
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) October 18, 1996

INTERNATIONAL ALLIANCE SERVICES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	0-25890	22-2769024
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

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

With respect to each contract, agreement or other document referred to herein and filed with the Securities and Exchange Commission as an exhibit to this report, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference.

ITEMS 1 AND 2. CHANGES IN CONTROL OF REGISTRANT; ACQUISITION OR DISPOSITION OF ASSETS

MERGERS. On October 18, 1996, International Alliance Services, Inc. (formerly known as Republic Environmental Systems, Inc., the "Company"), issued (i) 14,760,000 shares of common stock, $.01 par value per share ("Common Stock"), of the Company, (ii) warrants to purchase an additional (a) 1,400,000 shares of Common Stock at $2.625 per share, (b) 1,400,000 shares of Common Stock at $3.125 per share and (c) 1,400,000 shares of Common Stock at $3.875 per share and (iii) a promissory note in the principal amount of $4,000,000 to Alliance Holding Corporation in exchange for all of the outstanding shares of common stock of Century Surety Company ("CSC") and Commercial Surety Agency, Inc., d/b/a Century Surety Underwriters ("CSU" and, together with CSC, the "Alliance Companies"), each a Ohio corporation and wholly-owned subsidiary of Alliance Holding Corporation ("Alliance"), pursuant to an Agreement and Plan of Merger (as amended to date, the "Merger Agreement") dated as of May 19, 1996 among the Company, two wholly-owned, newly-created subsidiaries of the Company, CSC, CSU and Alliance (the "Mergers"). Mr. Joseph E. LoConti, a director and Vice Chairman of the Company, is also the Chairman of the Board, President and controlling shareholder of Alliance.

STOCK ISSUANCES. On October 18, 1996, the Company issued and sold to (i) H. Wayne Huizenga, for an aggregate purchase price of $5,250,000 (a) an aggregate of 2,000,000 shares of Common Stock and (b) warrants to purchase an additional (1) 2,000,000 shares of Common Stock at $2.625 per share, (2) 2,000,000 shares of Common Stock at $3.125 per share and (3) 2,000,000 shares of Common Stock at $3.875 per share, pursuant to the terms set forth in a Stock Purchase Agreement dated as of May 19, 1996 by and between the Company and H. Wayne Huizenga and (ii) MGD Holdings Ltd., a Bermuda corporation controlled by Mr. Michael G. DeGroote ("MGD Holdings"), and its permitted assigns, for an aggregate purchase price of $5,250,000 (a) an aggregate of 2,000,000 shares of Common Stock and (b) warrants to purchase an additional (1) 2,000,000 shares of Common Stock at $2.625 per share, (2) 2,000,000 shares of Common Stock at $3.125 per share and (3) 2,000,000 shares of Common Stock at $3.875 per share, pursuant to the terms set forth in a Stock Purchase Agreement dated as of May 19, 1996 by and between the Company and MGD Holdings (such transactions are referred to collectively as the "Stock Issuances" and, together with the Mergers, the "Combination").

CHANGE OF CONTROL -- CHANGES IN SECURITY OWNERSHIP, BOARD COMPOSITION AND MANAGEMENT

Upon consummation of the Combination, Alliance became the largest stockholder of the Company and may effectively control the management and operations of the Company. The following is a description of certain changes that occurred with respect to the Company upon consummation of the Combination.

CHANGE IN SECURITY OWNERSHIP OF THE COMPANY. As a result of the Combination, Alliance may be deemed to beneficially own 26,076,000 shares, or 78.6% of the outstanding shares of Common Stock, calculated in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such shares include 7,116,000 shares owned of record by MGD Holdings Ltd. ("MGD Holdings"), a Bermuda corporation controlled by Michael G. DeGroote, the Chairman of the Company and the beneficial owner of 13,136,000 or 36.9% of the outstanding shares of Common Stock, for which Alliance shares voting power under a voting agreement, dated October 18, 1996 (the "Voting Agreement"), between Alliance and MGD Holdings. Pursuant to the Voting Agreement, MGD Holdings, for a period of two years from the date thereof, has agreed to vote all shares of Common Stock held by MGD Holdings from time to time in accordance with the recommendation of the management of Alliance. Accordingly, Alliance has the ability to determine the outcome of any vote of the Company's stockholders during this period.

CHANGE IN THE COMPOSITION OF THE BOARD OF DIRECTORS OF THE COMPANY. Immediately following the consummation of the Combination, the Board of Directors was enlarged to seven members and Michael J. Occhionero resigned from the Board of Directors and Messrs. Edward F. Feighan, Harve A. Ferrill, Richard C. Rochon and Craig L. Stout were appointed to fill the vacancies on the Board of Directors. Of the seven members of the Board, four of such members, Messrs. LoConti, Feighan, Stout and Ferrill, were nominated by, and/or are affiliated with, Alliance. Accordingly, Alliance has effective control of the Board of Directors of the Company.

CHANGE IN THE COMPOSITION OF THE MANAGEMENT OF THE COMPANY. Upon consummation of the Combination, Mr. LoConti was appointed Vice Chairman of the Company, Mr. Feighan was appointed Chief Executive Officer and President of the Company and Mr. Stout was appointed Executive Vice President and Chief Operating Officer of the Company. Mr. DeGroote will continue as Chairman of the Board of Directors of the Company. This management team will manage the operations of the Company upon consummation of the Combination.

ITEM 5. OTHER EVENTS.

AMENDMENTS TO THE CERTIFICATE OF INCORPORATION. In connection with the Combination, on August 23, 1996, by written consent, a majority of the outstanding shares of Common Stock approved the amendment of the Company's Certificate of Incorporation to change the name of the Company from Republic Environmental Systems, Inc. to International Alliance Services, Inc. and increase the number of authorized shares of Common Stock from 20,000,000 to 100,000,000. Accordingly, on October 18, 1996, the Company filed a Certificate of Amendment with the Delaware Secretary of State to effect such amendments to the Company's Certificate of Incorporation.

ITEM 7. FINANCIAL INFORMATION AND EXHIBITS.

(a) The audited financial statements for the Alliance Companies for the periods specified in Section 210- 3.05(b) under the Exchange Act were filed with the Company's Definitive Schedule 14C Information Statement dated September 23, 1996 and are incorporated herein by reference. Such financial statements are filed herewith as Exhibit 99.8.

(b) The pro forma financial statements for the Company as provided in Article 11 of Regulation S-X were filed with the Company's Definitive Schedule 14C Information Statement dated September 23, 1996 and are incorporated herein by reference. Such financial statements are filed herewith as Exhibit 99.8.

(c) The following exhibits are included herein pursuant to Item 7(c):

99.1 Agreement and Plan of Merger, dated as of May 19, 1996, by and among the Company, Republic/CSA Acquisition Corporation, Republic/CSU Acquisition Corporation, Alliance, CSC and CSU (filed as Appendix I to the Company's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).

99.2 Amendment No. 1 to Agreement and Plan of Merger, dated as of July 25, 1996, by and among the Company, Republic/CSA Acquisition Corporation, Republic/CSU Acquisition Corporation, Alliance, CSC and CSU (filed as Appendix IV to the Company's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).

99.3 Amendment No. 2 to Agreement and Plan of Merger, dated as of August 23, 1996, by and among the Company, Republic/CSA Acquisition Corporation, Republic/CSU Acquisition Corporation, Alliance, CSC and CSU (filed as Appendix V to the Company's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).

99.4 Stock Purchase Agreement, dated as of May 19, 1996, by and between the Company and H. Wayne Huizenga (filed as Appendix II to the Company's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).

99.5 Stock Purchase Agreement, dated as of May 19, 1996, by and between the Company and MGD Holdings (filed as Appendix III to the Company's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).

99.6 Voting Agreement, dated as of October 18, 1996, by and between MGD Holdings and Alliance.

99.7 Promissory Note, dated October 18, 1996, in the aggregate principal amount of $4,000,000 issued by the Company payable to Alliance.

99.8 The following audited financial statements for the Alliance Companies for the periods specified in Section 210-3.05(b) under the Exchange Act and the pro forma financial statements for the Company pursuant to Article 11 of Regulation S-X:

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 hereunto duly authorized.

INTERNATIONAL ALLIANCE SERVICES, INC.

Date: November 4, 1996

/s/ Edward F. Feighan

Edward F. Feighan
President and Chief Executive Officer

INDEX TO EXHIBITS

EXHIBIT NUMBER	
99.1	Agreement and Plan of Merger, dated as of May 19, 1996, by and among the Company, Republic/CSA Acquisition Corporation, Republic/CSU Acquisition Corporation, Alliance, CSC and CSU (filed as Appendix I to the Company's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).
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99.6	Voting Agreement, dated as of October 18, 1996, by and between MGD Holdings and Alliance.
99.7	Promissory Note, dated October 18, 1996, in the aggregate principal amount of $4,000,000 issued by the Company payable to Alliance.
99.8	The audited financial statements for the Alliance Companies for the periods specified in Section 210-3.05(b) under the Exchange Act and the pro forma financial statements for the Company pursuant to Article 11 of Regulation S-X.

EXHIBIT 99.6

VOTING AGREEMENT

This VOTING AGREEMENT ("Agreement"), dated as of October 18, 1996, is entered into by and between MGD Holdings Ltd., a Bermuda corporation ("Stockholder"), and Alliance Holding Corporation, an Ohio corporation ("AHC").

W I T N E S S E T H:

WHEREAS, contemporaneously with the delivery of this Agreement, Republic Environmental Systems, Inc., a Delaware corporation ("RESI"), AHC, Republic/CSC Acquisition Corporation, a wholly-owned subsidiary of RESI ("CSC Merger Sub"), Republic/CSU Acquisition Corporation, a wholly-owned subsidiary of RESI ("CSU Merger Sub"), Century Surety Company, a wholly-owned subsidiary of AHC ("CSC"), Commercial Surety Agency, Inc., d/b/a Century Surety Underwriters, a wholly-owned subsidiary of AHC ("CSU"), are closing the transactions contemplated by that certain Agreement and Plan of Merger dated as of even date herewith (the "Merger Agreement"), providing for, among other items, the merger of CSC Merger Sub with and into CSC with CSC being the surviving corporation (the "CSC Merger") and the merger of CSU Merger Sub with and into CSU with CSU being the surviving corporation (the "CSU Merger" and, together with the CSU Merger, the "Mergers"); and

WHEREAS, in order to induce AHC to enter into the Merger Agreement, Stockholder agrees to vote all shares of RESI common stock, $.01 par value per share ("Common Stock"), held by it from time to time (the "Shares") in accordance with the terms of this Agreement;

NOW, THEREFORE, in consideration of AHC entering into the Merger Agreement and the mutual covenants and agreements set forth herein, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Voting. Stockholder hereby revokes any and all previous voting agreements and proxies granted with respect to the Shares which are inconsistent with this Agreement. Stockholder agrees to vote the Shares at any meeting or action by written consent at which a vote is taken or requested in accordance with the recommendation of management of AHC.

2. Term and Effect. The obligations of Stockholder under this Agreement shall terminate two years from the date of this Agreement.

3. No Grant of Other Proxies. Except pursuant to this Agreement or as permitted or contemplated by the Merger Agreement, Stockholder shall not, without the prior written consent of AHC, directly or indirectly grant any proxies or enter into any voting trust or other agreement or arrangement with respect to the voting of the Shares inconsistent with this Agreement.

4. Miscellaneous.

(a) Severability. If any term, provision, covenant or restriction of this Agreement is held by an court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

(b) Binding Effect and Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, except as otherwise specifically provided, neither this Agreement nor any of the rights, interests or obligations of the parties hereto may be assigned by any of the parties hereto without the prior written consent of the other.

(c) Amendments and Modification. This Agreement may not be modified, amended, altered or supplemented except upon the execution and delivery of a written agreement executed by the parties hereto.

(d) Specific Performance. The parties hereto acknowledge that AHC will be irreparably harmed and that there will be no adequate remedy at law for a violation of any of the covenants or agreements of Stockholder set forth herein. Therefore, it is agreed that, in addition to any other remedies which may be available to AHC upon any such violation, AHC shall have the right to enforce such covenants and agreements by specific performance, injunctive relief or by any other means available to AHC at law or in equity.

(e) Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and sufficient if delivered in person, by cable, telecopy, telegram or telex, or sent by mail (registered or certified mail, postage prepaid, return receipt requested) to the respective parties as follows:

If to AHC:

Alliance Holding Corporation
10055 Sweet Valley Drive
Valley View, Ohio 44125
Attention: Mr. Joseph E. LoConti
Telecopy: (216) 447-9137

With a copy to:

Anne L. Meyers & Associates Co., L.P.A.
2 Summit Park Drive, Suite 150
Independence, Ohio 44131-2553
Attention: Anne L. Meyers, Esq.
Telecopy: (216) 520-4350

If to Stockholder:

MGD Holdings
Westbury (Bermuda) Ltd.
Victoria Hall
11 Victoria Street
P.O. Box HM 1065
Hamilton HM EX, Bermuda
Attention: Mr. Michael DeGroote
Fax: (809) 292-8911

With a copy to:

Akin, Gump, Strauss, Hauer & Feld, L.L.P.
711 Louisiana, Suite 1900
Houston, Texas 77002
Attention: Mr. Rick L. Burdick
Fax: (713) 236-0822

or to such other address any party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall only be effective upon receipt.

(f) Governing Law. This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Delaware as applied to contracts entered into solely between residents of, and to be performed entirely in, such state.

(g) Entire Agreement. This Agreement contains the entire understanding of the parties hereto in respect of the subject matter hereof, and supersedes all prior negotiations and understandings between the parties with respect to such subject matters.

(h) Effect of Headings. The section headings herein are for convenience only and shall not affect the construction or interpretation of this Agreement.

(i) Definitions. All capitalized terms used herein shall have the meanings defined in the Merger Agreement, unless otherwise defined herein.

(j) Counterparts. This Agreement shall be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

ALLIANCE HOLDING CORPORATION

By: /s/ Joseph E. LoConti

Printed Name: Joseph E. LoConti

Title: President

MGD HOLDINGS LTD.

By:/s/ Michael G. DeGroote

Printed Name: Michael G. DeGroote

Title: Chief Executive Officer and President

EXHIBIT 99.7

PROMISSORY NOTE

$4,000,000.00 October 18, 1996

FOR VALUE RECEIVED, the undersigned, Republic Environmental Systems, Inc., a Delaware corporation (the "Maker"), hereby unconditionally promises to pay to the order of Alliance Holding Corporation (the "Payee"), at 10055 Sweet Valley Drive, Valley View, Ohio 44125 or such other address as may be given to the Maker by the Payee, the principal sum of FOUR MILLION AND NO/100 DOLLARS ($4,000,000.00), in lawful money of the United States of America, together with interest on the unpaid principal balance at the three-month LIBOR rate per annum compounded daily or, in the event of default of timely payment thereof, the three-month LIBOR rate plus five percent (5%) per annum compounded daily from the date thereof or (if less) the highest rate permitted by applicable law.

Principal shall be due and payable in ten equal quarterly installments of $400,000.00, together with accrued and unpaid interest, computed as follows: (1) for the first installment, based on the three-month LIBOR rate per annum in effect on the Closing Date (as defined in that certain Agreement and Plan of Merger executed by Maker and Payee dated as of May 19, 1996); and (2) for all subsequent installments, based on the three-month LIBOR rate per annum in effect on the date the prior installment was due. The first installment of principal and interest shall be due and payable on the later of the Closing Date or September 15, 1996. Each subsequent installment of principal and interest shall be due and payable on the 15th day of the last month of each calendar quarter thereafter until December 15, 1999, when the entire outstanding principal amount of this Promissory Note, together with all accrued and unpaid interest, shall be due and payable aforesaid.

The Maker shall have the right to prepay, in full or from time to time in part, the then unpaid principal balance on this Promissory Note (together with all accrued and unpaid interest then due) at any time without premium or penalty. All prepayments shall be applied first to unpaid accrued interest, with the balance being applied to principal. All prepayments made at any time on the unpaid principal balance on this Promissory Note shall be listed on Schedule A which is attached hereto and made a part hereof for all purposes. The Holder of this Promissory Note (the "Holder") is hereby authorized to record on Schedule A the dates and amounts of any prepayments of principal and the aggregate amount of principal then outstanding. Such recordation shall constitute prima facie evidence of the accuracy of the information recorded in the absence of manifest error; provided, however, that failure by the Holder to make such recordation shall not effect the Maker's obligations hereunder.

Should the Maker fail to make any payment of principal or interest hereunder on or before ten days after the date such payment is due and such failure be continuing, the Holder at its option, and in addition to any other remedies that may be available, may declare the entire principal balance and accrued interest hereon to be due and payable by giving written notice thereof to Maker. Failure to exercise this option shall not constitute a waiver of the right to exercise the same with respect to any subsequent Event of Default.

If this Promissory Note shall be collected by legal proceedings or through a probate or bankruptcy court, or shall be placed in the hands of an attorney for collection after default or maturity, the Maker agrees to pay all costs of collection, including, without limitation, reasonable attorneys' fees.

This Promissory Note has not been registered under the Securities Act of 1933, as amended, or the securities laws of any state. Without such registration, this Promissory Note may not be sold, pledged, hypothecated, or otherwise transferred, unless an exemption from registration under the Securities Act of 1933, as amended, and any applicable state securities laws or any rule or regulation promulgated thereunder, is available.

THIS PROMISSORY NOTE SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF DELAWARE.

THIS PROMISSORY NOTE, TOGETHER WITH SCHEDULE A HERETO, REPRESENTS THE FINAL AGREEMENT OF THE PARTIES HERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

Any notice, demand or other communication to be given under or for the purposes of this Promissory Note shall be in writing (including telecopy with prompt written confirmation thereafter, such telecopy notice to be deemed given upon receipt of such written confirmation) and shall be treated as properly served or given if hand-delivered or sent by first class prepaid mail (airmail if appropriate);

If to Payee:

Alliance Holding Corporation
10055 Sweet Valley Drive
Valley View, Ohio 44125
Attention: Mr. Joseph E. LoConti
Telecopy: (216) 447-9137

With a copy to:

Anne L. Meyers & Associates Co., L.P.A.
2 Summit Park Drive, Suite 150
Independence, Ohio 44131-2553
Attention: Anne L. Meyers, Esq.
Telecopy: (216) 520-4350

If to Maker:

Republic Environmental Systems, Inc.
16 Sentry Park West
1787 Sentry Parkway West, Suite 400
Blue Bell, Pennsylvania 19422
Attention: Douglas R. Gowland
Telecopy: (215) 283-4809

With a copy to:

Akin, Gump, Strauss, Hauer & Feld, L.L.P.
711 Louisiana, Suite 1900
Houston, Texas 77002
Attention: Mr. Rick L. Burdick
Fax: (713) 236-0822

or to such other address any party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall only be effective upon receipt.

All such notices and communications shall, when mailed or telecopied, be effective upon the earlier of actual receipt (in case of telecopy, of the written confirmation thereof) or three business days from the date when deposited in the mails (or in the case of telecopy, of receipt of the written confirmation thereof).

This Promissory Note has been executed and delivered pursuant to, and is subject to certain terms and conditions set forth in, that certain Agreement and Plan of Merger among the Maker, Republic/CSC Acquisition Corporation and Republic/CSU Acquisition Corporation, each Delaware corporations and wholly-owned subsidiaries of the Maker, the Payee, and Century Surety Company and Commercial Surety Agency, Inc., d/b/a Century Surety Underwriters, each Ohio corporations and wholly-owned subsidiaries of the Payee, dated as of May 19, 1996 (as the same may be amended from time to time, the "Merger Agreement"), and is the "Note" referred to therein. All capitalized terms used herein and not otherwise defined herein shall have the meanings given thereto in the Merger Agreement.

