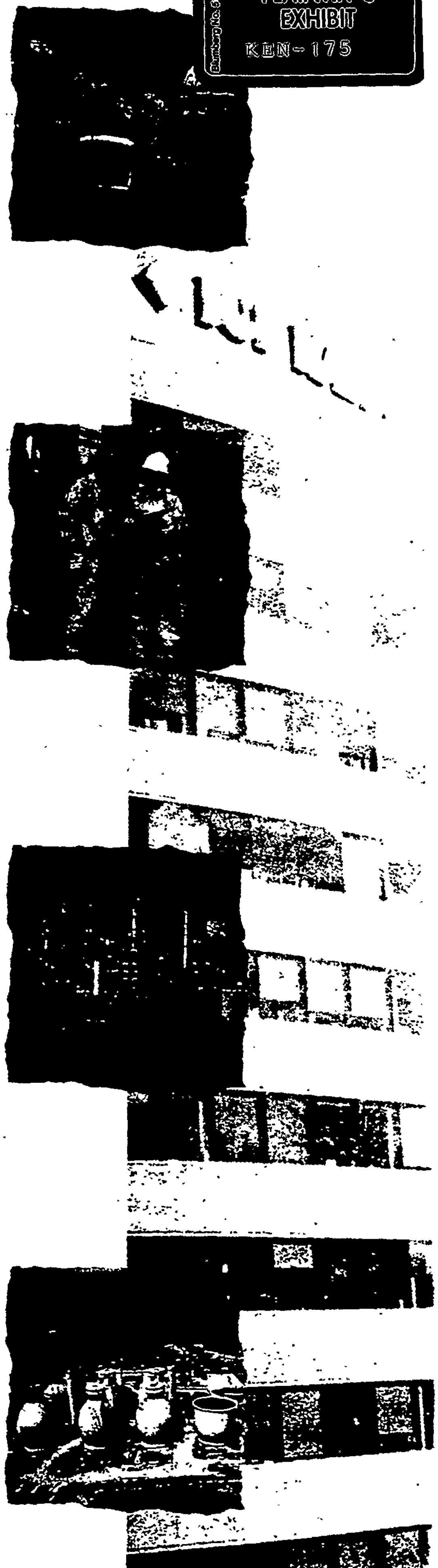
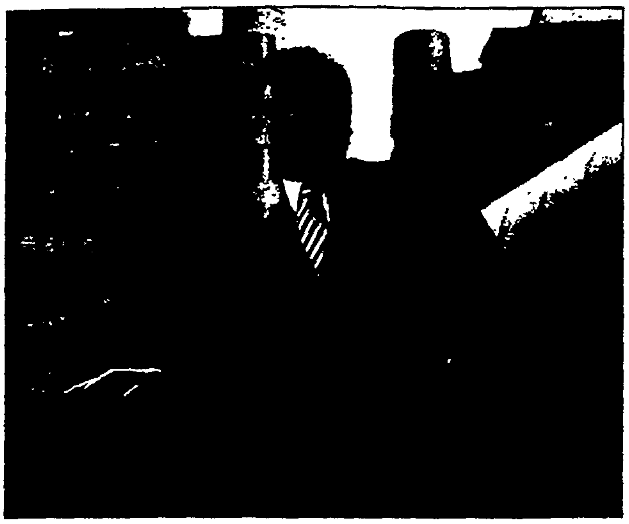
1995 Annual Report



ICF KAISER

Worldwide Excellence in Meeting Client Needs



James O. Edwards
Chairman and Chief Executive Officer

Last year's Letter to Shareholders stated that by the end of fiscal 1995, "...I expect to talk about the Company's more positive financial performance." Given ICF Kaiser's results for the year, I can certainly do that: year-over-year gross revenue increased by $200 million; even after excluding $8.7 million in unusual charges in fiscal 1994, operating income increased by more than $10 million. Earnings also improved, increasing by more than $1.00 per share, and the price of our Common Stock has rapidly doubled from last July 1 to early May as I write this letter.

This financial performance represents significant progress toward achieving one of our most important goals: returning ICF Kaiser to profitability. Although we are not yet there, the Company has implemented a number of actions needed to begin regaining ground lost over the past several years. The improvements you see on individual lines of the income statement represent a series of steps taken at every level of the organization.

Where costs were too high, we cut them. Everything from staffing to leasing and travel were analyzed with an eye toward reducing or eliminating costs. Excluding ICF Kaiser's operations at the U.S. Department of Energy's (DOE) Hanford site, our direct cost of services and overhead plus our general and administrative expenses decreased by $25 million.

Where we lacked vital market development skills, we acquired needed talent. Across all operations, senior managers invested resources to build stronger marketing and sales departments. We realized that, in the short term, these added costs would be a drag on performance, but the investment was critical to future success.

Where once business units marketed just their specific skills or services, today we sell entire solutions to our clients. Improved communication within and across our consulting, environmental, and engineering and construction services has enhanced market development activities.

Improving Financial Results

Benefitting from steps such as those outlined above, ICF Kaiser's financial results for the year ended February 28, 1995, showed areas of significant improvement. Gross revenue was $861.5 million, an increase of 32 percent over the prior year. Service revenue also grew, up 20 percent to $459.8 million. This year's higher revenue primarily reflects expansion of ICF Kaiser's Hanford contract.

Improved profitability at Hanford and within the Company's consulting and environmental services, reduced losses in our engineering and construction (E&C) services, and overall lower costs resulted in operating income for the year of $13.7 million, versus a loss of $5.2 million last year. After paying preferred dividends, the net loss for fiscal 1995 was $3.8 million, or $0.18 per share. Although this was almost a $22 million improvement over last year's net loss (after preferred dividends), the results are obviously unsatisfactory.

ICF Kaiser ended the year with a contract backlog in excess of $1.4 billion. Backlog has been relatively steady even during a shift in marketing strategy from bidding a large number of small contracts to focusing on fewer contracts that carry much higher values. Although larger contracts often have longer bidding cycles, the Company already is starting to benefit from this new strategy: the award of the Rocky Flats contract discussed below, awarded subsequent to the close of this fiscal year, has a backlog value of more than $3 billion.

Analyzing the Revenue Mix

Analyzing ICF Kaiser's revenue mix provides an understanding of the dynamics and trends affecting our primary markets: environment, infrastructure, and industry.

ICF Kaiser reported strong environmental revenue for the year of $497.8 million. Revenue growth in this market will continue and will accelerate given the Company's recent success in winning public-sector cleanup contracts. Especially noteworthy was DOE's award of the Performance Based Integrating Management contract at the Rocky Flats Environmental Technology Site in Colorado. This five-year contract, which is valued at $3.5 billion to the winning Kaiser-Hill Company, LLC, provides a stable base of business and gives the Company enhanced qualifications for future bids. Kaiser-Hill Company was formed between ICF Kaiser and Colorado-based CH2M Hill Companies, Ltd., to bid on the Rocky Flats contract.

The Rocky Flats award came close on the heels of signing a contract extension for work at Hanford, where the Company has been operating since 1988. This contract, which now runs through March 1997, has been amended to reflect DOE's new contracting strategies which are more pay-for-performance driven.

In the private-sector environmental market, ICF Kaiser was successful in winning work from a growing list of Fortune 500 companies. Although demand continues to be restrained by uncertainty over federal environmental regulations, strength in the domestic economy provided additional financial resources for companies that are taking a more proactive approach to addressing their environmental needs.

For the year, our consulting operations were successful in meeting their financial goals and in implementing strategies to diversify their client base. The group maintained its strong position with the U.S. Environmental Protection Agency, winning major new contracts related to chemical emergency preparedness and global environmental issues. The group's revenue, which exceeded $70 million, also reflects expanded sales to the U.S. Departments of Energy, Defense, and Transportation, as well as other domestic and international private-sector and government clients.

Good opportunities exist for continued growth of our consulting services, and programs have been initiated to expand the group's presence even further in new markets throughout the world. Along with higher sales based on traditional expertise, the group is targeting increased sales related to implementing treaty agreements associated with global environmental issues, defense conversion and demilitarization, and public-private partnerships emerging in a post-regulatory world. We are beginning to realize the potential of our consulting operations as a large project generator for our engineering and construction business; I look upon this as one of our significant competitive advantages.

In other markets, sales of ICF Kaiser's E&C services showed improvement over last year, but overall the profit performance was weaker than planned. For the year, industrial revenue was up 10 percent to $56.3 million, but infrastructure sales declined by $10 million to $70.9 million. Management actions taken to better match operating costs with market demand improved year-over-year results; however, the group still experienced an operating loss.

With more than 75 years of experience working with companies involved in mining and metals processing, ICF Kaiser maintains a strong competitive position in this part of the industrial market. E&C bookings of industrial work increased 100 percent during fiscal 1995, and we expect demand to strengthen further as economic conditions result in better pricing for metals such as steel, aluminum, copper, and tin. Demand for these end products, in turn, drives demand for ICF Kaiser's services.

Sales were weak in our infrastructure markets as state and local budgets throughout the country took hard hits from governments wrestling with financial issues. We are expecting the infrastructure market to remain mixed throughout fiscal 1996. In response to these conditions, we have reduced our costs in the relevant business units. ICF Kaiser also has intensified its business development efforts in California, where we have a large operation. In addition, we are placing increased emphasis on more promising areas in the East and Southeast where new roads, highways, and mass transit systems, including high-speed rail systems, are all on the drawing boards.

The Company continued to make investments in its international operations since many of the larger industrial and infrastructure projects in the future will be outside of the United States. ICF Kaiser's international revenue in fiscal 1995 increased almost 50 percent to $54.1 million. One of the most successful regions was Eastern Europe where ICF Kaiser already is working on the initial phase of a contract for construction of a hot strip steel mini-mill in the Czech Republic. In addition to providing preliminary design, detailed design, engineering, and construction services, ICF Kaiser is arranging financing for this estimated $300 million project.

In Conclusion

Despite fiscal 1995 being a difficult year, it is gratifying to see that changes made at key points in the organization, which began almost 18 months ago, are turning around the Company. The establishment of clear lines of responsibility and authority, the recruitment of several new senior executives, and, above all, an increased investment in marketing and sales all are beginning to bear fruit.

In the months ahead, ICF Kaiser will take additional steps to integrate operations further in order to provide even better service to its clients and to enhance the Company's corporate development activities. Today, the buzz words are delayering and re-engineering the corporation, but the Company's actions are really nothing more than finding more efficient ways to operate.

The work at DOE's Rocky Flats Environmental Technology Site may be considered the single most challenging environmental cleanup job in the country, and is certainly one of the largest. All of the employees at ICF Kaiser, along with every member of the winning Kaiser-Hill team, are honored to be entrusted with this national priority. The employee commitment, extensive skills, and business development efforts needed to win this contract should enable ICF Kaiser to win other large-scale projects in the year ahead. Being successful in these efforts will allow next year's letter to focus on the significant profits earned for our long-patient shareholders.

