PLAINTIFF'S EXHIBIT
KBN-171

ICF INTERNATIONAL, INC.

1992 Annual Report

FINANCIAL HIGHLIGHTS[1]

(In thousands, except per share data)

	1992	1991	1990	1989[2]	1988
Gross revenue	**$710,873**	$624,976	$503,904	$297,866	$82,184
Service revenue[3]	**379,826**	363,318	278,255	174,328	65,795
Operating income (loss)	**(43,963)**	33,287	22,563	13,845	4,018
Net income (loss)[4]	**(40,516)**	14,291	8,794	6,524	1,974
Net income (loss) per common share					
Primary	**(2.25)**	0.71	0.57	0.46	0.15
Fully diluted	**(2.25)**	0.68	0.57	0.45	0.15
Weighted average number of common shares outstanding, assuming full dilution	**19,085**	20,308	15,527	14,389	13,252
Total assets	**318,947**	357,457	237,057	140,751	48,030
Working capital	**66,065**	74,754	43,430	27,253	870
Long-term liabilities	**85,675**	109,820	53,019	40,440	2,801
Redeemable preferred stock	**45,161**	26,498	3,997	3,997	—
Shareholders' equity	**51,151**	88,839	58,503	19,595	7,352

(1) Gross revenue and service revenue for the fiscal year ended February 29, 1992, exclude businesses discontinued by the Company in fiscal 1992; the financial data for fiscal years 1988 through 1991 include results for the entire Company. In addition, in fiscal 1992 the Company adopted Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(2) Includes the effect from June 1988 of the acquisition of ICF Kaiser Engineers.

(3) Service revenue is calculated by deducting the costs of subcontracted services and reimbursable direct costs from the gross revenue and adding the Company's share of the income of joint ventures and affiliated companies.

(4) Fiscal year 1992 reflects an after-tax charge of $52.4 million associated with the disposal and restructuring of certain businesses.

Throughout the past fiscal year, we reported to you on the actions we have taken to focus ICF's operations on its environmental, industrial, infrastructure, and consulting businesses. Part of this effort involved a decision to discontinue 14 businesses outside of our core operations. Although discontinuing these businesses had a significant impact on the company's financial performance, our actions enhanced ICF's immediate and long-term competitiveness. As we review fiscal 1992, it is important to grasp what these actions mean for ICF this year and beyond.

Restructuring for Strength

One of the keys to ICF's success in the environmental market has been our strategy to integrate through the markets we serve to gain a higher percentage of each dollar spent on environmental projects. Put simply, ICF first offered environmental consulting services, and then added environmental health, science, engineering, and construction management capabilities. Ten years ago, ICF could compete for about five cents of every dollar spent on environmental projects; now, we contend for 25 cents or more per dollar.

We sought to repeat this successful strategy in other areas where ICF had consulted for many years, namely, in health care, information systems, and certain niche energy markets. For reasons that include poor market conditions, limited management resources, and non-compatible management systems, our efforts failed. We elected to discontinue these operations rather than allow them to drain ICF's resources; we also expedited our two-year schedule to dispose of these businesses so that management would be able to focus on our core operations. This decision resulted in a significant restructuring charge of $52.4 million (after tax).

Although we have disposed of a number of companies, ICF retains its original consulting practices in the fields of environment, health care, energy, information technology, housing, transportation, and contract claims resolution.

As we write this letter, we have disposed of 12 of the 14 businesses we discontinued, so the restructuring effort we began in the first quarter of fiscal 1992 is now almost complete. With the restructuring behind us, we would like to comment on where ICF is today and where we plan to be in the future.

Through its subsidiaries, ICF is one of the nation's leading consulting, engineering, and construction companies. We are a services company structured around the markets we serve—environment, health, industry, energy, and infrastructure—rather than the services we offer.

In fiscal 1992, ICF's operations generated $711 million in gross revenue (up 29 percent on a comparable basis from fiscal 1991) and $380 million in service revenue (up 17 percent on a comparable basis). Of service revenue, which excludes subcontracted amounts and materials, 61 percent was from environmental work, 17 percent from industrial work, 15 percent from infrastructure work, and 7 percent from other consulting services, primarily in energy and health care.

The company ended fiscal 1992 with a balance sheet that reflects increased equity from the sale of $20 million in preferred stock to IFINT-USA Inc., and less debt after repaying $30 million on our revolving credit facility, resulting in a debt-equity ratio of less than 1-to-1. In addition, ICF had a backlog of $1.2 billion at year-end. This exceeds last year's $1.3 billion after excluding the $80 million in backlog from discontinued operations and the regular annual $100 million reduction due to one large multiyear government contract.

The Changing Business Mix

Throughout its 23-year history, ICF has provided professional services to both public and private organizations. Over the past decade, ICF has focused on three federal agencies: the U.S. Environmental Protection Agency (EPA), and the U.S. Departments of Energy (DOE) and Defense (DOD).

The annual environmental budgets for these three agencies have grown rapidly to a current total of more than $13 billion; DOE and DOD together are expected to spend more than $200 billion over the next 25-30 years to restore the environmental integrity of military bases and weapons-related facilities worldwide. While the profit margins on cost-plus government contracts are not as high as on other types of work, federal environmental work—if managed correctly—provides a stable, long-term, and growing business base that yields attractive returns to equity.

Of course, we realize that the private sector, where environmental spending now equals or exceeds that of the federal government, also offers tremendous potential for revenue growth and profitability. In fact, EPA's efforts to enforce environmental cleanup have led to greater private-sector environmental expenditures. In the private sector, we continue to focus on large, multimillion-dollar cleanup efforts where ICF's size and broad spectrum of skills provide a competitive advantage.

Beyond ICF's environmental work, we are increasing our presence in those industrial projects where we can best exploit the unique skills and experiences found throughout ICF, and particularly in ICF Kaiser Engineers. These areas, including project development and design-build programs, offer an opportunity for increased profit potential. And, while we continue to focus on cost-plus work, we believe that, by taking appropriate development and fixed-price contracts, properly structuring the risk/reward profile, and effectively managing a portfolio of projects, these types of contracts can offer higher rewards with acceptable levels of risk.

Fluid Boundaries, Large Potential

Earlier in this letter, we indicated that 61 percent of ICF's service revenue came from environmental work. However, as environmental concerns are more heavily incorporated into all engineering and construction projects, it becomes even more critical to offer a seamless approach to solving environmental and non-environmental problems. Industrial companies are redesigning and relocating facilities to minimize waste liabilities; cities are improving mass transit systems to reduce car emissions to meet tougher clean air standards; and wastewater facilities are being put in place to reclaim harbors and water resources around the world.

Environmental awareness and stricter regulations are generating new work in all the markets ICF serves. Notable examples are ICF Kaiser Engineers' contracts to electrify a portion of the diesel bus system in Los Angeles and to construct a system that substitutes a cleaner fuel—pulverized coal in place of metallurgical coke—in steel production.

More than a decade ago, we began to position ICF to benefit from this trend toward merging traditional engineering skills with environmental considerations. That is why in 1988 we purchased Kaiser Engineers, one of the world's foremost

engineering and construction firms. By combining our front-end consulting and environmental health sciences capabilities with traditional engineering and construction management skills, ICF offers clients environmental services for the full life cycle of an industrial enterprise in one seamless approach. It is far more effective and economical for clients to deal with one source responsible for the coordination of the many tasks associated with large cleanup and construction projects.

Visible Projects are Market Magnets

Some of our most visible assignments, such as the Boston Harbor cleanup and our management of the cleanup response to the Oakland, California, fire disaster, make us more easily recognized when we compete for work in any of the markets we serve. Success breeds success, and clients want to work with companies they know have proven experience and can deliver on difficult, politically visible work.

When a client, public or private, has a challenging environmental problem, we want to be the supplier of choice. No other firm has our depth and breadth of knowledge of, or can provide a seamless array of skills across, environmental regulation, health science, energy, environmental engineering design, environmental technologies, siting, community relations, and construction. Turnkey environmental projects for Fortune 500 industrial companies offer prime business opportunities for the 1990s, and more and more of these firms see that ICF not only is one of the biggest, but the best provider of these services.

In the end, success in our business comes down to people. We are determined to continue our long record of hiring, challenging, and keeping the very best people; this record has taken us from a firm of less than 50 people to almost 4,800 over the last 15 years.

Although we cannot conclude this year's annual report on the same note of pride as we did last year, we do have a sense of major accomplishment for identifying our problems, acting decisively, and solving them quickly.

The difficult issues of fiscal 1992 are now behind us. We have a strong backlog. Our markets and the demand for our services are expanding rapidly. We have a diverse base of customers who pay fair prices for what we offer, and we believe that nobody does the job as completely or as competently as we do. We look forward to the challenges ahead and the opportunity once again to let our results speak for themselves.



James O. Edwards
Chairman and Chief Executive Officer

William C. Stitt
President and Chief Operating Officer

Results of Operations

For the year ended February 29, 1992, ICF's net loss was $40.5 million, or $2.25 per share, compared to net income of $14.3 million, or $0.68 per share, for the year ended February 28, 1991. The loss in fiscal 1992 reflects a $73.4 million provision for restructuring and disposal of businesses ($52.4 million after tax). See "Discontinued Businesses" for further discussion of the results of these operations.

ICF's core businesses in the environmental, health, industrial, and infrastructure markets contributed $29.4 million of operating income in the year ended February 29, 1992. Net income per common share contributed by core businesses was $0.50 per share. As discussed in Note C to the consolidated financial statements, first-quarter losses in ICF's subsidiaries providing pharmaceutical industry research and health communications services, geophysical/seismic data processing services, and systems integration services prompted a strategic review of all operations of the Company, which resulted in a decision to discontinue the operations of these "non-core" businesses. The effects on net income of the provision for restructuring and disposal of businesses, and related effects on interest expense and the tax provision for the year ended February 29, 1992, are as follows (in thousands, except per share amounts).

	Core Businesses	Discontinued Businesses	Total
Operating income (loss), including provision for restructuring and disposal of businesses	$29,391	$(73,354)	$(43,963)
Interest expense, net	8,847	1,500	10,347
Pretax income (loss)	20,544	(74,854)	(54,310)
Income tax provision (benefit)	8,628	(22,422)	(13,794)
Net income (loss)	$11,916	$(52,432)	$(40,516)
Net income (loss) available to common shareholders	$ 9,713	$(52,432)	$(42,719)
Net income (loss) per common share	$ 0.50	$ (2.75)	$ (2.25)

Income from core businesses was positively affected by the resolution of a pre-acquisition contingency (see "Fourth-Quarter Results").

The effective tax rate for the core businesses does not reflect any tax benefits associated with the losses of the discontinued businesses.

Gross Revenue

Gross revenue represents services provided to customers with whom the Company has a primary contractual relationship. Included in gross revenue are costs of certain services subcontracted to third parties as well as certain other reimbursable direct project costs, such as materials procured by the Company on behalf of its customers.