This Promissory Note shall be governed by, and construed in accordance with, the laws of the State of Delaware.

Maker:

REPUBLIC ENVIRONMENTAL SYSTEMS, INC.

By: /s/ Michael G. DeGroote

Name: Michael G. DeGroote

Title: President & Chief Executive Officer

EXHIBIT 99.8

INDEX TO FINANCIAL INFORMATION AND FINANCIAL STATEMENTS

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

REPUBLIC ENVIRONMENTAL SYSTEMS, INC.

PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma condensed income statements of RESI for the year ended December 31, 1995 and for the six months ended June 30, 1996 give effect to the Combination as if it had occurred on January 1, 1995. The unaudited pro forma condensed balance sheet as of June 30, 1996 gives effect to the Combination as if it had occurred on June 30, 1996. The pro forma adjustments are based on currently available information and upon certain assumptions that management believes are reasonable under the circumstances as described in the accompanying Notes to Pro Forma Financial Information.

THE PRO FORMA FINANCIAL INFORMATION DOES NOT PURPORT TO REPRESENT WHAT RESI'S FINANCIAL POSITION OR RESULTS OF OPERATIONS WOULD ACTUALLY HAVE BEEN IF THE COMBINATION IN FACT HAD OCCURRED AT THE DATES INDICATED OR TO PROJECT RESI'S FINANCIAL POSITION OR RESULTS OF OPERATIONS FOR ANY FUTURE DATE OR PERIOD.

The following financial information should be read in conjunction with the "RESI Management's Discussion and Analysis of Results of Operations and Financial Condition," "Alliance Companies Management's Discussion and Analysis of Results of Operations and Financial Condition," the consolidated and combined financial statements of RESI and subsidiaries and the notes thereto, the consolidated financial statements of CSC and the notes thereto, and the financial statements of CSU and the notes thereto which are included elsewhere herein.

REPUBLIC ENVIRONMENTAL SYSTEMS, INC.

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET
AS OF JUNE 30, 1996
(IN THOUSANDS)

	HISTORICAL(A)						
	REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES	CENTURY SURETY COMPANY AND SUBSIDIARIES	COMMERCIAL SURETY AGENCY, INC.	ACQUISITION PRO FORMA ADJUSTMENTS AND INTERCOMPANY ELIMINATIONS(B)	COMBINED COMPANIES	EQUITY TRANSACTIONS PRO FORMA ADJUSTMENTS(C)	PRO FORMA TOTAL
ASSETS							
Cash and cash equivalents...........	$ 2,442	$ 2,374	$ 138	$	$ 4,954	$ 10,500	$ 15,454
Investments							
Fixed maturities held to maturity.........		15,240			15,240		15,240
Securities available for sale, at fair value:							
Fixed maturities....		33,422			33,422		33,422
Equity securities...		8,098			8,098		8,098
Mortgage loans on real estate.............		2,611			2,611		2,611
Other investments.....		2,584			2,584		2,584
Premium balances receivable............		6,400	713	(1,020)(3)	6,093		6,093
Deferred policy acquisition costs.....		3,954			3,954		3,954
Reinsurance receivables...........		10,282			10,282		10,282
Prepaid insurance premiums..............		2,834			2,834		2,834
Accounts receivable, net...................	6,184				6,184		6,184
Property and equipment, net...................	20,322	367	172		20,861		20,861
Goodwill................	8,984			1,285(1)	10,269		10,269
Other assets............	2,493	2,450	266		5,209		5,209
Total assets....	$40,425	$ 90,616	$1,289	$ 265	$132,595	$ 10,500	$143,095
LIABILITIES AND STOCKHOLDERS' EQUITY							
Accounts payable........	$ 2,516	$	$ 10	$	$ 2,526	$	$ 2,526
Losses and loss expenses payable..............		39,265			39,265		39,265
Unearned premiums.......		17,248		(1,020)(3)	16,228		16,228
Reinsurance balances payable..............		2,392			2,392		2,392
Income taxes payable....	60	500			560		560
Accrued expenses and other liabilities.....	2,394	2,681	1,146		6,221		6,221
Note Payable -- Alliance Holding Company.......				4,000(1)	4,000		4,000
Long-term debt..........	877		17		894		894
Accrued environmental costs.................	3,569				3,569		3,569
Deferred income taxes...	2,437	406			2,843		2,843
Minority interest.......	257				257		257
Total liabilities...	12,110	62,492	1,173	2,980	78,755		78,755
Stockholders' equity							
Common stock..........	109	2,000	1	(1,853)(1)	257	40	297
Paid-in-capital.......	27,479	17,591		181 (1)(5	45,251	10,460	55,711
Retained earnings.....	531	4,644	115	(847)(1)(5)	4,443		4,443
Net unrealized appreciation of investments.........		3,889			3,889		3,889
Cumulative translation adjustment..........	196			(196)(1)			
Total stockholders' equity........	28,315	28,124	116	(2,715)	53,840	10,500	64,340
Total liabilities and stockholders' equity........	$40,425	$ 90,616	$1,289	$ 265	$132,595	$ 10,500	$143,095

REPUBLIC ENVIRONMENTAL SYSTEMS, INC.

UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1995
(IN THOUSANDS EXCEPT PER SHARE DATA)

	HISTORICAL(A)				
	REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES	CENTURY SURETY COMPANY AND SUBSIDIARIES	COMMERCIAL SURETY AGENCY, INC.	MERGER ADJUSTMENTS AND INTERCOMPANY ELIMINATIONS(B)	PRO FORMA TOTAL
Revenues	$44,537	$ 30,824	$2,602	$ (2,487)(3)	$75,476
Expenses:					
Cost of operations	32,702		893		33,595
Selling, general, and administrative	9,768		1,399	32 (2)	11,199
Losses and loss expenses		15,117			15,117
Acquisition and other expenses		11,126		(2,487)(3)	8,639
Other, net	26			220 (4)	246
	42,496	26,243	2,292	(2,235)	68,796
Income before income taxes	2,041	4,581	310	(252)	6,680
Income tax expense (benefit)					
Current	369	2,013	108	(88)(4)	2,402
Deferred	386	(699)			(313)
	755	1,314	108	(88)	2,089
Net Income	$ 1,286	$ 3,267	$ 202	$ (164)	$ 4,591
Earnings per common and common equivalent share(D)	$ 0.12				$ 0.15
Weighted average shares(D)	11,110				29,870

REPUBLIC ENVIRONMENTAL SYSTEMS, INC.

UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 1996
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL(A)				
	REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES	CENTURY SURETY COMPANY AND SUBSIDIARIES	COMMERCIAL SURETY AGENCY, INC.	ACQUISITION PRO FORMA ADJUSTMENTS AND INTERCOMPANY ELIMINATIONS	PRO FORMA TOTAL
Revenues	15,796	$ 16,612	$1,425	$ (1,687)(3)(5)	$32,146
Expenses:					
Cost of operations	11,849		599		12,448
Selling, general, and administrative	4,656		687	16 (2)	5,359
Losses and loss expenses		8,471			8,471
Acquisition and other expenses		5,978		(1,209)(3)	4,769
Other, net	(316)			110 (4)	(206)
	16,189	14,449	1,286	(1,083)	30,841
Income (loss) before income taxes	(393)	2,163	139	(604)	1,305
Income tax expense (benefit)					
Current	(146)	797	47	(206)(4)(5)	492
Deferred		32			32
	(146)	829	47	(206)	524
Net Income (Loss)	$ (247)	$ 1,334	$ 92	$ (398)	$ 781
Earnings (loss) per common and common equivalent share(D)	$ (0.02)				$ 0.03
Weighted average shares(D)	10,850				29,610

REPUBLIC ENVIRONMENTAL SYSTEMS, INC.

NOTES TO PRO FORMA FINANCIAL INFORMATION

A. DESCRIPTION OF THE MERGERS

On May 19, 1996, Alliance and RESI signed a binding letter of intent and agreed to the terms of mergers (the "Mergers") pursuant to which Alliance would receive (i) 14,760,000 shares of RESI's common stock, par value $0.01 per share ("RESI Common Stock"), (ii) warrants to acquire an additional 4,200,000 shares of RESI Common Stock, at prices ranging from $2.625 to $3.875 per share and exercisable over two to four year periods and (iii) a promissory note in the principal amount of $4.0 million in consideration for all of the outstanding common stock of its wholly-owned subsidiaries, Century Surety Company ("CSC") and Commercial Surety Agency, Inc. ("CSU"). In connection with such transaction, each of MGD Holdings, Ltd. ("MGD Holdings") and H. Wayne Huizenga ("Huizenga") will purchase 2,000,000 shares of RESI Common Stock and warrants to purchase 6,000,000 additional shares of RESI Common Stock at exercise prices ranging from $2.625 to $3.875 per share and exercisable over two to four year periods for an aggregate purchase price of $5,250,000. After the Mergers, but before the exercise of the Merger Warrants and Stock Issue Warrants, Alliance and MGD Holdings will beneficially own approximately   % and   %, respectively of the outstanding shares of RESI common stock. As a result of the Mergers, Alliance will control four of the seven board positions, thereby having the ability to control the RESI Board of Directors. In addition, contemporaneously with the consummation of the Mergers, MGD Holdings will enter into a voting agreement with Alliance whereby MGD Holdings, for a period of two years commencing as of the completion of the Mergers thereof agrees to vote all shares of RESI Common Stock in accordance with the recommendation of the management of Alliance. Accordingly, Alliance will have the ability to control the outcome of matters submitted to a vote of the RESI Stockholders, including the election of directors. The Mergers will be accounted for as a purchase business combination pursuant to which Alliance is acquiring RESI. Consequently, in RESI's consolidated financial statements, the assets and liabilities of RESI will be recorded at fair value based upon the closing market price of the outstanding shares of RESI common stock on May 17, 1996 (10,797,950 shares at 2 5/16 per share). The historical balances shown in the pro forma statements for RESI, CSC and CSU are derived from the financial statements of each company included elsewhere herein.

B. ACQUISITION PRO FORMA ADJUSTMENTS AND INTERCOMPANY ELIMINATIONS

(1) Reflects the adjustments related to the Mergers including (a) a purchase price of approximately $29.6 million (including transaction costs of approximately $0.7 million) based on the number of RESI common shares outstanding at the market price of May 17, 1996 and an additional $4.0 million note payable to Alliance, (b) elimination of the historical equity balances of CSC and CSU to reflect the new capital structure of RESI as a result of the transaction and (c) recognition of $1.285 million of goodwill resulting from the excess purchase price over the estimated fair value of the net assets of RESI at June 30, 1996.

(2) Records the amortization over 40 years of the resulting goodwill for the year ended December 31, 1995 and the six months ended June 30, 1996.

(3) Reflects the elimination of intercompany balances between CSC and CSU.

(4) Reflects the interest expense associated with the $4.0 million note payable to Alliance at the current LIBOR rate of 5.5% and the related adjustment to income taxes (using an estimated combined federal and state tax rate of 40%) for the year ended December 31, 1995 and the six months ended June 30, 1996.

(5) Reflects the elimination of the 1996 CSC sale of RESI stock it owned prior to the Mergers.

C. EQUITY TRANSACTIONS PRO FORMA ADJUSTMENTS

Reflects the purchase of 2.0 million RESI common shares each and warrants to purchase an additional 6.0 million RESI common shares each by MGD Holdings and Huizenga as noted in A. above.

D. EARNINGS PER SHARE

Pro forma earnings per share reflect the issuance of 14,760,000 common shares to Alliance and the 4,000,000 new shares issued to MGD Holdings and Huizenga and also reflect the effect of a two-for-one stock split, effected in the form of a stock dividend in June 1996. Primary and fully diluted pro forma earnings per share are the same.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Republic Environmental Systems, Inc.:

We have audited the accompanying consolidated and combined balance sheets of Republic Environmental Systems, Inc. (a Delaware corporation) and subsidiaries, as of December 31, 1995 and 1994, and the related consolidated and combined statements of operations, cash flows and stockholders equity for the years then ended, as discussed in Note 2 to the financial statements. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Republic Environmental Systems, Inc. and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Philadelphia, PA.,
February 13, 1996
(except with respect
to the matters discussed
in Note 12, as to which
the date is June 14, 1996)

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED AND COMBINED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEMBER 31	
	1995	1994
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,255	$ 1,433
Accounts receivable, less allowance for doubtful accounts of $1,031 and $1,174, respectively	7,614	10,870
Other current assets	1,445	1,292
Total current assets	12,314	13,595
Property and equipment, net	19,469	16,844
Goodwill, net of accumulated amortization of $1,187 and $935, respectively	9,109	9,255
Other assets	858	248
Total assets	$41,750	$39,942
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,568	$ 4,686
Accrued liabilities	2,825	3,127
Notes payable	193	257
Current maturities of long-term debt and capitalized lease obligations	507	2,133
Current portion of accrued environmental costs	1,999	2,677
Income taxes payable	56	160
Total current liabilities	8,148	13,040
Long-term debt and capitalized lease obligations, net of current maturities	618	1,128
Accrued environmental costs, net of current portion	1,790	2,850
Deferred income taxes	2,344	2,375
Minority interest	257	257
Total liabilities	13,157	19,650
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $.01 per share; 20,000,000 shares authorized, 11,366,432 shares issued	114	--
Additional paid-in capital	27,653	--
Retained earnings	778	--
Cumulative translation adjustment	193	
Treasury stock, 102,000 shares, at cost	(145)	--
Investment by Republic Industries, Inc.	--	20,292
Total stockholders' equity	28,593	20,292
Total liabilities and stockholders' equity	$41,750	$39,942

The accompanying notes are an integral part of these financial statements.

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31		
	1995	1994	1993
Revenues	$44,537	$46,599	$ 61,617
Expenses:			
Cost of operations	32,702	33,377	47,028
Selling, general and administrative	9,768	10,349	13,480
Restructuring and unusual charges	--	8,484	14,906
Operating income (loss)	2,067	(5,611)	(13,797)
Other (income) expense:			
Interest and other income	(193)	(120)	(161)
Interest expense	219	473	1,153
Income (loss) before income taxes and extraordinary gain	2,041	(5,964)	(14,789)
Income tax provision (benefit)	755	(3,092)	(210)
Income (loss) before extraordinary gain	1,286	(2,872)	(14,579)
Extraordinary gain on conversion of debt, net of income tax provision of $3,092	--	5,556	--
Net income (loss)	$ 1,286	$ 2,684	$(14,579)
Earnings (loss) per common and common equivalent share:			
Income (loss) before extraordinary gain	$ 0.12	$ (0.26)	$ (1.32)
Extraordinary gain	--	0.51	--
Net income (loss)	$ 0.12	$ 0.25	$ (1.32)
Weighted average common and common equivalent shares	11,110	10,966	11,004

The accompanying notes are an integral part of these financial statements.

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31		
	1995	1994	1993
Cash flows from operating activities:			
Net income (loss)	$ 1,286	$ 2,684	$(14,579)
Adjustments to reconcile net income (loss) to net cash provided by operations:			
Extraordinary gain on conversion of debt	--	(5,556)	--
Restructuring and unusual charges	--	8,484	14,906
Depreciation and amortization	2,312	2,457	2,803
Provision for doubtful accounts	569	929	469
Provision for accrued environmental costs	347	373	267
(Loss) gain on the sale of equipment	(74)	6	(1)
Changes in assets and liabilities			
Accounts receivable	2,671	(81)	4,714
Prepaid expenses and other assets	(986)	227	(187)
Accounts payable and accrued liabilities	(2,231)	(1,213)	(3,383)
Income taxes payable	(105)	20	(395)
Due to Republic Industries, Inc.	784	2,515	2,659
Other liabilities	(1,835)	(4,682)	(1,014)
Net cash provided by operations	2,738	6,163	6,259
Cash flows from investing activities:			
Business acquisitions, net of cash acquired	--	--	(317)
Capital additions	(4,197)	(1,837)	(3,569)
Proceeds from the sale of equipment	212	112	240
Net cash used in investing activities	(3,985)	(1,725)	(3,646)
Cash flows from financing activities:			
Amounts borrowed from Republic Industries, Inc	--	2,788	6,717
Repayment of borrowings from Republic Industries, Inc	--	(5,495)	(5,016)
Cash received from exercise of stock options and warrants	1,664	--	--
Purchase of treasury stock	(145)	--	--
Payments of long-term debt and notes payable	(3,922)	(2,380)	(8,832)
Proceeds from long-term debt and notes payable	827	395	3,888
Capital contributions and other payments from Republic Industries, Inc	2,518	--	--
Cash received from Stout-capital contribution	2,127	--	--
Net cash provided by (used in) financing activities	3,069	(4,692)	(3,243)
Increase (decrease) in cash and cash equivalents	1,822	(254)	(630)
Cash and cash equivalents:			
Beginning of year	1,433	1,687	2,317
End of year	$ 3,255	$ 1,433	$ 1,687
Supplemental disclosure of cash paid for:			
Interest	$ 216	$ 469	$ 826
Income taxes	$ 128	$ 64	$ 42

Supplemental disclosure of noncash investing and financing activities:

Equipment purchases of $536, $137 and $232 were financed in the years ended December 31, 1995, 1994 and 1993, respectively by borrowings and capitalized lease obligations.

The accompanying notes are an integral part of these financial statements.

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED AND COMBINED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	CUMULATIVE TRANSLATION ADJUSTMENT	TREASURY STOCK	EQUITY INVESTMENT BY RII	TOTAL
Balance at December 31, 1992	$	$	$ (8,965)	$	$	$ 37,498	$ 28,533
Net loss			(14,579)				(14,579)
Net advances from RII						1,701	1,701
Return of consideration held in escrow for an acquisition						(929)	(929)
Other transactions with RII, net(1)						2,146	2,146
Balance at December 31, 1993			(23,544)			40,416	16,872
Net income			2,684				2,684
Net payments to RII						(2,707)	(2,707)
Other transactions with RII, net(1)						3,425	3,425
Balance at December 31, 1994			(20,860)			41,152	20,292
Net income through spin-off			508				508
Contributions from RII prior to spin-off						261	261
Spin-off from RII	108	20,802	20,352	151		(41,413)	--
Capital contribution from RII		2,518					2,518
Net income post-spin-off			778				778
Capital contribution from Stout		2,127					2,127
Issuance of shares for stock options	6	1,661					1,667
Tax benefit of stock options and warrants		545					545
Purchases of treasury stock					(145)		(145)
Currency translation adjustment				42			42
Balance at December 31, 1995	$ 114	$ 27,653	$ 778	$ 193	$ (145)	$ --	$ 28,593

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(1) Includes insurance premiums, self-insured losses and corporate services expense allocations directly attributable to RESI.

The accompanying notes are an integral part of these financial statements.

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

1. BACKGROUND

In July 1994, Republic Industries, Inc. ("RII"), formerly Republic Waste Industries, Inc., announced the contemplation of a plan to exit the hazardous waste services segment of the environmental industry. The plan included the combination of RII's former hazardous waste services operations in Republic Environmental Systems, Inc. ("RESI") and the distribution of the stock of RESI to the stockholders of record of RII (the "Distribution"). In April 1995, the Board of Directors approved the Distribution to RII stockholders of record as of April 21, 1995. RII stockholders received one share of RESI's common stock for every five shares of RII common stock owned on the record date of the Distribution (the "Distribution Date"). RII currently has no ownership interest in RESI.