Sincerely,

James O. Edwards
Chairman and Chief Executive Officer

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In March 1995, the U.S. Department of Energy (DOE) issued revised estimates on the cost to clean up former nuclear weapons production sites. Total costs now are estimated at $230 billion over the next 75 years. A similar estimate was issued by the U.S. Department of Defense (DOD), which calculated its total environmental expense at better than $40 billion. What makes these programs so expensive? Two key factors are the number of bases (hundreds with thousands of contaminated sites) and the extremely hazardous nature of the wastes: radioactive materials, highly volatile chemical compounds, unidentified mixed wastes, and exploded and unexploded munitions.

Solving environmental problems that are this complex requires integrated consulting, environmental, and large project management skills. Given its broad environmental and engineering construction capabilities, ICF Kaiser is in an excellent position to support both DOE and DOD in responding to their environmental challenges.

Responding to DOE's New Mission

The primary mission of DOE has changed from weapons production to include environmental cleanup as its focal point. Meeting the demands of this new challenge requires a different set of skills. As a result, DOE has stated that it will rebid $27 billion worth of work when existing site management contracts expire. The decision to compete these contracts openly sends a clear message that it is no longer business as usual at DOE.

ICF Kaiser has been moving aggressively to meet the needs and to support one of its most important, long-standing customers. The Company's consulting services currently are supporting DOE in a variety of areas, including cleanup cost accounting, pollution prevention, and information management. At the same time, ICF Kaiser has leveraged skills developed at DOE's Hanford facility to support its current work at 10 of 18 primary weapons sites. Given the risks associated with handling nuclear materials and the resulting impracticality of on-the-job-training, ICF Kaiser's extensive experience puts it in a very strong competitive position to manage such programs.

Market position in and of itself does not guarantee success. During the past 12 months, ICF Kaiser continued to convert competitive position into business results. ICF Kaiser signed a three-year contract to provide environmental services at DOE's Los Alamos National Laboratory. The Company also had its Hanford contract extended for an additional year to March 1997.

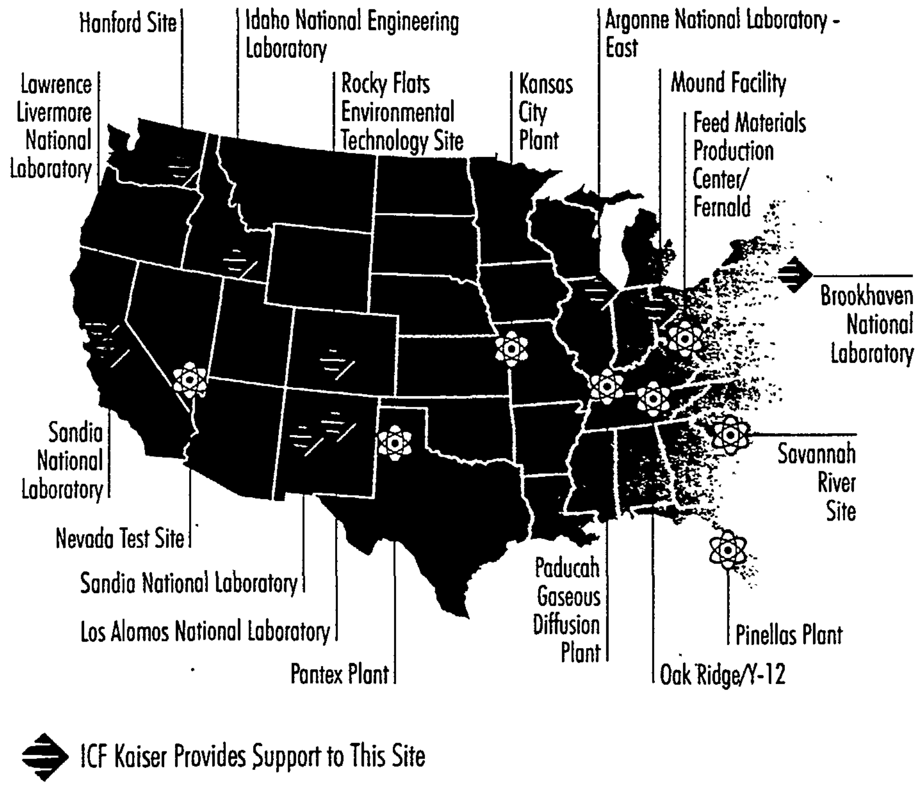
Finally, in April 1995, Kaiser-Hill Company, LLC, a company formed with Colorado-based CH2M Hill Companies Ltd., was awarded the five-year, $3.5 billion Performance Based Integrating Management contract at the Rocky Flats Environmental Technology Site. Kaiser-Hill will oversee plutonium consolidation, environmental restoration, site safety and security, and construction activities of subcontract companies. Kaiser-Hill assembled and will manage a world-class team of contractors including Babcock & Wilcox, BNFL, Morrison Knudsen, and Westinghouse that is committed to realizing DOE's goal of more cost-efficient, results-oriented environmental cleanup.

Gaining Position Within the DOD Market

Unlike many of the DOE facilities that are located in more remote, isolated areas of the country, DOD military bases often are situated in or around densely populated areas, such as San Diego, San Francisco, and New York. Proximity to major cities adds new dimensions to environmental restoration because hazardous waste cannot be permitted to migrate off site to pose a threat to the surrounding population. There are also powerful economic forces driving the DOD cleanup process: once restored, these bases offer the potential of valuable commercial development by the private sector. As federal budget constraints continue to force closure of military bases around the world, effective cleanup and conversion of these sites is critical to ensuring the safety and economic vitality of the surrounding communities.

Having previously focused resources on establishing a leadership position with DOE, ICF Kaiser now is applying its expertise in the rapidly emerging market for DOD environmental services. The Company, which already was working with the Office of the Secretary of Defense on tasks related to strategy and planning, recently was awarded more than $50 million of new work to provide environmental restoration services to the U.S. Army. ICF Kaiser also has started negotiations with the Savannah Army Corps of Engineers for a contract award worth up

ICF Kaiser's DOE Presence



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The Company is continuing to bid aggressively on some of DOD's larger environmental programs, such as the Army's Total Environmental Restoration Contracts (TERC). With contract values ranging from $100 to $400+ million, TERC awards are expected out of Baltimore, Savannah, and other Army Corps regions. Similar opportunities are being pursued with the other services. There also will be a series of smaller consulting and cleanup programs valued at between $10-$50 million, on which the Company expects to bid.

The line between environmental and what might be considered more traditional engineering and construction (E&C) skills has become so faint as to be almost meaningless. Today, what clients want is a contractor that can provide comprehensive solutions and can deliver a broad spectrum of capabilities from consulting to remediation and construction. For a growing list of clients, ICF Kaiser is that company.

Meeting the Environmental Needs of Industrial Companies

Growth of the private-sector market for environmental services continues to be hampered by uncertainty over regulations, such as Superfund and the Clean Water Act. Although growth in demand for services has slowed, according to Environmental Business International, the annual market for environmental engineering and consulting services still exceeds $14.0 billion. Generating higher sales in this type of market requires successful implementation of some fairly traditional business strategies.

First, the Company is increasing sales to existing clients. Where a business unit sold only risk assessments, today it teams with other units to sell ICF Kaiser's information management, remediation, and process design skills. Also, since many of the Company's customers have production facilities located in different states or even different countries, ICF Kaiser is capitalizing on its extensive resources to provide services at client facilities around the world.

Implementation of this strategy already is yielding benefits as the Company builds national-account relationships with a growing number of industrial clients. One of our newest clients, a Fortune 200 chemical manufacturer, has awarded ICF Kaiser two significant contracts for environmental assessment and remediation work at sites located in West Virginia and Massachusetts.

The second strategy for increasing sales is to target new markets for ICF Kaiser's full-service capabilities. The Company is selling beyond its traditional heavy industry clients to more refineries, chemical and petrochemical companies, and pharmaceutical manufacturers. Because ICF Kaiser does not have the same extensive client relationships with these new industries, the Company has to look for access points. For example, many companies just now are realizing the full impact of the Clean Air Act Amendments of 1990. Utilizing its consulting expertise in air toxics, emission monitoring, and Title III and V operating permit preparation, the Company has been successful in selling work to a variety of new clients in the liquids-processing industries.

The final strategy for success is expanding the types of services ICF Kaiser can offer. After years of studying hazardous waste problems, the market is advancing quickly to actual remediation. There is sufficient capacity in the marketplace that ICF Kaiser can team or subcontract for needed remediation skills. Long term, however, the Company's strategy is to expand its in-house remediation capabilities and to gain greater access to innovative cleanup technologies.

Rebuilding ICF Kaiser's Industrial and Infrastructure Business

ICF Kaiser's E&C skills include engineering design, detail design, construction, and construction management. In its markets of industry and infrastructure, ICF Kaiser is involved with some of the largest projects in the world: the $3.4 billion Boston Harbor wastewater treatment system, the $8 billion Woodside natural gas project in Australia, and the $18 billion Taipei rapid transit system. Whether a multibillion dollar turnkey project or the upgrade of an existing facility, ICF Kaiser has a reputation for providing superior services.

ICF Kaiser's customer base reflects its history in metals and mining. These markets have moved through a demand cycle that bottomed-out about 12 to 18 months ago and is now on the upswing. Improving economic conditions, combined with the Company's investments in marketing and sales, should result in stronger demand for E&C services in the year ahead.

Having reduced its costs, ICF Kaiser's industrial operations are working on the other side of the equation, which is to increase backlog and revenue. This past year saw the award of a contract to perform construction management services for the development of Magma Nevada Mining Company's copper concentrator plant. In addition, ICF Kaiser has expanded its relationship with a number of U.S. steel manufacturers to upgrade and improve the efficiency of existing capacity.

Internationally, much larger industrial projects are developing. ICF Kaiser will perform engineering services for an ammonia recovery plant at Baoshan Iron and Steel in Shanghai, the People's Republic of China. The Company is also in the design and project financing phase of a $300 million hot strip steel mini-mill for Nova Hut, a.s., in the Czech Republic. When successful in assembling the required funding, ICF Kaiser will provide project management, process design, and construction management services during the next phase of the project. Only a company with the broad capabilities of ICF Kaiser and employees thinking strategically to sell all of the Company's services, could perform the variety of tasks needed to make this project come to life.