	1992	Increase	1991	Increase	1990
	(Dollars in thousands)				
Gross revenue	$710,873	13.7%	$624,976	24.0%	$503,904
Revenues of discontinued businesses included in prior year results			83,442		37,177
Gross revenue—excluding discontinued businesses	$710,873	31.3%	$541,534	16.0%	$466,727

Gross revenue for the core businesses (excluding discontinued businesses) increased to $711 million in the year ended February 29, 1992, from $625 million (for the entire company) for the year ended February 28, 1991. Two significant factors affect the comparability of ICF's gross revenue with prior years. The net amount of revenue and operating expenses of the discontinued businesses for the year ended February 29, 1992 is reflected as a component of the provision for restructuring and disposal of businesses. For the year ended February 28, 1991, discontinued businesses represented approximately $83 million of the $625 million gross revenue during the year.

In addition, revenue increased $35 million in fiscal year 1992 over fiscal year 1991 due to the acquisition in the third quarter of fiscal year 1991 of the 50% interest that ICF did not already own of Kaiser Engineers Australia Pty. Ltd. ("KEA"). The initial 50% interest in KEA was accounted for under the equity method through the second quarter of fiscal year 1991.

Growth in ICF's revenue reflects increasing demand for ICF's services in its core markets. Companies in the core businesses contributing to this growth include ICF Kaiser Engineers ($116 million increase), Kaiser Engineers Hanford Company ($29 million increase) and Cygna Group ($5 million increase).

Kaiser Engineers Hanford Company ("KEH"), which provides architectural, engineering, and construction management services for the U.S. Department of Energy ("DOE") at the Hanford Nuclear Reservation, accounted for $132 million of ICF's gross revenue in fiscal year 1992. KEH, which accounts for less than 10 percent of ICF's operating income from core operations, is currently involved in a re-competition effort for a renewal contract. If KEH is awarded a renewal contract, the contract would effectively extend the current contract, which expires in September 1992, until September 1995 with two one-year renewal options. Even if KEH is not awarded the renewal contract, the impact on ICF's operating income in fiscal year 1993 would be minimal.

Gross revenue derived from work performed for U.S. Government agencies increased by $47.7 million in 1992. Most of the increase was from work performed for DOE, which increased by $67.2 million. This increase was offset by a net decrease of $19.6 million in revenues from other U.S. Government agencies.

Comparison of Fiscal Year 1991 to Fiscal Year 1990. Gross revenue increased $121 million over fiscal year 1990 to $625 million in fiscal year 1991. Of this increase, $59 million came from companies acquired during fiscal year 1991. The remaining increase came primarily from a $24.9 million increase in gross revenue under the Company's contract with DOE to provide services at the Hanford Nuclear Reservation and from several other environmental and energy-related contracts.

Acquisition of the remaining 50% interest in KEA contributed $44.2 million to the increase in gross revenue in fiscal year 1991 over fiscal year 1990. Other acquisitions also contributed to the increase in gross revenue. After adjusting the fiscal year 1991 revenue reported by KEA to give effect for the 50% interest already owned by the Company, one-third of ICF'S 24% growth in gross revenue during fiscal year 1991 was attributable to acquisitions.

Service Revenue

Service revenue is derived by deducting the costs of subcontracted services and direct project costs from gross revenue and adding the Company's share of the income of joint ventures and affiliated companies. ICF believes it is appropriate to analyze operating margins and other ratios in relation to service revenue because such revenue and ratios reflect the work directly performed by the Company and because the percentage relationship between gross revenue and operating expenses can vary from period to period.

	1992	Increase	1991	Increase	1990
			(Dollars in thousands)		
Service revenue	$379,826	4.5%	$363,318	30.6%	$278,255
Service revenue—excluding discontinued businesses	$379,826	19.9%	$316,778	23.8%	$255,971

Service revenue increased $63.0 million in fiscal year 1992 over core businesses in fiscal year 1991. KEH's contract accounted for $27.3 million of this increase, while the remaining growth is attributable to internal work at other DOE facilities and private sector contracts.

In addition, equity in income of joint ventures and affiliated companies, which is a component of service revenue, decreased to $6.0 million in fiscal year 1992 from $8.2 million in fiscal year 1991, primarily due to a $3.3 million decrease in income from ICF's investment in American Transit Consultants, Inc. ("ATC"), offset by a $1.0 million increase in income from the Company's investment in Acer Group Limited ("Acer"). ATC is a joint venture which provides services for the development of the Taipei rapid transit system in Taiwan. The decrease in ATC earnings is due to a negotiated increase in the cost of services provided to the joint venture by ICF companies and other consultants. The decrease in ATC joint venture earnings is offset by revenue earned for ICF services provided to ATC. The increase in Acer earnings is due to the investment in Acer being acquired in the third quarter of fiscal year 1991. Service revenue for the year ended February 28, 1991, only included Acer earnings for the last quarter of fiscal year 1991.

Service revenue as a percentage of gross revenue for the year ended February 29, 1992, decreased to 53.4% from 58.1% for the year ended February 28, 1991. The decrease was due to several construction projects that carry a higher percentage of subcontracted work. The Company expects that the proportion of such subcontracted costs to gross revenue may increase in the future as the Company pursues more environmental work with significant construction components.

In fiscal year 1991, $17.6 million of the increase in service revenues over those of fiscal year 1990 was due to the effect of acquiring the remaining interest in KEA, the results of several acquisitions being included for a full year, and growth in the Company's DOE business.

Operating Expenses and Margins

	1992	Increase (Decrease)	1991	Increase	1990
	(Continuing businesses, dollars in thousands)				
Direct cost of services and overhead	$291,237	25.4%	$232,311	21.9%	$190,601
Percentage of service revenue	76.7%		73.4%		74.5%
Administrative and general expenses	$ 56,339	41.7%	$ 39,766	7.8%	$ 36,874
Percentage of service revenue	14.8%		12.6%		14.4%
Depreciation and amortization expense	$ 9,159	29.8%	$ 7,054	32.4%	$ 5,329
Percentage of service revenue	2.4%		2.2%		2.1%
Portion relating to goodwill and acquired intangibles	$ 2,896	(1.9%)	$ 2,953	34.4%	$ 2,197
Operating income	$ 29,391	(21.6%)	$ 37,647	61.8%	$ 23,167
Percentage of service revenue	7.7%		11.8%		9.1%

As mentioned above, the Company believes that it is appropriate to analyze operating margins and other ratios in relation to service revenue because such revenue reflects the work directly performed by the Company. In addition, the revenue and operating expenses of the discontinued

businesses for fiscal year 1992 are reflected in the accompanying Statements of Operations as a component of the costs of restructuring and disposal of businesses. For comparative purposes, the figures presented above for fiscal years 1991 and 1990 reflect continuing businesses only. Total operating expenses of the discontinued businesses in fiscal years 1992, 1991, and 1990 were $52,497,000, $50,900,000, and $22,888,000, respectively. The resulting operating losses of the discontinued businesses in those years were $32,093,000, $4,360,000, and $604,000, respectively. The discontinued businesses' contribution to the Company's net income for the year ended February 28, 1991 was a net loss of $4,454,000.

Direct cost of services includes the cost to the Company of professional and administrative staff hours, including labor-related overhead costs that are directly chargeable to client projects. The percentage of these costs to service revenue were relatively consistent in fiscal years 1990 and 1992, but lower in 1991. The decrease in fiscal year 1991 resulted from the increase in revenue realized from the recognition of fees from contingency reductions and development fees on two large projects.

In the year ended February 29, 1992, the Company was involved in several significant fixed-price, design/build contracts in the energy, steel, environment, and related industries. These contracts accounted for $16.7 million of service revenue in fiscal year 1992 and $3.4 million of service revenue in fiscal year 1991. While the operating margins of these projects are expected at inception to be significantly higher than those in ICF's cost-plus and time-and-materials contracts, these projects carry inherent construction risks that require that management be prudent in its revenue recognition estimates in the earlier years of these long-term contracts, to provide for these risks and other unforeseen cost variances. Based upon the current stage of completion of these contracts as of February 29, 1992, and the scheduled progress for the coming year, the Company believes that the contingencies provided are adequate.

The percentage of service revenue represented by administrative and general expenses, most of which are indirectly chargeable to client projects, was 14.8% in fiscal year 1992, 12.6% in fiscal year 1991, and 14.4% in fiscal year 1990. The increase in fiscal year 1992 is primarily the result of increased business development costs, the costs of providing corporate administrative support for discontinued businesses (the service revenue of which is not included in consolidated service revenue), and administrative support required for the continuing businesses consistent with ICF's expanding revenue base. The increase in fiscal year 1991 resulted from administrative costs of companies acquired in 1991 (primarily KEA). The Company does not expect the percentage of service revenue represented by administrative and general expenses to increase in the coming year.

The increases in depreciation and amortization expense noted above are primarily a result of the acquisition of KEA in the third quarter of fiscal year 1991. The resulting increases in amortization of goodwill and intangibles were reflected for one-half of fiscal year 1991, and all of fiscal year 1992. At February 29, 1992, the Company had $62.5 million of goodwill and intangible assets that will be amortized over periods ranging from five to 40 years; therefore, the Company expects amortization to continue to be a significant expense in the future.

Fourth-Quarter Results

Service revenue in the fourth quarter reflected a decrease of $15.8 million compared to the third quarter. Service revenue in the third quarter was higher than service revenue in the first and second quarters due to the attainment of certain milestones on projects that result in the recognition of additional fees. The fourth-quarter service revenue was lower than prior quarters primarily as a result of: reductions in estimates

of recoverable overhead expenses that apply to certain cost-type contracts; the reduction of work on a major project in Australia; and temporary reductions in the level of effort on several large contracts with the U. S. Government.

Operating income of core businesses in the fourth quarter is summarized as follows (dollars in thousands):

Operating income, before unusual item	$1,538
Unusual item—resolution of pre-acquisition contingency	6,300
Operating income	7,838
Interest expense, net	1,955
Income before tax—core businesses	$5,883

Operating income for the fourth quarter, exclusive of the positive effect of the unusual item described in Note J to the accompanying financial statements, was adversely affected by several factors: a reduced estimate of the portion of recoverable overhead expenses that apply to cost-type contracts discussed above; one-time fees related to the Company's renegotiated credit facilities; and increased business development expenses for two significant multi-year contracts. In the absence of these significant factors, fourth-quarter operating income before the unusual item would have caused the operating income for the second half of the year to be consistent with the first half, as previously discussed in the Company's public disclosures.

