

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

-----  
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, 1997  
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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  
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Commission file number 0-25890  
-----

International Alliance Services, Inc.

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

Delaware 22-2769024  
(State or Other Jurisdiction of (I.R.S. Employer Identification No.)  
Incorporation or Organization)

10055 Sweet Valley Drive, Valley View, Ohio 44125  
-----  
(Address of Principal Executive Offices) (Zip Code)

(Registrant's Telephone Number, Including Area Code) 216-447-9000  
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NOT APPLICABLE

-----  
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 preceding 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:

Class of Common Stock	Outstanding at April 30, 1997
-----	-----
Par value \$.01 per share	35,968,419
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Exhibit Index is on page 13 of this report.

## INTERNATIONAL ALLIANCE SERVICES, INC.

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## PART I - FINANCIAL INFORMATION

## ITEM 1 - FINANCIAL STATEMENTS

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS  
(In thousands, except share data)

	MARCH 31, 1997	DECEMBER 31, 1996
	(unaudited)	(audited)
ASSETS		
Investments:		
Fixed maturities held to maturity, at amortized cost	\$ 15,151	\$ 15,481
Securities available for sale, at fair value:		
Fixed maturities	40,018	35,471
Equity securities	10,809	9,213
Mortgage loans	3,685	3,685
Short-term investments	1,921	4,799
	-----	-----
Total investments	71,584	68,649
Cash and cash equivalents	33,296	39,874
Premiums receivable, less allowance for doubtful accounts of \$289 and \$284, respectively	7,182	7,013
Accounts receivable, less allowance for doubtful accounts of \$30 and \$0, respectively	9,140	3,339
Deferred policy acquisition costs	4,332	4,345
Reinsurance recoverables	10,267	11,185
Excess of cost over net assets of businesses acquired, net of accumulated amortization of \$215 and \$33, respectively	24,494	6,048
Net assets held for disposal	22,465	22,999
Other assets	12,915	3,878
	-----	-----
TOTAL ASSETS	\$195,675	\$167,330
	=====	=====
LIABILITIES		
Losses and loss expenses payable	\$ 42,306	\$ 41,099
Unearned premiums	18,938	18,637
Notes payable and capitalized leases	8,500	3,211
Income taxes	3,898	1,994
Accrued expenses	10,362	5,355
Other liabilities	11,723	5,712
	-----	-----
TOTAL LIABILITIES	95,727	76,008
	-----	-----
SHAREHOLDERS' EQUITY		
Common stock	350	338
Additional paid-in capital	88,166	80,446
Retained earnings	8,406	6,842
Net unrealized appreciation of investments (net of tax)	3,026	3,696
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	99,948	91,322
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$195,675	\$167,330
	=====	=====

See the accompanying notes to the Consolidated Condensed Financial Statements.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES  
 CONSOLIDATED CONDENSED STATEMENTS OF INCOME  
 (In thousands, except per share data)

	THREE MONTHS ENDED MARCH 31,	
	1997	1996
	----- (unaudited) -----	
Revenues	\$ 16,296	\$ 9,320
Expenses:		
Operating expenses	6,175	2,010
Losses and loss adjustment expenses	4,829	4,570
Policy acquisition expenses	2,231	1,747
	-----	-----
Total expenses	13,235	8,327
	-----	-----
Income from continuing operations before income tax expense	3,061	993
Income tax expense	952	338
	-----	-----
Income from continuing operations	2,109	655
Loss from discontinued operations (net of income tax benefit of \$256)	(534)	--
	-----	-----
Net income	\$ 1,575	\$ 655
	=====	=====
Earnings per common and common share equivalents:		
Primary and fully diluted:		
Income from continuing operations	\$ .05	\$ .04
Loss from discontinued operations	(.01)	--
	-----	-----
Net income per share	\$ .04	\$ .04
	=====	=====
Weighted average common and common share equivalents, primary and fully diluted:	49,926	16,956
	=====	=====