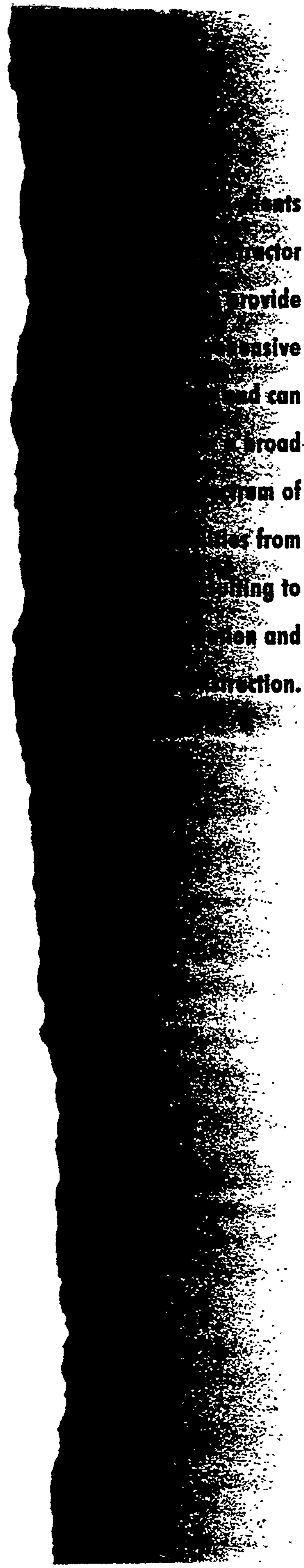
The other major market for the Company's E&C skills is in rebuilding the global infrastructure of roads, highways, transit systems, harbors, airports, facilities, and buildings. In the United States, budget constraints at all levels of government have hindered market growth. Fiscal year 1995 federal appropriations for highway programs and mass transit, however, still exceeded more than $20 billion dollars. The good news is that, according to *Engineering News-Record*, ICF Kaiser ranks sixth in transportation design. The better news is that this still leaves tremendous opportunity to increase sales.

ICF Kaiser is active in every major metropolitan area of the country, and has an established position in a number of large-scale infrastructure programs. In Chicago, ICF Kaiser is part of a joint-venture team providing design services for a new transit line in the city's downtown area. Having provided these design services, the Company is optimistic about winning follow-on construction work. In Boston, after more than five years of success as the construction manager of the Boston Harbor cleanup, ICF Kaiser is in an excellent position to win the next three-year phase of this internationally recognized construction project.

In Florida, ICF Kaiser is a leading contractor for Miami's Intermodal Transit Center. This project, which will tie together air, rail, and highway systems, could blossom into a multibillion dollar construction program that would be a model for other cities. This is just one of a number of potential projects in Florida ranging from highways to high-speed rail systems.

Another area of opportunity developing in the infrastructure market is in facilities engineering, architectural, and construction services. This work includes structures such as retail centers, federal courthouses, wastewater treatment plants, and maximum-security prisons. New regulations, changing public sentiment, and increased funding should make these last two markets extremely promising over the next five years.

ICF Kaiser's skills, particularly in large-scale construction, are respected throughout the world. In the United Kingdom, ICF Kaiser is a member of a consortium bidding on the Channel Tunnel Rail Link, which will construct a train line from downtown London to the Channel tunnel. Leveraging the skills and reputation developed while building the 150-kilometer Taipei transit system, ICF Kaiser is involved with other rail projects in Manila, India, and Portugal.



ICF was founded as a small consulting practice. Today, ICF Kaiser's consulting services are provided by over 500 professionals whose skills in many disciplines are recognized and respected by clients around the world. Through its partner-like approach to consulting, ICF Kaiser helps clients remain competitive in the face of rapidly changing regulations, global markets, and emerging technologies.

ICF Kaiser offers consulting services across four interrelated lines of business: environmental consulting, in-career education and training, information management, and energy resource management. In these key markets, the Company is working with numerous public- and private-sector clients.

Since its inception, ICF Kaiser has built extensive consulting capabilities for the planning, evaluation, and execution of environmental programs. The Company is well-versed with every major federal, state, local, and international environmental law and regulation. ICF Kaiser examines the full spectrum of economic, technical, and legal issues necessary to define strategies that are robust over the relevant life cycle.

With global environmental issues increasingly important to firms and nations alike, ICF Kaiser has developed a special expertise in this important field. The Company has supported every major global environmental treaty and international forum, and has participated in efforts to design and implement solutions to critical global problems. Working with public-sector officials and business leaders in over 30 countries, ICF Kaiser has developed the knowledge and skills necessary to contribute to the resolution of some of the most challenging problems facing the world today.

Leveraging its extensive knowledge base, the Company is building a presence in the growing field of in-career education and training. ICF Kaiser offers environmental compliance programs that cover regulations, technologies, information reporting, and emergency response. In addition, the Company provides a mix of educational resources and active, responsive learning experiences that stimulate staff thinking about contemporary issues.

In the era of the Information Super Highway, ICF Kaiser's information management services have become critical to clients looking to develop decision support systems that facilitate the collection and use of information to track performance, to identify opportunities, and to improve decision making. The Company offers sophisticated simulation models and proprietary applications, such as its electric utility Integrated Planning Model©. By combining consulting expertise with information technology skills, ICF Kaiser helps its customers deal with the unique challenges of their business.

Through 20 years of consulting experience, the Company has built strong relationships across the entire energy industry, including electric utilities; oil, gas and coal producers; energy consumers in the public and private sectors; laboratories and other technology providers; and transportation companies. ICF Kaiser helps these organizations identify market opportunities, deal with regulations, succeed in litigation, commercialize new technologies, and develop public policy. The Company's expertise is built upon linking an in-depth understanding of the energy markets with an ongoing involvement with energy technology.

ICF Kaiser is working to integrate its consulting services more fully with the Company's federal programs and E&C services to help generate new project opportunities. By leveraging its available consulting expertise and major client relationships, ICF Kaiser gains access to projects at their outset. Better integration of Company operations already has yielded significant sales of environmental remediation services in the U.S. private sector and the identification of major infrastructure projects internationally.

FINANCIAL HIGHLIGHTS

	1995	1994(1)	1993	1992(1)(3)	1991
			(In thousands, except per share amounts)		
Gross revenue	$861,518	$651,657	$678,882	$710,873	$624,976
Service revenue(2)	459,786	382,708	391,528	385,942	363,318
Operating income (loss)	13,688	(5,230)	22,744	(43,963)	33,287
Net income (loss) before extraordinary item	(1,661)	(12,528)	8,639	(40,516)	14,291
Net income (loss)(3)	(1,661)	(18,497)	8,639	(40,516)	14,291
Primary net income (loss) per common share:					
Before extraordinary item and redemption of redeemable preferred stock	$(0.18)	$(0.83)	$ 0.16	$(2.25)	$ 0.71
Extraordinary loss on early extinguishment of debt	-	(0.29)	-	-	-
Redemption of redeemable preferred stock	-	(0.09)	-	-	-
Total	$(0.18)	$(1.21)	$ 0.16	$(2.25)	$ 0.71
Fully diluted net income (loss) per common share:					
Before extraordinary item and redemption of redeemable preferred stock	$(0.18)	$(0.83)	$ 0.16	$(2.25)	$ 0.68
Extraordinary loss on early extinguishment of debt	-	(0.29)	-	-	-
Redemption of redeemable preferred stock	-	(0.09)	-	-	-
Total	$(0.18)	$(1.21)	$ 0.16	$(2.25)	$ 0.68
Weighted average common and common equivalent shares outstanding, assuming full dilution	20,957	20,886	21,272	19,085	20,308
Total assets	$281,422	$281,198	$293,076	$318,947	$357,457
Working capital	92,865	90,725	87,845	66,065	74,754
Long-term liabilities	133,303	130,752	75,602	85,675	109,820
Redeemable preferred stock	19,617	20,212	44,824	45,161	26,498
Shareholders' equity	27,624	30,780	58,521	51,151	88,839

(1) Gross revenue and service revenue for the fiscal year ended February 29, 1992, exclude businesses discontinued by the Company in fiscal year 1992; the financial data for fiscal year 1991 includes results for the entire Company. In fiscal year 1994, the Company adopted Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. In fiscal year 1992, the Company adopted Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*.

(2) 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.

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

Overview

ICF Kaiser is one of the nation's largest engineering, construction, and consulting services companies, providing fully integrated services to domestic and foreign clients in the environmental, infrastructure, industrial, and energy markets, in both the private and public sectors.

ICF Kaiser had operating income of $13.7 million and a net loss before extraordinary item of $1.7 million ($0.18 net loss per share) for the year ended February 28, 1995 (fiscal 1995) compared with an operating loss of $5.2 million and a $12.5 million net loss before extraordinary item ($0.83 net loss per share) for the year ended February 28, 1994 (fiscal 1994). Operating income in fiscal 1995 was $10.2 million higher than fiscal 1994, exclusive of the unusual items in fiscal 1994. The operating income increase in fiscal 1995 reflects improvements in each of the Company's businesses over fiscal 1994, including an increase in fees at the Company's operations at the U.S. Department of Energy's Hanford, Washington, site (Hanford). These gains were somewhat offset by a high level of marketing expense associated with proposing and bidding major contracts, including the Company's successful pursuit through Kaiser-Hill Company, LLC (Kaiser-Hill) of the Performance Based Integrating Management contract at the U.S. Department of Energy's Rocky Flats Environmental Technology Site in Colorado (Rocky Flats), more fully described below. Gains in operating income growth were offset by substantially higher nonoperating costs, including interest expense, due to the fiscal 1994 refinancing, and income tax expense (see Results of Operations).

The Company's engineering and construction services had an operating loss for fiscal 1995 of $6.5 million, which was an improvement over fiscal 1994. The operating loss was due primarily to a decline in revenue and to delays in the commencement of previously awarded projects. These revenue declines were not offset fully with cost reductions.

Outlook

Management believes that it has made significant progress during fiscal 1995 toward positioning the Company for future success by stabilizing operations, enhancing financial controls, lowering corporate overhead costs, and increasing market development activities. Extension of the Hanford contract through March 1997 and the award of the Rocky Flats contract to Kaiser-Hill combine to provide a stable operating income base upon which the Company can build. Management intends to continue its investment in new business development initiatives in order to maintain and build its backlog. Among these initiatives are continued pursuit of major federal environmental cleanup contracts, international and private-sector expansion of consulting services, and expansion of remediation capabilities.

Management also will continue its focus on restoring the Company's engineering and construction business to profitability through increased marketing efforts combined with cost reductions, primarily personnel.

In April 1995, Kaiser-Hill, a limited liability company owned equally by ICF Kaiser and CH2M Hill Companies Ltd., was awarded the Rocky Flats contract. The five-year contract, valued at $3.5 billion, is expected to generate between $1.5 million and $9.0 million in annual pretax profit to ICF Kaiser. The fee structure for this contract will provide for a mixture of base and incentive fees earned through the achievement of cost reductions, attainment of certain milestones, and accomplishment of other goals.

Backlog

The Company's backlog on February 28, 1995, was $1.4 billion, down from $1.6 billion reported as of February 28, 1994. The Company estimates that the Kaiser-Hill contract at Rocky Flats represents approximately $3.5 billion in backlog beginning July 1, 1995.

Results of Operations

The following table summarizes key elements in the Consolidated Statements of Operations for the years ended February 28, 1995, 1994, and 1993.