Following is a summary of quarterly results of core businesses (dollars in thousands, except per share data):

	Fiscal 1992 Quarters			
	Fourth	Third	Second	First
Operating income	$7,838	$7,662	$6,724	$7,167
Interest expense, net	1,955	3,006	1,846	2,040
Pretax income	5,883	4,656	4,878	5,127
Income tax provision	2,470	1,956	2,049	2,153
Net income	$3,413	$2,700	$2,829	$2,974
Net income available to common shareholders	$2,749	$2,187	$2,316	$2,461
Net income per common share	$ 0.13	$ 0.12	$ 0.12	$ 0.13

Interest Expense

	1992	Decrease	1991	Increase	1990
	(Dollars in thousands)				
Interest income	$ 1,931		$ 1,995		$ 761
Interest expense	10,778		11,264		8,418
Net interest expense	$ 8,847	(4.6%)	$ 9,269	21.1%	$7,657
Percentage of service revenue	2.3%		2.6%		2.8%

Total interest expense increased in 1992 as a direct result of borrowings related to working capital needs, acquisitions since the second quarter of fiscal 1991, and ICF's United Kingdom credit facility used to finance ICF's investment in Acer (see "Liquidity and Capital Resources"). Interest expense increased in 1991 as a result of acquisitions and the increased working capital financing requirements of the Company. The Company's internal growth has resulted directly in increased contract receivables that have been largely financed by the Company's Credit Facility.

Discontinued Businesses

On July 15, 1991, the Board of Directors approved management's recommendation to discontinue certain non-core businesses. In the quarter ended May 31, 1991, ICF recorded a provision for restructuring and disposal of businesses of $42.7 million. The provision was necessary to reflect: management's decision to discontinue certain businesses outside of ICF's "core" businesses; operating losses of discontinued businesses through disposal; and one-time

restructuring charges related to closing and consolidating certain operations of continuing businesses. A $27.5 million addition to this provision was made in the third quarter. The addition reflected ICF's modification of the original restructuring plan to include: the disposition of an unprofitable consulting business; increased losses of discontinued business over the originally projected amounts; decreased sales proceeds; and additional costs of restructuring and consolidating the operations of core businesses, including costs of lease terminations, severance pay, and legal costs associated with the renegotiation of credit agreements and restructuring the Company's equity.

In the fourth quarter, this provision was further increased on a pre-tax basis by $3.2 million to $73.4 million to reflect more current estimates of operating losses and disposition proceeds. However, the estimated after-tax effect of the discontinued reserve decreased from $52.7 million at the end of the third quarter to $52.4 million. At February 29, 1992, 11 of the 14 discontinued businesses had been sold or otherwise disposed.

Income Tax Expense

	1992	1991	1990
	(Dollars in thousands)		
Income tax expense (benefit)	($13,794)	$9,727	$6,112
Effective tax (benefit) rate	(25.4%)	40.5%	41.0%

The $13.8 million tax benefit recorded for the year ended February 29, 1992 relates to the operating losses of discontinued businesses and the available benefits from the expected disposition of these businesses, net of $8.6 million of taxes applicable to the core businesses. The overall benefit rate of 25.4% differs from the statutory rate primarily due to differences between the tax and book basis of various assets of discontinued businesses. The 0.5% decrease in the effective income tax rate in fiscal year 1991 over fiscal year 1990 resulted from the favorable resolution of certain foreign and domestic tax issues which more than offset an increase in the effective rate caused by an increase in the amortization of goodwill.

In February 1992, the FASB issued Statement No. 109, *Accounting for Income Taxes*. ICF adopted Statement No. 109 in fiscal year 1992, effective March 1, 1991. The impact to ICF of adopting Statement No. 109 in 1992 was to increase the deferred tax benefit by $6.5 million. The impact of Statement No. 109 has been retroactively reflected in the results previously reported for the third quarter, reducing net loss available to common shareholders by $1.8 million, or $0.10 per common share. The remainder of the impact was attributable to the fourth quarter of fiscal year 1992.

Outlook

The performance of ICF's businesses in fiscal year 1993 will be affected by traditional factors: government spending on environment and infrastructure, private-sector spending on environmental clean-up, and industrial spending in ICF Kaiser Engineers' basic industries, including steel, aluminum and minerals. The first two of these factors appear strong, while industrial spending in the metals and minerals industries has been weak and is expected to improve only with the economic cycle. Domestic service revenues are expected to grow in fiscal year 1993; because of the wind-down of a large project in Australia, however, total service revenues are expected to be relatively flat. The level of ICF's backlog will depend, in large measure, on the results of the re-competition of the contract that KEH has with the DOE at the Hanford Nuclear Reservation. If KEH is successful, ICF's backlog will increase. Otherwise, ICF's backlog level is expected to remain stable. With the fiscal year 1992 restructuring effort behind it, the Company expects that the reduction of unrecoverable overhead expenses and the absence of non-recurring

costs experienced during fiscal year 1992 should result in improved operating margins. Furthermore, reduced interest rates and borrowing costs are expected to result in lower interest costs.

Liquidity and Capital Resources

The Company's operating activities generated $17.7 million in cash in fiscal year 1992 and used $15.7 million of cash in fiscal year 1991. The increase in the cash position was primarily a result of an increase of $13.9 million in contract advance payments in the engineering business plus $24.7 million of earnings before deferred taxes and non-cash charges and credits from core businesses. In addition, ICF's net working capital needs decreased by $0.2 million, primarily due to the reduction of accrued pension liabilities through the issuance of ICF common stock, and increased accounts payable, offset by increased accounts receivable. These items were further offset by $21.1 million of negative cash flow from discontinued businesses.

ICF uses bank financing to supplement its ability to meet ongoing working capital requirements. At February 29, 1992, ICF's level of working capital was substantially unchanged from February 28, 1991. Increases in accounts payable, accrued expenses, and deferred revenue were offset by increases in current deferred income taxes, which is a current asset, and accounts receivable. The increase in deferred revenue, which principally represents the excess of billings over fees earned and costs incurred on certain fixed-price contracts, reflects the increase in the amount of major engineering and construction work that is billed on a milestone basis. While most of the deferred revenue represents billings in excess of costs incurred to date, a portion will be taken into profit as work on the related projects progresses.

On May 14, 1991, ICF replaced its then-existing working capital facility and entered into an agreement with a consortium of banks (the "Banks") that provided for a Credit Facility which would terminate on May 14, 1994. Effective July 22, 1991, and August 29, 1991, ICF and the Banks entered into amendments that, among other things, modified certain financial covenants as of May 31, 1991, increased the rate of interest payable under the Credit Facility, and returned ICF to compliance with the terms of the Credit Facility. On January 13, 1992, ICF again amended its Credit Facility to accommodate the effects of the restructuring described in Note C to the consolidated financial statements. The January amendment provided for: the payment of interest on the Credit Facility on a quarterly basis at an initial rate of prime plus a margin of 1-1/2%, decreasing on February 29, 1992, and upon the achievement of certain levels of tangible net worth; the availability of LIBOR-based borrowings at a margin of 2-1/2%; a total revolving credit line of $140 million; an ESOP credit facility of $10 million; the granting of a security interest in the Company's and certain subsidiaries receivables and other general intangibles; and the pledge of the capital stock of certain subsidiaries of the Company. At February 29, 1992, ICF had $36.1 million of availability under the Credit Facility at an interest rate of prime plus a margin of 1-1/2%. The Credit Facility, as amended, expires on March 31, 1994.

As discussed in Note L to the consolidated financial statements, ICF reached an agreement with the holder of the Series 2A Senior Preferred Stock to sell to it for $20 million an additional 200 shares of preferred stock and related war-

rants (the "Series 2D Warrants") to purchase 2,680,952 shares of Class A Common Stock. The transaction was completed on January 13, 1992. The proceeds were used to reduce borrowings under the Credit Facility. In conjunction with this transaction, ICF also issued 250 shares of Series 2C Senior Preferred Stock in exchange for the 250 shares of Series 2A Senior Preferred Stock issued in fiscal year 1991. ICF also issued warrants for the purchase of 2,976,190 shares of Class B Common Stock (the "Series 2C Warrants") in exchange for the warrants issued with the Series 2A Preferred Stock. The exercise price of the Series 2C and 2D Warrants is $8.40.

Prior to fiscal year 1989, the Company reported revenue and expenses on the cash method for federal income tax reporting purposes. As a result of the acquisition of Kaiser Engineers Group, Inc., the Company was required to adopt the accrual method which caused the acceleration of the payment of income taxes due to the reversal of the cumulative deferral of taxable income permitted in prior years under the cash method. This reversal of prior year deferred taxes is being paid over a four-year period ending in fiscal year 1992. The accompanying consolidated financial statements reflect $2.4 million of taxes payable (primarily foreign), and $1 million of tax refunds receivable, related to fiscal year 1992. Taxes paid in fiscal year 1992 related to the current and prior years were $7.2 million.

Management believes that funds generated from continuing operations and borrowings under the Credit Facility will provide sufficient funding, both ongoing cash requirements and working capital needs, for the current level of operations.

As of February 29, 1992, ICF had disposed of all but three of the discontinued businesses. With the cash requirements of these businesses stabilized, ICF expects that the operating cash requirements of these businesses in the future will not be material.

Impact of New Accounting Standards

In December 1990, the FASB issued Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, which will be effective for the Company's fiscal year ending February 28, 1994. The Company currently recognizes the cost of certain benefit programs related to employees of an acquired company when paid. $1,418,000, $1,618,000 and $1,819,000 have been paid and recognized as an expense of the Company in fiscal years 1992, 1991, and 1990, respectively. The Company expects that the impact of implementing Statement No. 106 will not have a material adverse impact on the Company's financial position or results of operations.

Effects of Inflation

The majority of the Company's contracts are cost reimbursable and, therefore, the inflation rate in the United States, as well as in other countries in which the Company operates, generally has little impact on operating margins; however, as a professional services firm, the Company is more labor-intensive than an industrial firm. To attract and maintain the high-caliber, professional staff it needs, the Company must structure its compensation programs competitively. The wage-demand effects of inflation are felt almost immediately in the Company's costs.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
ICF International, Inc.

We have audited the accompanying consolidated balance sheets of ICF International, Inc. and Subsidiaries as of February 29, 1992 and February 28, 1991 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended February 29, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ICF International, Inc. and Subsidiaries as of February 29, 1992 and February 28, 1991 and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 29, 1992 in conformity with generally accepted accounting principles.

As discussed in Note J to the consolidated financial statements, the Company changed its method of accounting for income taxes for the year ended February 29, 1992.