In connection with the Distribution, RESI and RII entered into various agreements including the Distribution Agreement, Corporate Services Agreement, Tax Sharing Agreement and various indemnity agreements.

The Distribution Agreement provided for, among other things, the principal corporate transactions required to effect the Distribution and the contribution of RII's Canadian hazardous waste services subsidiary to RESI. The Distribution Agreement also provided for RII to contribute an additional $2.4 million in capital to RESI to repay indebtedness and to provide working capital in connection with the Distribution.

The Corporate Services Agreement provides for RII to provide certain services, including insurance administration, human resources management, financial reporting and tax, legal and environmental engineering services to RESI after the Distribution, until the agreement is terminated by either party. The cost to RESI of such arrangement did not differ significantly from the costs allocated to RESI in the past, as included in the accompanying statements of operations. This agreement is expected to terminate at the end of the first quarter in 1996.

The Tax Sharing Agreement provides for, among other things, the treatment of tax matters for periods through the date of the Distribution and responsibility for any adjustments as a result of audit by any taxing authority. The general terms provide for the indemnification for any tax detriment incurred by one party which is caused by the other party's actions.

Other agreements include various indemnity agreements which provided for indemnification by RESI to RII, and vice versa, for potential increases or decreases in any RESI liabilities which remained with RII as a result of previously shared arrangements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements at December 31, 1995 include the accounts of RESI and its subsidiaries, the successor to the business of Stout Environmental, Inc. ("Stout"), a Delaware corporation, acquired by RII in March 1992, as well as the accounts of Republic Environmental Systems Ltd. ("RESL") (formerly known as Great Lakes Environmental Group Ltd.), the former Canadian hazardous waste services subsidiary of RII, which was acquired by RII in July 1991 and was contributed to RESI as of the Distribution Date (collectively, the "Company"). One of RESI's subsidiaries, Republic Environmental Systems (Cleveland) (RES (Cleveland)), Inc. (formerly known as Evergreen Environmental Group, Inc.), was acquired by RII in September 1991, in a transaction separate from the Stout acquisition and was contributed to RESI in May 1993. The accounts of RESI and all its majority owned subsidiaries are included in the accompanying consolidated financial statements. All significant intercompany transactions have been eliminated.

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The combined financial statements for all periods presented prior to the Distribution Date include the historical accounts and operations of the former RII businesses that now comprise the Company. Material transactions between entities included herein have also been eliminated.

RII has in the past provided certain corporate general and administrative services to the Company as described previously. The expenses for these services, which amounted to $391,000, $851,000, and $839,000 during 1995, 1994 and 1993, respectively, were charged or allocated to the Company on a basis that approximated the cost of actual services provided. Management believes that the allocation of expenses was made on a reasonable basis and that expenses to be incurred as a stand-alone entity will not differ significantly from the amount of expenses allocated to the Company by RII.

Revenue Recognition

The Company provides a full range of hazardous waste services including collection, disposal, treatment, storage and recycling services to a broad base of industrial and commercial waste generators in the Eastern United States and Canada. Consistent with industry practice, the Company recognizes revenue upon the receipt and acceptance of waste material at its waste treatment, storage and disposal facilities ("TSD Facilities"). Appropriate disposal costs are accrued upon acceptance at its TSD Facilities.

Earnings Per Share

Primary earnings per share computations are based on the weighted average number of outstanding common and common share equivalents with dilutive effects. Primary and fully diluted income (loss) per share are the same in each period.

Income (loss) per share for periods prior to the Distribution, have been determined based on the assumed weighted average number of shares of common stock outstanding which was considered to be equal to one-fifth of the weighted average number of shares of RESI common stock for the respective periods.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized, while minor replacements, maintenance and repairs are charged to expense as incurred. When property is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in current operations.

Depreciation is provided over the estimated useful lives of the assets involved using the straight-line method. The estimated useful lives are: twenty years for buildings and improvements, five to fifteen years for vehicles and equipment and five years for furniture and fixtures.

A summary of property and equipment is shown below (in thousands):

	DECEMBER 31	
	1995	1994
Vehicles and equipment	$ 16,624	$ 16,093
Land, buildings and improvements	14,655	11,063
Furniture and fixtures	2,212	2,407
	33,491	29,563
Less- Accumulated depreciation	(14,022)	(12,719)
	$ 19,469	$ 16,844

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Accrued Liabilities

The Company provides accruals for the disposal of hazardous and nonhazardous waste which has been accepted at its TSD Facilities. At December 31, 1995 and 1994, disposal accruals of $948,000 and $1,107,000, respectively, were included in accrued liabilities.

Also reflected in accrued liabilities are insurance reserves. Since 1991, the Company has participated in RII's combined risk management programs for property and casualty insurance. The Company has agreed to indemnify RII against increases in current losses and any future losses incurred in connection with the Company's participation in these programs. The Company continued to participate in RII's combined risk management programs until the expiration of these policies in June 1995. The Company has its own insurance program after that date. At December 31, 1995 and 1994, the insurance accrual was $488,000 and $72,000, respectively.

Accrued Environmental Costs

Accruals for investigatory and remediation costs are recorded when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Accrued costs include investigative, administrative, legal and remediation costs associated with site clean-up. Environmental compliance costs including maintenance, monitoring and similar costs are expensed as incurred.

The measurement of environmental liabilities is based on an evaluation of currently available facts with respect to each individual site and considers factors such as existing technology, presently enacted laws and regulations, and prior experience in remediation of contaminated sites. While the current law potentially imposes joint and several liability upon each party at any Superfund site, the Company's contribution to clean up these sites is expected to be limited, given the number of other companies which have also been named as potentially responsible parties, the volumes of waste involved, and that most of these matters are indemnified by the former shareholders of Stout (see Note 4). A reasonable basis for apportionment of costs among responsible parties is determined and the likelihood of contribution by other parties is established. If it is considered probable that the Company will only have to pay its expected share of the total site cleanup, the liability reflects the Company's expected share. In determining the probability of contribution, the Company considers the solvency of the parties, whether responsibility is being disputed, the terms of any existing agreements, and experience to date regarding similar matters. These liabilities do not take into account any claims for recoveries from insurance or third parties and are not discounted. As assessments and remediation progress at individual sites, these liabilities are reviewed periodically and adjusted to reflect additional technical and legal information which becomes available. Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures.

Anticipated cash expenditures for 1996 are expected to be approximately $2.0 million ($1.1 million expected to be indemnified). The exact timing of cash payments from beyond this period are impacted by various governmental and non-governmental agencies and therefore difficult to predict with any certainty.

Income Taxes

The U.S. operations of the Company are included in the combined federal income tax return of RII through the Distribution date and on a stand alone basis thereafter, whereas the Company's Canadian operations file a separate Canadian tax return. The Company's income tax provision in the accompanying statements of operations is calculated as if it filed separate tax returns in both the United States and Canada for all periods.

The Company uses the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109. Under this method, deferred tax assets and liabilities are recognized for the tax effects of temporary differences between the financial reporting and tax basis of assets and liabilities using enacted rates.

Goodwill

Goodwill is amortized on a straight-line basis over forty years. Amortization expense related to goodwill and other intangible assets was $255,000, $460,000, and $734,000 in 1995, 1994 and 1993, respectively.

It is the Company's policy to review goodwill for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The realizability of goodwill is evaluated periodically as events and circumstances dictate. Such evaluation is based on various analyses, including cash flow and profitability projections. Generally, the unamortized goodwill from each acquisition is measured against undiscounted cash flows from such entity. If such an evaluation indicates an impairment has occurred, an appropriate writedown would be made based upon a discounted cash flow analysis or similar determination of fair value. Such adjustment would be recorded in the period when such events occur and analyses are completed. If such review indicates that the carrying amount of goodwill is not recoverable, it is the Company's policy to reduce the carrying amount of such assets to fair value (see Note 3).

Statements of Cash Flows

The Company considers all highly liquid investments with purchased maturities of three months or less to be cash equivalents. The effect of noncash transactions are excluded from the statements of cash flows.

Foreign Currency Translation

All asset and liability accounts of foreign subsidiaries are translated to U.S. dollars at the rate of exchange in effect at the balance sheet date. All income statement accounts of foreign subsidiaries are translated at average exchange rates during the year. Resulting translation adjustments arising from these translations are charged or credited directly to equity. Gain or loss on foreign currency transactions is included in income as incurred. Such amounts were not material in any year presented.

Fair Value of Financial Instruments

The book values of cash, trade accounts receivable, accounts payable and financial instruments included in other current assets and other assets approximate their fair values principally because of the short-term maturities of these instruments. The fair value of the Company's long-term debt is estimated based on the current rates offered to the Company for debt of similar terms and maturities. Under this method the Company's fair value of long-term debt was not significantly different than the stated value at December 31, 1995 and 1994.

In the normal course of business, the Company has letters of credit, performance bonds and other guarantees which are not reflected in the accompanying balance sheets. Management believes that the likelihood of nonperformance under these financial instruments is minimal and expects no material losses to occur in connection with these financial instruments.

Concentrations of Credit Risk

Concentrations of credit risk with respect to trade receivables are limited due to the wide variety of customers and markets into which the Company's services are provided, as well as their dispersion across different geographic areas. As a result, as of December 31, 1995, the Company does not consider itself to have any significant concentrations of credit risk. For the years ended 1995, 1994 and 1993, bad debt expense was $119,000, $929,000 and $914,000 and bad debt write-offs were $262,000, $635,000 and $632,000, respectively.

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Accounting Pronouncements

In March 1995, the Financial Accounting Standards Board issued Statement No. 121 (the "Statement") on accounting for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to assets to be held and used. The Statement also establishes accounting standards for long-lived assets and certain identifiable intangibles to be disposed of. The Company is required to adopt the Statement in 1996, and based on a preliminary review, no material impact is anticipated.

3. RESTRUCTURING AND UNUSUAL CHARGES

Recapitalization of RESL in 1994

In connection with the decision by RII to distribute the hazardous waste services segment to its existing shareholders, which included the contribution of the Canadian hazardous waste services subsidiary, RESL, to RESI at the Distribution Date, RII recapitalized RESL. As such the Company evaluated each of the individual TSD Facility operations of RESL considering the continued weak Canadian economy and the amount of capital RESI could devote to RESL's operations in the future. The results of this evaluation indicated that the undiscounted cash flows of certain of the individual Canadian TSD Facilities did not support the recorded amounts of goodwill without a substantial improvement in the Canadian economy or the investment of substantial amounts of capital. Additionally, the amount of goodwill recorded as a result of the acquisition of RESL by RII in 1991 could not be supported by the expected changes in operations after the planned contribution of RESL to RESI. As a result, the Company wrote off approximately $6,380,000 of goodwill at RESL in the fourth quarter of 1994. The Company also wrote off $1,194,000 in abandoned or to-be-abandoned property and accrued approximately $910,000 of costs associated with the Distribution.

Reorganization of hazardous waste operations in 1993

In order to counteract severe market conditions in the hazardous waste industry, the Company decided to reorganize its operations in the fourth quarter of 1993. As a result, the Company consolidated certain TSD operations, terminated certain contracts, closed or decided to close certain facilities, reduced its workforce by over 135 people (or 30%) and wrote off goodwill and other intangibles associated with the closed and abandoned facilities. In accordance with industry standards, the Company provides for closure costs over the life of a facility. Accordingly, the Company has fully provided for these costs on the closed and to-be-closed facilities. In addition to the reorganization of operations, the Company also reevaluated its exposure related to litigation and environmental matters and provided additional accruals for the costs to defend or settle certain

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

litigation and environmental matters. A summary of these charges for the closed, abandoned and to-be-closed facilities is as follows (in thousands):

Property and equipment	$ 3,427
Goodwill and other intangibles	4,476
Accumulated permitting costs	1,492
Cost of terminating contracts and employees and office relocation costs	2,705
Closure and environmental accruals	1,756
Accruals for cost of settlement of defense and existing litigation and environmental matters	1,050
	$14,906

4. ACCRUED ENVIRONMENTAL COSTS

The Company's waste services activities are conducted in the context of a developing and changing statutory and regulatory framework, aggressive government enforcement and a highly visible political environment. Governmental regulation of the waste management industry requires the Company to obtain and retain numerous governmental permits to conduct various aspects of its operations. These permits are subject to revocation, modification or denial. The costs and other capital expenditures which may be required to obtain or retain the applicable permits or comply with applicable regulations could be significant.

Certain of the Company's facilities are contaminated from past spills of potentially hazardous material. The amount and severity of contamination are currently under investigation. The Company believes that remedial action will be required, including continued investigation, monitoring and treatment of groundwater and/or possible soil removal. As part of the acquisition of Stout in 1992 by RII, certain of the former stockholders of Stout agreed to indemnify RII and the Company for certain litigation matters and environmental matters identified as of the closing date of the merger. The obligation under this indemnity is secured by amounts held in an escrow fund. The Company accrues for known exposures in regards to these indemnified matters. Reimbursements from the escrow account are reflected as capital contributions as cash is received. In 1995, the Company received reimbursement of $2.1 million with respect to these indemnified matters.

The following is a description of proceedings whose claims are covered by the indemnity obligations of the former Stout stockholders.

Adams Oil, Inc.

Adams Oil, Inc.("Adams Oil"), a wholly-owned subsidiary of RESI, previously operated an oil terminal located in Camden, New Jersey. RESI is aware that there is evidence of contamination on the property which may have been caused by past spills of possible hazardous materials (i.e., petroleum hydrocarbons, gasoline, diesel fuel). The amount and the sources of the contamination are currently under investigation by Adams Oil. The New Jersey Department of Environmental Protection and Energy (the "NJDEPE") has knowledge of the problem and has requested more information from Adams Oil. Management believes that remedial action may be required and a clean-up plan has been submitted to NJDEPE for approval.

Republic Environmental Systems (Pennsylvania), Inc.

Republic Environmental Systems (Pennsylvania), Inc. ("RES (Pennsylvania)") has been named as a PRP in the North Penn Area No. 2 regional ground water problem involving 56 square miles

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

occupied by hundreds of industrial companies. The EPA has requested that RES (Pennsylvania) enter into an administrative consent order to investigate and determine its contribution, if any, to the regional groundwater problem. RES (Pennsylvania) believes that it should not agree to a consent order under CERCLA, but instead should be regulated under its RCRA corrective action permit. The EPA is looking at the septic system and the contamination of groundwater, as well as considering adding other PRP companies. RES (Pennsylvania) is assisting the EPA by conducting testing. RES (Pennsylvania) is not aware of any evidence that it contributed to a regional groundwater problem.

In addition, RES (Pennsylvania) (formerly known as Waste Conversion, Inc.) also has been named as a PRP along with 13 other primary defendants for the recovery costs to remediate the Moyers Landfill Site in eastern Pennsylvania. A company previously known as Waste Conversion of Delaware, Inc. disposed of materials at Moyers Landfill from 1979 to 1981. This company then sold its assets to Waste Conversion, Inc., which was owned by Stout. RES (Pennsylvania) is currently in settlement negotiations with the EPA to limit its exposure in this matter.

Also, RES (New York) and RES (Pennsylvania) are parties in a PRP action with respect to the Aqua-Tech TSD facility in South Carolina. There are 180 parties to date. In April 1993, an agreement was reached whereby RESI paid $360,060 for proposed settlement of certain issues at the facility, pending the final allocation to the PRP's.

The Company is involved in various matters of litigation and is subject to ongoing environmental investigations by certain regulatory agencies involving environmental matters, as well as other claims and disputes that could result in additional litigation. The environmental investigations include notifications that the Company is a Potentially Responsible Party, as defined under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, in several site cleanups. With regard to certain of these matters, the Company has been assessed penalties which it has appealed or has ongoing negotiations to reduce the level of the assessments. The more significant items include:

RES (Cleveland), Inc.

In June 1993, RES (Cleveland) received a Complaint and Compliance Order from the Enforcement Division of Region 5 of the EPA alleging that the former owners of RES (Cleveland)'s TSD Facility failed to submit a proper RCRA Facility Investigation ("RFI") Workplan to the EPA on a timely basis and fined RES (Cleveland). This RFI Workplan included any remedial action plan necessary for the remediation of sub-surface soil at the TSD Facility. In September 1993, Region 5 of the EPA approved for implementation the RFI Workplan submitted by RES (Cleveland).

Republic Environmental Systems (New York), Inc.

In late June 1993, the Company voluntarily ceased operating at its TSD Facility in Nassau County, New York, due to ongoing disputes and negotiations with various regulatory agencies including the New York Department of Environmental Conservation, the town of Oyster Bay and Nassau County. In addition, RES (New York) received from the New York DEC a proposed Summary Order in an Administrative Action commenced by the New York DEC against the RES (New York) facility, whereby the New York DEC sought revocation of RES (New York)'s permit to operate as a TSD Facility. The New York DEC withdrew a previous consent order against RES (New York), under which RES (New York) had agreed to pay $100,000, and subsequently fined RES (New York) for alleged violations at the facility.

In early 1994, RES (New York) also permanently closed its hazardous waste treatment, storage and disposal facility in Nassau County, New York due to ongoing disputes and negotiations with the New York DEC, the town of Oyster Bay and Nassau County. In addition, RES (New York) entered into a consent decree with the New York DEC which provided for payment by RES (New York) of $150,000 and the manner in which RESI was required to close the facility. The parties are currently negotiating the technical aspects of the requirements relating to facility closure.

Additionally, due to the reorganization of operations in 1993 as discussed in Note 3, the Company evaluated its exposure related to certain environmental matters and litigation related to its closed or to-be-closed TSD Facilities. As a result, the Company provided additional accruals of $2,806,000 for the costs to defend or settle these matters in 1993, of which approximately $468,000 remains as of December 31, 1995.

Although it is possible that a loss exceeding amounts already recorded may be incurred upon the resolution of the litigation and environmental matters described above, management believes that such losses, if realized, will not have a material adverse effect on the Company's cash flows, consolidated results of operations or combined financial position.

5. SHORT-TERM BORROWINGS, NOTES PAYABLE, LONG-TERM DEBT AND CAPITALIZED LEASES

Short-Term Borrowings and Notes Payable

In May 1995, the Company secured a $6 million credit facility with CoreStates Bank, N.A., to be used for additional working capital and other funding needs. Up to $4.5 million of the credit facility is available for the issuance of standby letters of credit. At December 31, 1995, the Company had issued $2.6 million in standby letters of credit. The unused portion of the facility is available for cash borrowings. There were no cash borrowings under the credit facility during 1995.

The credit facility provides for the maintenance of certain restrictive covenants including, among others, minimum working capital levels, maintaining current and fixed charges ratios and a predetermined level of interest coverage. The Company is also restricted from making any dividend payments and incurring additional debt. This facility is collateralized by substantially all of the Company's U.S. assets. During 1995, the Company was in full compliance with all covenants.

