

-----  
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1998  
-----

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from Not Applicable to  
-----

Commission file number 0-25890  
-----

Century Business Services, Inc.

-----  
(Exact Name of Registrant as Specified in Its Charter)

Delaware

22-2769024

-----  
(State or Other Jurisdiction  
of Incorporation or Organization)

-----  
(I.R.S. Employer Identification No.)

6480 Rockside Woods Boulevard South, Suite 330, Cleveland, Ohio 44131  
-----  
(Address of Principal Executive Offices) (Zip Code)

(Registrant's Telephone Number, Including Area Code) 216-447-9000  
-----

10055 Sweet Valley Drive, Valley View, Ohio 44125

-----  
Former Name, Former Address and Former Fiscal Year, if Changed since Last Report

Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the proceeding 12 months, and (2) has been subject to such filing requirements  
for the past 90 days.

Yes X No  
--- ---

Indicate the number of shares outstanding of each of the issuer's classes of  
common stock, as of the latest practicable date:

Class of Common Stock	Outstanding At April 30, 1998
----- Par value \$.01 per share	----- 50,143,253 -----

Exhibit Index is on page 13 of this report.

## CENTURY BUSINESS SERVICES, INC.

## TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION:	
Item 1 - Financial Statements	
Condensed Consolidated Balance Sheets - March 31, 1998 and December 31, 1997	3
Condensed Consolidated Statements of Income - Three Months Ended March 31, 1998 and 1997	4
Condensed Consolidated Statements of Cash Flows - Three Months Ended March 31, 1998 and 1997	5
Notes to the Condensed Consolidated Financial Statements	6-7
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	8-9
PART II. OTHER INFORMATION:	
Item 2 - Changes in Securities	10
Item 6 - Exhibits and Reports on Form 8-K	11
Signatures	12
Exhibit Index	13

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

CENTURY BUSINESS SERVICES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)

	March 31, 1998	December 31, 1997
	----- (unaudited)	----- (audited)
ASSETS		
Cash and cash equivalents	\$ 46,488	\$ 21,148
Accounts receivable, less allowance for doubtful accounts of \$1,525 and \$1,472, respectively	46,726	32,235
Premiums receivable, less allowance for doubtful accounts of \$361 and \$281, respectively	14,947	7,812
Investments:		
Fixed maturities held to maturity, at amortized cost	13,917	14,528
Securities available for sale, at fair value	64,042	59,138
Other investments	1,849	6,054
Total investments	----- 79,808	----- 79,720
Deferred policy acquisition costs	4,501	4,478
Reinsurance recoverables	17,909	15,215
Excess of cost over net assets of businesses acquired, net of accumulated amortization of \$2,292 and \$1,264	132,739	89,856
Notes receivable	17,878	16,579
Other assets	30,716	20,524
	-----	-----
TOTAL ASSETS	\$ 391,712 =====	\$ 287,567 =====
LIABILITIES		
Losses and loss expenses payable	\$ 54,940	\$ 50,655
Unearned premiums	22,443	22,656
Notes payable, bank debt and capitalized leases	23,153	20,312
Income taxes	10,856	2,958
Accrued expenses	37,582	27,167
Other liabilities	21,482	15,909
	-----	-----
TOTAL LIABILITIES	170,456 -----	139,657 -----
SHAREHOLDERS' EQUITY		
Common stock	492	415
Additional paid-in capital	194,666	127,517
Retained earnings	24,933	18,372
Accumulated other comprehensive income	1,165	1,606
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	221,256 -----	147,910 -----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 391,712 =====	\$ 287,567 =====

See the accompanying notes to the condensed consolidated financial statements.

CENTURY BUSINESS SERVICES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)  
 (In thousands, except per share data)

	Three Months Ended March 31,	
	1998	1997
Revenues:		
Business services fees and commissions	\$ 46,599	\$ 6,133
Specialty insurance services (regulated):		
Premiums earned	10,469	8,066
Net investment income	1,376	1,121
Net realized gain on investments	770	963
Other income	1	13
Total revenues	59,215	16,296
Expenses:		
Operating expenses - business services	35,868	4,681
Losses and loss adjustment expenses	5,622	4,829
Policy acquisition and other expenses	4,983	3,324
Corporate general and administrative expenses	1,539	370
Depreciation and amortization expenses	1,634	316
Total expenses	49,646	13,520
Income from continuing operations before net corporate interest income and income tax expense	9,569	2,776
Net corporate interest income	326	285
	9,895	3,061
Income from continuing operations before income tax expense	9,895	3,061
Income tax expense	3,528	952
	6,367	2,109
Income from continuing operations	6,367	2,109
Loss from discontinued operations	--	534
	6,367	1,575
Net income	\$ 6,367	\$ 1,575
Earnings per share		
Basic:		
Income from continuing operations	\$ 0.14	\$ 0.06
Loss from discontinued operations	--	(0.01)
Net income per share	\$ 0.14	\$ 0.05
Diluted:		
Income from continuing operations	\$ 0.11	\$ 0.04
Loss from discontinued operations	--	(0.01)
Net income per share	\$ 0.11	\$ 0.03
Weighted average common shares	45,528	34,507
Weighted average common and dilutive potential common shares	59,876	48,059

See the accompanying notes to the condensed consolidated financial statements.

CENTURY BUSINESS SERVICES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
 (In thousands)

	Three Months Ended March 31,	
	1998	1997
	-----	-----
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$(10,159)	\$ 4,950
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed maturities, held to maturity	--	(209)
Purchase of fixed maturities, available for sale	(9,937)	(5,869)
Purchase of equity securities	(1,854)	(2,133)
Redemption of fixed maturities, held to maturity	551	500
Sale of fixed maturities, available for sale	5,709	743
Sale of equity securities	681	229
Change in short-term investments	4,205	2,878
Business acquisitions, net of cash acquired	(8,113)	(7,403)
Acquisition of property and equipment	(2,754)	(236)
Proceeds from dispositions of property and equipment	109	--
	-----	-----
Net cash used in investing activities	(11,403)	(11,500)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt	42,038	405
Repayment of debt	(41,682)	(589)
Proceeds from stock issuances, net	41,506	156
Proceeds from exercise of stock options and warrants, net	5,040	--
	-----	-----
Net cash provided by (used in) financing activities	46,902	(28)
	-----	-----
Net increase (decrease) in cash and cash equivalents	25,340	(6,578)
Cash and cash equivalents at beginning of period	21,148	39,874
	-----	-----
Cash and cash equivalents at end of period:		
Continuing operations	46,488	33,296
Discontinued operations	--	527
	-----	-----
Total cash and cash equivalents at end of period	\$ 46,488	\$ 33,823
	=====	=====

See the accompanying notes to the condensed consolidated financial statements.

CENTURY BUSINESS SERVICES, INC. AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In the opinion of management, the accompanying unaudited condensed consolidated interim financial statements reflect all adjustments necessary to present fairly the financial position of the Company as of March 31, 1998 and December 31, 1997 and the results of its operations and cash flows for the periods ended March 31, 1998 and 1997. The results of operations for such interim periods are not necessarily indicative of the results for the full year. The 1997 condensed consolidated balance sheet was derived from the Company's audited financial statements, but does not include all disclosures required by generally accepted accounting principles. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1997.

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", on January 1, 1998. As required by the Statement, the Company displays the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the Balance Sheet. Items considered to be other comprehensive income are the adjustments made for unrealized holding gains and losses on available for sale securities. Comprehensive income for the three months ended March 31, 1998 and 1997 was \$5.9 million and \$905,000, respectively.

