmartPower, or infrastructure, foreign policy, rebuilding countries?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Oh. We don't do much -- we do a lot of health-related survey work for the State Department through Macro, but we don't do that much work for -- and we do IT work for the State Department at headquarters. We don't do that much work on AID work or any other initiatives such as that, so we are not as familiar with it as we (inaudible) unless John or someone can answer.

John Wasson - *ICF International - EVP, COO*

No, I don't think we've really focused on opportunities on international power issues. I would say that domestically we are looking at opportunities under the stimulus programs at DOE to work in the enemy area around smart grids, smart transition grids. We are looking at also opportunities at the distribution levels around smart metering. And so we are seeing opportunities around DOE to participate around transmission and distribution technology issues. But we really haven't seen those, didn't focus on those kind of opportunities internationally.

Matthew Cruz - *Noble Financial - Analyst*

Okay, great. Thanks for that. One other question, is there a rough estimate on the total combined value of your Head Start work? I know you have multiple contracts in the different states, as well as what you just announced in the recompetes. Is there kind of a rough ballpark on the annual run rate on that related work?

Alan Stewart - *ICF International - CFO*

I think that really if you look at the two press releases of what we won with the states last fall, I'd have to go from memory on the total value and what we just won. They are all about five-year contracts, and I think you can do the math from there, and that's probably a reasonable -- they tend to be pretty even contracts, rather than being front-end loaded.

Matthew Cruz - *Noble Financial - Analyst*

Okay, I appreciate it.

John Wasson - *ICF International - EVP, COO*

My guess would be those two contracts added to somewhere between $80 million and $100 million (inaudible) divide by five, so $15 million to $20 million a year.

Matthew Cruz - *Noble Financial - Analyst*

Great, thank you very much.

Operator

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

Bill Loomis - *Stifel Nicolaus - Analyst*

Hi, thanks. Let's see, just looking at the guidance in the quarter and rehashing that, for the guidance of the next two quarters, I should say, Alan, if I just take those assumptions you've talked about, I get in the guidance range, roughly operating margins in the third quarter about the same as they were in the second quarter. And then showing at least 50-plus basis points sequential improvement in the fourth quarter.

Can you just -- where is that coming from? Is that more of a cost-cutting situation there, or revenue growth?

Alan Stewart - *ICF International - CFO*

I think it's a combination and John could add. I think a combination of ramp up of some of these new wins, as well as the full impact of adjustments in our infrastructure costs and the wind-down of the Road Home contract.

John Wasson - *ICF International - EVP, COO*

Yes, I would just say that it's certainly driven by an increasing utilization as we crank up these new contracts. We get the energy efficiency contracts going, we crank up the new federal contracts we've won and I think we expect to see an improvement in the commercial aviation business as we get into the fourth quarter, given the recent sales win, what we're seeing in the pipeline there.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay, and then the organic revenue growth acceleration in the third, and then again in the fourth quarter, is that predominantly, at least in the third quarter, let's say, based on things you have in hand that you're staffing up today?

John Wasson - *ICF International - EVP, COO*

Yes, it's things we have in hand and we have very clear visibility to.

Bill Loomis - *Stifel Nicolaus - Analyst*

And then just going to the state and local and then the commercial, I guess first on the commercial, you mentioned a couple of new wins there. I haven't heard that in a while. Is this the first sign of life, if you will, in the last year on that unit?

John Wasson - *ICF International - EVP, COO*

Well, it's an early sign of life. Yes, I would say it's a good sign of life, it's an early sign of life. We haven't won contracts on this scale in the commercial aviation business recently, so I think it's an indication to us that we're starting to see an improvement. I would also say that we're seeing more -- in addition to wining these two contracts, I think we're seeing more pipeline opportunities, we're seeing more activity in the commercial and aviation area. And so we're feeling more optimistic there.

Bill Loomis - *Stifel Nicolaus - Analyst*

And what area is that? Is that leasing side?

