

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(MARK ONE)

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

[FEE REQUIRED]

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 [NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NUMBER 0-25890

INTERNATIONAL ALLIANCE SERVICES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION
OF INCORPORATION OR ORGANIZATION)

22-2769024
(IRS EMPLOYER
IDENTIFICATION NO.)

10055 SWEET VALLEY DRIVE
VALLEY VIEW, OHIO
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

44125
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (216) 447-9000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, PAR VALUE \$.01
(TITLE OF CLASS)

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
Registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to
Item 405 of Regulation S-K is not contained herein, and will not be contained,
to the best of Registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates
of the Registrant is approximately \$150,000,912 million as of March 27, 1997.
The number of outstanding shares of the Registrant's common stock is 34,724,428
shares as of March 25 1997.

DOCUMENTS INCORPORATED BY REFERENCE

Part III Portions of the Registrant's Definitive Proxy
Statement relative to the 1997 Annual Meeting of
Stockholders.

Part IV Portions of previously filed reports and registration
statements.

INTERNATIONAL ALLIANCE SERVICES, INC.
-----ANNUAL REPORT ON FORM 10-K
-----FOR THE YEAR ENDED DECEMBER 31, 1996
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THE FOLLOWING TEXT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE MORE DETAILED INFORMATION AND CONSOLIDATED FINANCIAL STATEMENTS (INCLUDING THE NOTES THERETO) APPEARING ELSEWHERE IN THIS ANNUAL REPORT ON FORM 10-K ("ANNUAL REPORT"). UNLESS THE CONTEXT OTHERWISE REQUIRES, REFERENCES IN THIS ANNUAL REPORT TO "IASI" OR THE "COMPANY" SHALL MEAN INTERNATIONAL ALLIANCE SERVICES, INC., A DELAWARE CORPORATION, AND ITS OPERATING SUBSIDIARIES.

PART I

ITEMS 1 AND 2. BUSINESS AND PROPERTIES

OVERVIEW

IASI is a diversified services company which, acting through its subsidiaries, provides specialty insurance services, business outsourcing services and environmental services. In October 1996, IASI completed two acquisitions (the "Merger Transactions") pursuant to which it acquired, through a reverse merger, Century Surety Company ("CSC") and its subsidiaries (together with CSC, the "CSC Group"), which includes three insurance companies, and Commercial Surety Agency, Inc. d/b/a Century Surety Underwriters ("CSU"), an insurance agency that markets surety bonds. Through its insurance subsidiaries, IASI provides specialty insurance and bonding services to small and medium sized commercial enterprises throughout the United States.

In December 1996, IASI acquired SMR & Co. Business Services ("SMR"). Through SMR, IASI provides a wide range of business outsourcing services, including information technology consulting, tax return preparation and compliance, tax planning, business valuation, human resource management, succession and estate planning, personal financial planning and employee benefit program design and administration to individuals and small and medium sized commercial enterprises primarily in Ohio.

In February 1997, IASI signed a non-binding letter of intent and confidentiality agreement (collectively, the "Letter of Intent") to sell IASI's environmental services operations. The Letter of Intent also contemplates the formation of a strategic alliance between IASI and the purchaser whereby IASI will continue to have access to IASI's environmental resources for the benefit of its insurance customers after the sale. IASI anticipates that the sale will be completed by mid-1997. Consummation of the transaction remains subject to the purchaser's due diligence, the negotiation and execution of definitive documentation and the receipt of necessary governmental and third party approvals and consents. Accordingly, there can be no assurance that the transaction will be consummated. See "- Environmental Services - General."

IASI's strategy is to aggressively grow as a diversified services company by expanding its recently acquired specialty insurance and business outsourcing services operations through internal growth and additional acquisitions in such industries. See "- Business Strategy."

IASI was formed as a Delaware corporation in 1987 under the name Stout Environmental, Inc. ("Stout"). In 1992, IASI was acquired by Republic Industries, Inc. (formerly known as Republic Waste Industries, Inc., "RII"). In April 1995, RII effected a spin-off of its hazardous waste operations through a distribution of the common stock, \$.01 par value per share ("Common Stock"), of IASI to the stockholders of record of RII (the "Spin-off"). In connection with the Merger Transactions, in October 1996, IASI changed its name to International Alliance Services, Inc. from Republic Environmental Systems, Inc. IASI's Common Stock trades on the Nasdaq National Market ("Nasdaq") under the trading symbol "IASI." In June 1996, IASI declared and distributed a two-for-one stock split in the form of a 100% stock dividend ("Stock Split"). All the share numbers and per share amounts set forth herein reflect the Stock Split.

The principal executive office of IASI is located at 10055 Sweet Valley Drive, Valley View, Ohio, 44125 and its telephone number is (216) 447-9000.

BUSINESS STRATEGY

IASI's business strategy is to expand its current operations in the specialty insurance and business outsourcing services areas, and discontinue its operations in the environmental services area. IASI plans to implement its business strategy through internal growth and by acquiring and integrating existing businesses that provide specialty insurance services or business outsourcing services.

IASI generally targets acquisitions in markets where it will be, or the prospects are favorable to increase its market share to become, a significant provider of a comprehensive range of specialty insurance and business outsourcing services. IASI's strategy is to acquire companies that (i) have strong and energetic entrepreneurial leadership; (ii) have solid historic and expected future internal growth; (iii) can add to the level and breadth of services

offered by IASI thereby enhancing IASI's competitive advantage over other specialty insurance and business outsourcing services providers; (iv) have a strong income stream; and (v) have a strong potential for cross-selling among IASI's subsidiaries. As opportunities are identified, within or outside such criteria, IASI may acquire specialty insurance and business outsourcing operations throughout the United States.

IASI uses internal acquisition teams and its contacts in the specialty insurance and business outsourcing services industries to identify, evaluate and acquire businesses in attractive markets. Acquisition candidates are evaluated by IASI's internal acquisition teams based on a comprehensive process which includes operational, legal and financial due diligence reviews.

Although management believes that IASI currently has sufficient resources, including cash on hand, cash flow from operating activities, credit facilities and access to financial markets to fund current and planned operations, service any outstanding debt and make certain acquisitions, there can be no assurance that additional financing will be available on a timely basis, if at all, or that it will be available on terms acceptable to IASI. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

ACQUISITIONS

RECENT ACQUISITIONS

The following are acquisitions completed since the consummation of the Merger Transactions in October 1996:

In November 1996, IASI acquired Environmental and Commercial Insurance Agency, Inc. ("ECI"), a small, privately-held insurance agency, for \$1.0 million in cash and 192,500 shares of Common Stock. ECI markets, through over 100 independent agents, property and casualty insurance surety bonds to environmental remediation contractors, landfill operators, consultants, and other small and medium sized companies specializing in environmental businesses throughout the United States.

In December 1996, IASI completed the acquisition of all of the outstanding shares of SMR in exchange for 600,000 shares of Common Stock and warrants to purchase an additional 900,000 shares of Common Stock at an exercise price of \$10.375 per share.

In January 1997, IASI acquired certain of the assets and business of Midwest Indemnity Corporation ("Midwest"), in exchange for \$3.3 million in cash, 407,256 shares of Common Stock and \$1.8 million in non-interest bearing notes payable in installments through December 31, 1998. Midwest markets environmental and surety bond products throughout the United States through a system of approximately 100 independent agents and subagents.

In February 1997, IASI acquired Midland Consultants, Inc., a full-service specialized employment firm, in exchange for \$208,000 in cash, 87,500 shares of Common Stock and warrants to purchase an additional 20,000 shares of Common Stock at an exercise price of \$11.625 per share.

In March 1997, IASI acquired M&N Risk Management, Inc., M&N Enterprises, Inc. and Millisor Firmco, Inc. (collectively, the "M&N Companies") for \$1.0 million in cash, 384,600 shares of Common Stock and warrants to purchase an additional 900,000 shares of Common Stock at an exercise price of \$13.00 per share. The M&N Companies provide third party workers' compensation administration services.

PENDING ACQUISITIONS

In March 1997, IASI announced the contemplated acquisition of all of the outstanding capital stock of The Benefits Group Agency, Inc, a full-service corporate benefits administration company. ("The Benefits Group"), for \$2.5 million in cash, 395,000 shares of Common Stock and warrants to purchase an additional 500,000 shares of Common Stock at an exercise price of \$12.50 per share.

SPECIALTY INSURANCE SERVICES

GENERAL

Through its insurance subsidiaries, IASI provides specialty insurance and bonding services to small and medium sized commercial enterprises throughout the United States. The following is a description of the specialty insurance and bonding services currently offered by IASI.

OPERATIONS

The products provided by IASI's insurance subsidiaries can be divided into two categories: commercial lines, which constitutes approximately 85% of IASI's specialty insurance business, and surety bonds, which constitutes the other 15% of IASI's specialty insurance business. In addition, IASI employs reinsurance to limit its exposure on policies and bonds that it has written.

COMMERCIAL LINES. IASI's commercial lines operations consist of approximately 40 different programs for a wide variety of specialty risk groups. Largest among these are general liability insurance and related coverages for small construction contractors; restaurants, bars, and taverns; small commercial and retail establishments; sun tanning salons; and environmental contractors and professionals.

Insurance coverages offered to environmental contractors and professionals, include (i) property and general liability insurance for remediation action contractors engaged in a full hazard range of clean-ups; asbestos abatement contractors; underground storage tank removal and remediation contractors; and solid waste landfill operators; and (ii) errors and omissions insurance for environmental consultants. In addition IASI conducts a comprehensive inspection of environmental risks which management believes enhances its position as a provider of environmental insurance.

IASI's commercial lines business is produced by a network of approximately 72 agents (with 104 offices) and 28 brokers (with 28 offices). Subject to strict and detailed written underwriting guidelines regarding pricing and coverage limitations published by IASI, agents have limited authority to bind coverage. For casualty coverage, agents may bind and write up to \$1.0 million combined single limit of liability for risks other than those on the list of prohibited classes or on the list for referral to IASI. Policies that are bound by agents are immediately forwarded to IASI for review and inspection and IASI reserves the right to make the final underwriting decision based on IASI's acceptance or rejection of individual risks. Risks outside the written guidelines must be submitted to IASI for specific approval for underwriting. Brokers have no underwriting authority and must submit all risks to IASI for underwriting, quoting, binding and policy insurance.

IASI checks premium ratings on a selective basis to verify that program rules and rates are being followed. In addition, underwriters perform monthly reviews of files for renewal risks. Files are reviewed on a selective basis by policy types, particular risk classes, or individual general agents as loss experience or changing underwriting practices dictate. In addition to other underwriting quality control measures, a continuous audit process for each general agent is maintained. At least once a year, a visit to each agent's office is arranged to review all of the foregoing areas, as well as premium production, losses and loss ratio. Management also performs internal underwriting audits of all underwriters on a regular basis to maintain control of the underwriting quality and pricing of IASI.

All claims against commercial policies are managed by IASI's claim departments. Outside adjusters and attorneys are engaged, as necessary, to supplement IASI's in-house staff and to represent IASI in litigation over disputed claims. Claims guidelines are in place on all programs. State regulations and data on unfair claims practices are also provided to the staff members as necessary and appropriate. IASI's philosophy is to pay valid claims as expeditiously as possible but to resist firmly what management believes are unjust and fraudulent claims. In an effort to provide adequate resources to the claims staff, CSC became a member of the Property Loss Research Bureau and the Liability Insurance Research Bureau in 1995. IASI also submits claim data to the index bureaus of the American Services Insurance Group and the Property Insurance Loss Register.

It is the responsibility of the claims manager to appoint outside adjusting firms to work on behalf of IASI. These firms, however, are given no authority to settle any claims without IASI's prior agreement. The internal adjuster assigned to each individual claim determines, after coverage is analyzed, whether the claim can be handled in house or should be assigned to an outside firm.

SURETY BONDING. IASI's surety bonding operations consist of two major programs: contract surety bonds for smaller construction contractors (with work programs typically ranging from \$250,000 to \$10.0 million per year) and bonds for the solid waste industry, including waste haulers and landfill operators.

Contract surety consists of bonds that government authorities and some private entities require construction contractors to post to provide assurance that contract work will be performed timely, to specification, on budget, and without encumbrance from suppliers or subcontractors who may have lien rights for non-payment. Contract surety business is underwritten by IASI subject to authority defined in agency agreements with the insurance companies. The business is produced by approximately 100 appointed agents, who have limited authority to bind the companies in accordance with specific guidelines established by IASI. Because the contract surety business is specialized in smaller, newer and more difficult accounts, underwriters take collateral, require contract funds control, and take other risk control measures considered extraordinary by standard market sureties. In virtually all cases, bond principals indemnify the surety against loss with their personal as well as corporate assets.

Once bonds are issued, IASI continues to review all projects to determine job progress, bill payment, and other factors. IASI maintains real-time records of all bonded exposures, amended as appropriate, in an effort to obtain the most current possible assessment of exposures for each account and to avoid excessive exposure on any one account. IASI also strives through its review procedures to provide the companies with the earliest possible notice of potential difficulty so that claim resources can be brought to bear at the earliest possible stage in an effort to mitigate losses.

While claims against surety bonds are managed by IASI, outside counsel are engaged to handle surety defense litigation. In addition, IASI has or has access to completion capability for finishing bonded work which bonded principals are unable to prosecute, and pursues recoveries on behalf of the companies from principals who have defaulted on bond obligations. Such recovery efforts range from execution on collateral posted by bonded principals to indemnity litigation to recover surety losses from indemnitors' business and personal assets. Finally, IASI manages funds control escrow accounts as specified by the underwriters for particular accounts.

IASI's solid waste bond program, which is national in scope, is primarily written directly by IASI, and serves bond accounts that are generally much larger than those handled by IASI's contract surety program. The primary focus of this program is bonds for landfill closure and post-closure care required by states in accordance with Subtitle D of the Resource Conservation and Recovery Act of 1976, as amended ("RCRA"). These bonds are designed to assure that non-hazardous solid waste landfills will be closed when their useable airspace is exhausted in accordance with Subtitle D closure requirements (or such higher standards as individual states may impose) and that the sites will be maintained in accordance with Subtitle D standards for a period of at least 30 years after closure. Management believes that this program is one of only a few landfill bond programs in the United States, although bank letters of credit and other devices may be used to satisfy Subtitle D financial assurance requirements. Full implementation of RCRA financial assurance requirements by the United States Environmental Protection Agency (the "EPA") is not currently scheduled until after April 1997, although several states have already proceeded with such implementation, including, most significantly for IASI, Ohio, Kentucky and Pennsylvania. See "- Regulation." IASI currently writes landfill bonds for some of the larger solid waste disposal firms in the country. As a companion to the landfill closure bonds, IASI also writes bonds required of waste haulers to assure the observance of terms of their contracts with the local communities from which they collect waste.

To stay abreast of technical and market developments in the surety industry, certain of IASI's subsidiaries are members of the Surety Association of America, the National Association of Independent Sureties, National Association of Surety Bond Producers, the Surety Federation of Ohio, and The American Surety Association, on which Board of Directors CSC occupies a position.

REINSURANCE. IASI employs reinsurance to limit its exposure on the policies and bonds it has written. IASI utilizes several different reinsurance programs to cover its exposure, including "treaties" that cover all business in a defined class and "facultative" reinsurance that covers individual risks. IASI retains from \$50,000 to \$200,000 of each commercial line risk, depending on the program. Surety retentions may go as high as \$1.0 million or more, but typically are less than \$250,000.

Numerous domestic and international reinsurers support these various programs in different combinations. Generally, IASI's reinsurers are rated A- or better by A.M. Best, a leading rating agency of insurance companies and reinsurers, and demonstrate capital and surplus in excess of \$80.0 million (collectively in excess of \$10.0 billion). Cessions are diversified so that every reinsurance treaty (i.e., excluding facultative arrangements) is supported by more than one reinsurer and no reinsurer is participating in all of IASI's reinsurance programs.

MARKETING

IASI's insurance and bonding business is focused on niche insurance and surety coverages known in the insurance business as "non-standard" or specialty coverages. These terms refer to risks regarded as higher than standard or normal risks and to risk groups regarded as too small or too specialized 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. IASI attempts to identify and exploit such niches in the non-standard insurance market where management believes the actual risk is significantly less than the perceived risk at which the coverage is defined and priced, or where IASI, because of its smaller size and lower overhead, is able to underwrite coverages more economically than larger carriers.

Many non-standard insurance products can be marketed on an excess and surplus lines basis, which means that the carrier is not fully admitted in a given state but instead satisfies a less restrictive threshold of regulatory scrutiny, known as "eligibility," to write excess and surplus lines ("E&S"). E&S eligibility offers much more flexibility than admitted carriers enjoy. For example, E&S eligibility offers certain marketing advantages, principally, exemption from rate and form filing requirements that apply to admitted carriers, which permits E&S carriers to adjust prices and coverages, or to cease writing altogether. Accordingly, the majority of the non-surety business of IASI is written on an

E&S basis. Through certain of its subsidiaries, IASI is admitted in 34 states, but is eligible to write on an E&S basis in 39 other states plus the District of Columbia, the most significant of such states being California, Texas and Florida.

Certain commercial lines products, however, are virtually impossible to write on an E&S basis because of competitive or regulatory requirements to use admitted carriers. In order to market these programs, IASI uses its admitted subsidiaries, thereby reaching a market of 30 states. Management believes that this strategy of employing both admitted and non-admitted E&S carriers helps to maximize IASI's flexibility within the insurance regulatory environment in an effort to market a broad range of products on a profitable basis. IASI also employs reinsurance arrangements to market certain products in all 50 states.

COMPETITION

Both the commercial lines and the surety industries have been highly competitive in recent years, resulting in the consolidation of some of the industries' largest companies. Competition is particularly acute for smaller, specialty carriers like IASI because the market niches exploited by IASI are small and can be penetrated by a large carrier that elects to cut prices or expand coverage. IASI has endured this risk historically by maintaining a high level of development of new products, such as its environmental coverage and landfill bonds eschewed by most major carriers. Nevertheless, there can be no assurance that future development efforts will succeed or that product erosion from intensifying competition will not outpace development efforts.

CUSTOMERS

IASI provides specialty insurance services to approximately 6,000 clients through a network of nearly 200 agents. IASI attempts to maintain diversity within its client base to lower its exposure to downturns or volatility in any particular industry and help insulate IASI to some extent from general economic cyclicality. All prospective customers are evaluated individually on the basis of insurability, financial stability and operating history. No customer individually comprises more than 3.5% of the total consolidated revenue of IASI.

REGULATION

FEDERAL REGULATION. IASI's specialty insurance operations are vulnerable to both judicial and legislative law changes. Judicial expansion of terms of coverage can increase risk coverage beyond levels contemplated in the underwriting and pricing process. According to industry estimates reported by A.M. Best, judicial imposition of pollution liability on insurers before the era of specific pollution exclusions in insurance policies created an estimated \$25 billion liability for U.S. insurers and reinsurers that such companies did not know they were underwriting and for which they received no premium.

At the same time, coverages that are established by statute may be adversely affected by legislative or administrative changes of law. Most surety bonds exist because they are required by government agencies. When governments change the threshold for requiring surety, the market for surety bonds is directly affected. The repeated postponement by the EPA of deadlines for compliance with the financial assurance portions of RCRA Subtitle D has significantly slowed growth of IASI's landfill closure bond program, which was begun in March 1994 because of the anticipated deadline of April 1994 for universal compliance. Such compliance currently is not anticipated to be universally mandated until after April 1997.

STATE REGULATION. The companies of the CSC Group are subject to regulation and supervision by state insurance regulatory agencies, applicable generally to each insurance company in its state of incorporation. See "Management's Discussion and Analysis of Results of Operations and Financial Condition - Sources of Cash." These regulatory bodies have broad administrative powers relating to (i) standards of solvency, which must be met on a continuing basis; (ii) granting and revoking of licenses; (iii) licensing of agents; (iv) approval of policy forms; (v) maintenance of adequate reserves; (vi) form and content of financial statements; (vii) types of investments permitted; (viii) issuance and sale of stock; and (ix) other matters pertaining to insurance.

Each of the CSC Group companies are required to file detailed annual statements with the respective state regulatory bodies and are subject to periodic examination by the regulators. The most recent regulatory examination for CSC was made as of December 31, 1993. The most recent regulatory examinations of each of Evergreen National Indemnity Company ("Evergreen") and Continental Heritage Insurance Company ("Continental Heritage"), each subsidiaries of IASI, were made December 31, 1993 and December 31, 1994.

BUSINESS OUTSOURCING SERVICES

GENERAL

Through its subsidiary, SMR, IASI provides a wide range of business outsourcing services. It is IASI's goal to expand the business outsourcing services offered by IASI into a comprehensive personnel, consulting and management system that enables IASI to assist its clients with substantially all business outsourcing matters. The following is a description of the business outsourcing services currently offered by IASI.

OPERATIONS

IASI provides a comprehensive range of business outsourcing services, including information technology consulting, tax return preparation and compliance, tax planning, business valuation, human resource management, succession and estate planning, personal financial planning and employee benefit program design and administration services to individuals and small and medium sized commercial enterprises engaged in a wide variety of businesses. IASI contracts with its clients based upon the services they require.

INFORMATION TECHNOLOGY CONSULTING. IASI provides a wide range of information technology services. Such services include developing strategic technology plans, determining emerging technology capabilities (such as imaging and the Internet), reviewing operational use of software and hardware, defining and implementing software and hardware systems to address day-to-day business challenges and designing and implementing network solutions for clients with multiple sites.

TAX RETURN PREPARATION AND COMPLIANCE; TAX PLANNING. IASI's tax return preparation and compliance services include the preparation and review of federal and state tax returns on behalf of IASI clients. In addition, IASI offers tax planning services to businesses with the goal of reducing the client's tax liabilities. Such services include assistance with the choice of business entity, development of executive compensation plans and employee benefit and retirement policies, and evaluation of investments.

BUSINESS VALUATION. IASI's business valuation services are designed to assist a client in determining the precise value of a business or professional practice, either to avoid tax and regulatory problems or simply to facilitate organizational change. Such services are required in a variety of contexts, including litigation, sales, employee stock ownership plans, corporate recapitalization, succession plans or acquisitions.

Business valuation involves a formalized system of gathering information to gain an in-depth understanding of a client's business and the pertinent factors affecting its value. IASI employs a team of Certified Valuation Analysts to perform such analyses.

HUMAN RESOURCE MANAGEMENT. As part of its human resource management services, IASI performs organizational development audits and analyses and organizational structure analyses to provide its clients with solutions to strengthen both the financial and human resource side of the clients' businesses. IASI then works with its clients to implement such solutions.

Included in the services provided by IASI is the development of detailed personnel guides, which set forth a systematic approach to administering personnel policies and practices including recruiting, discipline and termination procedures. In addition, IASI will review and revise, if necessary, personnel policies and employee handbooks or will create customized handbooks for its clients.

IASI's human resource management services include the recruiting of new employees. IASI will also perform executive compensation analyses and provide management with detailed information regarding competitive salaries for a wide variety of positions throughout the United States.

SUCCESSION AND ESTATE PLANNING. IASI provides business and estate planning services, as well as assists in the review of estate planning documents. Such services include the review and analysis of the laws affecting, and the development of customized plans regarding, the management and succession of businesses and estates.

PERSONAL FINANCIAL PLANNING. IASI offers financial planning services to individuals. IASI employs tax and financial planners who assess the individual's cash flow and tax situation, financial requirements and financial objectives, and work with the individual to define his or her short and long term financial goals. IASI's financial planners then work with the individual to develop and implement plans and methods for achieving the individual's goals.

EMPLOYEE BENEFIT PROGRAM DESIGN AND ADMINISTRATION. IASI currently offers small group health care plans and other insurance coverages that its clients may provide to their employees. Such insurance coverages include group term life, universal life, accidental death and dismemberment and long-term disability. IASI works with the client to determine its needs and, in accordance with such needs, gives the client the opportunity to select from among several different plan packages or, with the assistance of IASI, design a personalized package of benefits for the client.

As part of its services, IASI administers the foregoing benefit plans and is responsible for negotiating the benefits and costs of such plans. IASI serves as a liaison for the delivery of such services to its client's employees and monitors and reviews claims for loss control purposes.

In addition, IASI offers to its clients 401(k), profit-sharing, defined benefit and money purchase plans, as well as administration and consulting services associated with such plans. IASI also provides support services to insurance companies who offer retirement plans.

IASI's QuickVal Daily Valuation System ("QuickVal") provides 24-hour telephone access to qualified retirement plan administration information for individual participants. QuickVal provides participants with their account balances and enables participants to change investments at any time.

OTHER BUSINESS OUTSOURCING SERVICES. In addition to the business outsourcing services described above, IASI also provides the following business outsourcing services: merger and acquisition analysis; litigation support; cash flow management; process improvement consulting, including quality management and strategic services; business management consulting, including communications consulting, market research and organizational development; and bookkeeping services.

MARKETING AND CUSTOMERS

IASI's business outsourcing services are sold primarily in Ohio. All services use common marketing techniques, including direct sales methodologies with emphasis on referral sources.

None of IASI's major business outsourcing services groups have a single homogeneous client base. Rather, IASI's clients come from a large variety of industries and markets. IASI believes that such diversity helps to insulate IASI from a downturn in a particular industry. In addition, none of IASI's business outsourcing services are overly sensitive to price change. Nevertheless, economic conditions among selected clients and groups of clients may have a temporary impact on the demand for such services.

COMPETITION

The business outsourcing services industry has been highly competitive in recent years resulting in consolidation and strategic alliances across industry lines. The principal competitive factors in this industry are service and price. This is particularly important to small to medium sized providers because larger providers, or alliances with larger providers, can create service and price distortions in the market place.

IASI's competitors in the business outsourcing services industry include independent consulting services companies, divisions of diversified enterprises and banks.

REGULATION

IASI's provision of business outsourcing services is vulnerable to legislative changes with respect to its tax advisory, compliance and preparation services. Legislative changes may expand or contract the types and amounts of business services that individuals and businesses require.

ENVIRONMENTAL SERVICES

GENERAL

In February, 1997, IASI signed the non-binding Letter of Intent to sell IASI's environmental services operations. The Letter of Intent also contemplates the formation of a strategic alliance between IASI and the purchaser whereby IASI will continue to have access to IASI's environmental resources for the benefit of its insurance customers after the sale. IASI anticipates that the sale will be completed by mid-1997. Consummation of the transaction remains subject to the purchaser's due diligence review, the negotiation and execution of definitive documentation and the receipt of necessary government and third party approvals and consents. Accordingly, there can be no assurance, however, that the transaction will be consummated or, if consummated, that the transaction will be consummated on the terms set forth herein.

The following is a description of IASI's environmental services business as of the date of this Annual Report.

OPERATIONS

IASI's environmental services operations include the operation of its treatment, storage and disposal facilities ("TSD Facilities"), transportation, remediation and technical services and related engineering, consulting and analytical services. IASI currently operates seven hazardous and non-hazardous TSD Facilities located in the United States and Canada. These TSD Facilities are serviced by IASI's integrated trucking operations. IASI does not own any hazardous waste disposal sites. IASI also provides a broad range of related environmental services including engineering, consulting and analysis, remediation, groundwater/wastewater services and other technical services.

TSD FACILITIES. IASI provides hazardous and non-hazardous waste treatment, storage and disposal services through seven commercial hazardous TSD Facilities located in the United States and Canada. The wastes handled by these TSD Facilities include substances which are classified as hazardous under applicable law because of their source of generation, characteristic properties, specific constituents and other substances subject to federal, provincial and state environmental regulations.

Treatment, storage and disposal services are typically performed under service agreements that obligate IASI to accept from its customer waste material conforming to the specifications set forth in the services agreement. Before IASI signs a service agreement with a customer, a representative sample of the waste is analyzed by a laboratory to enable IASI to recommend the best method of transportation, treatment and disposal. Prior to unloading at IASI's treatment facility, a representative sample of the delivered waste is tested and analyzed on site to ensure that it conforms to the customer's waste profile sheet. Once the wastes are characterized, compatible groups are consolidated to achieve economies in storage, handling, transportation and ultimate treatment and disposal.

The operational and permitted capabilities of the seven TSD Facilities operated by IASI vary extensively with each facility operating under site specific permit requirements. The seven TSD Facilities in the aggregate have the ability to process bulk liquids, solids, drums and laboratory-packaged waste materials. Six of these TSD Facilities have received final hazardous waste permits (EPA and/or state-issued Part B Permits or Canadian Ministry of the Environment ("MOE") Permits) from the appropriate regulatory agencies and the remaining TSD Facility is operating under an interim status permit. See "Regulation." IASI expects to obtain the final Part B permit for this facility in 1997. If this Part B permit application is denied, the TSD Facility would be forced to cease hazardous waste operations and be subject to closure procedures with respect to such operations. The oil recycling operations that are conducted at such location would be permitted to continue even if the permit is denied. It is the opinion of management that the failure to obtain such permit and the subsequent closure of the facility would not have a material adverse effect on IASI.

The TSD Facilities have the collective ability to accept virtually all types of hazardous and non-hazardous wastes, except radioactive materials. Each TSD Facility is specifically regulated with respect to waste types that are included in its permits.

The TSD Facilities collectively perform the following treatment and storage services:

- -- bulking and consolidation for off-site incineration
- -- waste water treatment, including heavy metal precipitation, carbon absorption, oxidation, reduction, biological treatment and filtration
- -- low level cyanide destruction
- -- fuels blending
- -- oil recycling
- -- phase separation
- -- PCB storage
- -- solids liquification
- -- stabilization of solid and semi-solid sludges

IASI currently owns nine TSD Facilities, seven of which are operational. The following table provides certain information concerning the operating TSD Facilities owned by IASI. These facilities serve markets in the northeastern and midwestern United States and southern Ontario regions.

