

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2000

OR

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

For the transition period from Not Applicable to \_\_\_\_\_

Commission file number 0-25890

CENTURY BUSINESS SERVICES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

22-2769024

(State or Other Jurisdiction of  
Incorporation or Organization)

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

6480 Rockside Woods Boulevard South, Suite 330, Cleveland, Ohio 44131

(Address of Principal Executive Offices) (Zip Code)

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

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

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

Yes  No

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

Class of Common Stock	Outstanding at July 31, 2000
Par value \$.01 per share	95,479,629

Exhibit Index is on page 15 of this report.

## CENTURY BUSINESS SERVICES, INC. AND SUBSIDIARIES

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

	JUNE 30, 2000	DECEMBER 31, 1999
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 33,538	\$ 48,906
Restricted cash	15,800	17,246
Accounts receivable, less allowance for doubtful accounts of \$14,303 and \$13,272	205,599	188,359
Notes receivable - current	2,810	3,209
Income taxes recoverable	3,568	14,835
Deferred tax asset	9,912	9,912
Other current assets	12,415	13,001
Net assets of discontinued operations	29,097	36,813
	-----	-----
Total current assets	312,739	332,281
Goodwill, net of accumulated amortization of \$32,506 and \$18,527	371,067	379,922
Fixed assets, net of accumulated depreciation of \$26,872 and \$21,792	65,365	56,148
Notes receivable - non-current	6,043	4,856
Other assets	17,453	14,136
	-----	-----
TOTAL ASSETS	\$ 772,667	\$ 787,343
	=====	=====
LIABILITIES		
Accounts payable	\$ 42,101	\$ 41,228
Bank debt	149,100	-
Notes payable and capitalized leases - current	5,639	6,534
Accrued expenses	31,332	50,833
	-----	-----
Total current liabilities	228,172	98,595
Bank debt	-	144,000
Notes payable and capitalized leases - long term	3,095	1,345
Deferred tax liability	11,968	11,968
Accrued expenses	16,146	18,303
	-----	-----
TOTAL LIABILITIES	259,381	274,211
	-----	-----
STOCKHOLDERS' EQUITY		
Common stock	933	933
Additional paid-in capital	438,918	443,052
Retained earnings	75,842	74,170
Unearned ESOP	(1,795)	(1,795)
Treasury stock	(754)	(754)
Accumulated other comprehensive income (loss)	142	(2,474)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	513,286	513,132
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 772,667	\$ 787,343
	=====	=====

See the accompanying notes to the condensed consolidated financial statements.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
Revenue	\$ 148,264	132,252	\$ 320,384	270,624
Expenses:				
Operating	125,747	101,416	255,165	206,046
Corporate general and administrative	5,068	2,640	13,587	5,740
Merger-related	-	1,167	-	2,685
Depreciation and amortization	10,466	4,247	21,230	8,630
Interest expense	3,497	1,472	6,192	2,769
Other income, net	(1,227)	(1,324)	(2,129)	(2,708)
Total expenses	143,551	109,618	294,045	223,162
Income from continuing operations before income tax expense	4,713	22,634	26,339	47,462
Income tax expense	3,240	8,163	14,486	17,799
Net income from continuing operations	1,473	14,471	11,853	29,663
Income (loss) from operations of discontinued business, net of tax	(1,765)	163	(1,760)	869
Loss on disposal of discontinued business, net of tax	(7,333)	-	(8,421)	-
Net income (loss)	\$ (7,625)	\$ 14,634	\$ 1,672	\$ 30,532
Earnings (loss) per share:				
Basic:				
Continuing operations	\$ 0.02	\$ 0.17	\$ 0.13	\$ 0.36
Discontinued operations	(0.10)	-	(0.11)	0.01
Net income (loss)	\$ (0.08)	\$ 0.17	\$ 0.02	\$ 0.37
Diluted:				
Continuing operations	\$ 0.02	\$ 0.16	\$ 0.13	\$ 0.33
Discontinued operations	(0.10)	-	(0.11)	0.01
Net income (loss)	\$ (0.08)	\$ 0.16	\$ 0.02	\$ 0.34
Pro forma income data (from continuing operations);				
Net income as reported	\$ 1,473	\$ 14,471	\$ 11,853	\$ 29,663
Pro forma adjustment to provision for income taxes	-	1,005	-	1,373
Pro forma net income	\$ 1,473	\$ 13,466	\$ 11,853	\$ 28,290
Pro forma earnings per share:				
Basic	\$ 0.02	\$ 0.16	\$ 0.13	\$ 0.34
Diluted	\$ 0.02	\$ 0.15	\$ 0.12	\$ 0.32
Basic weighted average shares outstanding	93,264	84,071	93,251	82,787
Diluted weighted average shares outstanding	94,938	90,632	95,202	89,373