	1995	1994	1993
	(Dollars in millions)		
Gross revenue	$861.5	$651.7	$678.9
Service revenue	$459.8	$382.7	$391.5
Service revenue as a percentage of gross revenue	53.4%	58.7%	57.7%
Expenses as a percentage of service revenue:			
Direct cost of services and overhead	85.5%	84.6%	80.0%
Administrative and general	9.5%	12.0%	11.2%
Depreciation and amortization	2.0%	2.5%	2.7%
Unusual items, net	-	2.3%	-
Cost of disposal of businesses, net	-	-	0.3%
Operating income (loss)	3.0%	(1.4)%	5.8%

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 and other reimbursable direct project costs, such as materials procured by the Company on behalf of its customers.

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 Kaiser believes that it is appropriate to analyze operating margins and other ratios in relation to service revenue because such revenue and ratios reflect the work performed directly by the Company.

Operating profits generated by the Hanford and Kaiser-Hill contracts are based on performance and not revenue. Consequently, a change in revenue between periods is likely to be disproportionate to the change in operating income. As such, changes in revenue may have an exaggerated impact on the Company's margins as measured on a percentage basis.

Fiscal 1995 Compared to Fiscal 1994

Revenue

Gross revenue for fiscal 1995 increased 32.2% to $861.5 million, while service revenue increased 20.1% to $459.8 million, versus fiscal 1994. These increases were attributable to the work performed at Hanford ($208.8 million of the gross revenue increase and $97.4 million of the service revenue increase). The Hanford revenue increases were offset partially by a decrease in the Company's engineering and construction revenue ($14.1 million gross revenue and $10.8 million service revenue). Service revenue as a percentage of gross revenue decreased to 53.4% for the year ended February 28, 1995, from 58.7% for fiscal 1994, primarily because under an October 1993 amendment to the Hanford contract, ICF Kaiser absorbed tasks utilizing a much higher proportion of subcontractors than Company personnel.

Operating Expenses

The Company's direct cost of services and overhead was relatively flat as a percentage of service revenue in fiscal 1995 versus fiscal 1994. Excluding Hanford, direct cost of services and overhead decreased to 76.2% of service revenue in fiscal 1995 from 79.2% in fiscal 1994. Administrative and general expense decreased $2.1 million. The decrease in these costs is attributable primarily to management cost-cutting initiatives.

A restructuring plan initiated in fiscal 1994 to respond to operating losses included downsizing the work force, consolidating office space, renegotiating significant leases, and restructuring certain international operations. Management expects to complete office space consolidation plans in fiscal 1996. All other actions have been substantially completed as of February 28, 1995. Management will continue to focus on cost reduction and containment efforts.

Interest Expense

ICF Kaiser's interest expense net of interest income (net interest) for the year ended February 28, 1995, increased $6.3 million from fiscal 1994 due to a recapitalization that took place in the fourth quarter of fiscal 1994 (also see Liquidity and Capital Resources). The increase in net interest was impacted favorably by $1.3 million in refunds of interest from the Internal Revenue Service (IRS) recorded in the third quarter of fiscal 1995 associated with the Company's tax liabilities and those of an acquired company. The increase in net interest was offset partially by a reduction in preferred stock dividends.

Income Tax Expense

ICF Kaiser's income tax provision for fiscal 1995 was $2.9 million, even though pretax income was $1.2 million. This is due to several factors including the repatriation of overseas funds to the United States during fiscal 1995 that currently could not be offset by foreign tax credits and permanent differences, such as the nondeductibility of goodwill amortization. Nondeductible permanent differences comprise a very high percentage of pretax income. As such, the traditional percentage relationship between income tax expense and pretax income is not meaningful. It is anticipated that the combination of projected pretax income levels and the current level of permanent differences will result in the Company's effective tax rate continuing to be above traditional levels in the near-term future.

Because of the reported fiscal 1994 losses, a $3.3 million valuation allowance was established in fiscal 1994 for deferred tax assets. In fiscal 1995, although pretax income increased $14.1 million to $1.2 million (with a corresponding increase in taxable income), the Company has maintained the valuation allowance.

As of February 28, 1995, the Company had deferred tax assets related to net operating loss carryforwards of $2.2 million, of which $0.4 million expire in fiscal 2004 and $1.8 million expire in 2009. Additionally, the Company has $1.1 million of tax credit carryforwards, the majority of which do not expire. Management believes that the Company's expected levels of pretax earnings, when adjusted for nondeductible expenses such as goodwill amortization, will generate sufficient future taxable income to realize the $13.6 million deferred tax asset within the next five years.

Fiscal 1994 Compared to Fiscal 1993

Revenue

Gross and service revenue declined 4.0% and 2.2%, respectively, to $651.7 million and $382.7 million in fiscal 1994 primarily due to the successful completion of two large industrial projects during fiscal 1993 ($81.3 million and $9.2 million, respectively); a significant decline in other engineering and construction business ($38.1 million and $21.9 million, respectively); the sale of a subsidiary under a fiscal 1992-1993 restructuring plan during the third quarter of fiscal 1993 ($14.4 million and $10.3 million, respectively); a decline in the Company's energy engineering business ($11.8 million and $9.6 million, respectively); and the general impact of reduced government spending, loss of business days due to severe weather in the East and the Los Angeles earthquake, and a sluggish economy. The decrease was offset partially by a significant increase in ICF Kaiser's services provided at Hanford ($120.8 million and $52.4 million, respectively). This increase was due primarily to the amendment of ICF Kaiser's contract with the U.S. Department of Energy, which was effective October 1, 1993. Service revenue as a percentage of gross revenue increased as the Company continued its concerted efforts to shift more non-Hanford work from subcontractors to Company personnel. Equity in income of joint ventures and affiliated companies, and consequently service revenue, declined due to the successful early completion of a natural gas liquefaction project on Australia's Northwest Shelf ($2.8 million) and the sale of the Company's interest in Acer Group Limited ($1.6 million), partially offset by $1.1 million of income from the

Company's interest in an entity that owns a coal pulverization facility.

Operating Expenses

The Company's direct cost of services and overhead increased to 84.6% of service revenue in fiscal 1994 from 80.0% in fiscal 1993. The relatively fixed nature of certain of the Company's indirect costs (e.g., office rent) and the timing of the implementation of action plans for certain operating units developed in fiscal 1994 delayed the impact of cost reductions in the fourth quarter. ICF Kaiser also increased its commitment to marketing in fiscal 1994, which contributed to the overall increase in administrative and general expense.

Depreciation and amortization expense decreased $1.2 million to $9.6 million for the year ended February 28, 1994, primarily as the result of the write-off of certain software assets in the third quarter of fiscal 1993.

Interest Expense

ICF Kaiser's interest expense for the year ended February 28, 1994, decreased 4.8% from fiscal 1993. The decrease is attributable to both the reduced average amount of debt outstanding and lower prevailing interest rates.

Income Tax Expense

ICF Kaiser's effective tax rate decreased to 2.7% in fiscal 1994 from 42% in fiscal 1993 because the book loss included a high level of nondeductible expenses, such as goodwill amortization, differences between the book and tax basis of businesses sold, and losses from controlled foreign corporations. This impact was magnified by the unanticipated decline in operating results in the fourth quarter of fiscal 1994. A $3.3 million valuation allowance was established in fiscal 1994 for deferred tax assets. The valuation allowance was established due to the extraordinary item and recent operating results. As of February 28, 1994, the Company had deferred tax assets related to net operating loss carryforwards of $4.3 million, of which $0.4 million were scheduled to expire in fiscal 2004 and $3.9 million in 2009. The Company also had recorded $0.9 million of tax credit carryforwards, the majority of which do not expire.

Extraordinary Item

The Company completed a recapitalization program in the fourth quarter of fiscal 1994 that resulted in a $6.0 million extraordinary charge (net of $0 tax benefit) for the early extinguishment of debt and a $1.9 million charge to net income available for common shareholders to repurchase the Company's Series 2C Senior Preferred Stock. These charges reduced earnings per share by $0.38 for a total loss of $1.21 per share in fiscal 1994 (see Liquidity and Capital Resources).

Liquidity and Capital Resources

Cash and cash equivalents increased $2.7 million in fiscal 1995 to $28.2 million, and the Company's working capital and current ratio have improved since fiscal 1994. Cash and working capital increased in fiscal 1995 due to an increased focus on cash management. Additional reasons for the cash and working capital improvements include cash from operating activities, the receipt of proceeds from a fiscal 1994 disposition ($2.6 million), refunds from the IRS ($3.5 million), and the use of the Company's Credit Facility ($5.0 million). The improvement was offset partially by cash payments for the settlement of several outstanding liabilities related to prior dispositions.

In fiscal 1995, the U.S. Environmental Protection Agency approved the Company's revised provisional rates for fiscal years 1991 through 1994, authorizing the Company to invoice on a variety of cost-plus contracts with U.S. government agencies for work performed during the approved years. The Company expects to collect an additional $2 - $4 million in cash in fiscal 1996 from these receivables.

The Company has a $60 million revolving credit facility (the Credit Facility) provided by a consortium of banks (the Banks). ICF Kaiser International, Inc. and certain of its subsidiaries, which are guarantors of the Credit Facility, granted the Banks a security interest in their accounts receivable and certain other assets. The Credit Facility limits the payment of cash dividends, requires the maintenance of specified financial ratios, and has a $20 million limitation on cash borrowings. ICF Kaiser and the Banks entered into an amendment as of February 28, 1995, that modified financial ratios and other terms of the Credit Facility. As of February 28, 1995, there were $5.0 million in borrowings outstanding under the Credit Facility, in addition to $9.6 million in letters of credit, and the Company had $30.3 million of available credit under the Credit Facility. The Credit Facility contains Eurodollar and alternate base interest rate alternatives with margins dependent upon the Company's financial operating results and expires on October 31, 1996.

The Company completed a recapitalization program in the fourth quarter of fiscal 1994 by issuing $125,000,000 of the Company's 12% Senior Subordinated Notes due 2003 and 600,000 warrants, each to purchase one share of the Company's common stock at $5.00 per share. The net proceeds were used, in part, to retire the Company's 13.5% Senior Subordinated Notes due 1999 and associated warrants, to repurchase preferred stock, and to repay the outstanding balance on the Company's then-existing revolving credit facility.

For the past several years, the Company has had ongoing negotiations, filings, and litigation with the IRS related to settlement of its tax liabilities and the liabilities associated with acquired companies. As noted in the Results of Operations, the cash and income impact has been favorable to the Company. Further, the Company's previous tax losses and its resultant net operating loss carryforward position, will limit federal income tax payments required in the near future.

Management believes that current projected levels of cash flows and the availability of financing, including borrowings under the Company's Credit Facility, will be adequate to fund operations throughout the next 12 months.

Impact of New Accounting Standard

The Company adopted Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (SFAS No. 106), effective March 1, 1993. The Company's postretirement benefit obligation extends to only a limited group of retirees (and their spouses) who joined ICF Kaiser through an acquisition, and whose benefits are limited to a fixed amount per person. SFAS No. 106 requires that companies accrue postretirement benefits over the period benefits are earned. The Company has elected the prospective transition method and is amortizing its $14.2 million transition obligation over 14.5 years, the average remaining life expectancy of the retirees and their spouses. The Company's ongoing expense under SFAS No. 106 includes the interest component and the amortization of the transition obligation.

