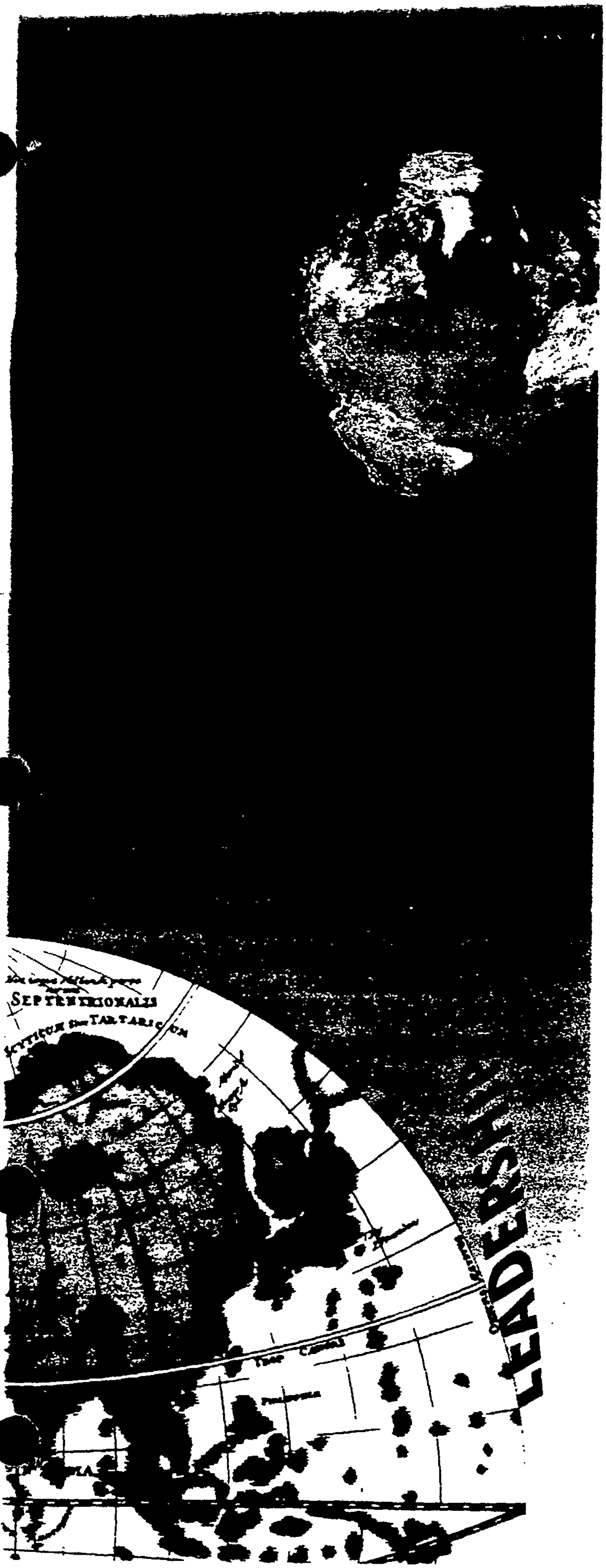


1996 Annual Report

ICF KAISER

Worldwide Excellence in Meeting Client Needs

Letter to Shareholders

and know-how. In response, we combined our domestic and international engineering and construction operations. This allows us to maximize our competitive advantages of technology and project management excellence, and to accelerate our global competitiveness.

Our international operations are growing. In 1996, we started a project in Brazil, managing the plan to clean up Guanabara Bay in Rio de Janeiro, and we initiated the first phase of a large steel mini-mill project for our client Nova Hut, a.s. in the Czech Republic. The first phase of our contract with Nova Hut was valued at $102 million; the second phase of the $275 million project is in the final stages of contract negotiation as I write this letter, and work has started on that phase.

In France, our affiliate ICF Environnement along with TREDI, S.A., a state-owned French hazardous waste incineration firm, acquired a controlling interest in IRH Environnement, a well-known French hydrological consulting engineering and laboratory company. Our involvement with TREDI and IRH should allow us to capture a larger share of European environmental engineering and construction projects.

Perhaps the most exciting developments overseas for our Company are occurring in Australia. We currently are gearing up to compete for the next phase of the Woodside Northwest Shelf liquefied natural gas project. We have reinstituted our alliance with M.W. Kellogg and JGC Corporation in order to compete for the new work at this site where our alliance has performed all major on-shore construction work for over 15 years. Our reputation in Australia is excellent as demonstrated by the recent signing of an Alliance Agreement with Alcoa, under which ICF Kaiser provides in-house engineering services for Alcoa's Australian Alumina operations. In addition, another client, Worsley Alumina, is continuing its large plant expansion program. We have completed 30% of the design on this project and construction is scheduled to begin in late 1997.

Asia is another important market for ICF Kaiser. Current opportunities in Asia, where we have had a significant presence for over 50 years, include feasibility studies for a historic commuter and freight rail system linking Hong Kong and mainland China; a light rail project in Manila; and participation in a consortium conducting feasibility studies for a light rail project in Bangalore, India.

Domestically, our engineering and construction business remains a strong provider of services to industrial, environmental, and infrastructure markets. ICF Kaiser's projects include major steel facility upgrades; work on several major transit and highway programs, including the Bay Area Rapid Transit system and the Boston Urban Ring project; and new work in the chemical and petrochemicals markets. We have four large nitric acid plant projects under contract, and this year we have signed nationwide environmental alliances with several Fortune 100 clients. Our long-standing reputation for excellence enabled us to achieve contract wins valued at over $360 million for domestic engineering and construction services this year.

Federal Programs

Although market realities demand a globalization strategy, the U.S. federal government is still our major customer. The federal marketplace, particularly for environmental services, is not experiencing high growth and is very competitive. The overall size of the market, though, is still large, and we continue to demonstrate our ability to compete for and win large projects. In 1996, we won our second U.S. Army Corps of Engineers' Total Environmental Restoration Contract, this one valued at $260 million. We also are pursuing record volumes of work with the U.S. Department of Defense at all of its major branches. At DOE, although our team did not win at Hanford, we have held our position as a major contractor. We are investing in the pursuit of large management contracts at several DOE sites, including Mound in Ohio and Oak Ridge in Tennessee.

Consulting

In 1996, we continued to diversify our consulting services internationally. For example, we recently began new assignments with the World Bank, the United Nations Development and Environment Programmes, and the U.S. Trade and Development Agency, as well as private companies in a number of foreign countries. Our consulting group now has worked in over 50 countries around the world. Our work in Russia, for example, culminated in a strategic plan for reducing industry reliance on ozone-depleting substances that was presented to a recent meeting of the Gore-Chernomyrdin Commission.

Our federal consulting work has rebounded after a tumultuous start in 1996, with snowstorms in Washington, DC, and a government shutdown. We expanded our leadership role as a provider of consulting services with contract awards in 1996 exceeding $200 million. The largest client

Letter to Shareholders

for our consulting services, the U.S. Environmental Protection Agency (EPA), awarded our company several contracts this year to address global climate change, greenhouse gas emissions, and air- and water-quality issues. This work further strengthens the Company's position as a premier, leading-edge environmental consulting services provider.

In addition to our services performed for EPA, we have continued to diversify our client base. We have taken on new assignments for several federal agencies, including the U.S. Departments of Defense, Health and Human Services, Treasury, Labor, Energy, and Housing and Urban Development, as well as several states and municipalities. In particular, our strategic environmental management services — built around the ICF Kaiser ISO 14000 workstation and our ongoing research into the link between a company's environmental performance and its stock price — have begun to generate new sales in the private sector.

Conclusion

Let me mention two additional matters. First, as a result of the repurchase of our outstanding preferred stock, retirements, and resignations due to other business commitments, we recently lost the counsel of several valuable Directors. I thank them for the time and attention they gave to ICF Kaiser during their years of service. We will miss their insight and guidance, and we currently are looking to replace their expertise with several new Directors. Notably, Hazel R. O'Leary — former U.S. Secretary of Energy — joined our Board on March 12 and will provide us with invaluable advice for large projects internationally, in locations as diverse as Russia, China, India, Africa, and Latin America.

Finally, I want to thank our employees, investors, and other constituents for the role each has played in our emerging success. Times are challenging in many of our markets, and sometimes this requires us to execute demanding steps to maintain our competitive position. It is through a long-standing dedication to excellence that we are able to extend our franchise. The goal for 1997 is to continue to elevate our record of performance.

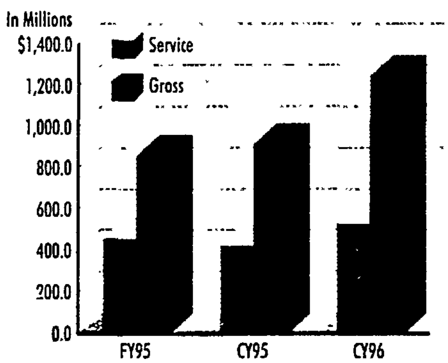
Sincerely,

James O. Edwards
Chairman and Chief Executive Officer

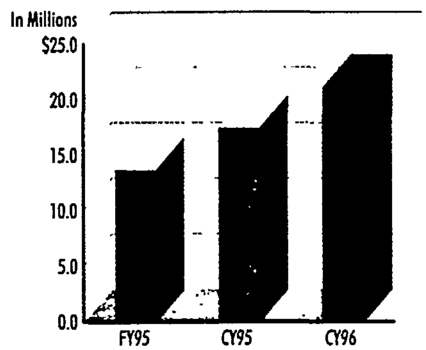
Financial Highlights[1]

	CY96	CY95	FY95	FY94	FY93
	(in thousands, except per share amounts)				
Gross revenue	$1,248,443	$916,744	$861,518	$651,657	$678,882
Service revenue[2]	532,116	425,896	459,786	382,708	391,528
Operating income (loss)	21,180	17,505	13,688	(5,230)	22,744
Net income (loss) before extraordinary item	5,834	2,252	(1,661)	(12,528)	8,639
Net income (loss)	5,834	2,252	(1,661)	(18,497)	8,639
Primary and fully diluted net income (loss) per common share:					
Before extraordinary item	$ 0.17	$ 0.02	$(0.18)	$(0.92)	$ 0.16
Extraordinary loss on early extinguishment of debt	-	-	-	(0.29)	-
Total	$ 0.17	$ 0.02	$(0.18)	$(1.21)	$ 0.16
Total assets	$ 365,973	$369,517	$281,422	$281,198	$293,076
Working capital	113,898	84,589	91,640	87,648	85,861
Long-term liabilities	161,951	125,818	133,130	130,752	75,602
Redeemable preferred stock	-	19,787	19,617	20,212	44,824
Shareholders' equity	34,892	28,427	27,624	30,780	58,521

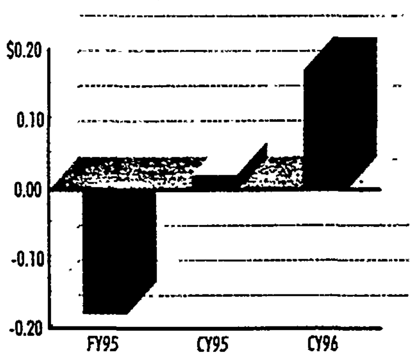
Revenue



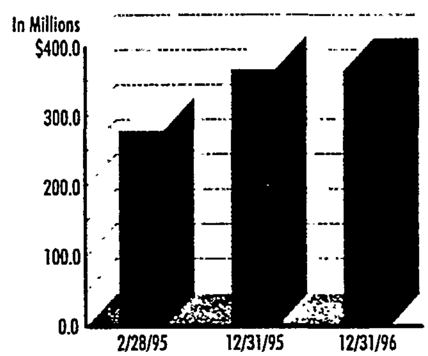
Operating Income



Net Income (Loss) Per Common Share



Assets



(1) Calendar year (CY) 1996 and 1995 represents the twelve months ended December 31, 1996, and the ten months ended December 31, 1995, respectively; previous periods represent the fiscal years (FY) ended February 28, 1995, 1994, and 1993.