TSD FACILITY -----	PERMITTED ACTIVITIES -----	PERMITTED OPERATING AND STORAGE CAPACITIES -----
Republic Environmental Systems (Pennsylvania), Inc., Hatfield, PA; (formerly known as Waste Conversion, Inc., "RES (Pennsylvania)")	Part B Permit - hazardous waste treatment and storage facilities for hazardous and non-hazardous solid and liquid waste in bulk, drum and lab pack; interim status PCB storage	Operating capacities - approximately 55 million gallons per year bulk liquid, 73,000 tons per year bulk solid, 99,000 drums per year; storage capacity -approximately 568 drums, 335,000 gallons bulk liquid, 1,500 cubic yards solid
Republic Environmental Recycling (New Jersey), Inc.; Clayton, New Jersey	Part B application filed in 1986; EPA and NJDEP (defined herein) interim status-waste oil blending and recycling, fuels blending and transfer facility	Operating capacities - approximately 18 million gallons per year of bulk waste; storage capacity - 2 million gallons
Republic Environmental Systems (Cleveland), Inc., Bedford, Ohio; (formerly Evergreen Environmental Group, Inc., "RES (Cleveland)")	Part B Permit - bulk solid hazardous waste treatment and storage, hazardous and non-hazardous drum treatment, bulk liquids and oils treatment and fuels blending	Operating capacities - approximately 124,800 tons per year bulk solid, 18,250 drums per year; storage capacity -approximately 975 drums and 47,500 gallons bulk liquid, 1,000 cubic yards solid
Republic Environmental Systems (Fort Erie) Ltd.; Fort Erie, Ontario	MOE Permit - hazardous waste treatment, processing, recovery, transfer and storage	Operating capacities - approximately 3.4 million gallons per year bulk liquid, 1,170 tons per year bulk solid, 52,000 drums per year; storage capacity - approximately 1,300 drums and 65,000 gallons bulk liquid, 120 tons solid
Republic Environmental Systems (Brantford) Ltd.; Brantford, Ontario	MOE Permit - hazardous waste treatment, processing, recovery, transfer and storage	Operating capacities - approximately 12.5 million gallons per year bulk liquid; storage capacity - 175,000 gallons bulk liquid
Republic Environmental Systems (Pickering) Ltd.; Pickering, Ontario	MOE Permit - hazardous waste treatment, processing, recovery, transfer and storage	Operating capacities - approximately 2.9 million gallons per year bulk or drum liquid or solid; storage capacity - 110,000 gallons bulk or drum
Republic Environmental Systems (Brockville) Ltd.; Brockville, Ontario	MOE Permit - hazardous waste treatment, processing, recovery, transfer and storage	Operating capacities - approximately 3.1 million gallons per year bulk liquid, 24,000 tons per year bulk solid, approximately 39,000 drums per year; storage capacity - 3,000 drums and 120,000 gallons bulk liquid

IASI also owns TSD Facilities in Farmingdale, New York and Dayton, Ohio, at which operations terminated in June 1993 and October 1995, respectively. See "Legal Proceedings - Administrative Proceedings - RES (Cleveland) and Republic Environmental Systems (Ohio), Inc." and "- Republic Environmental Systems (New York), Inc.". With respect to the closing of both of these TSD Facilities, IASI believes that it has accrued the appropriate costs.

During June 1996, the Ohio Environmental Protection Agency (the "Ohio EPA") approved the expansion of the types of waste managed in IASI's TSD Facility located in Cleveland, Ohio. The remaining permit revisions are currently still under review. Management expects final approval of the remaining permit revisions during 1997.

TRANSPORTATION SERVICES. As an integral part of IASI's treatment, storage and disposal operations, hazardous and non-hazardous wastes are collected from customers and transported by IASI to and between its TSD Facilities for treatment or bulking in preparation for shipment to final disposal locations. In providing this service, IASI utilizes a variety of specially designed and constructed tank trucks, vacuum trucks and semi-trailers. Liquid waste is frequently transported in bulk, but may also be transported in drums. Heavier sludges or bulk solids are transported in sealed roll-off containers or sealed gate-dump trailers.

IASI's United States hazardous waste transportation services are performed primarily by two of IASI's waste services subsidiaries, Republic Environmental Systems (Transportation Group), Inc. ("RES (Transportation Group)") and Chem-Freight, Inc. ("Chem-Freight"). RES (Transportation Group) is located in Hatfield, Pennsylvania and has been operating since 1985. Chem-Freight is located in Walton Hills, Ohio and has been operating since 1971. These trucking companies provide a majority of their direct services to IASI's TSD Facilities. IASI believes that this transportation arrangement ensures quality control and improved efficiency and helps prevent delays at the TSD Facilities. Trucking revenues for services provided to third parties, such as other environmental service companies, waste brokers and waste generators, are recognized as trucking revenue. Third-party customers of RES (Transportation Group) and Chem-Freight include general industrial businesses and other waste management companies. RES (Transportation Group) is licensed to haul in 36 states from the eastern to the midwestern regions of the United States and Chem-Freight is licensed to haul in the 48 contiguous states.

Most of the transportation services provided to IASI's Canadian TSD Facilities are performed by one of IASI's subsidiaries, Republic Environmental Systems (Brockville) Ltd. ("RES (Brockville)"). RES (Brockville) is licensed to haul in the provinces of Ontario and Quebec in Canada and in the states of Michigan and New York in the United States.

REMEDIATION. IASI's hazardous waste division provides selected remediation services through its subsidiary, Republic Environmental Systems (Technical Services Group), Inc. ("RES (Technical Services)"). RES (Technical Services) is a full-service environmental remediation contractor specializing in remedial services, tank cleaning, testing and removal, decontamination/lagoon closure, excavation and removal of contaminated soils, dewatering, emergency response, "Superfund" clean-up work and waste sampling. These services are provided to IASI's TSD Facility customers and others on a competitive bid basis.

When IASI is engaged to perform an entire environmental remediation project, it will first perform a site or situation assessment which involves gathering samples from the contaminated site and then analyzing them to establish or verify the nature and extent of the contaminants. Analysis of samples is conducted by IASI at its TSD Facilities or by independently-operated laboratory companies. IASI's engineering and consulting group then develops, evaluates and presents alternative solutions to remedy the particular situation.

TECHNICAL SERVICES. At IASI's analytical facilities, technicians test samples provided by customers through the use of comprehensive analytical procedures to identify and quantify toxic pollutants in virtually every component of the environment, including, without limitation, drinking water, surface and groundwater, soil, air, food, industrial effluents and biological tissues. The laboratory staff evaluates the properties of a given material, selects appropriate analytical methods, and designs, documents and executes a laboratory work plan that results in a comprehensive technical report.

IASI also provides environmental consulting services, including regulatory consulting, RCRA consulting, Environmental Clean-up Responsibility Act site assessment, remedial action plan preparation, treatment process technology and system design, waste minimization programs planning and alternate waste disposal evaluations.

SALES AND MARKETING

IASI's sales and marketing strategy is to provide full-service environmental management to its customers. IASI targets customers of all sizes from small quantity generators to large "Fortune 100" companies. Marketing efforts also target environmental engineers, real estate brokers, potentially responsible party ("PRP") committees, lawyers, hospitals and waste brokers.

IASI believes in maintaining a strong foundation of repeat business. IASI derives its business from a broad base of clientele which management believes enables IASI to experience stable growth. Marketing efforts focus on continuing and increasing business with existing customers, as well as attracting new clients.

COMPETITION

The hazardous waste treatment, storage and disposal industry is highly competitive and requires substantial amounts of capital. The competition in this industry includes large national companies such as Clean Harbors, Inc., Laidlaw Environmental Services, Inc. and Rollins Environmental, Inc., as well as local TSD Facilities and disposal and treatment companies. IASI environmental services subsidiaries compete for business on the basis of price and geographic location.

CUSTOMERS

IASI's sales efforts with respect to its environmental services operations have been directed toward establishing and maintaining business relationships with businesses in the eastern and midwestern regions of the United States and Ontario, Canada, which have ongoing requirements for one or more of IASI's services. No one customer individually comprises more than 5% of the total consolidated revenue of IASI.

SEASONALITY

IASI's environmental services operations experience seasonal fluctuations, with higher demand commencing in approximately April of each year and continuing through October, and lower demand occurring from November through March. Additionally, IASI's environmental services operations may experience operational limitations from November through March due to weather conditions in the northeastern United States and southeastern Ontario. Severe weather experienced during winter months may adversely affect IASI's results of operations.

REGULATION

The transportation and disposal of solid and chemical wastes and rendering of related environmental services are subject to federal, state, provincial and local requirements which regulate health, safety, the environment, zoning and land-use. Operating permits are generally required for TSD Facilities and certain transportation vehicles, and these permits are subject to revocation, modification and renewal. Federal, state, provincial and local regulations vary, but generally govern waste management activities (including final disposal), the location and use of facilities and also impose restrictions to prohibit or minimize air and water pollution. In addition, governmental authorities have the power to enforce compliance with these regulations and to obtain injunctions or impose fines in the case of violations, including criminal penalties. These regulations are administered by the EPA and various other federal, state, provincial and local environmental, health and safety agencies and authorities, including the Occupational Safety and Health Administration of the United States Department of Labor.

Although IASI strives to conduct its operations in compliance with applicable laws and regulations, IASI believes that in the existing climate of heightened legal, political and citizen awareness and concerns, companies in the hazardous waste and environmental services industry, including IASI, may be faced with fines and penalties and the need to expend funds for remedial work and related activities at TSD Facilities. IASI has established a reserve to cover such fines, penalties and costs which management believes will be adequate. Further, in connection with the acquisition of certain TSD Facilities, IASI has been indemnified against certain environmental liabilities. See "Legal Proceedings." While such amounts expended in the past or anticipated to be expended in the future have not had and are not expected to have a materially adverse effect on IASI's financial condition or operations, the possibility remains that technological, regulatory or enforcement developments, the results of environmental studies or other factors could materially alter this expectation and despite such reserves and indemnification obligations, could adversely affect IASI's operating results.

IASI's operation of TSD Facilities subjects it to certain operating, monitoring, site maintenance and closure obligations. In order to construct, expand and operate a TSD Facility, one or more construction or operating permits, as well as zoning approvals, must be obtained. These operating permits and zoning approvals are difficult and time-consuming to obtain, and the issuance of such permits and approvals often is opposed by neighboring landowners and local and national citizens' groups. Once obtained, the operating permits may be subject to periodic renewal and are subject to modification and revocation by the issuing agency. In connection with IASI's acquisition of existing TSD Facilities, it often may be necessary to expend considerable time, effort and money to bring the acquired facilities into compliance with applicable requirements and to obtain the permits and approvals necessary to increase their capacity. The failure of IASI to renew existing permits or obtain newly required permits, could adversely affect IASI's operating results. In addition, IASI's waste transportation operations are subject to evolving and expanding laws and regulations that may impose additional monitoring, training and safety requirements.

Governmental authorities have the power to enforce compliance with regulations and permit conditions and to obtain injunctions or impose fines in case of violations. Citizens' groups may also bring suit for alleged violations.

During the ordinary course of its operations, IASI may from time to time receive citations or notices from such authorities that its operations are not in compliance with applicable environmental, health or safety regulations. Upon receipt of such citations or notices, IASI will work with the authorities to attempt to resolve the issues raised. Failure to correct the problems to the satisfaction of the authorities could lead to monetary or criminal penalties, curtailed operations or facility closure any of which could have a material adverse effect on IASI's operating results.

FEDERAL REGULATION. The following summarizes the primary United States federal statutes affecting the business of IASI:

(1) THE SOLID WASTE DISPOSAL ACT ("SWDA"), AS AMENDED BY RCRA. SWDA and its implementing regulations establish a framework for the regulation of the generation, handling, transportation, treatment, storage and disposal of hazardous and non-hazardous wastes. They also require states to develop programs to insure the safe disposal of solid wastes in sanitary landfills.

Subtitle C of RCRA imposes a variety of regulatory requirements on a person who is either a "generator" or "transporter" of hazardous waste, or an "owner" or "operator" of a hazardous waste treatment, storage or disposal facility. The EPA has issued regulations under RCRA for hazardous waste generators, transporters, and owners and operators of TSD Facilities. These regulations impose, among other requirements, detailed operating, inspection, training and emergency preparedness and response standards, as well as requirements for permitting, manifesting, record keeping and reporting, facility closure, post-closure care and financial assurance. Owners and operators of TSD Facilities also are subject to stringent corrective action requirements that can be very expensive. The Hazardous and Solid Waste Amendment of 1984 mandated that hazardous wastes be treated prior to land disposal. Owners and operators of TSD Facilities must treat wastes to meet specified performance-based or technology-based treatment standards.

(2) THE COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION, AND LIABILITY ACT OF 1980, AS AMENDED ("CERCLA"). CERCLA, also known as "Superfund," among other things, established a regulatory and remedial program intended to provide for the investigation and the clean-up of sites from which there is or has been a release or threatened release of a hazardous substance into the environment. CERCLA's primary mechanism for remedying such problems is to impose strict liability (and pursuant to the interpretation of certain courts, joint and several liability) for clean-up and for damages to natural resources upon: (a) any person who currently owns or operates the facility or site; (b) any person who owned or operated the facility or site at the time of disposal of hazardous substances; (c) any person who by contract, agreement or otherwise, arranged or accepted for disposal or treatment (or for transport for disposal or treatment) of the hazardous substances; and (d) any generator of the hazardous substances. Under the authority of CERCLA and its implementing regulations, detailed requirements apply to the manner and degree of remediation of facilities and sites where hazardous substances have been or are threatened to be released into the environment. The costs of CERCLA investigation and clean-up can be substantial.

Among other things, CERCLA authorizes the federal government either to remediate sites at which hazardous substances were disposed and have been or are threatened to be released into the environment, or to order (or offer an opportunity to order) persons potentially liable for the clean-up of the hazardous substances to do so. Both the government and the potentially liable party may seek to recover the cost of clean-up from the responsible class of persons. In addition, CERCLA requires the EPA to establish a National Priorities List of sites at which hazardous substances have been or are threatened to be released and which require investigation or clean-up.

Liability under CERCLA is not dependent upon the intentional disposal of "hazardous wastes." It can be founded upon the release or threatened release, even as a result of unintentional and non-negligent action, of very small amounts of any one of thousands of "hazardous substances" listed by the EPA, many of which can be found in household waste. If this is the case, and if there is a release or threatened release of such substances, IASI could be held liable under CERCLA for all investigative and remedial costs even if others may also be liable. CERCLA also authorizes the imposition of a lien in favor of the United States upon all real property subject to or affected by a remedial action for all costs for which a party is liable. The ability of IASI to obtain reimbursement from others for their allocable share of such costs would be limited by its ability to find other responsible parties and prove the extent of each of such other parties' responsibility and by the financial resources of such other parties. The costs of a CERCLA clean-up can be very expensive. Given the difficulty of obtaining insurance for environmental impairment liability, such liability could have a material impact on IASI's business and financial condition. See "--Liability Insurance and Bonding."

(3) THE FEDERAL WATER POLLUTION CONTROL ACT OF 1972, AS AMENDED (THE "CLEAN WATER ACT"). The Clean Water Act establishes a framework for regulating the discharge of pollutants from a variety of sources, including TSD Facilities, into streams, rivers and other waters. Whenever point source runoff from IASI's facilities is to be discharged into surface waters, the Clean Water Act requires IASI to

apply for and obtain discharge permits, conduct sampling and monitoring and, under certain circumstances, reduce the quantity of pollutants in those discharges. In 1990, the EPA published new storm water discharge regulations which

require a facility to apply for a storm water discharge permit unless it is covered under a storm water general permit promulgated by the agency. These storm water discharge regulations also require a permit for certain construction activities, which may affect IASI's operations. If a facility discharges wastewater through a sewage system to a publicly-owned treatment works ("POTW"), the facility must comply with discharge limits imposed by the POTW. In addition, states may adopt groundwater protection programs under the Clean Water Act or Safe Drinking Water Act or independent state authority that could affect TSD Facilities.

(4) THE CLEAN AIR ACT. The Clean Air Act establishes a framework for the federal, state and local regulation of the emission of air pollutants. These regulations may impose emission limitations and monitoring and reporting requirements on certain of IASI's operations. The Clean Air Act Amendments, which were enacted into law at the end of 1990, resulted in the imposition of stringent requirements on many activities that were previously largely unregulated, such as emissions of solvents used in small parts degreasing baths in IASI's vehicle maintenance shops, as well as imposing more stringent requirements on, among others, motor vehicle emissions and emissions of hazardous air pollutants.

(5) THE OCCUPATIONAL SAFETY AND HEALTH ACT OF 1970 ("OSHA"). OSHA authorizes the Occupational Safety and Health Administration to promulgate occupational safety and health standards. Various of these standards, including standards for notices of hazardous chemicals and the handling of asbestos, may apply to IASI's operations.

STATE REGULATION. Each state in which IASI operates has its own laws and regulations governing hazardous and solid waste disposal, water and air pollution and, in most cases, release and clean-up of hazardous substances and liability for such matters. The states also have adopted regulations governing the design, operation, maintenance and closure of TSD Facilities. IASI's facilities and operations are likely to be subject to many, if not all, of these types of requirements.

Finally, various states have enacted, are considering enacting or are considering repealing, laws that restrict the disposal within the state of solid or hazardous wastes generated outside the state. While laws that overtly discriminate against out-of-state waste have been found to be unconstitutional, some laws that are less overtly discriminatory have been upheld in court. Challenges to other such laws are pending. The outcome of pending litigation and the likelihood that other such laws will be passed and will survive constitutional challenge are uncertain. In addition, Congress is currently considering legislation authorizing states to adopt such restrictions.

CANADIAN REGULATION. IASI's operations in Canada relating to hazardous waste treatment, recycling and recovery of chemical waste and waste water are subject to the general business and environmental laws and regulations of Canada, which are similar in nature to United States laws and regulations. While IASI believes that its Canadian operations are in substantial compliance with applicable laws and regulations, IASI is unable to predict the course of development of such laws and regulations.

LIABILITY INSURANCE AND BONDING

IASI carries commercial general liability insurance, automobile liability insurance, workers' compensation, pollution legal liability and employer's liability insurance as required by law in the various states and provinces in which operations are conducted and umbrella policies to provide excess limits of liability over the underlying limits contained in the commercial general liability, automobile liability and employer's liability policies. The nature of IASI's environmental services operations exposes it to a significant risk of liability for legal damages arising out of such operations. See "Legal Proceedings." The majority of IASI's environmental services operations have environmental liability insurance subject to certain limitations and exclusions in excess of the limits required by permit regulations; however, there is no assurance that such limits would be adequate in the event of a major loss.

From time to time, IASI may be required to post a performance bond or a bank letter of credit in connection with the operation of TSD Facilities, certain remediation contracts or certain environmental permits. Bonds issued by surety companies operate as a financial guarantee of IASI's performance. To date, IASI has satisfied financial responsibility requirements by making cash deposits, obtaining bank letters of credit or by obtaining surety bonds.

EMPLOYEES

At December 31, 1996, IASI employed approximately 451 employees, 6 of whom are party to collective bargaining agreements. IASI considers its relationships with its employees to be satisfactory.

PROPERTIES

IASI's corporate headquarters are located in Valley View, Ohio in leased premises. Certain of the property and equipment of IASI are subject to liens securing payment of portions of the indebtedness of IASI and its subsidiaries. IASI and its subsidiaries also lease six offices in five states, as well as one office in Canada, and certain of their equipment. IASI believes that all of its facilities are sufficient for its needs.

In addition, IASI operates seven TSD Facilities in the United States and Canada. For more information regarding these properties, see "- Environmental Services - Operations."

ITEM 3. LEGAL PROCEEDINGS

ADMINISTRATIVE PROCEEDINGS

RES (CLEVELAND) AND REPUBLIC ENVIRONMENTAL SYSTEMS (OHIO), INC.

In June 1993, RES (Cleveland) received a Complaint and Compliance Order from the Enforcement Division of EPA Region 5 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). In September 1993, EPA Region 5 granted approval for implementation of the RFI workplan submitted by RES (Cleveland). In June 1995, RES (Cleveland) reached an agreement with EPA Region 5 by consent agreement and final order (the "CAFO") to settle the issues related to the former owners' failure to achieve an approvable RFI workplan. The CAFO included a fine of \$60,000 and required the meeting of certain stipulations. IASI paid the fine in June 1995 and completed all required activities stipulated under the CAFO in December 1996, and submitted a final report to the EPA detailing the results. In 1996, the EPA accepted and approved the final RFI report. The EPA has requested and approved a second phase of the RFI workplan which requires additional sample collections.

In addition, RES (Cleveland) was involved in negotiations with the Ohio EPA to bring RES (Cleveland)'s facility located in Bedford, Ohio into full compliance with the Ohio EPA regulations and settle a proposed penalty. In August 1994, RES (Cleveland) reached an agreement by consent order with the Ohio EPA which included a penalty for \$250,000, payable over a three-year period, as well as meeting certain stipulations. Final payment on the penalty was made in 1996. RES (Cleveland) has provided all of the required deliverables specified in the consent order to Ohio EPA and is presently awaiting their final approval.

In June 1996, the Ohio Attorney General's Office began enforcement proceedings against Republic Environmental Systems (Ohio), Inc. (formerly known as Ecolotec, Inc., "RES (Ohio)") related to several past alleged violations at the Dayton, Ohio facility, at which IASI ceased operations in September 1995. Such violations included the failure to construct certain tertiary containment features at the facility and issues related to the submission of permit revisions in connection with the facility's groundwater monitoring program. At this time, both parties have agreed to enter into a mediation agreement to attempt to settle these matters with a third party mediator.

In addition, RES (Ohio)'s recent groundwater monitoring program results indicate that past operations at the facility may have potentially affected groundwater quality. RES (Ohio) is currently investigating the groundwater further to determine what, if any, corrective measures should be taken.

In October 1996, the Ohio attorney general's office determined that the Merger Transactions constituted a change of ownership of Ohio EPA permitted facilities owned by RES (Cleveland) and RES (Ohio). In addition, the Ohio EPA may determine that the Merger Transactions constitute a modification of such permits. As a result, Ohio law requires that the change of ownership of the permitted facilities, as well as the permit modifications, if any, be approved by the director of the Ohio EPA, based upon the disclosure statements and an investigative report prepared by the Ohio attorney general's office. IASI consummated the Merger Transactions prior to receipt of the requisite approval of the director of the Ohio EPA as permitted by applicable law. During the approval process, IASI does not anticipate that the operations at such facilities will be affected. In the event that the director of the Ohio EPA ultimately disapproves such change of ownership or, if required, such permit modifications, IASI would be required to effect the negation of the change of ownership of such facilities. The negation could be accomplished through the restoration of the original ownership structure of such facilities, the disposition of the facilities or another means that complies with the requirements of applicable law.

REPUBLIC ENVIRONMENTAL SYSTEMS (NEW YORK), INC.

In late June 1993, Republic Environmental Systems (New York), Inc. ("RES (New York)") ceased operations at its TSD Facility in Farmingdale, New York, due to ongoing disputes and negotiations with various regulatory agencies including the New York Department of Environmental Conservation (the "New York DEC"), 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 for past alleged violations at the facility and to resolve several administrative permit issues.

In early 1994, RES (New York) voluntarily ceased operations at its hazardous waste TSD Facility and discontinued any efforts to pursue its permit for this facility as a result of the ongoing disputes described above. In addition, RES (New York) entered into negotiations for a consent order with the New York DEC which provided for (i)

payment of a fine by RES (New York) of \$270,000, \$170,000 of which will be suspended upon successful completion of the terms of the consent order, and (ii) the closure of the facility in accordance with the requirements specified by the order. RES (New York) has begun closure activities at the facility which it expects to complete by the end of 1997.

PROCEEDINGS COVERED BY THIRD PARTY INDEMNITY

In connection with the acquisition of Stout, the former stockholders of Stout (the "Party Stockholders") agreed to indemnify RII, IASI, subsidiaries of IASI and their respective officers, directors, agents and representatives from losses associated with, among other things, soil, water and groundwater contamination occurring prior to RII's acquisition of Stout.

IASI has been identified as a PRP in a number of governmental investigations and actions relating to waste disposal facilities which may be subject to remedial action under CERCLA. Proceedings arising under CERCLA typically involve numerous waste generators and other waste transportation and disposal companies. Generally, these proceedings are based on allegations that these entities (or their predecessors) transported hazardous substances to the facilities in question, in all cases prior to acquisition of Stout by RII. As a successor to Stout, IASI and RII have become a party to and become potentially liable in these proceedings to the same extent as Stout. IASI and RII have been indemnified for all costs and expenses incurred with regard to these proceedings by Party Stockholders. The Party Stockholders' obligation under the indemnity was secured by a first lien and perfected security interest covering two million shares of RII's common stock. During June 1995, Party Stockholders had placed \$7.0 million in an escrow account (the "Party Collateral") in lieu of the two million shares of RII's stock as security for the remaining indemnification obligations. IASI is currently paying costs and legal expenses with regard to these proceedings which are then reimbursed by the Party Stockholders. Pursuant to agreements with RII, IASI has agreed to assume any and all liabilities of RII in these proceedings and has accepted assignment from RII of all of its rights in connection therewith, including, without limitation, RII's rights as indemnitee and pledgee pursuant to the Party Stockholders indemnification obligations.

Management believes that the legal and environmental proceedings covered by the indemnity will be resolved in a manner that will not have a materially adverse effect on IASI's results of operations or combined financial position.

The following is a description of proceedings whose claims are covered by the indemnity obligations of the Party Stockholders.

ADAMS OIL, INC.

In March 1996, IASI and the Party Stockholders entered into an agreement amending the Merger Agreement and the Settlement Agreement to which they are parties and voiding the transfer of Adams Oil, Inc. ("Adams Oil") to IASI. Adams Oil is the owner of a former oil terminal located in Camden, New Jersey at which there is evidence of contamination. Pursuant to such agreement, on March 3, 1997, IASI transferred ownership of all of the capital stock of Adams Oil to the Party Stockholders and released to the Party Stockholders \$1.5 million of the Party Collateral. The Party Stockholders have agreed to use the released Party Collateral to comply with New Jersey Department of Environmental Protection ("NJDEP") requirements regarding the clean-up of the Camden facility, including the requirement that the Party Stockholders post \$500,000 with the NJDEP within 30 days after the transfer to secure such clean-up. At such time that the Party Stockholders post the required \$500,000 with the NJDEP, IASI has agreed to release an additional \$500,000 of the Party Collateral to the Party Stockholders. The Party Stockholders also have agreed to indemnify, defend and hold harmless IASI, its environmental services subsidiary, Republic Environmental Systems, Inc., and RII from losses incurred in connection with the environmental condition of the Camden, New Jersey facility.

REPUBLIC ENVIRONMENTAL SYSTEMS (PENNSYLVANIA), INC.

RES (Pennsylvania) has been named as a PRP in the North Penn Area No. 2 regional groundwater problem involving 56 square miles occupied by hundreds of industrial companies. The EPA is currently investigating the septic system and the contamination of groundwater and is considering adding other PRP companies. The EPA and RES (Pennsylvania) have entered into an administrative order on consent to investigate and determine: (i) whether or not there is sufficient evidence to indicate that RES (Pennsylvania) has contributed to the groundwater problem, and (ii) if RES (Pennsylvania) should participate in a regional investigation. RES (Pennsylvania) has recently completed the required soil and groundwater testing, as required under the administrative order, and has submitted a final report to the EPA. Based on the results of this testing, RES (Pennsylvania) has requested the EPA to release it from further investigation.

In addition, RES (Pennsylvania) 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 RES (Pennsylvania), which was then owned by Stout. RES (Pennsylvania) is currently in settlement negotiations with the EPA to limit its exposure in this matter.

RES (New York) and RES (Pennsylvania) are parties in a PRP action with respect to a former IASI Aqua-Tech TSD Facility in South Carolina. There are 180 parties to date. In April 1993, an agreement was reached whereby IASI paid approximately \$360,000 for proposed settlement of certain issues at the facility, pending the PRP committee's final allocation to the PRPs.

REPUBLIC ENVIRONMENTAL SYSTEMS (NEW YORK), INC.

The New York DEC has alleged that RES (New York) is liable for unpaid generator fees in the amount of \$240,000 plus interest. RES (New York) and other owners of New York TSD Facilities argue that the state is subjecting them to excess fees by categorizing them both as a TSD Facility and as an original waste generator. The central issue of the amount of generator fees owed by RES (New York) has been stayed pending New York DEC determination of the appropriate category for RES (New York) and what generator fee it should pay as a result thereof. This matter will be settled under the consent order being negotiated for the facility's closure. Payments scheduled under this order will be credited to settle this matter.

In addition, on March 19, 1992, the New York DEC informed RES (New York) that it may be a PRP with respect to the Quanta Resources site in Queens, New York. At present, RES (New York) is awaiting additional information from the New York DEC in order to assess the extent of its exposure, but believes it is not material.

GENERAL

IASI is also a party to other administrative proceedings related to its environmental services operations which have arisen in the ordinary course of its business. Although it is possible that losses exceeding amounts already recorded may be incurred upon ultimate resolution of these matters, as well as the matters described above, management believes that such losses, if any, will not have a material adverse effect on IASI's business or financial position; however, unfavorable resolution of each matter individually or in the aggregate could affect the consolidated results of operations for the quarterly periods in which they are resolved.

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

No matters were submitted to a vote of stockholders during the fourth quarter of 1996.

EXECUTIVE OFFICERS OF IASI

The following table sets forth certain information as of March 28, 1997 regarding the executive officers of IASI. Each executive officer of IASI named in the following table has been elected to serve until his successor is duly appointed or elected or until his or her earlier removal or resignation from office. No arrangement or understanding exists between any executive officer of IASI and any other person pursuant to which he was selected as an officer.

NAME	AGE	POSITION(S)
----	---	-----
Michael G. DeGroot	63	Chairman of the Board
Edward F. Feighan	49	Chief Executive Officer, President and Director
Roswell P. Ellis	62	Senior Vice President - Insurance Group
Douglas R. Gowland	55	Senior Vice President - Environmental Operations and Director
Keith W. Reeves	40	Senior Vice President - Business Services
Gregory J. Skoda	40	Executive Vice President and Chief Financial Officer
Craig L. Stout	48	Chief Operating Officer and Director

MICHAEL G. DEGROOTE has served as the Chairman of the Board of IASI since the Spin-off. Mr. DeGroot also served as President and Chief Executive Officer of IASI from the Spin-off until the Merger Transactions in October 1996. Mr. DeGroot has served as Vice Chairman and a director of Republic Industries, Inc. ("RII") since August 1995. Mr. DeGroot also served as Chairman of the Board, President and Chief Executive Officer of RII from May 1991 to August 1995 and Senior Chairman of the Board of RII from May 1991 to August 1991. Mr. DeGroot is a private investor who owned a controlling interest in Laidlaw Inc., a Canadian waste services company, from 1959 until he sold his interest to Canadian Pacific Limited in 1988. Mr. DeGroot also serves as a director of Gulf Canada Resources, Inc.

EDWARD F. FEIGHAN has served as Chief Executive Officer, President and a Director of IASI since October 1996. Mr. Feighan is also Vice President of Alliance Holding Corporation ("Alliance Holding"), a position he has held since joining Alliance Holding in 1993. From 1983 until 1993, Mr. Feighan served as the representative from the Ohio 19th Congressional District of the United States House of Representatives. During his tenure in Congress, Congressman Feighan served on the Judiciary and the House Foreign Affairs Committee; Chairman, International Narcotics Control Committee; President, The Interparliamentary Union; and permanent Representative to the Helsinki Commission. He currently serves on the board of trustees of the National Democratic Institute for International Affairs, the Handgun Control Federation of Ohio, and the Rock and Roll Hall of Fame and Museum.

ROSWELL P. ELLIS has served as the Senior Vice President - Insurance Group since March 1997. Mr. Ellis serves as Chairman and President of CSC, a position he has held since 1987, and Chairman of Continental Heritage and Evergreen, all subsidiaries of IASI.

DOUGLAS R. GOWLAND has served as the Senior Vice President - Environmental Operations since October 1996 and a Director of IASI. In addition, Mr. Gowland has served as President of IASI's hazardous waste subsidiaries since March 1992. From the date of the Spin-off until the Merger Transactions, Mr. Gowland served as IASI's Executive Vice President and Chief Operating Officer. From March 1992 until the Spin-off, Mr. Gowland served as President of IASI. From January 1992 to April 1995, Mr. Gowland served as Vice President - Hazardous Waste Operations of RII. From March 1991 to January 1992, Mr. Gowland served as Vice President of DRG Environmental Management, Inc. Prior thereto, he served as President of Great Lakes Environmental Systems, Ltd.