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 relatively little impact on operating margins; however, as a professional services company, 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, which have been minimal in the past several years, would be felt almost immediately in the Company's costs.

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of ICF Kaiser International, Inc. and subsidiaries as of February 28, 1995 and 1994, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended February 28, 1995. 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 Kaiser International, Inc. and subsidiaries as of February 28, 1995 and 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 28, 1995, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Washington, DC
April 28, 1995

ICF KAISER INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	February 28, 1995	February 28, 1994
	(In thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 28,233	$ 25,509
Contract receivables, net	139,860	128,166
Prepaid expenses and other current assets	12,097	20,451
Deferred income taxes	13,553	16,053
Total Current Assets	193,743	190,179
Fixed Assets		
Furniture, equipment, and leasehold improvements	42,557	40,630
Less depreciation and amortization	(29,648)	(24,955)
	12,909	15,675
Other Assets		
Goodwill, net	47,945	49,916
Investments in and advances to affiliates	6,797	5,600
Due from officers and employees	1,826	1,830
Other	18,202	17,998
	74,770	75,344
	$ 281,422	$ 281,198
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$ 46,811	$ 52,073
Accrued salaries and employee benefits	30,549	23,439
Accrued interest	2,528	2,108
Current portion of long-term debt	578	1,088
Income taxes payable	2,034	1,511
Deferred revenue	11,013	8,462
Other	7,365	10,773
Total Current Liabilities	100,878	99,454
Long-term Liabilities		
Long-term debt, less current portion	126,733	121,954
Other	6,570	8,798
	133,303	130,752
Commitments and Contingencies		
Redeemable Preferred Stock	19,617	20,212
Common Stock, par value $.01 per share:		
Authorized-90,000,000 shares		
Issued and outstanding-21,011,369 and 20,924,588 shares	210	209
Additional Paid-in Capital	63,786	63,572
Notes Receivable Related to Common Stock	(1,732)	(1,732)
Retained Earnings (Deficit)	(33,343)	(29,528)
Cumulative Translation Adjustment	(1,297)	(1,741)
	$ 281,422	$ 281,198

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended February 28, 1995	February 28, 1994	February 28, 1993
	(In thousands, except per share amounts)		
Gross Revenue	$861,518	$ 651,657	$ 678,882
Subcontract and direct material costs	(405,819)	(272,169)	(293,063)
Equity in income of joint ventures and affiliated companies	4,087	3,220	5,709
Service Revenue	459,786	382,708	391,528
Operating Expenses			
Direct cost of services and overhead	393,096	323,828	313,030
Administrative and general	43,770	45,842	43,702
Depreciation and amortization	9,232	9,559	10,766
Unusual items, net	-	8,709	(50)
Cost of disposal of businesses, net	-	-	1,336
Operating Income (Loss)	13,688	(5,230)	22,744
Other Income (Expense)			
Gain (loss) on sale of investment	551	(925)	(929)
Interest income	1,799	1,490	1,708
Interest expense	(14,799)	(8,212)	(8,629)
Income (Loss) Before Income Taxes	1,239	(12,877)	14,894
Income tax provision (benefit)	2,900	(349)	6,255
Net Income (Loss) Before Extraordinary Item	(1,661)	(12,528)	8,639
Extraordinary loss on early extinguishment of debt	-	(5,969)	-
Net Income (Loss)	(1,661)	(18,497)	8,639
Preferred stock dividends and accretion	2,154	4,896	5,293
Redemption of redeemable preferred stock	-	1,929	-
Net Income (Loss) Available for Common Shareholders	$ (3,815)	$ (25,322)	$ 3,346
Primary and Fully Diluted Net Income (Loss) Per Common Share:			
Before extraordinary item and redemption of redeemable preferred stock	$ (0.18)	$ (0.83)	$ 0.16
Extraordinary loss on early extinguishment of debt	-	(0.29)	-
Redemption of redeemable preferred stock	-	(0.09)	-
Total	$ (0.18)	$ (1.21)	$ 0.16
Primary and Fully Diluted Weighted Average Common and Common Equivalent Shares Outstanding	20,957	20,886	21,272

See notes to consolidated financial statements.

ICF KAISER INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Series 1 Junior Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Notes Receivable Related to Common Stock	Retained Earnings (Deficit)	Cumulative Translation Adjustment	ESOP Guaranteed Bank Loan
	Shares	Par Value	Shares	Par Value					
	(In thousands, except shares)								
Balance, March 1, 1992	69	$ 6,900	18,270,652	$ 182	$ 64,382	$ (3,387)	$ (7,552)	$ (1,041)	$ (8,333)
Net income							8,639		
Preferred stock dividends							(5,026)		
Preferred stock accretion							(267)		
Issuance of common stock			105,740	1	619				
Repurchase of common stock			(44,434)	0	(354)				
Conversion of Series 3 Preferred Stock into common stock			2,971,849	30	(29)				
Payments received on notes receivable						662			
Decrease in loan balance									3,333
Foreign currency translation adjustment								(660)	
Tax effect from the exercise of non-qualified stock options					559				
Other					(137)				
Balance, February 28, 1993	69	6,900	21,303,807	213	65,040	(2,725)	(4,206)	(1,701)	(5,000)
Net loss							(18,497)		
Preferred stock dividends							(4,670)		
Preferred stock accretion							(226)		
Redemption of redeemable preferred stock							(1,929)		
Repurchase of preferred stock	(69)	(6,900)			2,050				
Issuance of common stock			231,249	2	1,056				
Repurchase of common stock			(610,468)	(6)	(3,716)				
Issuance of warrants					900				
Repurchase of warrants					(1,909)				
Payments received on notes receivable						993			
Decrease in loan balance									5,000
Foreign currency translation adjustment								(40)	
Other					151				
Balance, February 28, 1994	-	-	20,924,588	209	63,572	(1,732)	(29,528)	(1,741)	-
Net loss							(1,661)		
Preferred stock dividends							(1,950)		
Preferred stock accretion							(204)		
Issuance of common stock			161,781	2	393				
Repurchase of common stock			(75,000)	(1)	(179)				
Foreign currency translation adjustment								444	
Balance, February 28, 1995	-	$ -	21,011,369	$ 210	$ 63,786	$ (1,732)	$ (33,343)	$ (1,297)	$ -

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended February 28, 1995	February 28, 1994	February 28, 1993
		(In thousands)	
Operating Activities			
Net income (loss)	$ (1,661)	$ (18,497)	$ 8,639
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Extraordinary loss on early extinguishment of debt	-	5,969	-
Depreciation and amortization	9,232	9,559	10,766
Provision for losses on accounts receivable	1,320	2,241	2,202
Provision for deferred income taxes	2,500	(714)	4,311
Earnings (in excess of) less than cash distributions from joint ventures and affiliated companies	972	(1,708)	(3,690)
(Gain) loss on sale of investment	(551)	925	929
Unusual items, net of cash	-	7,786	(50)
Decrease in reserve for restructuring and disposal of businesses, net of cash	-	-	(6,426)
Changes in operating assets and liabilities related to operating activities, net of dispositions:			
Contract receivables, net	(13,014)	26,292	(12,761)
Prepaid expenses and other current assets	4,471	4,614	3,750
Other assets	(1,649)	(745)	(257)
Accounts payable and accrued expenses	2,218	(10,233)	(8,622)
Income taxes payable	523	(2,478)	(930)
Deferred revenue	2,551	(2,412)	(11,753)
Other liabilities	(5,329)	(2,660)	(2,505)
Net Cash Provided by (Used in) Operating Activities	1,583	17,939	(16,397)
Investing Activities			
Investments in subsidiaries and affiliates	(622)	(2,755)	(1,146)
Purchases of fixed assets, net	(2,426)	(1,388)	(4,638)
Sales of subsidiaries and subsidiary assets	2,600	-	35,695
Other investing activities	-	-	387
Net Cash Provided by (Used in) Investing Activities	(448)	(4,143)	30,298
Financing Activities			
Proceeds from issuance of senior subordinated notes and related warrants	-	121,488	-
Principal payments on credit facility	-	(45,000)	(38,099)
Proceeds from borrowings from credit facility	5,000	10,000	30,000
Principal payments on other borrowings	(1,172)	(2,010)	(4,866)
Proceeds from other borrowings	-	-	4,357
Reacquisition of senior subordinated notes and related warrants	-	(35,809)	-
Repurchase of redeemable preferred stock and related warrants	(799)	(27,363)	(799)
Repurchase of preferred stock	-	(4,850)	-
Proceeds from (uses in) common stock transactions	215	(1,520)	130
Preferred stock dividends	(1,950)	(5,321)	(3,876)
Debt issuance costs	(149)	(6,307)	(159)
Net Cash Provided by (Used in) Financing Activities	1,145	3,308	(13,312)
Effect of Exchange Rate Changes on Cash	444	(40)	(660)
Increase (Decrease) in Cash and Cash Equivalents	2,724	17,064	(71)
Cash and Cash Equivalents at Beginning of Period	25,509	8,445	8,516
Cash and Cash Equivalents at End of Period	$ 28,233	$ 25,509	$ 8,445
Supplemental Information:			
Cash payments for interest	$ 14,961	$ 10,565	$ 9,447
Cash payments (refunds) for income taxes	(1,026)	(106)	(416)
Non-cash Transactions:			
Decrease of ESOP guaranteed bank loan	-	(5,000)	(3,333)
Sale of investment	735	2,600	-

See notes to consolidated financial statements.

NOTE A—ORGANIZATION

ICF Kaiser International, Inc. (ICF Kaiser or the Company) was formed on October 19, 1987, as a holding company for the ICF Kaiser family of companies developed since inception (1969). These companies provide engineering, construction, and consulting services primarily to the environmental, infrastructure, industrial, and energy markets both in the United States and abroad.

NOTE B—SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include all majority-controlled subsidiaries of ICF Kaiser. Investments in joint ventures and affiliated companies are accounted for using the equity method. The difference between the carrying value of investments accounted for under the equity method and the Company's underlying equity is amortized on a straight-line basis over the lives of the underlying assets. All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition: 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. Revenue on long-term, fixed-price contracts is recognized generally using the percentage-of-completion method and, therefore, includes a proportion of expected earnings based on costs incurred to total estimated costs.

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 reflected in shareholders' equity as cumulative translation adjustment.

Statement of Cash Flows: ICF Kaiser considers all highly liquid financial instruments purchased with original maturities of three months or less to be cash equivalents. Other assets included $600,000 of restricted cash and short-term investments as of February 28, 1995, which supports a letter of credit for one of ICF Kaiser's subsidiaries.

Fixed Assets: Furniture and equipment are carried at cost, or fair value at acquisition if acquired through a purchase of a business, and are depreciated using the straight-line method over their estimated useful lives ranging from three to 10 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 and is amortized using the straight-line method over periods ranging from five to 40 years. The Company evaluates the recoverability of goodwill on an annual basis by examining the recoverability of goodwill through undiscounted operating income. Accumulated amortization was $11,148,000 and $9,178,000 at February 28, 1995 and 1994, respectively.