Coopers & Lybrand

Washington, D.C.
April 30, 1992

ICF INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	February 29, 1992	February 28, 1991
ASSETS	*(In thousands)*	
Current Assets		
Cash and cash equivalents	$ 8,516	$ 9,385
Short-term investments	1,244	1,502
Contract receivables, net	152,416	171,086
Prepaid expenses and other current assets	19,851	25,081
Refundable income taxes	2,230	—
Deferred income taxes	14,542	—
Net current assets of businesses held for disposition	4,226	—
Total Current Assets	203,025	207,054
Fixed Assets		
Furniture, equipment and leasehold improvements	41,381	46,515
Less allowances for depreciation and amortization	17,730	17,456
	23,651	29,059
Other Assets		
Goodwill, net	54,225	80,029
Investments in and advances to affiliates	19,488	16,005
Deferred income taxes	—	2,728
Due from officers and employees	1,108	622
Other net assets of businesses held for disposition	644	—
Other	16,806	21,960
	92,271	121,344
	$318,947	$357,457
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other accrued expenses	$ 66,051	$ 57,795
Accrued salaries and employee benefits	24,501	27,416
Current portion of long-term debt	7,187	8,199
Income taxes payable	2,361	10,269
Deferred revenue	23,388	12,297
Other liabilities	13,472	16,324
Total Current Liabilities	136,960	132,300
Long-term Liabilities		
Long-term debt, less current portion	49,145	67,163
Subordinated debt	30,000	30,000
Other	6,530	12,657
	85,675	109,820
Commitments and Contingencies		
Redeemable Preferred Stock	45,161	26,498
Preferred Stock	6,900	6,900
Class A Common Stock, par value $.01 per share:		
Authorized—60,000,000 shares		
Issued and outstanding—9,925,811 and 9,212,305 shares at February 29, 1992 and February 28, 1991, respectively	99	92
Class B Common Stock, par value $.01 per share:		
Authorized—30,000,000 shares		
Issued and outstanding—8,344,841 and 9,286,588 shares at February 29, 1992 and February 28, 1991, respectively	83	93
Additional Paid-in Capital	64,382	55,358
Notes Receivable Related to Common Stock	(3,387)	(911)
Retained Earnings (Deficit)	(7,552)	35,380
Cumulative Translation Adjustment	(1,041)	(260)
ESOP Guaranteed Bank Loan	(8,333)	(7,813)
	$318,947	$357,457

See notes to consolidated financial statements.

ICF INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended		
	February 29, 1992	February 28, 1991	February 28, 1990
	(In thousands, except per share amounts)		
Revenue			
Gross revenue	$ 710,873	$ 624,976	$ 503,904
Subcontract and direct material costs	(337,056)	(269,846)	(230,631)
Equity in income of joint ventures and affiliated companies	6,009	8,188	4,982
Service revenue	379,826	363,318	278,255
Operating expenses			
Direct cost of services and overhead	291,237	269,020	212,243
Administrative and general expenses	56,339	49,573	37,145
Depreciation and amortization	9,159	11,438	6,304
Costs of restructuring and disposal of businesses	73,354	—	—
Unusual item—resolution of pre-acquisition contingency	(6,300)	—	—
Operating income (loss)	(43,963)	33,287	22,563
Other income (expense)			
Interest income	1,931	1,995	761
Interest expense—core businesses	(10,778)	(11,264)	(8,418)
Interest expense—discontinued businesses	(1,500)	—	—
Income (loss) before income taxes	(54,310)	24,018	14,906
Income tax provision (benefit)	(13,794)	9,727	6,112
Net income (loss)	(40,516)	14,291	8,794
Preferred stock dividends	2,203	857	—
Net income (loss) available for common shareholders	$ (42,719)	$ 13,434	$ 8,794
Net income (loss) per common share			
Primary	$ (2.25)	$ .71	$ .57
Fully diluted	$ (2.25)	$ .68	$ .57

See notes to consolidated financial statements.

ICF INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Year Ended		
	February 29, 1992	February 28, 1991	February 28, 1990
	(In thousands)		
Series 1 Junior Convertible Preferred Stock			
Balance at beginning of year	$6,900	$ —	
Issuance of 69 shares	—	6,900	
Balance at end of year	$6,900	$6,900	
Class A Common Stock			
Balance at beginning of year	$ 92	$ 41	$ —
Issuance of 3,975,000 shares in the Initial Public Offering	—	—	40
Issuance of 890,373 shares to Retirement Plan	9	—	—
Issuance of shares to ESOP (194,444 in 1992 and 666,666 in 1991)	2	6	—
Issuance of shares in connection with acquisitions (1,099,804 in 1992 and 1,117,500 in 1991)	11	11	—
Exchange of shares of Class B Common Stock into Class A Common Stock (2,133,234 in 1992, 3,841,139 in 1991, and 112,000 in 1990)	21	39	1
Exchange of 2,975,542 shares of Class A Common Stock for Series 3 Preferred Stock	(30)	—	—
Repurchase of shares (632,500 in 1992 and 500,000 in 1991)	(6)	(5)	—
Balance at end of year	$ 99	$ 92	$ 41
Class B Common Stock			
Balance at beginning of year	$ 93	$ 133	$123
Issuance of 259,306 shares to Retirement Plan	2	—	—
Shares issued in the Limited Market (1,131,620 in 1992, 281,852 in 1991, and 2,344,933 in 1990)	11	3	23
Shares repurchased in the Limited Market (322,461 in 1992, 842,788 in 1991, and 2,308,830 in 1990)	(3)	(8)	(23)
Issuance of shares in connection with acquisitions (123,022 in 1992, 377,480 in 1991, and 1,061,392 in 1990)	1	4	11
Exchange of shares of Class B Common Stock into Class A Common Stock (2,133,234 in 1992, 3,841,139 in 1991, and 112,000 in 1990)	(21)	(39)	(1)
Balance at end of year	$ 83	$ 93	$133

See notes to consolidated financial statements.

ICF INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (continued)

	Year Ended		
	February 29, 1992	February 28, 1991	February 28, 1990
		(In thousands)	
Additional Paid-in Capital			
Balance at beginning of year	$ 55,358	$ 40,780	$ 9,735
Limited Market transactions	737	(5,934)	(3,578)
Increase in connection with acquisitions	6,789	20,337	5,568
Increase in connection with issuance to Retirement Plan	7,461	—	—
Increase in connection with issuance to ESOP	2,915	6,251	—
Proceeds from Initial Public Offering	—	—	29,055
Tax effect from the exercise of non-qualified stock options	983	—	—
Decrease in connection with repurchases	(10,365)	(6,245)	—
Other	504	169	—
Balance at end of year	$ 64,382	$ 55,358	$40,780
Notes Receivable Related to Common Stock			
Balance at beginning of year	$ (911)	$ (544)	$ —
Common Stock issued in exchange for notes receivable	(2,476)	(367)	(544)
Balance at end of year	$ (3,387)	$ (911)	$ (544)
Retained Earnings (Deficit)			
Balance at beginning of year	$ 35,380	$ 21,978	$10,782
Net income (loss)	(40,516)	14,291	8,794
Preferred stock dividends	(2,203)	(857)	—
Preferred stock accretion	(213)	—	—
Adjustment for pooled companies	—	(32)	2,402
Balance at end of year	$ (7,552)	$ 35,380	$21,978
Cumulative Translation Adjustment			
Balance at beginning of year	$ (260)	$ —	
Current year adjustment	(781)	(260)	
Balance at end of year	$ (1,041)	$ (260)	
ESOP Guaranteed Bank Loan			
Balance at beginning of year	$ (7,813)	$ (4,429)	$ (1,045)
Increase in loan balance	(520)	(3,384)	(3,384)
Balance at end of year	$ (8,333)	$ (7,813)	$ (4,429)

See notes to consolidated financial statements.

ICF INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	February 29, 1992	February 28, 1991	February 28, 1990
		(In thousands)	
Operating Activities			
Net income (loss)	$(40,516)	$ 14,291	$ 8,794
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	9,159	11,438	6,304
Provision for losses on accounts receivable	4,359	1,667	1,338
Provision for deferred income taxes	(13,925)	(4,219)	740
Earnings less than (in excess of) cash distributions from joint ventures	(1,539)	876	(3,575)
Provision for restructuring and disposal of businesses, net of cash utilized	52,289	—	—
Unusual item—resolution of pre-acquisition contingency	(6,300)	—	—
Changes in operating assets and liabilities related to operating activities			
Contract receivables	(23,017)	(24,091)	(32,041)
Prepaid expenses and other current assets	(1,558)	(4,936)	(4,508)
Other assets	1,532	(16,452)	(6,499)
Accounts payable and accrued expenses	31,222	3,496	9,565
Income taxes payable	(3,522)	4,400	(3,126)
Deferred revenue	13,898	2,623	3,992
Other liabilities	(4,409)	(4,803)	(2,434)
Total changes in operating assets and liabilities	14,146	(39,763)	(35,051)
Other operating activities	—	(32)	2,402
Net Cash Provided by (Used in) Operating Activities	17,673	(15,742)	(19,048)
Investing Activities			
Purchase of fixed assets	(3,644)	(5,629)	(3,646)
Investments in subsidiaries and affiliates, net of cash acquired	(2,515)	(21,365)	(8,162)
Sales of subsidiaries and affiliates	3,965	—	—
Other investing activities	258	(502)	(1,000)
Net Cash Used in Investing Activities	(1,936)	(27,496)	(12,808)
Financing Activities			
Proceeds from borrowings	35,108	78,137	79,343
Principal payments	(58,925)	(57,384)	(67,847)
Proceeds from (uses in) common stock transactions	(7,425)	(5,410)	25,385
Proceeds from sale of Redeemable Preferred Stock	19,500	23,470	—
Proceeds from sale of Series 1 Junior Convertible Preferred Stock	—	6,900	—
Redemption of Redeemable Preferred Stock	(800)	(799)	—
Preferred stock dividends	(3,283)	(804)	—
Net Cash Provided by (Used in) Financing Activities	(15,825)	44,110	36,881
Effect of Exchange Rate Changes on Cash	(781)	(260)	—
Increase (Decrease) in Cash and Cash Equivalents	(869)	612	5,025
Cash and Cash Equivalents at Beginning of Period	9,385	8,773	3,748
Cash and Cash Equivalents at End of Period	$ 8,516	$ 9,385	$ 8,773

See notes to consolidated financial statements.

Note A—Organization

ICF International, Inc. ("ICF" or the "Company") was formed on October 19, 1987, as the holding company for ICF Incorporated and the family of companies that developed around ICF Incorporated since 1969. Together these companies provide consulting, engineering, and program and construction management services primarily to the environmental, health, industrial, and infrastructure markets both in the United States and abroad.

Note B—Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include all majority-owned subsidiaries of ICF. Investments in joint ventures and affiliated companies are reflected in the accounts using the equity method of accounting. All significant intercompany accounts and transactions have been eliminated. As discussed in Note C, the consolidated financial statements reflect a provision related to the restructuring and disposal of certain businesses. Accordingly, the operating results for the year ended February 29, 1992 are not necessarily indicative of the results that may be expected in future years. The net current assets of the businesses being discontinued are separately reflected as a component of consolidated current assets. Similarly, the estimated net realizable value of the non-current assets of these businesses are separately reflected, net of the provision for future operating losses and other restructuring provisions. The costs of restructuring and disposal of businesses include the net of revenue and operating expenses of the discontinued businesses for the year ended February 29, 1992, and estimated future losses of such businesses.