Notes payable consisted primarily of borrowings to fund the Company's insurance premiums at December 31, 1995 and in 1994, amounts reflect borrowings from lines of credit for working capital purposes. Long-Term Debt and Capitalized Leases

Long-term debt, including obligations under capitalized leases, consists of the following (in thousands):

	DECEMBER 31	
	1995	1994
Notes payable and capitalized lease obligations to banks and financial institutions, secured by equipment and other assets, interest ranging from 7.3% to 9.54% (weighted average interest rate of 8.0% as of December 31, 1995), payable monthly through 2000	$ 854	$1,418
Note payable for an acquisition, secured by a letter of credit, interest at Canadian prime, (7.50% as of December 31, 1994), payable monthly through April 1995	--	1,367
Other notes payable, secured by equipment and other assets, interest ranging from 8.0% to 9.25% (weighted average interest rate of 7.9% as of December 31, 1995) payable monthly through 1998	271	476
	1,125	3,261
Less -- Current maturities	(507)	(2,133)
	$ 618	$1,128

At December 31, 1995, aggregate maturities of long-term debt, including obligations under capitalized leases, were as follows (in thousands):

1996	$ 507
1997	361
1998	151
1999	104
2000	2
	$1,125

In connection with the decision by RII to distribute the hazardous waste services segment to its existing shareholders, as discussed in Note 2, RII recapitalized RESL. In December 1994, the Company's Canadian subsidiary converted its U.S. subordinated term loan payable by RESL to 360,000 shares of redeemable convertible participating preferred stock of RESL. The preferred stock, with a face amount of Canadian $9.0 million ($6.6 million U.S. as of December 31, 1995), is redeemable at the option of the Company and is convertible into 15% of the common stock of RESL at the option of the holder. The holders of the preferred stock are eligible to receive dividends based on the future profitability of RESL in excess of specified target earnings levels. The Company recorded an extraordinary gain on the conversion to preferred stock of approximately U.S. $5.6 million, net of income taxes, based on the preferred stock's fair market value.

The fair market value of the preferred stock was estimated by management based on the current financial condition of the Canadian subsidiary, projected undiscounted net income of that subsidiary and the current estimated fair market value of the Canadian subsidiary.

6. STOCK OPTIONS AND WARRANTS

Stock Options

On the Distribution Date, holders of options to acquire RII Common Stock, previously granted to employees, directors and affiliates of RII, received options to acquire RESI Common Stock at the ratio of one RESI option for each five RII options. These options have substantially similar terms to the RII options. The outstanding options of RII at the Distribution Date and the RESI options granted with respect thereto are stapled (i.e., RII options and RESI options granted with respect thereto are only exercisable if exercised together). The per share exercise prices of RII and RESI options at the Distribution Date were appropriately adjusted to reflect the effect of the Distribution on the market prices of RII and RESI Common Stock. The combined exercise price of an option to purchase shares of RII Common Stock and the option to purchase shares of RESI Common Stock granted with respect thereto was equal to the exercise price of the RII option prior to the Distribution Date. Unvested RII options held by any optionee and the unvested RESI options granted to such optionee with respect to such RII options, vests in accordance with the vesting schedule of the RII options held by such optionee as long as the optionee is employed by RII or RESI or their affiliates. Options granted under this plan expire ten years from the date of grant and vest over varying periods. In April 1995, the RESI Board of Directors approved the RESI Adjustment Plan ("Adjustment Plan") and approved the issuance, on the Distribution Date, of options to purchase up to 450,000 shares of RESI Common Stock. The purpose of the Adjustment Plan is to provide for the issuance of RESI options to certain optionees who have been granted options to purchase RII Common Stock which were outstanding as of the Distribution Date. The option price of these plans is based on the fair market value of the common shares on the date that the stock options are granted.

In May 1995, the RESI Board of Directors approved the RESI 1995 Employee Stock Option Plan for certain key employees of the Company. A maximum of 500,000 options may be awarded to purchase the Company's Common Stock. The option price under this plan shall not be less than the fair market value of the Common Stock on the date the stock option is granted. In the event of a change of control, as defined in the plan, all outstanding employee options shall become immediately exercisable and the prescribed time limits for exercise will run from such vesting.

Certain information for 1995 relative to these stock option plans is summarized below:

Number of Shares	
Granted at Distribution Date	420,400
Granted subsequent to distribution	31,000
Exercised (a)	(257,800)
Expired or canceled	(3,400)
Outstanding at end of year (b)	190,200
Exercisable at end of year	70,000
Participants at end of year	40
Available for future grant at the end of year	502,000

(a) Options were exercised at prices ranging from \$1.08 to \$5.80.

(b) For outstanding shares under option at December 31, 1995, option prices ranged from \$1.08 to \$5.80 (and averaged \$2.25). The expiration dates for these options from May 1996 to May 2004.

Warrants

As of the Distribution Date, there were outstanding unexercised warrants (the "RII Warrants") to acquire 4,361,500 shares of RII Common Stock. On the Distribution Date, the holders of unexpired RII Warrants received additional warrants (the "RESI Warrants") to acquire a number of shares equal to one-fifth the number of shares of RII Common Stock (or 872,300 of RESI Common Stock) which they may acquire upon exercise of their outstanding RII options. The outstanding RII and RESI options are stapled and contain substantially similar terms. The per share exercise price of the RESI warrants has been appropriately adjusted to reflect the effect of the Distribution on the market prices of the RII and RESI Common Stock. There were 250,000 RESI warrants exercised at prices ranging from $1.08 to $5.10 with no cancellations occurring during the year. These warrants expire beginning July 1996 to May 2003.

7. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company leases certain of its premises and certain equipment under various operating lease agreements. At December 31, 1995, future minimum rental commitments becoming payable under all operating leases are as follows (in thousands):

1996	$412
1997	370
1998	316
1999	302
2000	233
Thereafter	222

Total rental expense incurred under operating leases was $709,000, $848,000, and $1,058,000 in 1995, 1994 and 1993, respectively.

Employee Benefits

Effective January 1, 1994, RESI instituted a defined contribution 401(k) savings plan ("the Plan") for employees meeting certain employment requirements which covered the Company's eligible employees. Under the Plan, RESI may, at its discretion, match a portion of employee contributions based on the profitability and growth of RESI. There have been no contributions to the Plan.

Other Matters

In May 1994, RESI decided to terminate its operations at a TSD Facility in Farmingdale, New York. RESI's Dayton, Ohio TSD facility terminated operations in October, 1995. RESI has ceased its efforts to relocate the Dayton, Ohio TSD facility, but will continue to provide services in Ohio through its Bedford, Ohio facility. With respect to the closing of each of these TSD facilities, RESI has accrued the appropriate costs.

At December 31, 1995, RESI had placed in escrow accounts approximately $873,000 in connection with TSD Facility closure and certain other obligations, of which $813,000 was included in cash and cash equivalents and $60,000 was included in other current assets. Additionally, RESI has used its bonding facilities for the issuance of payment, performance and bid bonds, of which $1.9 million in bonds were outstanding at December 31, 1995.

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

8. CAPITAL STOCK

At the Distribution Date, RII stockholders of record as of April 21, 1995 received one share of RESI's common stock for each five shares of RII common stock held. If the Distribution had taken place on December 31, 1994, approximately 10,800,000 million shares of RESI's common stock would have been issued.

During the current year, the Board of Directors adopted resolutions authorizing, but not requiring, RESI to purchase up to a total of 500,000 shares from time to time. As of December 31, 1995, 102,000 shares had been acquired at a cost of $145,000. Subsequent to year-end, the Board of Directors authorized an additional 500,000 shares to be purchased. and 594,000 shares were repurchased at a cost of $896,000.

9. INCOME TAXES

The components of the income tax provision are shown below (in thousands):

	YEAR ENDED DECEMBER 31		
	1995	1994	1993
Current:			
Federal	$ 227	$ (11)	$ --
Foreign	43	--	(729)
State	99	155	121
	369	144	(608)
Deferred:			
Federal	749	910	(3,110)
Foreign	(363)	(638)	--
	386	272	(3,110)
Change in valuation allowance	--	(3,508)	3,508
Income tax provision (benefit)	$ 755	$(3,092)	$ (210)

In addition to the above, RESI recorded a deferred income tax provision of $3,092,000 in 1994 related to the extraordinary gain on conversion of debt.

Deferred tax assets are recognized under SFAS No. 109 unless it is "more likely than not" that they will not be realized. In 1993, RESI recorded a $3,508,000 valuation allowance related to the realization of deferred tax assets generated as a result of the restructuring and unusual charges. This valuation allowance was recorded due to the uncertainty surrounding the future utilization of such deferred tax assets. In 1994, the valuation allowance was eliminated based on the expected realization of such deferred tax assets primarily as a result of the deferred tax gain generated from the conversion of the Canadian debt to redeemable convertible participating preferred stock (see Note 5).

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate as reported is shown below:

	YEAR ENDED DECEMBER 31		
	1995	1994	1993
Statutory federal income tax rate	34.0%	(34.0)%	(34.0)%
Goodwill and other permanent items	9.3	27.6	11.4
State income taxes, net of federal benefit	3.2	1.4	0.7
Foreign income tax (benefit) provision at other than U.S. rates	(4.2)	2.8	(3.2)
Nondeductible expenses related to the distribution	--	5.2	--
Change in valuation allowance	--	(58.8)	23.7
Reduction of previously accrued taxes	(5.3)	--	--
Other, net	--	4.0	--
Effective tax rate	37.0%	(51.8)%	(1.4)%

Components of the net deferred income tax liability are shown below (in thousands):

	DECEMBER 31	
	1995	1994
Deferred tax liabilities:		
Book basis in property over tax basis	$ 5,855	$ 5,532
Deferred gain on the conversion of Canadian debt	2,617	2,617
	8,472	8,149
Deferred tax assets:		
Net operating losses	(4,727)	(3,405)
Accrued environmental costs	(1,191)	(2,100)
Accruals not currently deductible	(210)	(269)
	(6,128)	(5,774)
Net deferred income tax liability	$ 2,344	$ 2,375

At December 31, 1995 the Company had available U.S. net operating loss carryforwards of approximately $8.9 million which begin to expire in the year 2006. The Company also has approximately $3.8 million of Canadian net operating loss carryforwards, the majority of which will begin to expire in 1999.

The U.S. operations of RESI are included in the consolidated federal income tax return of RII through the date of the Distribution. All tax amounts above as well as tax amounts included in the accompanying combined financial statements have been reflected as if RESI filed a separate federal tax return.

The Company and RII have entered into a tax sharing agreement which reflects each party's rights and obligations with respect to deficiencies and refunds, if any, of federal, state or other taxes related to RESI, or RII's hazardous waste services subsidiaries prior to their distribution to RESI, for tax periods prior to the Distribution. RESI has agreed to indemnify RII for positions taken in tax periods prior to the Distribution.

The tax sharing agreement provides for adjustments to the Company's net deferred tax liability based on the completion of federal tax returns, in which RESI will be included in the RII consolidated return. Adjustments might be necessary due to the timing of certain deductions and the calculation of interim period taxable income in 1995. Per the tax sharing agreement, any adjustments necessary would affect the Company's equity as if such adjustments had been made at the Distribution Date.

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

10. RELATED PARTY TRANSACTIONS

The Company has entered into several agreements to lease office space and obtain other services for certain subsidiaries with the former owners of these subsidiaries, primarily Stout, who were formerly officers of the Company. Aggregate payments for such leases and other services were $814,000, $647,000 and $1,202,000 in 1995, 1994, and 1993, respectively.

11. OPERATIONS BY GEOGRAPHIC AREA

The Company's only line of business is providing environmental services to hazardous and non-hazardous waste generators.

The following tables present information regarding the Company's different geographic regions based on the historical operations of the Company (in thousands):

	YEAR ENDED DECEMBER 31		
	1995	1994	1993
Revenue			
United States	$ 38,815	$ 41,539	$ 54,047
Canada	5,722	5,060	7,570
	$ 44,537	$ 46,599	$ 61,617
Operating income (loss):			
United States	$ 2,760	$ 1,061	$(10,164)
Canada	(693)	(6,672)	(3,633)
Interest, net	(26)	(353)	(992)
Income (loss) before income taxes and extraordinary gain	$ 2,041	$ (5,964)	$(14,789)
Depreciation and amortization:			
United States	$ 1,894	$ 1,910	$ 2,000
Canada	418	547	803
	$ 2,312	$ 2,457	$ 2,803
Capital expenditures:			
United States	$ 3,600	$ 1,707	$ 1,870
Canada	1,133	267	1,931
	$ 4,733	$ 1,974	$ 3,801
Identifiable assets:			
United States	$ 32,155	$ 31,494	$ 33,662
Canada	9,595	8,448	15,856
	$ 41,750	$ 39,942	$ 49,518

12. SUBSEQUENT EVENTS

On May 19, 1996, RESI and Alliance Holding Company ("Alliance") signed a binding letter of intent and agreed to the terms of mergers (the "Mergers") pursuant to which RESI would issue to Alliance (i) 14,760,000 shares of RESI Common Stock, (ii) warrants to acquire an additional 4,200,000 shares of RESI Common Stock at exercise prices ranging from $2.625 to $3.875 per share and exercisable over two to four year periods and (iii) a promissory note in the principal amount of $4.0 million, in consideration for all of the outstanding common stock of Alliance's wholly-owned subsidiaries, Century Surety Company and Commercial Surety Agency, Inc. As part of the same transaction, MGD Holdings Ltd. and Mr. H. Wayne Huizenga will each purchase 2,000,000 shares of RESI common stock for $2.625 per share and will each receive warrants to purchase an additional 6,000,000 shares of RESI Common Stock at exercise prices ranging from $2.625 to $3.875 per share and exercisable over two to four year periods.

As a result of the Mergers, there will be a change in control of RESI to Alliance and utilization of the RESI net operating losses of approximately $8.9 million (at December 31, 1995) will be subject to certain limitations imposed by the Internal Revenue Code.

Additionally, on June 7, 1996, RESI announced a two for one stock split, effected in the form of a stock dividend effective June 14, 1996. These consolidated and combined financial statements have been adjusted to reflect the effect of the stock split.

Also, in May 1996, the Board of Directors approved a resolution to retire all of the common shares held in the Company's treasury.

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	JUNE 30, 1996 (UNAUDITED)	DECEMBER 31, 1995
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,442	$ 3,255
Accounts receivable, less allowance for doubtful accounts of $1,036 and $1,031, respectively	6,184	7,614
Other current assets	1,625	1,445
TOTAL CURRENT ASSETS	10,251	12,314
Property and equipment, net	20,322	19,469
Goodwill, net of accumulated amortization of $1,326 and $1,187, respectively	8,984	9,109
Other assets	868	858
TOTAL ASSETS	$40,425	$41,750
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 2,516	$ 2,568
Accrued liabilities	1,991	2,825
Notes payable	403	193
Current maturities of long-term debt and capitalized lease obligations	423	507
Current portion of accrued environmental costs	1,759	1,999
Income taxes payable	60	56
TOTAL CURRENT LIABILITIES	7,152	8,148
Long-term debt and capitalized lease obligations, net of current maturities	454	618
Accrued environmental costs, net of current portion	1,810	1,790
Deferred income taxes	2,437	2,344
Minority interest	257	257
TOTAL LIABILITIES	12,110	13,157
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, par value $0.01 per share; 20,000,000 shares authorized, 10,855,238 and 11,366,432 shares issued, respectively	109	57
Additional paid-in capital	27,479	27,710
Retained earnings	531	778
Cumulative translation adjustment	196	193
Treasury stock, 102,000 shares, at cost	--	(145)
TOTAL STOCKHOLDERS' EQUITY	28,315	28,593
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$40,425	$41,750

The accompanying notes are an integral part of these financial statements.

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30, 1996	SIX MONTHS ENDED JUNE 30, 1995
Revenues	$15,796	$25,165
Expenses:		
Cost of operations	11,849	18,123
Selling, general and administrative	4,656	5,092
Operating income (loss)	(709)	1,950
Other (income) expense:		
Interest and other income	(426)	(118)
Interest expense	110	154
Income (loss) before income taxes	(393)	1,914
Income tax (benefit) provision	(146)	708
Net (loss) income	$ (247)	$ 1,206
(Loss) earnings per common and common equivalent share	$ (0.02)	$ 0.11
Weighted average common and common equivalent shares	11,150	10,850

The accompanying notes are an integral part of these financial statements.

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30, 1996	SIX MONTHS ENDED JUNE 30, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (247)	$ 1,206
Adjustments to reconcile net (loss) income to net cash provided by operations:		
Depreciation and amortization	1,078	1,184
Provision for doubtful accounts	98	424
Provision for accrued environmental costs	148	204
Loss (gain) on the sale of equipment	(64)	(20)
Changes in assets and liabilities --		
Accounts receivable	1,337	1,404
Prepaid expenses and other assets	(354)	(537)
Accounts payable and accrued liabilities	(1,015)	(378)
Income taxes payable	4	144
Due to Republic Industries, Inc	--	762
Other liabilities	(192)	(1,367)
Net cash provided by operations	793	3,026
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital additions	(1,704)	(2,201)
Proceeds from the sale of equipment	119	41
Net cash used in investing activities	(1,585)	(2,160)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from stock options	872	--
Capital contributions from Republic Industries, Inc	--	2,191
Repayment of borrowings from Republic Industries, Inc	--	(501)
Cash received from Stout -- capital contribution	74	2,454
Purchase of treasury stock	(895)	(141)
Payments of long-term debt and notes payable	(440)	(3,044)
Proceeds from long-term debt and notes payable	368	319
Net cash (used) provided in financing activities	(21)	1,278
DECREASE IN CASH AND CASH EQUIVALENTS	(813)	2,144
CASH AND CASH EQUIVALENTS:		
Beginning of period	3,255	1,433
End of period	$ 2,442	$ 3,577
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR:		
Interest	$ 110	$ 152
Income taxes	$ 89	$ 65

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: Equipment purchases of $0 and $536 were financed in the six months ended June 30, 1996 and 1995, respectively by borrowings and capitalized lease obligations.

The accompanying notes are an integral part of these financial statements.

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying unaudited consolidated and combined financial statements at June 30, 1996 include the accounts of Republic Environmental Systems, Inc. and its subsidiaries ("RESI"), the successor to the business of Stout Environmental, Inc. ("Stout"), a Delaware corporation, acquired by Republic Industries, Inc. ("RII"), formerly Republic Waste Industries, Inc., in March 1992, as well as the accounts of Republic Environmental Systems Ltd. ("RESL") (formerly known as Great Lakes Environmental Group Ltd.), the former Canadian hazardous waste services subsidiary of RII, which was acquired by RII in July 1991 and was contributed to RESI as of the Distribution Date (collectively, the "Company"). One of RESI's subsidiaries, Republic Environmental Systems (Cleveland) (RES (Cleveland)), Inc. (formerly known as Evergreen Environmental Group, Inc.), was acquired by RII in September 1991, in a transaction separate from the Stout acquisition and was contributed to RESI in May 1993. The accounts of RESI and all its majority owned subsidiaries are included in the accompanying consolidated financial statements. All significant intercompany transactions have been eliminated.

The consolidated and combined financial statements of RESI and its subsidiaries included herein have been prepared by RESI, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of RESI, the accompanying statements reflect all adjustments necessary to present fairly the financial position, results of operations and cash flows for those periods indicated, and contain adequate disclosure to make the information presented not misleading. Such adjustments are of a normal, recurring nature unless otherwise disclosed in the notes to consolidated and combined financial statements. It is suggested that these condensed consolidated and combined financial statements be read in conjunction with the financial statements and notes thereto included elsewhere herein.

Results of operations for any six month period are not necessarily indicative of the results of operations for a full year.

The combined financial statements for all periods presented prior to the Distribution Date include the historical accounts and operations of the former RII businesses that now comprise the Company. Material transactions between entities included herein have also been eliminated.

2. EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE

The computation of weighted average common and common equivalent shares used in the calculation of earnings per share for the six months ended June 30, 1996 is shown below (in thousands):

	SIX MONTHS ENDED JUNE 30, 1996
Common shares outstanding, net of treasury shares	10,855
Effect of stock options and warrants assumed exercisable	299
Effect of using weighted average common shares outstanding during the period	(4)
Weighted average common and common equivalent shares	11,150

On June 7, 1996 the Board of Directors declared a two-for-one split of RESI's common stock, $.01 par value per share ("Common Stock"), in the form of a 100% stock dividend, payable June 30, 1996, to holders of record on June 14, 1996. Accordingly, all prior year share and per share information contained herein reflects the stock split.

REPUBLIC ENVIRONMENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The difference between shares for primary and fully diluted earnings per common and common equivalent share was not dilutive for the periods presented.

3. TREASURY STOCK

In April 1995 the RESI Board of Directors adopted resolutions authorizing, but not requiring, RESI to repurchase up to a total of 500,000 shares (or 4.6% of the then outstanding RESI Common Stock) from time to time. The repurchasing of shares was intended to achieve a more favorable balance between the market supply of the shares and expected market demand, as well as establish stability in the trading market for RESI shares. Repurchases were effected at prevailing market prices from time to time on the open market prior to the negotiation of the Combination (see: Note 4). The last repurchase was effected by RESI on March 4, 1996 and as of such date RESI had repurchased approximately 695,842 shares of RESI Common Stock for an aggregate cost of approximately $1,040,000. On May 9, 1996, the RESI Board of Directors authorized the retirement of the 695,842 shares of RESI Common Stock.

4. PROPOSED MERGER AND SUBSEQUENT EVENTS

On May 19, 1996, RESI and Alliance Holding Company ("Alliance") signed a binding letter of intent and agreed to the terms of mergers (the "Mergers") pursuant to which RESI would issue to Alliance (i) 14,760,000 shares of RESI Common Stock, (ii) warrants to acquire an additional 4,200,000 shares of RESI Common Stock at exercise prices ranging from $2.625 to $3.875 per share and exercisable over two to four year periods and (iii) a promissory note in the principal amount of $4.0 million, in consideration for all of the outstanding common stock of Alliance's wholly-owned subsidiaries, Century Surety Company and Commercial Surety Agency, Inc. As part of the same transaction, MGD Holdings Ltd. and Mr. H. Wayne Huizenga will each purchase 2,000,000 shares of RESI common stock for $2.625 per share and will each receive warrants to purchase an additional 6,000,000 shares of RESI Common Stock at exercise prices ranging from $2.625 to $3.875 per share and exercisable over two to four year periods.

As a result of the Mergers, there will be a change in control of RESI to Alliance and utilization of the RESI net operating losses of approximately $8.9 million (at December 31, 1995) will be subject to certain limitations imposed by the Internal Revenue Code.

On June 7, 1996, RESI announced a two for one stock split, effected in the form of a stock dividend effective June 14, 1996. These consolidated and combined financial statements have been adjusted to reflect the effect of the stock split.

In May 1996, the Board of Directors approved a resolution to retire all of the common shares held in the Company's treasury.

During July 1996, the Alliance Companies entered into an agreement to acquire Environmental & Commercial Insurance Agency, Inc.; an agreement with Gulf Insurance Company and Midwest Indemnity Corporation ("Midwest") for the production, underwriting and reinsurance of contract surety and surety bond business primarily to environmental businesses; and an option to purchase assets of Midwest. These transactions are subject to the consummation of the Mergers.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Century Surety Company:

We have audited the consolidated financial statements of Century Surety Company (a wholly owned subsidiary of Alliance Holding Corporation) and subsidiaries (collectively, the Company), as listed in the accompanying index on page F-1. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedules as listed in the accompanying index on page F-1. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Century Surety Company and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995, in conformity with generally accepted accounting principles. Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in note 1 to the consolidated financial statements, in 1994 the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities.

KPMG Peat Marwick LLP

Columbus, Ohio
April 9, 1996
except as to Note 12,
which is as of June 14, 1996

CENTURY SURETY COMPANY AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1995 AND 1994

	1995	1994
ASSETS		
Investments (note 2):		
Fixed maturities held to maturity, at amortized cost	$15,308,405	$20,129,353
Securities available for sale, at fair value:		
Fixed maturities	33,153,196	24,884,791
Equity securities (cost $1,999,419 and $2,468,337, respectively)	5,425,813	1,764,521
Mortgage loans on real estate (note 7)	3,393,205	2,960,723
Other investments	90,267	139,283
Short-term investments, at cost	843,095	870,242
Total investments	58,213,981	50,748,913
Cash (note 2)	2,691,746	6,577,481
Premium balances receivable, net of allowance for bad debts of $137,736 and $56,396, respectively (note 7)	4,357,298	4,623,574
Deferred policy acquisition costs (note 7)	3,427,551	3,725,611
Reinsurance receivables (note 5)	12,646,960	10,887,657
Prepaid reinsurance premiums	2,881,174	2,413,623
Accrued investment income	870,245	784,969
Deferred federal income taxes (note 6)	--	467,680
Furniture and equipment at cost, net of accumulated depreciation of $527,254 and $355,857, respectively	329,435	349,914
Other assets	579,784	59,757
Total assets	$85,998,174	$80,639,179
LIABILITIES AND SHAREHOLDER'S EQUITY		
Losses and loss expenses payable (note 4)	37,001,841	34,661,007
Unearned premiums	15,636,442	15,453,487
Reinsurance balances payable	2,259,400	2,055,562
Current federal income taxes payable (note 7)	1,322,280	597,465
Deferred federal income taxes (note 6)	53,337	--
Accrued expenses and other liabilities	2,660,005	2,865,364
Collateral held	321,115	1,248,662
Total liabilities	59,254,420	56,881,547
Shareholder's equity (notes 8 and 11):		
Capital stock, $10,000 par value per share. Authorized 500 shares; issued and outstanding 200 shares	2,000,000	2,000,000
Additional paid-in capital	17,293,158	16,698,158
Net unrealized appreciation (depreciation) of investments	3,265,550	(1,208,641)
Retained earnings	4,185,046	6,268,115
Total shareholder's equity	26,743,754	23,757,632
Commitments and contingencies (notes 5 and 10)		
Total liabilities and shareholder's equity	$85,998,174	$80,639,179

See accompanying notes to consolidated financial statements.

CENTURY SURETY COMPANY AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

	1995	1994	1993
Revenue:			
Premiums earned (note 5)	$26,961,397	$23,367,623	$17,372,598
Net investment income (note 2)	3,340,956	2,477,428	1,376,916
Income on American Sentinel transaction (note 9)	--	807,306	--
Net realized gains on investments (note 2)	166,286	79,955	(91,450)
Other income	355,035	222,682	511,561
Total revenue	30,823,674	26,954,994	19,169,625
Expenses:			
Losses and loss expenses (notes 4, 5 and 7)	15,116,726	12,494,170	8,612,664
Acquisition expenses (note 7)	6,612,518	5,268,596	4,996,403
Other expenses (note 7)	4,513,096	5,126,694	2,417,389
Total expenses	26,242,340	22,889,460	16,026,456
Amortization of negative goodwill	--	--	219,194
Income before federal income taxes	4,581,334	4,065,534	3,362,363
Federal income tax expense (benefit) (notes 6 and 7):			
Current	2,013,192	1,022,647	1,234,483
Deferred	(698,789)	55,621	(90,333)
Total federal income tax expense	1,314,403	1,078,268	1,144,150
Net income	$ 3,266,931	$ 2,987,266	$ 2,218,213

See accompanying notes to consolidated financial statements.

CENTURY SURETY COMPANY AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

	1995	1994	1993
Capital stock:			
Beginning and end of year	$ 2,000,000	$ 2,000,000	$ 2,000,000
Additional paid-in capital:			
Beginning of year	16,698,158	12,891,158	8,745,722
Capital contributed by parent (notes 7 and 9)	595,000	3,807,000	4,145,436
End of year	17,293,158	16,698,158	12,891,158
Net unrealized appreciation (depreciation) of investments:			
Beginning of year	(1,208,641)	(80,139)	(16,938)
Cumulative effect of change in accounting for investments (note 1[c])	--	36,215	--
Change in net unrealized appreciation (depreciation)	4,474,191	(1,164,717)	(63,201)
End of year	3,265,550	(1,208,641)	(80,139)
Retained earnings:			
Beginning of year	6,268,115	4,280,849	2,902,636
Net income	3,266,931	2,987,266	2,218,213
Cash dividend	(5,350,000)	(1,000,000)	(840,000)
End of year	4,185,046	6,268,115	4,280,849
Total shareholder's equity	$26,743,754	$23,757,632	$19,091,868

See accompanying notes to consolidated financial statements.

CENTURY SURETY COMPANY AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

	1995	1994	1993
Cash flows from operating activities:			
Net income	$ 3,266,931	$ 2,987,266	$ 2,218,213
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	312,311	384,540	(158,784)
Deferred federal income taxes	(698,789)	55,621	(90,333)
Income on American Sentinel transaction	--	(807,306)	--
Writedown of investments	--	--	139,218
(Increase) decrease in premium balances receivable	266,276	(514,868)	(1,582,913)
(Increase) decrease in deferred policy acquisition costs	298,060	(1,319,776)	(728,628)
Increase in reinsurance receivables	(1,759,303)	(379,762)	(7,944,199)
(Increase) decrease in prepaid reinsurance premiums	(467,551)	557,860	(2,945,035)
Increase in accrued investment income	(85,276)	(272,818)	(191,550)
(Increase) decrease in other assets	(520,027)	54,169	384,727
Increase in losses and loss expenses payable	2,340,834	5,133,202	9,773,009
Increase in unearned premiums	182,955	3,287,024	6,733,798
Decrease in contract funds on deposit	--	(350,000)	(350,000)
Increase (decrease) in reinsurance balances payable	203,838	(870,845)	500,721
Increase in current federal income taxes payable	724,815	170,149	318,816
Increase (decrease) in accrued expenses and other liabilities	(205,359)	376,014	665,240
Increase (decrease) in collateral held	(927,547)	174,116	877,404
Other, net	--	--	(108,504)
Net adjustments	(334,763)	5,677,320	5,292,987
Net cash provided by operating activities	2,932,168	8,664,586	7,511,200
Cash flows from investing activities:			
Purchase of fixed maturities available for sale	(9,552,437)	(8,857,940)	--
Purchase of fixed maturities held to maturity	(269,070)	(1,804,698)	--
Purchase of fixed maturities	--	--	(21,440,472)
Purchase of equity securities	(228,185)	(223,084)	(614,858)
Maturity of fixed maturities held to maturity	1,280,816	2,009,186	1,654,502
Sale of fixed maturities available for sale	7,088,543	1,155,282	--
Sale of fixed maturities	--	--	202,000
Sale of equity securities	149,505	201,620	1,128,332
(Increase) decrease in limited partnership	21,631	(34,348)	--
Increase in mortgage loans on real estate	(1,341,000)	(1,893,000)	(1,258,000)
Principal receipts on mortgage loans on real estate	908,518	780,100	1,285,560
Sales of real estate owned	--	--	296,666
Purchase of subsidiaries, net of cash acquired	--	538,217	(1,515,060)
Decrease in short-term investments	27,147	5,967,491	9,897,577
Net additions to furniture and equipment	(148,371)	(235,113)	(69,553)
Other, net	--	200,000	(200,000)
Net cash used in investing activities	(2,062,903)	(2,196,287)	(10,633,306)
Cash flows from financing activities:			
Dividends to parent	(5,350,000)	(1,000,000)	(840,000)
Capital contributed by parent	595,000	340,000	285,600
Net cash used in financing activities	(4,755,000)	(660,000)	(554,400)
Net increase (decrease) in cash	(3,885,735)	5,808,299	(3,676,506)
Cash at the beginning of year	6,577,481	769,182	4,445,688
Cash at the end of year	$ 2,691,746	$ 6,577,481	$ 769,182
SUPPLEMENTAL DISCLOSURE:			
Federal income taxes paid	$ 693,377	$ 409,781	$ 627,500

See note 9 for supplemental disclosure of noncash financing activities.

See accompanying notes to consolidated financial statements.

CENTURY SURETY COMPANY AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1995 AND 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation Policy

Century Surety Company ("CSC"), a wholly owned subsidiary of Alliance Holding Corporation ("Alliance"), was incorporated in 1978 as an Ohio property and casualty insurance company and was acquired by Alliance in 1988. The accompanying consolidated financial statements include the accounts of CSC and its wholly owned subsidiaries: CSC Insurance Agency, Incorporated ("CSCI"), Continental Heritage Insurance Company ("CHIC"), Evergreen National Indemnity Company ("Evergreen"), American Inspection & Audit Service, Inc. ("AIAS"), Continental Heritage Life Insurance Company ("CHLIC") (through May 22, 1995) and Latitude Premium Finance Company ("Latitude") (through March 3, 1993) (collectively, the "CSC Group").

CSC acquired Evergreen on December 31, 1993 through a capital contribution from its parent and $1.61 million paid by CSC. On April 14, 1994, CSC paid $16,400 for 100% of the outstanding common stock of AIAS. These transactions were accounted for as purchases by CSC in accordance with the provisions of Accounting Principles Board Opinion No. 16 with the acquired assets and assumed liabilities recorded at their estimated fair values. The acquisitions of AIAS and Evergreen did not have a material impact on the accompanying consolidated statements of income. See notes 7 and 9. In addition, on March 3, 1993, CSC sold Latitude to an unrelated party, and on May 22, 1995, CSC liquidated CHLIC. These transactions did not have a material impact on the CSC Group's consolidated financial position or results of operations.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Business Description

The CSC Group primarily writes "non-standard" or specialty coverages, including bonding, property and casualty insurance coverages to individual and commercial customers through independent agents and affiliated agents primarily throughout Ohio and over 40 other states. The CSC Group's coverages primarily insure risks regarded as higher than standard, or normal, risks and to risk groups regarded as too small or too rare to permit profitable underwriting by larger, "standard market" insurance companies. In general, non-standard insurance and bonds are more expensive, and coverage more limited, because of perceived additional risk associated with this type of business. The CSC Group attempts to identify and exploit those niches in the non-standard market where the actual risk is significantly less than the perceived risk at which the coverage is defined and priced, or where the CSC Group, because of its smaller size and lower overhead, is able to underwrite coverages more economically than larger carriers can. The CSC Group is subject to competition from other property and casualty insurance companies and to the regulations of certain state and federal agencies and undergoes periodic financial examinations by those regulatory authorities.

Following is a description of additional significant risks facing property/casualty insurers and how the CSC Group mitigates those risks:

Inadequate Pricing Risk is the risk that the premium charged for insurance and insurance related products is insufficient to cover the costs associated with the distribution of such products which include: claim and loss costs, loss adjustment expense, acquisition expense, and other corporate expenses. The CSC group utilizes a variety of actuarial and/or other qualitative methods to set such levels.

Adverse Loss Development and IBNR Risk is the risk inherent in the handling and settling of claims whose ultimate costs, which include loss costs, loss adjustment expenses, and other related expenses, are unknown at the time the claim is presented. An associated risk relates to claims which have been incurred, but for which the company has no knowledge. The CSC Group makes judgments as to the

CENTURY SURETY COMPANY AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

ultimate costs of presented claims and makes provision for their future payment by establishing reserves for existing claims (case reserves) and for incurred but not reported claims (IBNR); however, there can be no assurance that the amounts reserved will be adequate to ultimately make all required payments.

Legal/Regulatory Risk is the risk that changes in the legal or regulatory environment in which an insurer operates will occur and create additional loss costs or expenses not anticipated by the insurer in pricing its products. That is, regulatory initiatives designed to reduce insurer profits or new legal theories may create costs for the insurer beyond those recorded in the financial statements. The CSC Group is exposed to this risk by writing approximately 40% of its business in Ohio and surrounding states, thus increasing its exposure to a particular region. This risk is reduced by underwriting and loss adjusting practices that identify and minimize the adverse impact of this risk.

Credit Risk is the risk that issuers of securities and mortgagors of the mortgages owned by the CSC Group will default, or other parties, including reinsurers that owe the CSC Group money will not pay. The CSC Group minimize this risk by adhering to a conservative investment strategy, by maintaining sound reinsurance and credit and collection policies, and by providing for any amounts deemed uncollectible.

Interest Rate Risk is the risk that interest rates will change and cause a decrease in the value of an insurer's investments. The CSC Group mitigates this risk by attempting to match the maturity schedule of its assets with the expected payouts of its liabilities. To the extent that liabilities come due more quickly than assets mature, an insurer would have to sell assets prior to maturity and recognize a gain or loss. Management believes that the CSC Group's positive cash flow from investment income and operations will enable the CSC Group to operate without having to recognize significant losses from the sale of investments that have an unrealized holding loss as of December 31, 1995.

(c) Basis of Presentation

The consolidated financial statements have been prepared on the basis of generally accepted accounting principles ("GAAP"). Purchase accounting adjustments and subsequent amortization of such adjustments (reflecting the basis in acquired companies and earnings since acquisition) have been recorded in the accompanying consolidated financial statements. GAAP differs from statutory accounting practices used by insurance companies in reporting to state regulatory authorities.

In preparing the consolidated financial statements, management is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of losses and loss expenses payable and the recoverability of deferred policy acquisition costs. In connection with the determination of losses and loss expenses payable, management uses the methodology discussed in note 1(h) to estimate the liability. In evaluating the recoverability of deferred policy acquisition costs, management uses the methodology discussed in note 1(f).

Management believes that the recorded liability for losses and loss expenses is adequate. While management uses available information to estimate losses and loss expenses payable, future changes to the liability may be necessary based on claims experience and changing claims frequency and severity conditions. Management also believes that deferred policy acquisition costs are recoverable; however, future costs that are associated with the business in the unearned premium liability could exceed management's estimates, causing the recorded asset to be unrecoverable in whole or in part.

CENTURY SURETY COMPANY AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(d) Investments

The CSC Group account for their investment securities in accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS No. 115"). Fixed maturity securities that the CSC Group have the positive intent and ability to hold to maturity are classified as held-to-maturity and are stated at amortized cost; other fixed maturity securities and all equity securities are classified as available-for-sale and are stated at fair value, with the unrealized gains and losses, net of deferred income tax, reported as a separate component of shareholder's equity. The CSC Group has no investment securities classified as trading. Pursuant to a Financial Accounting Standards Board ("FASB") Special Report, A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities, the CSC Group reassessed the classification of all its investment securities. Effective December 20, 1995, the CSC Group reclassified some of its held-to-maturity securities to available-for-sale (see note 2). The CSC Group adopted SFAS No. 115 as of January 1, 1994, with no effect on net income and an increase to shareholder's equity of $36,215.

Mortgage loans on real estate are stated at the unpaid principal balance of such loans. Other investments consist primarily of investments in joint ventures and are recorded using the equity method. Short-term investments have original maturities less than one year and are carried at cost which approximates market.

Realized gains and losses on the sale of investments are determined on the basis of specific security identification and also includes other than temporary declines. Interest income is recognized on the accrual basis and dividend income is recognized on the ex-dividend date.

(e) Premium Balances Receivable

Premium balances receivable include amounts due relating to assumed reinsurance and are stated net of certain commission payable amounts.