Income Taxes: The Company provides for deferred income taxes using the liability method on temporary differences between financial reporting and income tax reporting, which primarily relate to reserves for adjustments and allowances. If necessary, management records a valuation allowance for deferred tax assets. The most significant permanent differences between book and taxable income are goodwill amortization, which generally is not deductible, the repatriation of overseas funds to the United States, and differences between the book and tax basis of businesses sold.

Postretirement Benefits: Effective March 1, 1993, ICF Kaiser adopted Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (SFAS No. 106). Prior to the adoption of SFAS No. 106, ICF Kaiser had been recognizing the cost of postretirement benefits when paid. The Company elected the prospective transition method of recognizing the transition obligation (see Note N).

Net Income (Loss) Per Common Share: Net income (loss) per common share is computed using net income (loss) available for common shareholders, as adjusted under the modified treasury stock method, and the weighted average number of common stock and common stock equivalents outstanding during the year. Common stock equivalents include stock options and warrants and the potential conversion of convertible preferred stock. The adjustments required by the modified treasury stock method to net income (loss) available for common shareholders and the impact of common stock equivalents on the weighted average number of shares are anti-dilutive for all periods presented and, therefore, are excluded from earnings per share computations.

Concentrations of Credit Risk: The Company maintains cash balances primarily in overnight Eurodollar deposits, investment-grade commercial paper, bank certificates of deposit, and U.S. government securities. ICF Kaiser grants uncollateralized credit to its customers. Approximately one-half of ICF Kaiser's contract receivables are from the U.S. government (see Note D). When practical and in order to mitigate its credit risk to commercial customers, ICF Kaiser obtains advance funding of costs for industrial construction work.

Reclassification: Certain items in the fiscal 1994 and 1993 financial statements have been reclassified to conform to the fiscal 1995 presentation.

NOTE C—DIVESTITURES

The Company sold a 20% interest in a French subsidiary resulting in a $551,000 pretax gain in fiscal 1995. In fiscal 1994, ICF Kaiser sold a portion of its energy engineering business resulting in a $925,000 pretax loss. In fiscal 1993, the Company sold its investment in Acer Group Limited resulting in a $929,000 pretax loss.

NOTE D—CONTRACT RECEIVABLES

	February 28, 1995	February 28, 1994
	(In thousands)	
U.S. government agencies:		
Currently due	$ 36,752	$ 31,911
Retention	2,026	2,370
Unbilled	34,273	29,131
	73,051	63,412
Commercial clients and state and municipal governments:		
Currently due	69,317	56,430
Retention	4,522	5,926
Unbilled	2,834	12,595
	76,673	74,951
	149,724	138,363
Less allowances for uncollectible receivables and other adjustments	9,864	10,197
	$139,860	$128,166

U.S. government receivables arise from U.S. government prime contracts and subcontracts. Unbilled receivables result from revenue that has been earned but was not billed as of the end of the year. The unbilled receivables can be invoiced at contractually defined intervals and milestones, as well as upon completion of the contract or the federal government cost audit. Generally, retention is not expected to be realized within one year; consistent with industry practice, these receivables are classified as current. Management anticipates that the remaining unbilled receivables will be substantially billed and collected in one year.

NOTE E—JOINT VENTURES AND AFFILIATED COMPANIES

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

	Ownership Interest at February 28, 1995	February 28, 1995	February 28, 1994
Gary PCI Ltd. L.P.	50%	$4,315	$3,325
LIFAC North America	50%	1,914	1,914
KJK Joint Venture	33%	-	2,769
Other	20% to 50%	1,793	669
		8,022	8,677
Less amounts classified within other current assets		1,225	3,077
		$6,797	$5,600

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

	February 28, 1995	February 28, 1994	February 28, 1993
Current assets	$ 15,103	$ 27,041	$ 22,466
Non-current assets	12,723	6,608	20,761
Current liabilities	15,875	19,034	20,630
Non-current liabilities	55	455	-
Gross revenue	52,616	51,282	226,944
Net income	8,430	8,908	17,471

NOTE F—LONG-TERM DEBT

ICF Kaiser's long-term debt is as follows (in thousands):

	February 28, 1995	February 28, 1994
12% senior subordinated notes due 2003	$125,000	$125,000
Revolving credit facility (average interest rate of 8.7% for fiscal 1995)	5,000	0
Other notes, principal, and interest at varying rates and installments through February 2010	1,209	2,381
Total	131,209	127,381
Less unamortized discount on 12% senior subordinated notes	3,898	4,339
	127,311	123,042
Less current maturities	578	1,088
Long-term debt	$126,733	$121,954

Scheduled maturities of long-term debt outstanding at February 28, 1995, are as follows: $578,000 in fiscal 1996, $5,040,000 in fiscal 1997, $32,000 in fiscal 1998, $25,000 in fiscal 1999, $27,000 in fiscal 2000, and $125,507,000 thereafter.

On January 11, 1994, ICF Kaiser issued 125,000 Units, each Unit consisting of $1,000 principal amount of the Company's 12% Senior Subordinated Notes due 2003 (12% Notes) and 4.8 warrants, each to purchase one share of the Company's common stock at an exercise price of $5.00 per share. The warrants expire on December 31, 1998, and additional warrants may be issued under certain anti-dilution provisions. Of the net issue price of $121,487,500 ($125,000,000 less a $3,512,500 discount), $900,000 was allocated to the value of the 600,000 warrants and $120,587,500 to the 12% Notes. The net proceeds were used, in part, to retire the Company's 13.5% Senior Subordinated Notes due 1999 (13.5% Notes), to repurchase preferred stock, to repay the outstanding balance on the Company's then-existing revolving credit facility, and to repurchase warrants associated with the 13.5% Notes and preferred stock. The recapitalization resulted in a $6.0 million extraordinary charge (net of $0 tax benefit due to the unanticipated decline in fiscal 1994's fourth-quarter results) for the early extinguishment of debt and a $1.9 million charge to retained earnings to repurchase the Series 2C Senior Preferred Stock.

The Company's payment obligations under the 12% Notes are subordinate to its obligations under the Company's revolving credit facility. Interest payments are due semiannually. The 12% Notes may not be prepaid at the Company's option prior to December 31, 1998. Subsequent to that date, the Company may prepay the 12% Notes at a premium. In addition, the Company agreed to certain business and financial covenants, including restrictions on indebtedness, dividends, acquisitions, and certain types of investments and asset sales. At February 28, 1995, the fair value of the 12% Notes was approximately $110.6 million. The fair value was computed using an average of recently quoted market prices obtained from financial institutions. Debt issuance costs of $4.2 million and $4.6 million associated with the 12% Notes are classified as other assets at February 28, 1995 and 1994, respectively, in the accompanying balance sheets. These costs and the discount on the 12% Notes are being amortized over the life of the notes.

The Company has a $60 million revolving credit facility (the Credit Facility) provided by a consortium of banks (the Banks). ICF Kaiser International, Inc. and certain of its subsidiaries, which are guarantors of the Credit Facility, granted the Banks a security interest in their accounts receivable and certain other assets. The Credit Facility limits the payment of cash dividends, requires the maintenance of specified financial ratios, and has a $20 million limitation on cash borrowings. ICF Kaiser and the Banks entered into an amendment as of February 28, 1995, that modified financial ratios and other terms of the Credit Facility. As of February 28, 1995, there were $5.0 million in borrowings outstanding under the Credit Facility, in addition to letters of credit, and the Company had $30.3 million of available credit under the Credit Facility. The Credit Facility contains Eurodollar and alternate base interest rate alternatives with margins dependent upon the Company's financial operating results and expires on October 31, 1996. ICF Kaiser had outstanding letters of credit in the amount of $9.6 million at February 28, 1995, principally in support of performance guarantees under certain contracts.

There are 275,088 common stock warrants that were issued with the 13.5% Notes that remain outstanding following the repurchase of the other warrants in January 1994. The warrants expire on May 15, 1999, and are exercisable at any time for shares of ICF Kaiser Common Stock at $6.87 per share. Additional warrants may be issued under certain anti-dilution provisions.

NOTE G—CONTINGENCIES

Normally in the Company's business, various claims or charges are asserted and litigation commenced against the Company arising from or related to properties, injuries to persons, and breaches of contract, as well as claims related to acquisitions and dispositions. Claimed amounts may not bear any reasonable relationship to the merits of the claim or to a final court award. In the opinion of management, an adequate reserve has been provided for final judgments, if any, in excess of insurance coverage, that might be rendered against the Company in such litigation.

The Company may from time to time, either individually or in conjunction with other government contractors operating in similar types of businesses, be involved in U.S. government investigations for alleged violations of procurement or other federal laws and regulations. The Company currently is the subject of a number of U.S. government investigations and is cooperating with the responsible government agencies involved. No charges presently are known to have been filed against the Company by these agencies. Management does not believe that there will be any material adverse effect on the Company's financial position, operations, or cash flows as a result of these investigations.

The Company has a substantial number of cost-reimbursement contracts with the U.S. government, the costs of which are subject to audit by the U.S. government. As a result of such audits, the government asserts, from time to time, that certain costs claimed as reimbursable under government contracts either were not allowable or not allocated in accordance with federal procurement regulations. Management believes that the potential effect of disallowed costs, if any, for the periods currently under audit and for periods not yet audited, has been provided for adequately and will not have a material adverse effect on the Company's financial position, operations, or cash flows.

NOTE H—INCOME TAXES

The components of income (loss) before income taxes and the related provision (benefit) for income taxes are as follows (in thousands):

	Fiscal Year 1995	Fiscal Year 1994	Fiscal Year 1993
Income (loss) before income taxes:			
Domestic	$ 1,217	$ (11,894)	$ 13,362
Foreign	22	(983)	1,532
	$ 1,239	$ (12,877)	$ 14,894
Provision (benefit) for income taxes:			
Federal:			
Current	$ 120	$ -	$ 1,074
Deferred	2,328	(652)	3,517
	2,448	(652)	4,591
State:			
Current	100	-	420
Deferred	172	(62)	794
	272	(62)	1,214
Foreign:			
Current	180	365	450
	$ 2,900	$ (349)	$ 6,255

The tax effect of the principal temporary differences and carryforwards that give rise to the Company's deferred tax asset is as follows (in thousands):

	February 28, 1995	February 28, 1994
Reserves for adjustments and allowances	$ 8,507	$ 10,068
Vacation and incentive compensation accruals	5,443	3,053
Net operating loss carryforwards	2,247	4,321
Tax credit carryforwards	1,063	940
Other	(377)	1,001
Deferred income tax asset	16,883	19,383
Valuation allowance	(3,330)	(3,330)
Deferred income tax asset, net	$ 13,553	$ 16,053

Because of the reported fiscal 1994 losses, a $3.3 million valuation allowance was established in fiscal 1994 for deferred tax assets. In fiscal 1995, although pretax income increased $14.1 million to $1.2 million, the Company has maintained the valuation allowance. The Company has deferred tax assets related to net operating loss carryforwards of $2.2 million, of which $0.4 million expire in fiscal 2004 and $1.8 million expire in 2009. Additionally, the Company has $1.1 million of tax credit carryforwards, the majority of which do not expire.