(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 equity in income of unconsolidated joint ventures and affiliated companies.

There was a $2.4 million decrease in operating income from two relatively large contracts in the federal programs group because they were not renewed in 1996. The federal programs group also had significant increases in its costs associated with marketing activities in pursuit of large-scale projects, including approximately $2.5 million of costs in 1996 associated with the Company's unsuccessful recompete bid on the Hanford contract (see *Business Outlook*) and significant costs associated with other DOE proposals. The engineering and construction group also experienced higher costs in 1996 associated with marketing activities and continued to face significant pressures to maintain existing profit margins on projects. In addition, engineering and construction operations for the ten months ended December 31, 1995, included operating income from a major transit project in the Philippines.

Operating income for the ten months ended December 31, 1995, also included a $1.9 million operating loss from an unprofitable business that was closed in early 1996 and $0.5 million of additional income (net) from unusual items (see *Unusual Items*).

Business Outlook

The Company's contract backlog was $4.7 billion at December 31, 1996, compared to $4.4 billion at December 31, 1995. The Rocky Flats contract represented $2.9 billion of the contract backlog at December 31, 1996. Several notable additions to contract backlog are described below.

In September 1996, the Company signed a contract estimated at $260 million to perform environmental restoration work at federal installations in the South Pacific Division of the U.S. Army Corps of Engineers, Sacramento District. The contract is for four years, with two, three-year options and is a cost-reimbursement, delivery-order contract. The fee structure includes a combination of cost-plus-fixed-fee, award fee, and incentive fees. In March 1996, the Company signed a two-year, $102 million contract to provide engineering and construction services for the initial phase of a mini-mill project for Nova Hut, a.s., an integrated steel maker based in the Ostrava region of the Czech Republic. The Company currently is negotiating a contract with Nova Hut for the next phase of the mini-mill project. Earnings associated with this contract for the next phase of work are expected to be material to the Company's operating results. The Company expects to complete negotiations on this contract early in 1997.

In August 1996, the Company, through its subsidiary, ICF Kaiser Hanford Company, was informed that the team of which it was a member was unsuccessful in its bid for DOE's new management and integration contract at Hanford. The Company's existing contract to perform services at Hanford was scheduled to expire in March 1997, but was effectively terminated by DOE on October 1, 1996. In response to the reduction and eventual termination of the Hanford contract, in August 1996 the Company initiated a significant operational-efficiency and cost-savings program, together with management changes, with the objective of minimizing the long-term impact associated with the termination of the Hanford contract.

There was a significant decrease in the Company's fourth-quarter operating income in 1996 as compared to previous quarters in 1996 and 1995. The impact on cash flows, gross and service revenue, and earnings due to the closeout of the Hanford contract was material in the fourth quarter of 1996. The Company also believes the impact on cash flows, gross and service revenue, and earnings from the loss of the Hanford contract will be material in 1997 if replacement contracts (including the next phase of the Nova Hut contract) are not won or if the cost-savings program is not successful. There can be no assurance, however, that the Company will be able to enter into new contracts or to achieve cost savings that will, in the aggregate, offset the effect of the loss of the Hanford contract.

The Company's consulting group showed improvement in operating results between the year ended December 31, 1996, and the ten months ended December 31, 1995, aided by the recognition of revenue resulting from the accelerated cost approval process (see *Financial Review*). The U.S. Environmental Protection Agency (EPA) historically has been the consulting group's principal customer; for several years, the consulting group has been diversifying its client base to international, private-sector, and non-EPA federal government entities. EPA now accounts for only approximately 55% of the consulting group's service revenue. In 1996, the consulting group increased its business development efforts to diversify its client base and expects to make further progress in diversification in 1997.

As discussed in *Financial Review*, the Company's domestic engineering and construction business has not performed as well in 1996 as compared to the prior year. As a result, the Company is continuing its efforts to enhance profitability of these operations. These efforts include management changes, the combining of the international and domestic engineering and construction business, cost-reduction efforts, and increases in marketing efforts concentrated on large-scale international projects. In conjunction with the cost-reduction efforts, the Company, in 1996, completed a realignment of several of its offices, including the termination of certain underutilized employees (see Note 16 to the consolidated financial statements). The Company will continue to seek other opportunities to save costs, and future actions may include additional office space consolidations and terminations. The ability of the Company's engineering and construction business to increase its operating margins is directly dependent upon the success of the Company's marketing strategies on large-scale projects, including those in the international arena, and the success of its cost-reduction efforts.

Results of Operations

The following table summarizes key elements in the Consolidated Statements of Operations for the year ended December 31, 1996, and the ten months ended December 31, 1995 and 1994 (dollars in millions).

	Year Ended December 31, 1996	Ten Months Ended December 31, 1995	Ten Months Ended December 31, 1994 *(Unaudited)*
Gross revenue	$ 1,248.4	$ 916.7	$ 732.4
Service revenue	$ 532.1	$ 425.9	$ 392.0
Service revenue as a percentage of gross revenue	42.6%	46.5%	53.5%
Operating expenses as a percentage of service revenue:			
Direct cost of services and overhead	82.2%	83.0%	86.0%
Administrative and general	11.8%	11.0%	8.7%
Depreciation and amortization	1.9%	2.0%	2.0%
Unusual items, net	-	(0.1)%	-
Operating income as a percentage of service revenue	4.0%	4.1%	3.3%

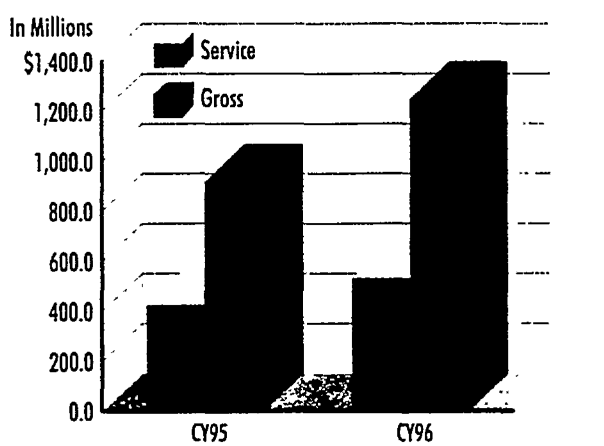
Gross revenue represents services provided to customers with whom the Company has a primary contractual relationship. Included in gross revenue are costs of certain services subcontracted to third parties, and other reimbursable direct project costs, such as materials procured by the Company on behalf 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 equity in income of unconsolidated joint ventures and affiliated companies. The Company 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 (fees) generated by the Hanford and Rocky Flats contracts are based on performance and not revenue. A change in revenue between periods is not necessarily proportionate to the change in the fees earned. Consequently, changes in revenue may have an exaggerated impact on the Company's margins as measured on a percentage basis. In addition, because Kaiser-Hill is a consolidated subsidiary of the Company effective July 1, 1995, operating income includes the portion of income generated under the Rocky Flats contract attributable to CH2M Hill. CH2M Hill's interest in Kaiser-Hill is reflected as a minority interest in subsidiaries in the Company's consolidated financial statements (see Note 2 to the consolidated financial statements). As a result, the increase in minority interests in net income of subsidiaries for the year ended December 31, 1996, versus the ten months ended December 31, 1995, is due to the increase in income from the Rocky Flats contract.

Year Ended December 31, 1996, Versus Ten Months Ended December 31, 1995

Revenue



Gross revenue for the year ended December 31, 1996, increased $331.7 million, or 36.2%, to $1,248.4 million.

The increase in gross revenue was attributable primarily to the Time Period Difference and commencement of work under the Rocky Flats contract which generated a $266.2 million increase in gross revenue for the year ended December 31, 1996, versus the ten months ended December 31, 1995.

Service revenue increased by $106.2 million for the year ended December 31, 1996, as compared to the ten months ended December 31, 1995. The increase was due primarily to the Time Period Difference and an increase in service revenue generated under the Rocky Flats contract ($76.7 million). Service revenue as a percentage of gross revenue decreased to 42.6% for the year ended December 31, 1996, from 46.5% for the ten months ended December 31, 1995. The decrease in service revenue as a percentage of gross revenue is a result of the nature of the Rocky Flats contract. A significant portion of the gross revenue derived from the Rocky Flats contract includes the costs of services subcontracted to third parties.

Operating Expenses

Direct cost of services and overhead increased $84.2 million between the year ended December 31, 1996, and the ten months ended December 31, 1995. A $69.6 million increase in costs on the Rocky Flats contract was offset partially by a $17.2 million reduction in Hanford costs attributable to federal budget reductions at the Hanford Site and the effective termination of the contract on October 1, 1996. The remaining increase is due primarily to the Time Period Difference. The Company's direct cost of services and overhead as a percentage of service revenue for the year ended December 31, 1996, was comparable to the ten months ended December 31, 1995.

Administrative and general expense increased $15.9 million, or 33.8%, between the year ended December 31, 1996, and the ten months ended December 31, 1995. The increase in these costs is due primarily to the Time Period Difference and the Company's increased commitment to marketing activities in 1996, including costs associated with new marketing positions within the Company and increased proposal and bidding activities on large-scale domestic and foreign contracts. The increase in administrative and general expenses as a percentage of service revenue resulting from increased marketing efforts was offset partially as a result of the increase in service revenue in 1996 from the Rocky Flats contract, which does not have a proportionate increase in administrative and general expenses.