See the accompanying notes to the condensed consolidated financial statements.

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

	SIX MONTHS ENDED JUNE 30,	
	2000	1999
NET CASH PROVIDED BY CONTINUING OPERATING ACTIVITIES	\$ 5,228	\$ 5,271
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from (additions to) notes receivable	(788)	(187)
Business acquisitions, net of cash acquired	(6,108)	(15,591)
Purchases of property and equipment	(16,390)	(14,115)
Proceeds from dispositions of property and equipment	711	56
Net cash used in investing activities	(22,575)	(29,837)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank debt	59,100	72,000
Proceeds from notes payable	4,192	3,664
Payment of bank debt	(54,000)	(28,000)
Payment of notes payable and capitalized leases	(7,437)	(35,867)
Proceeds from stock issuances, net	17	24,735
Proceeds from exercise of stock options and warrants, net	107	2,744
Pre-merger equity transactions	-	(50)
Net cash provided by financing activities	1,979	39,226
Net increase (decrease) in cash and cash equivalents	(15,368)	14,660
Cash and cash equivalents at beginning of period	48,906	43,593
Cash and cash equivalents at end of period	\$ 33,538	\$ 58,253

See the accompanying notes to the condensed consolidated financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In the opinion of management, the accompanying unaudited condensed consolidated interim financial statements reflect all adjustments (consisting of only normal and recurring adjustments) necessary to present fairly the financial position of Century Business Services, Inc. and Subsidiaries (Century) as of June 30, 2000 and December 31, 1999, and the results of their operations for the three and six-month periods ended June 30, 2000 and 1999, and cash flows for the six-month periods ended June 30, 2000 and 1999. The results of operations for such interim periods are not necessarily indicative of the results for the full year. The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and with instructions to Form 10-Q, and accordingly do not include all disclosures required by generally accepted accounting principles. The 1999 condensed consolidated balance sheet was derived from Century's audited consolidated balance sheet included in the Company's annual report on Form 10-K for the year ended December 31, 1999.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Certain reclassifications have been made to the 1999 financial statements to conform to the 2000 presentation.

2. ACQUISITIONS

During the second quarter of 2000, Century purchased one benefits and insurance firm which was accounted for under the purchase method of accounting. Accordingly, the operating results of the acquired company have been included in the accompanying condensed consolidated financial statements since the date of acquisition. The aggregate purchase price of this acquisition was approximately \$1.8 million, comprised of \$1.0 million in cash and \$0.8 million in notes to be paid over a two-year period. The excess of the purchase price over fair value of the net assets acquired (goodwill) was approximately \$2.8 million, and is being amortized over a 15-year period. As a result of the nature of the assets and liabilities of the business acquired, there were no material identifiable intangible assets or liabilities.

3. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents consist of funds held on deposit and short-term highly liquid investments with a maturity of three months or less at the date of purchase. At various times during the year, Century had deposits with financial institutions in excess of the \$100,000 federally insured limit.

Restricted cash represents funds on deposit from clients for which the Company is administering and settling claims. A related liability for these funds is recorded in accrued expenses in the balance sheet.

4. CONTINGENCIES

Century is involved in litigation, arising in the normal course of business. While it cannot be predicted with certainty, management believes that the outcome of such litigation will not have a material adverse effect on Century's financial condition, results of operations or cash flows. See "Part II - Other Information, Item 1. Legal Proceedings" for additional information.