The actual income tax provision (benefit) varied from the income tax provision (benefit) at the federal statutory rate over the last three years because of the following differences (in thousands):

	February 28, 1995	February 28, 1994	February 28, 1993
Income tax (benefit) computed at federal statutory tax rate	$ 421	$ (4,378)	$ 5,064
Changes in tax rate (benefit) from:			
Goodwill amortization	867	1,274	793
Differences between book and tax basis of businesses sold	92	947	(508)
State income taxes	180	(41)	801
Foreign taxes	840	615	(215)
Valuation allowance	-	1,180	-
Meals and entertainment	358	185	59
Other	142	(131)	261
	2,479	4,029	1,191
	$ 2,900	$ (349)	$ 6,255

The fiscal 1995 tax provision reflects the repatriation of overseas funds to the United States during fiscal 1995, that currently could not be offset by foreign tax credits. During fiscal 1995, ICF Kaiser's 1989-1992 tax returns were accepted as filed, resulting in the receipt of refunds from the Internal Revenue Service (IRS) with interest. An agreement also was reached with the IRS as to the amount of interest owed in connection with previously settled years (1977-1986). The overall impact on pretax earnings was a reduction of net interest expense of $1.3 million related to interest refunds.

In fiscal 1993, ICF Kaiser reached a favorable settlement with the IRS on the examination of ICF Kaiser Engineers Group, Inc.'s (KEGI) income tax returns for 1977-1986. This resolution allowed the Company to adjust a portion of the amounts previously provided for in connection with the 1988 acquisition of KEGI and its subsidiaries. The resolution of this pre-acquisition contingency has been reflected in unusual items in the accompanying statement of operations for fiscal 1993 (see Note P). The IRS previously had completed its review of KEGI's 1987 and 1988 income tax returns without adjustment. As such, all years through 1988 are closed. In fiscal 1993, ICF Kaiser also reached an agreement with a former subsidiary to retain its net operating losses, which favorably reduced the effect of differences between the book and tax basis of the Company.

NOTE I—PREFERRED STOCK

Preferred Stock of the Company is as follows:

	February 28, 1995	February 28, 1994
	(In thousands)	
Redeemable Preferred Stock (of Subsidiary), par value $0.01 per share; liquidation value $21,280,000; authorized 3,500,000 shares; issued and outstanding - 700,000 shares at February 28, 1994	$ -	$ 799
Series 2D Senior Preferred Stock, par value $0.01 per share; liquidation value $20,000,000; 200 shares designated, issued, and outstanding	20,000	20,000
Less unamortized discount, warrant value, and issue costs	(383)	(587)
	19,617	19,413
Redeemable Preferred Stock	$19,617	$20,212

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 Kaiser's purchase of all of the outstanding shares of Series A and Series P Preferred Stock of KEGI. Dividends on these shares were $0.0685 per share per annum noncumulative, payable annually. A total of 700,000 shares were redeemed during each of the fiscal years 1995, 1994, and 1993. The final redemption was made on September 30, 1994.

Senior Preferred Stock: The Series 2D Senior Preferred Stock (Series 2D Preferred Stock) together with five-year detachable warrants (Series 2D Warrants) were issued in fiscal 1992 for a price of $20,000,000 (less a discount of $100,000). 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 value of the stock. The value of the Series 2D Preferred Stock was reduced further by issue costs.

Dividends on the Series 2D Preferred Stock are $9,750 per share per annum, cumulative. Each of the shares has a liquidation preference of $100,000 ($20 million in the aggregate). The issue carries voting rights equal to 2,380,952 shares of ICF Kaiser Common Stock. The Series 2D Preferred Stock may be redeemed at ICF Kaiser's option at 106.25% of the original price and is subject to mandatory redemption at liquidation value on January 13, 1997.

The Series 2D Warrants expire in May 1997 and may be exercised for 2,680,952 shares of ICF Kaiser Common Stock at an exercise price of $6.90 per share. In lieu of exercising the warrants, the holder may, at the holder's option, require the Company to pay it cash or issue shares of ICF Kaiser's Common Stock equal to the difference between the current market price of the Company's common stock and 90% of the warrants' current exercise price. Additional warrants may be issued under certain anti-dilution provisions.

Junior Preferred Stock: The Company has designated 200 shares of Series 1 Junior Convertible Preferred Stock, par value $0.01 per share, with a liquidation value of $20,000,000 and 500,000 shares of Series 4 Junior Preferred Stock, par value $0.01 per share, with a liquidation value of $500,000. There were no shares issued or outstanding on either series as of February 28, 1995 and 1994.

NOTE J—COMMON STOCK

Notes Receivable Related to Common Stock: Notes receivable related to ICF Kaiser Common Stock pertain to the issuance of promissory notes to certain members of senior management in accordance with their compensation agreements collateralized by shares of ICF Kaiser Common Stock.

Shareholder Rights Plan: The Shareholder Rights Plan (Rights Plan) is designed to provide the Board of Directors (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 Kaiser, whether through the accumulation of shares in the open market or through a tender offer that does not offer an adequate price. The Rights Plan provides for one Right (Right) for each outstanding share of ICF Kaiser Common Stock. Each Right entitles the holder to purchase 1/100 of a share of Series 4 Junior Preferred Stock at a purchase price of $50. 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 because the Board may, at its option, following the acquisition by any person or group of 20% of the outstanding shares of ICF Kaiser 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 Kaiser Common Stock by the initial holder of the Series 2D Preferred Stock. Unless redeemed earlier by the Board, unexercised Rights expire on January 13, 2002.

NOTE K—LEASES

Future minimum payments on noncancelable operating leases for office space, and on other noncancelable operating leases with initial or remaining terms in excess of one year, were as follows on February 28, 1995 (in thousands):

Year Ended February 28,	Operating Leases
1996	$ 25,070
1997	19,940
1998	14,861
1999	13,500
2000	13,367
Thereafter	27,193
	$ 113,931

The total rental expense for all operating leases was $31,176,000, $30,833,000, and $31.567,000 in fiscal years 1995, 1994, and 1993, respectively. Sublease rental income was $3,944,000, $2,225,000, and $1,435,000, in fiscal years 1995, 1994, and 1993, respectively. Minimum future sublease rentals to be received under noncancelable subleases during fiscal 1996 are approximately $2,916,000.

NOTE L—STOCK OPTIONS

The ICF Kaiser Stock Incentive Plan provides for the issuance of options, stock appreciation rights, restricted shares, and restricted stock units of up to an aggregate of 6,000,000 shares of ICF Kaiser Common Stock. Awards are made to employees of ICF Kaiser at the discretion of the Compensation Committee of the Board. The plan provides that the option price is not to be less than 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, March 1, 1992	1,872,000	$3.46 to $17.00
Granted	1,096,000	$5.99 to $ 9.59
Cancelled	(653,000)	$3.46 to $16.23
Expired	(339,000)	$6.07 to $16.23
Exercised	(30,000)	$8.25
Balance, February 28, 1993	1,946,000	$5.99 to $17.00
Granted	390,000	$4.17 to $ 6.79
Cancelled	(10,000)	$8.25 to $12.83
Expired	(30,000)	$5.04 to $12.83
Balance, February 28, 1994	2,296,000	$4.17 to $17.00
Granted	824,000	$2.34 to $ 4.41
Cancelled	(453,000)	$2.64 to $16.23
Expired	(250,000)	$4.41 to $16.23
Balance, February 28, 1995	2,417,000	$2.34 to $17.00
Exercisable at February 28, 1995	1,237,000	$2.34 to $17.00

The number of shares available for the granting of options was 1,969,000, 2,087,000, and 2,525,000 at February 28, 1995, 1994, and 1993, respectively. At February 28, 1995, there were 50,000 exercisable options outstanding at an option price below the February 28, 1995, fair market value of ICF Kaiser Common Stock. In May 1992, the Company cancelled 570,000 options granted to employees at exercise prices of $14.32 to $16.23 and granted an equal number of options to them at an exercise price of $8.25.

NOTE M—EMPLOYEE BENEFIT PLANS

ICF Kaiser 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 Kaiser 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 Kaiser International, Inc. Section 401(k) Plan (401(k) Plan), a cash or deferred-compensation arrangement that allows employees to defer portions of their salary, subject to certain limitations; and the ICF Kaiser International, Inc. Employee Stock Ownership Plan (ESOP) under which the Company made contributions based on a percentage of covered compensation. Effective March 1, 1993, the Company began matching a percentage of eligible employee contributions to the 401(k) Plan. In fiscal 1994, the Company made contributions equal to 20% of the first 4% of employee contributions to the 401(k) Plan and 2% of covered compensation to the ESOP. Effective March 1, 1994, the Company increased its matching contribution to the 401(k) Plan to 50% of the first 4% of employee contributions and discontinued contributions to the ESOP. Total contributions to these plans for fiscal years 1995, 1994, and 1993 were $6,466,000, $8,041,000, and $10,220,000, respectively.

NOTE N—POSTRETIREMENT BENEFITS

ICF Kaiser provides certain benefits, primarily health insurance, to a limited group of retirees (and their spouses) who joined ICF Kaiser through an acquisition. The cost of the postretirement benefits is funded when paid and limited to a fixed amount per retiree or spouse per month. Effective March 1, 1993, ICF Kaiser adopted SFAS No. 106.

The Company elected the prospective transition method of recognizing the postretirement benefit expenses. Under this method, the Company's $14.2 million accumulated postretirement benefit obligation (APBO) at March 1, 1993, is being amortized over 14.5 years, the average remaining life expectancy of the retirees and their spouses. A discount rate of 7% was used to determine the APBO.

Effective January 1995, the Company reduced its APBO through a reduction in health care costs for certain participants by offering alternative health care options that reduced the premiums paid by both the Company and the retiree. The health care costs for those participants is less than the Company's maximum per person obligation. A 5% health care cost trend rate was assumed to value the APBO at February 28, 1995, for all future years until the year 2005 when the cost will be in excess of the Company's maximum obligation. A one-percentage-point increase in the health care cost trend rate would increase the APBO at February 28, 1995, by approximately 2%. Due to changes in assumptions made during fiscal 1995, including the change in health care options, the APBO was reduced by approximately $4 million, which will be amortized over the average remaining life expectancy of the retirees and their spouses.

The funded status of the plan is as follows (in thousands):

	February 28, 1995	February 28, 1994
Accumulated postretirement benefit obligation	$ 9,537	$ 14,772
Unamortized transition obligation	(12,257)	(13,236)
Unrecognized net gain (loss)	4,121	(1,271)
Accrued postretirement benefit cost	$ 1,401	$ 265

The net periodic postretirement benefit cost consisted of the following components (in thousands):

	Fiscal Year 1995	1994
Interest cost	$ 920	$ 938
Amortization of transition obligation	980	981
Net periodic postretirement benefit cost	$ 1,900	$ 1,919

All service cost related to the retirees' benefits was included in the Company's transition obligation due to the nature of the plans which prevent additional employees from participating in them. Prior to the adoption of SFAS No. 106, postretirement costs were recognized when paid. Postretirement costs included in expenses in fiscal year 1993 were $1,695,000.