2. EARNINGS PER SHARE

Earnings per share are based on the average number of shares of common stock outstanding during each period and such shares issuable upon assumed exercise of stock options and warrants, using the treasury stock method. The following data show the amounts used in computing earnings per share and the effect on the weighted-average number of shares of dilutive potential common stock (in thousands, except per share data):

	Three Months Ended March 31,	
	1998	1997
	-----	-----
Numerator:		
Income used in basic and diluted earnings per share	\$6,367	\$1,575
Denominator:		
Basic weighted average shares	45,528	34,507
Effect of dilutive stock options and warrants	14,348	13,552
	-----	-----
Diluted weighted average shares	59,876	48,059
	=====	=====
Basic earnings per share	\$0.14	\$0.05
	-----	-----
Diluted earnings per share	\$0.11	\$0.03
	-----	-----

3. ACQUISITIONS

During the first quarter 1998, the Company continued its strategic acquisition program, purchasing the businesses of seven complimentary companies. These acquisitions comprised the following: four accounting systems and tax advisory businesses, one benefits design and administration firm, and two organizational consulting and training firms.

These acquisitions, with the exception of Bass Consultants, Inc. ("BASS") were accounted for as a purchase, and accordingly, the operating results of the acquired companies have been included in the accompanying condensed consolidated financial statements since the dates of acquisition. The Company's prior period financial statements have not been restated for the BASS acquisition, as the transaction was considered immaterial.



## CENTURY BUSINESS SERVICES, INC. AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)-(continued)

## 3. ACQUISITIONS (continued)

The aggregate purchase price of the aforementioned acquisitions was approximately \$52.792 million, and includes future contingent consideration of up to \$5.518 million in cash and restricted common stock of the Company with an estimated stock value at date of acquisition of \$5.919 million, based on the acquired companies' ability to meet certain performance goals. The aggregate purchase price, comprised of cash payments, issuance of promissory notes, and issuance of Common Stock, has been allocated to the net assets of the Company based upon their respective fair market values.

The unaudited pro forma information for the periods set forth below give effect to the acquisitions as if they had occurred on January 1, 1998 and January 1, 1997. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had these transactions been consummated at the beginning of the periods presented (in thousands, except per share data):

	Three Months Ended	
	March 31,	
	1998	1997
	-----	-----
Net revenues - pro forma	\$62,636	\$27,499
Net income - pro forma	\$7,251	\$4,557
Earnings per common share pro forma		
- Basic	\$0.15	\$0.12
- Diluted	\$0.12	\$0.09

## 3. SUBSEQUENT EVENTS

Since March 31, 1998, the Company has closed four acquisitions and has announced the acquisition of nine additional companies. The new acquisitions include the following: five accounting, consulting and tax advisory businesses, two benefits design, consulting and administration firms, one employee benefits brokerage firm, one business valuation firm, one pension administration and investment services firm, one information technology company, one managed healthcare marketing and administration firm, and a national franchisor of financial and tax services. The combined cost of these transactions is approximately \$11.241 million in cash and \$42.086 million of restricted Company common stock.

## 4. RECLASSIFICATIONS

Certain reclassifications have been made to the 1997 financial statements to conform to the 1998 presentation.



## CENTURY BUSINESS SERVICES, INC.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Century Business Services, Inc. ("the Company") is a leading provider of outsourced business services to small and medium sized companies throughout the United States. The Company provides integrated services in the following areas: accounting systems, advisory and tax, employee benefits design and administration, human resources, information technology systems, payroll administration, specialty insurance, valuation, and workers' compensation.

## RESULTS OF OPERATIONS

## Revenues

Total revenues increased to \$59.2 million for the three-month period ended March 31, 1998 from \$16.3 million for the comparable period in 1997, representing an increase of \$42.9 million, or 263%. The increase was primarily attributable to the Company's acquisition activity in outsourced business services.

Business service fees and commissions increased to \$46.6 million for the three-month period ended March 31, 1998 from \$6.1 million for the comparable period in 1997, representing an increase of \$40.5 million or 664%. The increase was primarily attributable to the acquisitions completed in 1998. Due to the majority of recent acquisitions having been accounted for under the purchase method, the Company's consolidated financial statements give effect to such acquisitions only from their respective acquisition dates.

Premiums earned increased to \$10.5 million for the three-month period ended March 31, 1998 from \$8.1 million for the comparable period in 1997, representing an increase of \$2.4 million, or 29.8%. Gross written premiums increased to \$20.2 million for the three-month period ended March 31, 1998 from \$11.3 million for the comparable period in 1997, representing an increase of \$8.9 million, or 78.2%. Net written premiums increased to \$10.7 million for the three-month period ended March 31, 1998 compared to \$8.3 million for the comparable period in 1997, representing an increase of \$2.4 million, or 28.0%. These increases were primarily attributable to the growth in commercial liability premiums over 1997 levels, the introduction of workers compensation coverage emanating from an August 1997 business transaction and the assumption of contract surety premiums under a certain reinsurance agreement entered into in 1997.

Net investment income increased to \$1.4 million for the three-month period ended March 31, 1998 from \$1.1 million for the comparable period in 1997, representing an increase of approximately \$255,000, or 22.7%. This increase was attributable to an increase in the average investments outstanding of \$79.8 million for the three-month period ended March 31, 1998 from \$70.1 million for the comparable period in 1997.

Net realized gain on investments decreased to \$770,000 for the three-month period ended March 31, 1998 from \$963,000 for the comparable period in 1997. This decrease was primarily due to the composition of investments sold during the three months ended March 31, 1998 versus the comparable period in 1997.

## Expenses

Total expenses increased to \$49.6 million for the three-month period ended March 31, 1998 from \$13.5 million for the comparable period in 1997, representing an increase of \$36.1 million, or 267%. Such increase was primarily attributable to the increase in operating expenses, which reflects the impact of the Company's acquisitions made in 1998 and the corresponding increase of corporate staff and related integration costs. As a percentage of revenues, total expenses increased to 83.8% for the three-month period ended March 31, 1998 from 83.0% for the comparable period in 1997.

Operating expenses for the business services operations increased to \$35.9 million for the three-month period ended March 31, 1998 from \$4.7 million for the comparable period in 1997, representing an increase of \$31.2 million, or 664%. Such increase was attributable to business services acquisitions completed in 1998. As a percentage of fees and commissions, operating expenses increased to 77.0% for the three-month period ended March 31, 1998 from 76.3% for the comparable period in 1997.



Loss and loss adjustment expenses increased to \$5.6 million for the three-month period ended March 31, 1998 from \$4.8 million for the comparable period in 1997, representing an increase of approximately \$800,000, or 16.4%. Such increase was attributable to the increased premium volume for liability coverages. As a percentage of premiums earned, loss and loss adjustment expenses decreased to 53.7% for the three-month period ended March 31, 1998 from 59.9% for the comparable period in 1997. Such decrease was the result of claims from prior years that were settled and paid in 1998 for lower than reserved amounts, as well as a reduction in average claims paid.

Policy acquisition and other expenses increased to \$5.0 for the three-month period ended March 31, 1998 from \$3.3 million for the comparable period in 1997, representing an increase of \$1.7 million, or 49.9%. The increase corresponds directly to the increase in premium volume. As a percentage of net written premiums, policy acquisition expenses were 46.7% and 39.9% for the three-month periods ended 1998 and 1997, respectively.