KEITH W. REEVES has served as the Senior Vice President - Business Services since March 1997. Mr. Reeves also serves as the President of SMR, a position of which he has held since December 1996. Mr. Reeves served as Vice President of SMR from August 1984 until its acquisition by IASI in December 1996. Mr. Reeves is a member of the American Institute of Certified Public Accountants and the Ohio Society of Certified Public Accountants.

GREGORY J. SKODA has served as the Executive Vice President and Chief Financial Officer of IASI since December 1996. Mr. Skoda also serves as the Vice President and Chief Financial Officer of Alliance Holding, a position he has held since June 1, 1994. Prior to IASI's acquisition of SMR in December 1996, Mr. Skoda served as President and Chairman of SMR, which Mr. Skoda founded in 1980. Mr. Skoda is an active member of the American Institute of Certified Public Accountants in the Tax, Employee Benefits, and Management Advisory Services divisions.

CRAIG L. STOUT has served as Chief Operating Officer and a Director of IASI since October 1996. Mr. Stout also serves as Chief Operating Officer of Alliance Holding, a position he has held since the formation of Alliance Holding in 1987. Prior to the Mergers, Mr. Stout served as President and Chairman of two other companies which

he founded, Contract Operations Planning, Inc., a surety claims management firm, and Contract Surety Reinsurance Corporation, a reinsurance intermediary for facultative surety reinsurance. These companies were merged into Alliance Holding prior to the effective date of the Merger Transactions and their operations are now conducted by IASI.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

IASI's Common Stock is listed on Nasdaq, which is the principal trading market for these securities, under the symbol "IASI." The following table sets forth, for the periods indicated, the high and low sales prices for the Common Stock as listed on Nasdaq.

	COMMON STOCK PRICE RANGE	
	HIGH	LOW
1995		
Second Quarter(1).....	\$2 1/4	\$1 1/4
Third Quarter.....	\$4	\$1 13/16
Fourth Quarter.....	\$2 5/16	\$1 9/16
1996		
First Quarter.....	\$1 19/32	\$1 1/4
Second Quarter.....	\$20 7/8	\$1 7/16
Third Quarter.....	\$18 3/4	\$4 3/4
Fourth Quarter.....	\$12 3/4	\$7 1/2

(1) Consisted of the period from the date on which the Common Stock was first listed on Nasdaq, April 27, 1995, through June 30, 1995.

On March 27, 1997, the closing sales price of Common Stock as reported by Nasdaq was \$11.125 per share. The number of record holders of Common Stock as of March 7, 1997, was 953.

Since the Spin-off, IASI has not declared or paid any dividends on its Common Stock and the Board of Directors does not currently anticipate paying dividends on the Common Stock at any time in the foreseeable future. The payment of future dividends will be determined by IASI's Board of Directors in light of conditions then existing, including IASI's earnings, financial condition, capital requirements, restrictions in financing agreements, business conditions and other factors. The payment of dividends on the Common Stock is presently prohibited under the terms of IASI's credit facility. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected historical financial data for IASI and are derived from the historical consolidated and combined financial statements and notes thereto, which are included elsewhere in this Annual Report of IASI. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated and combined financial statements of IASI and the notes thereto, which are included elsewhere in this Annual Report.

	YEAR ENDED DECEMBER 31,				
	1996	1995	1994	1993	1992
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Premiums earned	\$ 27,743	\$ 26,962	\$ 23,368	\$ 17,373	\$ 11,534
Net investment income	3,564	3,341	2,477	1,377	1,272
Net realized gains (losses) on investments	1,529	166	80	(91)	210
Other income	2,933	470	1,385	1,737	269
Net revenues	\$ 35,769	\$ 30,939	\$ 27,310	\$ 20,396	\$ 13,285
Interest expense	\$ 46	--	--	--	--
Other expenses	4,384	\$ 3,157	\$ 4,544	\$ 3,287	\$ 2,039
Income from continuing operations before income tax expense	6,062	4,891	4,844	3,485	2,123
Income tax expense	1,640	1,422	1,344	1,189	751
Income from continuing operations	4,422	3,469	3,500	2,296	1,372
Loss from discontinued operations	(38)	--	--	--	--
Net income	\$ 4,384	\$ 3,469	\$ 3,500	\$ 2,296	\$ 1,372
Gross written premiums	\$ 42,888	\$ 37,695	\$ 37,869	\$ 29,992	\$ 17,786
Net written premium	31,149	26,677	27,219	21,173	12,089
Weighted average common and common share equivalents	32,213	16,956	16,956	16,956	16,956
Earnings per share:					
Primary	\$ 0.21	\$ 0.20	\$ 0.20	\$ 0.14	\$ 0.08
Fully diluted	\$ 0.16	\$ 0.20	\$ 0.20	\$ 0.14	\$ 0.08
Loss ratio	41.3%	39.2%	37.9%	38.0%	34.6%
LAE ratio	22.5%	16.9%	15.6%	11.6%	11.5%
Expense ratio	38.0%	39.9%	43.5%	39.7%	48.0%
Combined ratio	101.8%	96.0%	97.0%	89.3%	94.1%
Invested assets and cash	\$ 108,523	\$ 60,908	\$ 57,642	\$ 46,670	\$ 30,727
Goodwill, net of amortization	6,048	--	--	--	--
Total assets	167,330	86,735	81,931	68,117	36,926
Loss and loss expense payable	41,099	37,002	34,661	29,528	14,107
Total liabilities	76,008	59,967	58,100	50,304	23,895
Total Shareholders' equity	91,322	26,768	23,580	18,401	13,031

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to assist in the understanding of IASI's financial position and results of operations for each of the years ended December 31, 1996, 1995 and 1994. This discussion should be read in conjunction with IASI's consolidated and combined financial statements and notes thereto included herein. In accordance with IASI's intent to sell its environmental services operations, the results of operations related to such operations have been reflected as a discontinued operation in IASI's consolidated and combined financial statements. See "Results of Operations - Discontinued Operations."

RESULTS OF OPERATIONS

COMPARISON OF YEAR ENDED DECEMBER 31, 1996 TO YEAR ENDED DECEMBER 31, 1995

Revenues increased \$4.9 million, or 16%, from \$30.9 million in 1995 to \$35.8 million in 1996 and consist of the following:

	YEAR ENDED DECEMBER 31,		DOLLAR CHANGE
	1996	1995	
	-----		-----
	(in thousands)		-----
Premiums earned.....	\$27,743	\$26,962	\$781
Net investment income.....	3,564	3,341	223
Net realized gains on investments.....	1,529	166	1,363
Other income.....	2,933	470	2,463
	-----		-----
Total revenues.....	\$35,769	\$30,939	\$4,830
	-----		-----

Premiums earned increased approximately \$800,000 on an increase of \$4.4 million in net written premiums in 1996. Much of the increase in net written premiums was recorded in the second half of 1996, which directly impacted IASI's earned premium. On a gross written basis, IASI reported an increase of \$5.1 million in 1996, \$5.0 million of which was generated through brokerages and \$800,000 of which was generated through general agencies. These increases were offset by a \$1.3 million decline in IASI's remedial action coverages.

IASI reported increases in net investment income of \$223,000 and net realized gains on investments of \$1.5 million in 1996. Net investment income grew 6.7% on invested assets of \$68.6 million in 1996. IASI's \$1.4 million increase in net realized gains on investments from \$166,000 in 1995 to \$1.5 million in 1996 is attributable to the gains realized on the sale of certain equity investments.

Other income increased \$2.5 million in 1996 over 1995 and is attributable to non-recurring income of \$1.1 million from the American Sentinel settlement, higher commission income of \$400,000 and SMR revenues of \$600,000 since its acquisition.

Total expenses increased \$3.7 million to \$29.7 million in 1996 from \$26.0 million in 1995. Such increase was attributable to the change in loss and loss adjustment expenses ("LAE") of \$2.5 million and other expenses of \$1.2 million. While losses incurred have increased \$844,000, loss development from prior years increased \$1.4 million and primarily relate to property losses, which were higher than normal. In addition, IASI has experienced increases in LAE to \$6.2 million in 1996 from \$4.5 million in 1995. Such increases are attributable to IASI's business mix, primarily its casualty lines of business, and to the general litigation climate. The casualty lines of business generally have higher loss adjustment costs relative to premium dollars. Another factor affecting this increase is the court ruling in the case of Montrose Chemical Corporation v. Admiral Insurance Company. The California Supreme Court adopted a "continuous trigger of coverage" in cases involving continuous and progressive third party damage claims. Insurance companies are liable for claims occurring prior to the policy period for claims which continued to progress during the course of the policy term. The exposure to IASI does not have a residual impact on loss reserves but does have a direct effect on IASI's loss adjustment reserving practices due to a higher potential for claims handling and litigation costs.

Other expenses increased \$1.2 million to \$4.4 million in 1996 from \$3.2 million in 1995 and primarily were affected by the initial consolidation of SMR in December and other general corporate expenses incurred in the fourth quarter of 1996. Other costs attributable to IASI's insurance services business improved slightly to \$2.9 million in 1996 from \$3.1 million in 1995.

Income from continuing operations before taxes increased \$1.2 million, or 23.9%, to \$6.1 million in 1996 from \$4.9 million in 1995 and net income increased \$915,000, to \$4.4 million in 1996 from \$3.5 million in 1995 primarily for the reasons stated above.

COMPARISON OF YEAR ENDED DECEMBER 31, 1995 TO YEAR ENDED DECEMBER 31, 1994

Total revenues increased \$3.6 million, or 13% to \$30.9 million in 1995 from \$27.3 million in 1994. Premiums earned increased \$3.6 million to \$27.0 million in 1995 from \$23.4 million in 1994, while net premiums declined \$500,000 to \$26.7 million in 1995 from \$27.2 million in 1994. The timing of earned premiums primarily accounted for the increase in total revenues. Timing differentials reflect the changing mix of products to a substantially greater concentration in the commercial lines and environmental surety businesses and a decrease in the private passenger auto physical damage and miscellaneous surety business. Commercial lines written premiums increased by \$1.5 million but were offset by a reduction in the automotive and miscellaneous surety business following IASI's decision to withdraw from these markets. Also contributing to the revenue increase was \$864,000 in net investment income during 1995, a 35% increase over 1994 revenues. Total revenue in 1994 included a gain of \$807,000 attributable to the American Sentinel settlement.

Total expenses increased \$3.5 million to \$26.0 million in 1995 from \$22.5 million in 1994. Such increase was primarily a result of a \$2.6 million increase in loss and LAE. The increase in loss and LAE was a direct result of increased premium revenue of \$3.6 million. Acquisition expenses also increased \$2.3 million in 1995 from 1994. As a percentage of total revenue, total expenses for 1995 and 1994 were 84% and 82%, respectively.

Primarily for the reasons stated above, 1995 income before income taxes increased \$47,000, or 1%, to \$4.9 million in 1995 from \$4.8 million in 1994 and net income decreased \$31,000, or 1%, to \$3.5 million in 1995 from \$3.5 million in 1994.

BALANCE SHEET SUMMARY

The following tables set forth the key elements of IASI's balance sheet:

ASSETS:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	----	----	----
	(in thousands)		
Total cash and invested assets.....	\$108,523	\$60,908	\$57,642
Premiums receivable.....	7,013	4,467	5,201
Other assets.....	51,794	21,360	19,088
	-----	-----	-----
Total assets.....	\$167,330	\$86,735	\$81,931
	-----	-----	-----

LIABILITIES:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	-----	-----	-----
	(in thousands)		
Total liability for loss/LAE.....	\$41,099	\$37,002	\$34,661
Unearned premium.....	18,637	15,636	15,453
Other liabilities.....	16,272	7,329	8,382
	-----	-----	-----
Total liabilities.....	\$76,008	\$59,967	\$58,496
	-----	-----	-----

CAPITAL AND SURPLUS:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	-----	-----	-----
	(in thousands)		
Total shareholders' equity.....	\$91,322	\$26,768	\$23,580

Ten years later..... 2,700

The retroactively reestimated net liability for loss and loss expenses as of:

One year later.....	2,888	4,277	7,406	8,388	10,674	12,003	12,587	18,910	23,049	28,246	--
Two years later.....	3,375	4,032	7,445	8,504	9,239	10,877	9,829	17,531	22,193		
Three years later.....	3,132	4,042	7,419	7,025	8,183	8,419	8,899	16,174			
Four years later.....	3,056	4,028	6,365	6,668	6,631	8,675	7,822				
Five years later.....	3,039	3,420	6,311	5,638	6,320	7,467					
Six years later.....	2,849	3,406	5,534	5,243	5,823						
Seven years later.....	2,829	3,009	5,308	5,133							
Eight years later.....	2,708	2,949	5,230								
Nine years later.....	2,713	2,926									
Ten years later.....	2,706										

Net cumulative redundancy (deficiency).....	\$ (430)	558	1,972	3,035	4,605	5,308	6,285	4,849	3,085	(158)	--
---	----------	-----	-------	-------	-------	-------	-------	-------	-------	-------	----

Gross liability - end of year									\$34,661	37,002	41,099
Reinsurance recoverable									9,383	8,914	8,114
Net liability - end of year									25,278	28,088	32,985

The data set forth in the table above does not reflect the adoption of SFAS No. 113.

DISCONTINUED OPERATIONS

IASI's results of operations related to its environmental services operations have been reflected as a discontinued operation in IASI's consolidated and combined financial statements as a result of IASI's execution of the non-binding Letter of Intent. See Note 15 to the Consolidated and Combined Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL CONDITION

IASI had cash and investments, excluding mortgage loans, of \$104.8 million, \$57.5 million, and \$54.7 million at December 31, 1996, 1995 and 1994, respectively. The \$47.3 million increase from 1995 to 1996 is a result of IASI's generation of proceeds from stock issuances from exercises of outstanding options and warrants and the Private

Placement (defined herein), profits and additional loss reserves on an increasing volume of liability coverages which have slower payout patterns than property coverages.

Net cash provided by operations for the years ended December 31, 1996, 1995, and 1994 was \$13.2 million, \$3.6 million and \$9.7 million, respectively. These amounts were adequate to meet all of IASI's capital expenditure, operating and acquisition costs and resulted primarily from earnings and the timing of reinsurance contingency transactions.

IASI's financing activities provided net cash for the years ended December 31, 1996, 1995 and 1994 of \$35.7 million, \$5.6 million and \$1.4 million, respectively. During 1996, IASI realized approximately \$38.0 million in cash proceeds from a private placement and from stock issuances, offset in part by dividends paid to Alliance Holding by CSC and CSU prior to the Merger Transactions.

SOURCES OF CASH

IASI's principal source of revenue from its specialty insurance services operations consists of insurance and reinsurance premiums, investment income, commission and fee income, and proceeds from sales and maturities of investment securities. Premiums written become premiums earned for financial statement purposes as the premium is earned incrementally over the term of each insurance policy and after deducting the amount of premium ceded to reinsurers pursuant to reinsurance treaties or agreements. The property and liability operation of IASI generates positive cash flow from operations as a result of premiums being received in advance of the time when the claim payments are made.

The companies of the CSC Group are subject to regulation and supervision by state insurance regulatory agencies, applicable generally to each insurance company in its state of incorporation. Such regulations limit the amount of dividends or distributions by an insurance company to its shareholders. If insurance regulators determine that payment of a dividend or any other payment to an affiliate (such as a payment under a tax allocation agreement) would, because of the financial condition of the paying insurance company or otherwise, be detrimental to such insurance company's policyholders or creditors, the regulators may block payment of such dividend or such other payment to the affiliates that would otherwise be permitted without prior approval.

Ohio law limits the payment of dividends to IASI. The maximum dividend that may be paid without prior approval of the Director of Insurance of the State of Ohio 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 IASI in 1997 without prior approval of the Director of Insurance of the State of Ohio is approximately \$2.6 million.

IASI's principal source of revenue from its business outsourcing services operation is the collection of fees from professional services rendered to its clients in the areas of information technology consulting, tax return preparation and compliance, and business valuations, as well as other areas that have been previously discussed.

In May 1995, IASI secured a \$6.0 million credit facility with a United States commercial bank to provide IASI with additional liquidity and working capital. This facility provides for borrowings at the prime lending rate plus 0.5% or adjusted three-month LIBOR rate plus 2.5%, which would be 8.75% and [7.95%], respectively, at December 31, 1996 and will mature in 1998. Up to \$4.5 million of the credit facility is available for the issuance of standby letters of credit. At December 31, 1996 IASI had issued \$2.4 million in standby letters of credit and had no cash borrowing under the credit facility. The credit facility contains various affirmative and negative covenants which, among other things, restrict the payment of dividends and require the maintenance of certain financial ratios. Borrowings under the credit facility are secured by all of IASI's United States based assets related to its environmental services operations.

In December 1996, IASI issued and sold 3,251,888 units of IASI (the "Units") for \$9.00 per Unit (the "Private Placement"). Each Unit consisted of one share of Common Stock and one warrant to purchase one share of Common Stock of IASI at an exercise price of \$11.00 per share exercisable, in whole or in part, for a three year period from the date of issuance. The Private Placement resulted in net proceeds of approximately \$27.6 million, after deducting the placement agent fee and other estimated expenses associated with the Private Placement.

In addition, MGD Holdings, the Harve A. Ferrill Trust U/A 12/31/69 (the "Ferrill Trust") and WeeZor I Limited Partnership ("WeeZor"), affiliates of each of Messrs. Michael G. DeGroote, Chairman of the Board of IASI, Harve A. Ferrill and Richard C. Rochon, directors of IASI, respectively, have entered into agreements to purchase an aggregate of 616,611 Units, subject to stockholder approval. On January 6, 1997, the issuance of such Units was approved by written consent of the holders of a majority of the outstanding shares of Common Stock. In accordance with Rule 14c-2 under the Exchange Act, on or about April 1997, IASI will distribute a Schedule 14C Information Statement (the "Information Statement") to holders of IASI's Common Stock as of the date of such written consent. The Information Statement will be used to notify such holders of Common Stock of the action by written consent approving the issuance of Units to MGD Holdings, the Ferrill Trust and WeeZor. In accordance with the requirements of the Exchange Act, the issuance of Units to MGD Holdings and Messrs. Ferrill and Rochon will close no earlier than

20 days following the distribution of the Information Statement to such holders. Upon the closing of the issuance of such Units, IASI will receive an additional \$5.3 million in proceeds.

USES OF CASH AND LIQUIDITY OUTLOOK

OPERATIONS. IASI's capital expenditures from continuing operations totaled \$286,000, \$223,000 and \$340,000 for the years ended December 31, 1996, 1995 and 1994, respectively, which included expenditures for fixed assets for normal replacement, compliance with regulations and market development. During the year ended December 31, 1996, IASI funded capital expenditures from cash on hand and operating cash flow. IASI anticipates that during 1997, it will continue to fund expenditures from operating cash flow supplemented by borrowing under its revolving credit facility, as necessary. Management believes that IASI currently has sufficient cash and lines of credit to fund current operations and expansion thereof.

Cash used in investing activities for the years ended December 31, 1996, 1995 and 1994 primarily came as the result of differences in the purchases and sales of investments.

IASI is required to establish a reserve for unearned premiums. IASI's principal costs and factors in determining the level of profit is the difference between premiums earned and losses, LAE and agent commissions. Loss and LAE reserves are estimates of what an insurer expects to pay on behalf of claimants. IASI is required to maintain reserves for payment of estimated losses and LAE for both reported claims and for IBNR claims. Although the ultimate liability incurred by IASI may be different from current reserve estimates, management believes that the reserves are adequate.

IASI believes its cash flow from operations and available financial resources provide for adequate liquidity to fund existing and anticipated capital and operational requirements as well as to fund future growth and expansion. Management is not aware of any current recommendations by regulatory authorities that, if implemented, could have a material impact on IASI's liquidity, capital resources and operations.

ACQUISITIONS. IASI's strategy is to aggressively expand its specialty insurance and business outsourcing services operations through internal growth and by acquiring and integrating existing businesses. IASI makes its decision to acquire or invest in businesses based on financial and strategic considerations. See "Business and Properties -- Business Strategy." Businesses acquired to date have been accounted for under the purchase method of accounting and, accordingly, are included in the financial statements from the date of acquisition.

Management believes that IASI currently has sufficient resources, including cash on hand, cash flow from operating activities, credit facilities and access to financial markets to fund current and planned operations, service any outstanding debt and make certain acquisitions. However, substantial additional capital may be necessary to fully implement IASI's aggressive acquisition program. There can be no assurance that additional financing will be available on a timely basis, if at all, or that it will be available in the amounts or on terms acceptable to IASI.

STOCK REPURCHASE PROGRAM

In April 1995, IASI's Board of Directors authorized IASI to repurchase up to 500,000 shares or 4.6% of Common Stock during 1995 as deemed appropriate by management and authorized an additional repurchase of 500,000 shares or 4.6% of Common Stock in February 1996. Repurchases were effected at prevailing market prices from time to time on the open market prior to the negotiation of the Merger Transactions. The last repurchase was effected by IASI on March 4, 1996 and as of such date IASI had repurchased approximately 695,842 shares of Common Stock for an aggregate cost of approximately \$1,040,000. The repurchased shares have been retired and the repurchase program has been discontinued.

UNCERTAINTY OF FORWARD-LOOKING STATEMENTS

This Annual Report contains various forward-looking statements and information that are based on management's belief as well as assumptions made by, and information currently available to, management. Such statements are typically punctuated by words or phrases such as "anticipate," "estimate," "projects," "management believes," "IASI believes" and words or phrases of similar import. Such statements are subject to certain risks, uncertainties or assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. Among the key factors that may have a direct bearing on IASI's results of operations and financial condition are: (i) demand for IASI's services; (ii) IASI's ability to integrate the operations of acquired businesses; (iii) IASI's ability to expand into new markets; (iv) the consummation of IASI's disposition of its environmental services operations; (v) environmental liabilities to which IASI may become subject in the future which are not covered by an indemnity or insurance; (vi) the impact of current and future laws and governmental regulations affecting IASI's operations; (vii) competitive practices in the specialty insurance and bonding industries; (viii) competitive practices in the reinsurance markets utilized by IASI; (ix) judicial, legislative, and regulatory changes of law relating to risks covered by IASI or to the operations of insurance companies in general; (x) market fluctuations in the values or

returns on assets in IASI's investment portfolios; (xi) pricing of IASI insurance products; and (xii) adverse loss development.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Financial Statements and Supplementary Data required hereunder are included in this Annual Report as set forth in Item 14(a) hereof.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Described in IASI's Form 8-K dated February 19, 1997.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information appearing under the caption "Election of Directors" in IASI's definitive proxy statement (the "Proxy Statement") relating to the 1997 Annual Stockholders Meeting (the "Annual Meeting"), is incorporated herein by reference. The information regarding executive officers of IASI is contained in Part I of this Annual Report under a separate item captioned "Executive Officers of IASI."

ITEM 11. EXECUTIVE COMPENSATION.

The information appearing under the caption "Executive Compensation" in the Proxy Statement relating to the Annual Meeting is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information appearing under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information appearing under the captions "Certain Relationships and Related Transactions" in the Proxy Statement is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) The following documents are filed as part of this Annual Report or incorporated by reference:

1. Financial Statements.

As to financial statements and supplementary information, reference is made to "Index to Financial Statements" on page F-1 of this Annual Report.

2. Financial Statement Schedules.

As to financial statement schedules, reference is made to "Index to Financial Statements" on page F-1 of this Annual Report.

3. Exhibits.

The following documents are filed as exhibits to this Form 10-K pursuant to Item 601 Regulation S-K.

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of IASI (filed as Exhibit 3.1 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference).
3.2*	Certificate of Amendment of the Certificate of Incorporation of IASI dated October 18, 1996.

- 3.3 Amended and Restated Bylaws of IASI (filed as Exhibit 3.2 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
- 4.1 Form of Stock Certificate of Common Stock of IASI (filed as Exhibit 4.1 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
- 4.2 Promissory Note, dated October 18, 1996, in the aggregate principal amount of \$4.0 million issued by IASI payable to Alliance Holding (filed as Exhibit 99.7 to IASI's Current Report on Form 8-K dated October 18, 1996, and incorporated herein by reference).
- 9.1 Voting Agreement, dated as of October 18, 1996, by and between MGD Holdings and Alliance Holding (filed as Exhibit 99.6 to IASI's Current Report on Form 8-K dated October 18, 1996, and incorporated herein by reference).
- 10.1 Spin-off Agreement (filed as Exhibit 10.1 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
- 10.2 Alternative Dispute Resolution Agreement (filed as Exhibit 10.2 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
- 10.3 Assumption of Liabilities and Indemnification Agreement (filed as Exhibit 10.3 to IASI's Registration Statement on Form 10, file no. 0-25890 and incorporated herein by reference)
- 10.4 Corporate Services Agreement (filed as Exhibit 10.4 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
- 10.5 Employee Benefits Agreement (filed as Exhibit 10.5 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
- 10.6 Insurance and Indemnification Agreement (filed as Exhibit 10.6 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
- 10.7 Tax Sharing Agreement (filed as Exhibit 10.7 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
- 10.8 IASI's Adjustment Plan (filed as Exhibit 10.8 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
- 10.9 Form of Warrant to purchase 200,000 shares of IASI's Common Stock issued to MGD Holdings Ltd. (filed as Exhibit 10.9 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
- 10.10 Form of Warrant to purchase 5,000 shares of IASI's Common Stock issued to Douglas R. Gowland (filed as Exhibit 10.11 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
- 10.11 Form of Warrant to purchase 55,000 shares of IASI's Common Stock issued for Douglas R. Gowland (filed as Exhibit 10.12 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
- 10.12 Credit Agreement dated as of May 11, 1995 by and among IASI and its Subsidiaries, as Borrowers, and CoreStates Bank, N.A. (filed as Exhibit 10.12 to IASI's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated herein by reference)
- 10.13 Agreement and Plan of Merger by and among IASI, Republic/CSA Acquisition Corporation, Republic/CSU Acquisition Corporation, Alliance Holding, CSC and CSU (filed as Appendix I to IASI's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).
- 10.14 Amendment No. 1 to Agreement and Plan of Merger by and among IASI, Republic/CSA Acquisition Corporation, Republic/CSU Acquisition Corporation, Alliance Holding, CSC and CSU (filed as Appendix IV to IASI's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).
- 10.15 Amendment No. 2 to Agreement and Plan of Merger by and among IASI, Republic/CSA Acquisition Corporation, Republic/CSU Acquisition Corporation, Alliance Holding, CSC and CSU (filed as

Appendix V to IASI's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).

- 10.16 Stock Purchase Agreement by and between IASI and H. Wayne Huizenga (filed as Appendix II to IASI's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).
- 10.17 Stock Purchase Agreement by and between IASI and MGD Holdings (filed as Appendix III to IASI's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).
- 10.18* Agreement and Plan of Merger by and among IASI, IASI/SMR Acquisition Co., SMR and its shareholders dated November 30, 1996.
- 10.19* Agreement and Plan of Merger by and among IASI, IASI/ECI Acquisition Co., ECI and its shareholders dated November 5, 1996.
- 11.1* IASI Earnings per Common Share Data.
- 21.1* List of Subsidiaries of IASI.
- 24.1* Consent of KPMG Peat Marwick LLP
- 99.1 Information Statement (filed as Exhibit 99.1 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)

*Indicates documents filed herewith.

(b) Reports on Form 8-K

IASI filed the following Current Reports on Form 8-K during the fourth quarter of 1996:

Current Report on Form 8-K dated October 18, 1996. Current Report on Form 8-K dated December 30, 1996.

INTERNATIONAL ALLIANCE SERVICES, INC.
AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS
INTERNATIONAL ALLIANCE SERVICES, INC.