Interest Expense

Interest expense increased $4.1 million primarily due to the Time Period Difference. Interest expense also increased due to a 1% increase, effective March 1, 1996, in the interest rate on the Company's 12% Senior Subordinated Notes due 2003 (Subordinated Notes). The Company's principal debt outstanding consists of 12% Senior Subordinated Notes due 2003 and newly issued 12% Senior Notes due 2003, Series A (see *Liquidity and Capital Resources*).

Income Tax Expense

The Company's effective income tax rate decreased to 18.0% for the year ended December 31, 1996, compared with 33.2% for the ten months ended December 31, 1995 (see Note 8 to the consolidated financial statements). The Company's gain on the sale of an investment (see *Financial Review*) in 1996 will generate substantial taxable income. As a result, the Company has partially reversed the valuation allowance on deferred tax assets. The partial reversal reduced tax expense by $2.1 million for the year ended December 31, 1996. The remaining valuation allowance as of December 31, 1996, is for foreign tax benefits not currently assured of realization.

At December 31, 1996, the Company had deferred tax assets of $1.1 million related to net operating loss carryforwards, of which $0.7 million expire within the next five years and $0.4 million expire in 2008 and 2009. Additionally, the Company had deferred tax assets of $2.5 million related to tax credit carryforwards, of which $0.8 million has an indefinite life, and $1.7 million expires between 1998 and 2009. The Company believes that expected levels of pretax earnings, when adjusted for nondeductible expenses, such as goodwill amortization, will generate sufficient future taxable income to realize the $9.7 million deferred tax asset (net) within the next five years.

The income tax provision for the year ended December 31, 1996, was computed by excluding the minority interest in Kaiser-Hill's income because Kaiser-Hill is a flow-through entity for tax purposes and is owned partially by an outside party. This and the partial reversal of the valuation allowance had the effect of reducing the Company's effective tax rate. Since Kaiser-Hill commenced operations on July 1, 1995, its effect on the effective tax rate was relatively larger in the year ended December 31, 1996, than in the ten months ended December 31, 1995.

Ten Months Ended December 31, 1995, Versus Ten Months Ended December 31, 1994

Revenue

Gross revenue for the ten months ended December 31, 1995, increased $184.3 million, or 25.2%, to $916.7 million. The increase in gross revenue was attributable to the commencement of work under the Kaiser-Hill contract which generated $277.7 million in gross revenue during the ten-month period. The increase was offset partially by a $98.6 million reduction in gross revenue under the Hanford contract due to federal budget reductions at the Hanford Site.

Service revenue increased by $33.9 million for the ten-month period ended December 31, 1995, as compared to the ten months ended December 31, 1994. The increase was due primarily to $91.2 million of service revenue generated under the Rocky Flats contract, offset by a $57.8 million decrease in service revenue under the Hanford contract. Service revenue as a percentage of gross revenue decreased to 46.5% for the ten months ended December 31, 1995, from 53.5% for the ten months ended December 31, 1994, as a result of the nature of the Rocky Flats contract. A significant portion of the gross revenue derived from the Rocky Flats contract includes the costs of services subcontracted to third parties.

Operating Expenses

Direct cost of services and overhead increased $16.4 million between the ten-month periods ended December 31, 1995 and 1994. Costs on the new Rocky Flats contract ($85.3 million) were offset by a $60.9 million reduction in the Hanford contract costs (attributable to the federal budget reductions discussed above).

Administrative and general expenses increased $12.8 million, or 37.2%, between the ten-month periods ended December 31, 1995 and 1994, and increased from 8.7% to 11.0% as a percentage of service revenue. The increase in these costs was attributable primarily to the Company's increased marketing activities, including filling several key marketing positions and incurring relatively high levels of marketing expenses associated with proposing and bidding large-scale U.S. Department of Defense and DOE contracts.

Interest Expense

The Company's average debt outstanding and average effective interest rate for the ten months ended December 31, 1995 and 1994, were as follows.

	Ten Months Ended	
	December 31, 1995	December 31, 1994
Average debt outstanding	$123,701,000	$122,674,000
Average effective interest rate	12.9%	12.8%

The average effective interest rate was comparable between the ten-month periods ended December 31, 1995 and 1994, due to consistent interest rates and indebtedness outstanding between the ten-month periods. The Company's principal debt outstanding consisted of the Subordinated Notes (see *Liquidity and Capital Resources*).

Income Tax Expense

The Company's income tax provision was $2.1 million and $3.0 million for the ten months ended December 31, 1995 and 1994, respectively. Although pretax income for the ten months ended December 31, 1995, was $3.5 million greater than pretax income for the comparable period ended December 31, 1994, the Company's effective tax rate decreased due to a reduction in permanent differences (such as the nondeductibility of goodwill) as a percentage of pretax income, increased foreign tax benefits, and minority interest earnings of a consolidated subsidiary (see Note 8 to the consolidated financial statements). The ten months ended December 31, 1994, also included a repatriation of overseas funds to the United States which could not, at that time, be offset by foreign tax credits, resulting in additional income taxes for that period.

Because of the reported losses for the year ended February 28, 1994, a $3.3 million valuation allowance was established in that year for deferred tax assets. Although the level of pretax income has increased substantially since that period (with a corresponding increase in taxable income), the Company maintained the valuation allowance as of December 31, 1995.

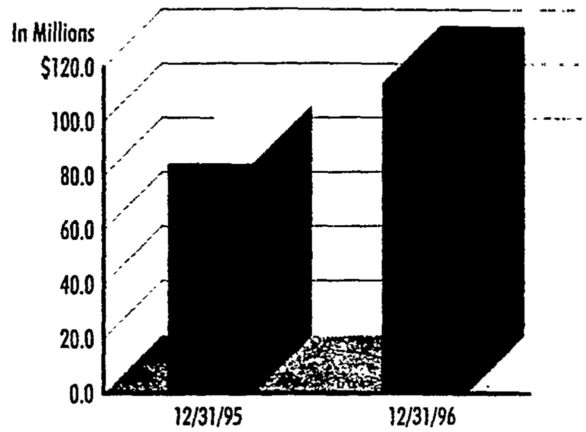
Unusual Items

During the ten months ended December 31, 1995, the Company recorded $0.5 million in additional income (net), consisting of the following unusual items: income in settlement of litigation against the Internal Revenue Service (IRS), associated with an affiliate of an acquired company, net of an accrual for related expenses ($6.8 million) (see *Liquidity and Capital Resources*); a charge to accrue the net settlement cost and legal expenses of other litigation ($4.6 million); a charge to accrue for severance for the termination of 110 employees in the engineering and international groups ($1.0 million); and a charge to accrue for consolidation of office space ($0.7 million). All actions associated with the termination of employees and consolidation of office space have been completed, and there is no further liability outstanding as of December 31, 1996, associated with this plan (see Note 16 to the consolidated financial statements).

Liquidity and Capital Resources

During the year ended December 31, 1996, cash and cash equivalents increased $0.4 million to $16.8 million. Operating activities generated $1.2 million in cash, including operations at Kaiser-Hill (owned equally by the Company and CH2M Hill) which generated $15.5 million from operating activities. An additional significant operating source of cash was $7.0 million received from the IRS in settlement of litigation (see *Unusual Items*). Significant operating uses of cash included $23.5 million in interest payments, consisting of three semiannual payments, on the Company's Subordinated Notes and a $3.7 million retirement plan payment.

Working Capital



The increase in prepaid expenses and other current assets and the decrease in investment in and advances to affiliates between December 31, 1996, and December 31, 1995, was due to the sale of an investment in entities that own and operate a pulverized coal injection facility in December 1996, the cash proceeds ($16.5 million) for which were not received until January 1997 (see below). The increase in prepaid expenses and other current assets in 1996 was offset partially by a decrease attributable to the collection in 1996 of $7.0 million from the IRS, which was recorded in other current assets at December 31, 1995. The cash received from the IRS settlement is included in unusual items on the Statement of Cash Flows. The decrease in accrued interest was due to the timing of interest payments on the Subordinated Notes. The decrease in accounts payable and subcontractors payable was due primarily to the effective termination of the Hanford contract in 1996. The increase in deferred revenue was due primarily to advance billings and collections on a transit project in the Philippines.

In July 1996, EPA approved the Company's provisional billing rates for the year ended February 28, 1995, for the rate variances on cost-plus contracts with U.S. government agencies for costs incurred during that year. The Company has received $2.2 million on these billings as of December 31, 1996, and expects to collect approximately $0.9 million in future periods. In October 1996, the Company also obtained approval for provisional billing rates for the ten months ended December 31, 1995. The Company has received $0.7 million on these billings as of December 31, 1996, and expects to collect approximately $2.0 million in future periods. In January 1997, the Company received approval for provisional billing rates for the year ended December 31, 1996, and expects to collect approximately $3.3 million in future periods.

Credit Facilities

The Company's $40 million revolving credit facility became effective May 7, 1996, and expires June 30, 1998 (see Note 6 to the consolidated financial statements). The credit facility is provided by a group of three banks (the Banks) and is guaranteed by certain subsidiaries (Guarantors). ICF Kaiser International, Inc. and the Guarantors have granted the Banks a security interest in substantially all accounts receivable and certain other assets and have pledged the stock of certain subsidiaries. The credit facility limits the payments of cash dividends on common stock, prohibits the issuance of certain types of indebtedness, limits certain investments and acquisitions, and requires the maintenance of specified financial ratios. Total available credit is determined from a borrowing base calculation based on eligible accounts receivable (billed and unbilled). In connection with the Company's repurchase of preferred stock in December 1996 (see below), total available credit under the credit facility was increased temporarily by $5.0 million. This provision for additional capacity was terminated subsequently in January 1997.

Due to the timing of additional borrowings made under the credit facility in connection with the repurchase of the preferred stock, the Company was not in compliance with one of the financial ratios at December 31, 1996. The Banks, however, granted a waiver of the requirement in January 1997 for December 31, 1996. The additional borrowings used to repurchase the preferred stock were repaid in January 1997.

The credit facility contains Eurodollar and alternate base interest rate alternatives with margins dependent upon the Company's financial operating results. As of December 31, 1996, the Company had $20.5 million in cash borrowings and $21.1 million of performance letters of credit outstanding. As of December 31, 1996, the Company had $3.4 million of additional credit available under the credit facility. As of February 25, 1996, the Company had $4.0 million of cash borrowings outstanding, $19.7 million of letters of credit outstanding, and the additional credit available under the credit facility was $16.3 million.

Kaiser-Hill has a $50 million receivables purchase facility to support its working capital requirements under the Rocky Flats contract. The receivables purchase facility contains certain program fees, requires Kaiser-Hill to maintain a specified tangible net worth, and contains certain letter of credit and default provisions for delinquent receivables. The receivables purchase facility expires on June 30, 1998, and is non-recourse to Kaiser-Hill's owners, ICF Kaiser International, Inc. and CH2M Hill.