John Wasson - *ICF International - EVP, COO*

So we're seeing it in the financial and technical services side, so that's the leasing side of the business. We're seeing more opportunity there, and actually in the last couple of months that piece of the business has actually performed well for us. I think in the last three or four weeks, in the very recent past, we've started to see more opportunity and improvement in the management consulting piece and in the safety business. And so I think those are two very positive developments. We're not out of the woods, but we're seeing positive signs there in those parts of the business.

Bill Loomis - *Stifel Nicolaus - Analyst*

Good, and then looking at the state and local. What was state and local for the quarter as a percent of revenue without the Home revenues in the quarter?

John Wasson - *ICF International - EVP, COO*

Do we have that.

Alan Stewart - *ICF International - CFO*

It was 12%.

John Wasson - *ICF International - EVP, COO*

It was 12%.

Bill Loomis - *Stifel Nicolaus - Analyst*

And how much -- you mentioned that some of these projects look like they're getting back on track. Why would you think that, based on the fiscal situation obviously is not going away for quite a while in the States? What's causing you to think that?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

I think some of these contracts basically are affected -- as we have told you before, some of these contracts are not necessarily funded by the general fund of some of these states, especially in California, but the impact of the state's budgetary and fiscal situation on the number -- on the ability of the employees to administer the work is affected, because there are three days of furloughs, for example, because of the fact that there was no budget deal.

So I think that to the extent that that is behind us and that therefore they can work a full month or a full work week, they can process the paper and manage the contract so that we can get things done. To some extent, some of the stuff has moved to the right because of the fact that people are just not in the office because of the fact that there wasn't a deal done. So I think that that is going to get -- why we are guessing that things are back on track.

John Wasson - *ICF International - EVP, COO*

I just want to add, I think there's of key California agencies that we work with, Caltrans, California Energy Commission. I think we've had some indications in the last month that things that had been slowed down or put on hold are going to resume. So, again, we're seeing some very early signs.

I wouldn't say it's a definitive indication that everything's taken care of, but we've seen signs of improvement with some of the key clients out there.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay, that sounds good. And then on energy efficiency, as far as a pipeline, looking forward beyond what you've already had, how do you see that right now?

John Wasson - *ICF International - EVP, COO*

I think we're still quite bullish on the pipeline for energy efficiency opportunities and I think we have quite a few large, significant implementation opportunities that we expect to be awarded later in the fourth quarter or early next year. We -- I think we see a lot of opportunity there across many states and with many utilities in the country. So I think we still continue to see very positive trends there.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay, thanks a lot.

Operator

And your next question comes from the line of Eric Olbeter with Pacific Crest. Please proceed.

Eric Olbeter - *Pacific Crest Securities - Analyst*

Yes, thanks for taking my question. Actually, Bill just stole my last one so thank you very much.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Sure.

Operator

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

Eric Prouty - *Canaccord Adams - Analyst*

Great. Thanks, guys. First, on the stimulus, can you just -- it sounds like you're just starting to see the money. If you could just categorize or give a little more detail on what's tracking from the stimulus standpoint. Is the money simply shifting out, as I think you originally expected, or is the money just being diverted to -- or lost through the cracks and projects which you guys won't benefit from?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

I think that if you recall my commentary at the beginning of the year, we always thought that the stimulus money will take longer to be disbursed than generally people thought, primarily because of the emphasis on the -- both managing the stimulus work on transparency and accountability, so there is really no reason why someone in the federal government would put the money out without making sure that every T is crossed and every I is dotted. And our experience has been that in a changing administration, especially, you have to fill up all the slots, make sure that you have everything in order before you hand the money out.

So I think that the money, we won the first contract. I don't know that we will see some revenue this year, but really it will take until the end of the year to get all this work out. And that's been I think what we've said consistently. So I think the anticipation of the stimulus, given the word itself, was that it would come very quickly, but I do think that it is starting off and it will continue all the rest of the year and then really will start making a significant -- having a significant impact on the revenues sometime in 2010.