Corporate general and administrative expenses increased to \$1.5 million for the three-month period ended March 31, 1998 from \$370,000 for the comparable period in 1997. Such increase was attributable to the expanding of the corporate function to accommodate the Company's acquisition strategy. Corporate general and administrative expenses represented 2.6% and 2.3% of total revenues for the three-month periods ended March 31, 1998 and 1997, respectively.

Depreciation and amortization expenses increased to \$1.6 million for the three-month period ended March 31, 1998 from \$316,000 for the comparable period in 1997, representing an increase of \$1.3 million or 417%. The increase is a result of the increase of goodwill amortization resulting from the acquisitions completed by the Company in 1998 and 1997. As a percentage of total revenues, depreciation and amortization expense increased to 2.8% for the three-month period ended March 31, 1998 from 1.9% for the comparable period in 1997. Such increase was attributable to the implementation of the Company's acquisition strategy.

#### Net Corporate Interest Income

Net corporate interest income increased to \$326,000 for the three-month period ended March 31, 1998 from \$285,000 for the comparable period in 1997, representing an increase of \$41,000, or 14.4%. Such increase was attributable to the increase in cash and cash equivalent balances for the Company, excluding specialty insurance and outsourced business services.

#### OTHER

- - - - -

The Company's 1998 condensed consolidated balance sheet includes an increase in goodwill of \$42.9 million since December 31, 1997 relates to goodwill recorded in accordance with APB Opinion No. 16 upon the purchase of six acquisitions completed during the three months ended March 31, 1998.

#### LIQUIDITY AND CAPITAL RESOURCES

- - - - -

During the first three months of 1998, cash and cash equivalents increased \$25.3 million as cash generated from financing activities of \$46.9 million exceeded cash used in operating activities of \$10.2 million and cash used in investing activities of \$11.4 million. The normal seasonal changes occurred between year-end and the end of the first quarter and resulted in increased accounts receivable and premiums receivable. Cash used in investing activities consisted primarily of purchases of investments, new business acquisitions, and capital expenditures. Cash provided by financing activities consisted primarily of proceeds received from a private placement of 3.8 million shares, which together with warrants exercised, raised approximately \$46.5 million.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK

The Company does not engage in trading market risk sensitive instruments. Neither does the Company purchase as investments, hedges or for purposes "other than trading" instruments that are likely to expose the Company to market risk, whether interest rate, foreign currency exchange, commodity price or equity price risk. The Company has issued no debt instruments, entered into no forward or futures contracts, purchased no options and entered into no swaps. The Company's primary market risk exposure is that of interest rate risk. A change in the Federal Funds Rate, or the Reference Rate set by the Bank of America (San Francisco), would affect the rate at which the Company could borrow funds under its Credit Facility.



Statements included in the Form 10-Q, which are not historical in nature, are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The amount of the charges to discontinued operation with respect to the Company's environmental services business will depend on a number of factors, including the outcome of any related negotiations and final determination of the net realizable values of assets to be sold or transferred. In addition, the Company's Annual Report on Form 10-K contains certain other detailed factors that could cause the Company's actual results to differ materially from forward-looking statements made by the Company.

## PART II - OTHER INFORMATION

### ITEM 2. CHANGES IN SECURITIES

#### (c) Issuance of unregistered shares during the three months ended March 31, 1998:

All transactions listed below involve the issuance of shares of Common Stock by the Company in reliance upon Section 4(2) of the Securities Act of 1933, as amended.

On January 2, 1998, in connection with the acquisition of Bass Consultants, Inc., the Company issued 626,966 shares of Common Stock in exchange for all the outstanding shares of Bass Consultants, Inc.

On January 6, 1998, in connection with the acquisition of Philip Rootberg & Co., LLP, the Company paid \$5.1 million in cash and issued 482,353 shares of Common Stock in exchange for all the outstanding shares Philip Rootberg & Co., LLP.

On January 30, 1998, in connection with the acquisition of Seitz, Kate, Medve, Inc., the Company paid \$362,000 in cash and issued 32,492 shares of Common Stock in exchange for all the outstanding shares of Seitz, Kate, Medve, Inc.

On January 30, 1998, in connection with the acquisition of Braunsdorf, Carlson & Clinkinbeard, CPA's P.A. and Bushman & Associates, CPA's P.A. ("BCC Group"), the Company paid \$1.6 million in cash and issued 159,352 shares of Common Stock in exchange for all the outstanding shares of the BCC Group.

On March 23, 1998, in connection with the acquisition of Kaufman Davis LLP, the Company paid \$2.2 million in cash and issued 160,863 shares of Common Stock in exchange for substantially all of the assets of Kaufman Davis LLP.

On March 31, 1998, in connection with the acquisition of The Continuous Learning Group, Inc. and Envision Development Group, Inc., the Company paid \$10.4 million in cash and issued 916,805 shares of Common Stock in exchange for all the outstanding shares of The Continuous Learning Group, Inc. and Envision Development Group, Inc.

On March 31, 1998, in connection with the acquisition of Multi-Dimensional International, Inc., the Company paid \$5.2 million in cash and issued 459,662 shares of Common Stock in exchange for all the outstanding shares of Multi-Dimensional International, Inc.

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

## (a) Exhibits

- 1 Amended and Restated 1996 Employee Stock Option Plan
- 2 First Amendment, Consent and Waiver to Credit Facility
- 27.1 Financial Data Schedule

## (b) Reports on Form 8-K

- (i) The Company filed a Current Report on Form 8-K dated February 20, 1998, reporting in Item 7 the following financial statements:
  - (1) Audited Balance Sheet of Comprehensive Business Services, Inc. as of December 31, 1996, and Audited Statements of Operations, Stockholder's Equity, and Cash Flows for the year ended December 31, 1996.
  - (2) Unaudited Statements of Operations and Cash Flows of Comprehensive Business Services, Inc. for the period January 1, 1997 to September 30, 1997.
  - (3) Audited Consolidated Balance Sheets of Valuation Counselors Group, Inc. and Subsidiary as of December 31, 1996 and 1995, and Audited Consolidated Statements of Operations, Stockholder's Equity, and Cash Flows for the years then ended.
  - (4) Unaudited Consolidated Statements of Operations and Cash Flows of Valuation Counselors Group, Inc. and Subsidiary for the period January 1, 1997 to September 30, 1997.
  - (5) Audited Balance Sheet of Zelenkofske, Axelrod & Co., Ltd. as of June 30, 1997, and Audited Statements of Operations and Retained Earnings, and Cash Flows for the three months ended June 30, 1997.
  - (6) Audited Balance Sheet of Health Administration Services, Inc. as of December 18, 1997, and Audited Statements of Income, Changes in Stockholder's Equity, and Cash Flows for the period January 1, 1997 to December 18, 1997.
  - (7) Audited Consolidated Balance Sheet of Shenkin Kurtz Baker & Co., P.C. and Subsidiary as of December 7, 1997, and Audited Consolidated Statements of Income, Stockholder's Equity, and Cash Flows for the period January 1, 1997 to December 7, 1997.
  - (8) Audited Combined Balance Sheet of Robert D. O'Byrne and Associates, Inc. and The Grant Nelson Group, Inc. as of December 31, 1997, and Audited Combined Statements of Operations, Stockholder's Equity, and Cash Flows for the year ended December 31, 1997.
  - (9) Audited Consolidated Balance Sheets of Environmental Systems, Inc. and Subsidiaries as of December 31, 1996, 1995 and 1994, and Audited Consolidated Statements of Operations, Stockholder's Equity, and Cash Flows for the years then ended.
  - (10) Audited Balance Sheet of Smith & Radigan, P.C. as of December 3, 1997, and Audited Statements of Operations and Cash Flows for the period January 1, 1997 through December 3, 1997.
- (ii) The Company filed a Current Report on Form 8-K dated March 31, 1998, reporting in Item 2 that the Company completed the acquisitions of The Continuous Learning Group, Inc., Envision Development Group, Inc. and Multi-Dimensional International Consultants, Ltd. The Company noted in Item 7 that financial statements and pro forma information related to the aforementioned acquisitions would be filed by amendment.