We have audited the accompanying consolidated and combined financial statements of International Alliance Services, Inc. and Subsidiaries as listed in the accompanying index on page F-1. In connection with our audits of the consolidated and combined financial statements, we have also audited the financial statement schedules as listed in the accompanying index on page F-1. These consolidated and combined financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated and combined 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 consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of International Alliance Services, Inc. and Subsidiaries at December 31, 1996 and 1995, and the results of their operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated and combined financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG PEAT MARWICK LLP

Cleveland, Ohio
March 25, 1997

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES
 CONSOLIDATED AND COMBINED BALANCE SHEETS
 (In thousands, except share data)
 DECEMBER 31, 1996 AND 1995

	1996	1995
	-----	-----
ASSETS		
Investments (Note 4):		
Fixed maturities held to maturity, at amortized cost	\$ 15,481	\$ 15,309
Securities available for sale, at fair value:		
Fixed maturities	35,471	33,153
Equity securities	9,213	5,426
Mortgage loans	3,685	3,393
Short-term investments	4,799	843
Other long-term investments	-	90
	-----	-----
Total investments	68,649	58,214
Cash and cash equivalents	39,874	2,694
Premiums receivable, less allowance for doubtful accounts of \$284 and \$138, respectively	7,013	4,467
Deferred policy acquisition costs (Note 8)	4,345	3,428
Reinsurance recoverables (Note 7)	11,185	12,647
Excess of cost over net assets of businesses acquired, net of accumulated amortization of \$33 (Note 2)	6,048	-
Net assets held for disposal (Note 15)	22,999	-
Other assets	7,217	5,285
	-----	-----
TOTAL ASSETS	\$ 167,330	\$ 86,735
	=====	=====
LIABILITIES		
Losses and loss expenses payable (Note 6)	\$ 41,099	\$ 37,002
Unearned premiums	18,637	15,636
Note payable and capitalized leases (Note 11)	3,211	47
Income taxes (Note 10)	1,994	1,375
Accrued expenses	5,355	2,672
Other liabilities	5,712	3,235
	-----	-----
TOTAL LIABILITIES	76,008	59,967
	-----	-----
SHAREHOLDERS' EQUITY		
Common stock, par value \$.01 per share (Note 5)		
Authorized	-	-
- 100,000,000 shares at December 31, 1996;		
- 20,000,000 shares at December 31, 1995	-	-
Issued and outstanding	-	-
- 33,764,506 shares at December 31, 1996;		
- 14,760,000 shares at December 31, 1995	338	148
Additional paid-in capital	80,446	19,146
Retained earnings	6,842	4,208
Net Unrealized appreciation of investments (net of tax)	3,696	3,266
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	91,322	26,768
	-----	-----
Commitments and contingencies (Note 12)		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 167,330	\$ 86,735
	=====	=====

See the accompanying notes to the consolidated and combined financial statements.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES
 CONSOLIDATED AND COMBINED STATEMENTS OF INCOME
 (In thousands, except per share data)
 YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

	1996	1995	1994
	-----	-----	-----
Revenues:			
Premiums earned (Note 7)	\$ 27,743	\$ 26,962	\$ 23,368
Net investment income (Note 4)	3,564	3,341	2,477
Net realized gain on investments (Note 4)	1,529	166	80
Other income	2,933	470	1,385
	-----	-----	-----
Net revenues	35,769	30,939	27,310
	-----	-----	-----
Expenses:			
Losses and loss adjustment expenses (Note 7)	17,624	15,117	12,494
Policy acquisition expenses (Note 8)	7,699	7,774	5,428
Other expenses	4,384	3,157	4,544
	-----	-----	-----
Total expenses	29,707	26,048	22,466
	-----	-----	-----
Income from continuing operations before income tax expense	6,062	4,891	4,844
Income tax expense (Note 10)	1,640	1,422	1,344
	-----	-----	-----
Income from continuing operations	4,422	3,469	3,500
Loss from discontinued operations (net of income tax expense of \$91) (Note 15)	(38)	-	-
	-----	-----	-----
Net income	\$ 4,384	\$ 3,469	\$ 3,500
	=====	=====	=====
Earnings per common and common share equivalents (Note 3):			
Primary:			
Income from continuing operations	\$ 0.21	\$ 0.20	\$ 0.20
Loss from discontinued operations	-	-	-
	-----	-----	-----
Net income per share	\$ 0.21	\$ 0.20	\$ 0.20
	=====	=====	=====
Fully Diluted:			
Income from continuing operations	\$ 0.16	\$ 0.20	\$ 0.20
Loss from discontinued operations	-	-	-
	-----	-----	-----
Net income per share	\$ 0.16	\$ 0.20	\$ 0.20
	=====	=====	=====
Weighted average common and common share equivalents, primary and fully diluted:	32,213	16,956	16,956
	=====	=====	=====

See the accompanying notes to the consolidated and combined financial statements.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED AND COMBINED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except share data)
YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

	SHARES -----	COMMON STOCK -----	ADDITIONAL PAID-IN CAPITAL -----	RETAINED EARNINGS -----	UNREALIZED APPRECIATION (DEPRECIATION) -----
December 31, 1993	14,760,000	\$ 148	\$ 14,744	\$ 3,589	\$ (80)
Net income	-	-	-	3,500	-
Pre-merger capital contribution from parent	-	-	3,807	-	-
Pre-merger dividends paid to parent	-	-	-	(1,000)	-
Change in unrealized appreciation (depreciation)	-	-	-	-	(1,164)
Cumulative effect of change in accounting for investments	-	-	-	-	36
	-----	-----	-----	-----	-----
December 31, 1994	14,760,000	148	18,551	6,089	(1,208)
Net income	-	-	-	3,469	-
Pre-merger capital contribution from parent	-	-	595	-	-
Pre-merger dividends paid to parent	-	-	-	(5,350)	-
Change in unrealized appreciation (depreciation)	-	-	-	-	4,474
	-----	-----	-----	-----	-----
December 31, 1995	14,760,000	148	19,146	4,208	3,266
Net income	-	-	-	4,384	-
Pre-merger capital contribution from parent	-	-	595	-	-
Pre-merger dividends paid to parent	-	-	-	(1,750)	-
Change in unrealized appreciation (depreciation)	-	-	-	-	430
Reverse merger	10,858,158	108	16,136	-	-
Stock issuances	7,251,888	73	38,164	-	-
Stock options	101,960	1	1,153	-	-
Business acquisitions	792,500	8	5,252	-	-
	-----	-----	-----	-----	-----
December 31, 1996	33,764,506	\$ 338	\$ 80,446	\$ 6,842	\$ 3,696
	=====	=====	=====	=====	=====

See the accompanying notes to the consolidated and combined financial statements.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(In thousands, except share data)
YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income from continuing operations	\$ 4,422	\$ 3,469	\$ 3,500
Adjustments to reconcile net income to net cash provided by operating activities:			
Net loss from discontinued operations	(38)	-	-
Depreciation and amortization	7,969	8,143	5,866
Deferred income taxes	(27)	(699)	55
Income on participation transaction	-	-	(807)
Cash provided by (used in) changes in assets and liabilities, net of acquisition:			
Premiums receivable, net	(915)	(62)	(348)
Deferred policy acquisition costs	(8,616)	(7,476)	(6,748)
Reinsurance recoverables, net	1,462	(1,671)	(1,150)
Other assets	(1,540)	(527)	(313)
Losses and loss expenses payable	4,097	2,341	5,133
Unearned premiums	3,001	183	3,287
Income taxes	646	725	170
Accrued expenses	1,105	533	(82)
Other liabilities	3,292	1,242	1,273
Other, net	(1,693)	(2,599)	(146)
	13,165	3,602	9,690
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed maturities, held to maturity	(1,318)	(269)	(1,805)
Purchase of fixed maturities, available for sale	(12,408)	(9,552)	(8,857)
Purchase of equity securities	(2,921)	(228)	(223)
Redemption of fixed maturities, held to maturity	1,000	1,281	2,009
Sale of fixed maturities, available for sale	9,333	7,089	1,155
Sale of equity securities	675	150	201
Increase in mortgage loans	(1,275)	(1,342)	(1,893)
Principal receipts on mortgage loans	983	910	780
Change in short-term investments	(3,956)	27	5,968
Business acquisitions, net of cash acquired	912	-	538
Acquisition of property and equipment	(286)	(223)	(340)
	(9,261)	(2,157)	(2,467)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Pre-merger dividends paid to parent	(1,750)	(5,350)	(1,000)
Repayment of debt	(836)	(295)	(380)
Proceeds from stock issuances	38,237	-	-
	35,651	(5,645)	(1,380)
Net increase (decrease) in cash and cash equivalents	39,555	(4,200)	5,843
Cash and cash equivalents at beginning of year	2,694	6,894	1,051
Cash and cash equivalents at the end of year:			
Continuing operation	39,874	2,694	6,894
Discontinued operations	2,375	-	-
Total cash and cash equivalents at end of year	\$ 42,249	\$ 2,694	\$ 6,894

See the accompanying notes to the consolidated and combined financial statements.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

International Alliance Services, Inc. and subsidiaries (the "Company") is a diversified services organization which provides specialty insurance services and business consulting and management services. The Company markets its specialty insurance and bonding products and business services in the United States.

RESI Transaction

On October 18, 1996, Republic Environmental Services, Inc. ("RESI") issued (a) an aggregate of 14,760,000 shares of RESI common stock, par value \$0.01 per share ("RESI Common Stock"), (b) warrants to purchase an aggregate of 4,200,000 additional shares of RESI Common Stock at exercise prices ranging from \$2.625 to \$3.875 per share, expiring in two to four years and (c) a promissory note in principal amount of \$4,000,000 in exchange for the stock of Century Surety Company ("CSC") and Commercial Surety Agency, Inc. d.b.a. Commercial Surety Underwriters ("CSU") (together the "Alliance Companies") ("the RESI Transaction"). The RESI transaction was accounted for as a reverse merger whereby the Alliance Companies gained a controlling interest in the stock of RESI. Contemporaneously, RESI changed its name to International Alliance Services, Inc. On June 24, 1996, the Company began trading under the symbol "IASI" in anticipation of the name change.

The consolidated and combined financial statements presented herein are as follows:

- i. Consolidated and Combined Balance Sheets of the Company at December 31, 1996 and the Alliance Companies at December 31, 1995;
- ii. Consolidated Statement of Income for the year ended December 31, 1996 of the Alliance Companies and RESI for the period October 1, 1996 to December 31, 1996. The Combined Statements of Income for the years ended December 31, 1995 and 1994 are of the Alliance Companies;
- iii. Consolidated and Combined Statements of Shareholders' Equity of the Company for the years ended December 31, 1996, 1995 and 1994 reflecting the number of shares received in the RESI Transaction as if the shares had been issued at January 1, 1994;
- iv. Consolidated and Combined Statements of Cash Flows of the Company for the year ended December 31, 1996, and the Alliance Companies for the years ended December 31, 1995 and 1994.

The following are significant accounting policies followed by the Company.

Basis of Consolidation

The Company's consolidated and combined financial statements include the accounts of all wholly owned subsidiaries. Significant subsidiaries of the Company include CSC in continuing operations and RESI in discontinued operations. All significant intercompany accounts and transactions have been eliminated.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

In preparing the consolidated and combined 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 and combined financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ 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, the recoverability of deferred policy acquisition costs, and the net realizable value of reinsurance recoverables and net assets held for disposal.

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 of 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. In addition, management's estimates of amounts recoverable from reinsurers, net of valuation allowance, are believed to be consistent with the claim liability, but the actual amounts recoverable could differ from those estimates. The amounts the Company will ultimately realize from the sale of the net assets held for disposal could differ from management's estimates of their realizable value.

Cash and Cash Equivalents

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

Excess of Cost over Net Assets of Businesses Acquired

The excess of cost over the fair value of net assets of businesses acquired is being amortized on a straight-line basis over periods ranging from twenty to twenty-three years. It is the Company's policy to evaluate the excess of cost over the net assets of businesses acquired based on an evaluation of such factors as the occurrence of a significant adverse event or change in the environment in which the business operates or if the expected future net cash flows, undiscounted and without interest, would become less than the carrying amount of the asset. An impairment loss would be recorded in the period such determination is made based on the fair value of the related businesses. Amortization expense from continuing operations in 1996 was \$33,000 and \$0 in 1995 and 1994, respectively.

Property and Equipment

Property and equipment, which is included in other assets in the consolidated and combined balance sheets, are recorded at cost, less accumulated depreciation and amortization. The Company uses an accelerated method of depreciation, which approximates the straight line depreciation method, over the estimated useful lives of the assets, which are 5 years.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Deferred taxes are determined based on the estimated future tax effects of differences between the financial accounting and tax bases of assets and liabilities using the applicable tax laws in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Deferred income tax provisions and benefits are based on the changes in the deferred tax asset or tax liability from period to period.

Earnings per Common and Common Share Equivalents

The earnings per common share calculation for the years ended December 31, 1996, 1995 and 1994 was based upon the weighted average number of common and common share equivalents outstanding and the incremental number of outstanding common share equivalents computed under the modified treasury stock method. Because the aggregate number of common shares obtainable upon exercise of the outstanding options and warrants exceeded 20% of the number of common shares outstanding, all options and warrants were assumed to have been exercised and the aggregate proceeds were applied first, to repurchase outstanding common shares at the average market price for primary earnings per share and at the ending market price for fully diluted earnings per share during the period, but not to exceed 20% of the outstanding shares; second, to reduce borrowings; and third, to invest the remaining funds in U.S. government securities or commercial paper. Appropriate recognition relating to the effect of all interest savings and benefits and the respective tax effect was applied.

Investments

The Company adopted the provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities as of January 1, 1994. Fixed maturity securities that the Company has 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 shareholders' equity. The Company has no investment securities classified as trading. Pursuant to a Financial Accounting Standards Board Special Report, A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities, the Company reassessed the classification of all its investment securities. Effective December 20, 1995, the Company reclassified certain of its held to maturity securities to available for sale (see Note 4). 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, if any. Interest income is recognized on the accrual basis and dividend income is recognized on the ex-dividend date.

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 used limits the amount to its estimated realizable value which gives effect to the premium to be earned, the incurrence of loss and loss expenses and certain other costs expected to be incurred as premium is earned.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Options

The Company accounts for stock option plans under the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. The Company has adopted the disclosure only provisions of SFAS No. 123, Accounting for Stock-Based Compensation.

Losses and Loss Expenses Payable

The liability for losses and loss expenses is provided based upon case basis estimates for losses reported in respect to direct business; estimates of unreported losses based on estimated loss experience; estimates received and supplemental amounts provided relating to assumed reinsurance; and 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. The liability for losses and loss expenses is not discounted.

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.

Reinsurance Ceded

In accordance with SFAS No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts, reinsurance receivables are accounted for and reported separately as assets, net of valuation allowance. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability. Contracts not resulting in the reasonable possibility that the reinsurers may realize a significant loss from the insurance risk assumed generally do not meet the conditions for reinsurance accounting and are accounted for as deposits. Reinsurance premiums ceded and reinsurance recoveries on claims incurred are deducted from the respective revenue and expense accounts. The Company is not relieved of its primary obligation in a reinsurance transaction.

Business Risk

The following is a description of the most significant risks facing property and casualty insurers and how the Company mitigates those risks:

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

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business Risk (Continued)

Adverse Loss Development and Incurred But Not Reported ("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 Company makes judgments as to the ultimate costs of presented claims and makes a provision for their future payment by establishing reserves for existing claims (case reserves) and for IBNR claims, 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 Company is exposed to this risk by writing approximately 26% of its business in Ohio and surrounding states and 41% in California, thus increasing its exposure in these particular regions. 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 Company will default, or other parties, including reinsurers that owe the Company money, will not pay. The Company minimizes 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 Company 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 Company's positive cash flow from investment income and operations will enable the Company to operate without having to recognize significant losses from the sale of investments that have an unrealized holding loss as of December 31, 1996.

Reclassifications

Certain reclassifications have been made to the 1995 and 1994 financial statements to conform to the 1996 presentation.

2. ACQUISITIONS

In 1996, the Company made the following acquisitions:

On November 6, 1996, the Company acquired all of the outstanding shares of Environmental and Commercial Insurance Agency, Inc. ("ECI"), an insurance agency based in Columbus, Ohio for \$1,000,000 in cash and 192,500 shares of the Company's Common Stock. The shares issued are subject to a six month lock-up restriction.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

2. ACQUISITIONS (Continued)

On December 3, 1996, the Company completed the acquisition of SMR & Co. ("SMR"), a business services and consulting firm in Mayfield Village, Ohio. Under the terms of the acquisition, the Company acquired all of the outstanding shares of SMR for 600,000 shares of the Company's Common Stock and three-year warrants to acquire an additional 900,000 shares at \$10.375 per share. Of the 600,000 shares issued, 90,000 shares are subject to a six-month lock-up restriction and 510,000 shares are subject to a two-year lock-up restriction.

These acquisitions have been accounted for by the purchase method of accounting. The difference of \$6,081,000 between the fair value of net assets acquired and the purchase consideration of \$1,000,000 in cash and \$5,260,000 of the Company's Common Stock has been allocated to goodwill. The assets, liabilities and operating results of these companies are reflected in the Company's financial statements from their respective dates of acquisition forward. As a result of the nature of the assets and liabilities acquired there are no material identifiable intangible assets or liabilities.

The following data summarizes, on an unaudited pro forma basis, the combined results of continuing operations of the Company and the businesses acquired for the two years ended December 31, 1996. The pro forma amounts give effect to appropriate adjustments resulting from the combination, but are not necessarily indicative of future results of operations or of what results would have been for the combined companies (in thousands):

	1996 -----	1995 -----
Net revenues - pro forma	\$ 44,900	\$ 39,848
Net income - pro forma	\$ 5,084	\$ 3,979
Earnings per common and common share equivalent - pro forma		
- primary	\$.24	\$.23
- fully diluted	\$.18	\$.23

3. CALCULATION OF EARNINGS PER COMMON AND COMMON SHARE EQUIVALENTS

Income from continuing operations for the year ended December 31, 1996 was adjusted to reflect the effect of all interest savings and benefits and the tax effects under the modified treasury stock method. Modifications to income were not required for the years ended December 31, 1995 and 1994.

	Primary -----	Fully Diluted -----
	(in thousands)	
Income from continuing operations	\$ 4,422	\$ 4,422
Interest expense reduction less 34% tax rate	30	30
Interest income less 34% tax rate	2,165	626
Adjusted income from continuing operations	6,617	5,078
Loss from discontinued operations	(38)	(38)
Adjusted net income	\$ 6,579	\$ 5,040

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

3. CALCULATION OF EARNINGS PER COMMON SHARE AND COMMON SHARE EQUIVALENTS
(Continued)

For the three years ended December 31, 1996, the Company computed earnings per common and common share equivalents under the modified treasury stock method as follows (in thousands):

	Primary -----	Fully Diluted -----
Weighted common shares - 1996:		
Weighted average common shares	17,863	17,863
Additional stock equivalents less 20% limitation on assumed repurchase	14,350	14,350
	-----	-----
	32,213	32,213
	=====	=====
Weighted common shares - 1995 and 1994:		
Weighted average common shares	14,760	14,760
Additional share equivalents less 20% limitation on assumed repurchase	2,196	2,196
	-----	-----
	16,956	16,956
	=====	=====

During February 1997, the Financial Accounting Standards Board issued SFAS No. 128, Earnings per Share, which is effective for financial statements for annual periods ending after December 15, 1997. However, disclosure of pro forma earnings per share amounts computed using the provisions of SFAS No. 128 is permissible. The unaudited pro forma earnings per share of the Company based on SFAS No. 128 are as follows:

	1996 -----	1995 -----	1994 -----
Basic EPS:			
Continuing operations	\$.25	\$.24	\$.24
Discontinued operations	-	-	-
	-----	-----	-----
Net income per share	\$.25	\$.24	\$.24
	=====	=====	=====
Diluted EPS from:			
Continuing operations	\$.18	\$.24	\$.24
Discontinued operations	-	-	-
	-----	-----	-----
Net income per share	\$.18	\$.24	\$.24
	=====	=====	=====

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

4. INVESTMENTS

The amortized cost and estimated fair value of fixed maturities held to maturity at December 31, 1996 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	-----	-----	-----	-----
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 6,136	\$ 28	\$ (65)	\$ 6,099
Corporate securities	8,850	18	(96)	8,772
Mortgage-backed securities	495	10	-	505
	-----	-----	-----	-----
Totals	\$ 15,481	\$ 56	\$ (161)	\$ 15,376
	=====	=====	=====	=====

The amortized cost and estimated fair value of securities available for sale at December 31, 1996 were as follows (in thousands):

	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	\$ 16,067	\$ 224	\$ (93)	\$ 16,198
Corporate securities	10,962	87	(66)	10,983
Mortgage-backed securities	8,092	207	(9)	8,290
	-----	-----	-----	-----
Equity securities	35,121 4,349	518 5,022	(168) (158)	35,471 9,213
	-----	-----	-----	-----
Totals	\$ 39,470	\$ 5,540	\$ (326)	\$ 44,684
	=====	=====	=====	=====

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, 1996, by contractual maturity, were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
	-----	-----
Due in one year or less	\$ 1,633	\$ 1,626
Due after one year through five years	12,921	12,811
Due after five years through ten years	356	347
Due after ten years	76	87
	-----	-----
Mortgage-backed securities	14,986 495	14,871 505
	-----	-----
	\$ 15,481	\$ 15,376
	=====	=====

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

4. INVESTMENTS (Continued)

The amortized cost and estimated fair value of fixed maturities available for sale at December 31, 1996, by contractual maturity, were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
	-----	-----
Due in one year or less	\$ 1,182	\$ 1,182
Due after one year through five years	21,904	21,969
Due after five years through ten years	3,701	3,795
Due after ten years	242	235
	-----	-----
	27,029	27,181
Mortgage-backed securities	8,092	8,290
	-----	-----
	\$ 35,121	\$ 35,471
	=====	=====

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	-----	-----	-----	-----
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 6,159	\$ 81	\$ (9)	\$ 6,231
Corporate securities	8,654	27	(62)	8,619
Mortgage-backed securities	496	18	-	514
	-----	-----	-----	-----
Totals	\$ 15,309	\$ 126	\$ (71)	\$ 15,364
	=====	=====	=====	=====

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

	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	\$ 6,522	\$ 303	\$ (7)	\$ 6,818
Obligations of states and political subdivisions	8,339	167	(3)	8,503
Corporate securities	14,990	439	(15)	15,414
Mortgage-backed securities	2,244	174	-	2,418
	-----	-----	-----	-----
	32,095	1,083	(25)	33,153
Equity securities	1,999	3,589	(162)	5,426
	-----	-----	-----	-----
	\$ 34,094	\$ 4,672	\$ (187)	\$ 38,579
	=====	=====	=====	=====

On December 20, 1995, the Company 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 \$5,733,000 and \$5,897,000, respectively, as of the date of reclassification.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

4. INVESTMENTS (Continued)

Net investment income was comprised of the following for the years ended December 31 as follows (in thousands):

	1996	1995	1994
	-----	-----	-----
Interest	\$ 3,652	\$ 3,455	\$ 2,588
Dividends	142	96	96
	-----	-----	-----
Total investment income	3,794	3,551	2,684
Less: Investment expense	(230)	(210)	(207)
	-----	-----	-----
Net investment income	\$ 3,564	\$ 3,341	\$ 2,477
	=====	=====	=====

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

	1996	1995	1994
	-----	-----	-----
Realized gains:			
Available for sale:			
Fixed maturities	\$ 117	\$ 114	\$ -
Equity securities	1,381	9	146
Other	125	73	-
	-----	-----	-----
Total realized gains	1,623	196	146
	-----	-----	-----
Realized losses:			
Available for sale:			
Fixed maturities	32	27	42
Equity securities	35	3	24
Other	27	-	-
	-----	-----	-----
Total realized losses	94	30	66
	-----	-----	-----
Net realized gains on investments	\$ 1,529	\$ 166	\$ 80
	=====	=====	=====

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

	1996	1995	1994
	-----	-----	-----
Available for sale:			
Fixed maturities	\$ (709)	\$ 2,147	\$(1,088)
Equity securities	1,437	3,583	(76)
	-----	-----	-----
	\$ 728	\$ 5,730	\$(1,164)
	=====	=====	=====

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

	1996	1995	1994
	-----	-----	-----
Gross unrealized appreciation (depreciation)	\$ 5,214	\$ 4,485	\$(1,208)
Deferred income tax	(1,518)	(1,219)	-
	-----	-----	-----
Net unrealized appreciation (depreciation)	\$ 3,696	\$ 3,266	\$(1,208)
	=====	=====	=====

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

4. INVESTMENTS (Continued)

Fixed maturities held to maturity and certificates of deposit with a carrying value of approximately \$8,939,000 and \$8,909,000 at December 31, 1996 and December 31, 1995, respectively, were on deposit with regulatory authorities as required by law. At December 31, 1996 and 1995 all mortgage loans were secured by properties in the states of California, Michigan and Ohio.

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

Cash and cash equivalents, short-term investments and premiums receivable: The carrying amounts reported in the consolidated and combined balance sheets for these instruments are at cost, which approximates 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 and combined balance sheets.

Mortgage loans: The carrying amounts reported in the consolidated and combined balance sheets are the aggregate unpaid balance of the loans, which approximates fair value.

5. COMMON STOCK

The Company's authorized common stock consists of 100,000,000 (20,000,000 at December 31, 1995) shares of common stock, par value \$0.01 per share. The holders of the Company's Common Stock are entitled to one vote for each share held on all matters voted on by shareholders. On January 22, 1997, the Company completed the registration of 32,126,076 shares of common stock (the "Shares") of which up to 17,925,888 are issuable upon exercise of outstanding warrants. The Shares were registered under the Securities Act of 1933 on behalf of certain selling shareholders in order to permit the public or private sale or other public or private distribution of the Shares. Accordingly, the Company will not receive any proceeds for these Shares.

On October 18, 1996, the Company issued 4,000,000 shares of the Company's Common Stock and warrants to purchase an additional 12,000,000 shares of the Company's Common Stock at exercise prices ranging from \$2.625 to \$3.875 per share, expiring in two to four years, for an aggregate purchase price of \$10,500,000.

In December 1996, the Company completed a private placement in which the Company offered 3,251,888 units (the "Units") to qualified investors at an aggregate purchase price of \$9.00 per Unit. Each Unit consisted of one share of common stock and one warrant to purchase one share of common stock at an exercise price of \$11.00 per share, exercisable for a three year period from the date of issuance. The Company realized net proceeds of \$ 27,737,000.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

5. COMMON STOCK (Continued)

Prior to the RESI Transaction, certain options were granted to employees, directors and affiliates of RESI's former parent company. When RESI was spun-off in April 1995 (the "Distribution Date"), optionees received options to acquire RESI Common Stock at the ratio of one RESI option for each five options under the former parent's 1990 and 1991 Stock Option plans. The outstanding options at the Distribution Date and the RESI options granted with respect thereto are stapled and are only exercisable if exercised together. Unvested options held and unvested RESI options granted, vest in accordance with the original vesting schedule as long as the optionee is employed by the former parent, RESI or their affiliates. Options granted under these plans expire ten years from the date of grant, and vest over varying periods. The option price is based on the fair market value of the common shares on the date of grant.

RESI agreed to issue to holders of unexpired warrants of its former parent, additional RESI warrants to acquire shares of RESI's Common Stock equal to one fifth of the number of shares available. At the Distribution Date, RESI adjusted the per share exercise price of the RESI warrants to reflect the effect of the distribution on the market prices of RESI and its former parent's common stock. These warrants are designated as stapled warrants and expire at various dates through May 2003. In connection with the RESI Transaction, the holders of these warrants are able to exercise under the original terms of the warrants and will receive Company stock. At December 31, 1996 and 1995, there were outstanding unexercised warrants to acquire 434,000 and 622,000 shares of the Company's Common Stock, respectively. During 1996, 188,000 RESI warrants were exercised at \$3.60 with no cancellations. In 1995, 250,000 RESI warrants were exercised ranging in price from \$1.08 to \$5.10 with no cancellations.

Under the Company's 1995 Employee Stock Option Plan, a maximum of 500,000 options may be awarded. Such options are granted at no less than fair market value at the date of grant, become exercisable in increments of 20% over a five-year vesting period and expire ten years from the date of grant. 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.

Information relating to the above stock option plans is summarized below:

	1996	1995
	-----	-----
Outstanding at beginning of year	190,200	-
Granted at Distribution Date	-	420,400
Granted (a)	230,000	31,000
Exercised (b)	(101,960)	(257,800)
Expired or canceled	(1,168)	(3,400)
	-----	-----
Outstanding at end of year (c)	317,072	190,200
	-----	-----
Exercisable at end of year (d)	22,320	70,000
	=====	=====
Available for future grant at the end of year (e)	273,000	502,000
	=====	=====

- (a) Options were granted at average costs of \$2.31 and \$1.50 in 1996 and 1995, respectively.
- (b) Options were exercised at prices ranging from \$1.08 to \$3.60 and averaging \$3.43 in 1996 and \$1.08 to \$5.80 and averaging \$5.07 in 1995.
- (c) Prices for options outstanding at December 31, 1996 ranged from \$1.08 to \$4.10 and averaged \$2.11 with expiration dates ranging from May 1997 to May 2006. Prices for options outstanding at December 31, 1995, ranged from \$1.08 to \$5.80 and averaged \$2.25 with expiration dates ranging from May 1996 to May 2004.
- (d) Options exercisable at December 31, 1996 and 1995 averaged \$2.18 and \$3.15, respectively.
- (e) Includes stapled options and options relating to the Company's 1995 Employee Stock Option Plan.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

5. COMMON STOCK (Continued)

The Company is currently seeking shareholder approval with regards to the 1996 Employee Stock Option Plan. Under the 1996 Employee Stock Option Plan, the Company will reserve 1,000,000 shares of Company Common Stock. The options awarded will be subject to a 20% incremental vesting schedule over a five-year period commencing from the date of grant. The options will be awarded at a price not less than fair market value at the time of the award and will expire six years from the date of grant. Subject to shareholder approval, 251,000 options were granted on December 26, 1996 at a cost of \$11.00. Shareholders will also vote on grants to non-employee directors of 150,000 options granted under the 1996 Employee Stock Option Plan, exercisable immediately, with a five year expiration term from the date of grant. The price of these options is \$11.00 for 100,000 of the options and \$12.00 for the remaining 50,000.

Had the cost of stock option plans been determined based on the provision of SFAS No. 123, the Company's net income and earnings per share pro forma amounts would be as follows (in thousands):

	As Reported		Pro Forma (unaudited)	
	Primary	Fully Diluted	Primary	Fully Diluted
1996				
Adjusted net income (1)	\$ 6,579	\$ 5,040	\$ 6,553	\$ 5,014
Net income per common share	\$.21	\$.16	\$.20	\$.16
1995				
Net income	\$ 3,469	\$ 3,469	\$ 3,468	\$ 3,468
Net income per common share	\$.20	\$.20	\$.20	\$.20

(1) See Note 3

The above results may not be representative of the effects of SFAS No. 123 on net income for future years.

The Company applied the Black-Scholes option-pricing model to determine the fair value of each option granted in 1996 and 1995. Below is a summary of the assumptions used in the calculation:

Dividend Yield	0%
Expected Volatility	35%
Risk-free interest rate	6.01%, 6.03% and 6.21%
Expected option life	3.75 years

The stock options issued to key employees in 1996 were assumed to vest at a rate of 100%.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

6. LIABILITY FOR UNPAID LOSSES AND LOSS EXPENSES

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

	1996 -----	1995 -----	1994 -----
Balance at January 1	\$ 37,002	\$ 34,661	\$ 29,528
Less: Reinsurance recoverables, net	(8,914)	(9,383)	(8,505)
Net balance at January 1	28,088	25,278	21,023
Incurred related to:			
Current year	17,216	17,297	14,753
Prior years	408	(2,180)	(2,259)
Total incurred	17,624	15,117	12,494
Paid related to:			
Current year	3,684	5,963	4,269
Prior years	9,043	6,344	3,970
Total paid	12,727	12,307	8,239
Net balance at December 31	32,985	28,088	25,278
Plus: reinsurance recoverables, net	8,114	8,914	9,383
Balance at December 31	\$ 41,099 =====	\$ 37,002 =====	\$ 34,661 =====

In 1995 and 1994, the Company 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 Company's environmental exposure from continuing operations relates primarily to its coverage of remediation related risks, thus management believes the Company's exposure to historic pollution situations is minimal. The Company's non-insurance environmental exposure from discontinued operations is discussed in Note 15.

7. REINSURANCE

In the ordinary course of business, the Company assumes and cedes reinsurance with other insurers and reinsurers. These arrangements provide the Company with a greater diversification of business and generally limit the maximum net loss potential on large risks. Excess of loss reinsurance contracts in effect through December 31, 1996, generally protect against individual property and casualty losses over \$200,000 and contract surety and miscellaneous bond losses over \$500,000. In addition to the excess of loss contract in effect for contract surety business, a 50% quota share contract on the first \$500,000 in losses is in effect. Asbestos abatement, lead abatement, environmental consultants professional liability and remedial action contractors business is 75% ceded on a quota share basis to reinsurers. Catastrophe coverage is also maintained.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

7. REINSURANCE (Continued)

The impact of reinsurance is as follows (in thousands):

	1996	1995	1994
	-----	-----	-----
Premiums written:			
Direct	\$ 42,420	\$ 36,278	\$ 37,127
Assumed	468	1,417	742
Ceded	(11,739)	(11,018)	(10,650)
	-----	-----	-----
Net	\$ 31,149	\$ 26,677	\$ 27,219
	=====	=====	=====
Premiums earned:			
Direct	\$ 39,388	\$ 36,005	\$ 34,255
Assumed	591	1,507	414
Ceded	(12,236)	(10,550)	(11,301)
	-----	-----	-----
Net	\$ 27,743	\$ 26,962	\$ 23,368
	=====	=====	=====
Losses and loss expense incurred:			
Direct	\$ 18,618	\$ 16,342	\$ 15,088
Assumed	210	1,223	(65)
Ceded	(1,204)	(2,448)	(2,529)
	-----	-----	-----
Net	\$ 17,624	\$ 15,117	\$ 12,494
	=====	=====	=====

The reinsurance payables were \$2,869,000, \$2,259,000 and \$2,056,000 at December 31, 1996, 1995 and 1994, respectively.