5. COMPREHENSIVE INCOME

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", requires reporting the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the Balance Sheet. Items considered other comprehensive income are the adjustments made for unrealized holding gains and losses on available-for-sale securities (primarily held by the discontinued operations) and foreign currency translation adjustments. Comprehensive income (loss) for the three months ended June 30, 2000 and 1999, was (\$4.9 million) and \$13.3 million, respectively. Comprehensive income for the six months ended June 30, 2000 and 1999, was \$4.3 million and \$28.9 million, respectively.

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

## 6. EARNINGS PER SHARE

For the periods presented, Century presents both basic and diluted earnings per share. The following data shows the amounts (in thousands) used in computing earnings per share and the effect on the weighted average number of dilutive potential common shares. Included in potential dilutive common shares are contingent shares, which represent shares issued and placed in escrow that will not be released until certain performance goals have been met or exceeded.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
Denominator				
Basic				
Weighted average common shares	93,264	84,071	93,251	82,787
Diluted				
Warrants	21	6,020	35	6,032
Options	43	225	306	238
Contingent shares	1,610	316	1,610	316
Total	94,938	90,632	95,202	89,373

## 7. CONSOLIDATION AND INTEGRATION CHARGES

During the fourth quarter of fiscal 1999, Century's Board of Directors approved a plan to consolidate several operations in multi-office markets and integrate certain back-office functions into a shared-services center. The plan included the consolidation of at least 60 office locations, the elimination of more than 200 positions (including Corporate), and the divestiture of four small, non-core businesses. Pursuant to the plan, Century recorded a consolidation and integration pre-tax charge of \$27.4 million, which included \$4.8 million for severance and \$9.4 million for obligations under various noncancellable leases that were committed to prior to plan approval, for which no economic benefit to Century would be subsequently realized.

As a result of executive management changes (including the replacement of Century's President and Chief Operating Officer) and certain strategic changes in the first quarter of fiscal 2000, Century revisited the extent of its planned integration and consolidation initiatives and extended the timing of certain office consolidations beyond one year. Century's Board of Directors approved the revision to the plan on March 31, 2000. Accordingly, Century reduced approximately \$4.4 million of accruals originally provided for in the plan related to the aforementioned noncancellable lease obligations. In addition, Century recorded, on a pre-tax basis, net charges of \$1.5 million for severance, and \$1.3 million for shared-service and consolidation charges. Lastly, Century recorded an additional write-down of \$1.0 million (pre-tax) relating to the divestiture of the four non-core businesses previously announced. The net effect of the reduction of the lease obligation accrual and the first-quarter 2000 consolidation and integration charges was a net pre-tax credit of \$643,000. During the second quarter, Century recorded, on a pre-tax basis, net charges of \$212,000 for severance, \$225,000 for lease costs, and \$156,000 for other consolidation-related charges. The net effect of the consolidation and integration charges was \$593,000 for the three-months ended June 30, 2000. The net effect of the reduction of the lease obligation accrual and consolidation and integration charges for the six-months ended June 30, 2000 was a net pre-tax credit of \$50,000.

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

7. CONSOLIDATION AND INTEGRATION CHARGES (continued)

Consolidation and integration reserve balances as of December 31, 1999, activity during the six-month period ended June 30, 2000, and the remaining reserve balances as of June 30, 2000, were as follows (in thousands):

	Lease Consolidation (1)	Severance & Benefits (2)
Reserve balance at December 31, 1999	\$ 9,400	4,150
Amounts charged to income	-	2,829
Amounts utilized	-	(1,918)
Amounts adjusted	(4,379)	(1,382)
	\$ 5,021	3,679
Reserve balance at June 30, 2000	\$ 5,021	3,679

- (1) Amount designated as "adjusted" is included in operating expense in the accompanying condensed consolidated statement of income for the six-month period ended June 30, 2000.
- (2) Amounts designated as "charged to income" and "adjusted" are included are included in corporate general and administrative expenses in the accompanying condensed consolidated statement of income for the six-month period ended June 30, 2000.