SIGNATURES

-----

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Century Business Services, Inc.

-----

(Registrant)

Date: May 15, 1998

-----

By: /s/ Charles D. Hamm, Jr.

-----

Charles D. Hamm, Jr.  
Chief Financial Officer



CENTURY BUSINESS SERVICES, INC.

-----

EXHIBIT INDEX

-----

Exhibit Number:		Page No.
-----		
1	Amended and Restated 1996 Employee Stock Option Plan . . . . .	14-18
2	First Amendment, Consent and Waiver to Credit Facility . . . . .	19-29
27.1	Financial Data Schedule (SEC only) . . . . .	30

## EXHIBIT A

-----

## CENTURY BUSINESS SERVICES, INC.

AMENDED AND RESTATED  
1996 EMPLOYEE STOCK OPTION PLAN

1. STATEMENT OF PURPOSE. This 1996 Employee Stock Option Plan (the "Plan") is to benefit Century Business Services, Inc. fka International Alliance Services, Inc., a Delaware corporation and its subsidiaries (collectively, the "Company"), through the maintenance and development of their respective businesses by offering certain present and future key employees and officers, non-employee directors and independent contractors providing services to the Company, a favorable opportunity to become holders of stock in the Company over a period of years, thereby giving them a permanent stake in the growth and prosperity of the Company and encouraging the continuance of their involvement with the Company.

2. ELIGIBILITY. Options shall be granted only to key employees, including officers and independent contractors or consultants and non-employee directors performing services for the Company (the "Employees") selected from time to time by the Committee (or, in the case of awards to non-employee directors, the Board of Directors (the "Board")) on the basis of their importance to the business of the Company (collectively, the "Participants" or "Optionees").

3. ADMINISTRATION. The Plan shall be administered by a committee (the "Committee"), consisting of two or more persons appointed by the Board who are both outside directors (as defined under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code")) and non-employee directors within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934 (the "1934 Act"). The Committee's interpretation of the terms and provisions of the Plan shall be final and conclusive. The selection of Employees, for participation in the Plan and all decisions concerning the terms, timing, pricing and amount of any grant or award to Employees under the Plan shall be made solely by the Committee. The selection, terms, timing, pricing and amount of any grant or award to non-employee directors, including members of the Committee, shall be made solely by the Board.

4. GRANTING OF OPTIONS. Options under which a total of not in excess of 2,500,000 shares of the \$.01 par value common stock of the Company ("Common Stock") may be purchased from the Company, subject to adjustment as provided in Section 10. In the event that an option expires or is terminated, canceled or unexercised as to any shares, such released shares may again be optioned (including a grant in substitution for a canceled option). Shares subject to options may be made available from unissued or reacquired shares of Common Stock. Nothing contained in the Plan or in any option granted pursuant thereto shall confer upon any Optionee any right to be continued in the employment of the Company or as a director or consultant to the Company, or interfere in any way with the right of the Company to terminate his employment or consulting relationship at any time.

5. OPTION PRICE. The option price shall be determined by the Committee (or, in the case of awards to non-employee directors, the Board) at the time the option is granted and, subject to the provisions of Section 10 hereof, shall be not less than the fair market value at the time the option is granted of the shares of Common Stock subject to the Option. The date of grant shall be the date of the Committee or Board action, unless a subsequent date is specified by the Committee.

6. DURATION OF OPTIONS, INCREMENTS AND EXTENSIONS. Subject to the provisions of Section 8 hereof, each option shall be for such term of not more than six years, as shall be determined by the Committee (or, in the case of awards to non-employee directors, the Board) at the time the option is granted, which termination date shall be set forth in the Option Agreement. Each option shall vest and become exercisable with respect to 20% of the total number of shares subject to the option on the first anniversary of its grant and with respect to each additional 20% at the end of each of the succeeding four such anniversary dates. Notwithstanding the foregoing, the Committee (or, in the case of awards to non-employee directors, the Board) may in its discretion: (i) specifically provide for another time or times of exercise at the time the option is granted; (ii) accelerate the exercisability of any option subject to such terms and conditions as the Committee (or, in the case of awards to non-employee directors, the Board) deems necessary and appropriate; or (iii) at any time prior to the expiration or termination of any option previously granted, extend the term of any option (including such options held by officers) for such additional period as the Committee (or, in the case of awards to non-employee directors, the Board) in its discretion shall determine. In no event, however, shall the aggregate option period with respect to any option, including the original term of the option and any extensions thereof, exceed six years. Subject to the foregoing, all or any part of the shares to which the right to purchase has vested may be purchased at the time of such vesting or at any time or times thereafter during the option period. Without limiting the foregoing, the Committee (or, in the case of awards to non-employee directors, the Board), subject to the terms and conditions of the Plan, may in its sole discretion, provide that an option may be exercised immediately upon grant or that it may not be exercised in whole or in part for any period or periods of time during which such option is outstanding; provided, however, that any vesting requirement or other such limitation on the exercise of an option may be rescinded, modified or waived by the Committee (or, in the case of awards to non-employee directors, the Board), in its sole discretion, at any time and from time to time after the date of grant of such option, so as to accelerate the time at which the option may be exercised.

7. EXERCISE OF OPTION. As a condition to the exercise of any option, the "Quoted Price" (as defined below) per share of Common Stock on the date of exercise must be equal to or exceed the option price referred to in Section 5 hereof. An option may be exercised by giving written notice to the Company, attention of the Secretary, in the form of an Exercise Notice, specifying the number of shares to be purchased, accompanied by the full purchase price for the shares to be purchased either: (i) in cash; (ii) by check; (iii) if so approved by the Committee, by a promissory note in a form specified by the Company and payable to the Company no later than fifteen business days after the date of exercise of the option; (iv) if so approved by the Committee, by shares of the Common Stock of the Company; or (v) by a combination of these methods of payment. The "Quoted Price" and the per share value of Common Stock for purposes of paying the option price in accordance with the immediately preceding sentence shall equal the closing selling price per share of Common Stock

on the date in question on the Nasdaq Stock Market or the principal stock exchange upon which the Company's Common Stock is listed (the "Exchange"). The right to pay the purchase price of shares by delivery of a promissory note shall not be available to any Optionee who is a person described in Section 16(a) of the 1934 Act.

At the time of the exercise of any option, the Company may, if it shall determine it necessary or desirable for any reason, require the Optionee (or his heirs, legatees, or legal representatives, as the case may be) as a condition upon the exercise thereof, to deliver to the Company a written representation of present intention to purchase the shares for investment and not for distribution. In the event such representation is required to be delivered, an appropriate legend may be placed upon each certificate delivered to the Optionee upon his exercise of part or all of the option and a stop transfer order may be placed with the transfer agent. Each option shall also be subject to the requirement that, if at any time the Company determines, in its discretion, that the listing, registration or qualification of the shares subject to the option upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of or in connection with, the issue or purchase of shares thereunder, the option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

At the time of the exercise of any option the Committee may require, as a condition of the exercise of such option, the Optionee to: (i) pay the Company an amount equal to the amount of tax the Company may be required to withhold for federal income tax purposes as a result of the exercise of such option by the Optionee; (ii) make such other arrangements with the Company which would enable the Company to pay such withholding tax, including, without limitation, holding back a number of shares issuable upon exercise of the option equal to the amount of such withholding tax, or permitting the Optionee to deliver a promissory note in a form specified by the Committee or withhold taxes from other compensation payable to the Optionee by the Company; or (iii) a combination of the foregoing.