Revenue Recognition: Long-term fixed-price contracts generally are accounted for under percentage-of-completion methods, and revenue includes a proportion of the earnings expected to be realized in the ratio that costs incurred bear to estimated total costs. Revenue is recorded on cost-type contracts as costs are incurred. Revenue on time-and-materials contracts is recognized to the extent of billable rates times hours delivered plus materials expense incurred.

Foreign Currency Translation: Results of operations for foreign entities are translated using the average exchange rates during the period. Assets and liabilities are translated to U.S. dollars using the exchange rate in effect at the balance sheet date. Resulting translation adjustments are recorded as a separate component of shareholders' equity, "Cumulative Translation Adjustment".

Cash and Cash Equivalents: ICF considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents. Other current assets includes $4.2 million of restricted cash which primarily supports a letter of credit of one of ICF's subsidiaries.

Statements of Cash Flows: The consolidated statements of cash flows are prepared on a basis which separately reflects transactions related to the discontinued businesses. Included in adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities are non-cash expenses of the continuing businesses, and the portion of the provision for restructuring and disposal of businesses which does not represent a use of cash. Other non-cash transactions, principally the acquisition of companies or interests in companies, are described in Notes D, F, and O to the Consolidated Financial Statements.

Fixed Assets: Furniture and equipment are carried at cost, or assigned value if acquired through a purchase of business, and are depreciated using the straight-line method over their estimated useful lives ranging from five to ten years. Leasehold improvements are carried at cost and are amortized using the straight-line method over the remaining lease term.

Goodwill: Goodwill represents the excess of cost over the fair value of the net assets of acquired businesses. These intangibles are amortized using the straight-line method over periods ranging from five to forty years. Accumulated amortization was $5,584,000 and $4,947,000 at February 29, 1992 and February 28, 1991, respectively.

Income Taxes: ICF uses the accrual method for income tax reporting purposes. Deferred income taxes are provided using the liability method on temporary differences between financial reporting and income tax reporting, which primarily relate to reserves for adjustments and allowances. Effective March 1, 1991, ICF adopted Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (see Note J).

Post-Employment Benefits: ICF recognizes the cost of benefit programs, which primarily provide certain supplemental health benefits during retirement, when paid. $1,418,000, $1,618,000 and $1,819,000 have been included in expenses in fiscal years 1992, 1991 and 1990, respectively, related to these programs. In December 1990, the Financial Accounting Standards Board ("FASB") issued Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* which is effective for fiscal years beginning after December 15, 1992. ICF has determined that the implementation of Statement No. 106 will not have a material adverse impact on its financial position or results of operations.

Net Income (Loss) Per Common Share: Net income (loss) per common share is computed for the years ended February 29, 1992 and February 28, 1991 using the modified treasury stock method. For the year ended February 29, 1992, the resulting adjustments to net loss available to common shareholders and the adjustments to the combined weighted average number of shares of Class A and Class B Common Stock for purposes of computing earnings per share are anti-dilutive and therefore, excluded from the earnings per share computations. For the year ended February 28, 1991, the adjustments to net income available to common shareholders for purposes of computing primary and fully diluted earnings per share were $228,000 and $299,000, respectively. Net income per common share for the year ended February 28, 1990 has been computed using net income available to common shareholders, as adjusted, and the combined weighted average number of shares of Class A and Class B Common Stock and common stock equivalents outstanding during the year. Common stock equivalents include stock options and warrants and additional shares which may be issued in connection with acquisitions and the potential conversion of convertible preferred stock. Net loss available to common shareholders used for computing primary and fully diluted earnings per share for the year ended February 29, 1992 was adjusted by $213,000 for the amortization of discounts on Senior Preferred Stock. Primary earnings per share was based on 19,085,000, 19,289,000 and 15,509,000 shares in fiscal years 1992, 1991 and 1990, respectively, and fully diluted earnings per share was based on 19,085,000, 20,308,000 and 15,527,000 shares in fiscal years 1992, 1991 and 1990, respectively.

Concentrations of Credit Risk: ICF and its subsidiaries maintain cash balances primarily in overnight Eurodollar deposits and bank certificates of deposit. Short-term investments are U.S. Government securities having maturities of less than one year. ICF grants uncollateralized credit to its customers. In order to mitigate its credit risk, ICF performs ongoing credit evaluations of its commercial customers and, when prudent, obtains advance fundings of costs for large industrial construction work.

Reclassification: Certain items in the fiscal year 1990 and fiscal year 1991 financial statements have been reclassified to conform to the fiscal year 1992 presentation.

Note C—Restructuring and Disposal of Businesses

On July 15, 1991, the Board of Directors of ICF (the "Board") approved a plan which provided for the sale, liquidation, or other disposition of certain businesses outside of the Company's "core" businesses, and the consolidation of certain operations within the "core" businesses, which primarily provide a broad range of consulting, engineering, and program and construction management services in the environmental, energy, health, industrial, and infrastructure markets. The non-core businesses include ICF subsidiaries providing pharmaceutical industry research and health communications services,

geophysical/seismic data processing services, and systems integration services. In fiscal year 1992, ICF recorded charges for the costs of restructuring and disposal of businesses of $73.4 million ($52.4 million after tax). This provision reflects management's decision to discontinue certain businesses outside of ICF's "core" businesses; estimates of operating losses of discontinued businesses through disposal; and restructuring charges related to closing and consolidating certain operations of continuing businesses. In addition, the Company records interest expense related to discontinued businesses based on the imputed reduction in interest cost from the assumed sale of the discontinued businesses. The total cost as of February 29, 1992, is summarized as follows (in thousands):

Losses realized on disposal of discontinued businesses	$27,436
Operating losses of discontinued businesses through February 29, 1992	32,093
Severance and other restructuring costs	4,500
Provision for losses on disposal of discontinued businesses not yet sold	9,325
	$73,354

"Other restructuring costs" includes fees paid to lenders and their legal counsel for the restructuring of existing debt and equity, and costs of cancelling leases and consolidating offices.

Note D—Acquisitions

The following business combinations were treated, for financial reporting purposes, as purchases. Accordingly, the consolidated statements of operations include the operations of the acquired companies from the date of acquisition.

Kaiser Engineers Australia Pty. Ltd.: Effective in July 1990, ICF acquired all of the outstanding stock of Kaiser Engineers Australia Pty. Ltd. ("KEA") that it did not already own. The Company, through a subsidiary, had acquired a 50 percent interest in KEA in July 1989. The purchase of the remaining 50 percent interest in KEA was effected through a Joint Venture Termination Agreement between ICF and Elders Resources NZFP Limited ("Elders"). Under the agreement, ICF agreed to purchase Elders' 50 percent interest in KEA for $10.5 million paid in the form of 617,500 shares of ICF Class A Common Stock. In June 1991, ICF repurchased the shares for $10.5 million in accordance with provisions in the agreement. The Company's proportionate share of the fair value of the assets acquired and liabilities assumed, respectively, was $8,678,000 and $7,833,000. The excess of the purchase price over the fair value of the proportionate share of the net assets acquired is being amortized over periods ranging from 15 to 40 years using the straight-line method.

Cygna Group, Inc.: In September 1989, ICF acquired all of the outstanding stock of Cygna Group, Inc. ("Cygna"), for $3.5 million cash, 244,264 shares of Class B Common Stock, and 357,287 options to acquire Class B Common Stock. The agreement provided for the issuance of additional shares, and options to acquire shares, if the value of the Class B Common Stock was less than a specified target price two years after the acquisition. In accordance with this provision, 123,022 shares and 202,042 options to acquire shares were issued during the year ended February 29, 1992 and recorded as additional goodwill of $1,446,000. The fair value of the assets purchased and liabilities assumed, respectively, was $7,382,000 and $19,058,000. The excess of the purchase price over the fair value of the net assets acquired is being amortized principally over 30 years using the straight-line method.

Other: In addition to the transactions discussed above, ICF has acquired several other companies during the three-year period ended February 29, 1992, that have been accounted for as purchase transactions. These transactions are immaterial to the consolidated financial position of ICF individually and in the aggregate. The excess of the purchase price over the fair value of the assets and liabilities for these transactions is being amortized principally over periods ranging from 5 to 15 years using the straight-line method. In addition, ICF issued 500,000 shares of Class A Common Stock to the seller of Primark Capital

Group Inc., (now Health and Sciences Network, Inc., or "HSN") to settle ICF's contingent obligation to repurchase, at a price of $14 per share, the 500,000 shares of ICF Class A Common Stock originally issued in ICF's purchase of HSN. The cost associated with these shares was included as a component of goodwill in the purchase transaction in fiscal year 1991. ICF also paid $1,559,000 cash to the former shareholders of Tudor Engineering Company ("Tudor") in accordance with the Tudor acquisition agreement which provided for the payment of cash to the former shareholders of Tudor if the value of the ICF Class B Common Stock issued to them at acquisition was less than a specified target price two years after the acquisition. This transaction was recorded as additional goodwill in fiscal year 1992.

Note E—Contract Receivables

	February 29, 1992	February 28, 1991
	(In thousands)	
U.S. Government agencies:		
Currently due	$ 32,697	$ 29,721
Unbilled	26,924	22,840
	59,621	52,561
Commercial clients and state and municipal governments:		
Currently due	85,491	99,690
Unbilled	16,665	29,137
	102,156	128,827
	161,777	181,388
Less allowances for uncollectable receivables and other adjustments	9,361	10,302
	$152,416	$171,086

U.S. Government receivables arise from U.S. Government prime contracts and subcontracts. Unbilled receivables result from revenues which have been earned but were not billed as of the end of the year. The unbilled receivables can be invoiced at contractually defined intervals, upon completion of cost-type contracts for government agencies, upon completion of federal government overhead audits, upon attaining certain milestones under fixed-price contracts, or upon completion of construction on certain projects. Management anticipates that the February 29, 1992, unbilled receivables will be substantially billed and collected in fiscal year 1993.

Note F—Joint Ventures and Affiliated Companies

ICF has ownership interests ranging from 20% to 50% in certain joint ventures and affiliated companies that are engaged in the same general business as the Company. ICF's investments in and advances to these joint ventures and affiliated companies are summarized as follows (in thousands):

	Ownership Interest at February 29, 1992	February 29, 1992	February 28, 1991
Acer Group Limited	30%	$17,846	$10,367
American Transit Consultants, Inc.	33%	(291)	2,069
BIOS Corporation	—	—	1,622
KJK Joint Venture	33%	(744)	(675)
LIFAC North America	50%	1,212	—
Other	20% to 50%	1,907	5,110
		19,930	18,493
Less amounts classified within current assets		442	2,488
		$19,488	$16,005

ICF's investment in Acer Group Limited ("Acer") exceeds its share of the net assets of Acer (measured in U.S. dollars) by $9.6 million. This excess is being amortized over a 30-year period. ICF increased its interest in Acer from 20% to 30% through the issuance of 599,804 shares valued at $5.8 million on February 13, 1992.