(f) Deferred Policy Acquisition Costs

Acquisition costs, consisting of commissions, premium taxes and certain underwriting expenses that vary with and are primarily related to the production of business are deferred and amortized ratably over the policy term. The method followed in computing deferred policy acquisition costs limits the amount of such deferred costs to their estimated realizable value. In determining estimated realizable value, the computation gives effect to the premium to be earned, losses and loss expenses to be incurred, and certain other costs expected to be incurred as premium is earned. Deferred policy acquisition costs amortized to expense during the year was $6,612,518, $5,268,596 and $4,996,403 in 1995, 1994 and 1993, respectively.

(g) Furniture and Equipment

Furniture and equipment are recorded at cost, net of accumulated depreciation. The CSC Group uses an accelerated method of depreciation using the estimated useful lives of the assets.

(h) Losses and Loss Expenses Payable

The liability for losses is provided based upon: (1) case basis estimates for losses reported in respect to direct business; (2) estimates of unreported losses based on estimated loss experience; (3) estimates received and supplemental amounts provided relating to assumed reinsurance; and (4) deduction for estimated salvage and subrogation recoverable.

The liability for loss expenses is established by estimating future expenses to be incurred in settlement of the claims provided for in the liability for losses.

CENTURY SURETY COMPANY AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The liability for losses and loss expenses is not discounted.

(i) Premium Recognition

Premiums are recognized as revenue in proportion to the insurance coverage provided, which is generally ratable over the terms of the policies. Unearned premiums are generally computed on the daily pro rata basis and include amounts relating to assumed reinsurance.

(j) Reinsurance Ceded

Reinsurance balances are accounted for and reported in the accompanying consolidated financial statements in accordance with SFAS No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts. Reinsurance receivables and prepaid reinsurance premiums are accounted for and reported separately as assets, net of valuation allowance, rather than being deducted from the liability for losses and loss expenses payable and unearned premiums. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability. Contracts not resulting in the reasonable possibility that the reinsurer may realize a significant loss from the insurance risk assumed generally do not meet the conditions for reinsurance accounting and are to be accounted for as deposits.

Reinsurance premiums ceded and reinsurance recoveries on claims incurred are deducted from the respective revenue and expense accounts.

(k) Federal Income Taxes

CSC and its subsidiaries are members of a consolidated federal income tax return filed with Alliance and other affiliates. Pursuant to written agreements, CSC pays to or recovers from the parent the amount of federal income tax calculated primarily on a separate return basis for itself and its wholly owned subsidiaries. See note 7(a).

The CSC Group utilizes the asset and liability method of accounting for income tax. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(l) Negative Goodwill

CSC was acquired by Alliance in July 1988 for $3.8 million. The fair value of CSC's net assets in excess of the purchase price was recorded as negative goodwill upon acquisition. During 1992, based on the ongoing favorable evaluation of pre-1988 accident year loss development, which was the basis for establishing negative goodwill as a result of the acquisition of CSC by Alliance in 1988, CSC began amortizing negative goodwill over five years. Previously, it was amortized over seven years. The balance of negative goodwill was fully amortized in 1993.

(m) Statements of Cash Flows

For purposes of the consolidated statements of cash flows, cash includes only funds on deposit.

(n) Reclassifications

Certain 1994 and 1993 amounts have been reclassified in the accompanying consolidated financial statements to conform to 1995 presentation.

CENTURY SURETY COMPANY AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

2. INVESTMENTS

The amortized cost and estimated fair value of fixed maturities held to maturity at December 31, 1995 were as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U.S. Treasury securities and obligations of U.S. government corporations and agencies.......	$ 6,158,571	$ 81,613	$ (9,220)	$ 6,230,964
Obligations of states and political subdivisions..........	--	--	--	--
Corporate securities..............	8,654,067	27,177	(61,971)	8,619,273
Mortgage-backed securities........	495,767	18,374	--	514,141
Totals..................	$15,308,405	$127,164	$(71,191)	$15,364,378

The amortized cost and estimated fair value of securities available for sale at December 31, 1995 were as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Fixed Maturities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies...................	$ 6,521,211	$ 303,462	$ (7,259)	$ 6,817,414
Obligations of states and political subdivisions.....	8,338,751	167,418	(2,622)	8,503,547
Corporate securities..........	14,990,440	438,598	(14,706)	15,414,332
Mortgage-backed securities....	2,243,832	174,071	--	2,417,903
	32,094,234	1,083,549	(24,587)	33,153,196
Equity securities..............	1,999,419	3,588,843	(162,449)	5,425,813
	$34,093,653	$4,672,392	$(187,036)	$38,579,009

As discussed in note 1, on December 20, 1995, the CSC Group reclassified a portion of their held-to-maturity securities to available-for-sale. The amortized cost and estimated fair value of the securities reclassified were $5,732,555 and $5,896,586, respectively, as of the date of reclassification.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The amortized cost and estimated fair value of fixed maturities held to maturity at December 31, 1994 were as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
U.S. Treasury securities and obligations of U.S. government corporations and agencies.....	$ 7,224,706	$ 102	$ (529,219)	$ 6,695,589
Obligations of states and political subdivisions........	428,042	1,563	(18,870)	410,735
Corporate securities............	11,331,932	67	(968,126)	10,363,873
Mortgage-backed securities......	1,144,673	378	(32,454)	1,112,597
Totals................	$20,129,353	$2,110	$(1,548,669)	$18,582,794

The amortized cost and estimated fair value of securities available for sale at December 31, 1994 were as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies...................	$ 5,130,375	$ --	$ (301,201)	$ 4,829,174
Obligations of states and political subdivisions.....	11,832,402	--	(613,214)	11,219,188
Corporate securities..........	4,513,507	65,917	(245,972)	4,333,452
Mortgage-backed securities....	4,496,953	175,794	(169,770)	4,502,977
	25,973,237	241,711	(1,330,157)	24,884,791
Equity securities..............	1,920,745	71,248	(227,472)	1,764,521
	$27,893,982	$ 312,959	$(1,557,629)	$26,649,312

Expected maturities will differ from contractual maturities because the issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The amortized cost and estimated fair value of fixed maturities held to maturity at December 31, 1995, by contractual maturity, are as follows:

	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less..................................	$ 998,570	$ 992,660
Due after one year through five years.....................	13,381,257	13,401,253
Due after five years through ten years....................	356,904	362,023
Due after ten years......................................	75,907	94,301
	14,812,638	14,850,237
Mortgage-backed securities...............................	495,767	514,141
	$15,308,405	$15,364,378

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The amortized cost and estimated fair value of fixed maturities available for sale at December 31, 1995, by contractual maturity, are as follows:

	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	$ 594,403	$ 600,126
Due after one year through five years	20,419,624	20,859,785
Due after five years through ten years	8,737,162	9,152,241
Due after ten years	99,213	123,141
	29,850,402	30,735,293
Mortgage-backed securities	2,243,832	2,417,903
	$32,094,234	$33,153,196

Net investment income was comprised of the following for the years ended December 31:

	1995	1994	1993
Interest	$3,454,757	$2,588,580	$1,415,610
Dividends	96,457	95,753	59,005
Total investment income	3,551,214	2,684,333	1,474,615
Less investment expenses	210,258	206,905	97,699
Net investment income	$3,340,956	$2,477,428	$1,376,916

Realized gains and losses on investments are as follows for the years ended December 31:

	1995	1994	1993
Realized gains:			
Fixed maturities:			
Held to maturity	$ --	$ --	$ 24,926
Available for sale	114,227	--	--
Equity securities	8,676	145,815	144,556
Other	72,989	--	--
Total realized gains	195,892	145,815	169,482
Realized losses:			
Fixed maturities:			
Held to maturity	--	--	--
Available for sale	27,037	42,166	--
Equity securities	2,569	23,694	260,654
Other	--	--	278
Total realized losses	29,606	65,860	260,932
Net realized gains (losses) on investments	$166,286	$ 79,955	$(91,450)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The change in net unrealized appreciation (depreciation) of investments is summarized as follows:

	1995	1994	1993
Available for sale:			
Fixed maturities	$1,788,673	$(1,088,446)	$ --
Equity securities	3,582,618	(76,085)	(63,201)
	$5,371,291	$(1,164,531)	$(63,201)
Held to maturity -- fixed maturities	$1,602,532	$(1,808,104)	$ 44,555

The components of unrealized appreciation (depreciation) on securities available for sale, net, were as follows at December 31:

	1995	1994	1993
Gross unrealized appreciation (depreciation)	$ 4,485,356	$(1,208,641)	$(80,139)
Deferred federal income tax	(1,219,806)	--	--
Net unrealized appreciation (depreciation)	$ 3,265,550	$(1,208,641)	$(80,139)

Fixed maturities held to maturity and certificates of deposit with a carrying value of approximately $8,909,000 and $8,068,000 at December 31, 1995 and 1994, respectively, were on deposit with regulatory authorities as required by law.

Approximately $21,173 and $60,282 of fixed maturities and short-term investments at December 31, 1995 and 1994, respectively, were held in trust accounts under provisions of various reinsurance contracts.

At December 31, 1995 and 1994, all mortgage loans were secured by properties in the states of California, Michigan and Ohio.

3. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the CSC Group in estimating its fair value disclosures for financial instruments:

Cash, short-term investments, premium balances receivable, reinsurance receivables, reinsurance balances payable and collateral held: The carrying amounts reported in the consolidated balance sheets for these instruments approximate their fair value.

Investment securities: Fair values for investments in fixed maturities are based on quoted market prices, where available. For fixed maturities not actively traded, fair values are estimated using values obtained from independent pricing services. The fair values for equity securities are based on quoted market prices. Fair values for fixed maturities available for sale and equity securities are recognized in the consolidated balance sheets.

Mortgage loans: The carrying amounts reported in the consolidated balance sheets are the aggregate unpaid balance of the loans and approximate their fair value.

See note 2 for additional disclosure of fair value of investment securities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

4. LIABILITY FOR UNPAID LOSSES AND LOSS EXPENSES

Activity in the liability for unpaid losses and loss expenses is summarized as follows (in thousands):

	1995	1994	1993
Balance at January 1	$34,661	$29,528	$18,908
Less reinsurance recoverables	9,383	8,505	4,801
Net balance at January 1	25,278	21,023	14,107
Incurred related to:			
Current year	17,297	14,753	10,060
Prior years	(2,180)	(2,259)	(1,447)
Total incurred	15,117	12,494	8,613
Paid related to:			
Current year	5,963	4,269	2,823
Prior years	6,344	3,970	3,054
Total paid	12,307	8,239	5,877
Reserves assumed through purchase of Evergreen (notes 7 and 9)	--	--	4,180
Net balance at December 31	28,088	25,278	21,023
Plus reinsurance recoverables	8,914	9,383	8,505
Balance at December 31	$37,002	$34,661	$29,528

The CSC Group has experienced lower-than-anticipated ultimate losses on prior years due primarily to a reduction in claims severity from that assumed in establishing the liability for losses and loss expenses payable. The CSC Group's environmental exposure relates primarily to its coverage of remediation related risks (i.e., those firms correcting environmental problems as opposed to those entities causing such damage); thus, management believes the CSC Group's exposure to historic pollution situations is minimal.

5. REINSURANCE

In the ordinary course of business, the CSC Group assumes and cedes reinsurance with other insurers and reinsurers. These arrangements provide the CSC Group with a greater diversification of business and generally limit the maximum net loss potential on large risks. Excess of loss reinsurance contracts in effect at December 31, 1995, generally protect against individual property and casualty losses over $200,000 and contract surety and miscellaneous bond losses over $300,000. In addition to the excess of loss contract in effect for contract surety business, a 50% quota share contract on the first $300,000 in losses is in effect. Asbestos abatement, lead abatement, and environmental consultants professional liability and remedial action contractors business is 75% ceded on a quota share basis to reinsurers. Catastrophe coverage is also maintained.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The impact of reinsurance on the accompanying consolidated statements of income is as follows (in thousands):

	1995	1994	1993
Written premiums:			
Direct	$ 36,278	$ 37,127	$ 29,817
Assumed	1,417	742	175
Ceded	(11,018)	(10,650)	(8,819)
Net	$ 26,677	$ 27,219	$ 21,173
Earned premiums:			
Direct	$ 35,750	$ 34,255	$ 25,019
Assumed	1,754	416	184
Ceded	(10,543)	(11,303)	(7,830)
Net	$ 26,961	$ 23,368	$ 17,373
Losses and loss expenses incurred:			
Direct	$ 15,959	$ 15,088	11,932
Assumed	--	(65)	62
Ceded	(842)	(2,529)	(3,381)
Net	$ 15,117	$ 12,494	$ 8,613

In the accompanying consolidated balance sheets, ceded premium balances receivable are recorded as reinsurance balances payable, ceded losses and loss expenses payable are recorded as reinsurance receivables and ceded unearned premiums are recorded as prepaid reinsurance premiums.

Reinsurance receivables were comprised of the following as of December 31:

	1995	1994
Receivables on unpaid losses and loss expenses	$ 8,914,440	$ 9,383,119
Receivables on ceding commissions and other	2,892,344	1,026,471
Receivables on paid losses and loss expenses	840,176	478,067
	$12,646,960	$10,887,657

The CSC Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. The CSC Group establishes a valuation allowance as reinsurance receivables are deemed uncollectible. During 1995, the majority of ceded amounts were ceded to Reliance Insurance Company, Republic Western Insurance Company ("Republic Western") and Transatlantic Insurance Company, all of which are rated A- or better by A.M. Best.

6. FEDERAL INCOME TAXES

The CSC Group adopted SFAS No. 109 as of January 1, 1993. The cumulative effect of this change in accounting for federal income taxes as of January 1, 1993 was not material to the 1993 consolidated statement of income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The federal income tax expense is different from the amount computed by applying the normal tax rate of 34% to income before federal income taxes as follows:

	1995	1994	1993
Expected tax	$1,557,654	$1,382,282	$1,143,203
Increase (decrease) in income taxes resulting from:			
Tax exempt interest and dividends received deduction	(106,197)	(122,921)	(30,891)
Nontaxable income on American Sentinel transaction	--	(274,484)	--
Amortization of negative goodwill	--	--	(74,526)
Other, net	(137,054)	93,391	106,364
	$1,314,403	$1,078,268	$1,144,150

Several provisions of the Internal Revenue Code affect only property and casualty insurers. The major provisions are discounting of losses and loss expenses payable and a reduction in the allowable deduction for unearned premiums.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 1995 and 1994 are presented below:

	1995	1994
Deferred tax assets:		
Unearned premiums not deductible	$ 1,063,278	$ 855,933
Losses and loss expenses payable discounting	1,957,482	1,477,385
Unrealized depreciation on investments	--	410,938
Deferred compensation	96,244	87,075
Other deferred tax assets	46,830	33,231
Gross deferred tax assets	3,163,834	2,864,562
Less valuation allowance	(733,441)	(902,124)
Deferred tax assets	2,430,393	1,962,438
Deferred tax liabilities:		
Deferred policy acquisition costs	(1,165,367)	(1,235,566)
Unrealized appreciation on investments	(1,219,806)	--
Ceding commissions receivable	--	(206,060)
Salvage and subrogation recoverable	(98,557)	(53,132)
Gross deferred tax liabilities	(2,483,730)	(1,494,758)
Net deferred tax (liability) asset	$ (53,337)	$ 467,680

The CSC Group determines a valuation allowance based on their analysis of amounts available in the statutory carryback period and consideration of future deductible amounts. The valuation allowance for deferred tax assets as of January 1, 1994 was $467,549. The net change in the total valuation allowance for the years ended December 31, 1995 and 1994 was a decrease of $168,683 and an increase of $434,575, respectively. Although the CSC Group has had a taxable income over the last several years, significant income in some instances has been attributable to non-recurring transactions and thus there is no assurance that the CSC Group will remain profitable in future years. Therefore, the CSC Group maintains a policy of recognizing deferred tax assets recoverable in the carryback period and does not consider future income. Management believes it is more likely than not that as of December 31, 1995, future deductible amounts in excess of the valuation allowance can be offset by recovery of federal income taxes paid within the statutory carryback period.

7. TRANSACTIONS WITH AFFILIATED COMPANIES

(a) Alliance

CSC received a tax benefit of $595,000 and $340,000 in 1995 and 1994, respectively, from a tax allocation agreement with Alliance for dividends paid to Alliance. The resultant reduction in CSC's tax payable is recorded as additional paid-in capital in the accompanying consolidated financial statements.

In December 1994, CSC received a noncash capital contribution of $3,167,000 from Alliance in connection with the American Sentinel Insurance Company ("American Sentinel") transaction. See notes 9 and 10.

In 1994, Alliance contributed to CSC a $300,000 participation in a mortgage loan to an affiliate.

As discussed in note 9, CSC acquired all of the outstanding shares of Evergreen on December 31, 1993, the majority of which was through a capital contribution from Alliance. Evergreen was formerly known as Summit Fidelity and Surety Company. Evergreen is an Ohio domiciled property and casualty insurance company.

CSC has issued six $500,000 bonds covering certain loans obtained by My Lawyer Plan, Inc., an unrelated party, from the Detroit Fireman and Policeman's Pension Fund maturing from 1996 and 2002. Collateral for these bonds includes the personal indemnification of an indirect shareholder of Alliance.

(b) Commercial Surety Agency, Incorporated ("CSU")

CSU does business under the tradename Century Surety Underwriters. CSC paid CSU $1,815,229, $2,606,719 and $1,854,000 in commission through an agency agreement in 1995, 1994 and 1993, respectively. That agreement generally provides CSU a provisional commission of 42%, with certain potential profit commissions as defined in the agreement. CSU is a wholly owned subsidiary of Alliance.

At December 31, 1995 and 1994, CSC had outstanding premium balances receivable from CSU of $613,402 and $496,341, respectively.

Effective April 1, 1994, Evergreen entered into an underwriting service agreement with CSU, through which CSU is authorized to act on behalf of Evergreen in performing various financial underwriting services. Evergreen paid CSU $600,000 and $337,500 in fees under this agreement in 1995 and 1994, respectively.

(c) COP, Incorporated ("COP")

COP handles the majority of surety claims and provides certain underwriting services. An officer of COP serves as a director and officer of CSC.

CSC is charged by COP on a claim services performed basis. CSC paid COP $180,839, $171,886 and $121,892 in fees during 1995, 1994 and 1993, respectively.

(d) Mortgage Loans

Loans secured by a first mortgage on real estate with interest rates ranging from 9% to 10% aggregating $1,616,000 were outstanding to related and affiliated parties at December 31, 1995 and 1994. The mortgage

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loans are structured as interest only paid quarterly until May 1 and June 30, 1997 at which time the principal balance will be paid in full.

(e) Environmental and Commercial Insurance Agency, Inc. ("ECI")

CSC paid ECI $942,150, $1,337,267 and $1,127,140 in commission through an agency agreement in 1995, 1994 and 1993, respectively. That agreement provides ECI a provisional commission of 21% to 22%, with certain potential profit commissions as defined in the agreement. ECI is owned by immediate family members of certain directors and an officer of CSC.

At December 31, 1995 and 1994, CSC had outstanding premium balances receivable from ECI in the amount of $441,231 and $559,477, respectively.

8. STATUTORY SHAREHOLDER'S EQUITY AND DIVIDEND RESTRICTION

Ohio law limits the payment of dividends to the parent. The maximum dividend that may be paid without prior approval of the Director of Insurance is limited to the greater of the statutory net income of the preceding calendar year or 10% of total statutory shareholder's equity as of the prior December 31. As a result, the maximum dividend CSC may pay to Alliance in 1996 without prior approval is approximately $2,200,000.