Reinsurance recoverables were comprised of the following as of December 31 (in thousands):

	1996	1995	1994
	-----	-----	-----
Receivables on unpaid losses and loss expenses	\$ 8,113	\$ 8,914	\$ 9,383
Receivables on ceding commissions and other	2,703	2,892	1,026
Receivables on paid losses and expenses	369	841	478
	-----	-----	-----
	\$ 11,185	\$ 12,647	\$ 10,887
	=====	=====	=====

The Company evaluates the financial condition of its reinsurers and establishes a valuation allowance as reinsurance receivables are deemed uncollectible. During 1996, the majority of ceded amounts were ceded to Republic Western Insurance Company and Reliance Insurance Company. The Company monitors concentrations of risks arising from similar geographic regions or activities to minimize its exposure to significant losses from catastrophic events.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

8. DEFERRED POLICY ACQUISITION COSTS

At December 31, 1996 changes in deferred policy acquisition costs were as follows (in thousands):

	1996	1995	1994
	-----	-----	-----
Balance, beginning of year	\$ 3,428	\$ 3,726	\$ 2,406
Policy acquisition costs deferred	8,616	7,476	6,748
Amortized to expense during the year	(7,699)	(7,774)	(5,428)
	-----	-----	-----
Balance, end of year	\$ 4,345	\$ 3,428	\$ 3,726
	=====	=====	=====

9. STATUTORY SURPLUS AND DIVIDEND RESTRICTION

Ohio law limits the payment of dividends by a company to its 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 surplus as of the prior December 31.

The consolidated and combined financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP"). The Company's insurance subsidiaries have filed annual financial statements with the Ohio Department of Insurance and Utah Department of Insurance, respectively, and are prepared on the basis of accounting practices prescribed by such regulatory authorities, which differ from GAAP. 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. All material transactions recorded by the Company's insurance subsidiaries are in accordance with prescribed practices.

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 in March 1996, and in Utah in April 1996, states where certain subsidiaries of the Company are domiciled. The RBC formula includes components for asset risk, liability risk, interest rate exposure and other factors. The Company's insurance subsidiaries exceeded all required RBC levels for December 31, 1996 and 1995.

CSC's statutory net income for the three years ended December 31, 1996, was \$1,916,000, \$3,681,000 and \$1,804,000, respectively, and the statutory capital and surplus was \$25,954,000, \$22,034,000 and \$20,123,000, respectively.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

10. INCOME TAXES

A summary of income tax expense (benefit) included in the Consolidated and Combined Statements of Income is as follows (in thousands):

	1996	1995	1994
	-----	-----	-----
Continuing operations			
Current:			
Federal	\$ 1,654	\$ 2,121	\$ 1,289
State and Local	13	-	-
	-----	-----	-----
	1,667	2,121	1,289
Deferred:			
Federal	(27)	(699)	55
	-----	-----	-----
Total continuing operations	1,640	1,422	1,344
Discontinued operations	91	-	-
	-----	-----	-----
	\$ 1,731	\$ 1,422	\$ 1,344
	=====	=====	=====

The provision for income taxes attributable to earnings from continuing operations differed from the amount obtained by applying the federal statutory income tax rate to income from continuing operations before income taxes, as follows (in thousands):

	1996	1995	1994
	-----	-----	-----
Tax at statutory rate (34%)	\$ 2,061	\$ 1,663	\$ 1,647
Change in valuation allowance	(589)	(169)	434
Tax exempt interest and dividends received deduction	(33)	(106)	(123)
Nontaxable income on participation transaction	-	-	(274)
Change in estimated liabilities	196	-	-
Other, net	5	34	(340)
	-----	-----	-----
Provision for income tax from continuing operations	\$ 1,640	\$ 1,422	\$ 1,344
	=====	=====	=====
Effective income tax rate	27.1%	29.1%	27.7%
	=====	=====	=====

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

10. INCOME TAXES (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1996 and 1995, are as follows (in thousands):

	1996	1995
	-----	-----
Deferred tax assets:		

Loss expenses payable discounting	\$ 2,176	\$ 1,957
Net operating loss carryforwards	1,136	1,235
Unearned premiums not deductible	1,105	1,063
Other deferred tax assets	151	143
	-----	-----
Total gross deferred tax assets	4,568	4,398
Less: valuation allowance	(1,379)	(1,968)
	-----	-----
Net deferred tax assets	3,189	2,430
	-----	-----
Deferred tax liabilities:		

Unrealized appreciation on investments	1,518	1,219
Deferred policy acquisition costs	1,477	1,165
Reinsurance recoverable	302	-
Other deferred tax liabilities	219	99
	-----	-----
Total gross deferred tax liabilities	3,516	2,483
	-----	-----
Net deferred tax liability, included in income taxes in the consolidated and combined balance sheets	\$ 327	\$ 53
	=====	=====
Net deferred tax liability attributable to discontinued operations, included in net assets held for disposal	\$ 1,340	\$ -
	=====	=====

The company had net operating loss ("NOL") carryforwards of approximately \$3,300,000 and \$3,600,000 at December 31, 1996 and 1995, respectively, from the separate return years of Evergreen National Indemnity Corporation ("ENIC"). These losses are subject to limitations regarding the offset of the company's future taxable income and will begin to expire in 2007.

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company determines a valuation allowance based on their analysis of amounts available in the statutory carryback period, consideration of future deductible amounts, and assessment of ENIC's separate company profitability. The Company has established valuation allowances for portions of ENIC's NOL carryforwards and other deferred tax assets. The net change in the valuation allowance for the years ended December 31, 1996 and 1995 was a decrease of \$589,000 and \$169,000, respectively. Even though the Company has had 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 Company will remain profitable in future years. However, during 1996, ENIC obtained all licenses necessary to fully operate, commenced underwriting insurance, and reported two consecutive years of profitability. As a result, management determined that a portion of the valuation allowance related to ENIC's NOL carryforwards was no longer required. Otherwise, the Company maintains a policy of recognizing other deferred tax assets recoverable in the carryback period and does not consider future taxable income in excess.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

11. SHORT-TERM BORROWINGS, NOTE PAYABLE AND CAPITALIZED LEASES

Short-Term Borrowings

The Company secured a \$6,000,000 credit facility used for additional working capital and other funding needs. Up to \$4,500,000 of the credit facility is available for the issuance of standby letters of credit. At December 31, 1996, the Company had issued \$2,400,000 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 1996 and 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 certain Company assets.

Note Payable and Capitalized Leases

Note payable and capitalized leases, consists of the following (in thousands):

	December 31	
	1996	1995
	-----	-----
Promissory note payable to a shareholder in quarterly installments of \$400,000 plus interest, based on 3 month LIBOR (5.51% at December 31, 1996) compounded daily, through December 15, 1999	\$ 3,200	\$ -
Capitalized leases, secured by equipment, payable monthly through 1997	11	47
	-----	-----
	\$ 3,211	\$ 47
	=====	=====

At December 31, 1996, aggregate maturities of note payable and capitalized leases, were as follows (in thousands):

YEARS ENDING
DECEMBER 31,

1997	\$ 1,611
1998	1,600

	\$ 3,211
	=====

Management believes that the carrying amounts of short-term borrowings, note payable and capitalized leases recorded at December 31, 1996 were not impaired and approximate fair values.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

12. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases certain of its premises and equipment under various operating lease agreements. At December 31, 1996, future minimum rental commitments becoming payable under all operating leases from continuing operations are as follows (in thousands):

YEARS ENDING DECEMBER 31, -----		
1997	\$	1,277
1998		1,202
1999		583
2000		563
2001		563
Thereafter		2,793

	\$	6,981
		=====

Total rental expense incurred under operating leases was \$454,000, \$411,000 and \$331,000 in 1996, 1995 and 1994, respectively.

Other

In the ordinary course of business, the Company is a defendant in various lawsuits. In the opinion of management, the effects, if any, of such lawsuits are not expected to be material to the Company's results of operations or financial position.

The Company has profit sharing plans covering substantially all of its employees. Participating employees may elect to contribute, on a tax deferred basis, a portion of their compensation, in accordance with Section 401(k) of the Internal Revenue Code. Employer contributions made to the plan for 1996, 1995 and 1994, amounted to \$240,000, \$141,000 and \$111,000, respectively.

13. SUPPLEMENTAL CASH FLOW DISCLOSURES

The Company recorded the acquisition of RESI as a non-cash transaction consisting of a \$4,000,000 promissory note and recapitalization of shareholders' equity of \$16,244,000. Additionally, during 1996, the Company acquired, in exchange for 792,500 shares of its common stock, and other consideration, 100% of SMR and ECI, which were also recorded as non-cash transactions.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

13. SUPPLEMENTAL CASH FLOW DISCLOSURES (Continued)

In December 1994, ENIC participated in a transaction whereby ENIC obtained an agreed upon amount of net assets of an unrelated party as consideration in completing the sale and the related settlements of debt of two unrelated parties. The transaction included a contingent receivable of up to \$2,900,000 due ENIC from the unrelated party. Based on the performance of the insurance operations sold, it was determined that \$807,000 and \$1,150,000 be recognized as revenue during 1994 and 1996, respectively. ENIC does not have any future obligations with respect to the insurance operations under the terms of the transaction agreements.

CASH PAID DURING THE YEAR FOR:

	1996	1995	1994
	-----	-----	-----
INTEREST	\$ 60	\$ 216	\$ 469
	=====	=====	=====
INCOME TAXES	\$ 1,290	\$ 128	\$ 64
	=====	=====	=====

14. RELATED PARTIES

In October 1996, the Company's Chairman purchased 1,900,000 shares of common stock, and warrants to purchase an additional 5,700,000 shares of common stock at exercise prices ranging from \$2.625 to \$3.875 per share, for an aggregate price of \$4,988,000. Additionally, the Chairman held warrants to purchase 240,000 shares of common stock at \$3.60 per share

The Company's Chief Financial Officer ("CFO") was a one-third owner of SMR. Among the liabilities assumed in connection with the SMR acquisition is a deferred compensation arrangement to which the CFO is entitled to receive 40% of the collections from the acquired receivables of SMR. In addition, in connection with the SMR transaction, the CFO received 195,600 shares of common stock and 293,400 warrants to purchase additional shares of common stock at an exercise price of \$10.375. The office building utilized by SMR is leased under a ten-year lease from a partnership in which the CFO is indirectly, a one-third owner.

The Company has issued six \$500,000 bonds covering certain loans obtained by an unrelated party, maturing from 1996 and 2002. Collateral for these bonds includes the personal indemnification of an indirect shareholder of the Company.

The Company's investment portfolios include loans to business organizations associated with a relative of a shareholder of the Company, which aggregate \$2,900,000. These loans provide for interest payments only until maturity, which range from December 31, 1997 through April 30, 1999.

The stock of ECI, which was acquired by the Company, was 45% owned by the spouse of an officer of a subsidiary of the Company.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

15. SUBSEQUENT EVENTS

In February 1997, the Company signed a letter of intent to sell the Company's Environmental Services business. The sale is subject to a definitive agreement and various governmental and regulatory approvals. The Company anticipates that the sale will be completed during 1997 and will realize the net carrying value of the net assets held for disposal.

In accordance with the Company's intent to sell the environmental services business, the related results of operations have been reflected in the Company's results of operations as a discontinued operation for the year ended December 31, 1996. Included in discontinued operations is the following (in thousands):

Revenues	\$ 9,202
	=====
Income before taxes	\$ 53
Income tax provision	91

Net loss	\$ (38)
	=====

Net assets of the discontinued operations at December 31, 1996 consists of (in thousands):

Cash	\$ 2,375
Accounts receivable, net	7,218
Property, plant and equipment, net	20,598
Excess of cost over net assets of businesses acquired, net	3,305
Other assets	1,074
Accounts payable	(3,959)
Accrued environmental costs	(3,203)
Accrued expenses and other liabilities	(4,409)

	\$ 22,999
	=====

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.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

15. SUBSEQUENT EVENTS (Continued)

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 previous owners of certain RESI facilities. 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. The Company believes it has sufficiently reserved for all costs of remediation.

On January 7, 1997, the Company completed the acquisition of the assets and business of Midwest Indemnity Corporation ("Midwest") located in Skokie, Illinois for a total cost of approximately \$9,900,000, consisting of 407,256 shares of restricted common stock, \$3,250,000 in cash and \$1,750,000 in non-interest bearing notes. Midwest markets environmental and surety bond products throughout the United States through a distribution system of agents and subagents.

On February 24, the Company completed the acquisition of Midland Consultants, Inc. ("Midland"), located in Brooklyn, Ohio, for 87,500 shares of restricted common stock, \$208,000 in cash and warrants to purchase 20,000 shares of common stock at an exercise price of \$11.625 per share exercisable through January 31, 2000. Midland provides specialized employment services.

On March 3, 1997, the Company consummated its acquisition of M&N Risk Management, Inc. and M&N Enterprises, Inc. (the "M&N Companies") and MFC, Inc. of Cleveland, Ohio for 384,600 shares of restricted common stock, \$1,000,000 cash and 900,000 warrants at \$13 per share exercisable until March 3, 2000. The M&N Companies provide employers with a turn-key approach to integrate workers' compensation actuarial analysis and underwriting capabilities with claims administration.

On March 3, 1997, the Company announced it had entered into an agreement to acquire The Benefits Group Agency, Inc. ("The Benefits Group"), located in Cleveland, Ohio, for 395,000 shares of restricted common stock, \$2,500,000 in cash and 500,000 warrants to purchase common stock at \$12.50 per share over a three year period. The transaction is subject to a definitive agreement and is expected to close by March 31, 1997. The Benefits Group is a full-service corporate benefits administration company.

INTERNATIONAL ALLIANCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

16. UNAUDITED QUARTERLY FINANCIAL DATA

Quarterly financial data are summarized as follows (amounts in thousands, except per share amounts):

1996 -----	March 31, -----	June 30, -----	September 30, -----	December 31, -----
Revenues	\$ 9,320	\$ 7,346	\$ 9,389	\$ 9,714
Income from continuing operations	\$ 655	\$ 771	\$ 839	\$ 2,157
Loss from discontinued operation	-	-	-	(38)
Net income	\$ 655	\$ 771	\$ 839	\$ 2,119
Earnings per common share:				
Primary -				
Continuing operations	\$.04	\$.04	\$.05	\$.08
Discontinued operations	-	-	-	-
Net income per share	\$.04	\$.04	\$.05	\$.08
Earnings per common share:				
Fully Diluted -				
Continuing operations	\$.04	\$.04	\$.04	\$.04
Discontinued operations	-	-	-	-
Net income per share	\$.04	\$.04	\$.04	\$.04
Weighted average common and common share equivalents, primary and fully diluted:	16,956	16,956	16,956	32,213
-----	-----	-----	-----	-----
1995	March 31,	June 30,	September 30,	December 31,
-----	-----	-----	-----	-----
Revenues	\$ 7,971	\$ 8,309	\$ 6,496	\$ 8,163
Net income (loss)	\$ 508	\$ (220)	\$ 101	\$ 3,080
Earnings per common share:				
Primary	\$.03	\$ (.01)	\$.01	\$.17
Fully diluted	\$.03	\$ (.01)	\$.01	\$.17
Weighted average common and common share equivalents, primary and fully diluted:	16,956	16,956	16,956	16,956
-----	-----	-----	-----	-----

The increase in net income in the fourth quarter of 1996 and 1995 are a result of the Company's historical policy of engaging an independent actuary to calculate the loss reserves at year end and settling the Company's reinsurance treaties in the fourth quarter. For future periods, this analysis will be completed by management on a quarterly basis.

INTERNATIONAL ALLIANCE SERVICES, INC.

SCHEDULE I--SUMMARY OF INVESTMENTS--OTHER THAN
 INVESTMENTS IN RELATED PARTIES
 DECEMBER 31, 1996
 (In thousands)

COLUMN A	COLUMN B	COLUMN C	COLUMN D
-----	-----	-----	-----
TYPE OF INVESTMENT	COST	VALUE	AMOUNT AT WHICH SHOWN IN THE BALANCE SHEET
-----	----	----	-----
Fixed maturities--held to maturity:			
Bonds:			
U.S. government and government agencies and authorities	\$ 6,136	\$ 6,099	\$ 6,136
States, municipalities and political subdivisions	--	--	--
Corporate securities	8,850	8,772	8,850
Mortgage-backed securities	495	505	495
Fixed maturities--available for sale:			
Bonds:			
U.S. government and government agencies and authorities	16,067	16,198	16,198
Corporate securities	10,962	10,983	10,983
Mortgage-backed securities	8,092	8,290	8,290
Total fixed maturities	50,602	50,847	50,952
Equity securities:			
Common stock:			
Public utilities	209	189	189
Banks, trust and insurance companies	225	252	252
Industrial, miscellaneous and all other	1,178	6,014	6,014
Nonredeemable preferred stocks	2,737	2,758	2,758
TOTAL EQUITY SECURITIES	4,349	9,213	9,213
Mortgage loans	3,685		3,685
Short-term investments	4,799		4,799
Total investments	\$63,435		\$68,649
	=====		=====

See accompanying Independent Auditors' Report

INTERNATIONAL ALLIANCE SERVICES, INC.

SCHEDULE IV--REINSURANCE
 YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994
 (In thousands)

COLUMN A -----	COLUMN B -----	COLUMN C -----	COLUMN D -----	COLUMN E -----	COLUMN F -----
	GROSS AMOUNT -----	CEDED TO OTHER COMPANIES -----	ASSUMED FROM OTHER COMPANIES -----	NET AMOUNT -----	PERCENTAGE OF AMOUNT ASSUMED TO NET -----
Year ended December 31, 1996 Property--Casualty Earned Premiums	\$39,388	\$12,236	\$591	\$27,743	2.13%
Year ended December 31, 1995 Property--Casualty Earned Premiums	\$36,005	\$10,550	\$1,507	\$26,962	5.59%
Year ended December 31, 1994 Property--Casualty Earned Premiums	\$34,255	\$11,301	\$ 414	\$23,368	1.77%

See accompanying Independent Auditors' Report

INTERNATIONAL ALLIANCE SERVICES, INC.
 SCHEDULE III--SUPPLEMENTARY INSURANCE INFORMATION
 FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994
 (In thousands)

COLUMN A ----- SEGMENT -----	COLUMN B ----- DEFERRED POLICY ACQUISITION COST -----	COLUMN C ----- FUTURE POLICY BENEFITS, LOSSES CLAIMS AND LOSS EXPENSES -----	COLUMN D ----- UNEARNED PREMIUMS -----	COLUMN E ----- OTHER POLICY CLAIMS AND BENEFITS PAYABLES -----	COLUMN F ----- PREMIUM REVENUE -----	COLUMN G ----- NET INVESTMENT INCOME -----
Year Ended:						
December 31, 1996	\$4,345	\$41,099	\$18,637	N/A	\$27,743	\$3,564
December 31, 1995	\$3,428	\$37,002	\$15,636	N/A	\$26,962	\$3,341
December 31, 1994	\$3,725	\$34,661	\$15,453	N/A	\$23,368	\$2,477

COLUMN H ----- LOSSES AND LOSS EXPENSES -----	COLUMN I ----- AMORTIZATION OF DEFERRED POLICY ACQUISITION COSTS -----	COLUMN J ----- OTHER OPERATING EXPENSES -----	COLUMN K ----- DIRECT PREMIUMS WRITTEN -----
Year Ended:			
December 31, 1996	\$17,624	\$7,699	\$4,384
December 31, 1995	\$15,117	\$7,774	\$3,157
December 31, 1994	\$12,494	\$5,428	\$4,544

See accompanying Independent Auditor's Report

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, IASI has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL ALLIANCE SERVICES, INC.
(Registrant)

By: /s/ Edward F. Feighan

Edward F. Feighan
Chief Executive Officer
and President
March 31, 1997

KNOW ALL MEN BY THESE PRESENTS that each person whose signature appears below on this Annual Report hereby constitutes and appoints Edward F. Feighan, Gregory J. Skoda and Craig L. Stout, and each of them, with full power to act without the other, his true and lawful attorney-in-fact and agent, with full power of substitution for him and his name, place and stead, in any and all capacities (until revoked in writing), to sign any and all amendments to this Annual Report of International Alliance Services, Inc. and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary fully to all intents and purposes as he might or could do in person, thereby ratifying and confirming all that each of said attorneys-in-fact and agents, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report has been signed below the following persons on behalf of International Alliance Services, Inc. and in the capacities and on the dates indicated.

/s/ Michael G. DeGroot

Michael G. DeGroot
Chairman of the Board and Director
March 31, 1997

Harve A. Ferrill
Director

/s/ Edward F. Feighan

Edward F. Feighan
Chief Executive Officer, President
and Director (Principal Executive Officer)
March 31, 1997

/s/ Douglas R. Gowland

Douglas R. Gowland
Vice President - Environmental Operations
and Director
March 31, 1997

/s/ Hugh P. Lowenstein

Hugh P. Lowenstein
Director
March 31, 1997

/s/ Richard C. Rochon

Richard C. Rochon
Director
March 31, 1997

/s/ Gregory J. Skoda

Gregory J. Skoda
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)
March 31, 1997

/s/ Craig L. Stout

Craig L. Stout
Chief Operating Officer
and Director
March 31, 1997

INDEX TO EXHIBITS

Exhibit No. -----	Description -----
3.1	Amended and Restated Certificate of Incorporation of IASI (filed as Exhibit 3.1 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference).
3.2*	Certificate of Amendment of the Certificate of Incorporation of IASI dated October 18, 1996.
3.3	Amended and Restated Bylaws of IASI (filed as Exhibit 3.2 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
4.1	Form of Stock Certificate of Common Stock of IASI (filed as Exhibit 4.1 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
4.2	Promissory Note, dated October 18, 1996, in the aggregate principal amount of \$4.0 million issued by IASI payable to Alliance Holding (filed as Exhibit 99.7 to IASI's Current Report on Form 8-K dated October 18, 1996, and incorporated herein by reference).
9.1	Voting Agreement, dated as of October 18, 1996, by and between MGD Holdings and Alliance Holding (filed as Exhibit 99.6 to IASI's Current Report on Form 8-K dated October 18, 1996, and incorporated herein by reference).
10.1	Spin-off Agreement (filed as Exhibit 10.1 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
10.2	Alternative Dispute Resolution Agreement (filed as Exhibit 10.2 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
10.3	Assumption of Liabilities and Indemnification Agreement (filed as Exhibit 10.3 to IASI's Registration Statement on Form 10, file no. 0-25890 and incorporated herein by reference)
10.4	Corporate Services Agreement (filed as Exhibit 10.4 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
10.5	Employee Benefits Agreement (filed as Exhibit 10.5 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
10.6	Insurance and Indemnification Agreement (filed as Exhibit 10.6 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
10.7	Tax Sharing Agreement (filed as Exhibit 10.7 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
10.8	IASI's Adjustment Plan (filed as Exhibit 10.8 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
10.9	Form of Warrant to purchase 200,000 shares of IASI's Common Stock issued to MGD Holdings Ltd. (filed as Exhibit 10.9 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
10.10	Form of Warrant to purchase 5,000 shares of IASI's Common Stock issued to Douglas R. Gowland (filed as Exhibit 10.11 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)

- 10.11 Form of Warrant to purchase 55,000 shares of IASI's Common Stock issued for Douglas R. Gowland (filed as Exhibit 10.12 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)
- 10.12 Credit Agreement dated as of May 11, 1995 by and among IASI and its Subsidiaries, as Borrowers, and CoreStates Bank, N.A. (filed as Exhibit 10.12 to IASI's Annual Report on Form 10-K for the year ended December 31, 1995, and incorporated herein by reference)
- 10.13 Agreement and Plan of Merger by and among IASI, Republic/CSA Acquisition Corporation, Republic/CSU Acquisition Corporation, Alliance Holding, CSC and CSU (filed as Appendix I to IASI's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).
- 10.14 Amendment No. 1 to Agreement and Plan of Merger by and among IASI, Republic/CSA Acquisition Corporation, Republic/CSU Acquisition Corporation, Alliance Holding, CSC and CSU (filed as Appendix IV to IASI's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).
- 10.15 Amendment No. 2 to Agreement and Plan of Merger by and among IASI, Republic/CSA Acquisition Corporation, Republic/CSU Acquisition Corporation, Alliance Holding, CSC and CSU (filed as Appendix V to IASI's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).
- 10.16 Stock Purchase Agreement by and between IASI and H. Wayne Huizenga (filed as Appendix II to IASI's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).
- 10.17 Stock Purchase Agreement by and between IASI and MGD Holdings (filed as Appendix III to IASI's Definitive Schedule 14C Information Statement dated September 23, 1996 and incorporated herein by reference).
- 10.18* Agreement and Plan of Merger by and among IASI, IASI/SMR Acquisition Co., SMR and its shareholders dated November 30, 1996.
- 10.19* Agreement and Plan of Merger by and among IASI, IASI/ECI Acquisition Co., ECI and its shareholders dated November 5, 1996.
- 11.1* IASI Earnings per Common Share Data.
- 21.1* List of Subsidiaries of IASI.
- 24.1* Consent of KPMG Peat Marwick LLP
- 99.1 Information Statement (filed as Exhibit 99.1 to IASI's Registration Statement on Form 10, file no. 0-25890, and incorporated herein by reference)

*Indicates documents filed herewith.

CERTIFICATE OF AMENDMENT
OF THE
CERTIFICATE OF INCORPORATION
OF
REPUBLIC ENVIRONMENTAL SYSTEMS, INC.

Republic Environmental Systems, Inc., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), does hereby certifies as follows:

1. That Article One of the Certificate of Incorporation of the Corporation is hereby amended and restated in its entirety as follows:

"ARTICLE ONE

The name of the Corporation is:

International Alliance Services, Inc."

2. That the first paragraph of Article Four of the Certificate of Incorporation of the Corporation is hereby amended and restated in its entirety as follows:

"ARTICLE FOUR

The total number of shares of all classes of stock which this Corporation shall have authority to issue is 100,000,000 shares, consisting of 100,000,000 shares of Common Stock, \$.01 par value per share. The aggregate par value of all shares of all classes of stock that this Corporation has authority to issue is \$1,000,000.00."

3. That said amendments to this Certificate of Amendment to the Certificate of Incorporation of the Corporation were duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.
4. That this Certificate of Amendment to the Certificate of Incorporation shall become effective upon filing with the Secretary of State of the State of Delaware.

THE UNDERSIGNED, being the Executive Vice President and Chief Operating Officer of this Corporation, hereby declares and certifies that this Certificate of Amendment to the Certificate of Incorporation of Republic Environmental Systems, Inc. is his act and deed and the facts herein stated are true, and accordingly has hereunto set his hand this 17th day of October, 1996.

REPUBLIC ENVIRONMENTAL SYSTEMS, INC.

By: /s/ Douglas R. Gowland

Douglas R. Gowland,
Executive Vice President and
Chief Operating Officer

AGREEMENT AND PLAN OF MERGER
by and among
INTERNATIONAL ALLIANCE SERVICES, INC.
and
IASI/SMR ACQUISITION CO.
and
SMR & CO. BUSINESS SERVICES
and
ITS SHAREHOLDERS

Dated: November 30, 1996

This Agreement and Plan of Merger (the "Agreement") is entered into as of this 30 day of November, 1996 by and among International Alliance Services, Inc., ("I-Alliance"), IASI/SMR Acquisition Co., ("Merger Sub"), SMR & Co. Business Services, an Ohio corporation ("SMR"), and Gregory J. Skoda ("Skoda"), Michael L. Minotti ("Minotti"), Keith W. Reeves ("Reeves") and Patrick T. Carney ("Carney"), (the preceding individually a "Shareholder" and collectively "Shareholders").

WHEREAS, the Shareholders own all of the common stock of SMR, in the amounts set forth in Exhibit A hereto (collectively the "SMR Shares"); and

WHEREAS, I-Alliance has determined that it wishes to acquire SMR; and

WHEREAS, to consummate such acquisition I-Alliance has formed Merger Sub into which SMR will be merged with SMR as the surviving corporation; and

WHEREAS, SMR has determined that it wishes to be acquired by I-Alliance.

Therefore in consideration of the mutual promises contained herein and other good and valuable consideration the parties agree as follows.

ARTICLE 1 DEFINITIONS

As used herein the following terms will have the meanings set forth:

1.1 "Accrued Shareholder Liability" will mean the obligation of SMR to the Shareholders, which is shown on the September 30, 1996 Balance Sheet in the approximate amount of \$3,300,000, as such amount is subsequently adjusted pursuant to section 9.2.

1.2 "Actions" will have the meaning set forth in section 4.2.26.

1.3 "Affiliate of the Shareholder" will have the meaning set forth in section 4.1.4.

1.4 "Benefit Plans" will have the meaning set forth in section 4.2.22(a).

1.5 "Closing" will have the meaning set forth in section 9.1.

1.6 "Closing Date" will have the meaning set forth in section 9.1.

1.7 "Contracts" will have the meaning set forth in section 4.2.20.

1.8 "Current Assets" means the 'Total Current Assets' as such term is used on the September 30, 1996 Balance Sheet.

1.9 "Effective Time" will have the meaning set forth in Article 3.

1.10 "Fixed Assets" will mean the property and equipment, at cost less accumulated depreciation, shown as 'Total Prop. and Equip. Net, as such term is used on the September 30, 1996 Balance Sheet.

1.11 "Holder" will have the meaning set forth in section 7.3.1.

1.12 "I-Alliance Indemnified Parties" will mean I-Alliance.

1.13 "I-Alliance Shares" will have the meaning set forth in sections 2.6.1 and Article 7.

1.14 "Issuer" will have the meaning set forth in section 7.3.1.

1.15 "Law" will mean any federal, state or local law, statute, ordinance, regulation of directive.

1.16 "Leasehold Interests" will have the meaning set forth in section 4.2.13.

1.17 "Liabilities" will have the meaning set forth in section 4.2.25.

1.18 "Liens" will mean any lien, mortgage, claim, charge, security interest, encumbrance, restriction or limitation.

1.19 "Losses" will mean any and all expenses, losses, costs, deficiencies, liabilities and damages including, but not limited to legal and professional fees and expenses suffered or incurred in any manner including investigation and defense of claims.

1.20 "Merger" will have the meaning set forth in section 2.1.

1.21 "OGCL" will mean the Ohio General Corporation Law.

1.22 "Permits" will have the meaning set forth in section 4.2.19.

1.23 "Person" will mean any natural person, corporation, partnership, trust, incorporated or unincorporated association, joint venture, joint stock company, government (or any agency or political subdivision thereof) or other entity of any kind.

1.24 "Receipts" will have the meaning set forth in section 8.7.

1.25 "Receivable" will mean all of SMR's receivables of any kind as of the Effective Time, as well as (i) all receivables arising out of work in process as of the close of business on November 30, 1996, (ii) all receivables previously written off as uncollectible by SMR to the extent actually collected after the Effective Time, and (iii) all receivables to the extent they comprise the allowance for doubtful accounts as stated on the September 30, 1996 Balance Sheet.

1.26 "Registrable Securities" will have the meaning set forth in section 7.3.7.

1.27 "Registration Expenses" will have the meaning set forth in section 7.3.5.

1.28 "Returns" will have the meaning set forth in section 4.2.17.

1.29 "SEC Documents" will have the meaning set forth in section

5.5. 1.30 "September 30, 1996 Balance Sheet" will have the meaning set forth in section 4.2.4.

1.31 "Registration Statement" will have the meaning set forth in section 7.3.2.

1.32 "Surviving Corporation" will have the meaning set forth in section 2.1.

1.33 "Taxes" will have the meaning set forth in section 4.2.17.

1.34 "To the best of knowledge" (i) when used with an individual will mean the actual knowledge of such individual and (ii) when used with an entity will mean the personal knowledge of any officer, director, shareholder or most senior manager below officer level of the organization responsible for the types of matter referenced by that phrase.