Combined summarized unaudited financial information of all of ICF's joint ventures and affiliated companies is as follows (in thousands):

	February 29, 1992	February 28, 1991	February 28, 1990
Current assets	$128,011	$126,335	$ 57,559
Non-current assets	32,788	45,245	21,388
Current liabilities	105,271	101,415	42,609
Non-current liabilities	28,323	28,287	16,706
Gross revenue	442,142	336,228	113,434
Net income	16,940	25,183	9,397

Note G—Indebtedness

ICF's indebtedness is as follows (in thousands):

	February 29, 1992	February 28, 1991
Working capital credit facility, interest only payable quarterly at prime + 1½% or LIBOR plus 2½%, due March 31, 1994	$43,099	$ —
Working capital credit facility, interest only payable quarterly at prime or LIBOR plus 1¼%	—	47,000
Revolving credit facility, interest only payable quarterly at Sterling LIBOR plus 1¼%	—	9,415
Notes payable to current and former shareholders, principal and interest at variable rates payable on demand and in installments through May 1993	1,958	4,788
ESOP guaranteed notes, principal and interest at prime plus 1½% payable quarterly through April 1994	8,333	—
ESOP guaranteed notes, principal and interest at ¼ of 1% over prime	—	7,813
Other notes, principal and interest at variable rates payable monthly and quarterly through January 1996	2,942	6,346
Total	56,332	75,362
Less current maturities	7,187	8,199
Long-term debt	$49,145	$67,163

Scheduled maturities of long-term debt outstanding at February 29, 1992, are as follows: $7,187,000 in fiscal year 1993, $3,991,000 in fiscal year 1994, $45,029,000 in fiscal year 1995, and $125,000 in fiscal year 1996. The Company paid interest of $12,313,000, $10,805,000 and $6,647,000, respectively, in fiscal years 1992, 1991 and 1990.

At February 29, 1992, ICF's principal working capital financing was provided by an agreement between ICF, certain of its subsidiaries, and a consortium of banks that provides for a total revolving credit line of $140 million and an Employee Stock Ownership Plan ("ESOP") credit facility of $10 million (together, the "Credit Facility"). Interest on the Credit Facility is payable quarterly at the prime rate plus a margin of 1½% as of February 29, 1992, decreasing upon the achievement of certain levels of tangible net worth. LIBOR-based borrowings are also available at a margin of 2½%. The Company and certain of its subsidiaries granted the banks a security interest in their receivables and other general intangibles and pledged certain subsidiaries capital stock to secure repayment of the Credit Facility. The Credit Facility restricts the payment of cash dividends and requires the maintenance of specified financial ratios and levels of working capital and tangible net worth. The Credit Facility expires on March 31, 1994. At February 29, 1992, ICF had $36.1 million of available credit under the Credit Facility. ICF pays a commitment fee of ½% per annum on the unused commitments.

In October 1990, ICF reached an agreement with a bank to provide a credit facility of £10.25 million in connection with ICF's investment in Acer. The facility consists of a £5.25 million guarantee of a credit facility provided to Acer by a bank and a £5.0 million revolving credit facility used to finance ICF's investment in Acer. The guarantee is provided on a year-to-year basis and

expires on October 9, 1992. Interest on the funded portion of the credit facility used by ICF is payable quarterly at the Sterling London InterBank Offered Rate plus 1¼%. The agreement for the revolving credit facility expires March 31, 1994. At February 29, 1992, there were no outstanding borrowings under this facility.

The Company's ESOP owns 29,718.49 shares of Series 3 Junior Convertible Preferred Stock, par value $0.01 per share ("Series 3 Preferred Stock") issued by ICF on January 13, 1992 in exchange for 2,971,849 shares of ICF Class A Common Stock then owned by the ESOP. The Class A Common Stock was purchased with the proceeds of Company contributions and loans which have been guaranteed by ICF. The aggregate balance outstanding on these loans is $8,333,000. ICF is obligated to contribute sufficient cash to the plan trust to repay the loans, which are due in semi-annual payments of principal and quarterly interest at prime plus 1% from March 1, 1992 through April 1994.

The notes to current and former shareholders of the Company originated from repurchases of ICF's Class B Common Stock in accordance with the provisions of the ICF Amended and Restated Shareholders Agreement and resulted in non-cash financing transactions in the amounts of $423,000 and $4,727,000 in fiscal year 1991 and fiscal year 1990, respectively. Total interest expense incurred on these notes was $293,000, $543,000 and $590,000 in fiscal years 1992, 1991 and 1990, respectively.

Note H—Subordinated Debt

In May 1989, ICF sold $30,000,000 of 13.5% senior subordinated notes ("Subordinated Notes") and detachable common stock purchase warrants expiring May 15, 1999 for the purchase of 1,778,512 shares of Class B Common Stock of the Company. The Subordinated Notes require interest payments semi-annually at 13.5% of the outstanding balance and five annual principal payments of $4.5 million beginning May 15, 1994, with the remaining $7.5 million principal due May 15, 1999. The obligations of ICF are guaranteed by certain direct and indirect wholly owned subsidiaries of ICF ("Guarantors"). These obligations of the Company and the Guarantors are subordinate to their obligations under the Credit Facility.

The warrants sold in connection with the Subordinated Notes are exercisable at any time for shares of Class A Common Stock or shares of Class B Common Stock with nondetachable Warrant Options for Class A Common Stock, in either case at $6.91 per share. The warrants contain certain anti-dilution provisions that would be triggered, in general, by any issuance of the Company's stock at less than the higher of market value or $6.91 a share. This provision was triggered in 1992 and, as a result, 23,169 additional warrants were issued to the warrant holders and the warrant price was reduced from $7.00 per share to $6.91 per share.

In connection with the issuance of the Subordinated Notes, ICF and the Guarantors agreed to certain business and financial covenants including: restrictions on indebtedness, liens, long-term leases and sale lease-backs, dividends, and certain types of investments; and the maintenance of certain financial ratios, including adjusted net worth at increasing levels over time. The Subordinated Notes are required to be prepaid, with a substantial penalty, under certain circumstances which include certain members of senior management (currently defined as James O. Edwards and William C. Stitt) ceasing to own beneficially certain amounts of common stock of the Company or ceasing to devote full time and attention to the Company.

Note I—Contingencies

ICF has a substantial number of U.S. government contracts, the costs of which are subject to audit by the Defense Contract Audit Agency ("DCAA"). The DCAA has asserted that costs of certain subsidiaries of ICF, which have previously been claimed as reimbursable under government contracts, were not allocated in accordance with government cost accounting standards. Management

believes that the effect of disallowed costs, if any, for the periods currently under audit and not yet audited will not have a material adverse effect on the consolidated financial statements.

ICF is subject to actions and claims for damage to properties, injuries to persons, and breaches of contract, as well as claims related to acquisitions and dispositions. There are currently several lawsuits pending against ICF in which claims have been made in substantial amounts. Management is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on its operations and financial condition, and that adequate provision for any potential losses has been made in the consolidated financial statements.

At February 29, 1992, ICF was guarantor of approximately $564,000 of ICF shareholder notes payable to banks. The proceeds of those notes were used by the shareholders to purchase Class B Common Stock of the Company. In addition, ICF had outstanding letters of credit in the amount of $38,033,000 at February 29, 1992, principally in support of performance guarantees under certain contracts.

Note J—Income Taxes

In February 1992, the FASB issued Statement No. 109, *Accounting for Income Taxes*. ICF adopted Statement No. 109 in fiscal year 1992, effective March 1, 1991. The impact to ICF of adopting Statement No. 109 in fiscal year 1992 was to increase the deferred tax benefit by $6.5 million. There was no cumulative impact resulting from the adoption of Statement No. 109 as of the beginning of fiscal year 1992, since all of the items giving rise to the additional benefit occurred in fiscal year 1992, namely the costs associated with the restructuring.

Carryforwards of net operating losses, business credits, capital losses and foreign tax credits of acquired companies related to periods prior to their acquisition are greatly limited under Section 382 of the Internal Revenue Code. These carryforwards, to the extent utilized in the future, if any, will be treated as a reduction of goodwill.

The Internal Revenue Service ("IRS") has completed its examination of the Kaiser Engineers Group, Inc. ("KEGI") 1977–1985 federal income tax returns and has completed its review of its 1986–1988 tax returns. ICF is contesting various adjustments proposed by the IRS before the appeals office of the IRS.

In 1992, a foreign tax audit of a KEGI-controlled foreign corporation was favorably resolved. Together with management's current evaluation of the status of the appeals process before IRS for KEGI, this resolution allowed the Company to adjust a portion of the amounts previously provided for in connection with the acquisition of these companies. This resolution of the pre-acquisition contingency is reflected as an unusual item in the accompanying statement of operations. Management has determined that the remaining provision is adequate to cover any liability expected to result from resolution of any remaining issues.

An analysis of the components of earnings (loss) before income taxes and the related provision (benefit) for income taxes is as follows (in thousands):

	February 29, 1992	February 28, 1991	February 28, 1990
Earnings (loss) before income taxes:			
Domestic	$(60,058)	$15,799	$ 7,547
Foreign	5,748	8,219	7,359
	$(54,310)	$24,018	$14,906
Provision (benefit) for income taxes:			
Federal:			
Current	$ (2,041)	$ 7,952	$ 2,450
Deferred	(11,261)	(3,307)	685
	(13,302)	4,645	3,135
State:			
Current	(189)	1,921	995
Deferred	(2,664)	(912)	55
	(2,853)	1,009	1,050
Foreign:			
Current	2,361	4,073	1,927
	$(13,794)	$ 9,727	$ 6,112

As of February 29, 1992 the Company has a deferred tax asset of approximately $14.5 million. Management believes that there is no need for a valuation allowance since the Company's earnings trend was affected singularly by the impact of the restructuring discussed in Note C. The tax effect of each significant temporary difference and carryforward that gives rise to the gross deferred tax asset is as follows (in thousands):

Bad debt reserve	$3,149
Vacation accrual	2,995
Contract loss reserve	1,536
Tax operating loss carryforwards	3,185
Tax credit carryforwards	1,400
Other	2,277
Total deferred tax benefit	$14,542

The effective income tax (benefit) rate varied from the federal statutory income tax rate over the last three years because of the following differences:

	February 29, 1992	February 28, 1991	February 28, 1990
Statutory tax rate (benefit)	(34.0%)	34.0%	34.0%
Changes in tax rate (benefit) from:			
Differences between book and tax basis of businesses sold	8.6		
Utilization of capital loss	—	—	(4.6)
State income taxes	(1.6)	2.8	4.6
Goodwill amortization	2.6	5.0	3.3
Losses of affiliates	—	—	1.7
Foreign taxes	0.3	(1.5)	—
Other	(1.3)	0.2	2.0
	8.6	6.5	7.0
	(25.4%)	40.5%	41.0%

ICF paid $7,219,000, $7,120,000 and $6,073,000 of income taxes in 1992, 1991 and 1990, respectively.