See the accompanying notes to the Consolidated Condensed Financial Statements.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(In thousands, except share data)

	THREE MONTHS ENDED MARCH 31,	
	1997	1996
	----- (unaudited) -----	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 4,950	\$ (195)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed maturities, held to maturity	(209)	--
Purchase of fixed maturities, available for sale	(5,869)	(3,619)
Purchase of equity securities	(2,133)	(248)
Redemption of fixed maturities, held to maturity	500	--
Sale of fixed maturities, available for sale	743	4,347
Sale of equity securities	229	167
Principal receipts on mortgage loans	--	781
Change in short-term investments	2,878	(1,242)
Change in other long-term investments	--	(31)
Business acquisitions, net of cash acquired	(7,403)	--
Acquisition of property and equipment	(236)	(74)
Net cash (used in) provided by investing activities	(11,500)	81
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt	405	--
Repayment of debt	(589)	(28)
Proceeds from stock issuances	156	--
Pre-merger dividends paid to parent	--	(437)
Pre-merger capital contribution	--	149
Net cash used in financing activities	(28)	(316)
Net decrease in cash and cash equivalents	(6,578)	(430)
Cash and cash equivalents at beginning of period	39,874	2,694
Cash and cash equivalents at the end of period:		
Continuing operations	33,296	2,264
Discontinued operations	527	--
Total cash and cash equivalents at end of period	\$ 33,823	\$ 2,264
	=====	=====

See the accompanying notes to the Consolidated Condensed Financial Statements.

## INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

## 1. GENERAL

In the opinion of management of International Alliance Services, Inc. (the "Company"), the accompanying unaudited consolidated condensed interim financial statements reflect all adjustments necessary to present fairly the financial position of the Company as of March 31, 1997 and the results of its operations and cash flows for the periods ended March 31, 1997 and 1996. The results of operations for such interim periods are not necessarily indicative of the results for the full year. The 1996 consolidated condensed 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, 1996. Certain reclassifications have been made to the 1996 financial statements to conform to the 1997 presentation.

## 2. CALCULATION OF EARNINGS PER COMMON AND COMMON SHARE EQUIVALENTS

Income from continuing operations for the three months ended March 31, 1997 was adjusted to reflect the effect of all interest savings and benefits and the tax effects under the modified treasury stock method. The computation of fully diluted earnings per share under the modified treasury stock method was antidilutive for the period ended March 31, 1997, and therefore is the same as primary earnings per share. Modifications to income were not required for the three months ended March 31, 1996.

	Primary and Fully Diluted
	----- (in thousands)
Income from continuing operations	\$ 2,109
Interest expense reduction less 34% tax rate	47
Interest income less 34% tax rate	201
	-----
Adjusted income from continuing operations	2,357
Loss from discontinued operations	(534)
	-----
Adjusted net income	\$ 1,823
	=====

The Company computed earnings per common and common share equivalents under the modified treasury stock method as follows (in thousands):

	Primary and Fully Diluted
	-----
Weighted common shares - March 31, 1997:	
Weighted average common shares	34,507
Additional stock equivalents less 20% limitation on assumed repurchase	15,419
	-----
	49,926
	=====
Weighted common shares - March 31, 1996:	
Weighted average common shares	16,956
	=====

## INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

## 3. DISCONTINUED OPERATION

In accordance with the Company's intent to sell the environmental services business, the related results of operations reflected as discontinued operations for the period ended March 31, 1997 include the following (in thousands):

Revenues	\$ 7,551
	=====
Loss before taxes	\$ 790
Income tax benefit	256
	-----
Net loss	\$ (534)
	=====

Net assets of the discontinued operations at March 31, 1997 consist of (in thousands):

Cash	\$ 527
Accounts receivable, net	6,404
Property, plant and equipment, net	20,567
Excess of cost over net assets of businesses acquired, net	3,238
Other assets	1,418
Accounts payable	(3,027)
Accrued environmental costs	(2,985)
Accrued expenses and other liabilities	(3,677)
	-----
	\$ 22,465
	=====