1.35 "Total Liabilities" will mean 'Total Liabilities' as such term is used on the September 30, 1996 Balance Sheet, consisting of total current liabilities and total long term liabilities.

1.36 "Uncollectible" will mean that with respect to any Receivable (i) the debtor has had a bankruptcy or insolvency proceeding commenced, (ii) the debtor has discontinued operations and declared it cannot pay its obligations; or (iii) the receivable is not paid within six months after first billed.

ARTICLE 2 MERGER

2.1 The Merger Subject to the terms and conditions of this Agreement and in accordance with the Ohio General Corporation Law (the "OGCL") at the Effective Time the Merger Sub will be merged with and into SMR (the "Merger") and the separate existence of Merger Sub will cease and SMR will continue as the surviving corporation (the "Surviving Corporation").

2.2 Effect of the Merger. The Merger will have the effect set forth in Section 1701.82 of the OGCL.

2.3 Certificate of Incorporation and Code of Regulations. At the Effective Time, the Articles of Incorporation and the Code of Regulations of SMR prior to the Effective Time, including all amendments thereto made prior to the Effective Time, will be and continue to be the Articles of Incorporation and Code of Regulations of the Surviving Corporation.

2.4 Directors. Each person serving as a director of SMR prior to the Effective Time will tender a letter of resignation effective as of the Effective Time. Those persons set forth in Schedule 2.4 will become the initial directors of the Surviving Corporation, each to hold office in accordance with the Articles of Incorporation until his or her respective successor is duly elected or appointed and qualified or until their earlier death, resignation or removal.

2.5 Officers. Each person serving as an officer of SMR prior to the Effective Time will become the initial officers of the Surviving Corporation, each to hold office in accordance with the Articles of Incorporation until his or her respective successor is duly elected or appointed and qualified or until their earlier death, resignation or removal.

2.6 Conversion of Securities. At the Effective Time, by virtue of the Merger and without any action on the part of the parties or the holders of any of the respective securities:

2.6.1 All shares of SMR common stock, no par value per share, issued and outstanding immediately prior to the Effective Time (the "SMR Shares") will be converted into the right to receive (i) in the aggregate Six Hundred Thousand (600,000) shares of I-Alliance common stock (the "I-Alliance Shares") as described in Article 7, which will be delivered to each Shareholder in the number of shares set forth opposite such Shareholder's name on Schedule 2.6, and (ii) warrants to purchase in the aggregate Nine Hundred Thousand (900,000) shares of I-Alliance common stock at a purchase price of \$10.375 per share, exercisable in whole or in part at time and from time to time from the Closing Date until 6:00 p.m. EST on the date three years from the Closing Date, (the "Warrants"), in such form and with such terms as are set forth in Exhibit B, which Warrants will be delivered to each Shareholder in the number of warrants set forth opposite such Shareholder's name on Schedule 2.6.

2.6.2 Each share of SMR common stock held in the treasury of SMR will automatically be canceled and retired without any conversion thereof.

2.6.3 Each share of Merger Sub common stock, no par value per share, issued and outstanding immediately prior to the Effective Time will be automatically converted into one share of common stock of the Surviving Corporation.

2.7 Assumption of Liabilities. Surviving Corporation will execute an assumption of liabilities of SMR substantially in the form set forth in Exhibit C.

ARTICLE 3 CONSUMMATION OF MERGER

The Closing will take place on the Closing Date at the offices of I-Alliance, 10055 Sweet Valley Drive, Valley View, OH 44125 or such other place as the parties may agree. At the time of the Closing, the parties will cause the Merger to be consummated by filing the Certificate of Merger with the Secretary of State of Ohio, in such form as required by and executed in accordance with the OGCL. The date and time of such filing will be the Effective Time.

ARTICLE 4 REPRESENTATIONS AND WARRANTIES OF SMR AND SHAREHOLDERS

4.1 Warranties and Representations of Shareholders. Each Shareholder, severally, represents and warrants to I-Alliance and Merger Sub that:

4.1.1 Authority. The Shareholder has the right, power, authority and legal capacity to enter into and perform such Shareholder's obligations under this Agreement and to consummate the transactions contemplated hereby to be performed by such Shareholder. This Agreement has been, and each other document ancillary to this Agreement to which a Shareholder is a party will be at the Closing, duly executed and delivered by such Shareholder and constitute, or will when delivered, constitute, the legal, valid and binding obligations of such Shareholder, enforceable against such Shareholder, in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws and equitable principles relating to or limiting creditors' rights generally.

4.1.2 Title to the SMR Shares. The Shareholder owns, of record and beneficially, all of the SMR Shares set forth opposite such Shareholder's name on Exhibit A hereto, free and clear of all Liens, taxes, security interests, options, warrants and restrictions on transfer.

4.1.3 No Brokers. The Shareholder has not employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated hereby for which SMR or I-Alliance may be responsible.

4.1.4 Affiliated Transactions. Except as specifically set forth (including dollar amounts) on Schedule 4.1.4 as of the date hereof, neither the Shareholder nor any Affiliate of the Shareholder (as defined below) is indebted to, or is a creditor of, or a guarantor of any obligation of, or a party to any contract, agreement, license, option, commitment or other arrangement, written or oral, express or implied, with SMR. For purposes of this Section, an "Affiliate of the Shareholder" means any employee, officer or director of the Shareholder, any spouse or family member (including in-laws) of the Shareholder, or any corporation or other entity in which such Shareholder (or spouse or family member) has an equity or ownership interest exceeding twenty percent (in the aggregate) or for all Shareholders (and Affiliate) exceeding in the aggregate fifty percent.

4.2 Warranties and Representations of SMR and Shareholders.

Shareholders, severally, and Shareholders jointly with SMR hereby represent and warrant to I-Alliance and Merger Sub that:

4.2.1 Organization. SMR is a corporation duly organized, validly existing and in good standing under the laws of the State of Ohio with full power and authority to own, lease and operate its properties and to carry on its business as now being and as heretofore conducted.

4.2.2 Authority. The execution, delivery and performance by SMR of this Agreement and the consummation of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate action by SMR. This Agreement has been, and each other document ancillary to this Agreement to which SMR is a party will be at the Closing, duly executed and delivered by SMR and constitute, or will when delivered, constitute, the legal, valid and binding obligations of SMR, enforceable against SMR, in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws and equitable principles relating to or limiting creditors' rights generally. This Agreement, the Merger and other transactions contemplated hereby have been approved and adopted by the board of directors and the holders of a majority of the voting power of the shares of the capital stock of SMR entitled to vote thereon in accordance with the Articles of Incorporation and Code of Regulations and the applicable Law.

4.2.3 Capitalization. The authorized capital stock of SMR consists of 750 shares of common stock, without par value, of which the SMR Shares constitute all of the shares outstanding. The SMR Shares have been duly authorized and are validly issued, fully paid and nonassessable, and there are no outstanding rights, subscriptions, warrants, calls, options or other agreements or commitments of any kind or character to purchase or otherwise to acquire from SMR any of its unissued shares of capital stock or any other security of SMR in favor of any Person.

4.2.4 Financial Statements. Attached hereto as Schedule 4.2.4 are true and correct copies of the (a) internally prepared balance sheet of SMR as at September 30, 1996 (the "September 30, 1996 Balance Sheet") and the related statement of income of SMR for the eight months then ended and (b) the internally prepared balance sheet of SMR as of January 31, 1996 together with the internally prepared statement of income of SMR for the twelve months then ended. I-Alliance has been furnished with the internally prepared balance sheets of SMR as of January 31, 1995 and the internally prepared related statement of income for the fiscal year then ended. All of such financial statements (the "Financial Statements"), are true and correct, are in accordance with the internal books and records of SMR, and consistent with past practices, fairly present the financial condition and results of operations of SMR as at the respective dates and for the respective periods covered thereby and were prepared in conformity with generally accepted accounting principles (other than the requirements with respect to 'notes to financial statements') consistently applied over the periods referenced and from period to period.

4.2.5 Absence of Changes. Since September 30, 1996, SMR has carried on its business in the ordinary course, and there has not been any material adverse change in its business condition (financial or otherwise), results of operations or liabilities.

4.2.6 Net Worth. At November 30, 1996 the Total Liabilities of SMR, other than Accrued Shareholder Liability, do not exceed the sum of (i) the stated value (computed on the same basis as the September 30, 1996 Balance Sheet) of the Fixed Assets plus (ii) the difference between the stated value of Current Assets and the Accrued Shareholder Liability.

4.2.7 No Subsidiaries. Except as set forth in Schedule 4.2.7, SMR has no subsidiaries.

4.2.8 Articles of Incorporation, Code of Regulations, Corporate Records and Committees. The copies of the Articles of Incorporation and Code of Regulations of SMR heretofore delivered to I-Alliance are correct and complete, to the extent of their existence. The stock transfer, minute books and corporate records of SMR which have been made available to I-Alliance are correct and complete, to the extent of their existence, and constitute the only written records and minutes of the meetings, proceedings, and other actions of the shareholders and the Board of Directors of SMR from the date of its organization to the date hereof, there being no committees of its Board of Directors.

4.2.9 No Consent. Except as set forth on Schedule 4.2.9, no material consent, order, license, approval or authorization of, or exemption by, or registration or declaration or filing with, any governmental authority, bureau or agency, and no consent or approval of any other Person, is required to be obtained or made in connection with the sale of the SMR Shares.

4.2.10 No Breach. Except as set forth on Schedule 4.2.10, the performance of this Agreement will not (i) violate any material provision of the Articles of Incorporation or Code of Regulations of SMR; (ii) violate, conflict with or result in the breach or termination of, or constitute an amendment to, or otherwise give any Person the right to terminate, or constitute (or with notice or lapse of time or both would constitute) a default (by way of substitution, novation or otherwise) under the terms of, any material contract, mortgage, lease, bond, indenture, agreement, franchise or other instrument or obligation to which SMR is a party or by which SMR or any of its respective assets or properties are bound or affected; (iii) result in the creation of any material Liens upon the properties or assets of SMR pursuant to the terms of any contract, mortgage, lease, bond, indenture, agreement, franchise or other instrument or obligation; (iv) materially violate any judgment, order, injunction, decree or award of any court, arbitrator, administrative agency or governmental or regulatory body against, or binding upon, SMR or any of its securities, properties, assets or business; (v) constitute a material violation by SMR of any statute, law, rule or regulation of any jurisdiction as such statute, law, rule or regulation relates to SMR or to any of its securities, properties, assets or business; or (vi) materially violate any Permit.

4.2.11 Accounts Receivable. The accounts receivable and unbilled work in process of SMR reflected on the September 30, 1996 Balance Sheet are actual and bona fide accounts receivable and unbilled work in process which arose in the ordinary and usual course of SMR's business, represent valid obligations due to SMR, are collectible in the aggregate recorded amounts thereof on the books of SMR and will be fully collected in the ordinary course, except to the extent reflected in the allowance for doubtful accounts.

4.2.12 Other Tangible Property. SMR has good and marketable title to all of the assets reflected on its books and records and on the September 30, 1996 Balance Sheet, free and clear of all Liens, other than those set forth on Schedule 4.2.12. To the best knowledge of SMR and Shareholders the owned tangible personal property material to the business of SMR are in good operating condition and repair, ordinary wear and tear excepted.

4.2.13 Leasehold Interests. SMR has a good and valid leasehold interest in all personal property which is leased to be used in the business of SMR (the "Leasehold Interests"). All Leasehold Interests are used and operated in compliance and conformity with all lease agreements creating such Leasehold Interest, except to the extent that the failure so to conform would not materially affect the lease. SMR has not been notified in writing of any claim that there is under any Leasehold Interest, any existing material default (including, but not limited to any payment default or event of material default or event that would with the passage of time or the giving of notice constitute such material default) and to the best knowledge of Shareholders and

SMR, SMR is not in material default. All personal property under lease agreements are not subject to any charges for excessive usage or wear and tear (or would not be subject to such charges if the current rate of usage continued for the remainder of the term).

4.2.14 Real Property. SMR does not own any real property.

Schedule 4.2.14 sets forth a true and correct list of all leases, subleases or other agreements under which SMR is lessee or lessor of any real property or has any interest in real property and, except as set forth in Schedule 4.2.14, there are no rights or options held by SMR, or any contractual obligations on its part, to purchase or otherwise acquire (including by way of lease or sublease) any interest in or use of any real property, nor any rights or options granted by SMR, or any contractual obligations entered into by it, to sell or otherwise dispose of (including by way of lease or sublease) any interest in or use of any real property. All such leases, subleases and other agreements grant the leasehold estates or other interests they purport to grant with the right to quiet possession, are in full force and effect and constitute legal, valid and binding obligations of the respective parties hereto, with no existing or claimed default or event of default or event which with notice or lapse of time or both would constitute a default or event of default by SMR by any other party thereto, which would materially and adversely affect SMR. To the best knowledge of SMR and Shareholders, SMR is not in violation of any material building, zoning, health, safety, environmental or other law, rule or regulation and no notice from any Person has been served upon SMR claiming any such violation.

4.2.15 Assets. The assets described in section 4.2.12 and the leaseholds described in sections 4.2.13 and 4.2.14 constitute all of the material assets and properties used by and necessary for the operation of SMR, as of the date of the Effective Time (except for items disposed of in the ordinary course of business).

4.2.16 Intellectual Property. Except as listed on Schedule 4.2.16, no person has made or to the knowledge of SMR overtly threatened in writing to make any claim that the operation of SMR is in violation or infringement of any patent, patent licenses, trade name, trade mark, service mark, copyright, software license, know-how or other proprietary or trade rights of any third party. Except as listed on Schedule 4.2.16, SMR owns or has the right to use any trademarks, trade names, trade secrets, computer software, patents, inventions, processes, copyrights, or other intellectual property (or applications therefor) which are materially used in the conduct of its business.

4.2.17 Tax Matters. SMR has timely filed all federal, state, county and local tax returns, estimates and reports (collectively, "Returns") required to be filed by it through the date hereof, copies of which have been made available to I-Alliance for their inspection and review, which Returns accurately reflect the taxes due for the periods indicated; and SMR has paid in full all income, gross receipts, value added, excise, property, franchise, sales, use, employment, payroll and other taxes of any kind whatsoever (collectively, "Taxes") shown to be due by such Returns. The liabilities, if any, for Taxes accrued for operations of SMR from the date of the end of the period for which the last return for such Tax was filed through September 30, 1996 are reflected on the September 30, 1996 Balance Sheet. There is no unassessed deficiency for Taxes proposed or (to the best knowledge of SMR and Shareholders) threatened against SMR, and no taxing authority has raised any issue with respect to SMR which, if adversely determined, would result in a material liability for any Tax. There are not in force any extensions with respect to the dates on which any Return was or is due to be filed by SMR or any waivers or agreements by SMR for the extension of time for the assessment or payment of any Taxes. SMR has not been, and currently is not being, audited by any federal, state or local tax authority.

4.2.18 Compliance with Laws. To the best knowledge of SMR and Shareholders, SMR is not in violation of any applicable law, rule or regulation, the violation of which could materially and adversely affect the assets, properties, liabilities, business, results of operations, or condition (financial or otherwise) of SMR.

4.2.19 Permits. Except as set forth on Schedule 4.2.19, SMR (including, without limitation, its employees) has duly obtained and holds in full force and effect all consents, authorizations, permits, licenses, orders or approvals of, and has made all declarations and filings with, all federal, state or local governmental or regulatory bodies that are material or necessary in or to the conduct of its business (collectively, the "Permits"); all of the Permits were duly

obtained and are in full force and effect; no violations are or have been recorded in respect of any such Permit and no proceeding is pending or, to the best knowledge of SMR and Shareholders, threatened to revoke, deny or limit any such Permit.

4.2.20 Contracts and Agreements. Schedule 4.2.20 lists and briefly describes all written or oral contracts, agreements, leases, mortgages and commitments, which exceed \$10,000 in annual payments or receipts, and to which SMR is a party or by which it may be bound, including, without limitation, all management agreements, joint venture agreements, leases, guarantees and indemnifications, employment and consulting agreements and instruments of indebtedness (collectively, "Contracts"), true and correct copies of which have been made available to I-Alliance for its inspection and review. All Contracts constitute legal, valid and binding obligations of SMR and are in full force and effect on the date hereof, and SMR has paid in full amounts due thereunder which are due and payable and is not in default under any of them nor, to the best knowledge of SMR or Shareholders, is any other party to any such contract or other agreement in default thereunder, nor, to the best knowledge of SMR or Shareholders, does any condition exist that with notice or lapse of time or both would constitute a default or event of default thereunder by SMR or by any other Person. Except as set forth in Schedule 4.2.9, no Contract requires the consent or approval of a third party in connection with the Merger.

4.2.21 Employee Relations. SMR is not a party to any collective bargaining agreement or any negotiations for such an agreement. SMR has not experienced in the last five years any strike, grievance or unfair labor practice claim, suit or administrative proceeding. Except as set forth in Schedule 4.2.21, SMR is not party to any material obligation with respect to any employment contract with a term of one year or more. To the best knowledge of SMR and Shareholders, SMR has complied in all material respects with any Law relating to employment, civil rights and equal employment opportunities.

4.2.22 Employee Benefits. (a) Schedule 4.2.22 contains a list of all pension, retirement, savings, disability, medical, dental or other health plans, life insurance (including any individual life insurance policy as to which SMR makes premium payments whether or not SMR is the owner, beneficiary or both of such policy) or other death benefit plans, profit sharing, deferred compensation, stock option, bonus or other incentive plans, vacation benefit plans, severance plans, or other employee benefit plans or arrangements (whether written or arising from custom), ("Benefit Plans) in which the employees of SMR participate, and SMR has no other employee pension benefit plan as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or any employee welfare benefit plan as defined in Section 3(1) of ERISA.

(b) To the best knowledge of SMR and Shareholders, SMR has in all material respects complied with the requirements of the Benefit Plans and with all Law applicable thereto. There are no actions, suits claims or disputes related to the Benefit Plans. To the best knowledge of SMR and Shareholders, no prohibited transactions in connection with any Benefit Plan have occurred.

4.2.23 Employee Compensation. SMR has made available to I-Alliance for its inspection and review the permanent files of all the employees of SMR, together with payroll information pertinent to such employees.

4.2.24 Insurance. Schedule 4.2.24 lists all policies of property, theft, fire, liability, workers' compensation, title, professional liability or life insurance or reinsurance or any other insurance owned or maintained by SMR or in which SMR is a named insured or on which SMR is paying any premiums. All such policies, are in full force and effect at the date hereof, and each of the insured parties thereunder is not in default with respect to any provision contained in any such insurance policy nor failed to give any notice or present any claim thereunder in due and timely fashion. Schedule 4.2.24 sets forth a summary of the claims history for SMR under such policies since January 1, 1993 and, except as set forth on Schedule 4.2.24, there are no claims outstanding under any such policies.

4.2.25 Liabilities. To the best knowledge of SMR and Shareholders, there are no material liabilities or obligations of SMR except (i) those accrued, reflected or otherwise provided for on the September 30, 1996 Balance Sheet, (ii) those listed on Schedule 4.2.25, or (iii) those arising in the ordinary course of business after September 30, 1996.

4.2.26 Actions and Proceedings. Except as provided on Schedule 4.2.26, there are no claims, actions, suits, arbitrations, proceedings, investigations or inquiries, whether at law or in equity and whether or

not before any court, private body or group, governmental department, commission, board, agency or instrumentally (collectively "Actions"), pending or to the best knowledge of SMR or Shareholders, threatened against SMR or any of its assets, whether or not fully or partially covered by insurance, or which would give rise to any right of indemnification by any Person from SMR, and there are no outstanding orders, writs, injunctions, awards, sentences or decrees of any court, private body or group, governmental department, commission, board, agency or instrumentality against involving or affecting SMR.

4.2.27 Bank Accounts, Guarantees and Powers. Schedule 4.2.27 sets forth (i) a list of all accounts and deposit boxes maintained by SMR at any bank or other financial institution and the names of the person authorized to effect transactions in such accounts, to borrow pursuant to such resolutions and with access to such boxes; (ii) all agreements or commitments of SMR guaranteeing the payment of money or the performance of other contracts by any third persons; and (iii) the names of all persons, firms, associations, corporations, or business organizations holding general or special powers of attorney from SMR together with a summary of the terms thereof.

4.2.28 Absence of Changes. Except as set forth in Schedule 4.2.28, since September 30, 1996, SMR has carried on its business in the ordinary course, and there has not been:

4.2.28.1 any material adverse change in its business condition (financial or otherwise), results of operations or liabilities;

4.2.28.2 any pending or, to the best knowledge of SMR and Shareholders, threatened amendment, modification, or termination of any agreement, license or permit which is material to its business;

4.2.28.3 any disposition or acquisition of any of its assets or properties other than in the ordinary course;

4.2.28.4 any damage, destruction or other casualty loss (whether or not covered by insurance) adversely affecting or that could reasonably be expected to adversely affect its business or assets; or

4.2.28.5 except in the ordinary course, any material obligation or liability incurred.

ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF I-ALLIANCE

I-Alliance represents and warrants to the Shareholders and SMR that:

5.1 Organization. I-Alliance is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, has full power and authority to own, lease and operate its properties and to carry on its business as now being and as heretofore conducted by it, and is duly qualified or otherwise authorized as a foreign corporation to transact business and is in good standing in each jurisdiction in which it is required to be so qualified or authorized.

5.2 Authority. This Agreement has been duly authorized, executed and delivered by I-Alliance and is the valid and binding agreement of I-Alliance enforceable against I-Alliance in accordance with its terms. This Agreement has been, and each other document ancillary to this Agreement to which I-Alliance is a party will be at the Closing, duly executed and delivered by I-Alliance and constitute, or will when delivered, constitute, the legal, valid and binding obligations of I-Alliance, enforceable against I-Alliance, in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws and equitable principles relating to or limiting creditors' rights generally. This Agreement, the Merger and other transactions contemplated hereby have been approved and adopted by the board of directors and the holders of a majority voting power of the shares of the capital stock of I-Alliance entitled to vote thereon in accordance with the Articles of Incorporation and Code of Regulations and the applicable Law.

5.3 The I-Alliance Shares. The I-Alliance Shares being delivered pursuant to this Agreement are validly issued, fully paid and non-assessable.

5.4 No Breach. The authorization, execution, delivery and performance of this Agreement by I-Alliance will not violate any provision of its certificate of incorporation or by-laws or violate, conflict with or result in the breach or termination of, or otherwise give any Person the right to terminate, any agreement to which it is a party.

5.5 Documents Delivered. I-Alliance has delivered to Shareholders I-Alliance's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, its Quarterly Reports on Form 10-Q for the quarters ended March 31, 1996, June 30, 1996, and September 30, 1996, its Information Statement to Stockholders dated September 23, 1996 and its 8-K dated October 4, 1996, (collectively the "SEC Documents"). The SEC Documents were true and complete in all material respects as at their respective dates, did not contain any untrue statement of a material fact nor omit to state any material fact required to be stated therein or necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading, and since September 23, 1996, there has not been any material adverse change in I-Alliance's business condition (financial or otherwise), results of operations or liabilities, not reflected in the SEC Documents.

ARTICLE 6
CONDITIONS PRECEDENT TO CLOSING

6.1 I-Alliance Conditions Precedent. The obligation of I-Alliance to close the transactions herein contemplated is subject to the following express conditions precedent:

6.1.1 Representations and Warranties. The representations and warranties set forth in Article 4 of this Agreement shall be true and correct in all material respects at and as of the Closing Date.

6.1.2 Covenants. SMR and Shareholders shall have performed and complied with all of their covenants under this Agreement in all material respects through the Closing Date.

6.1.3 Satisfactory Performance. All actions to be taken by SMR and Shareholders in connection with consummation of the transaction contemplated hereby and all certificates, instruments, and other documents required to effect the transactions contemplated hereby have been completed in a manner which is reasonably satisfactory in form and substance to I-Alliance.

6.1.4 Continuation of Business. Between September 30 and the Closing Date, except as otherwise provided herein, SMR will have been operated in the normal course, consistent with prior practice, and will not have suffered any damage, destruction, loss or occurrence, whether covered by insurance or not, which may materially adversely affect the value of SMR.

6.1.5 Legal Actions. No suit, action, or other proceeding shall be pending or threatened before any court or governmental agency seeking to restrain, prohibit or obtain damages or other relief in connection with this Agreement or the consummation of the transactions contemplated herein and there shall have been no investigation or inquiry made or commenced by any governmental agency in connection with this Agreement or the transactions contemplated herein.

6.1.6 Employment Agreement. Each Shareholder will have signed and delivered to I-Alliance his commitment, substantially in the form of Exhibit D attached hereto, to enter into, within ninety days after the Closing Date, an employment agreement and non competition agreement on similar terms to those of other officers of I-Alliance.

6.1.7 Legal Limitations on Closing. There shall not be in effect any statute, rule or regulation which makes it illegal for I-Alliance to consummate the transactions contemplated herein or any order, decree of judgment which enjoins I-Alliance from consummating the transactions contemplated hereby.

6.1.8 Deliveries by the Shareholders. The Shareholders will have delivered the stock certificates representing the SMR Shares, duly endorsed for transfer, the written resignations of the directors of SMR requested by I-Alliance and the Lock-up Agreement contemplated by Section 7.6.

6.1.9 Deliveries by SMR. SMR will have delivered the minute book, stock book and stock ledger of SMR, and a good standing certificate, dated as of a date not more than sixty days prior to the

date hereof as to the corporate existence and good standing of SMR certified by the Secretary of State of the State of Ohio.

6.1.10 Waivers. I-Alliance may waive one or more of said conditions but such waiver shall be effective only if in writing and signed on behalf of I-Alliance by one of its duly authorized officers and may be conditioned in any manner I-Alliance sees fit.

6.2 Conditions Precedent to Closing by SMR and Shareholders. The obligation of SMR and Shareholders to close the transactions herein contemplated is subject to the following express conditions precedent:

6.2.1 Representations and Warranties. Representations and warranties set forth in Article 5 of this Agreement shall be true and correct in all material respects at and as of the Closing Date.

6.2.2 Covenants. I-Alliance will have performed and complied with all of its covenants under this Agreement in all material respects through the Closing Date.

6.2.3 Employment Agreement. I-Alliance will have signed and delivered to each Shareholder its commitment, substantially in the form of Exhibit D attached hereto, to enter into, within ninety days after the Closing Date, an employment agreement and non competition agreement on similar terms to those of other officers of I-Alliance.

6.2.4 Legal Limitations on Closing. There shall not be in effect any statute, rule or regulation which makes it illegal for I-Alliance, SMR or the Shareholders to consummate the transactions contemplated herein or any order, decree or judgment which enjoins SMR or the Shareholders from consummating the transactions contemplated hereby.

6.2.5 Legal Actions. No suit, action, or other proceeding shall be pending or threatened before any court or governmental agency seeking to restrain, prohibit or obtain damages or other relief in connection with this Agreement or the consummation of the transactions contemplated herein and there shall have been no investigation or inquiry made or commenced by any governmental agency in connection with this Agreement or the transactions contemplated herein.

6.2.6 Satisfactory Performance. All actions to be taken by I-Alliance in connection with consummation of the transactions contemplated hereby and all certificates, instruments, and other documents required to effect the transactions contemplated hereby have been completed in a manner which is reasonably satisfactory in form and substance to SMR and Shareholders.

6.2.7 Waiver. SMR and Shareholders may waive one or more of the foregoing conditions but such waiver shall only be effective if in writing and signed by SMR and Shareholders and may be conditioned in any manner SMR and Shareholders see fit.

6.2.8 Deliveries. The Assumption Agreement of the Surviving Corporation will have been delivered to SMR and the Shareholders.

ARTICLE 7

I-ALLIANCE SHARES, REGISTRATION AND LOCK-UP

7.1 Legend. Any certificate or certificates representing I-Alliance Shares will bear the following legend unless and until removal thereof is permitted pursuant to the terms of this Agreement:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR UNDER ANY APPLICABLE STATE SECURITIES LAW AND MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT FOR THESE SHARES OR AN OPINION OF I-ALLIANCE'S COUNSEL THAT REGISTRATION IS NOT REQUIRED UNDER THE ACT AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER OR UNDER APPLICABLE STATE SECURITIES LAWS.

7.2 Examination and Investment Representation. Shareholders, severally, represent and warrant to I-Alliance that each of them has examined I-Alliance's Annual Report of Form 10-K for the year ended December 31, 1995, its Quarterly

Report on Form 10-Q for the quarters ended March 31, 1996, June 30, 1996, and September 30, 1996, its September 23, 1996 Information Statement to Stockholders, and its Form 8-K dated October 4, 1996, including the financial statements contained therein, has had the opportunity to discuss I-Alliance's operations with its officers and employees, and is acquiring the I-Alliance Shares for his/her own account for investment within the contemplation of the Securities Act of 1933, as amended (the "Securities Act") and not with a view to the transfer or resale thereof, except to the extent otherwise expressly provided in this Agreement, that he has been advised by his counsel of the legal implications and effect of the foregoing under the Securities Act and of the circumstances under which he may dispose of his I-Alliance Shares under the Securities Act, including the possible limited sale thereof pursuant to Rule 144 under the Securities Act and of the affect of the legending of the certificate for his I-Alliance Shares with the legend described in Section 7.1.

7.3 Registration Rights. Each Shareholder shall have the following registration rights with respect to the I-Alliance Shares:

7.3.1 Transfer of Registration Rights. Shareholder may assign the registration rights with respect to the I-Alliance Shares to any party or parties to which he may from time to time transfer the I-Alliance Shares. Upon assignment of any registration rights pursuant to this Section 7.3, Shareholder shall deliver to the entity issuing such shares (the "Issuer") a notice of such assignment which includes the identity and address of any assignee (collectively, Shareholder and each such subsequent holder is referred to as a "Holder").

7.3.2 Required Registration. Issuer agrees to register Registrable Securities pursuant to a registration statement on Form S-3 (the "Registration Statement") as follows:

7.3.2.1 Within four months after the Closing Date, Issuer will register 90,000 of the Shares;

7.3.2.2 upon demand, the balance of the Registrable Securities associated with the Shares issued in the transactions contemplated by this Agreement provided that such demand may not be made with respect to any such Registrable Securities until the expiration of twenty months after the Closing Date; and

7.3.2.3 upon demand, any Registrable Securities issued in connection with the exercise of the warrants issued in the transactions contemplated by this Agreement provided that such demand may not be made with respect to any such Registrable Securities earlier than four months prior to the date such Registrable Securities are free from the restriction on sale described in section 7.6 below.

7.3.3 Timing of Registration. Issuer shall use its best efforts to cause the Registration Statement to be declared effective as quickly as practicable after the period of time or demand described in section 7.3.2 above, and to maintain the effectiveness of the Registration Statement until such time as Issuer reasonably determines based on an opinion of counsel that the Holders will be eligible to sell all of the Registrable Securities then owned by the Holders without the need for continued registration of the Shares in the three-month period immediately following the termination of the effectiveness of the Registration Statement. Issuer's obligations contained in Section 7.3 shall terminate on the third anniversary of the Effective Time, provided that if Issuer has not fulfilled its obligations with respect to any demand made before such date, its obligations will continue with respect to such demand until satisfied or registration is no longer required to sell Registrable Securities covered by such demand.