At June 30, 2000, Century had a \$5.0 million reserve for lease consolidation obligations, and a \$3.7 million reserve for severance and benefits, designated to cover 184 employees.

8. DISCONTINUED OPERATIONS

In April 1999, Century adopted a formal plan to divest its risk-bearing specialty insurance segment, which is no longer part of Century's strategic long-term growth objectives. The risk-bearing specialty insurance segment, which includes Century Surety Company, Evergreen National Indemnity Company, and Continental Heritage Insurance Company, is reported as a discontinued operation and its net assets and results of operations are reported separately in the unaudited condensed consolidated financial statements. Revenues from the discontinued operations for the three-month periods ended June 30, 2000 and 1999 were \$10.7 million and \$13.4 million, respectively, and \$22.0 million and \$24.7 million for the six-month periods ended June 30, 2000 and 1999, respectively. On June 26, 2000, Century announced that it had entered into a binding agreement for the sale of its risk-bearing specialty insurance segment, as well as American Inspection and Audit Services, Inc. and CSC Insurance Agency, Inc. with Avalon National Corporation (ANC) and a consortium of financial entities for \$31 million, subject to regulatory approval. On July 17, 2000, ANC assigned its rights under the purchase agreement to Pro Finance Holding Corporation. Based on the estimated proceeds at closing, Century recorded an additional loss of \$7.3 million in the second quarter of 2000, which includes the effect of recognizing \$2.5 million of unrealized losses on available-for-sale securities, previously accounted for in our equity section in accordance with Financial Accounting Standards No. 115. Century intends to use the proceeds from the sale for debt reduction. Closing is expected to occur on or before October 15, 2000.



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

## 9. SEGMENT REPORTING

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," established standards for reporting selected information about operating segments, products and services, geographic areas and major customers.

Century's business units have been aggregated into four reportable segments: business solutions; benefits and insurance; performance consulting and technology solutions services. Segment information for the three and six-month periods ended June 30, 2000 and 1999 is as follows:

For the Three Months Ended June 30, 2000

	Business Solutions	Benefits & Insurance	Performance Consulting	Technology Solutions	Corporate and Other	Total
Revenue	\$ 86,836	\$ 47,238	\$ 4,513	\$ 9,677	\$ -	\$ 148,264
Operating income (1)	14,328	8,742	837	(289)	(1,101)	22,517
Corporate gen. and admin. (1)	-	-	-	-	5,068	5,068
Depreciation and amortization	1,717	761	39	125	7,824	10,466
Interest expense	261	62	-	4	3,170	3,497
Other expense (income), net	(344)	(686)	(6)	(469)	278	(1,227)
Pre-tax income (loss)	\$ 12,694	\$ 8,605	\$ 804	\$ 51	\$ (17,441)	\$ 4,713

For the Three Months Ended June 30, 1999

	Business Solutions	Benefits & Insurance	Performance Consulting	Technology Solutions	Corporate and Other	Total
Revenue	\$ 75,589	\$ 42,977	\$ 4,888	\$ 8,798	\$ -	\$ 132,252
Operating income	19,573	12,953	2,072	(645)	(3,117)	30,836
Corporate gen. and admin.	-	-	-	-	2,640	2,640
Merger-related	-	-	-	-	1,167	1,167
Depreciation and amortization	1,245	734	29	85	2,154	4,247
Interest expense	20	220	-	61	1,171	1,472
Other expense (income), net	(390)	(517)	66	(68)	(415)	(1,324)
Pre-tax income (loss)	\$ 18,698	\$ 12,516	\$ 1,977	\$ (723)	\$ (9,834)	\$ 22,634

For the Six Months Ended June 30, 2000

	Business Solutions	Benefits & Insurance	Performance Consulting	Technology Solutions	Corporate and Other	Total
Revenue	\$ 194,946	\$ 94,111	\$ 9,737	\$ 21,690	\$ -	\$ 320,384
Operating income (1)	45,753	18,556	2,529	(518)	(1,101)	65,219
Corporate gen. and admin. (1)	-	-	-	-	13,587	13,587
Depreciation and amortization	3,305	1,342	77	244	16,262	21,230
Interest expense	327	130	8	2	5,725	6,192
Other income, net	(517)	(983)	(14)	(525)	(90)	(2,129)
Pre-tax income (loss)	\$ 42,638	\$ 18,067	\$ 2,458	\$ (239)	\$ (36,585)	\$ 26,339