## 4. ACQUISITIONS

During the first quarter 1997, the Company acquired 100% of the stock of Midland Consultants, Inc., M&N Risk Management, Inc., M&N Enterprises, Inc., MFC, Inc., The Benefits Group Agency, Inc., TBG South Agency, Inc., and TBG Investment Advisors Agency, Inc. and certain assets of Midwest Indemnity Corporation for an aggregate of 1,274,356 of its common stock, warrants to purchase 1,420,000 shares of its common stock for prices ranging from \$11.625 to \$13.00 and cash of \$7,403,000. These acquisitions have been accounted for by the purchase method of accounting.

## 5. SUBSEQUENT EVENT

On April 21, 1997, the Company completed a private placement in which the Company sold 616,611 units (the "Units") to qualified investors at an aggregate purchase price of \$9.00 per Unit. Each Unit consisted of one share of common stock and one warrant to purchase one share of common stock at an exercise price of \$11.00 per share, exercisable through April 21, 2000. The Company realized net proceeds of approximately \$5.2 million.

INTERNATIONAL ALLIANCE SERVICES, INC.  
 -----  
 ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
 -----  
 FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
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International Alliance Services, Inc. (the "Company") is a provider of integrated business services through its IASI Business Services Group, and of niche market insurance products through its IASI Insurance Services Group. The Business Services Group, formed in December 1996, provides a wide range of outsourced services to small and mid-sized companies, including tax services, financial planning, benefits administration, retirement planning and professional employment placement. The Company markets its business and environmental services, specialty insurance and bonding products throughout the United States and in Canada.

Results of Operations  
 -----

For the three months ended March 31, 1997 and 1996, the Company reported income from continuing operations of \$2,109,000 (\$.05 per common share) and \$655,000 (\$.04 per common share), respectively. These results exclude revenues and earnings from the Company's discontinued environmental services business. The increase in income from continuing operations for the three months ended March 31, 1997 over the same period 1996 is attributable to increased earned premiums, lower loss and loss adjustment expense development spread over higher premium production, and the initial consolidation of the operations comprising the Business Services Group.

Revenues  
 -----

The following table presents revenues from the Company's continuing operations by business segment for the three months ended March 31, 1997 and 1996 (in thousands):

	Revenues Three Months Ended March 31,			
	1997	%	1996	%
Insurance Services Group	\$ 11,384	70%	\$ 9,320	100%
Business Services Group	4,912	30%	-	-
Total	\$ 16,296	100%	\$ 9,320	100%

Revenues from the Company's Insurance Services Group are comprised of the following (in thousands):

	Three Months Ended March 31,	
	1997	1996
Premiums earned	\$ 8,066	\$ 6,587
Net investment income	1,317	824
Net gain on investments	964	70
Other	1,037	1,839
	\$ 11,384	\$ 9,320

For the three months ended March 31, 1997, the Insurance Services Group reported an increase in premiums earned of \$1,479,000 (22%) on an increase in net written premiums of \$2,339,000 (39%) to \$8,336,000 over the prior year period. The favorable impact on earned premiums, while effected somewhat by current quarter premium volume, is more significantly effected by net premium written in the second half of 1996. On a gross written basis, the Insurance Services Group reported an increase of \$2,671,000 (31%), to \$11,349,000 for the three months ended March 31, 1997, compared to the prior year period, and is mainly attributed to general liability insurance coverages. This increase, however, was offset by temporary fluctuations in the construction market which directly affected contract bond coverages.



Investment income was \$2,281,000 for the three months ended March 31, 1997, including approximately \$900,000 of gains from the sale of equity securities. In addition, investment income of approximately \$1,085,000 was earned on invested assets of \$71,584,000 for the three months ended March 31, 1997 for an annualized return of approximately 6.1%.