8. TERMINATION OF RELATIONSHIP-EXERCISE THEREAFTER. Except as otherwise specifically provided in any Option Agreement evidencing an option granted hereunder (or an amendment thereto), in the event the relationship between the Company and an Optionee is terminated for any reason other than death, permanent disability, voluntary termination or willful misconduct, gross negligence or other termination for cause, such Optionee's unvested options shall immediately terminate and the Optionee's vested options shall thereafter expire and all rights to purchase shares pursuant thereto shall terminate three (3) months following the date of termination of the relationship, but in no event after the expiration date of the option. Temporary absence from employment or as a consultant because of illness, vacation, approved leaves of absence, and transfers of employment among the Company and its subsidiaries, shall not be considered to terminate employment or consulting relationship or to interrupt continuous employment or consulting relationship. Notwithstanding the foregoing provisions of this Section 8, the Committee, in its sole discretion, may provide that following the termination of employment or service of an Optionee with the Company absent cause (such as in the case of a sale or transfer of a unit or division of the

Company or the spin-off of a corporation of the Company), such Optionee may exercise an option, in whole or in part, at any time subsequent to such termination of employment or service and prior to expiration of the option pursuant to its original terms (as specified in the Option Agreement setting forth the terms of such option grant) either subject to or without regard to any vesting or other limitations on exercise. The Committee shall be specifically empowered to extend the term of an option (but not beyond six years from the date of grant thereof) and modify the vesting provisions of the option in the event the corporation or unit or division for whom the Optionee provides services is sold or otherwise transferred such that it is no longer a part of the Company.

In the event of termination of said relationship because of death or permanent disability (as that term is defined in Section 22(e)(3) of the Code, as now in effect or as subsequently amended), the option may be exercised in full, without regard to any installments established under Section 6 hereof, by the Optionee or, if he is not living, by his heirs, legatees or legal representative (as the case may be) during its specified term prior to three years after the date of death, permanent disability or retirement, or such longer period as the Committee may prescribe, but in no event after the expiration date of the option.

If the employment or rendering of services to the Company, of a Participant to whom an option shall have been granted under this Plan terminates: (i) for any reason prior to the vesting of such option; (ii) as a result of such person's willful misconduct, gross negligence, or any other termination for cause; or (iii) as a result of the voluntary termination of employment or service by the Participant, then anything to the contrary herein notwithstanding, all such unvested options or portions of options held by such Participant shall terminate on the date notice is given either to or from the Company of termination of employment by or service to the Company; provided, however, that in the event of a termination under clause (iii) above, the Committee may, but shall not be required to, allow the Participant to exercise the Option (to the extent exercisable on the date of termination) at any time within three (3) months after the date of termination (but not beyond the original term of the Option). All factual determinations with respect to the termination of a Participant's employment by, or rendering of services to, the Company that may be relevant under this Section 8 shall be made by the Committee in its sole discretion.

9. NON-TRANSFERABILITY OF OPTIONS. During the lifetime of the Optionee, options shall be exercisable only by the Optionee, and options shall not be assignable or transferable by the Optionee otherwise than by will or by the laws of descent and distribution, or pursuant to a qualified domestic relations order as defined by the Code, or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder.

10. ADJUSTMENT. The number of shares available under the Plan and available for grant to any Employee shall be adjusted as follows: (a) in the event that the number of outstanding shares of Common Stock of the Company is changed by any stock dividend, stock split or combination of shares, the number of shares subject to the Plan and to options granted hereunder shall be proportionately adjusted; (b) in the event of any merger, consolidation or reorganization of the Company with any other corporation or corporations, there may be substituted, on an equitable basis as determined by the Committee in its sole discretion, for each share of Common Stock then subject

to the Plan, whether or not at the time subject to outstanding options, the number and kind of shares of stock or other securities to which the holders of shares of Common Stock of the Company will be entitled pursuant to the transaction, if any; and (c) in the event of any other relevant change in the capitalization of the Company, the Committee may provide for such adjustment in the number of shares of Common Stock then subject to the Plan as the Committee shall in its sole discretion determine, whether or not then subject to outstanding options. In the event of any such adjustment, the purchase price per share shall be proportionately adjusted.

11. NO IMPAIRMENT OF RIGHTS. Nothing contained in the Plan or any option granted pursuant to the Plan shall confer upon any Optionee any right to be continued in the employment of the Company or to be continued as a director or consultant to the Company or interfere in any way with the right of the Company to terminate such employment or consulting relationship and/or to remove any Optionee who is a director from service on the Board at any time in accordance with the provisions of applicable law.

12. AMENDMENT OF PLAN. The Board may amend or discontinue the Plan at any time. However, no such amendments or discontinuance shall be made without the requisite stockholder approval of the stockholders of the Company if stockholder approval is required as a condition to the Plan continuing to comply with the provisions of Rule 16b-3 or Section 162(m) of the Code. No amendment to the Plan or any Option shall impair the rights of any outstanding Option holder, without such holder's consent.

13. GOVERNANCE. The Plan is intended to comply with the provisions of Rule 16b-3 promulgated under the 1934 Act. The Plan shall be governed by and construed in accordance with the laws of the State of Delaware.

14. EFFECTIVE DATE OF THE PLAN. The Plan has been adopted by the Board at its meeting on December 9, 1996. The Plan shall become effective when approved by the Company's stockholders. Options may be granted under the Plan prior to its approval by the Company's stockholders, provided that such options may not be exercised prior to the stockholders' approval, and all such options shall expire if the stockholders fail to approve the Plan on or prior to November 30, 1997.

FIRST AMENDMENT, CONSENT AND WAIVER TO CREDIT AGREEMENT  
-----

This First Amendment , Consent and Waiver to Credit Agreement (this "Amendment") is entered into as of May 8, 1998 among Century Business Services, Inc., (f/k/a International Alliance Services, Inc.), a Delaware corporation (the "Company"), the Banks (as defined below) and Bank of America National Trust & Savings Association, individually as a Bank and as agent (the "Agent").

RECITALS  
-----

A. The Company, the Agent and certain financial institutions (the "Banks") are party to that certain Credit Agreement, dated as of October 3, 1997 ( as previously amended, the "Credit Agreement"). Unless otherwise specified herein, capitalized terms used in this Amendment shall have the meanings ascribed to them by the Credit Agreement.