NOTE O—BUSINESS SEGMENT, MAJOR CUSTOMERS, AND FOREIGN OPERATIONS

Business Segment: ICF Kaiser operates predominantly in one industry segment in which it provides engineering, construction, and consulting services.

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

	Fiscal Year 1995	1994	1993
U.S. Department of Energy	$ 517,478	$ 312,889	$ 201,149
U.S. Environmental Protection Agency	62,783	63,109	72,382
Other U.S. government agencies	44,969	49,105	47,896
Total U.S. government	625,230	425,103	321,427
USX Corporation and affiliates	5,408	6,880	91,032
	$ 630,638	$ 431,983	$ 412,459

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):

	Fiscal Year 1995	1994	1993
Foreign gross revenue			
Europe	$ 16,758	$ 11,600	$ 16,698
Pacific	35,189	21,997	33,709
Other	2,122	2,793	2,940
	$ 54,069	$ 36,390	$ 53,347
Foreign operating income (loss)			
Europe	$ 2,600	$ 1,742	$ 682
Pacific	(350)	(1,899)	2,010
Other	(44)	(255)	158
	$ 2,206	$ (412)	$ 2,850
Foreign assets			
Europe	$ 9,950	$ 6,410	$ 4,565
Pacific	14,813	14,626	13,880
Other	182	14	29
	$ 24,945	$ 21,050	$ 18,474

NOTE P—UNUSUAL ITEMS

In fiscal 1994, the Company completed a corporate reorganization, performed a comprehensive review of its key business lines and its cost structure, and designed and implemented action plans intended to return the Company to long-term profitability. As a result, the Company recorded an $8.7 million pretax charge to cover the cost of downsizing the work force, consolidating office space, renegotiating significant leases, and restructuring certain international operations. Management expects to complete office space consolidation plans in fiscal 1996. All other actions have been substantially completed as of February 28, 1995.

During the year ended February 28, 1993, the Company recognized the impact of several unusual items: a $5,000,000 reduction of pre-acquisition contingencies (see Note H), offset by a charge to accrue the net settlement cost and legal expenses related to a shareholder lawsuit ($1,400,000); the write-down to net realizable value of certain software-related assets ($3,000,000); and a charge for severance and related costs accrued as part of a cost-reduction plan ($550,000).

NOTE Q—SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly financial information for fiscal years 1995 and 1994 is presented in the following tables (in thousands, except per share amounts):

	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
1995				
Gross revenue	$ 206,154	$ 235,912	$ 208,961	$ 210,491
Service revenue	$ 111,372	$ 125,345	$ 109,919	$ 113,150
Operating income	$ 3,234	$ 2,962	$ 3,273	$ 4,219
Net income (loss)	$ (943)	$ (323)	$ (613)	$ 218
Primary and fully diluted net loss per common share	$ (0.07)	$ (0.04)	$ (0.05)	$ (0.02)
Market price per share:				
High	$ 4.38	$ 4.13	$ 2.63	$ 3.88
Low	$ 2.63	$ 2.38	$ 2.00	$ 2.25
1994				
Gross revenue	$ 197,588	$ 179,227	$ 146,830	$ 128,012
Service revenue	$ 100,919	$ 103,910	$ 89,215	$ 88,664
Operating income (loss)	$ (13,450)	$ 4,147	$ 4,006	$ 67
Net income (loss) before extraordinary item	$ (14,567)	$ 1,349	$ 1,347	$ (657)
Net income (loss)	$ (20,536)	$ 1,349	$ 1,347	$ (657)
Primary and fully diluted net income (loss) per common share:				
Before extraordinary item and redemption of redeemable preferred stock	$ (0.74)	$ 0.00	$ 0.00	$ (0.09)
Extraordinary loss on early extinguishment of debt	(0.29)	-	-	-
Redemption of redeemable preferred stock	(0.09)	-	-	-
Total	$ (1.12)	$ 0.00	$ 0.00	$ (0.09)
Market price per share:				
High	$ 5.00	$ 5.38	$ 5.50	$ 6.88
Low	$ 3.63	$ 4.00	$ 3.75	$ 4.75

At April 18, 1995, there were 20,980,960 shares of common stock outstanding held by 1,301 holders of record.

Executive Officers

Office of the Chairman

James O. Edwards
Chairman and Chief Executive Officer

Marc Tipermas
Executive Vice President and
Director of Corporate Development

Richard K. Nason
Executive Vice President and
Chief Financial Officer

George F. Brown, Jr.
Executive Vice President and
Group President of the ICF Kaiser Consulting Group

Kenneth L. Campbell
Senior Vice President and Treasurer

Michael K. Goldman
Executive Vice President and
Chief Administrative Officer

Stephen W. Kahane
Executive Vice President and
Group President of the Federal Programs Group

Douglas W. McMinn
Executive Vice President and
Group President of the International Operations Group

Alvin S. Rapp
Executive Vice President and
Group President of the ICF Kaiser Engineers Group

Marcy A. Romm
Senior Vice President and Director of Human Resources

Paul Weeks, II
Senior Vice President, General Counsel, and Secretary

Other Corporate Officers

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Vice President for Marketing Services

Frank M. Alston
Senior Vice President for Contracts

Tony Bansal
Senior Vice President and Chief Information Officer

Sara B. Brenner
Vice President for Corporate Communications

H. Hollister Cantus
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S. Robert Cochran
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Vice President, Assistant General Counsel, and
Assistant Secretary

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Charles B. Mudd
Senior Vice President for Business Development,
Infrastructure

Howard K. Prol
Vice President for Risk Management

Donn S. Smith
Senior Vice President for Project Finance

Operating Groups

The Federal Programs Group

Stephen W. Kahane
Group President

Charles A. Debelius
Group Executive Vice President
Stephen W. Bailey
Group Senior Vice President
Robert G. Hamilton
Group Senior Vice President
David C. Zimomra
Group Vice President

Kaiser-Hill Company, LLC

George D. O'Brien
President and Chief Executive Officer

Robert G. Card
Executive Vice President
Stanley J. Bensussen
Vice President and Secretary
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Vice President
John A. Hill
Vice President
Vik Mani
Vice President
Leonard A. Martinez
Vice President, Chief Financial Officer, and Treasurer
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Vice President
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Vice President

ICF Kaiser Hanford Company

Robert E. Tiller
President & General Manager

Robert L. Benedetti
Executive Vice President and Deputy General Manager
Keith J. Dempsey
Senior Vice President
Gerald A. Harvey
Senior Vice President
Kevin Adamson
Vice President and Controller

The ICF Kaiser Engineers Group

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Group President

Peter J. Offringa
Group Executive Vice President
John H. Bergerson
Group Senior Vice President
Bruce H. Laswell
Group Senior Vice President
Thomas R. McKinney
Group Senior Vice President
Paul J. DeCoursey
Group Vice President
Casey E. McGeever
Group Vice President
James C. Reagan
Group Vice President
David B. Thomas
Group Vice President
Willard W. Varnado, II
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The International Operations Group

Douglas W. McMinn
Group President

Nicholas Burakow
Group Executive Vice President
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Group Senior Vice President
James W. Conrow
Group Senior Vice President

The ICF Kaiser Consulting Group

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Group President

Fred T. Arnold
Group Executive Vice President
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Group Executive Vice President
David G. Hartman
Group Executive Vice President
Sudhakar Kesavan
Group Executive Vice President
Kenneth B. Kolsky
Group Executive Vice President
Michael J. McKelvey
Group Executive Vice President
Gary W. Vicinus
Group Executive Vice President
Jeffrey M. Goldfarb
Group Vice President and Controller

Board of Directors

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Chairman and Chief Executive Officer
ICF Kaiser International, Inc.

Gian Andrea Botta
President
EXOR America, Inc.

Tom Bradley
Senior Counselor
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Tony Coelho
Managing Director
Wertheim Schroder & Co. Incorporated

Frederic V. Malek
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Thayer Capital Partners

Rebecca P. Mark
Chairman, President, and Chief Executive Officer
Enron Development Corp.

Robert W. Page, Sr.
Executive Vice President (retired)
McDermott International, Inc.

Marc Tipermas
Executive Vice President and
Director of Corporate Development
ICF Kaiser International, Inc.

Annual Shareholders' Meeting

The Company's annual meeting of shareholders is scheduled to be held on Friday, June 23, 1995, at 9:00 a.m. at ICF Kaiser's headquarters in Fairfax, Virginia.

Stock Listing

Since September 14, 1993, ICF Kaiser's Common Stock has traded on the New York Stock Exchange (NYSE) under the symbol "ICF." Prior to that date, the Common Stock traded on the NASDAQ National Market System. The closing price of the Company's Common Stock on April 18, 1995, as reported by the NYSE, was $4.125 per share, at which time there were 20,980,960 shares of Common Stock held by 1,301 holders of record. The Company believes that there are approximately 7,800 beneficial holders of Common Stock.

The table below sets forth, by quarter, the high and low sales prices for the Company's Common Stock as reported by the NASDAQ National Market System (through September 13, 1993) and the NYSE.

Fiscal Year Ended	February 28, 1994	
	High	Low
First Quarter	$6.875	$4.75
Second Quarter	5.50	3.75
Third Quarter (September 1 - September 13)	4.875	4.375
Third Quarter (September 14 - November 30)	5.375	4.00
Fourth Quarter	5.00	3.625

Fiscal Year Ended	February 28, 1995	
	High	Low
First Quarter	$3.875	$2.25
Second Quarter	2.625	2.00
Third Quarter	4.125	2.375
Fourth Quarter	4.375	2.625

10-K Report

ICF Kaiser 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 calling 703/934-3204 or by writing to:

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ICF Kaiser International, Inc.
9300 Lee Highway
Fairfax, VA 22031-1207

Transfer Agent

First Chicago Trust Company of New York
Mail Suite 4692
P.O. Box 2534
Jersey City, NJ 07303-2534

Shareholder Relations
201/324-0498

Common Stock CUSIP No. 449 244 10 2

Auditors

Coopers & Lybrand, L.L.P.
1800 M Street, N.W.
Washington, DC 20036
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For More Information

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510/419-6000

Four Gateway Center
Pittsburgh, PA 15222-1207
412/497-2000

Other Major U.S. Offices
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Livermore, CA
Los Angeles, CA
Rancho Cordova, CA
San Diego, CA
San Francisco, CA
San Rafael, CA
Universal City, CA
Colorado Springs, CO
Denver, CO
Lakewood, CO
Cheshire, CT
Washington, DC
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ICF Kaiser Common Stock is listed on the New York Stock Exchange under the symbol ICF.

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