Other income decreased by \$802,000 due in large part to non-recurring income of \$1.1 million from the American Sentinel transaction recorded in the three months ended March 31, 1996, offset by higher commission income of \$515,000 reported during the three months ended March 31, 1997.

For the three months ended March 31, 1997, the Business Services Group reported revenues of \$4,912,000 which consists primarily of professional fees and commissions earned. A significant portion of the revenues generated by the Business Services Group are attributable to SMR & Co. Business Services which have been consolidated for the full quarter 1997. Only one month of revenues for M&N Risk Management, M&N Enterprises, Inc., MFC, Inc., (collectively the M&N Companies) The Benefit Group Agency, Inc., TBG South Agency, Inc. and TBG Investment Advisors Agency, Inc. (collectively TBG) and two months of revenue for Midland Consultants, Inc. (which was merged into SMR & Co. Business Services upon acquisition) are included in the Company's results of operations for the three months ended March 31, 1997, which reflects revenues from the date of acquisition of those companies. Additionally, the increase in accounts receivable for three months ended March 31, 1997 compared to March 31, 1996, is a result of the initial consolidation of the Business Services Group.

#### Expenses

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Total expenses increased \$4,908,000 to \$13,235,000 for the three months ended March 31, 1997 from \$8,327,000 for the three months ended March 31, 1996. Such increase is primarily attributable to the increase in operating expenses which primarily reflects the impact from the initial consolidation of the Company's Business Services Group.

The Company reported an increase in loss and loss adjustment expense of \$259,000 from \$4,570,000 for the three months ended March 31, 1996 to \$4,829,000 at March 31, 1997. The increase is primarily attributed to an increase in casualty coverages offset by decreases in property loss development. Such expenses represent 60% and 69% of earned premiums for the three months ended March 31, 1997 and 1996, respectively.

Policy acquisition expenses increased \$484,000 from \$1,747,000 for the three months ended March 31, 1996 to \$2,231,000 at March 31, 1997 and correspond directly to the increase in premium volume. Such costs represent approximately 20% of premium written for the periods March 31, 1997 and 1996.

#### Income Taxes

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The Company recorded an income tax provision of \$952,000 and \$338,000 for the three months ended March 31, 1997 and 1996, respectively, reflecting an estimated effective tax rate of approximately 31% and 34%, respectively.

#### Discontinued Operations

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In February 1997, the Company signed a non-binding letter of intent and confidentiality agreement to sell the Company's environmental services operations. Consummation of the transaction remains subject to the purchasers due diligence, the negotiation and execution of definitive documentation and the receipt of necessary governmental and third party approvals and consents. Accordingly, there can be no assurance that the transaction will be consummated.

The Company reported a loss from operations related to its discontinued environmental services business of \$790,000 excluding a tax benefit of \$256,000, on revenues of \$7,551,000 for the three months ended March 31, 1997. Such quarterly operating loss is typical for this business due to seasonality.

Other

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The Company's 1997 consolidated condensed balance sheet includes an increase in excess of cost over net assets of businesses acquired of \$18,446,000 which relates directly to the acquisitions made during the three months ended March 31, 1997. As a result of the nature of the assets and liabilities acquired there are no material identifiable intangible assets or liabilities.

Liquidity and Capital Resources

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The Company generated \$4,950,000 in cash through operating activities for the three months ended March 31, 1997 compared to cash used by operations of \$195,000 for the same period in 1996. The increase in cash flow is due to increased profits and loss reserves on an increasing volume of liability coverages which have slower payout patterns than property coverages. In addition, cash from operating activities increased over the prior period due to profits recognized from the initial consolidation of its Business Services Group. The Company has made certain business acquisitions utilizing \$7.4 million in cash financed, in part, through internal cash flow from operations and cash on hand. At March 31, 1997 and 1996, the Company had cash and investments, excluding mortgage loans of \$101.2 million and \$56.4 million, respectively. Management believes the Company currently has sufficient cash, investments, and lines of credit to fund current operations and expansion thereof.