Senior and Subordinated Notes

On December 23, 1996, the Company issued (through a private placement) 15,000 Units, each Unit consisting of $1,000 principal amount of the Company's 12% Senior Notes due 2003, Series A (Series A Senior Notes), and 7 warrants, each to purchase one share of the Company's common stock at an exercise price of $2.30 per share. Of the net issue price of $14.7 million ($15.0 million less a $0.3 million discount), $0.1 million was allocated to the 105,000 warrants and $14.6 million to the Series A Senior Notes. Interest on the Series A Senior Notes will be at a rate of 13% until the Company achieves and maintains a specified level of earnings, and is paid semiannually. In March 1997, the Company expects to exchange the Series A Senior Notes for Series B Senior Notes registered with the U.S. Securities and Exchange Commission in January 1997. The terms of the Series B Senior Notes substantially are identical to the terms of the Series A Senior Notes.

The net proceeds from the issuance of the Series A Senior Notes and borrowings under the credit facility were used to repurchase the Company's Series 2D Senior Preferred Stock and Series 2D Warrants in December 1996 for $20 million (see Note 9 to the consolidated financial statements). Additional net borrowings under the credit facility in 1996 also were used to fund operations.

Because of technical limitations on the payment of dividends contained in the Indenture governing the Company's Subordinated Notes, the Company did not pay the November 30, 1995, and February 29, 1996, accrued dividends on the Company's Series 2D Senior Preferred Stock when due. These accrued dividends in the aggregate amount of $975,000 were paid in March 1996, following the signing of an amendment to the Indenture governing the Subordinated Notes which permitted the payment of all accrued and future dividends. As consideration for this amendment, the interest rate on the Subordinated Notes was increased from 12% to 13% until the Company achieves and maintains a specified level of earnings.

Other Investing and Financing Activities

In December 1996, the Company sold the majority portion of its equity interest in entities that own and operate a pulverized coal injection facility, and certain related contractual rights, for $16.6 million. The buyer also has an option to purchase the remaining equity investment for $2.4 million in January 1998. The sales price is included in other current assets in the accompanying balance sheet as of December 31, 1996. The proceeds from the sale, net of $0.1 million held in escrow, were received in January 1997 and were reinvested in the Company's business. These entities' earnings and cash flows were material to the Company in 1996, and the absence of these entities' earnings and cash flows may have a material impact on the Company's future earnings and cash flows after 1996 if the Company's cost-savings and marketing programs are not successful.

Other significant uses of cash in investing and financing activities included purchases of fixed assets ($4.9 million), payment of preferred stock dividends ($2.6 million), distribution of income to a minority interest ($2.4 million), payment of debt issuance costs ($1.4 million), and investments in joint ventures and affiliates ($1.3 million).

Liquidity and Capital Resources Outlook

The Company 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 its current level of operations, including interest obligations, throughout the next 12 months. The Company currently is exploring options that would provide additional capital for longer-term objectives including replacing the Company's long-term debt with equity.

The credit facility limits the Company's ability to make acquisitions and other investments, and the Indentures governing the Company's Senior and Subordinated Notes limit the Company's ability to make restricted payments, including certain payments in connection with investments and acquisitions. These credit facility and Indenture limitations mean that during the next several years it likely will be necessary for the Company to issue additional equity securities to fund any significant acquisitions and to invest significant amounts in joint ventures. These limitations may make it more difficult for the Company to compete effectively in its markets.

In addition to the cash requirements of the Company's daily operations, the Company has semiannual interest payments of $9.1 million due in June and December for the Series A and B Senior Notes and Subordinated Notes. After the Company achieves and maintains a specified level of earnings, the semiannual interest requirement will be reduced to $8.4 million. The Company expects to meet this interest obligation with either operating cash flows or borrowings under its credit facility.

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 December 31, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year ended December 31, 1996, the ten months ended December 31, 1995, and the year 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 December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for the year ended December 31, 1996, the ten months ended December 31, 1995, and the year ended February 28, 1995, in conformity with generally accepted accounting principles.

Coopers + Lybrand L.L.P.

Washington, DC
February 28, 1997

Consolidated Balance Sheets

	December 31, 1996	December 31, 1995
	(In thousands, except shares)	
Assets		
Current Assets		
Cash and cash equivalents	$ 16,761	$ 16,357
Contract receivables, net	223,278	228,239
Prepaid expenses and other current assets	27,096	20,911
Deferred income taxes	9,739	11,934
Total Current Assets	276,874	277,441
Fixed Assets		
Furniture, equipment, and leasehold improvements	48,410	42,909
Less depreciation and amortization	(37,208)	(33,369)
	11,202	9,540
Other Assets		
Goodwill, net	49,699	49,259
Investments in and advances to affiliates	6,443	10,213
Due from officers and employees	716	1,053
Other	21,039	22,011
	77,897	82,536
	$ 365,973	$ 369,517
Liabilities and Shareholders' Equity		
Current Liabilities		
Current portion of long-term debt	$ 43	$ 5,041
Accounts payable and subcontractors payable	67,679	86,429
Accrued salaries and employee benefits	45,779	53,060
Accrued interest	47	7,414
Other accrued expenses	21,479	18,594
Income taxes payable	852	801
Deferred revenue	21,829	14,327
Other	5,268	7,186
Total Current Liabilities	162,976	192,852
Long-term Liabilities		
Long-term debt, less current portion	156,519	120,112
Other	5,432	5,706
	161,951	125,818
Commitments and Contingencies		
Minority Interests in Subsidiaries	6,154	2,633
Redeemable Preferred Stock, liquidation value $20,000	-	19,787
Common Stock, par value $.01 per share: Authorized-90,000,000 shares		
Issued and outstanding-22,311,842 and 21,263,828 shares	223	213
Additional Paid-in Capital	66,983	64,654
Notes Receivable Related to Common Stock	(1,732)	(1,732)
Retained Earnings (Deficit)	(29,238)	(32,894)
Cumulative Translation Adjustment	(1,344)	(1,814)
	$ 365,973	$ 369,517

See notes to consolidated financial statements.

Consolidated Statements of Operations

	Year Ended December 31, 1996	Ten Months Ended December 31, 1995	Year Ended February 28, 1995
	(In thousands, except per share amounts)		
Gross Revenue	$1,248,443	$ 916,744	$ 861,518
Subcontract and direct material costs	(720,342)	(493,971)	(405,819)
Equity in income of joint ventures and affiliated companies	4,015	3,123	4,087
Service Revenue	532,116	425,896	459,786
Operating Expenses			
Direct cost of services and overhead	437,635	353,477	393,096
Administrative and general	62,953	47,057	43,770
Depreciation and amortization	10,348	8,357	9,232
Unusual items, net	-	(500)	-
Operating Income	21,180	17,505	13,688
Other Income (Expense)			
Gain on sale of investment	9,384	-	551
Interest income	1,254	2,053	1,799
Interest expense	(17,334)	(13,255)	(14,799)
Income Before Income Taxes and Minority Interests	14,484	6,303	1,239
Income tax provision	2,607	2,091	2,900
Income (Loss) Before Minority Interests	11,877	4,212	(1,661)
Minority interests in net income of subsidiaries	6,043	1,960	-
Net Income (Loss)	5,834	2,252	(1,661)
Preferred stock dividends and accretion	2,178	1,803	2,154
Net Income (Loss) Available for Common Shareholders	$ 3,656	$ 449	$ (3,815)
Primary and Fully Diluted Net Income (Loss) Per Common Share	$ 0.17	$ 0.02	$ (0.18)
Primary and Fully Diluted Weighted Average Common and Common Equivalent Shares Outstanding	22,062	21,517	20,957

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year Ended December 31, 1996	Ten Months Ended December 31, 1995	Year Ended February 28, 1995
		(In thousands)	
Operating Activities			
Net income (loss)	$ 5,834	$ 2,252	$ (1,661)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,348	8,357	9,232
Provision for losses on contract receivables	1,881	601	1,320
Provision for deferred income taxes	2,127	1,253	2,500
Earnings less than (in excess of) cash distributions from joint ventures and affiliated companies	(374)	(1,105)	972
Minority interests in net income of subsidiaries	6,043	1,960	-
Gain on sale of investment	(9,384)	-	(551)
Unusual items, net	500	(500)	-
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Contract receivables, net	2,638	(88,743)	(13,014)
Prepaid expenses and other current assets	1,843	(3,826)	4,471
Other assets	(833)	(4,953)	(1,268)
Accounts payable and accrued expenses	(24,781)	78,801	2,218
Income taxes payable	(315)	157	297
Deferred revenue	7,727	3,314	2,551
Other liabilities	(2,202)	(3,625)	(5,103)
Other operating activities	156	-	219
Net Cash Provided by (Used in) Operating Activities	1,208	(6,057)	2,183
Investing Activities			
Investments in subsidiaries and affiliates, net of cash acquired	(1,317)	(2,010)	(622)
Sales of subsidiaries and subsidiary assets	-	735	2,600
Purchases of fixed assets	(4,932)	(1,759)	(2,426)
Sales of fixed assets	22	1,035	-
Other investing activities	-	-	(600)
Net Cash Used in Investing Activities	(6,227)	(1,999)	(1,048)
Financing Activities			
Borrowings under credit facility	114,000	16,000	5,000
Principal payments on credit facility and other borrowings	(98,500)	(17,173)	(1,172)
Proceeds from issuance of senior notes and related warrants	14,700	-	-
Repurchase of preferred stock	(20,000)	-	-
Repurchases of redeemable preferred stock of subsidiary	-	-	(799)
Distribution of income to minority interest	(2,428)	-	-
Subsidiary capital contribution from minority interest	-	500	-
Proceeds from issuances of common stock	383	406	395
Repurchases of common stock	-	(257)	(180)
Preferred stock dividends	(2,615)	(1,471)	(1,950)
Debt issuance costs	(1,427)	-	(149)
Other financing activities	924	(1,308)	-
Net Cash Provided by (Used in) Financing Activities	5,037	(3,303)	1,145
Effect of Exchange Rate Changes on Cash	386	(517)	444
Increase (Decrease) in Cash and Cash Equivalents	404	(11,876)	2,724
Cash and Cash Equivalents at Beginning of Period	16,357	28,233	25,509
Cash and Cash Equivalents at End of Period	$ 16,761	$ 16,357	$ 28,233

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of Operations

ICF Kaiser International, Inc. and subsidiaries (the Company) provides engineering, construction, program management, and consulting services primarily to the public and private environmental, infrastructure, industry, and energy markets domestically and internationally.

2. Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include all subsidiaries (including Kaiser-Hill Company, LLC, effective July 1, 1995) that are controlled by ICF Kaiser International, Inc. Certain of the Company's consolidated subsidiaries are owned partially by outside parties. For financial reporting purposes, the assets, liabilities, results of operations, and cash flows of these subsidiaries are included in the Company's consolidated financial statements and the outside parties' interests are reflected as minority interests. Investments in unconsolidated 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 balances and transactions have been eliminated.

Significant Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities (see Note 7) at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In 1996, the Company accelerated the procedures for obtaining approval from the U.S. government for the Company's actual costs incurred in current periods. As a result, in 1996, the Company's consulting group was able to accelerate its process of billing on certain cost-reimbursement contracts. The net effect of this accelerated process is the recognition of an additional $3.3 million of operating income in 1996.

Change in Fiscal Year: The Company changed from a fiscal year ending February 28 to a fiscal year ending December 31, effective December 31, 1995. As a result, the accompanying consolidated financial statements include operations for the year ended December 31, 1996, the ten months ended December 31, 1995, and the year ended February 28, 1995.

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-priced 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.

On certain contracts, revenue includes a proportion of the expected base fee and performance-based incentive fees by contract year. Performance-based incentive fees are based on actual performance compared to established targets and are recorded when the amounts can be reasonably determined or are awarded. Established incentive fees are reviewed as the work progresses and the effect of any change on estimated fees recorded is recognized in the period in which the change is determined.

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.

Cash Equivalents and Restricted Cash: The Company considers all highly liquid financial instruments purchased with original maturities of three months or less to be cash equivalents. Other assets as of December 31, 1996 and 1995, included $600,000 of restricted cash in a short-term investment, which supported a letter of credit for one of the Company'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 ten years. Leasehold improvements are carried at cost and are amortized using the straight-line method over the remaining lease terms.

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 comparison to estimated future undiscounted cash flows from operations. Accumulated amortization was $15,079,000 and $12,785,000 at December 31, 1996 and 1995, 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,

Notes to Consolidated Financial Statements (continued)

The Company records a valuation allowance for deferred tax assets that are not currently assured of realization. The most significant permanent differences between book and taxable income are nondeductible goodwill amortization, minority interest earnings of a consolidated subsidiary, foreign taxes, and nondeductible business meals and entertainment expenses.

Income taxes have not been provided for the undistributed earnings of the Company's foreign subsidiaries because the Company intends to continue the operations and reinvest the undistributed earnings indefinitely. Undistributed earnings of foreign subsidiaries for which income taxes have not been provided amounted to approximately $6.8 million at December 31, 1996.

Net Income (Loss) Per Common Share: Net income per common share for the year ended December 31, 1996, was computed under the treasury stock method using net income available for common shareholders and the weighted average number of common stock and common stock equivalents outstanding during the year. Net income (loss) per common share for the ten months ended December 31, 1995, and the year ended February 28, 1995, was 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 periods presented. Common stock equivalents include stock options and warrants and additional shares which will be or may be issued in connection with acquisitions. The adjustments required by the modified treasury stock method and for acquisition-related contingencies under both methods were anti-dilutive for the loss period presented and immaterial to the income periods presented. Therefore, the adjustments were excluded from earnings per share computations for all periods presented.

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. The Company grants uncollateralized credit to its customers. Approximately 61% of the Company's contract receivables at December 31, 1996, are from the U.S. government (see Note 4). When practical and in order to mitigate its credit risk to commercial customers, the Company obtains advance funding of costs for industrial construction work.

Long-Lived Assets: The Financial Accounting Standards Board (FASB) recently issued Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* (SFAS No. 121), effective for financial statements for fiscal years beginning after December 15, 1995. Prior to the formal adoption of SFAS No. 121, it was the Company's policy to evaluate all long-lived assets on a periodic basis for asset impairment. Therefore, the adoption of this statement had no material adverse effect on the Company's financial position or operations.

Stock-based Compensation: The FASB also recently issued Statement of Financial Accounting Standards No. 123, *Accounting for Stock-based Compensation* (SFAS No. 123), which encourages companies to adopt a fair value method of accounting for employee stock options and similar equity instruments. The fair value method requires compensation cost to be measured at the grant date based on the value of the award and recognized over the service period. Alternatively, SFAS No. 123 requires pro forma disclosures of net income and earnings per share as if the fair value method had been adopted. The Company has elected to provide pro forma disclosures for stock-based compensation (see Note 12). Therefore, the adoption of SFAS No. 123 did not have any effect on the Company's financial position or results of operations.

Reclassifications: Certain reclassifications have been made to the prior period financial statements to conform to the presentation used in the December 31, 1996, financial statements.

3. Divestitures

In December 1996, the Company sold the majority of its investment in Gary PCI Ltd. L.P. and a related entity, and certain related contractual rights, for $16.6 million resulting in a $9.4 million pretax gain. These entities owned and operated a pulverized coal injection facility. The buyer has an option to purchase the remaining equity investment for $2.4 million in January 1998. The sales price is included in other current assets in the accompanying balance sheet as of December 31, 1996; the sales proceeds were received on January 2, 1997, and were reinvested in the Company's business.

The Company sold a 20% interest in a subsidiary during the year ended February 28, 1995, resulting in a $551,000 pretax gain.

Notes to Consolidated Financial Statements (continued)

4. Contract Receivables

Contract receivables consist of the following (in thousands):

	December 31, 1996	December 31, 1995
U.S. government agencies:		
Currently due	$ 30,322	$ 23,980
Retention	4,041	1,870
Unbilled	107,051	126,072
	141,414	151,922
Commercial clients and state and municipal governments:		
Currently due	61,255	54,500
Retention	4,855	5,361
Unbilled	25,204	25,891
	91,314	85,752
	232,728	237,674
Less allowances for uncollectible receivables	9,450	9,435
	$ 223,278	$ 228,239

U.S. government receivables arise from U.S. government prime contracts and subcontracts. Unbilled receivables result from revenue that has been earned but had not been billed as of the end of the period. The unbilled receivables can be invoiced at contractually defined intervals and milestones, as well as upon completion of the contract or the U.S. government cost audit. Generally, retention is not expected to be realized within one year; consistent with industry practice, these receivables are classified as current. Unbilled receivables include $2.0 million in fees awarded to the Company, and then subsequently withheld by the U.S. government. The Company believes it has valid claims for the $2.0 million in fees that remain unpaid, although recovery of such amounts may take more than one year. The Company anticipates that the remaining unbilled receivables will be substantially billed and collected within one year.

5. Joint Ventures and Affiliated Companies

The Company has ownership interests in certain unconsolidated corporate joint ventures and affiliated companies. The Company's net investments in and advances to these corporate joint ventures and affiliated companies are summarized as follows (in thousands):

	Ownership Interest at December 31, 1996	December 31, 1996	December 31, 1995
Gary PCI Ltd. L.P.	1%	$ 1,382	$ 5,257
French Environmental Holdings L.L.C.	49%	1,147	-
Other	20% to 50%	3,914	4,956
		$ 6,443	$ 10,213

The Company had a 50% ownership interest in Gary PCI Ltd. L.P. at December 31, 1995. Upon the sale of the majority of the Company's investment in December 1996, the ownership interest was reduced to 1% (see Note 3).

Combined summarized financial information of all of the Company's unconsolidated corporate joint ventures and affiliated companies is as follows (in thousands):

	December 31, 1996	December 31, 1995	February 28, 1995
Current assets	$ 26,623	$ 19,082	$ 15,103
Non-current assets	34,430	42,400	12,723
Current liabilities	27,613	31,703	15,875
Non-current liabilities	53	446	55
Gross revenue	28,742	41,262	52,616
Net income	11,930	6,606	8,430

Notes to Consolidated Financial Statements (continued)

6. Long-term Debt

The Company's long-term debt is as follows (in thousands):

	December 31, 1996	1995
12% Senior Subordinated Notes due 2003	$124,500	$123,550
12% Senior Notes due 2003, Series A	15,000	-
Revolving credit facility (interest at 8.6% at December 31, 1996)	20,500	5,000
Other notes, with interest at varying rates, payable in installments through 1997	43	92
	160,043	128,642
Less unamortized discount	3,481	3,489
	156,562	125,153
Less current maturities	43	5,041
	$156,519	$120,112

Scheduled maturities of long-term debt outstanding at December 31, 1996, are as follows: $43,000 in 1997, $20,500,000 in 1998 (under the revolving credit facility), and $139,500,000 in 2003.

On December 23, 1996, the Company issued (through a private placement) 15,000 Units, each Unit consisting of $1,000 principal amount of the Company's 12% Senior Notes due 2003, Series A (Series A Senior Notes), and 7 warrants, each to purchase one share of the Company's common stock at an exercise price of $2.30 per share. The warrants expire on December 31, 1999, and additional warrants may be issued under certain anti-dilution provisions. Payment of the principal, premium, if any, and interest on the Series A Senior Notes are unconditionally guaranteed by four wholly owned subsidiaries of ICF Kaiser International, Inc. Of the net issue price of $14.7 million ($15.0 million less a $0.3 million discount), $0.1 million was allocated to the 105,000 warrants and $14.6 million to the Series A Senior Notes. The interest rate on the Series A Senior Notes will be 13% until the Company achieves and maintains a specified level of earnings (see Note 9).

In January 1997, the Company registered $15.0 million of 12% Senior Notes due 2003, Series B (Series B Senior Notes) with the U.S. Securities and Exchange Commission (SEC). In February 1997, the Company initiated an exchange offer to all existing holders of Series A Senior Notes to exchange the Series A Senior Notes for Series B Senior Notes. The Company expects the exchange to be completed in March 1997. The terms of the Series B Senior Notes are substantially identical (including principal amount, interest rate, and maturity) to the terms of the Series A Senior Notes.

On January 11, 1994, the Company issued 125,000 Units, each Unit consisting of $1,000 principal amount of the Company's 12% Senior Subordinated Notes due 2003 (Subordinated 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 $121.5 million ($125.0 million less a $3.5 million discount), $0.9 million was allocated to the 600,000 warrants and $120.6 million to the 12% Notes. The Company's insurance subsidiary purchased 1,450 of the Units for $1.4 million in November 1995 and 50 of the Units for $46,000 in January 1996. In October 1996, this insurance subsidiary sold 1,000 of the Units for $1.0 million. In March 1996, the interest rate on the Subordinated Notes was increased by 1% until the Company achieves and maintains a specified level of earnings (see Note 9). The Company's obligations under the Subordinated Notes are subordinate to its obligations under the Company's revolving credit facility and the Series A and B Senior Notes.