For the Six Months Ended June 30, 1999

	Business Solutions	Benefits & Insurance	Performance Consulting	Technology Solutions	Corporate and Other	Total
Revenue	\$ 162,329	\$ 79,342	\$ 8,845	\$ 20,108	\$ -	\$ 270,624
Operating income	44,973	18,642	3,642	438	(3,117)	64,578
Corporate gen. and admin.	-	-	-	-	5,740	5,740
Merger-related	-	-	-	-	2,685	2,685
Depreciation and amortization	2,417	1,432	54	169	4,558	8,630
Interest expense	133	378	-	147	2,111	2,769
Other income, net	(692)	(1,113)	(3)	(156)	(744)	(2,708)
Pre-tax income (loss)	\$ 43,115	\$ 17,945	\$ 3,591	\$ 278	\$ (17,467)	\$ 47,462

(1) includes unusual expenses and credits as discussed in Footnote 7 to the condensed consolidated financial statements.

## CENTURY BUSINESS SERVICES, INC. AND SUBSIDIARIES

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

Century Business Services, Inc. (Century) is a diversified services company, which acting through its subsidiaries provides professional outsourced business services to small and medium-sized companies, as well as individuals, government entities, and not-for-profit enterprises predominantly throughout the United States. Century provides integrated services in the following areas: accounting and tax; employee benefits; wealth management; property and casualty insurance; payroll; information systems consulting and human resource consulting. Century also provides valuation; litigation advisory; performance consulting; government relations; commercial real estate; wholesale insurance; healthcare consulting; medical practice management; worksite marketing; and capital advisory services.

## RESULTS OF OPERATIONS

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## Revenues

Business service fees and commissions increased to \$148.3 million for the three-month period ended June 30, 2000, from \$132.3 million for the comparable period in 1999, an increase of \$16.0 million, or 12.1%. Such increase was primarily attributable to (i) Century's acquisitions completed subsequent to the first quarter of 1999 that were accounted for under the purchase method of accounting, which accounted for \$11.6 million of such increase, and (ii) internal growth. Business service fees and commissions increased to \$320.4 million for the six-month period ended June 30, 2000, from \$270.6 million for the comparable period in 1999, an increase of \$49.8 million, or 18.4%. Such increase was primarily attributable to (i) Century's acquisitions completed subsequent to 1999 that were accounted for under the purchase method of accounting, which accounted for \$28.3 million of such increase and (ii) internal growth.

For the companies with a full period of operations for the three-month period ended June 30, 2000 and 1999, Century achieved an internal growth rate of 3.4%. For the companies with a full period of operations for the six-month period ended June 30, 2000 and 1999, Century achieved an internal growth rate of 8.2%. The internal growth rate is based on the increase in revenues of companies that have a full period of operations for the three and six-month period ended June 30, 2000, including companies that are accounted for as pooling-of-interests, as compared to the comparable periods in 1999.

## Expenses

Total expenses increased to \$143.6 million for the three-month period ended June 30 2000, from \$109.6 million for the comparable period in 1999. As a percentage of revenue, total expenses were 96.8% for the three-month period ended June 30, 2000 compared to 82.9% for the comparable period in 1999. Total expenses increased to \$294.0 million for the six-month period ended June 30 2000, from \$223.2 million for the comparable period in 1999. As a percentage of revenue, total expenses were 91.8% for the six-month period ended June 30, 2000 compared to 82.5% for the comparable period in 1999. Excluding consolidation and integration charges (credits) of \$593,000 and (\$50,000) for the three and six-month periods ended June 30, 2000, respectively, total expenses as a percentage of revenue were 96.5% and 91.8% for the three and six-month period ended June 30, 2000, respectively, and is primarily related to the change in the goodwill amortization period from 40 years to 15 years adopted October 1, 1999, and increased interest expense associated with Century's bank debt.