B. The Company, the Agent and the Banks wish to amend the Credit Agreement on the terms and conditions set forth below.

Now, therefore, in consideration of the mutual execution hereof and other good and valuable consideration, the parties hereto agree as follows:

## 1. Amendments to Credit Agreement.

(a) SECTION 1.01 OF THE CREDIT AGREEMENT IS HEREBY AMENDED BY DELETING THE FOLLOWING DEFINITIONS IN THEIR ENTIRETY:

"Attorney Costs"  
"Cash Collateralize"  
"Change of Control"  
"GAAP"  
"Material Adverse Effect"  
"Other Taxes"  
"Permitted Acquisition Threshold"  
"Responsible Officer"  
"Statutory Surplus"

(b) SECTION 1.01 OF THE CREDIT AGREEMENT IS HEREBY FURTHER AMENDED BY INSERTING THE FOLLOWING DEFINITIONS IN APPROPRIATE ALPHABETICAL ORDER:

"ATTORNEY COSTS" means and includes all reasonable and customary fees and disbursements of any law firm or other external counsel, the allocated cost of internal

legal services and all disbursements of internal counsel RELATED TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

"CASH COLLATERALIZE" means to pledge and deposit with or deliver to the Agent, for the benefit of the Agent, the Issuing Bank and the Banks, as additional collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance satisfactory to the Agent and the Issuing Bank (which documents are hereby consented to by the Banks). [DELETION] The Company hereby grants the Agent, for the benefit of the Agent, the Issuing Bank and the Banks, a security interest in all such cash and deposit account balances. Cash collateral shall be maintained in blocked deposit accounts at B of A.

"CHANGE OF CONTROL" means (a) any Person or any two or more Persons (IN EACH CASE OTHER THAN A PERSON THAT IS A STOCKHOLDER OF THE COMPANY AS OF THE DATE OF THIS AGREEMENT) acting in concert acquiring beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Exchange Act), directly or indirectly, of capital stock of the Company (or other securities convertible into such capital stock) representing 25% or more of the combined voting power of all capital stock of the Company entitled to vote in the election of directors, other than capital stock having such power only by reason of the happening of a contingency, or (b) during any period of twelve consecutive calendar months, individuals who at the beginning of such period constituted the Company's board of directors (together with any new directors whose election by the Company's board of directors or whose nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reasons other than death or disability to constitute a majority of the directors then in office, or (c) during any period of twelve consecutive calendar months, the ceasing of more than 25% of the individuals (i) who hold an office possessing the title SENIOR Vice President or Executive Vice President or such title that ranks senior thereto of the Company, the Company's direct Subsidiaries and parent Insurance Subsidiaries and (ii) who are the principal operating manager or manager, or such other title possessing equivalent duties of Subsidiaries not described in clause (i) (collectively, "Senior Management"), on the first day of each such period to be part of the Senior Management of the Company and its Subsidiaries taken as a whole.

"GAAP" means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are IN EFFECT AND applicable to the circumstances as of the date of determination; PROVIDED, HOWEVER, that for purposes of all computations required to be made with respect to compliance by the Company with SECTIONS 8.15, 8.16, and 8.17, such term shall mean



generally accepted accounting principles as in effect on the date of this Agreement, applied in a manner consistent with those used in preparing the financial statements referred to in SECTION 6.11 (x) and (y).

"MATERIAL ADVERSE EFFECT" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, condition (financial or otherwise) or prospects of the Company and its Subsidiaries taken as a whole or as to the Insurance Subsidiaries and their Subsidiaries taken as a whole; (b) a material impairment of the ability of the Company or any GUARANTOR to perform under any Loan Document and to avoid any Event of Default; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Company or any GUARANTOR of any Loan Document.

"OTHER TAXES" means any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery, performance, OR enforcement [DELETION] of, or otherwise with respect to, this Agreement or any other Loan Documents.

"PERMITTED ACQUISITION THRESHOLD" means either (a) the total consideration to be paid by the Company or any of its Subsidiaries in connection with an Acquisition (as determined by the Company) is equal to or in excess of \$35,000,000 or (b) the total cash consideration to be paid by the Company or any of its Subsidiaries in connection with an Acquisition is equal to or in excess of \$20,000,000.

"RESPONSIBLE OFFICER" means the chief executive officer, the president, THE EXECUTIVE VICE PRESIDENT OR THE CHIEF FINANCIAL OFFICER of the Company, or any other officer having substantially the same authority and responsibility as the executive vice president and chief financial officer; or, with respect to compliance with financial covenants, the chief financial officer or the treasurer of the Company, or any other officer having substantially the same authority and responsibility.

"STATUTORY SURPLUS" means, with respect to any Insurance Subsidiary at any time, the statutory capital and surplus of such Insurance Subsidiary at such time, as determined in accordance with SAP ("Liabilities, Surplus and Other Funds" statement page 3, line 25 of the Annual Statement).

(c) CLAUSE (c) OF SECTION 3.05 OF THE CREDIT AGREEMENT IS HEREBY AMENDED BY DELETING SAID CLAUSE (c) IN ITS ENTIRETY AND INSERTING IN LIEU THEREOF THE FOLLOWING NEW CLAUSE (C):

"(c) The Company hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; PROVIDED, however, that this assumption is not intended to, and shall not, preclude the Company's

pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. No Agent-Related Person, nor any of the respective correspondents, participants or assignees of the Issuing Bank, shall be liable or responsible for any of the matters described in clauses (i) through (vii) of Section 3.06; PROVIDED, however, anything in such clauses to the contrary notwithstanding, that the Company may have a claim against the Issuing Bank, and the Issuing Bank may be liable to the Company, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Company which the Company proves were caused by the Issuing Bank's willful misconduct or gross negligence or the Issuing Bank's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing: (i) the Issuing Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, UNLESS IT RECEIVED A notice or information to the contrary; and (ii) the Issuing Bank shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which APPEAR TO BE IN ORDER WHEN PRESENTED."

(d) CLAUSES (b), (c) AND (d) OF SECTION 6.01 OF THE CREDIT AGREEMENT ARE HEREBY AMENDED BY DELETING SAID CLAUSES IN THEIR ENTIRETY AND INSERTING IN LIEU THEREOF THE FOLLOWING NEW CLAUSES (b), (c), AND (d):

"(b) has the power and authority and all MATERIAL governmental licenses, authorizations, consents and MATERIAL approvals to own its assets, carry on its business and to execute, deliver, and perform its obligations under the Loan Documents;

(c) is duly qualified as a foreign corporation and is licensed and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification or license, EXCEPT IN EACH CASE TO THE EXTENT THAT THE FAILURE TO DO SO COULD NOT REASONABLY BE EXPECTED TO HAVE A MATERIAL ADVERSE EFFECT.

(d) is in compliance with all Requirements of Law, except [DELETION] to the extent that the failure to do so could not reasonably be expected to have a Material Adverse Effect."

(e) SECTION 7.01 OF THE CREDIT AGREEMENT IS HEREBY AMENDED BY DELETING SAID SECTION 7.01 IN ITS ENTIRETY AND INSERTING IN LIEU THEREOF THE FOLLOWING NEW SECTION 7.01:

"(a) as soon as available, but not later than 90 days after the end of each fiscal year (commencing with the fiscal year ended December 31, 1997), TO THE EXTENT PREPARED TO COMPLY WITH SEC REQUIREMENTS, A COPY OF SEC FORM 10-K'S FILED BY THE COMPANY WITH THE SEC FOR SUCH FISCAL YEAR, OR IF NO SUCH FORM 10-K WAS FILED BY THE COMPANY FOR SUCH FISCAL YEAR, a copy of the audited consolidated [DELETION] balance sheet of the Company and its Subsidiaries as at the end of such year and the related consolidated [DELETION] statements of income or operations and [DELETION] shareholders' equity and cash flows for such year, setting forth in each case in comparative form the figures for the previous fiscal year, and accompanied by the opinion of KPMG Peat Marwick or another nationally-recognized independent public accounting firm ("INDEPENDENT AUDITOR") which report shall state that such consolidated financial statements present fairly the financial position for the periods indicated in conformity with GAAP applied on a basis consistent with prior years. Such opinion shall not be qualified or limited because of a restricted or limited examination by the Independent Auditor of any material portion of the Company's or any Subsidiary's records;