Interest payments are due semiannually on the Series A Senior Notes and the Subordinated Notes (collectively, the Notes). The Notes may not be prepaid at the Company's option prior to December 31, 1998. Subsequent to that date, the Company may prepay the Notes at a premium. The Indentures governing the Notes contain business and financial covenants, including restrictions on additional indebtedness, dividends, acquisitions and certain types of investments, and asset sales. At December 31, 1996, the fair value of the Series A Senior Notes and Subordinated Notes was approximately $14.7 million and $118.9 million, respectively. The fair value was computed using an average of recently quoted market prices obtained from financial institutions. Net debt issuance costs of $4.6 million and $3.8 million associated with the Notes are classified as other assets at December 31, 1996 and 1995, respectively, in the accompanying consolidated balance sheets. These costs and the discounts on the Notes are being amortized over the term of the Notes.

The Company's $40 million revolving credit facility became effective May 7, 1996, replacing the then-existing credit facility which was due to expire on October 31,

Notes to Consolidated Financial Statements (continued)

1996. The credit facility is provided by CoreStates Bank, N.A., as agent bank, and two other banks (collectively, the Banks) with terms and covenants similar to those under the former credit facility. ICF Kaiser International, Inc. and certain of its subsidiaries, which are guarantors of the credit facility (Guarantors), have granted the Banks a security interest in their accounts receivable and certain other assets. The credit facility limits the payments of cash dividends on common stock, prohibits the issuance of certain types of additional indebtedness, limits certain investments and acquisitions, and requires the maintenance of specified financial ratios. Total available credit is determined from a borrowing base calculation based on eligible accounts receivable (billed and unbilled). The Company and the Banks entered into an amendment in December 1996 that permitted the issuance of the Series A Senior Notes and provided for a $5.0 million temporary overadvance of additional borrowings that could be used for the redemption or repurchase of the Company's Series 2D Senior Preferred Stock (see Note 9). The amendment also modified certain financial covenants and obligated the Company and the Guarantors to pledge the stock of certain domestic and foreign subsidiaries to the Banks.

Due to the timing of additional borrowings made under the credit facility in connection with the repurchase of the preferred stock, the Company was not in compliance with one of the financial ratios at December 31, 1996. The Banks, however, granted a waiver of the requirement in January 1997 for December 31, 1996. The additional borrowings used to repurchase the preferred stock were repaid and the provision for additional capacity was terminated in January 1997.

The credit facility contains Eurodollar and other base interest rate alternatives with margins dependent upon the Company's financial operating results, and expires on June 30, 1998. As of December 31, 1996, the Company had $20.5 million in cash borrowings and $21.1 million of letters of credit outstanding under the credit facility. The letters of credit outstanding under the credit facility generally are required to support performance guarantees, primarily on international projects. As of December 31, 1996, the Company had $3.4 million of additional credit available under the credit facility.

One of the Company's subsidiaries has a $50 million receivables purchase facility to support its working capital requirements under a U.S. Department of Energy contract. The receivables purchase facility contains certain program fees, requires the subsidiary to maintain a specified tangible net worth, and contains certain letter of credit and default provisions for delinquent receivables. The receivables purchase facility expires on June 30, 1998, and is non-recourse to ICF Kaiser International, Inc. and its other consolidated subsidiaries.

There are 275,088 common stock warrants outstanding in connection with a debt issuance that was repurchased in January 1994. The warrants expire on May 15, 1999, and are exercisable at any time for shares of the Company's common stock at $6.87 per share. Additional warrants may be required to be issued and the warrant price adjusted under certain anti-dilution provisions.

7. Contingencies

In the course of the Company's normal business activities, various claims or charges have been 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, results of 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 pending audits related to fiscal years 1986 forward, the government has asserted, among other things, that certain costs claimed as reimbursable under government contracts either were not allowable or not allocated in accordance with federal procurement regulations. The Company is actively working with the government to resolve these issues. The Company has provided for its esti-

Notes to Consolidated Financial Statements (continued)

mate of the potential effect of issues that have been quantified, including its estimate of disallowed costs for the periods currently under audit and for periods not yet audited. Many of the issues, however, have not been quantified by the government or the Company, and others are qualitative in nature, and their potential financial impact, if any, is not quantifiable by the government or the Company at this time. This provision will be reviewed periodically as discussions with the government progress.

8. Income Taxes

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

	Year Ended December 31, 1996	Ten Months Ended December 31, 1995	Year Ended February 28, 1995
Income (loss) before income taxes and minority interests:			
Domestic	$13,900	$7,419	$1,217
Foreign	584	(1,116)	22
	$14,484	$6,303	$1,239
Provision (benefit) for income taxes:			
Federal:			
Current	$ -	$ 171	$ 120
Deferred	1,660	2,020	2,328
	1,660	2,191	2,448
State:			
Current	55	258	100
Deferred	864	293	172
	919	551	272
Foreign:			
Current	425	409	180
Deferred	(397)	(1,060)	-
	28	(651)	180
	$ 2,607	$ 2,091	$2,900

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

	December 31, 1996	December 31, 1995
Reserves for adjustments and allowances	$ 8,043	$ 8,984
Gain on sale of investment	(5,011)	-
Vacation and incentive compensation accruals	4,514	6,655
Tax credit carryforwards	2,522	2,077
Net operating loss carryforwards	1,111	711
Unbilled revenue	(1,082)	-
Joint ventures	(572)	(1,969)
Litigation settlement	-	(2,676)
Other	1,444	1,482
	10,969	15,264
Valuation allowance	(1,230)	(3,330)
	$ 9,739	$11,934

Because of reported losses for the year ended February 28, 1994, the Company established a $3.3 million valuation allowance. The Company's gain on the sale of an investment (see Note 3) in 1996 will generate substantial taxable income. As a result, the Company has partially reversed the valuation allowance on deferred tax assets. The partial reversal reduced tax expense by $2.1 million for the year ended December 31, 1996. The remaining valuation allowance as of December 31, 1996, is for foreign tax benefits not currently assured of realization.

At December 31, 1996, the Company had deferred tax assets of $1.1 million related to net operating loss carryforwards, of which $0.7 million expire within the next five years and $0.4 million expire in 2008 and 2009. Additionally, the Company had deferred tax assets of $2.5 million related to tax credit carryforwards, of which $0.8 million has an indefinite life, and $1.7 million expires between 1998 and 2009. The Company believes that expected levels of pretax earnings, when adjusted for nondeductible expenses such as goodwill amortization, will generate sufficient future taxable income to realize the $9.7 million deferred tax asset (net) within the next five years.

Notes to Consolidated Financial Statements (continued)

The effective income tax rate varied from the federal statutory income tax rate because of the following differences:

	Year Ended December 31, 1996	Ten Months Ended December 31, 1995	Year Ended February 28, 1995
Statutory tax rate	35.0%	34.0%	34.0%
Changes in tax rate from:			
Goodwill amortization	6.9	11.7	69.9
Minority interest earnings of a consolidated subsidiary	(14.6)	(11.0)	-
Differences between book and tax basis of businesses sold	-	-	7.4
State income taxes	4.1	5.8	14.5
Foreign taxes	(2.9)	(9.2)	67.8
Valuation allowance	(14.5)	-	-
Business meals, entertainment, and dues	3.1	5.1	30.9
R&D credits	-	(5.5)	-
Subsidiary preferred dividends	-	-	1.9
Adjustment of prior years' accruals	-	2.1	3.8
Other	0.9	0.2	3.8
	(17.0)	(0.8)	200.0
	18.0%	33.2%	234.0%

One of the Company's consolidated subsidiaries, Kaiser-Hill Company, LLC (Kaiser-Hill), is a flow-through entity for tax purposes and is owned partially by an outside party. Accordingly, the provision for income taxes in the accompanying financial statements was computed based on the Company's taxable share of Kaiser-Hill's income. The tax rate effect of the outside party's share of income is reflected above as minority interest earnings of a consolidated subsidiary. Kaiser-Hill began operations during the ten months ended December 31, 1995.

The tax provision for the year ended February 28, 1995, reflects the deemed dividend from the repatriation of overseas funds to the United States that, at that time, could not then be offset by foreign tax credits. For the past several years, the Company has had ongoing negotiations, filings, and litigation with the Internal Revenue Service (IRS) related to settlement of its tax liabilities and the liabilities associated with affiliates of acquired companies. During the year ended February 28, 1995, the Company's 1989 through 1992 tax returns were accepted as filed, resulting in the receipt of refunds from the 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 for the year ended February 28, 1995, was a reduction of net interest expense of $1.3 million related to interest refunds.

9. Preferred Stock

Preferred Stock of the Company is as follows (dollars in thousands):

	December 31, 1996	December 31, 1995
Series 2D Senior Preferred Stock, par value $0.01 per share; liquidation value $20,000; 200 shares designated, issued, and outstanding	$ -	$ 20,000
Less unamortized discount, warrant value, and issue costs	-	(213)
	$ -	$ 19,787

Series 2D 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 January 1992 for a price of $20,000,000 (less a discount of $100,000). The warrants were exercisable for 2,680,952 shares of common stock. 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. The Series 2D Preferred Stock was subject to mandatory redemption at liquidation value on January 13, 1997. The Series 2D Preferred Stock and Series 2D Warrants were repurchased in December 1996 for $20 million.

Dividends on the Series 2D Preferred Stock were $9,750 per share per annum, cumulative. Because of technical limitations on the payment of dividends contained in the Indenture governing the Company's Subordinated Notes (see Note 6), the Company did not pay the November 30, 1995, and February 29, 1996, accrued dividends in the aggregate amount of $975,000. Dividends in arrears at December 31, 1995, were $487,500. In March 1996, the Company and the holders of the Subordinated Notes

Notes to Consolidated Financial Statements (continued)

amended the Indenture governing the Subordinated Notes to permit payment of all accrued but unpaid dividends (which then were paid) and all future dividends. As consideration for this amendment, the interest rate on the Subordinated Notes was increased by 1% from March 1996 until the Company achieves and maintains a specified level of earnings.

Junior Preferred Stock: The Company has authorized 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 December 31, 1996 and 1995.

10. Common Stock

Notes Receivable Related to Common Stock: Notes receivable related to the Company's common stock are promissory notes from certain current and former members of senior management in accordance with their employment arrangements with the Company. These notes are collateralized by shares of the Company's 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 the Company, 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 the Company's 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 the Company's common stock, redeem the Rights upon payment of the redemption price of $0.01 per Right. Unless redeemed earlier by the Board, unexercised Rights expire on January 13, 2002.

Other: At December 31, 1995, the Company was obligated to issue 396,167 shares of the Company's common stock pursuant to an agreement with a former employee. Accordingly, this liability has been recognized in the accompanying financial statements. The shares were issued in March 1996. Of these shares, a total of 220,000 are being held by the Company pursuant to a pledge agreement as security for an amount receivable from the former employee.