Operating expenses increased to \$125.7 million for the three-month period ended June 30, 2000, from \$101.4 million for the comparable period in 1999, an increase of \$24.3 million, or 24.0%. Operating expenses increased to \$255.2 million for the six-month period ended June 30, 2000, from \$206.0 million for the comparable period in 1999, an increase of \$49.1 million, or 23.8%. As a percentage of revenue, operating expenses for the three and six-month periods ended June 30, 2000 were 84.8% and 79.6%, respectively, compared to 76.7% and 76.1% for the comparable periods. Excluding consolidation and integration expenses, operating expenses as a percentage of revenue were 84.4% and 80.5% for the three and six-month periods ended June 30, 2000. The increase in operating expenses during 2000 are primarily due to acquisitions completed in 1999 and 2000 that were accounted for under the purchase method of accounting, increased compensation costs as a percentage of revenues, and higher health care costs due to unfavorable claims experience.

Corporate general and administrative expenses increased to \$5.1 million for the three-month period ended June 30, 2000, from \$2.6 million for the comparable periods in 1999, an increase of \$2.4 million. Corporate general and administrative expenses increased to \$13.6 million for the six-month period ended June 30, 2000, from \$5.7 million for the comparable period in 1999, an increase of \$7.8 million. Such increase was attributable to the expansion of the corporate function to accommodate Century's infrastructure and corporate initiatives, consulting and legal fees, and costs to implement and support the LINCS initiative. Excluding consolidation and integration expenses which consist primarily of costs related to severance payments incurred in connection with Century consolidation initiatives, corporate general and administrative expenses increased to \$4.9 million and \$10.9 million for the three and six-month periods ended June 30, 2000, respectively, from \$2.6 million and \$5.7 million for the comparable periods in 1999. Corporate general and administrative expenses (excluding consolidation and integration expenses) represented 3.3% and 3.4% of total revenue for the three and six-month period ended June 30, 2000, up from 2.0% and 2.1% for the comparable periods in 1999.

Century incurred merger-related expenses of \$1.2 million and \$2.7 million for the three and six-month periods ended June 30, 1999. Merger-related expenses are comprised primarily of professional fees incurred in transactions accounted for as pooling-of-interests and the salaries of internal employees dedicated to merger and acquisition activities. There were no merger-related expenses in 2000 as a result of the significant reduction in Century's acquisition program, and there were no transactions recorded as pooling-of-interests in such period.

Depreciation and amortization expenses increased to \$10.5 million for the three-month period ended June 30, 2000, from \$4.2 million for the comparable periods in 1999, an increase of \$6.2 million, or 146.4%. Depreciation and amortization expenses increased to \$21.2 million for the six-month period ended June 30, 2000, from \$8.6 million for the comparable periods in 1999, an increase of \$12.6 million, or 146.0%. As a percentage of total revenues, depreciation and amortization expense was 7.1% and 6.6% for the three and six-month period ended June 30, 2000, respectively, compared to 3.2% for the comparable periods in 1999. The increase in depreciation and amortization expense in 2000 is a result of a) goodwill associated with acquisitions completed in 1999 and 2000, b) the change in the goodwill amortization period from 40 years to 15 years beginning October 1, 1999, and c) increased depreciation expense related to the Oracle application placed into service on January 1, 2000, and other capital expenditures. The change in the goodwill amortization period resulted in an additional \$3.6 million and \$6.9 million of goodwill amortization expense for the three and six-month periods ended June 30, 2000, respectively.

Century recorded income taxes from continuing operations of \$3.2 million and \$14.5 million for the three and six-month periods ended June 30, 2000, and \$9.2 million and \$19.2 million (including pro forma adjustments) for the three and six-month periods ended June 30, 1999. Including pro forma adjustments, the effective tax rate increased to 68.7% from 40.5% for the three-month period ended June 30, 2000 and 1999, respectively, and to 55.0% from 40.4% (including pro forma adjustments) for the six-month period ended June 30, 2000 and 1999, respectively. The increase in the effective tax rate is primarily attributable to increased goodwill amortization, as a result of the change in our goodwill amortization period from 40 years to 15 years effective October 1, 1999, the majority of which is not deductible for tax purposes. Income taxes are provided based on Century's anticipated annual effective rate.