7.3.4 Registration Procedures. In case of each registration, qualification or compliance effected by Issuer subject to this Section 7.3, Issuer shall keep Holder advised in writing as to the initiation of each such registration, qualification and compliance and as to the completion thereof. In addition, Issuer shall at its own expense:

7.3.4.1 subject to this Section 7.3.4, before filing a registration or prospectus or any amendment or supplements thereto, furnish to counsel selected by Holder copies of all such documents proposed to be filed and the portions of such documents provided in writing by Holder for use therein, subject to such Holder's approval, and for which Holder shall indemnify Issuer;

7.3.4.2 prepare and file with the SEC such amendments and supplements to the Registration Statement as may be necessary to keep the Registration Statement effective and comply with provisions of the Securities Act with respect to the disposition of all securities covered thereby during such period;

7.3.4.3 update, correct, amend and supplement the Registration Statement as necessary;

7.3.4.4 if such offering is to be underwritten, in whole or in part, enter into a written agreement in form and substance reasonably satisfactory to the managing underwriter and the registering Holder;

7.3.4.5 furnish to Holder such number of prospectuses, including preliminary prospectuses, and other documents that are included in the Registration Statement as Holder may reasonably request from time to time;

7.3.4.6 use its best efforts to register to qualify such Registrable Securities under such other securities or blue sky laws of such jurisdictions of the United States as Holder may request to enable it to consummate the disposition in such jurisdiction of the Registrable Securities (provided that Issuer will not be required to qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this section 7.3);

7.3.4.7 notify Holder, at any time when the prospectus included the Registration Statement relating to the Registrable Securities is required to be delivered under the Securities Act, of the happening of any event which would cause such prospectus to contain an untrue statement of a material fact or omit any fact necessary to make the statement therein in light of the circumstances under which they are made not misleading and, at the request of Holder, prepare a supplement or amendment to such prospectus, so that, as thereafter delivered to purchasers of such shares, such prospectus will not contain any untrue statements of a material fact or omit to state any fact necessary to make the statements therein in light of the circumstances under which they are made not misleading;

7.3.4.8 use its best efforts to cause all such Registrable Securities to be listed on each securities exchange on which similar securities issued by Issuer are then listed and obtain all necessary approvals from the exchange or the National Association of Securities Dealers for trading thereon; and

7.3.4.9 upon the sale of any Registrable Securities pursuant to the Registration, remove all restrictive legends from all certificates or other instruments evidencing such Registrable Securities (to the extent permitted by the Securities Act).

7.3.5 Delay and Suspension. If Issuer is aware of any event which has occurred or which it reasonably expects might occur within the next ninety days, and such event would cause (or Issuer believes might cause) the Registration Statement (or any prospectus) to contain any untrue statements of a material fact or omit to state any fact necessary to make the statements therein in light of the circumstances under which they are made not misleading, then notwithstanding any other provision of this Section 7.3, Issuer upon notice to Holder, may delay filing any Registration Statement otherwise required hereunder or may withdraw or suspend for up to ninety days any then pending Registration Statement. Upon any such delay or suspension no further demand need be made with respect to those Registrable Securities subject to such delay or suspension, and the three year period set forth in section 7.3.3 will be extended with respect to such Registrable Securities for the period of such delay or suspension.

7.3.6 Expenses. Except as required by law, all expenses incurred by in complying with this Section 7.3, including but not limited to, all registration, qualification and filing fees, printing expenses, fees and disbursements of counsel and accountants for Issuer, blue sky fees and expenses (including fees and disbursements of counsel related to all blue sky matters) ("Registration Expenses") incurred in connection with any registration, qualification or compliance pursuant this Section 7.3 will be borne by Issuer. All underwriting discounts and selling commissions and any fees of Holder's own attorneys or other advisors applicable to a sale incurred in connection with any registration of Registrable Shares shall be borne by Holder.

7.3.7 Further Information. If Registrable Securities owned by Holder are included in any registration, such Holder shall use reasonable efforts to cooperate with Issuer and shall furnish Issuer such information regarding itself as Issuer may reasonably request and as shall be required in connection with any registration, qualification or compliance referred to in this Agreement.

7.3.8 Definition For purposes of this Section 7.3, "Registrable Securities" will mean the I-Alliance Shares (and all I-Alliance shares issued in connection with the Warrants) and all common stock or other securities issued in respect of such Shares by way of a stock dividend or stock split or in connection with a combination or subdivision of shares, recapitalization, merger or consolidation or reorganization, and any securities issued in respect of the I-Alliance Shares or Warrants by way of stock dividend or stock split or in connection with any combination or subdivision of shares, recapitalization, merger or consolidation or reorganization; provided, however, as to any particular Registrable Securities, such Registrable Securities will cease to be subject to this Article when they have been sold pursuant to an effective registration statement or in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act under Section 4(1) thereof so that all transfer restrictions and restrictive legends with respect thereto are removed upon the consummation of such sale and the purchaser and seller receive an opinion of counsel from the seller or the purchaser, which opinion shall be in form and substance reasonably satisfactory to the other party and Issuer and their respective counsel, to the effect that such stock in the hands of the purchaser is freely transferable without restriction or registration under the Securities Act in any public or private transaction.

7.4 Indemnity. I-Alliance shall indemnify Shareholders from and against any and all liabilities to which they may become subject as a result of any untrue statement or alleged untrue statement of a material fact contained in the related registration statement, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statement therein not misleading, other than a statement or omission made in reliance on and consistent with information furnished in writing by the Shareholders for use in such registration statement, provided, however, that each Shareholder shall indemnify I-Alliance and the underwriters of any offering, if any, from and against any and all liabilities to which I-Alliance may become subject as a result of any untrue statement or alleged untrue statement of a material fact contained in the related registration statement, or the omission or alleged omissions to state therein a material fact required to be stated therein or necessary to make the statement not misleading, but only insofar as such statement or omission was made in reliance by I-Alliance on and consistent with information furnished in writing by such Shareholder.

7.5 Documents. I-Alliance shall furnish to Shareholder one copy of the registration statement and any amendments thereto and such number of copies of the final prospectus as they may reasonably request, and shall deliver to the NASDAQ such number of copies of the final prospectus required to comply with the prospectus delivery requirements and permit the sale of the registered I-Alliance Shares on such Exchange.

7.6 Lock-Up. Each of the Shareholders agrees (other than to spouses and children who agree to the terms of this section) that he:

7.6.1 will not sell, transfer, pledge, or otherwise dispose of the I-Alliance Shares prior to the expiration of a twenty-four month period following the Closing Date; provided that after the expiration of six months from the Closing Date, each of the Shareholders may thereafter sell, transfer or otherwise dispose of, in the aggregate, up to fifteen (15%) per cent of the I-Alliance Shares such Shareholder receives.

7.6.2 will not sell, transfer, pledge or otherwise dispose of Warrants or any shares of I-Alliance common stock acquired as a result of the exercise of the Warrants prior to the expiration of the thirty (30) month period following the Closing Date; provided that each of the Shareholders may sell, transfer or otherwise dispose of Warrants or any shares of I-Alliance common stock acquired as a result of the exercise of the Warrants, in the aggregate up to the following percentage of

the total of such shares that could be acquired upon exercise of the Warrants, after the end of each period specified (such period commencing on the Closing Date):

Six months	33%
Eighteen months	66%

7.6.3 will enter into a Lock-Up Agreement in the form set forth in Exhibit E hereto.

ARTICLE 8 OTHER COVENANTS

8.1 Announcements. Prior to the Closing, none of the parties will make any public release of information regarding this Agreement or the transactions contemplated hereto, except that the parties may issue a press release to be mutually agreed upon, after the execution of this Agreement and the Closing and as otherwise required by law.

8.2 Conduct of Business. During the period from the date hereof to the Effective Time, unless I-Alliance consents otherwise in writing (which consent will not be unreasonably withheld), and except as otherwise provided in this Agreement or disclosed in the Schedules, SMR will:

- 8.2.1 conduct the business of SMR only in the ordinary course of business consistent with past practice except as contemplated by this Agreement;
- 8.2.2 use its best efforts to preserve the goodwill of those suppliers, customers and distributors having business relations with SMR;
- 8.2.3 maintain any insurance coverages as of the date of this Agreement against loss or damage to the Assets;
- 8.2.4 not transfer or encumber any of the Assets except for the transfer in the ordinary course of business;
- 8.2.5 maintain the Assets in conditions comparable to their current condition, reasonable wear and tear excepted, except for Assets sold or consumed during the ordinary course of business;
- 8.2.6 not create, incur, assume, or guarantee any indebtedness, including capitalized lease obligations, either involving more than ten thousand dollars (\$10,000) singly or twenty thousand (\$20,000) in the aggregate or for any amount whatsoever outside the ordinary course of business;
- 8.2.7 not make capital expenditures or series of related capital expenditures either involving more than Ten Thousand dollars (\$10,000) singly or in the aggregate, or make any capital investment in, any loan to, or any acquisition of the securities or assets of any other person or entity or persons or entities;
- 8.2.8 not make or pledge to make any charitable contribution (including for capital or building purposes) in amounts or to types of organizations not consistent with past practice;
- 8.2.9 not make any recapitalization, reorganization, merger, consolidation, reclassification (voting or nonvoting), dissolution or liquidation of SMR, or sale of a substantial portion of the assets of SMR outside the ordinary course of its business;
- 8.2.10 not pay any bonuses or any other extraordinary compensation unless the amount thereof has actually been paid or accrued as a liability of SMR.

8.3 Cooperation. Each party hereto agrees that before and after the Closing to execute any and all further documents and writings and to perform such other reasonable actions which may be or become necessary or expedient to effectuate and carry out this Agreement.

8.4 Tax Matters. It is the intent of the parties that the exchange of the SMR shares for the I-Alliance Shares be a tax free reorganization under section 368(a) of the Internal Revenue Code. I-Alliance and Merger Sub will use all reasonable efforts to consummate the merger in such fashion, but neither

I-Alliance nor Merger Sub makes any representation as to the tax treatment of Shareholders or any agreement with respect to refraining from taking any future action which could adversely affect the tax treatment of this transaction. Notwithstanding anything in this Agreement to the contrary, the Shareholders will remain solely liable for any tax consequences to them as a result of the transactions contemplated by this Agreement.

8.5 Tax Cooperation. After Closing the Surviving Corporation will coordinate the preparation of all necessary tax returns. Each party agrees to timely furnish to Surviving Corporation any records and other information reasonably requested by it in connection therewith.

8.6 Access To Information. SMR will, during ordinary business hours and upon reasonable notice from I-Alliance, permit I-Alliance and its authorized representatives to have access to all Assets, to all books, records, accounts, documents and other materials relating in any way to the business of SMR. SMR will, as soon as is practicable, furnish to I-Alliance such other information in possession of SMR, its officers, employees and shareholders with respect to SMR as I-Alliance may from time to time reasonably request. SMR will otherwise cooperate in the examination of SMR by I-Alliance.

8.7 Confidentiality.

8.7.1 Any non-public information received by any party hereto as a result of discussions and investigations pursuant to or in furtherance of this Agreement or otherwise received prior to the Closing Date, will be kept confidential by the recipient and will be used only for the purposes of evaluating the transactions contemplated herein. The parties may make disclosure information to attorneys, accountants and advisors provided such parties agree to be bound by the terms of this section.

8.7.2 SMR will not disclose any confidential information of its clients to I-Alliance unless such information is directly relevant to and absolutely necessary for the evaluation of the transactions contemplated herein. If any such information is disclosed, I-Alliance or its employees and agents agree that such information will not be given to any employee or agent who does not have a need to know, will not be disclosed to any third party whatsoever (unless required by law) and will not be used for any purpose other than the evaluation of the transactions contemplated by this Agreement, and will be returned to SMR upon completion of the Merger.

8.7.3 If this Agreement is terminated for any reason the parties will promptly return any copies of confidential information to the person who supplied it.

8.8 Collection of Receivables. Surviving Corporation will use all reasonable efforts to collect the Receivables and pay down the Accrued Shareholder Liability, subject to the conditions in this Section 8.8, (the proceeds of such Receivables collectively the "Receipts").

8.8.1 Surviving Corporation will be entitled to retain 100% of any Receipts until such Receipts equals the amount, if any, by which Current Assets less cash exceeds Accrued Shareholder Liability on November 30, 1996 after any adjustments described in Section 9.2.

8.8.2 Thereafter, Surviving Corporation will remit at the end of each month, 100% of Receipts to Shareholders until the Accrued Shareholder Liability is satisfied. Shareholders, within thirty days of the Closing Date will furnish Surviving Corporation with a schedule of the proportion of Receipts payable to each Shareholder.

8.8.3 Payments from accounts having both Receivables and post November 30, 1996 receivables will be applied as designated on the payment. If no designation is made they will be applied on a first in, first out basis. If an account disputes the amount of any Receivable, the disputed amount may be withheld from amounts that would otherwise be due (on a FIFO basis) as a Receipt until such disputed amount is paid.

8.8.4 Uncollectibles. At the end of each month after the Closing Date, the Surviving Corporation will furnish to the Shareholders a statement of all amounts of Receivables becoming Uncollectible in the previous month. The amount of such account will be offset against the amounts owing the Shareholders under the Accrued Shareholder Liability in the same proportion as is set forth in 8.8.2

above. The Uncollectible Receivable will be assigned over to the Shareholders together with all right, title, interest and power to collect. This section 8.8.4 sets forth the exclusive remedy with respect to breaches of the warranty on collectibility of Receivables in section 4.2.11.

8.9 Insurance. The Shareholders will cause to be maintained claims made errors and omission insurance of the type maintained by SMR prior to Closing with insurers and in amounts substantially equivalent to those of SMR prior to Closing covering the financial statement business (and any other business which will not be conducted by Surviving Corporation) previously conducted by SMR for at least five years after the Closing Date. If Surviving Corporation is able to purchase such insurance at an incremental cost less than that which the Shareholders can cause such insurance to be purchased, Surviving Corporation will purchase such insurance on the request of Shareholders and be reimbursed therefor by Shareholders.

ARTICLE 9
CLOSING, CLOSING ADJUSTMENTS AND TERMINATION

9.1 Closing. The closing ("Closing"), i.e. the execution and delivery of the documents contemplated by this Agreement, will take place at the offices of I-Alliance, as soon as practical after the date of this agreement, or at such time as mutually agreed, to take effect as of the close of business on November 30, 1996 (the "Closing Date"). The parties agree that time is of the essence. I-Alliance will deliver the I-Alliance Shares and the Warrants to the respective Shareholders within thirty (30) days of the Closing Date.

9.2 Adjustments. As soon as the results are reasonably available, but in no event longer than sixty days after the Closing Date, a balance sheet will be prepared for SMR as of November 30, 1996. If, on the balance sheet of SMR, computed as of November 30, 1996 (including current liabilities pro rated to such date), the Total Liabilities of SMR exceed the sum of (i) Fixed Assets plus (ii) the Current Assets, then the Accrued Shareholder Liability will be decreased by the amount of such excess. If the Total Liabilities of SMR are less than the sum of (i) Fixed Assets plus (ii) the Current Assets, then the Accrued Shareholder Liability will be increased by the amount of such difference. This Section sets forth the exclusive remedy with respect to breaches of the Net Worth warranty set forth in section 4.2.6.

9.3 Termination. This Agreement may be terminated at any time on or prior to the Effective Time:

- 9.3.1 by I-Alliance or SMR if any court of competent jurisdiction issues any order (other than temporary restraining order) restraining, enjoining or prohibiting the transactions;
- 9.3.2 by mutual written agreement of I-Alliance and SMR;
- 9.3.3 by either I-Alliance or SMR if the Effective Time will not have occurred on or before December 31, 1996, time being of the essence, provided that the right to terminate this Agreement pursuant to this section will not be available to any party whose failure to fulfill any obligation of this Agreement has been the cause or resulted in the failure of the Effective Time to occur on or before such date;
- 9.3.4 Breach by SMR. By I-Alliance if there has been a material breach on the part of SMR in its representations, warranties or covenants set forth herein, provided however that if such breach is susceptible to cure, then SMR will have 30 days after receipt of written notice from I-Alliance, of its intent to terminate this Agreement, in which to cure such breach; and
- 9.3.5 Breach by I-Alliance. By SMR if there has been a material breach on the part of I-Alliance in its representations, warranties or covenants set forth herein, provided however that if such breach is susceptible to cure, then I-Alliance will have 30 days after receipt of written notice from SMR, of its intent to terminate this Agreement, in which to cure such breach.

9.4 Effect of Termination. If this Agreement is terminated pursuant to this Article, all obligations of the parties under this Agreement will terminate (except for this Article and section 8.7), and no party hereto will have any further liability to the other parties hereto, except that such termination will be without prejudice to any claim which a party may have against another for breach of this Agreement that occurred prior to the date of termination.

ARTICLE 10
SURVIVAL, INDEMNIFICATION AND LIMIT OF LIABILITY

10.1 Survival. All of the representations or warranties contained herein will survive for a period of one year from the Closing Date and will then expire. Upon the expiration of representations and warranties pursuant to this section, unless written notice of a claim based on such representations and warranty specifying in reasonable detail the facts on which the claim is based will have been delivered to the indemnifying party prior to expiration of such representation and warranty, such representation and warranty will be of no further force or effect, as if never made and no action may be brought based on the same, whether for breach of contract or any other legal theory, except, however, that claims based on fraud, willful misrepresentation or with respect to the representations and warranties set forth in Section 4.1.1 may be asserted at any time within one year after I-Alliance learns of such fraud, willful misrepresentation or breach.

10.2 Shareholders Indemnity. Except for the representations in sections 4.2.6 and 4.2.11, each Shareholder agrees to indemnify, defend and hold I-Alliance Indemnified Parties harmless from and against all Losses incurred by I-Alliance Indemnified Parties resulting from or on account of a breach of any material representation, warranty or covenant of such Shareholder made in this Agreement.

10.3 Limit of Liability. No Shareholder will be liable to I-Alliance under this Agreement for an amount in excess of the sum of the consideration received by such Shareholder pursuant to this Agreement (exclusive of the Shareholder Accrued Liability).

10.4 Conditions of Indemnification. The respective obligations and liabilities of the Indemnifying Parties to the Indemnified Party under this Article will be subject to the following terms and conditions:

10.4.1 Notice. Within 15 days after receipt of notice of commencement of any action or the assertion of any claim by a third party (but in any event at least 10 days preceding the date on which an answer or other pleading must be served in order to prevent a judgment by default in favor of the parties asserting the claim), the Indemnified Parties will give the Indemnifying Party written notice thereof, together with a copy of such claim, process or other legal pleading and the Indemnifying Party will have the right to undertake defense thereof, by representatives of its own choosing, that are reasonably satisfactory to the Indemnified Party. Notwithstanding the Indemnifying Parties undertaking of such defense, the Indemnified Party will have the right to engage its own counsel, at its own expense and participate in the defense of claims; provided, however that the Indemnifying Party will retain the right in its sole and absolute discretion to make all decisions with respect to the defense, settlement or compromise of such claim, provided that the Indemnifying Party remains liable for any payments due under any such settlement or compromise.

10.4.2 Failure to Assume Defense. If the Indemnifying Party by the 15th day after receipt of notice of such claim (or if earlier by the 5th day preceding the day on which the answer or other pleading must be filed in order to prevent judgment by default in favor of the person asserting such claim), does not elect to defend against such claim, the Indemnified Party will (upon further notice to Indemnifying Party) have the right to undertake defense, compromise or settlement of such claim on behalf of and for the account and risk of the Indemnifying Party; provided however, that the Indemnified Party will not settle or compromise such claim without the Indemnifying Parties consent, which consent will not be unreasonably withheld; and provided further, that the Indemnifying Party will have the right to assume the

defense of such claim with counsel of its own choosing at any time prior to settlement, compromise or final termination thereof.

10.4.3 Cooperation. In connection with any indemnification, the Indemnified Party will cooperate with all reasonable requests of the Indemnifying Party, and will be reimbursed all its out of pocket expenses.

10.5 Shareholders Additional Indemnity. Each Shareholder agrees to indemnify, defend and hold I-Alliance Indemnified Parties harmless from and against all Losses incurred by I-Alliance Indemnified Parties resulting from or on account of any and all federal, state or local income tax or franchise tax liability of SMR (or on account of SMR) whether in the current or future tax years, on account of the distribution to the Shareholders of the Accrued Shareholder Liability to the extent such tax liability is not reflected on the Financial Statements.

ARTICLE 11
MISCELLANEOUS PROVISIONS

11.1 Amendment and Modification. This Agreement may be amended, modified and supplemented only by a writing signed by I-Alliance and the Shareholders.

11.2 Waiver of Compliance. Any failure of I-Alliance or the Shareholders to comply with any obligation, covenant, agreement or condition herein contained may only be waived in writing by (i) I-Alliance in the case of any failure of the Shareholders or (ii) the Shareholders in the case of any failure of I-Alliance. Such waiver shall be effective only in the specific instance and for the specific purpose for which made or given.

11.3 Expenses. Each party will pay its own expenses incurred in connection with this Agreement or any transaction contemplated by this Agreement. The foregoing shall not be construed as limiting any other rights which any party may have as a result of misrepresentation of or breach by any other party.

11.4 Notices. All notices, requests, demands and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given when delivered by hand, or when mailed by certified or registered mail (return receipt requested), postage prepaid or when delivered by fax (evidenced by confirmation of successful transmission), as follows:

A. If to I-Alliance:

International Alliance Services, Inc.
10055 Sweet Valley Drive
Valley View, Ohio 44125
Phone: (216) 447-9000; Fax: (216) 447-9137
Attn: Joseph E. LoConti

With a copy to:
Anne L. Meyers & Associates Co., LPA
2 Summit Park Drive, Ste. 150
Cleveland, Ohio 44131-2553
Phone: (216) 520-4344 Fax: (216) 520-4350
Attn: Anne L. Meyers

or to such other person or place as I-Alliance or I-Alliance shall designate by notice in the manner provided in this Section 11.4:

B. If to the Shareholders:

To the Shareholders at their respective addresses set forth on Exhibit A

With a copy to:

Robert A. Ranallo, Esq.
SMR & Co. Business Services
6685 Beta Dr.
Mayfield Heights, OH
Phone: 442-8642; Fax 442-5609

or to such other person as the Shareholders shall designate by notice in the manner provided in this Section 11.4.

11.5 Assignment. This Agreement shall be binding upon and inure to the benefit of I-Alliance and its successors and assigns, and to the Shareholders and their respective successors and assigns or heirs, executors, administrators and personal representatives, as the case may be, but neither this Agreement nor any of the rights, interests and obligations hereunder shall be assigned by I-Alliance or any of the Shareholders without the prior written consent of the other parties.

11.6 Third Parties. This Agreement is not intended to and shall not be construed to give any Person other than the parties hereto any interest or rights (including, without limitation, any third party beneficiary rights) with respect to or in connection with any agreement or provision contained herein or contemplated hereby.

11.7 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Ohio, without regard to principles of conflicts of laws. I-Alliance and the Shareholders hereby irrevocably submit to the jurisdiction of the courts of the State of Ohio, with venue in Cuyahoga County, over any dispute arising out of this Agreement and agree that all claims in respect of such dispute or proceeding shall be heard and determined in such court. I-Alliance and the Shareholders hereby irrevocably waive, to the fullest extent permitted by applicable law, any objection which they may have to the venue of any such dispute brought in such court or any defense of inconvenient forum for the maintenance of such dispute. I-Alliance and the Shareholders hereby consent to process being served by them in any suit, action or proceeding by delivering it in the manner specified by the provisions of Section 11.4 of this Agreement.

11.8 Severability The invalidity or unenforceability in whole or in part of any covenant, promise or undertaking, or any section, subsection, sentence, clause, phrase, word, or any of the provisions of this Agreement will not affect the validity or enforceability of the remaining portions of this Agreement. If for any reason, any provision is determined to be invalid or in conflict with any existing, or future law or regulation by a court or agency having valid jurisdiction, such will not impair the operation or have any other effect upon such other provisions of this Agreement as may remain otherwise valid, and the latter will continue to be given full force and effect and bind the parties hereto.

11.9 Counterparts. This Agreement may be executed in two more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

11.10 Headings. The headings of the sections, schedules and articles of this Agreement are inserted for the sake of convenience only and shall not constitute a part hereof.

11.11 Disclosures. Any disclosure in any Schedule to this Agreement will be deemed a disclosure for all purposes under this Agreement and shall be considered a disclosure under all other schedules of this Agreement; provided information in documents referenced in but not included as part of a schedule will not be disclosure for purposes of this section. Schedule 4.2.4 will be updated upon completion of the November 30, 1996 balance sheet.

11.12 Waiver of Conflicts. Each of the parties acknowledge that Gregory J. Skoda has represented or participated in the management of SMR and I-Alliance in various capacities, and that SMR has provided financial advice to I-Alliance and that Skoda has advised SMR and I-Alliance, and SMR has advised I-Alliance that the economic and financial interests of the parties arising under or relating to this Agreement are or may be in material conflict. Each party further acknowledges that they have been advised to seek and consult independent advice, and has done so to the extent such party deems prudent. Each party agrees to forever waive any present or future claim of conflict of interest or other claim or cause of action which they may have as result to the multiple advice given to the parties by Gregory J. Skoda, or any advice given by SMR to I-Alliance in the transactions contemplated by this Agreement.

11.13 Entire Agreement. This Agreement, including the schedules and exhibits, contains the entire understanding of the parties in respect of the subject matter contained herein and therein and there are no other terms or conditions, representations or warranties, written or oral, express or implied, except as set forth herein.

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

INTERNATIONAL ALLIANCE SERVICES, INC.
By: _____
Edward F. Feighan, President

IASI/SMR ACQUISITION, INC.
By: _____
Craig Stout, President

SMR & CO. BUSINESS SERVICES
By: _____
Keith W. Reeves, President

THE SHAREHOLDERS OF SMR

Gregory J. Skoda

Michael L. Minotti

Keith W. Reeves

Patrick T. Carney

EXHIBIT A
Shareholders of SMR

Name	Address	Shares	Warrants	%
Gregory J. Skoda		195,600	293,400	32.6
Michael L. Minotti		189,000	283,500	31.5
Keith W. Reeves		185,400	278,100	30.9
Patrick T. Carney		30,000	45,000	5.0

EXHIBITS AND SCHEDULES REQUIRED
PLAN & AGREEMENT OF MERGER
IASI/SMR ACQUISITION COMPANY AND SMR

Exhibit A	Shareholders of SMR
Exhibit B	Terms of Warrants
Exhibit C	Assumption Agreement
Exhibit D	Employment Agreement Commitment
Exhibit E	Lock-Up Agreement
Schedule 2.4	Initial Directors of Surviving Corporation
Schedule 2.6	Shareholders I-Alliance Shares and Warrants
Schedule 4.1.4	Affiliated Transactions
Schedule 4.2.4	Financial Statements of SMR
Schedule 4.2.7	Subsidiaries of SMR
Schedule 4.2.9	No Consent of Outside Parties
Schedule 4.2.10	No Breach
Schedule 4.2.12	Other Tangible Property
Schedule 4.2.14	Real Property
Schedule 4.2.16	Intellectual Property
Schedule 4.2.19	Permits
Schedule 4.2.20	Contracts and Agreements
Schedule 4.2.21	Employment and Consulting Contracts
Schedule 4.2.22	Employee Benefits
Schedule 4.2.24	Insurance
Schedule 4.2.25	Liabilities
Schedule 4.2.26	Actions and Proceedings
Schedule 4.2.27	Bank Accounts, Guarantees and Powers
Schedule 4.2.28	Absence of Changes

AGREEMENT AND PLAN OF MERGER

by and among

INTERNATIONAL ALLIANCE SERVICES, INC.

and

IASI/ECI ACQUISITION CO.

and

ENVIRONMENTAL & COMMERCIAL INSURANCE AGENCY, INC.

and

ITS SHAREHOLDERS

Dated: November 5, 1996

This Agreement and Plan of Merger (the "Agreement") is entered into as of this 5th day of November, 1996 by and among International Alliance Services, Inc., ("I-Alliance"), IASI/ECI Acquisition Co., ("Merger Sub"), Environmental and Commercial Agency Inc., ("ECI"), and Christopher Timm ("Timm"), Shirley Sue Ellis aka Shirley K. Ellis ("Ellis") and Mark Perkins ("Perkins"), (the preceding individually "Shareholder" and collectively "Shareholders").

WHEREAS, the Shareholders own all of the common stock of ECI, in the amounts set forth in Exhibit A hereto (collectively the "ECI Shares"); and

WHEREAS, I-Alliance has determined that it wishes to acquire ECI; and

WHEREAS, to consummate such acquisition I-Alliance has formed Merger Sub into which ECI will be merged with ECI as the surviving corporation; and

WHEREAS, ECI has determined that it wishes to be acquired by I-Alliance.

Therefore in consideration of the mutual promises contained herein and other good and valuable consideration the parties agree as follows.

ARTICLE 1 DEFINITIONS

As used herein the following terms will have the meanings set forth:

- 1.1 "Closing" will have the meaning set forth in section 9.1.
- 1.2 "Closing Date" will have the meaning set forth in section 9.1.
- 1.3 "Effective Date" will have the meaning set forth in Article 3.
- 1.4 "I-Alliance Indemnified Parties" will mean I-Alliance and I-Alliance's employees, directors, officers, shareholders and agents.

1.5 "Liens" will mean any lien, mortgage, claim, charge, security interest, encumbrance, restriction or limitation.

1.6 "Losses" will mean any and all expenses, losses, costs, deficiencies, liabilities and damages including, but not limited to legal and professional fees and expenses suffered or incurred in any manner including investigation and defense of claims.

1.7 "Person" will mean any natural person, corporation, partnership, trust, incorporated or unincorporated association, joint venture, joint stock company, government (or any agency or political subdivision thereof) or other entity of any kind.

ARTICLE 2

MERGER

2.1 The Merger Subject to the terms and conditions of this Agreement and in accordance with the Ohio General Corporation Law (the "OGCL") at the Effective Date the Merger Sub will be merged with and into ECI (the "Merger") and the separate existence of Merger Sub will cease and ECI will continue as the surviving corporation (the "Surviving Corporation").

2.2 Effect of the Merger. The Merger will have the effect set forth in Section 1701.82 of the OGCL.

2.3 Certificate of Incorporation and Code of Regulations. At the Effective Date, the Articles of Incorporation and the Code of Regulations of ECI prior to the Effective Date will be and continue to be the Articles of Incorporation and Code of Regulations of the Surviving Corporation.

2.4 Directors. Each person serving as a director of ECI prior to the Effective Date will become the initial directors of the Surviving Corporation, each to hold office in accordance with the Articles of Incorporation until his or her respective successor is duly elected or appointed and qualified or until their earlier death, resignation or removal.

2.5 Officers. Each person serving as an officer of ECI prior to the Effective Date will become the initial officers of the Surviving Corporation, each to hold office in accordance with the Article of Incorporation until his or her respective successor is duly elected or appointed and qualified or until their earlier death, resignation or removal.

2.6 Conversion of Securities. At the Effective Date, by virtue of the Merger and without any action on the part of the parties or the holders of any of the respective securities:

2.6.1 All shares of ECI common stock, issued and outstanding immediately prior to the Effective Date (the "ECI Shares") will be converted into the right to receive in the aggregate one hundred ninety two thousand five hundred (192,500) shares of I-Alliance common stock (the "I-Alliance Shares") as described in Article 7, which will be delivered to each Shareholder in the number of shares set forth opposite such Shareholder's name on Schedule 2.6.