Dividends paid in 1995, 1994 and 1993 totaled $5,350,000 ($26,750 per share), $1,000,000 ($5,000 per share) and $840,000 ($4,200 per share), respectively. CSC obtained the approval of the Ohio Director of Insurance for extraordinary dividends paid in 1995.

Reconciliations of CSC's statutory net income and capital and surplus, as determined in accordance with statutory accounting principles, to the amounts included in the accompanying consolidated financial statements are as follows:

The consolidated financial statements have been prepared in accordance with GAAP. Annual statements for CSC and Evergreen, and CHIC, filed with the Ohio Department of Insurance and the Utah Department of Insurance, respectively, are prepared on the basis of accounting practices prescribed or permitted by such regulatory authorities. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not prescribed.

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The following reconciles the statutory net income of CSC as reported to regulatory authorities to the net income as shown in the accompanying consolidated financial statements:

	1995	1994	1993
Statutory net income	$3,681,236	$1,804,052	$1,230,102
Adjustments to restate to the basis of GAAP:			
Statutory net income of subsidiaries	445,627	(881,070)	(4,381)
Increase (decrease) in deferred policy acquisition costs	(298,060)	1,319,776	728,628
Deferred federal income tax (expense) benefit	698,789	(55,621)	90,333
Income on American Sentinel transaction	--	807,306	--
Amortization of negative goodwill	--	--	219,194
Current federal income tax expense	(595,000)	(350,000)	(285,600)
Ceding commissions receivable	(606,060)	212,121	325,757
Other, net	(59,601)	130,702	(85,820)
Net income per accompanying consolidated statements of income	$3,266,931	$2,987,266	$2,218,213

The following reconciles the statutory capital shares and surplus of CSC as reported to regulatory authorities to the shareholder's equity as shown in the accompanying consolidated financial statements:

	1995	1994	1993
Statutory capital and surplus	$22,033,530	$20,122,740	$15,398,670
Add (deduct) cumulative effect of adjustments:			
Deferred policy acquisition costs	3,427,551	3,725,611	2,405,835
Deferred federal income tax	(53,337)	467,680	523,301
Difference between amortized cost and fair value of fixed maturity securities available-for-sale, gross	1,058,962	(1,088,446)	(80,139)
Ceding commissions receivable	--	400,000	260,000
Nonadmitted assets	431,158	345,121	239,363
Other, net	(154,110)	(215,074)	344,838
Shareholder's equity per accompanying consolidated financial statements	$26,743,754	$23,757,632	$19,091,868

9. SUPPLEMENTAL CASH FLOW DISCLOSURES

On December 9, 1994, Evergreen, along with Alliance, entered into a transaction with Sentinel Holdings, Inc. ("SHI") (a wholly owned subsidiary of Pace American Group, Inc. ["Pace"]), American Sentinel (a wholly owned subsidiary of SHI) and Republic Western, all unrelated parties. The result of this transaction was the sale of all of American Sentinel's insurance operations to Republic Western, settlement of Pace debt collateralized by American Sentinel common stock, and Evergreen obtaining an agreed-upon amount of net assets of American Sentinel. Evergreen recognized income of $807,306 related to their participation in the transaction in the 1994 consolidated statement of income.

In conjunction with the American Sentinel transaction, Evergreen participated in structuring the agreements and received fair value net assets of American Sentinel totaling $6,091,306, comprised of highly liquid assets of $6,227,201 and nonpolicy liabilities (not assumed by Republic Western) of $185,895.

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Additionally, Evergreen paid $5,284,000, primarily in settlement of Pace debt collateralized by American Sentinel common stock, comprised of cash payments of $1,550,000, Pace common stock previously owned by Evergreen of $500,000, and debt incurred by Alliance of $3,167,000, plus $67,000 of acquisition costs. The debt incurred by Alliance was recorded as a noncash capital contribution to Evergreen in 1994 and was satisfied by Alliance as of December 31, 1995. As of December 31, 1994, American Sentinel no longer exists as a separate corporate entity. As discussed further in note 10, neither Evergreen nor other members of the Alliance Companies have any future obligations with respect to the American Sentinel insurance operations under the terms of the American Sentinel transaction agreements.

On December 31, 1993, CSC acquired all of the outstanding shares of Evergreen (see notes 1[b] and 7[a]) for a cash payment of $1,515,060 ($1,610,000, net of $94,940 acquired from Evergreen). As part of this transaction, CSC also received a noncash capital contribution from Alliance in 1993 of $3,859,836 as a result of Alliance's acquiring, in connection with CSC's acquisition of Evergreen, certain Hampton Court Holdings, Inc. (Evergreen's former parent) debt for which Evergreen shares had been pledged as collateral. However, CSC and its subsidiaries are not a party to that debt or obligated to service that debt, nor is the common stock of CSC or any of its subsidiaries pledged as collateral for that debt.

10. COMMITMENTS AND CONTINGENCIES

In 1993, CSC entered into various agreements to lease office space from unrelated parties. The minimum future rental payments under these leases at December 31, 1995 were as follows:

1996	$264,398
1997	264,398
1998	220,330
	$749,126

United States Warranty Corporation ("USWC"), CHIC's former parent, enters into agreements with various automobile and recreational vehicle dealers ("Dealers") whereby USWC agrees to administer the service contract agreements issued by the Dealers to consumers. Prior to October 9, 1994, CHIC was contingently liable should the Dealers and USWC become unable to meet their obligations to the consumers under the service agreements. During 1994, Evergreen replaced CHIC as the contingently liable party for Dealer service contract agreements issued on or prior to October 9, 1994. The CSC Group's management has estimated the Dealers' liability to range from $310,000 to $510,000 at December 31, 1995. In the opinion of the CSC Group's management, the effect to the CSC Group, if any, of ultimate settlement of such Dealers' service contract agreements are not expected to be material to the CSC Group's consolidated results of operations or financial position.

Various companies of the CSC Group are defendants in various lawsuits. In the opinion of management, the effects, if any, of such lawsuits are not expected to be material to the CSC Group's consolidated results of operations or financial position.

The terms of the American Sentinel transaction agreements (see note 9) include a contingent receivable by Evergreen from Republic Western of up to $2.9 million and a contingent note payable by Alliance to SHI, not to exceed $1.45 million. Each of these contingencies relate to the future development of American Sentinel business acquired by Republic Western as part of the transaction agreements and are to be settled in December 1996. The amount of the $2.9 million receivable by Evergreen may be adjusted downward according to the terms of the agreement, primarily in reference to development of losses of the American Sentinel block of business acquired by Republic Western. The contingent note payable is reduced dollar for dollar to the extent that less than $2.9 million is ultimately received by Evergreen from Republic Western. As

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of December 31, 1995, CSC has not accrued any amounts related to these contingent items in the accompanying consolidated financial statements due to the uncertainty related to the future development of losses of the American Sentinel block of business by Republic Western.

11. RISK-BASED CAPITAL

In December 1993, the NAIC adopted the property and casualty Risk-Based Capital ("RBC") formula. This model act requires every property and casualty insurer to calculate its total adjusted capital and RBC requirement, and provides for an insurance commissioner to intervene if the insurer experiences financial difficulty. The model act became law in Ohio, Century's and Evergreen's state of domicile, in March 1996, and in Utah, CHIC's state of domicile, in April 1996. The formula includes components for asset risk, liability risk, interest rate exposure and other factors. Based on their December 31, 1995 and 1994 statutory financial statements, CSC, Evergreen and CHIC exceed all required RBC levels.

12. SUBSEQUENT EVENT

On May 19, 1996 Alliance and Republic Environmental Systems, Inc. ("RESI") signed a binding letter of intent and agreed to the terms of mergers (the "Mergers") pursuant to which Alliance would receive (i) 14,760,000 shares of RESI's common stock, par value $0.01 per share ("RESI Common Stock"), (ii) warrants to acquire an additional 4,200,000 shares of RESI Common Stock at exercise prices ranging from $2.625 to $3.875 per share and exercisable over two to four year periods, and (iii) a promissory note in the principal amount of $4.0 million in consideration for all of the outstanding common stock of Alliance's wholly-owned subsidiaries, CSC and CSU.

CENTURY SURETY COMPANY AND SUBSIDIARIES

SCHEDULE I -- SUMMARY OF INVESTMENTS -- OTHER THAN INVESTMENTS IN RELATED PARTIES
DECEMBER 31, 1995

COLUMN A TYPE OF INVESTMENT	COLUMN B COST	COLUMN C VALUE	COLUMN D AMOUNT AT WHICH SHOWN IN THE BALANCE SHEET
Fixed maturities -- held to maturity:			
Bonds:			
U.S. government and government agencies and authorities	$ 6,158,571	$ 6,230,964	$ 6,158,571
States, municipalities and political subdivisions	--	--	--
Corporate securities	8,654,067	8,619,273	8,654,067
Mortgage-backed securities	495,767	514,141	495,767
Fixed maturities -- available for sale:			
Bonds:			
U.S. government and government agencies and authorities	6,521,211	6,817,414	6,817,414
States, municipalities and political subdivisions	8,338,751	8,503,547	8,503,547
Corporate securities	14,990,440	15,414,332	15,414,332
Mortgage-backed securities	2,243,832	2,417,903	2,417,903
Total fixed maturities	47,402,639	48,517,574	48,461,601
Equity securities:			
Common stock:			
Public utilities	322,085	339,812	339,812
Banks, trust and insurance companies	430,036	3,917,827	3,917,827
Industrial, miscellaneous and all other	465,185	375,177	375,177
Nonredeemable preferred stocks	782,113	792,997	792,997
Total equity securities	1,999,419	5,425,813	5,425,813
Mortgage loans on real estate	3,393,205		3,393,205
Other investments	90,267		90,267
Short-term investments	843,095		843,095
Total investments	$53,728,625		$ 58,213,981

CENTURY SURETY COMPANY AND SUBSIDIARIES

SCHEDULE IV -- REINSURANCE
YEARS ENDED DECEMBER 31, 1995, 1994, AND 1993
(IN THOUSANDS)

COLUMN A	COLUMN B	COLUMN C		COLUMN D		COLUMN E	COLUMN F
		CEDED TO		ASSUMED FROM			PERCENTAGE OF AMOUNT
	GROUP AMOUNT	OUTSIDE COMPANIES	AFFILIATED COMPANIES(1)	OUTSIDE COMPANIES	AFFILIATED COMPANIES(1)	NET AMOUNT	ASSUMED TO NET
Year ended December 31, 1995							
Property -- Casualty Earned Premiums.................	$35,750	$10,543	--	$ 1,754	--	$26,961	6.51%
Year ended December 31, 1994							
Property -- Casualty Earned Premiums.................	$34,255	$11,303	--	$ 416	--	$23,368	1.78%
Year ended December 31, 1993							
Property -- Casualty Earned Premiums.................	$25,019	$ 7,830	--	$ 184	--	$17,373	1.06%

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(1) Information is presented in a consolidated basis, therefore, effects of intercompany pooling are eliminated.

CENTURY SURETY COMPANY AND SUBSIDIARIES

SCHEDULE VI -- SUPPLEMENTAL INFORMATION CONCERNING
PROPERTY-CASUALTY INSURANCE OPERATIONS
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F	COLUMN G
SEGMENT	DEFERRED POLICY ACQUISITION COST	LOSSES AND LOSS ADJUSTMENT PAYABLE	DISCOUNT, IF ANY, DEDUCTED IN COLUMN C	UNEARNED PREMIUMS	EARNED PREMIUMS	NET INVESTMENT INCOME
Year Ended:						
December 31, 1995	$3,427,551	$37,001,841	N/A	$15,636,442	$26,961,397	$3,340,956
December 31, 1994	$3,725,611	$34,661,007	N/A	$15,453,487	$23,367,623	$2,477,428
December 31, 1993	$2,405,835	$29,527,805	N/A	$12,166,463	$17,372,598	$1,376,916

	COLUMN H		COLUMN I	COLUMN J	COLUMN K
	LOSSES AND LOSS EXPENSES INCURRED RELATED TO		AMORTIZATION OF ACQUISITION COSTS	PAID LOSSES AND LOSS EXPENSES	DIRECT PREMIUMS WRITTEN
	CURRENT YEAR	PRIOR YEAR			
	(IN THOUSANDS)	(IN THOUSANDS)		(IN THOUSANDS)	(IN THOUSANDS)
Year Ended:					
December 31, 1995	$ 17,297	$ (2,180)	$6,612,518	$ 12,307	$ 36,278
December 31, 1994	$ 14,753	$ (2,259)	$5,268,596	$ 8,239	$ 37,127
December 31, 1993	$ 10,060	$ (1,447)	$4,996,403	$ 5,877	$ 29,817

CENTURY SURETY COMPANY AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

CONSOLIDATED BALANCE SHEETS
JUNE 30, 1996 AND DECEMBER 31, 1995

	JUNE 30, 1996	DECEMBER 31, 1995
	(UNAUDITED)	
ASSETS		
Investments:		
Fixed maturities held to maturity, at amortized cost	$15,240,015	$15,308,405
Securities available for sale, at fair value:		
Fixed maturities	33,422,309	33,153,196
Equity securities	8,098,330	5,425,813
Mortgage loans on real estate	2,611,218	3,393,205
Other investments		90,267
Short-term investments, at cost	2,583,733	843,095
Total investments	61,955,605	58,213,981
Cash	2,374,076	2,691,746
Premium balances receivable, net	6,399,504	4,357,298
Deferred policy acquisition costs	3,954,029	3,427,551
Reinsurance receivables	10,282,413	12,646,960
Prepaid reinsurance premiums	2,833,898	2,881,174
Accrued investment income	842,634	870,245
Furniture and equipment, at cost, net	367,346	329,435
Other assets	1,606,612	579,784
Total assets	$90,616,117	$85,998,174
LIABILITIES AND SHAREHOLDER'S EQUITY		
Losses and loss expenses payable	39,264,593	37,001,841
Unearned premiums	17,248,372	15,636,442
Reinsurance balances payable	2,392,312	2,259,400
Current federal income taxes payable	499,792	1,322,280
Deferred federal income taxes	406,185	53,337
Accrued expenses and other liabilities	2,380,042	2,660,005
Collateral held	301,133	321,115
Total liabilities	62,492,429	59,254,420
Shareholder's equity:		
Common stock, $10,000 par value. Authorized 500 shares; issued and outstanding 200 shares	2,000,000	2,000,000
Additional paid-in-capital	17,590,658	17,293,158
Net unrealized appreciation of investments	3,888,993	3,265,550
Retained earnings	4,644,037	4,185,046
Total shareholder's equity	28,123,688	26,743,754
Total liabilities and shareholder's equity	$90,616,117	$85,998,174

The accompanying notes are an integral part of these consolidated financial statements.

CENTURY SURETY COMPANY AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

CONSOLIDATED STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 1996 AND 1995
(UNAUDITED)

	1996	1995
Revenues:		
Premiums earned	$13,062,477	$13,290,317
Net investment income	1,629,393	1,657,180
Net realized gains on investments	598,781	32,839
Income on American Sentinel transaction	1,150,000	0
Other income	171,702	158,899
Total revenues	16,612,353	15,139,235
Expenses:		
Losses and loss expenses	8,471,053	7,812,015
Acquisition expenses	2,972,796	3,196,885
Other expenses	3,005,540	3,923,863
Total expenses	14,449,389	14,932,763
Income before federal income taxes	2,162,964	206,472
Federal income tax expense (benefit):		
Current	797,292	351,139
Deferred	31,681	(398,912)
Total federal income tax expense (benefit)	828,973	(47,773)
Net income	$ 1,333,991	$ 254,245

The accompanying notes are an integral part of these consolidated financial statements.

CENTURY SURETY COMPANY AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 1996 AND 1995
(UNAUDITED)

	1996	1995
Cash flows from operating activities:		
Net income	$ 1,333,991	$ 254,245
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	189,654	110,367
Deferred federal income taxes	31,681	(398,912)
Increase in premium balances receivable	(2,042,206)	(817,415)
(Increase) decrease in deferred policy acquisition costs	(526,478)	221,169
(Increase) decrease in reinsurance receivables	2,364,547	(846,997)
(Increase) decrease in prepaid reinsurance premiums	47,276	(718,511)
(Increase) decrease in accrued investment income	27,611	(43,070)
Increase in other assets	(1,026,828)	(243,564)
Increase in losses and loss expenses payable	2,262,752	3,385,192
Increase in unearned premiums	1,611,930	999,963
Increase in reinsurance balances payable	132,912	435,831
Decrease in reinsurance payable on paid losses	0	(1,331)
Decrease in current federal income taxes payable	(822,488)	(546,025)
Decrease in loss portfolio transfer	(10,832)	0
Decrease in accrued expenses and other liabilities	(269,131)	(691,979)
Decrease in collateral held	(19,982)	(882,640)
Net adjustments	1,950,418	(37,922)
Net cash provided by operating activities	3,284,409	216,323
Cash flows from investing activities:		
Purchase of fixed maturities available for sale	(8,548,696)	(2,370,603)
Purchase of equity securities	(959,707)	(17,137)
Sale of fixed maturities available for sale	7,194,881	58,424
Sale of equity securities	269,910	393,090
Decrease in mortgage loans on real estate	781,987	291,243
Net decrease in short-term investments	(1,740,638)	(1,167,149)
Increase (decrease) in limited partnership	90,267	(29,762)
Acquisition of furniture and equipment, net	(112,583)	(87,098)
Net cash used in investing activities	(3,024,579)	(2,928,992)
Cash flows from financing activities:		
Dividends to Parent	(875,000)	(750,000)
Capital contributed by Parent	297,500	255,000
Net cash used in financing activities	(577,500)	(495,000)
Net decrease in cash	(317,670)	(3,207,669)
Cash at the beginning of period	2,691,746	6,577,481
Cash at the end of period	$ 2,374,076	$ 3,369,812

The accompanying notes are an integral part of these consolidated financial statements.

CENTURY SURETY COMPANY AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996 AND DECEMBER 31, 1995
(UNAUDITED)

1. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying unaudited consolidated financial statements as of June 30, 1996, include the accounts of Century Surety Company ("CSC") and subsidiaries (the "CSC Group"). All significant intercompany transactions have been eliminated.

The consolidated financial statements of the CSC Group included herein have been prepared by the management of the CSC Group, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of the management of the CSC Group, the accompanying statements reflect all adjustments necessary to present fairly the financial position, results of operations and cash flows for those periods indicated, and contain adequate disclosure to make the information presented not misleading. Such adjustments are of a normal, recurring nature unless otherwise disclosed in the notes to consolidated financial statements. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the CSC Group's latest audited financial statements.

Results of operations for any three month period are not necessarily indicative of the results of operations for a full year.

2. PROPOSED MERGER AND SUBSEQUENT EVENTS

On May 19, 1996 Alliance and Republic Environmental Systems, Inc. ("RESI") signed a binding letter of intent and agreed to the terms of mergers (the "Mergers") pursuant to which Alliance would receive (i) 14,760,000 shares of RESI's common stock, par value $0.01 per share ("RESI Common Stock"), (ii) warrants to acquire an additional 4,200,000 shares of RESI Common Stock at exercise prices ranging from $2.625 to $3.875 per share and exercisable over two to four year periods, and (iii) a promissory note in the principal amount of $4.0 million in consideration for all of the outstanding common stock of Alliances' wholly-owned subsidiaries, CSC and CSU.