The discontinued operation had an operating loss, after-tax, of \$1.8 million compared to net income of \$163,000 for the three-month period ended June 30, 2000 and 1999, respectively, and a loss of \$1.8 million compared to net income of \$869,000 for the six-month period ended June 30, 2000 and 1999, respectively. The \$1.8 million loss incurred in the second quarter of 2000 were a result of general operating losses incurred and a write-off of deferred acquisition costs related to its transportation line of business.

OTHER  
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Total assets decreased to \$772.7 million at June 30, 2000, from \$787.3 million at December 31, 1999, which is primarily attributable to the write-down of the net assets of the discontinued operation in June 2000 discussed in Note 8 to the Condensed Consolidated Financial Statements. Total liabilities decreased to \$259.4 million at June 30, 2000, from \$274.2 million at December 31, 1999, which is primarily attributable to the decrease in accrued expenses of \$21.7 million and a net increase in bank debt of \$5.1 million. Total stockholders' equity increased \$154,000 during the six-month period ended June 30, 2000, and is attributable to net income for the first six months of 2000 of \$1.7 million, the adjustment of \$2.5 million for unrealized losses on available-for-sale securities discussed in Footnote 8 to the Condensed Consolidated Financial Statements, and a decrease in additional paid-in-capital of \$4.1 million. The decrease in paid-in-capital in the first quarter of 2000 is primarily related to a change in the purchase price composition (i.e. cash and common stock) of an acquisition that was completed near the end of 1999.

## LIQUIDITY AND CAPITAL RESOURCES

During the six-month period ended June 30, 2000, cash and cash equivalents decreased \$15.4 million to \$33.5 million, from \$48.9 million at December 31, 1999, as cash used in investing activities of \$22.6 million exceeded cash provided by operating activities of \$5.2 million and cash provided by financing activities of \$2.0 million.

Cash used in investing activities during the six-month period ended June 30, 2000 were \$22.6 million and consisted primarily of cash used in business acquisitions and purchases of property and equipment. Significant purchases of property and equipment in the first six months of 2000 are primarily attributable to the purchase of software from Oracle and related capital costs incurred to implement the enterprise-wide solution to integrate back office operations.

Cash provided by financing activities during the six-month period ended June 30, 2000 were \$2.0 million and consisted primarily of proceeds of \$63.3 million from the revolving credit facility and notes payable, less repayments of bank debt, notes payable and capitalized leases of \$61.4 million. The proceeds from these financing activities were used for general corporate purposes and working capital requirements.

Century is currently in violation of certain debt covenants under its credit facility and is in discussions with its lenders with respect to a proposed amendment to modify the debt covenants. The amendment would also provide forbearance of enforcement of remedies, and management expects such amendment to be completed by September 1, 2000. Until the amendment is completed, there can be no assurance that the required majority of lenders needed to approve the amendment will do so. Accordingly, the entire \$149.1 million of debt is considered current at June 30, 2000. Should the lenders call the loan in default and demand full repayment, management believes that it has sufficient cash and other collateral to repay the outstanding amount.