Note K—Leases

Future minimum payments on noncancelable operating leases for office space, and on other noncancelable operating leases with initial or remaining terms of one year or more, were as follows on February 29, 1992 (in thousands):

Year Ended February 28	Operating Leases
1993	$ 29,180
1994	25,611
1995	22,239
1996	13,929
1997	8,706
Thereafter	44,783
	$144,448

In addition, leases for certain office space provide for reimbursements to the landlord of ICF's proportionate share of the building's operating expenses and real estate taxes over a base amount. The total rental expense for all operating leases was $32,582,000, $28,213,000 and $32,722,000, respectively, in fiscal years 1992, 1991 and 1990.

Sublease rental income was $1,079,000, $1,243,000 and $3,459,000, respectively, in fiscal years 1992, 1991 and 1990. Minimum future rentals to be received under noncancelable subleases during fiscal year 1993 are approximately $835,000.

Note L—Preferred Stock

Preferred Stock of the Company and its subsidiaries is as follows:

	February 29, 1992	February 28, 1991
	(In thousands)	
Redeemable Preferred Stock (of Subsidiary) par value $.01 per share; Liquidation value $21,280,000; Authorized 3,500,000 shares; Issued and outstanding 2,100,000 and 2,800,000 shares at February 29, 1992 and February 28, 1991, respectively	$ 2,398	$ 3,198
Series 2A Senior Redeemable Preferred Stock, par value $.01 per share; Liquidation value $25,000,000; Designated 250 shares; 250 shares issued and outstanding at February 28, 1991	—	25,000
Less unamortized discount, warrant value, and issue costs	—	(1,700)
	—	23,300
Series 2C Senior Redeemable Preferred Stock, par value $.01 per share; Liquidation value $25,000,000; Designated 250 shares; 250 shares issued and outstanding at February 29, 1992	25,000	—
Less unamortized discount, warrant value, and issue costs	(1,342)	—
	23,658	—
Series 2D Senior Redeemable Preferred Stock, par value $.01 per share; Liquidation value $20,000,000; Designated 200 shares; 200 shares issued and outstanding at February 29, 1992	20,000	—
Less unamortized discount, warrant value, and issue costs	(895)	—
	19,105	—
Redeemable Preferred Stock	$45,161	$26,498

	February 29, 1992	February 28, 1991
	(In thousands)	
Series 1 Junior Convertible Preferred Stock, par value $.01 per share; Liquidation value $20,000,000; Designated 200 shares; 69 shares issued and outstanding at February 29, 1992 and February 28, 1991, respectively	$ 6,900	$ 6,900
Series 3 Junior Convertible Preferred Stock, par value $.01 per share; Liquidation value $50,000; Designated 50,000 shares; 29,718.49 shares issued and outstanding at February 29, 1992	0	—
Series 4 Junior Preferred Stock, par value $.01 per share; Liquidation value $500,000; Designated 500,000 shares; no shares outstanding at February 29, 1992	—	—
Preferred Stock	$ 6,900	$ 6,900

Redeemable Preferred Stock (of Subsidiary):
In connection with the acquisition of KEGI, 3,500,000 shares of KEGI Series 1 Redeemable Preferred Stock were issued to the KEGI Employee Stock Plan Trust in partial consideration for ICF's purchase of all of the outstanding shares of Series A and Series P Preferred Stock of pre-merger KEGI. Dividends on these shares are $0.0685 per share per annum noncumulative, payable annually. These shares may be redeemed in five equal annual installments of 700,000 shares at $1.142 per share, guaranteed by ICF, beginning September 30, 1990. 700,000 shares were redeemed during both 1992 and 1991. These shares are callable by ICF at any time through September 1994, at a price of $1.0633 per share as of February 29, 1992, and subsequently at prices adjusted to maintain a specified net present value.

Senior Preferred Stock: In December 1990, the Board of Directors of the Company (the "Board") designated 250 shares of the Company's 2,000,000 authorized shares of Preferred Stock as Series 2A Senior Preferred Stock ("Series 2A Preferred Stock") and 250 shares as Series 2B Senior Preferred Stock ("Series 2B Preferred Stock"). In addition, the Board authorized the issuance of five-year detachable warrants (the "Series 2A Warrants") to purchase 2,173,913 shares of ICF's Class B Common Stock. The Board also authorized the issuance of similar five-year detachable warrants (the "Series 2B Warrants") to the purchaser of the Series 2B Preferred Stock for the purchase of between 2,083,333 and 2,976,190 shares of Class B Common Stock. The actual number of warrants would have been based on the 20-day trailing average of ICF's Class A Common Stock price at the date the Series 2B Preferred Stock was purchased.

In December 1990, for a price of $25,000,000 less a discount of $350,000, ICF issued the Series 2A Preferred Stock, and the Series 2A Warrants and granted an option, exercisable during calendar year 1992, for the purchase of the Series 2B Preferred Stock and the Series 2B Warrants. Of the net price of $24,650,000, $350,000 was allocated to the value of the warrants and $24,300,000 was allocated to the stock.

In January 1992, ICF issued 250 shares of Series 2C Senior Preferred Stock (the "Series 2C Preferred Stock") in exchange for 250 shares of Series 2A Preferred Stock issued in December 1990. ICF also issued detachable warrants expiring in December, 1995, for the purchase of 2,976,190 shares of ICF Class B Common Stock (the "Series 2C Warrants") in exchange for the warrants issued with the Series 2A Preferred Stock. The exercise price of the Series 2C Warrants is $8.40.

In addition, for a price of $20,000,000 (less a discount of $100,000), ICF issued to the holder of its Series 2A Preferred Stock, 200 shares of Series 2D Preferred Stock together with five-year detachable warrants (the "Series 2D Warrants") to purchase 2,680,952 shares of ICF Class A Common Stock for $8.40 per share. Of the net price of $19,900,000, $400,000 was allocated to the value of the warrants and $19,500,000 was allocated to the stock. In conjunction with this transaction, the option to acquire 250 shares of Series 2B Senior Preferred Stock issued with the Series 2A Preferred Stock was cancelled.

Dividends on both the Series 2C Preferred Stock and the Series 2D Preferred Stock are $9,750 per share per annum, cumulative. Each of the shares has a liquidation preference of $100,000 ($45 million in aggregate). As long as they are held by the original purchasers, the issues carry voting rights equal to 2,173,913 shares of Class B Common Stock and 2,380,952 shares of Class A Common Stock. The Series 2C Preferred Stock and the Series 2D Preferred Stock may be redeemed at ICF's option at 106.25% of the original price and are subject to mandatory redemption at liquidation value on December 20, 1995, and January 13, 1997, respectively. Additional warrants may be issued under certain anti-dilution provisions contained in the related agreements.

Series 1 Junior Convertible Preferred Stock: In July 1990, the Board designated 200 shares of Preferred Stock as Series 1 Junior Convertible Preferred Stock. Dividends on these shares are $9,250 per share per annum, cumulative, payable quarterly. Each of the shares has a liquidation preference of $100,000 ($20,000,000 in the aggregate, assuming all of the shares are issued); is convertible into a number of shares of Class A Common Stock equal to $100,000 divided by the conversion price of $15.00; and is entitled to one vote per share of Class A Common Stock into which it is convertible. In addition, these shares are callable by the Company at a price of $109,250 per share on August 3, 1990 and subsequently at prices declining by 1 percent on August 31st of each year until August 31, 2001 when the price will be $100,000 per share.

Series 3 Junior Convertible Preferred Stock: On January 13, 1992, the Board designated 50,000 shares of ICF's 2,000,000 authorized shares of preferred stock as Series 3 Preferred Stock. Each share is convertible into 100 shares of Class A or Class B Common Stock, carries a liquidation preference of $1.00 per share, and shares in the residual liquidation value of the Company pro rata with the common shareholders based on the number of shares into which each share of Series 3 Preferred Stock would be converted. Each share of Series 3 Preferred Stock is entitled to 10 votes for each share of common stock into which it is convertible.

On the same date, ICF issued 29,755.42 shares of Series 3 Preferred Stock in exchange for 2,975,542 shares of Class A Common Stock then owned by the ICF International, Inc. Employee Stock Ownership Trust. ICF has reserved a sufficient number of shares of common stock for the potential conversion of the Series 3 Preferred Stock.

Series 4 Junior Preferred Stock: In connection with the establishment of the Shareholder Rights Plan (see Note M), the Board designated 500,000 shares of preferred stock as Series 4 Junior Preferred Stock, par value $0.01 per share.

Note M—Common Stock

Shareholders Agreement: In November 1989, the shareholders, in contemplation of the Company's initial public offering, adopted an Amended and Restated Shareholders Agreement.

The Shareholders Agreement provides for the price for the sale and purchase of shares of Class B Common Stock to be set equal to the 20-day average of the closing NASDAQ market price of the Class A Common Stock ("Trading Price").

ICF Common Stock Plan: Shares of Class B Common Stock are offered from time to time for purchase to employees of the ICF companies pursuant to the ICF International Common Stock Plan. Offers are made at the Trading Price in accordance with the Shareholders Agreement.

The Shareholders Agreement limits the rights of holders of Class B Common Stock to sell or transfer the stock, other than pursuant to the ICF By-laws and the Shareholders Agreement. Notes receivable related to common stock increased $2,476,000 in 1992 primarily as the result of non-cash issuances of ICF Class B Common Stock in exchange for the notes from certain members of senior management in accordance with their compensation agreements. The notes are secured by shares of Class B Common Stock.

Shareholder Rights Plan: On January 13, 1992, the Board created a Shareholder Rights Plan ("Rights Plan"), which is designed to provide the Board with the ability to negotiate with a person or group that might, in the future, make an unsolicited attempt to acquire control of ICF, whether through the accumulation of shares in the open market or through a tender offer which does not offer an adequate price.

The Rights Plan provides for the distribution of one Right ("Right") as a dividend on each outstanding share of ICF common stock to shareholders of record on January 31, 1992, as well as one Right per share of ICF common stock into which the outstanding Series 1 Preferred Stock and Series 3 Preferred Stock of the Company are convertible on such date. All shares of ICF common stock (and Series 1 and Series 3 Preferred Stock) that are issued after January 31, 1992 and are outstanding prior to the date that the Rights become exercisable will have a Right attached thereto. Each Right entitles the holder to purchase one one-hundredth of a share of Series 4 Junior Preferred Stock at a purchase price of $50 (see Note L).