(b) as soon as available, but not later than 45 days after the end of each of the first three fiscal quarters of each fiscal year (commencing with the fiscal quarter ended September 30, 1997), TO THE EXTENT PREPARED TO COMPLY WITH SEC REQUIREMENTS, A COPY OF THE SEC FORM 10-QS FILED BY THE COMPANY WITH THE SEC FOR SUCH FISCAL QUARTER, OR IF NO SUCH FORM 10-Q WAS FILED BY THE COMPANY FOR SUCH FISCAL QUARTER, a copy of the unaudited consolidated [DELETION] balance sheet of the Company and its Subsidiaries as of the end of such quarter and the related consolidated [DELETION] statements of income and [DELETION] shareholders' equity and cash flows for the period commencing on the first day and ending on the last day of such quarter, and certified by a Responsible Officer as fairly presenting, in accordance with GAAP (subject to ordinary, good faith year-end audit adjustments), the financial position and the results of operations of the Company and the Subsidiaries;

(c) (i) as soon as available, IF REQUIRED, but not later than 90 days after the end of each fiscal year of each Insurance Subsidiary, a copy of the Annual Statement of such Insurance Subsidiary, setting forth in each case in comparative form the figures for the previous fiscal year, and (ii) as soon as available, but not later than 180 days after the end of each fiscal year of each Insurance Subsidiary, a copy of the audited financial statements of such Insurance Subsidiary, setting forth in each case in comparative form the figures of the previous fiscal year, accompanied by the opinion of an Independent Auditor, which report shall state that such financial statements present fairly the financial position for the periods indicated in conformity with SAP applied on a basis consistent with prior years. Such opinion shall not be qualified or limited because of a restricted or limited examination by the Independent Auditor of any material portion of any Subsidiary's records; and

(d) as soon as available, IF REQUIRED, but not later than the earlier of (i) ten days after the regulatory filing date or (ii) 50 days after the end of each of the first three fiscal quarters of each fiscal year of each Insurance Subsidiary, a copy of the Quarterly Statement of such Insurance Subsidiary certified by a Responsible Officer of such Insurance Subsidiary as fairly presenting, in accordance with SAP (subject to ordinary, good faith year-end audit adjustments), the financial position and the results of operations of such Insurance Subsidiary."

(f) CLAUSE (d) OF SECTION 7.02 OF THE CREDIT AGREEMENT IS HEREBY AMENDED BY DELETING SAID CLAUSE (d) IN ITS ENTIRETY AND INSERTING IN LIEU THEREOF THE FOLLOWING NEW CLAUSE (d):

"(d) as soon as available, but in any event not later than the 30th day prior to the end of each fiscal year, a copy of the plan and forecast (including a projected consolidated [DELETION] balance sheet, income statement and cash flow statement BY BUSINESS SEGMENT) of the Company and its Subsidiaries for the next fiscal year;"

(g) (X) THE TEXT OF CLAUSE (e) OF SECTION 7.02 OF THE CREDIT AGREEMENT IS HEREBY AMENDED BY DELETING SAID TEXT IN ITS ENTIRETY AND INSERTING IN LIEU THEREOF THE PHRASE "[INTENTIONALLY OMITTED]".

(Y) THE PARENTHETICAL LANGUAGE CONTAINED IN CLAUSE (g) OF SECTION 7.02 OF THE CREDIT AGREEMENT IS HEREBY DELETED IN ITS ENTIRETY.

(h) CLAUSE (a), (i) AND (j) OF SECTION 8.01 OF THE CREDIT AGREEMENT ARE EACH HEREBY AMENDED BY DELETING SAID CLAUSES IN THEIR ENTIRETY AND INSERTING IN LIEU THEREOF THE FOLLOWING NEW CLAUSES (a), (i) AND (j):

"(a) any Lien (other than as described in SECTION 8.01(m)) existing on property of the Company or any Subsidiary on the Closing Date and set forth in Schedule 8.01 securing Indebtedness outstanding on such date and described therein (other than Indebtedness in a principal amount not exceeding INDIVIDUALLY \$50,000 OR IN THE AGGREGATE \$250,000, it being understood and agreed that any such Lien shall be permitted to exist pursuant to this clause (a) notwithstanding the absence thereof on Schedule 8.01);"

\* \* \*

"(i) Liens on assets of corporations which become Subsidiaries after the date of this Agreement, PROVIDED, HOWEVER, that such Liens existed at the time the respective corporations became Subsidiaries and were not created in anticipation thereof and do not in the aggregate at any time outstanding exceed \$10,000,000;

(j) purchase money security interests on any property acquired or held by the Company or its Subsidiaries in the ordinary course of business, securing Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such property; PROVIDED THAT (i) any such Lien attaches to such property concurrently with or within 20 days after the acquisition thereof, (ii) such Lien attaches solely to the property so acquired in such transaction and (iii) the principal amount of the Indebtedness secured by any and all such purchase money security interests shall not at any time exceed, together with Indebtedness permitted under Section 8.05(d), \$10,000,000;"

(i) CLAUSE (d) OF SECTION 8.02 OF THE CREDIT AGREEMENT IS HEREBY AMENDED BY DELETING SAID CLAUSE (d) IN ITS ENTIRETY AND INSERTING IN LIEU THEREOF THE FOLLOWING NEW CLAUSE (d):

"(d) dispositions not otherwise permitted hereunder which are made for fair market value; PROVIDED that (i) at the time of any disposition, no Event of Default shall exist or shall result from such disposition, (ii) not less than 80% of the aggregate sales price from such disposition shall be paid in cash, and (iii) the aggregate value of all assets so sold by the Company and its Subsidiaries, together, shall not exceed (x) 5% of the net tangible assets of the Company and its Subsidiaries on a consolidated basis during any twelve month period with net tangible assets to be measured as of the beginning of such period, and (y) 15% of the net tangible assets of the Company and its Subsidiaries on a consolidated basis during the term of this Agreement, with net tangible assets to be measured as of the Closing Date."

(j) CLAUSE (d) OF SECTION 8.05 OF THE CREDIT AGREEMENT IS HEREBY AMENDED BY DELETING SAID CLAUSE (d) IN ITS ENTIRETY AND INSERTING IN LIEU THEREOF THE FOLLOWING NEW CLAUSE (d):

"(d) other Indebtedness in an aggregate amount outstanding not to exceed \$10,000,000 (including Indebtedness secured by Liens permitted by SECTION 8.01(i) and (j));"

(k) CLAUSE (C) OF SECTION 8.08 OF THE CREDIT AGREEMENT IS HEREBY AMENDED BY DELETING SAID CLAUSE (C) IN ITS ENTIRETY AND INSERTING IN LIEU THEREOF THE FOLLOWING NEW CLAUSE (C):

"(c) Contingent Obligations (x) of the Company and its subsidiaries existing as of the Closing Date and listed in SCHEDULE 8.08 AND (y) OF THE COMPANY WITH RESPECT TO PAYMENTS TO BE MADE BY A SUBSIDIARY OF THE COMPANY PURSUANT TO OPERATING LEASES ENTERED INTO BY SUCH SUBSIDIARY IN THE ORDINARY COURSE OF BUSINESS;"

(l) SECTION 8.09 OF THE CREDIT AGREEMENT IS HEREBY AMENDED BY DELETING SAID SECTION 8.09 IN ITS ENTIRETY AND INSERTING IN LIEU THEREOF THE FOLLOWING NEW SECTION 8.09:

"8.09 JOINT VENTURES. The Company shall not, and shall not suffer or permit any Subsidiary to enter into any Joint Venture; PROVIDED, HOWEVER that the Company and its Wholly-Owned Subsidiaries (other than Excluded Subsidiaries) shall be permitted to make Investments in Joint Ventures so long as (x) no Default or Event of Default has occurred and is continuing or would result therefrom, (y) after giving effect to any such Investment, the Company and/or a Wholly-Owned Subsidiary of the Company shall control 51% or more of the interests in such Joint Venture and (z) after giving effect to any such Investment, the aggregate net amount expended by the Company and/or any Wholly-Owned Subsidiary of the Company in connection with all such Investments made after the date of the Agreement shall not at any time exceed \$10,000,000."