11. 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 are as follows on December 31, 1996 (in thousands):

1997	$ 25,336
1998	22,320
1999	19,130
2000	14,664
2001	10,232
Thereafter	11,951
	$103,633

The total rental expense for all operating leases was $31,686,000, $24,950,000, and $31,176,000 for the year ended December 31, 1996, the ten months ended December 31, 1995, and the year ended February 28, 1995, respectively. Sublease rental income was $3,887,000, $3,189,000, and $3,944,000 for the year ended December 31, 1996, the ten months ended December 31, 1995, and the year ended February 28, 1995, respectively. Minimum future sublease rentals to be received under noncancelable subleases during 1997, 1998, 1999, and 2000 are approximately $2,860,000, $2,574,000, $2,511,000, and $1,137,000, respectively.

12. Stock-based Compensation

As of December 31, 1996, the Company has three fixed stock option plans and an employee stock purchase plan (together, the Stock Plans).

Fixed Stock Option Plans: The ICF Kaiser International, Inc. Stock Incentive Plan (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 the Company's common stock. Awards are made to employees of the Company at the discretion of the Compensation Committee of the Board (Committee). The vesting period for each grant is determined by the Committee; however, grants generally vest in equal installments over four years. At December 31, 1996, 2,191,000 shares were available for the granting of options under this plan.

The ICF Kaiser International, Inc. Non-Employee Directors Stock Option Plan (Non-Employee Plan) provides that each director of the Company who is not an employee of the

Notes to Consolidated Financial Statements (continued)

Company or a subsidiary of the Company receive an option to purchase 3,000 shares of the Company's common stock for each year of service. Options granted under this plan become fully exercisable at the close of business following the date of grant. The Non-Employee Plan does not specify a maximum number of shares for which options may be granted. As of December 31, 1996, there are 135,000 shares of common stock reserved for issuance upon the exercise of options granted under this plan, of which 87,000 are outstanding at December 31, 1996.

The ICF Kaiser Consultants, Agents, and Part-time Employees Stock Option Plan (Consultants Plan) provides for the issuance of options or restricted shares of up to 1,000,000 shares of the Company's common stock to consultants, agents, and part-time employees at the discretion of the Company's Chief Executive Officer. The vesting period is one year. At December 31, 1996, 972,000 shares were available for the granting of options under this plan.

All three option plans provide that the option price is not to be less than the fair market value on the date of grant. Under the Incentive and Non-Employee Plans, an option's maximum term is 10 years. As of December 31, 1996, there have been no options granted under these plans with terms greater than five years. An option's maximum term under the Consultants Plan is five years.

Stock option activity under the option plans granted for the periods indicated is as follows:

	Shares	Option Price	Weighted-average Exercise Price
Balance, March 1, 1994	2,296,000	$ 4.17 to $ 17.00	
Granted	824,000	$ 2.34 to $ 4.41	
Canceled	(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	$6.54
Granted	678,000	$ 3.50 to $ 4.42	$4.04
Canceled	(257,000)	$ 8.25	$8.25
Expired	(382,000)	$ 2.64 to $ 16.23	$9.82
Exercised	(4,000)	$ 2.64 to $ 2.68	$2.68
Balance, December 31, 1995	2,452,000	$ 2.34 to $ 17.00	$5.16
Granted	187,000	$ 1.90 to $ 3.77	$3.30
Expired	(452,000)	$ 2.50 to $ 17.00	$8.69
Exercised	(4,000)	$ 3.00 to $ 3.50	$2.68
Balance, December 31, 1996	2,183,000	$ 1.90 to $ 9.59	$4.29

Options exercisable at December 31, 1996, and December 31, 1995, were 1,170,000 and 1,090,000, respectively. The weighted-average remaining contractual life at December 31, 1996, was 2.4 years. There were no exercisable options outstanding at an option price below the fair market value of the Company's common stock at December 31, 1996. In March 1995, the Company canceled 257,000 options granted to employees at an exercise price of $8.25 and granted 86,000 options to them at an exercise price of $4.09.

The following is a summary of fixed stock options outstanding at December 31, 1996.

Options outstanding:

Range of Exercise Prices	Number Outstanding at December 31, 1996	Weighted-average Remaining Contractual Life	Weighted-average Exercise Price
$1.90 to $2.50	69,000	2.6 years	$2.38
$2.51 to $3.50	602,000	2.6 years	$2.98
$3.51 to $5.00	1,140,000	2.9 years	$4.15
$5.01 to $6.50	112,000	1.4 years	$5.14
$6.51 to $8.00	41,000	0.5 years	$6.70
$8.01 to $9.59	219,000	0.4 years	$8.40

Options exercisable:

Range of Exercise Prices	Number Exercisable at December 31, 1996	Weighted-average Exercise Price
$1.90 to $2.50	29,000	$2.33
$2.51 to $3.50	304,000	$2.92
$3.51 to $5.00	465,000	$4.31
$5.01 to $6.50	112,000	$5.14
$6.51 to $8.00	41,000	$6.70
$8.01 to $9.59	219,000	$8.40

Employee Stock Purchase Plan: The ICF Kaiser Employee Stock Purchase Plan provides for the issuance of up to 2,000,000 shares of the Company's common stock to all eligible employees. Employees may elect to withhold up to 10% of annual base earnings for the purchase of the Company's common stock. Options to purchase shares of common stock are offered quarterly with a purchase price equal to 90% of the lower of the market price on the first trading day of the month preceding the quarter or the last trading day of the quarter. During the year ended December 31, 1996, and the ten months ended December 31, 1995, 140,411 and 120,241 shares were issued under the plan.

Compensation expense for the Stock Plans is recorded in accordance with APB Opinion 25, *Accounting for Stock Issued to Employees*, and related Interpretations. As a result,

Notes to Consolidated Financial Statements (continued)

no compensation cost has been recognized for the Stock Plans in the periods presented. Had compensation cost for awards granted under the Company's Stock Plans during the year ended December 31, 1996, and the ten months ended December 31, 1995, been recorded consistent with the provisions of SFAS No. 123, the Company's net income would have been reduced to $5.2 million ($0.14 per share) and $1.9 million ($0.01 per share) for the year ended December 31, 1996, and the ten months ended December 31, 1995, respectively.

The fair value of each option grant under the fixed price option plans and the fair value of the employees' purchase rights under the employee stock purchase plan are estimated on the date of grant for pro forma disclosures using the Black-Scholes option-pricing model. The dividend yield was assumed to be zero for both periods below. The weighted-average of all other significant assumptions for and the weighted-average fair value of grants made during the year ended December 31, 1996, and the ten months ended December 31, 1995, are as follows:

	Year Ended December 31, 1996		Ten Months Ended December 31, 1995	
	Fixed Stock Option Plans	Employee Stock Purchase Plan	Fixed Stock Option Plans	Employee Stock Purchase Plan
Volatility	63.4%	63.4%	58.9%	58.9%
Risk-free interest rate	5.8%	5.0%	6.5%	5.5%
Expected lives	5.0 years	0.3 years	4.6 years	0.3 years
Fair value of grants	$1.92	$0.95	$2.30	$0.66

13. Employee Benefit Plans

ICF Kaiser International, Inc. and certain of its subsidiaries sponsor a number of 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, 1994, the Company discontinued contributions to the ESOP. Total expense for these plans for the year ended December 31, 1996, the ten months ended December 31, 1995, and the year ended February 28, 1995, was $7,427,000, $5,711,000, and $6,466,000, respectively. As of December 31, 1996, the Retirement Plan, 401(k) Plan, and ESOP owned 942,426, 363,401, and 1,828,171 shares, respectively, of the Company's common stock.

Certain of the Company's employees are covered by union-sponsored, collectively bargained, multi-employer benefit plans. Contributions and costs are determined in accordance with the provisions of negotiated labor contracts or terms of the plans. Pension expense for these plans was $9,097,000, $6,384,000, and $2,525,000 for the year ended December 31, 1996, the ten months ended December 31, 1995, and the year ended February 28, 1995, respectively.

14. Other Postretirement Benefits

The Company provides certain postretirement benefits to a limited group of retirees. The cost of these benefits is funded when paid and limited to a fixed amount per participant. The Company adopted Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, as of March 1, 1993, and recorded the transition obligation on the delayed recognition basis.

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

	December 31, 1996	December 31, 1995
Accumulated postretirement benefit obligation (APBO)	$ 6,161	$ 7,843
Unamortized transition obligation	(10,447)	(11,427)
Unrecognized net gain	6,617	5,554
Accrued postretirement benefit cost	$ 2,331	$ 1,970

Notes to Consolidated Financial Statements (continued)

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

	Year Ended December 31, 1996	Ten Months Ended December 31, 1995	Year Ended February 28, 1995
Interest cost	$ 525	$ 541	$ 920
Amortization of transition obligation	980	830	980
Amortization of unrecognized net gain	(409)	(214)	-
Net periodic postretirement benefit cost	$ 1,096	$ 1,157	$ 1,900

All service cost related to the participants' benefits was included in the transition obligation.

The discount rate at both December 31, 1996 and 1995, was 7%. The 1996 health care cost trend rate is 5%, effective until 2013 when the cost will be in excess of the Company's maximum obligation. If the trend rate was increased by 1% for each year, the APBO as of December 31, 1996, would increase by approximately 3%. Due to changes in assumptions made, including reductions in premiums paid by the Company, the APBO was reduced by approximately $1.5 million during the year ended December 31, 1996. These reductions in the APBO will be amortized over the average remaining life expectancy of the plan's participants.

15. Business Segment, Major Customers, and Foreign Operations

Business Segment: The Company operates predominantly in one industry segment in which it provides engineering, construction, program management, and consulting services.

Major Customers: Gross revenue from the U.S. Department of Energy was $866,361,000, $623,149,000, and $517,478,000 for the year ended December 31, 1996, the ten months ended December 31, 1995, and the year ended February 28, 1995, respectively.