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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 operations with respect to the Company's environmental services business will depend on a number of factors, including the outcome of any related negotiations and the 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 contain certain other detailed factors that could cause the Company's actual results to materially differ from forward-looking statements made by the Company.

## PART II - OTHER INFORMATION

## ITEM 2 - CHANGES IN SECURITIES

(c) Sales of unregistered shares during the three months ended March 31, 1997:

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 7, 1997, in connection with the acquisition of Midwest Indemnity Corporation, the Company issued 407,256 shares of Common Stock in exchange for certain of the business and assets of Midwest.

On February 10, 1997, in connection with the acquisition of Midland Consultants, Inc., the Company issued 87,500 shares of Common Stock and warrants to purchase an additional 20,000 shares of Common Stock at an exercise price of \$11.625 per share in exchange for all of the outstanding shares of capital stock of Midland.

On March 3, 1997, in connection with the acquisition of the M&N Companies, the Company issued 384,600 shares of Common Stock and warrants to purchase an additional 900,000 shares of Common Stock at an exercise price of \$13.00 per share in exchange for all of the outstanding shares of capital stock of the M&N Companies.

On April 1, 1997, in connection with the acquisition of TBG, the Company issued 395,000 shares of Common Stock and warrants to purchase an additional 500,000 shares of Common Stock at an exercise price of \$12.50 per share in exchange for all of the outstanding shares of capital stock of TBG.

## ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On January 6, 1997, a total of six stockholders holding an aggregate of 25,217,022, or approximately 74.7% of the Company's outstanding shares of Common Stock on such date, in lieu of a special meeting of stockholders, consented in writing to the sale and issuance of an aggregate of 616,611 units of the Company at a price of \$9.00 per unit to affiliates of Messrs. Michael G. DeGroote, Chairman of the Board of the Company, and Harve A. Ferrill and Richard C. Rochon, directors of the Company. Each unit consists of one share of Common Stock and one warrant to purchase one share of Common Stock at an exercise price of \$11.00 per share exercisable for a three year period from the date of issuance. In connection therewith, on March 27, 1997, the Company sent an Information Statement on Schedule 14C to its stockholders.

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

## (27) FINANCIAL DATA SCHEDULE

## (b) Reports on Form 8-K

- 1) The Company's Current Report on Form 8-K dated January 7, 1997, reporting the closing of the sale of an aggregate of 3,521,888 units of the Company and agreements to sell an additional 616,611 units.
- 2) The Company's Current Report on Form 8-K dated February 19, 1997 reporting a change in auditors pursuant to Item 4, as well as the Company's intention to acquire M & N Risk Management, Inc.,

M & N Enterprises, Inc., and MFC, Inc., the consummation of its acquisition of Midland Consultants, Inc. and the agreement between Alliance Holding Corporation ("Alliance") and Mr. DeGroote, whereby, subject to the occurrence of certain events, Alliance agreed to grant a proxy to Mr. DeGroote that covers the shares of Common Stock of the Company held by Alliance.

- 3) The Company's Current Report on Form 8-K/A dated February 19, 1997 amending the previous disclosure regarding the change of auditors.

## SIGNATURES

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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.

International Alliance Services, Inc.

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(Registrant)

Date: May 15, 1997

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By: /s/ Gregory J. Skoda

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Gregory J. Skoda  
Chief Financial Officer

INTERNATIONAL ALLIANCE SERVICES, INC.

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EXHIBIT INDEX

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Exhibit Number:

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(27) Financial Data Schedule (SEC only)..... 14

3-MOS

DEC-31-1997	JAN-01-1997	MAR-31-1997
		1
40,018		
15,151		
14,908		
	10,809	
	3,685	
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	71,584	
		33,296
10,267		
4,332		
	195,675	
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18,938		
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195,675		
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	5,949	
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2,231		
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