## FORWARD-LOOKING STATEMENTS

Statements included in the Form 10-Q, which are not historical in nature, are forward-looking statements made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward looking statements are commonly identified by the use of such terms as "intends", "estimates", "expects", "projects", "anticipates", "foreseeable future," "seeks", "believes", and words and phrases of similar import. Such statements are subject to certain risks, uncertainties or assumptions. Should one or more of these risks or assumptions materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. Although the Company believes that the assumptions upon which such forward-looking statements are based are reasonable, it can give no assurance that such assumptions will prove to be correct. Factors that could cause actual results to differ materially from the Century's expectations ("Cautionary Statements") include: (i) Century's ability to acquire and finance additional businesses; (ii) Century's ability to adequately manage growth; (iii) Century's dependence on the current trend of outsourcing business services; (iv) Century's dependence on the services of key employees; (v) Century's ability to realize the full value of goodwill; (vi) the risk of professional errors and omissions; (vii) the nature of the competitive and fragmented outsourcing industry; (viii) market fluctuations in the values or returns on assets in Century's investment portfolios; (ix) government regulations and interpretations are subject to changes; (x) Century's principal shareholders have substantial control over its operations; (xi) shares eligible for future sale could adversely affect the price of Century's common stock; (xii) Century may not pay dividends; and (xiii) Century's ability to manage risks associated with its discontinued specialty insurance business, such as risk of inadequate insurance premiums, underestimating reserves, and the risk that reinsurers may fail. All forward-looking statements in this Form 10-Q are expressly qualified by the Cautionary Statements.

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

The Company's exposure to market risk, including interest rate risk, is immaterial. If market interest rates were to increase or decrease immediately and uniformly by 100 basis points from the levels at June 30, 2000, in each case the impact on the Company's financial condition and results of operations would be immaterial. The Company does not engage in trading market risk sensitive instruments and does not purchase hedging instruments or "other than trading" instruments that are likely to expose the Company to market risk, whether interest rate, foreign currency exchange, commodity price or equity price risk. The Company has not issued debt instruments, entered into forward or futures contracts, purchased options or entered into swaps. The Company's primary market risk exposure is that of interest rate risk. A change in the Federal Funds Rate, or the Reference Rate set by the Bank of America (San Francisco), would affect the rate at which the Company could borrow funds under its Credit Facility.

## PART II - OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

During the second quarter ended June 30, 2000, there were no material developments in previously reported legal proceedings, except for the resolution of the Devon Capital Management, L.P. lawsuit discussed below.

On August 3, 2000, the Company and Devon Capital Management, L.P. resolved their lawsuit pending in the United States District Court for the Northern District of Ohio. In connection with this resolution, the Company will pay Devon \$23,000 and will release to Devon 41,166 shares of the Company which had been previously issued. All claims pending before the Court have been dismissed with prejudice.

In addition to the above described items, Century is from time to time subject to claims and suits arising in the ordinary course of business. Although the ultimate disposition of such proceedings is not presently determinable, management does not believe that the ultimate resolution of these matters will have a material adverse effect on the financial condition, results of operations or cash flows of Century.

## ITEM 2. CHANGES IN SECURITIES

(c) Issuances of unregistered shares during the three-month period ended June 30, 2000, were as follows:

None

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

At the Company's Annual Meeting of Shareholders held on May 12, 2000, the following matters were submitted to a vote of stockholders:

1) The election of the following individuals to the Board of Directors to serve until the 2003 Annual Meeting of Shareholders.

	Shares For -----
Michael G. DeGroot	58,287,737
Harve A. Ferrill	57,299,376

2) The approval of the appointment of KPMG LLP as independent accountants for fiscal year 2000.

Shares For -----	Shares Against -----
59,609,765	1,381,701

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

(a) Exhibits

27.1 Financial Data Schedule

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the second quarter ended June 30, 2000.

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

Century Business Services, Inc.  
-----  
(Registrant)

Date: August 14, 2000  
-----

By: /s/ Chris Spurio  
-----  
Chris Spurio  
Vice President, Acting Chief Financial  
Officer

CENTURY BUSINESS SERVICES, INC. AND SUBSIDIARIES

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EXHIBIT INDEX  
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EXHIBIT NUMBER:

27.1 Financial Data Schedule (SEC only)..... 15

5  
1,000

6-MOS

DEC-31-2000		
JAN-01-2000		
JUN-30-2000		
	49,338	
	0	
	222,712	
	14,303	
	0	
	312,739	
	92,237	
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	772,667	
228,172		
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	0	
	933	
	512,353	
772,667		
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	320,384	
		0
	255,165	
	32,688	
	0	
	6,192	
	26,339	
	14,486	
	11,853	
	(10,181)	
	0	
		0
	1,672	
	.02	
	.02	