The Rights generally may cause substantial dilution to a person or group that attempts to acquire the Company on terms not approved by the Board. The Rights should not interfere with any merger or other business combination approved by the Board, however, since the Board may, at its option, at any time prior to the tenth business

day following the acquisition by any person or group of 20% of the shares of ICF common stock, redeem the Rights upon payment of the redemption price of $0.01 per Right. The Rights are not triggered by the acquisition of beneficial ownership of more than 20% of ICF's common stock by the initial holder of the Series 2C and 2D Preferred Stock. Unless redeemed earlier by the Board, unexercised Rights expire on January 13, 2002.

Note N—Stock Options

The ICF Stock Incentive Plan provides for the issuance of options, stock appreciation rights, restricted shares, and restricted stock units of up to an aggregate of 4,000,000 shares of Class A or Class B Common Stock. Awards are made to key employees at the discretion of the Compensation Committee of the Board. The option price of stock to be issued is not to be less than 100% of the fair market value on the date of grant.

Stock option activity under this plan and other options granted for the last three years is as follows:

	Shares	Option Price
Balance, February 28, 1989	1,386,000	$0.88 to $ 6.00
Granted	744,000	$6.07 to $10.00
Cancelled	(40,000)	$4.00
Exercised	(794,000)	$0.88 to $ 6.07
Balance, February 28, 1990	1,296,000	$3.46 to $10.00
Granted	722,000	$9.29 to $14.46
Cancelled	(20,000)	$9.10
Expired	(87,000)	$6.07 to $12.83
Exercised	(155,000)	$3.46 to $ 9.51
Balance, February 28, 1991	1,756,000	$3.46 to $14.46
Granted	950,000	$6.07 to $17.00
Cancelled	(134,000)	$6.07 to $16.23
Expired	(95,000)	$6.07 to $ 9.51
Exercised	(605,000)	$4.00 to $ 8.46
Balance, February 29, 1992	1,872,000	$3.46 to $17.00
Exercisable at February 29, 1992	1,239,000	$3.46 to $17.00

Note O—Employee Benefit Plans

ICF and certain of its subsidiaries sponsor several benefit plans covering substantially all employees who meet minimum length of service requirements. These plans include: the ICF International, Inc. Retirement Plan ("Retirement Plan"), a defined contribution profit-sharing plan that provides for contributions by the Company based on a percentage of covered compensation; the ICF International, Inc. Employee Stock Ownership Plan under which the Company makes contributions ranging from 4% to 8% of covered compensation, as determined annually by the Board of Directors, in the form of either cash or common stock of the Company; and a cash or deferred compensation arrangement 401(k) plan (the "401(k) Plan") which allows employees to defer up to 15% of their salary, subject to certain limitations, with no additional or matching contribution by the Company. Total contributions to the Retirement Plan and the ESOP totaled $10,440,000, $10,973,000 and $8,342,000 for 1992, 1991 and 1990, respectively. The contribution to the Retirement Plan in 1992 consisted of 890,373 shares of Class A Common Stock valued at $5.8 million.

Employees of domestic acquired companies are generally eligible for the Retirement Plan, ESOP and 401(k) Plan as soon as possible after the date of acquisition. In addition, the assets of any previously existing plan of the acquired company are transferred to one of ICF's plans as soon as practical.

Note P—Business Segment, Major Customers and Foreign Operations

Business Segment: ICF operates predominantly in one industry segment, in which it provides environmental, engineering, and other professional services.

Major Customers: Gross revenue from major customers was as follows (in thousands):

	1992	1991	1990
U.S. Environmental Protection Agency	$ 70,686	$ 61,492	$ 59,218
U.S. Department of Energy	188,196	120,972	108,242
U.S. Department of Defense	12,356	28,188	80,713
Other U.S. Government agencies	27,436	40,369	27,186
Total U.S. Government	298,674	251,021	275,359
USX Corporation and affiliates	97,767	26,004	—
	$396,441	$277,025	$275,359

Foreign Operations: Gross revenue and operating income from foreign sales (including sales originating in the United States) and foreign assets of all consolidated subsidiaries and branches were as follows (in thousands):

	1992	1991	1990
Foreign gross revenue			
Europe	$ 35,475	$29,139	$57,290
Pacific	67,904	55,082	4,787
Other	2,646	7,012	506
	$106,025	$91,233	$62,583
Foreign operating income			
Europe	$ 689	$ 1,085	$ 2,804
Pacific	5,224	5,820	518
Other	160	1,314	204
	$ 6,073	$ 8,219	$ 3,526
Foreign assets			
Europe	$ 6,505	$ 6,650	$ 8,157
Pacific	36,130	44,817	108
Other	65	95	226
	$ 42,700	$51,562	$ 8,491

Note Q—Selected Quarterly Financial Information (Unaudited)

Quarterly financial information for fiscal years 1992 and 1991 is presented in the following tables (in thousands, except per share amounts):

	4th Qtr	3rd Qtr (Restated)	2nd Qtr	1st Qtr
1992				
Gross revenue	$194,712	$190,124	$172,800	$153,237
Service revenue	86,371	102,199	95,538	95,718
Net income (loss)	1,934	(15,841)	2,500	(29,109)
Net income (loss) per common share:				
Primary	$ 0.06	$ (0.87)	$ 0.10	$ (1.60)
Fully diluted	$ 0.06	$ (0.87)	$ 0.10	$ (1.60)
Market price per share:				
High	$ 11.00	$ 10.00	$ 16.75	$ 18.50
Low	$ 6.25	$ 6.50	$ 8.00	$ 14.25
1991				
Gross revenue	$176,791	$180,467	$135,727	$131,991
Service revenue	101,246	100,951	79,474	81,647
Net income	4,418	3,848	3,266	2,759
Net income per common share:				
Primary	$ 0.20	$ 0.19	$ 0.17	$ 0.15
Fully diluted	$ 0.18	$ 0.18	$ 0.17	$ 0.15
Market price per share:				
High	$ 17.25	$ 11.75	$ 14.875	$ 11.625
Low	$ 10.00	$ 8.625	$ 8.375	$ 7.125

As described in Note C, in fiscal year 1992 ICF recorded charges for the restructuring and disposal of certain businesses. These costs and the elimination of the revenues and earnings of these businesses make direct comparisons of the results for fiscal years 1991 and 1992 less meaningful. Accordingly, the quarterly operating results summarized above are not necessarily indicative of the results that may be expected in future quarters.

The sum of net income (loss) per common share for the four quarters of 1992 does not equal the loss per common share for the year due to changes in the number of shares of common stock and common stock equivalents outstanding during the year.

The impact of the adoption of FASB Statement No. 109, *Accounting For Income Taxes*, was to increase net income available to common shareholders for fiscal year 1992 by $6.5 million, or $0.34 per share. The impact of retroactive application of Statement No. 109 to March 1, 1991 on quarterly earnings previously reported for fiscal year 1992 was to decrease the third quarter net loss available to common shareholders by $1.8 million, or $0.10 per common share, from the amounts reported in the Company's form 10-Q for the quarter ended November 30, 1991. The remainder of the impact was attributable to the fourth quarter of fiscal 1992.

ICF's Class A Common Stock was not publicly traded until December 1989. ICF's Class B Common Stock is traded in an internal market only ("Limited Market"). Trading prices for the Limited Market have been as follows: $8.47 in January 1992, $6.50 in October 1991, $10.26 in August 1991, and $16.01 in May 1991.

At April 15, 1992, there were 10,029,818 shares of Class A Common Stock outstanding held by 488 holders of record.

CORPORATE INFORMATION

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Michael J. Rowny
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Sara Brenner
Vice President, Communications

Nicholas Burakow
Senior Vice President, International

Michael K. Goldman
Executive Vice President

Cynthia L. Hathaway
Vice President and Assistant General Counsel

James R. Janis
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Martin A. Levine
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Douglas W. McMinn
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Marilyn F. Meigs
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Kenneth T. Nelson
Vice President and Treasurer

Ronald R. Spoehel
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Paul Weeks, II
Senior Vice President, General Counsel, and Secretary

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Chief Executive Officer, Excell, Inc.

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President, Systems Applications International, Inc.

Richard T. French
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President, ICF Kaiser Engineers, Inc.

George O'Brien
Chairman, Infrastructure Group of ICF Kaiser Engineers, Inc.

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Raymond E. List, P.E.
President, ICF Kaiser Engineers, Inc.

Frederic V. Malek
Vice Chairman, Northwest Airlines, Inc.

William C. Stitt
President and Chief Operating Officer, ICF International, Inc.

Annual Shareholders' Meeting

The company's annual meeting of shareholders is scheduled for Saturday, June 27, 1992, at 10:00 a.m. at ICF International's headquarters in Fairfax, Virginia.

Stock Listing

ICF International's Class A Common Stock trades in the NASDAQ National Market System under the symbol ICFIA. The table below sets forth, by quarter, sales prices of the company's publicly traded stock as reported by the NASDAQ National Market System. The last sales price reported on May 1, 1992, was $8.25 per share, at which time there were 10,330,860 shares of Class A Common Stock held by 514 holders of record. The company believes that there are approximately 3,500 beneficial holders of Class A Common Stock.

Fiscal Year Ended	February 29, 1992		February 28, 1991	
	High	Low	High	Low
First Quarter	$18.500	$14.250	$11.625	$ 7.125
Second Quarter	16.750	8.000	14.875	8.375
Third Quarter	10.000	6.500	11.750	8.625
Fourth Quarter	11.000	6.250	17.250	10.000

ICF International's Class B Common Stock is traded in a quarterly internal market only, at a price based on the average closing price on NASDAQ of the Class A Common Stock during the 20 trading days leading up to and including the internal market date. On May 1, 1992, there were 7,966,394 shares of Class B Common Stock held by 391 holders of record. The following table sets forth the trading prices for the Class B Common Stock for each of the quarterly internal markets listed:

May 1990	$ 9.51
July 1990	$12.71
October 1990	$ 9.91
January 1991	$11.45
May 1991	$16.01
August 1991	$10.26
October 1991	$ 6.50
January 1992	$ 8.47

10-K Report

ICF International files an annual report on Form 10-K with the Securities and Exchange Commission. A copy of the report may be obtained without charge by writing to:

James P. Zeumer
Director, Investor Relations
ICF International, Inc.
9300 Lee Highway
Fairfax, Virginia 22031-1207
USA

Transfer Agent

American Transtech, Inc.
8000 Baymeadows Way
Jacksonville, Florida 32256
USA
800/845-2386

For More Information

Financial analysts, stockbrokers, and interested investors who want information about ICF International should contact:

James P. Zeumer
Director, Investor Relations
ICF International, Inc.
9300 Lee Highway
Fairfax, Virginia 22031-1207
USA
703/934-3208

To receive general information about ICF International or its subsidiaries, contact:

Sara Brenner
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9300 Lee Highway
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