During July 1996, the Alliance Companies entered into an agreement to acquire Environmental & Commercial Insurance Agency, Inc.; an agreement with Gulf Insurance Company and Midwest Indemnity Corporation ("Midwest") for the production, underwriting and reinsurance of contract surety and surety bond business primarily to environmental businesses; and an option to purchase assets of Midwest. These transactions are subject to the consummation of the Mergers.

3. INCOME ON AMERICAN SENTINEL TRANSACTION

In 1994, CSC entered into a transaction concerning the sale of the insurance operations of American Sentinel to Republic Western. Republic Western contracted to pay CSC's subsidiary, Evergreen, an amount in 1996 which was indeterminable at that time and was based upon future loss development. The transaction included a contingent receivable ranging from $0 to $2,900,000 due Evergreen from Republic Western by December 1996. Based upon performance of the insurance operations sold, it was determined that $1,150,000 should be recognized as revenue during the first quarter of 1996. The income is reflected in these statements. The balance of the receivable in the amount of $1,750,000 has not been included in income because it is subject to a reduction in its entirety based on the performance, including loss development of the sold operations, through December 1996.

4. DIVIDEND

CSC paid a $437,500 dividend to Alliance in the six-month period ended June 30, 1996.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholder
Commercial Surety Agency, Inc.:

We have audited the accompanying balance sheets of Commercial Surety Agency, Inc. (a wholly owned subsidiary of Alliance Holding Corporation) as of December 31, 1995 and 1994, and the related statements of income, shareholder's equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Commercial Surety Agency, Inc. as of December 31, 1995 and 1994, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1995, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Cleveland, Ohio
June 7, 1996

COMMERCIAL SURETY AGENCY, INC.
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

BALANCE SHEETS
DECEMBER 31, 1995 AND 1994

ASSETS

	1995	1994
Cash	$ 2,363	$ 316,028
Premiums receivable	646,757	318,444
Commissions receivable from affiliates	252,266	603,957
Note receivable-related party (note 2)	19,900	19,900
Other receivables	45,454	48,429
Other receivables from affiliates	0	80,223
Deferred financing costs, net of accumulated amortization of $1,170,792 and $1,150,793	0	19,999
Prepaid expenses	13,605	8,819
Federal income tax recoverable from Parent (note 2)	209,464	39,542
Total current assets	1,189,809	1,455,341
Furniture, equipment and leasehold improvements at cost, net of accumulated depreciation and amortization of $132,555 and $107,694 (note 3)	178,781	142,288
Advances to Parent (note 2)	156,441	186,035
Deposits	1,879	2,587
Total assets	$1,526,910	$1,786,251
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current maturities of long-term debt (note 3)	35,897	160,186
Accounts payable	9,981	188,572
Bonuses payable	156,000	271,300
Commissions payable (note 2)	139,175	146,391
Premiums payable to affiliates	788,894	493,928
Accrued payroll	11,679	11,927
Note payable -- related party (note 2)	0	12,514
Funds held (note 4)	0	300,000
Total current liabilities	1,141,626	1,584,818
Long-term debt (note 3)	11,634	29,661
Total liabilities	1,153,260	1,614,479
Shareholder's equity:		
Common stock, no par value, $5 stated value. Authorized 750 shares; issued and outstanding 100 shares	500	500
Retained earnings	373,150	171,272
Total shareholder's equity	373,650	171,772
Commitments and contingencies (note 6)		
Total liabilities and shareholder's equity	$1,526,910	$1,786,251

See accompanying notes to financial statements.

COMMERCIAL SURETY AGENCY, INC.
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

	1995	1994	1993
Revenues:			
Commissions (note 2)	$2,000,140	$2,686,106	$2,310,024
Management fees from affiliate (note 2)	600,000	337,500	0
Interest income	1,931	1,063	12,190
Total revenues	2,602,071	3,024,669	2,322,214
Expenses:			
Commissions (note 2)	892,897	1,132,049	1,110,396
Operating expenses:			
Salaries	983,332	743,119	562,409
Amortization	19,999	26,450	127,473
Depreciation	37,118	26,544	38,818
General and administrative	216,613	201,432	212,527
Interest	9,908	22,050	47,111
Payroll taxes	69,511	45,752	41,001
Rent	63,055	49,079	59,422
	1,399,536	1,114,426	1,088,761
Total expenses	2,292,433	2,246,475	2,199,157
Income before Federal income tax expense	309,638	778,194	123,057
Federal income tax expense (note 5)	107,760	265,952	44,911
Net income	$ 201,878	$ 512,242	$ 78,146

See accompanying notes to financial statements.

COMMERCIAL SURETY AGENCY, INC.
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

STATEMENTS OF SHAREHOLDER'S EQUITY (DEFICIT)
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

	COMMON STOCK		RETAINED EARNINGS (DEFICIT)	TOTAL SHAREHOLDER'S EQUITY (DEFICIT)
	SHARES	AMOUNT		
Balance as of December 31, 1992 (unaudited)	100	$500	$(419,116)	$(418,616)
Net income -- 1993	0	0	78,146	78,146
Balance as of December 31, 1993	100	500	(340,970)	(340,470)
Net income -- 1994	0	0	512,242	512,242
Balance as of December 31, 1994	100	500	171,272	171,772
Net income -- 1995	0	0	201,878	201,878
Balance as of December 31, 1995	100	$500	$ 373,150	$ 373,650

See accompanying notes to financial statements.

COMMERCIAL SURETY AGENCY, INC.
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

	1995	1994	1993
Cash flows from operating activities:			
Net income	$ 201,878	$ 512,242	$ 78,146
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	57,117	52,994	166,291
Loss on sale of property and equipment	1,404	3,582	15,252
Changes in operating assets and liabilities:			
(Increase) decrease in premiums receivable	(328,313)	167,276	66,881
(Increase) decrease in commissions receivable	351,691	(456,916)	(59,330)
(Increase) decrease in other receivables	2,975	(15,301)	(31,006)
(Increase) decrease in other receivables from affiliates	80,223	(80,223)	0
Increase in prepaid expenses	(4,786)	(487)	(8,333)
(Increase) decrease in deposits	708	(135)	(1,123)
Increase (decrease) in accounts payable	(178,591)	183,797	1,841
Increase (decrease) in bonuses payable	(115,300)	157,300	71,000
Increase (decrease) in commissions payable	(7,216)	11,839	(89,603)
Increase (decrease) in premiums payable to affiliates	294,966	(14,258)	(29,138)
Decrease in accrued payroll	(248)	(2,948)	(585)
Decrease in funds held	(300,000)	0	0
Net cash provided by operating activities	56,508	518,762	180,293
Cash flows from investing activities:			
Proceeds from sale of property and equipment	0	325	450
Acquisition of property and equipment	(75,015)	(104,994)	(62,657)
Net cash used in investing activities	(75,015)	(104,669)	(62,207)
Cash flows from financing activities:			
Proceeds from long-term debt	0	15,319	0
Repayment of long-term debt principal	(142,316)	(153,667)	(120,554)
Advances to Parent	(722,328)	(549,421)	(687,949)
Repayment of advances	582,000	315,000	811,600
Repayment of note payable -- related party	(12,514)	(7,077)	(6,561)
Net cash used in financing activities	(295,158)	(379,846)	(3,464)
Net increase (decrease) in cash	(313,665)	34,247	114,622
Cash -- beginning of year	316,028	281,781	167,159
Cash -- end of year	$ 2,363	$ 316,028	$ 281,781
SUPPLEMENTAL DISCLOSURE:			
Interest paid	$ 11,166	$ 24,069	$ 33,179
Federal income taxes paid	$ 277,682	$ 305,494	$ 44,911

See accompanying notes to financial statements.

COMMERCIAL SURETY AGENCY, INC.
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1995 AND 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Commercial Surety Agency, Inc. ("CSU") is a wholly owned subsidiary of Alliance Holding Corporation ("Alliance"). CSU is an insurance agency operating in the Northeastern Ohio area doing business under the tradename Century Surety Underwriters. Substantially all commissions are received from CSU's placement of surety bonds with Century Surety Company ("CSC"), a wholly owned subsidiary of Alliance, and its subsidiaries (collectively, the "CSC Group").

Basis of Presentation

The financial statements have been prepared on the basis of generally accepted accounting principles ("GAAP").

Use of Estimates

In preparing the financial statements in conformity with GAAP, management is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ significantly from those estimates.

Commission Revenue and Expense Recognition

Commission revenue is recognized in full as the CSC Group's surety bonds are placed. CSU also may earn additional commissions dependent upon the profitability of the business CSU places. The profitability commissions are based upon the loss ratios of the bond placements, and are recorded as revenues when notified by the CSC Group, which is approximately 12 months subsequent to the calendar year-end in which the bond was placed.

Return commissions are recorded when the underlying insurance policy is cancelled.

Commission expense is recognized in full as the CSC Group's surety bonds are placed, and is paid to the sub-agent when the premiums from the insured are collected. Commissions payable represents commissions due to the sub-agent on premiums that have not been collected.

Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation and amortization. CSU uses the straight-line and accelerated methods of depreciation and amortization over the estimated useful lives of the assets.

Management Fees from Affiliate

CSU recognizes management fees from affiliate income as the services are performed.

Deferred Financing Costs

Deferred financing costs represent costs capitalized related to the original financing of CSU that are being amortized over the life of the loan.

COMMERCIAL SURETY AGENCY, INC.
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Federal Income Taxes

CSU files as part of a consolidated Federal income tax return of Alliance and its subsidiaries. Pursuant to written agreements, CSU pays to or recovers from Alliance the amount of Federal income tax calculated primarily on a separate basis for itself.

CSU utilizes the asset and liability method of accounting for income tax. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Differences between the financial reporting and tax bases of assets and liabilities are not significant and no deferred tax assets or liabilities have been recorded.

Statement of Cash Flows

For the purpose of the statement of cash flows, cash includes only funds held on deposit with banks.

2. RELATED PARTY TRANSACTIONS

Advances to Parent and Federal income tax recoverable from Parent represent cash advanced to Alliance for working capital and income tax purposes. CSU has not received any interest on these advances.

Note receivable -- related party consists of an unsecured demand note receivable from the son of a former shareholder of Alliance bearing interest at 12%.

Note payable -- related party represents a 7.5% note, payable to a shareholder of Alliance, in monthly installments of $694, including interest. The note was repaid in 1995.

Commission revenues of $1,815,229, $2,606,719, and $1,854,000 for the years ended December 31, 1995, 1994 and 1993, respectively, were earned from the CSC Group.

Management fees from affiliate represents fees for performing various financial underwriting services for a wholly-owned subsidiary of the CSC Group. The management fee, in accordance with the terms of a written agreement, was $50,000 per month in 1995, and $37,500 per month beginning April 1, 1994.

COMMERCIAL SURETY AGENCY, INC.
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

3. LONG-TERM DEBT

At December 31, 1995 and 1994, long-term debt consisted of the following:

	1995	1994
7.5% secured notes, payable to Independence Bank, Independence, Ohio, in monthly installments of $13,950, including interest, guaranteed by individuals who are shareholders of an affiliated company, paid off in 1995	$ 0	$162,063
7.5% unsecured note payable to Independence Bank, Independence, Ohio; in monthly installments of $3,068, including interest, through October 1996	26,746	0
14% - 20% capital leases, payable to AT&T in monthly installments of $1,007, including interest, through January 1998; secured by telephone equipment	20,785	27,784
	47,531	189,847
Less: current portion	(35,897)	(160,186)
	$11,634	$ 29,661

Future maturities of long-term debt are as follows:

YEAR ENDED DECEMBER 31,	
1996	$35,897
1997	10,669
1998	965
	$47,531

4. FUNDS HELD

Funds held represent cash received as collateral for commissions receivable from one customer. The cash was returned to the customer during 1995 as the commissions receivable was settled.

5. FEDERAL INCOME TAXES

A reconciliation between actual Federal income tax expense and the amount computed at the statutory rate follows:

	1995	1994	1993
Amount at statutory rate	$105,277	$264,586	$41,839
Other	2,483	1,366	3,072
	$107,760	$265,952	$44,911

6. COMMITMENTS

CSU leases its facilities from an indirect shareholder of Alliance under an operating lease expiring in July 1997 with a five year right to renew. Lease payments over the prior three years ended December 31, 1995, 1994 and 1993 were $63,100, $49,100 and $59,400, respectively. The minimum future lease payments under this operating lease at December 31, 1995 are approximately $81,000 in 1996 and $43,000 in 1997.

COMMERCIAL SURETY AGENCY, INC.
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

7. SUBSEQUENT EVENT

On May 19, 1996 Alliance and Republic Environmental Systems, Inc. ("RESI") signed a binding letter of intent and agreed to the terms of mergers (the "Mergers") pursuant to which Alliance would receive (i) 14,760,000 shares of RESI's common stock, par value $0.01 per share ("RESI Common Stock"), (ii) warrants to acquire an additional 4,200,000 shares of RESI Common Stock at exercise prices ranging from $2.625 to $3.875 per share and exercisable over two to four year periods, and (iii) a promissory note in the principal amount of $4.0 million in consideration for all of the outstanding common stock of Alliances' wholly-owned subsidiaries, CSC and CSU.

COMMERCIAL SURETY AGENCY, INC.
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

BALANCE SHEETS
JUNE 30, 1996 AND DECEMBER 31, 1995

ASSETS

	JUNE 30, 1996 (UNAUDITED)	DECEMBER 31, 1995
Cash	$ 138,435	$ 2,363
Premiums receivable	713,423	646,757
Commissions receivable from affiliates	13,127	252,266
Note receivable-related party	19,801	19,900
Other receivables	5,714	45,454
Prepaid expenses	2,654	13,605
Federal income tax recoverable from Parent	0	209,464
Total current assets	893,154	1,189,809
Furniture, equipment and leasehold improvements at cost, net of accumulated depreciation and amortization	171,601	178,781
Advances to Parent	224,016	156,441
Deposits	690	1,879
	1,289,461	$1,526,910
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current maturities of long-term debt	10,091	35,897
Accounts payable	10,785	9,981
Bonuses payable	2,300	156,000
Commissions payable	83,921	139,175
Premiums payable to affiliates	1,046,566	788,894
Accrued payroll	13,631	11,679
Total current liabilities	1,167,294	1,141,626
Long-term debt	6,505	11,634
Total liabilities	1,173,799	1,153,260
Shareholder's equity:		
Common stock, no par value, $5 stated value. Authorized 750 shares; issued and outstanding 100 shares	500	500
Retained earnings	115,162	373,150
Total shareholder's equity	115,662	373,650
Commitments and contingencies		
Total liabilities and shareholder's equity	$ 1,289,461	$1,526,910

See accompanying notes to financial statements.

COMMERCIAL SURETY AGENCY, INC.
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 1996 AND 1995
(UNAUDITED)

	JUNE 30	
	1996	1995
Revenues:		
Commissions	$1,024,660	$ 841,716
Management fees from affiliate	300,000	300,000
Other	98,670	0
Interest income	1,868	107
Total revenues	1,425,198	1,141,823
Expenses:		
Commissions	598,722	413,103
Operating expenses:		
Salaries	452,567	411,837
Amortization	533	14,291
Depreciation	19,385	16,074
General and administrative	133,619	92,927
Interest	1,755	7,937
Loss on disposal of asset	0	1,845
Payroll taxes	51,449	47,395
Rent	27,756	27,487
	687,064	619,973
Total expenses	1,285,786	1,032,896
Income before Federal income tax expense	139,412	108,927
Federal income tax expense	47,400	37,035
Net income	$ 92,012	$ 71,892

See accompanying notes to financial statements.

COMMERCIAL SURETY AGENCY, INC.
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 1996 AND 1995
(UNAUDITED)

	1996	1995
Cash flows from operating activities:		
Net income	$ 92,012	$ 71,892
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	20,451	4,935
Loss on sale of property and equipment	0	1,845
Changes in operating assets and liabilities:		
(Increase) decrease in premiums receivable	(66,666)	(210,339)
Decrease in commissions receivable	239,139	589,948
Decrease in note receivable-related party	0	80,223
Decrease in other receivables	39,740	12,891
Decrease in other receivables from affiliates	99	99
Decrease in prepaid expenses	10,951	6,798
(Increase) decrease in federal income tax receivable from parent	209,464	(159,902)
Decrease in deposits	1,189	1,897
Decrease in deferred financial cost	0	19,999
Increase (decrease) in accounts payable	804	(177,520)
Decrease in bonuses payable	(153,700)	(213,150)
Decrease in commissions payable	(55,254)	(38,591)
Increase in premiums payable to affiliates	257,672	448,921
Increase in accrued payroll	1,952	1,495
Increase in accrued interest	0	5,485
Net cash provided by (used in) operating activities	597,853	446,246
Cash flows from investing activities:		
Acquisition of property and equipment	(13,271)	(41,980)
Net cash (used in) investing activities	(13,271)	(41,980)
Cash flows from financing activities:		
Advances to Parent	(67,575)	(56,706)
Repayment of long-term debt principal	(30,935)	(73,005)
Repayment of note payable-related party	0	(12,514)
Dividend distribution to Parent	(350,000)	0
Net cash (used in) financing activities	(448,510)	(142,225)
Net increase in cash	136,072	262,221
Cash -- beginning of period	2,363	316,028
Cash -- end of period	$ 138,435	$ 579,249
SUPPLEMENTAL DISCLOSURE:		
Interest paid:	$ 1,755	$ 7,937
Federal income taxes paid	$ 29,823	$ 149,816

See accompanying notes to financial statements.

COMMERCIAL SURETY AGENCY, INC.
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE HOLDING CORPORATION)

NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements as of June 30, 1996 and 1995, include the accounts of Commercial Surety Agency, Inc. ("CSU"), a wholly-owned subsidiary of Alliance Holding Corporation ("Alliance").

The financial statements of CSU included herein have been prepared by the management of CSU, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of CSU, the accompanying statements reflect all adjustments necessary to present fairly the financial position results of operations and cash flows for those periods indicated, and contain adequate disclosure to make the information presented not misleading. Such adjustments are of a normal, recurring nature unless otherwise disclosed in the notes to the financial statements. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in CSU's latest audited financial statements.

Results of operations for any six month period are not necessarily indicative of the results of operations for a full year.

2. DIVIDEND

CSU paid a $350,000 dividend to Alliance in the six-month period ended June 30, 1996.

3. PROPOSED MERGER AND SUBSEQUENT EVENTS

On May 19, 1996 Alliance and Republic Environmental Systems, Inc. ("RESI") signed a binding letter of intent and agreed to the terms of mergers (the "Mergers") pursuant to which Alliance would receive (i) 14,760,000 shares of RESI's common stock, par value $0.01 per share ("RESI Common Stock"), (ii) warrants to acquire an additional 4,200,000 shares of RESI Common Stock at exercise prices ranging from $2.625 to $3.875 per share and exercisable over two to four year periods, and (iii) a promissory note in the principal amount of $4.0 million in consideration for all of the outstanding common stock of Alliances' wholly-owned subsidiaries, CSC and CSU.

During July 1996, the Alliance Companies entered into an agreement to acquire Environmental & Commercial Insurance Agency, Inc.; an agreement with Gulf Insurance Company and Midwest Indemnity Corporation ("Midwest") for the production, underwriting and reinsurance of contract surety and surety bond business primarily to environmental businesses; and an option to purchase assets of Midwest. These transactions are subject to the consummation of the Mergers.