(m) CLAUSES (b) AND (c) OF SECTION 8.10 OF THE CREDIT AGREEMENT ARE EACH HEREBY AMENDED BY DELETING SAID CLAUSES IN THEIR ENTIRETY AND INSERTING IN LIEU THEREOF THE FOLLOWING NOW CLAUSES (b) AND (c):

"(b) operating leases entered into by the Company or any Subsidiary after the Closing Date in the ordinary course of business; [DELETION] and

(c) Capital Leases other than those permitted under clause (a) of this Section, entered into by the Company or any Subsidiary after the Closing Date to finance the acquisition of equipment; PROVIDED that the aggregate Capital Lease Obligations for all such Capital Leases shall not at any time exceed \$10,000,000."

(n) SECTION 8.13 OF THE CREDIT AGREEMENT IS HEREBY AMENDED BY DELETING SAID SECTION 8.13 IN ITS ENTIRETY AND INSERTING IN LIEU THEREOF THE FOLLOWING NEW SECTION 8.13:

"8.13 Change in Business. The Company shall not, and shall not suffer or permit any Subsidiary to, engage in any material line of business substantially different from those lines of business carried on by the Company and its Subsidiaries taken as a whole on the CLOSING DATE AND REASONABLE EXTENSIONS THEREOF."

(o) CLAUSES (c), (e) AND, (j), OF SECTION 9.01 OF THE CREDIT AGREEMENT ARE HEREBY AMENDED BY DELETING SAID CLAUSES IN THEIR ENTIRETY AND INSERTING IN LIEU THEREOF THE FOLLOWING NEW CLAUSES (c), (e), AND (j),:

"(c) Specific Defaults. The Company fails to perform or observe any term, covenant or agreement contained in any of Section 7.01, 7.02, 7.03 (a), (b), (c) OR (f) or 7.08 [DELETION] or in Article VIII; or"

\* \* \*

"(e) CROSS-DEFAULT. (i) The Company or any Subsidiary (A) fails to make any payment in respect of any Indebtedness or Contingent Obligation (other than in respect of Swap Contracts), having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than \$3,000,000 when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) and such failure continues after the applicable grace or notice period, if any, specified in the relevant document on the date of such failure; or (B) fails to perform or observe any other condition or covenant, or any other event shall occur or condition exist with respect to the obligations of the Company or such Subsidiary, under any agreement or instrument relating to any Indebtedness or Contingent Obligation of more than \$3,000,000, and such failure continues after the applicable grace or notice period, if any, specified in the relevant document on the date of such failure if the effect of such failure, event or condition is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such Indebtedness (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause such Indebtedness to be declared to be due and payable prior to its stated maturity, or such Contingent Obligation to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (1) any event of default under such Swap Contract as to which the Company or any Subsidiary is the Defaulting Party (as defined in such Swap Contract) or (2) any Termination Event (as so defined) as to which the Company or any Subsidiary is an Affected Party (as so defined), and, in either event, the Swap Termination Value owed by the Company or such Subsidiary as a result thereof is greater than \$3,000,000; or"

\* \* \*

"(j) NON-MONETARY JUDGMENTS. Any non-monetary judgment, order or decree is entered against the Company or any Subsidiary which does or would reasonably be expected to have a Material Adverse Effect, and there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or".

(p) THE TEXT OF SECTION 11.11 OF THE CREDIT AGREEMENT IS HEREBY AMENDED BY DELETING SAID TEXT IN ITS ENTIRETY AND INSERTING IN LIEU THEREOF THE PHRASE "[INTENTIONALLY OMITTED]".

2. CONSENT AND WAIVER. Notwithstanding the prohibition contained in SECTION 8.04(d)(i) of the Credit Agreement, the Banks hereby consent to the acquisition by the Company of 100% of the capital stock of The Continuous Learning Group, Inc. and of Envision Development Group, Inc. (the "Continuous Acquisition"), and hereby waive any Default or Event of Default which

may have resulted solely from the Company's failure to comply with said SECTION 8.04(d)(i) in connection with the Continuous Acquisition on or prior to the date of this Amendment.

3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company represents and warrants that:

(a) The execution, delivery and performance by the Company of this Amendment have been duly authorized by all necessary corporate action and that this Amendment constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with their respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability;

(b) Each of the representations and warranties contained in the Credit Agreement is true and correct in all material respects on and as of the date hereof as if made on the date hereof (except to the extent such representations and warranties expressly refer to an earlier date, in which case they are true and correct as of such earlier date); and

(c) After giving effect to this Amendment, no Default or Unmatured Default has occurred and is continuing.

4. EFFECTIVE DATE. Section 1 of this Amendment shall become effective upon the date (the "Effective Date") of the execution and delivery hereof by the Company, the Agent and each of the Banks.

5. REFERENCE TO AND EFFECT UPON THE CREDIT AGREEMENT.

(a) Except as specifically amended above, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(b) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Agent or any Bank under the Credit Agreement or any Loan Document, nor constitute a waiver of any provision of the Credit Agreement or any Loan Document, except as specifically set forth herein. Upon the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Credit Agreement as amended hereby.

6. COSTS AND EXPENSES. The Company hereby affirms its obligation under SECTION 11.04 of the Credit Agreement to reimburse the Agent for all reasonable out-of-pocket costs and expenses incurred by the Agent in connection with the preparation and execution of this Amendment, including but not limited to the attorneys' fees and time charges of attorneys for the Agent with respect thereto.



7. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF ILLINOIS; PROVIDED THAT THE AGENT AND THE BANKS SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

8. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purposes.

9. Counterparts. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed an original but all such counterparts shall constitute one and the same instrument.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

CENTURY BUSINESS SERVICES, INC. (f/k/a  
International Alliance Services, Inc.)

By: /s/ Charles D. Hamm, Jr.  
-----

Name: Charles D. Hamm, Jr.  
-----

Title: Senior Vice President & CFO  
-----

BANK OF AMERICA NATIONAL TRUST AND  
SAVINGS ASSOCIATION, as Agent

By: /s/ Jay McKeown  
-----

Name: Jay McKeown  
-----

Title: Assistant Vice President  
-----

BANK OF AMERICA NATIONAL TRUST AND  
SAVINGS ASSOCIATION, as a Bank

By: /s/ Timothy J. Pepowski  
-----

Name: Timothy J. Pepowski  
-----

Title: SVP  
-----

STAR BANK, N.A.

By: /s/ David J. Dannemiller  
-----

Name: David J. Dannemiller  
-----

Title: Vice President  
-----