Foreign Operations: Gross revenue and operating income from foreign operations and foreign assets of all consolidated subsidiaries and branches were as follows (in thousands):

	Year Ended December 31, 1996	Ten Months Ended December 31, 1995	Year Ended February 28, 1995
Foreign gross revenue:			
Europe	$ 37,105	$ 14,237	$ 16,758
Pacific	31,327	28,002	35,189
Other	3,676	1,189	2,122
	72,108	43,428	54,069
Domestic gross revenue	1,176,335	873,316	807,449
Total gross revenue	$1,248,443	$916,744	$861,518
Foreign operating income (loss):			
Europe	$ 1,346	$ 1,426	$ 2,600
Pacific	1,002	2,511	(350)
Other	(422)	20	(44)
	1,926	3,957	2,206
Domestic operating income	19,254	13,548	11,482
Total operating income	$ 21,180	$ 17,505	$ 13,688
Foreign assets:			
Europe	$ 17,666	$ 12,905	$ 9,950
Pacific	13,562	11,024	14,813
Other	24	137	182
	31,252	24,066	24,945
Domestic assets	334,721	345,451	256,477
Total assets	$ 365,973	$369,517	$281,422

16. Unusual Items

During the ten months ended December 31, 1995, the Company recorded $0.5 million in additional income (net), consisting of the following unusual items: income in settlement of litigation against the IRS, associated with an affiliate of an acquired company, net of an accrual for related expenses ($6.8 million); a charge to accrue the net settlement cost and legal expenses of other litigation ($4.6 million); a charge to accrue for severance for the termination of 110 employees in the engineering and international groups ($1.0 million); and a charge to accrue for consolidation of office space ($0.7 million). During the year ended December 31, 1996, the net litigation income was received and the net settlement costs and legal expenses were paid. All actions associated with the termination of employees and consolidation of office space have been completed, and there is no further liability outstanding as of December 31, 1996, associated with this plan.

Notes to Consolidated Financial Statements (continued)

17. Supplemental Cash Flow Information

Supplemental cash flow information is as follows (in thousands):

	Year Ended December 31, 1996	Ten Months Ended December 31, 1995	Year Ended February 28, 1995
Cash payments for interest	$ 24,701	$ 7,898	$ 14,961
Cash payments (refunds) for income taxes	765	1,306	(1,026)
Non-cash transactions:			
Sale of investment	16,640	-	735
Issuance of common stock in connection with an acquisition	1,675	765	-
Issuance of common stock pursuant to an agreement with a former employee	500	-	-
Reacquisition of common stock	(427)	-	-

18. Selected Quarterly Financial Information (Unaudited)

Quarterly financial information for full fiscal quarters for the year ended December 31, 1996, and the ten months ended December 31, 1995, is presented in the following tables (in thousands, except per share amounts):

Year Ended December 31, 1996:

	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Gross revenue	$225,033	$379,971	$332,320	$311,119
Service revenue	$ 98,469	$138,780	$150,342	$144,525
Operating income	$ 10	$ 5,087	$ 8,615	$ 7,468
Net income	$ 2,114	$ 763	$ 1,633	$ 1,324
Primary and fully diluted net income per common share	$ 0.07	$ 0.01	$ 0.05	$ 0.04
Market price per share:				
High	$ 2.38	$ 3.25	$ 3.38	$ 4.38
Low	$ 1.75	$ 2.00	$ 2.38	$ 2.63

Ten Months Ended December 31, 1995:

	3rd Qtr	2nd Qtr	1st Qtr
Gross revenue	$319,870	$268,274	$192,983
Service revenue	$ 147,391	$117,645	$105,498
Operating income	$ 5,815	$ 5,497	$ 3,762
Net income	$ 896	$ 575	$ 163
Primary and fully diluted net income (loss) per common share	$ 0.02	$ 0.00	$ (0.02)
Market price per share:			
High	$ 4.75	$ 4.63	$ 5.00
Low	$ 3.25	$ 3.75	$ 3.75

At February 21, 1997, there were 22,248,745 shares of common stock outstanding held by 1,387 holders of record.

Corporate Information

Executive Officers

Office of the Chairman

James O. Edwards
Chief Executive Officer

Marc Tipermas
Executive Vice President and
Director of Corporate Development

Richard K. Nason
Executive Vice President and
Chief Financial Officer

Michael K. Goldman
Executive Vice President and
Chief Administrative Officer

Sudhakar Kesavan
Executive Vice President and
Group President of the ICF Kaiser Consulting Group

Edward V. Lower
Executive Vice President

Timothy P. O'Connor
Vice President and Treasurer

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

David Watson
Executive Vice President and
Group President of ICF Kaiser Engineers and
Constructors

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

Other Corporate Officers

Rex C. Akins
Vice President for Corporate Facilities

Tony Bansal
Senior Vice President and Chief Information Officer

Douglas J. Beck
Senior Vice President for Business Development,
Consulting

Richard E. Bonitz
Vice President

James A. Calder
Senior Vice President and Corporate Controller

S. Robert Cochran
Senior Vice President for Business Development, Federal
Programs

Jerry Daniels
Senior Vice President for Marketing

Yvonne Fernandez
Vice President for Quality Services

Michael F. Gaffney
Senior Vice President for Business Development,
Engineering and Construction

Wilson Golden
Vice President for Government Relations

Cynthia L. Hathaway
Senior Vice President, Assistant General Counsel, and
Assistant Secretary

Martin A. Levine
Vice President and Director of Taxes

George D. O'Brien
Executive Vice President

Peter J. Offringa
Group President of the Federal Programs Group (Acting)

Howard K. Prol
Vice President for Risk Management

Donn S. Smith
Senior Vice President for Project Finance

Paul W. Thomas
Vice President for Health & Safety Services

Ronald E. Webb
Vice President for Finance and
Director of Investor Relations

Corporate Information

Operating Groups

The Federal Programs Group

Peter J. Offringa
Group President (Acting)

Charles A. Debelius
Group Executive Vice President

George D. O'Brien
Group Executive Vice President

S. Robert Cochran
Group Senior Vice President for Business Development

Robert G. Hamilton
Group Senior Vice President for Business Development, Department of Defense Programs

Gail P. Charles
Group Vice President for Business Development, Department of Energy Programs

Sanford William Hedrick
Group Vice President and Chief Financial Officer

ICF Kaiser Hanford Company

Robert L. Benedetti
President

Kaiser-Hill Company, LLC

Robert G. Card
President and Chief Executive Officer

Robert E. Tiller
Executive Vice President and Chief Operating Officer

Leonard A. Martinez
Vice President, Chief Financial Officer, and Treasurer

ICF Kaiser Engineers and Constructors

David Watson
Group President

Michael F. Gaffney
Group Executive Vice President and Director of Business Development

Edwin Berk
Group Senior Vice President, Strategic Development

Anthony Brimble
Group Senior Vice President and Managing Director, Europe

James W. Conrow
Group Senior Vice President, Project Development

Richard Leupen
Group Senior Vice President and Managing Director, Australasia

Casey E. McGeever
Group Senior Vice President, U.S. Eastern Operations

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

David B. Thomas
Group Senior Vice President, U.S. Southern Operations

John Williams
Group Senior Vice President, U.S. Western Operations

Paul J. DeCoursey, III
Group Vice President for Business Development, Private Sector

Jerome E. Ducote
Group Vice President for Business Development, Refining & Petrochemicals

Jeffrey M. Goldfarb
Group Vice President and Chief Financial Officer

Annual Shareholders' Meeting

The Company's Annual Meeting of Shareholders will be held on Friday, May 2, 1997, at 9:00 a.m. at ICF Kaiser's headquarters in Fairfax, Virginia.

Stock Listing

ICF Kaiser's common stock trades on the New York Stock Exchange (NYSE) under the symbol "ICF." The NYSE closing price of the Company's common stock on March 5, 1997, was $2.25 per share, at which time there were 22,418,140 shares of common stock outstanding held by 1,399 holders of record. The Company believes that there are approximately 4,850 beneficial holders of common stock.

The table below sets forth, for the last two fiscal years, the high and low sales prices for the Company's common stock as reported by the NYSE.

Ten Months Ended	December 31, 1995	
	High	Low
First Quarter	$5.00	$3.75
Second Quarter	$4.625	$3.75
Third Quarter	$4.75	$3.25
December	$4.25	$3.125

Year Ended	December 31, 1996	
	High	Low
First Quarter	$4.38	$2.63
Second Quarter	$3.38	$2.38
Third Quarter	$3.25	$2.00
Fourth Quarter	$2.38	$1.75

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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9300 Lee Highway
Fairfax, VA 22031-1207

Transfer Agent

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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

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1900 K Street, NW
Washington, DC 20006
202/822-4000

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Pittsburgh, PA
412/497-2000

Houston, TX
713/735-2900

Perth, Australia
61-9/366-5366

London, England
44-181/892-4433

North American Locations
Los Angeles, CA
Rancho Cordova, CA
San Diego, CA
San Francisco, CA
San Rafael, CA
Universal City, CA
Lakewood, CO
Golden, CO
Washington, DC
Ft. Lauderdale, FL
Jacksonville, FL
Miami, FL
Orlando, FL
Tampa, FL
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Savannah, GA
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ICF Kaiser Common Stock is listed on the New York Stock Exchange under the symbol ICF.

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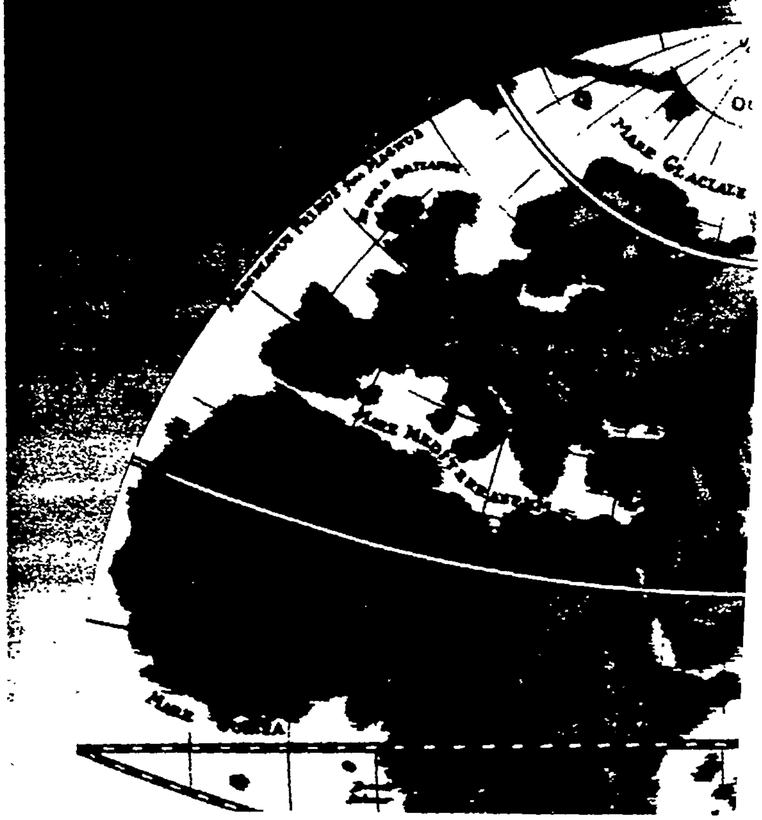
Worldwide Excellence in Meeting Client Needs



Annual Reports

California