Eric Prouty Great, and then one other question. If we look at some of the climate change debates going on down in Washington, the Waxman bill, et cetera, any way of categorizing if a cap and trade regime is passed, how that could impact your business, whether it be government business, corporate business, et cetera? Any way of giving a little more detail on how you would plan on taking advantage of that type of regime being passed?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

I think it would have a very significant impact on our business, because basically the move from voluntary market to a compliance market, and when everybody has to comply then you have to do lots of analysis on how to comply. And I think regulation always drives our business, so I think that it will have a very significant impact if we can get legislation passed, either Waxman-Markey, some derivative or some alternative, as long as there is legislation, even if it is 2015 or 2016 when it takes real effect.

That will just give us more time to do a lot more analysis and therefore it will really have a significant impact on our business. John?

John Wasson - *ICF International - EVP, COO*

Yes, I would just add I think that on the federal side, obviously, we obviously have a variety of prime contracts at the environment protection agency that already cover the climate issue. I think that once the regulatory environment, whether it's cap and trade or some other form, becomes clear, will do quite a bit of economic technical policy analysis, our intellectual property will be used.

So there will be significant opportunities on the federal side, and then I think on the private side, just what Sudhakar said, I think between energy efficiency, the whole renewables set of issues and renewable technology, we'll see significant opportunity there.

Eric Prouty - *Canaccord Adams - Analyst*

Great, and then, guys, have you actually seen any of that business occurring yet, or most of the folks you're talking to waiting to see how the regs in the bill play out?

John Wasson - *ICF International - EVP, COO*

I mean, we see -- we're obviously doing some economic, financial analysis, regulatory work now, both on the federal and private side, but I would expect it to ramp up significantly once there's clarity on the climate issue. Obviously, we are doing energy efficiency work. We are supporting some specific renewable-related projects, wind, solar, but I would expect once the regulatory environment becomes clear, you'd see a step up in that in a significant way.

Eric Prouty - *Canaccord Adams - Analyst*

Great, thanks a lot.

Operator

(Operator Instructions). And your next question comes from the line of Tobey Sommer. Please proceed, sir.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you. I just wanted to ask what the competitive environment is like in your contract bidding process, because seemingly your footprint and revenue mix is with agencies that a lot of other public companies would like to have. So could you comment on that?

Sudhakar Kesavan - *ICF International - Chairman, CEO*

The competitive environment is -- there's a lot of competition. I think that we've been in these areas for a long time, so at the present time I think we are competitively well positioned and therefore the competition, even if it's from larger firms, is not quite the quality it should be, because these issues have not been front and center for some of them, but they're trying to get into these areas.

So it always pays to be paranoid, so we're always paranoid and we're always looking to see how these guys are trying to position themselves. But at the moment it's quite competitive. We think our competition is solid, but our win rates are holding, even for the larger contracts, which I think does speak to the fact that we have strong domain knowledge and have strong relationships with some of these clients. But it never pays to be complacent, so we are looking around to see who else is, and every day there's some new guy who wants to compete with us. And so -- but I think at the moment we are well positioned.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

And then just two other questions. Based on the contracts that you've signed and I guess are going to be announcing additional ones here in the next week or so, based on that, would you expect the funded backlog to increase in third quarter? So I'm not asking you to comment o anything out there in the future, just kind of what you already know about? And then I was wondering if you could give us your thoughts on insourcing and what, if anything, you're feeling in that regard?

John Wasson - *ICF International - EVP, COO*

Well, I think we certainly expect the funded backlog to increase in the third quarter, given the recent contract wins. That should certainly occur. I would say on the insourcing side, I would say the Defense and Homeland Security portion of our business is about 9% of the total business, so a small portion. We've seen some impacts, but I think we've had maybe 15 positions be insourced in the defense area, but it's not really having any material impact because of the size of the business.

And so I don't think we -- it is out there, but I don't think we foresee a material impact on us at the present time.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you very much.

Operator

At this time there are no further questions in queue. I would like to turn the call back over to management for closing remarks.

Sudhakar Kesavan - *ICF International - Chairman, CEO*

Thank you very much for jointing us this evening. We look forward to talking to you again sometime in the end of the third quarter, sometime in November. Thank you.

Operator

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