2.6.2 Each share of ECI common stock held in the treasury of ECI will automatically be canceled and retired without any conversion thereof.

2.6.3 Each share of Merger Sub common stock, without par value, issued and outstanding immediately prior to the Effective Date will be automatically converted into one share of common stock of the Surviving Corporation.

2.7 Consideration. As additional consideration, I-Alliance will pay, at the Effective Date, to the holders of all the ECI Shares in the aggregate, One Million Dollars (\$1,000,000), to be allocated equally to each such share, to be delivered to each Shareholder in the amount set forth opposite such Shareholder's name on Schedule 2.6.

ARTICLE 3 CONSUMMATION OF MERGER

The Closing will take place on the Closing Date at the offices of I-Alliance, 10055 Sweet Valley Drive, Valley View, OH 44125 or such other place as the parties may agree. At the time of the Closing, the parties will cause the Merger to be consummated by filing a Certificate of Merger with the Secretary of State of Ohio, in such form as required by and executed in accordance with the OGCL. The date and time of such filing will be the Effective Date.

ARTICLE 4 REPRESENTATIONS AND WARRANTIES OF ECI, TIMM AND SHAREHOLDERS

4.1 Warranties and Representations of Shareholders. Each Shareholder, severally, represents and warrants to I-Alliance and Merger Sub that:

4.1.1 Authority. The Shareholder has the right, power, authority and legal capacity to enter into and perform such Shareholder's obligations under this Agreement and to consummate the transactions contemplated hereby to be performed by such Shareholder, and this Agreement has been duly executed and delivered by the

Shareholder and is a valid and binding agreement of the Shareholder enforceable against such Shareholder in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally or the availability of equitable remedies.

4.1.2 Title to the ECI Shares. The Shareholder owns, of record and beneficially, all of the ECI Shares set forth opposite such Shareholder's name on Exhibit A, hereto free and clear of all Liens.

4.1.3 No Brokers. The Shareholder has not employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated hereby for which ECI or I-Alliance may be responsible.

4.1.4 Affiliated Transactions. Except as specifically set forth (including dollar amounts) on Schedule 4.1.4 as of the date hereof, neither the Shareholder nor any Affiliate of the Shareholder (as defined below) is indebted to, or is a creditor of, or a guarantor of any obligation of, or a party to any contract, agreement, license, option, commitment or other arrangement, written or oral, express or implied, with, ECI except as disclosed on such schedule. For purposes of this Section, an "Affiliate of the Shareholder" means any employee, officer or director of the Shareholder, any spouse or family member (including in-laws) of the Shareholder, or any corporation or other entity in which such Shareholder has an equity or ownership interest exceeding five percent.

4.1.5 Representation. Each Shareholder has been represented by its own counsel is not relying on or represented by counsel for I-Alliance.

4.2 Warranties and Representations of ECI and Timm. ECI and Timm hereby represent and warrant to I-Alliance and Merger Sub that:

4.2.1 Organization. ECI is a corporation duly organized, validly existing and in good standing under the laws of the State of Ohio with full power and authority (including any applicable licenses) to own, lease and operate its properties and to carry on its business as now being and as heretofore conducted, and is duly qualified or otherwise authorized as a foreign corporation to transact business and is in good standing in each jurisdiction in which it is required to be so qualified or authorized (each of which jurisdictions is set forth on Schedule 4.2.1).

4.2.2 Authority. The execution, delivery and performance by ECI of this Agreement and the consummation of the transactions contemplated by this Agreement, have been duly authorized by all necessary corporate action by ECI. This Agreement has been, and each other document ancillary to this Agreement to which ECI is a party will be at the Closing, duly executed and delivered by ECI and constitute, or will when delivered, constitute, the legal, valid and binding obligations of ECI, enforceable against ECI, in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws and equitable principles relating to or limiting creditors' rights generally.

4.2.3 Capitalization. The authorized capital stock of ECI consists of 100 shares of common stock, of which the ECI Shares constitute all of the shares outstanding (there being no treasury shares). The ECI Shares have been duly authorized and are validly issued, fully paid and nonassessable, and there are no outstanding rights, subscriptions, warrants, calls, preemptive rights, options or other agreements or commitments of any kind or character to purchase or otherwise to acquire from ECI any of its unissued shares of capital stock or any other security of ECI in favor of any Person.

4.2.4 Financial Statements. There have been delivered to I-Alliance and there are attached hereto as Schedule 4.2.4 true and correct copies of (a) the balance sheet of ECI as at September 30, 1995 (the "September 30, 1996 Balance Sheet") and the related unaudited statement of income of ECI for the nine months then ended and (b) the balance sheet of ECI as at June 30, 1996, together with the unaudited statement of income of ECI for the six months then ended. I-Alliance previously has been furnished with the unaudited balance sheets of ECI as at December 31, 1992, 1993, 1994 and 1995 and the related unaudited statements of income for each of the years then ended. All of such financial statements, including the notes thereto, are true and correct, are in accordance with the books and records of ECI, fairly

present the financial condition and results of operations of ECI as at the respective dates and for the respective periods covered thereby and were prepared in conformity with generally accepted accounting principles consistently applied.

4.2.5 Absence of Changes. Since September 30, 1996, ECI has carried on its business in the ordinary course, and there has not been any material adverse change in its business condition (financial or otherwise), results of operations or liabilities.

4.2.6 Net Worth. At the Effective Date the net worth of ECI, computed on the same basis as the September 30, 1996 Balance Sheet will be One Hundred Fifty Thousand Dollars (\$150,000).

4.2.7 No Subsidiaries. Except as set forth on Schedule 4.2.7, ECI has no subsidiaries.

4.2.8 Articles of Incorporation, Code of Regulations, Corporate Records and Committees. The copies of the Articles of Incorporation and Code of Regulations of ECI heretofore delivered to I-Alliance are correct and complete. The stock transfer, minute books and corporate records of ECI which have been made available to I-Alliance are correct and complete and constitute the only written records and minutes of the meetings, proceedings, and other actions of the shareholders and the Board of Directors of ECI from the date of its organization to the date hereof, there being no committees of its Board of Directors.

4.2.9 No Consent. Except as set forth on Schedule 4.2.9, no consent, order, license, approval or authorization of, or exemption by, or registration or declaration or filing with, any governmental authority, bureau or agency, and no consent or approval of any other Person, is required to be obtained or made in connection with the sale of the ECI Shares.

4.2.10 No Breach. Except as set forth on Schedule 4.2.10, the performance of this Agreement will not (i) violate any provision of the Articles of Incorporation or Code of Regulations of ECI; (ii) violate, conflict with or result in the breach or termination of, or constitute an amendment to, or otherwise give any Person the right to terminate, or constitute (or with notice or lapse of time or both would constitute) a default (by way of substitution, novation or otherwise) under the terms of, any contract, mortgage, lease, bond, indenture, agreement, franchise or other instrument or obligation to which ECI is a party or by which ECI or any of its respective assets or properties are bound or affected; (iii) result in the creation of any Liens" upon the properties or assets of ECI pursuant to the terms of any contract, mortgage, lease, bond, indenture, agreement, franchise or other instrument or obligation; (iv) violate any judgment, order, injunction, decree or award of any court, arbitrator, administrative agency or governmental or regulatory body against, or binding upon, ECI or any of its securities, properties, assets or business; (v) constitute a violation by ECI of any statute, law, rule or regulation of any jurisdiction as such statute, law, rule or regulation relates to ECI or to any of its securities, properties, assets or business; or (vi) violate any Permit.

4.2.11 Accounts Receivable. The accounts receivable of ECI reflected on the September 30, 1996 Balance Sheet are actual and bona fide accounts receivable which arose in the ordinary and usual course of ECI's business, represent valid obligations due to ECI, are collectible in the aggregate recorded amounts thereof on the books of ECI and substantially all of such accounts will be collected by December 31, 1996. Schedule 4.2.11 sets forth a summary of the terms of payment (with the aging indicated) of all such accounts receivable at the date hereof.

4.2.12 Other Tangible Property. ECI has good and marketable title to all of the assets reflected on its books and records and on the September 30, 1996 Balance Sheet, free and clear of all Liens, except for those assets leased by ECI under leases listed on Schedule 4.2.12. The tangible personal properties material to the business of ECI including, without limitation, ECI's personal computers, are in good operating condition and repair, ordinary wear and tear excepted.

4.2.13 Real Property. ECI does not own any real property. Schedule 4.2.13 sets forth a true and correct list of all leases, subleases or other agreements under which ECI is lessee or lessor of any real property or has any interest in real property and, except as set forth in Schedule 4.2.13, there are no rights or options held by

ECI, or any contractual obligations on its part, to purchase or otherwise acquire (including by way of lease or sublease) any interest in or use of any real property, not any rights or options granted by ECI, or any contractual obligations entered into by it, to sell or otherwise dispose of (including by way of lease or sublease) any interest in or use of any real property. All such leases, subleases and other agreements grant the leasehold estates or other interests they purport to grant with the right to quiet possession, are in full force and effect and constitute legal, valid and binding obligations of the respective parties hereto, with no existing or claimed default or event of default or event which with notice or lapse of time or both would constitute a default or event of default by ECI or, to the knowledge of Timm, by any other party thereto, which would materially and adversely affect ECI. ECI is not in violation of any building, zoning, health, safety, environmental or other law, rule or regulation and no notice from any Person has been served upon ECI claiming any such violation.

4.2.14 Intellectual Property. Except as listed on Schedule 4.2.14, ECI does not own or use any trademarks, trade names, trade secrets, patents, inventions, processes, copyrights, copyright rights or other intellectual property rights (or applications therefor), nor is the use thereof required, in connection with its business.

4.2.15 Tax Matters. ECI has timely filed all federal, state, county and local tax returns, estimates and reports (collectively, "Returns") required to be filed by it through the date hereof, copies of which have been delivered to I-Alliance, which Returns accurately reflect the taxes due for the periods indicated, and has paid in full all income, gross receipts, value added, excise, property, franchise, sales, use, employment, payroll and other taxes of any kind whatsoever (collectively, "Taxes") shown to be due by such Returns, and adequate reserves have been established with respect to any liabilities for Taxes accrued through September 30, 1996 and are reflected on the September 30, 1996 Balance Sheet and, to the knowledge of Timm, there is no unassessed deficiency for Taxes proposed or threatened against ECI, and no taxing authority has raised any issue with respect to ECI which, if adversely determined, would result in a liability for any Tax which has not been reserved against on the September 30, 1996 Balance Sheet, and there are not in force any extensions with respect to the dates on which any Return was or is due to be filed by ECI or any waivers or agreements by ECI for the extension of time for the assessment or payment of any Taxes. ECI has not been, and currently is not being, audited by any federal, state or local tax authority.

4.2.16 Compliance with Laws. ECI is not in violation of any applicable law, rule or regulation, the violation of which could materially and adversely affect the assets, properties, liabilities, business, results of operations, condition (financial or otherwise) or prospects of ECI, nor does Timm know of the enactment, promulgation or adoption of any such law, rule or regulation which is not yet effective.

4.2.17 Permits. (a) Except as set forth on Schedule 4.2.17(a), ECI (including, without limitation, its employees) has duly obtained and holds in full force and effect all consents, authorizations, permits, licenses, orders or approvals of, and has made all declarations and filings with, all federal, state or local governmental or regulatory bodies that are material or necessary in or to the conduct of its business (collectively, the "Permits"); all of the Permits were duly obtained and are in full force and effect; no violations are or have been recorded in respect of any such Permit and no proceeding is pending or threatened to revoke, deny or limit any such Permit; and (b) Schedule 4.2.17(b) sets forth a true and complete list of all local recording agent licenses, surplus lines licenses and managing general agency licenses issued by any jurisdiction to ECI, together with the expiration dates thereof.

4.2.18 Contracts and Agreements. Schedule 4.2.18 lists and briefly describes all written or oral contracts, agreements, leases, mortgages and commitments to which ECI is a party or by which it may be bound, including, without limitation, all insurance underwriting agreements, agency agreements, brokerage agreements, management agreements, joint venture agreements, leases, guarantees and indemnifications, employment and consulting agreements and instruments of indebtedness (collectively, "Contracts"), true and correct copies of which have been made available to I-Alliance. All Contracts constitute legal, valid and binding obligations of ECI and, to the knowledge of Timm, of the other parties thereto and are in full force and effect on

the date hereof, and ECI has paid in full amounts due thereunder which are due and payable and is not in default under any of them nor, to the knowledge of Timm, is any other party to any such contract or other agreement in default thereunder, nor does any condition exist that with notice or lapse of time or both would constitute a default or event of default thereunder by ECI or, to the knowledge of Timm, by any other Person. Except as set forth in Schedule 4.2.9, no Contract requires the consent or approval of a third party in connection with the sale of the ECI Shares.

4.2.19 Employee Benefits. (a) Except as set forth on Schedule 4.2.19, there are no pension, retirement, savings, disability, medical, dental or other health plans, life insurance (including any individual life insurance policy as to which ECI makes premium payments whether or not ECI is the owner, beneficiary or both of such policy) or other death benefit plans, profit sharing, deferred compensation, stock option, bonus or other incentive plans, vacation benefit plans, severance plans, or other employee benefit plans or arrangements (whether written or arising from custom), and ECI has no employee pension benefit plan as defined Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or any employee welfare benefit plan as defined in Section 3(1) of ERISA.

(b) ECI has in all material respects complied with the requirements to the extent applicable, of the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") with respect to the continuation of employer-provided health benefits following a "qualifying event" which would otherwise terminate such benefits, as provided in Section 4980B of the Internal Revenue Code of 1986, as amended, and applicable regulations and Internal Revenue Service rulings, notices and other pronouncements.

4.2.20 Insurance. Schedule 4.2.20 lists and provides a summary description of all policies of property, theft, fire, liability, workers' compensation, title, professional liability or life insurance or reinsurance or any other insurance owned or maintained by ECI or in which ECI is a named insured or on which ECI is paying any premiums. All such policies are of a type and in amounts of coverage customary in businesses such as those engaged in by ECI, and except as set forth on Schedule 4.2.20, are in full force and effect at the date hereof, and each of the insured parties thereunder is not in default with respect to any provision contained in any such insurance policy nor failed to give any notice or present any claim thereunder in due and timely fashion. Schedule 4.2.20 sets forth a summary of the claims history for ECI under such policies since January 1, 1993 and, except as set forth on Schedule 4.2.20, there are no claims outstanding under any such policies.

4.2.21 Accounts Payable. Except as set forth on Schedule 4.2.21, no accounts payable of ECI have arisen subsequent to September 30, 1996 that exceed \$10,000 for any one payee or \$100,000 in the aggregate, other than premiums payable to insurance companies.

4.2.22 Liabilities. There are no material liabilities or obligations of ECI, either accrued, absolute, contingent or otherwise, whether or not of a kind required by generally accepted accounting principles to be set forth on a financial statement ("Liabilities"), except (a) those accrued, reflected or otherwise provided for on the September 30, 1996 Balance Sheet and (b) those listed on Schedule 4.2.22.

4.2.23 Actions and Proceedings. Except as provided on Schedule 4.2.23, there are no claims, actions, suite, arbitrations, proceedings, investigations or inquiries, whether at law or in equity and whether or not before any court, private body or group, governmental department, commission, board, agency or instrumentally (collectively "Actions"), pending or to the knowledge of Timm or Perkins, threatened against, involving or affecting ECI or any of its assets, whether or not fully or partially covered by insurance, or which would give rise to any right of indemnification by any Person from ECI, and there are no outstanding orders, writs, injunctions, awards, sentences or decrees of any court, private body or group, governmental department, commission, board, agency or instrumentality against involving or affecting ECI.

4.2.24 Bank Accounts, Guarantees and Powers. Schedule 4.2.24 sets forth (i) a list of all accounts, borrowing resolutions and deposit boxes maintained by ECI at any bank or other financial institution and the names of the person authorized to effect transactions in such accounts, to borrow pursuant to such resolutions and with access to such boxes; (ii) all agreements or commitments of

ECI guaranteeing the payment of money or the performance of other contracts by any third persons; and (iii) the names of all persons, firms, associations, corporations, or business organizations holding general or special powers of attorney from ECI together with a summary of the terms thereof.

4.2.25 Absence of Changes. Except as set forth in Schedule 4.2.25, since September 30, 1996, ECI has carried on its business in the ordinary course, and there has not been:

4.2.25.1 any material adverse change in its business condition (financial or otherwise), results of operations or liabilities; 4.2.25.2 any pending or threatened amendment, modification, or termination of any agreement, license or permit which is material to its business; 4.2.25.3 any disposition or acquisition of any of its assets or properties other than in the ordinary course; 4.2.25.4 any damage, destruction or other casualty loss (whether or not covered by insurance) adversely affecting or that could reasonably be expected to adversely affect its business or assets; 4.2.25.5 any increase in the compensation of any of its employees; or 4.2.25.6 except in the ordinary course, any obligation or liability (whether matured, unmatured, absolute, accrued, contingent or otherwise) incurred. 4.2.26 Employee Relations.

ECI has not at any time during the last five years had, or, to the knowledge of Timm, is there now threatened, a strike, picket, work stoppage, work slowdown, or other labor trouble or dispute, and Timm has no knowledge of any employee's proposed resignation.

4.2.27 Full Disclosure. All documents, schedules and other materials delivered or made available by ECI to I-Alliance in connection with this Agreement and the transactions contemplated hereby are true and complete in all material respects, and do not, in light of the circumstances under which the statements contained in the information so furnished are made, contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements contained therein not false or misleading.

4.2.28 Employee Compensation. Schedule 4.2.28 lists all employees of ECI, setting forth their respective salaries, whether they are employed under contract or at will, and the expiration date of each contract.

4.2.29 Representation. ECI has has been represented by its own counsel is not relying on or represented by counsel for I-Alliance.

ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF I-ALLIANCE

I-Alliance represents and warrants to the Shareholders and ECI that:

5.1 Organization. I-Alliance is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, has full power and authority to own, lease and operate its properties and to carry on its business as now being and as heretofore conducted by it, and is duly qualified or otherwise authorized as a foreign corporation to transact business and is in good standing in each jurisdiction in which it is required to be so qualified or authorized.

5.2 Authority. This Agreement has been duly authorized, executed and delivered by I-Alliance and is the valid and bind agreement of I-Alliance enforceable against I-Alliance in accordance with its terms.

5.3 The I-Alliance Shares. The I-Alliance Shares being delivered hereby are validly issued, fully paid and non-assessable.

5.4 No Breach. The authorization, execution, delivery and performance of this Agreement by I-Alliance will not violate any provision of its certificate of incorporation or by-laws or violate, conflict with or result in the breach or termination of, or otherwise give any Person the right to terminate, any agreement to which it is a party.

5.6 Documents Delivered. I-Alliance has delivered to Shareholders I-Alliance's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 (the "1995 Form 10-K"), its Quarterly Reports on Form 10-Q for the quarters ended March 31, 1996 and June 30, 1996, its Information Statement dated September 23, 1996 (collectively the "SEC Documents"). The SEC Documents were true and complete in all material respects as at their respective dates, did not contain any untrue statement of a material fact nor omit to state any material fact required to be stated therein or necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading, and since September 23, 1996, there has not been any material adverse change in I-Alliance's business condition (financial or otherwise), results of operations or liabilities, not reflected in the SEC Documents.

ARTICLE 6
CONDITIONS PRECEDENT TO CLOSING

6.1 I-Alliance Conditions Precedent. The obligation of I-Alliance to close the transactions herein contemplated is subject to the following express conditions precedent:

6.1.1 Representations and Warranties. The representations and warranties set forth in Article 4 of this Agreement shall be true and correct in all material respects at and as of the Closing Date.

6.1.2 Covenants. ECI and Shareholders shall have performed and complied with all of their covenants under this Agreement in all material respects through the Closing Date.

6.1.3 Satisfactory Performance. All actions to be taken by ECI and Shareholders in connection with consummation of the transaction contemplated hereby and all certificates, opinions, instruments, and other documents required to effect the transactions contemplated hereby have been completed in a manner which is reasonably satisfactory in form and substance to I-Alliance.

6.1.4 Continuation of Business. Between the date of the Financial Statements and the Closing Date, ECI will have been operated in the normal course and will not have suffered any damage, destruction, loss or occurrence, whether covered by insurance or not, which may materially adversely affect the value of ECI or its business prospects.

6.1.5 Legal Actions. No suit, action, or other proceeding shall be pending or threatened before any court or governmental agency seeking to restrain, prohibit or obtain damages or other relief in connection with this Agreement or the consummation of the transactions contemplate herein and there shall have been no investigation or inquiry made or commenced by any governmental agency in connection with this Agreement or the transactions contemplated herein, except that the foregoing shall not be a condition precedent if ECI and the Shareholders shall have offered indemnity with respect thereto that is reasonably satisfactory to I-Alliance .

6.1.6 Legal Limitations on Closing. There shall not be in effect any statute, rule or regulation which makes it illegal for I-Alliance to consummate the transactions contemplated herein or any order, decree of judgment which enjoins I-Alliance from consummating the transactions contemplated hereby, except that any such order, decree or judgment shall not be a condition precedent if ECI and Shareholders shall have offered indemnity with respect thereto that is reasonably satisfactory to I-Alliance.

6.1.7 Deliveries by the Shareholders. The Shareholders will have delivered the stock certificates representing the ECI Shares, duly endorsed for transfer.

6.1.8 Deliveries by ECI. ECI will have delivered the minute book, stock book and stock ledger of ECI, and a good standing certificate, dated as of a date not more than fourteen (14) days prior

to the date hereof as to the corporate existence and good standing of ECI certified by the Secretary of State of the State of Ohio.

6.1.9 Waivers. I-Alliance may waive one or more of said conditions but such waiver shall be effective only if in writing and signed on behalf of I-Alliance by one of its duly authorized officers and may be conditioned in any manner I-Alliance sees fit.

6.2 Conditions Precedent to Closing by ECI and Shareholders. The obligation of ECI and Shareholders to close the transactions herein contemplated is subject to the following express conditions precedent:

6.2.1 Representations and Warranties. Representations and warranties set forth in Article 5 of this Agreement shall be true and correct in all material respects at and as of the Closing Date.

6.2.2 Covenants. I-Alliance will have performed and complied with all of its covenants under this Agreement in all material respects through the Closing Date.

6.2.3 Legal Limitations on Closing. There shall not be in effect any statute, rule or regulation which makes it illegal for I-Alliance, ECI or the Shareholders to consummate the transactions contemplated herein or any order, decree or judgment which enjoins ECI or the Shareholders from consummating the transactions contemplated hereby, except that any such order, decree or judgment shall not be a condition precedent if I-Alliance shall have offered indemnity with respect thereto that is reasonably satisfactory to ECI and Shareholders.

6.2.4 Legal Actions. No suit, action, or other proceeding shall be pending or threatened before any court or governmental agency seeking to restrain, prohibit or obtain damages or other relief in connection with this Agreement or the consummation of the transactions contemplate herein and there shall have been no investigation or inquiry made or commenced by any governmental agency in connection with this Agreement or the transactions contemplated herein, except that the foregoing shall not be a condition precedent if I-Alliance shall have offered indemnity with respect thereto that is reasonably satisfactory to ECI and the Shareholders.

6.2.5 Satisfactory Performance. All actions to be taken by I-Alliance in connection with consummation of the transactions contemplated hereby and all certificates, opinions, instruments, and other documents required to effect the transactions contemplated hereby have been completed in a manner which is reasonably satisfactory in form and substance to ECI and Shareholders.

6.2.6 Waiver. ECI and Shareholders may waive one or more of the foregoing conditions but such waiver shall only be effective if in writing and signed by ECI and Shareholders and may be conditioned in any manner ECI and Shareholders see fit.

ARTICLE 7 I-ALLIANCE SHARES

7.1 Legend. Any certificate or certificates representing I-Alliance Shares will bear the following legend unless and until removal thereof is permitted pursuant to the terms of this Agreement:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR UNDER ANY APPLICABLE STATE SECURITIES LAW AND MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT FOR THESE SHARES OR AN OPINION OF I-ALLIANCE'S COUNSEL THAT REGISTRATION IS NOT REQUIRED UNDER THE ACT AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER OR UNDER APPLICABLE STATE SECURITIES LAWS.

7.2 Examination and Investment Representation. Shareholders, severally, represent and warrant to I-Alliance that each of them has examined I-Alliance's Annual Report on Form 10-K for the year ended December 31, 1995, its Quarterly Report on Form 10-Q for the quarters ended March 31, 1996 and June 30, 1996, and its Information Statement dated September 23, 1996, including the financial statements contained therein, has had the opportunity to discuss I-Alliance's operations with its officers and employees, and is acquiring the I-Alliance Shares for his/her own account for investment within the contemplation of the Securities Act of 1933, as amended (the "Securities Act") and not with a view to the transfer or resale thereof, except to the extent otherwise expressly provided in this Agreement, that he has been advised by his counsel of the legal implications and effect of the foregoing under the Securities Act and of the circumstances under which he may dispose of his I-Alliance Shares under the Securities Act, including the possible limited sale thereof pursuant to Rule 144 under the Securities Act and of the affect of the legending of the certificate for his I-Alliance Shares with the legend described in Section 7.1.

7.3 Registration Rights. Each Shareholder shall have the following registration rights with respect to the I-Alliance Shares:

7.3.1 Transfer of Registration Rights. Shareholder may assign the registrations rights with respect to the I-Alliance Shares to any party or parties to which he may from time to time transfer the I-Alliance Shares. Upon assignment of any registration rights pursuant to this Section 7.3, Shareholder shall deliver to the transfer agent for I-Alliance, a notice of such assignment which includes the identity and address of any assignee (collectively, Shareholder and each such subsequent holder is referred to as a "Holder").

7.3.2 Required Registration. As promptly as practicable after the Closing, I-Alliance agrees to register all of the Registrable Securities (as hereinafter defined) pursuant to a registration statement on Form S-3 (the "Shelf Registration Statement"). I-Alliance shall use its best efforts to cause the Shelf Registration Statement to be declared effective as quickly as practicable and to maintain the effectiveness of the Shelf Registration Statement until such time as I-Alliance reasonably determines based on an opinion of counsel that the Holders will be eligible to sell all of the Registrable Securities then owned by the Holders without the need for continued registration of the Shares in the three-month period immediately following the termination of the effectiveness of the Shelf Registration Statement. I-Alliance's obligations contained in this Section 7.3 shall terminate on the third anniversary of the Effective Date.

7.3.3 Registration Procedures. In case of each registration, qualification or compliance effected by I-Alliance subject to this Section 7.3, I-Alliance shall keep Holder advised in writing as to the initiation of each such registration, qualification and compliance and as to the completion thereof. In addition, I-Alliance shall at its own expense:

7.3.3.1 subject to this Section 7.3, before filing a registration or prospectus or any amendment or supplements thereto, furnish to counsel selected by Holder copies of all such documents proposed to be filed and the portions of such documents provided in writing by Holder for use therein, subject to such Holder's approval, and for which Holder shall indemnify I-Alliance;

7.3.3.2 prepare and file with the SEC such amendments and supplements to the Shelf Registration Statement as may be necessary to keep the Shelf Registration Statement effective and comply with provisions of the Securities Act with respect to the disposition of all securities covered thereby during such period;

7.3.3.3 update, correct, amend and supplement the Shelf Registration Statement as necessary;

7.3.3.4 if such offering is to be underwritten, in whole or in part, enter into a written agreement in form and substance reasonably satisfactory to the managing underwriter and the registering Holder;

7.3.3.5 furnish to Holder such number of prospectuses, including preliminary prospectuses, and other documents that are included in the Shelf Registration Statement as Holder may reasonably request from time to time;

7.3.3.6 use its best efforts to register to qualify such Registrable Securities under such other securities or blue sky laws of such jurisdictions of the United States as Holder may request to enable it to consummate the disposition in such jurisdiction of the Registrable Securities (provided that I-Alliance will not be required to (A) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this Article I, or (B) consent to general service of process in any such jurisdiction);

7.3.3.7 notify Holder, at any time when the prospectus included the Shelf Registration Statement relating to the Registrable Securities is required to be delivered under the Securities Act, of the happening of any event which would cause such prospectus to contain an untrue statement of a material fact or omit any fact necessary to make the statement therein in light of the circumstances under which they are made not misleading and, at the request of Holder, prepare a supplement or amendment to such prospectus, so that, as thereafter delivered to purchasers of such shares, such prospectus will not contain any untrue statements of a material fact or omit to state any fact necessary to make the statements therein in light of the circumstances under which they are made not misleading;

7.3.3.8 use its best efforts to cause all such Registrable Securities to be listed on each securities exchange or national market on which similar securities issued by I-Alliance are then listed and obtain all necessary approvals from such exchange or national market for trading thereon;

7.3.3.9 provide a transfer agent and registrar for all such Registrable Securities not later than the effective date of the Shelf Registration; and

7.3.3.10 upon the sale of any Registrable Securities pursuant to the Shelf Registration, remove all restrictive legends from all certificates or other instruments evidencing such Registrable Securities (to the extent permitted by the Securities Act).

7.3.4 Delay and Suspension. If Issuer is aware of any event which has occurred or which it reasonably expects might occur within the next ninety days, and such event would cause (or Issuer believes might cause) the Shelf Registration Statement (or any prospectus) to contain any untrue statements of a material fact or omit to state any fact necessary to make the statements therein in light of the circumstances under which they are made not misleading, then notwithstanding any other provision of this Section 7.3, Issuer upon notice to Holder, may delay filing any Shelf Registration Statement otherwise required hereunder or may withdraw or suspend for up to ninety days any then pending Shelf Registration Statement.

7.3.5 Expenses. Except as required by law, all expenses incurred by in complying with this Section 7.3, including but not limited to, all registration, qualification and filing fees, printing expenses, fees and disbursements of counsel and accountants for I-Alliance, blue sky fees and expenses (including fees and disbursements of counsel related to all blue sky matters) ("Registration Expenses") incurred in connection with any registration, qualification or compliance pursuant this Section 7.3 shall be borne by I-Alliance. All underwriting discounts and selling commissions and any fees of Holder's own attorneys or other advisors applicable to a sale incurred in connection with any registration of I-Alliance Shares and the legal fees of Holder shall be borne by Holder.

7.3.6 Further Information. If Registrable Securities owned by Holder are included in any registration, such Holder shall use reasonable efforts to cooperate with I-Alliance and shall furnish I-Alliance such information regarding itself as I-Alliance may reasonably request and as shall be required in connection with any registration, qualification or compliance referred to in this Agreement.

7.3.7 Definition For purposes of this Section 7.3, "Registrable Securities" will mean the I-Alliance Shares and all common stock or other securities issued in respect of such Shares by way of a

stock dividend or stock split or in connection with a combination or subdivision of shares, recapitalization, merger or consolidation or reorganization, and any securities issued in respect of the I-Alliance Shares by way of stock dividend or stock split or in connection with any combination or subdivision of shares, recapitalization, merger or consolidation or reorganization; provided, however, as to any particular Registrable Securities, such Registrable Securities will cease to be subject to this Article when they have been sold pursuant to an effective registration statement or in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act under Section 4(1) thereof so that all transfer restrictions and restrictive legends with respect thereto are removed upon the consummation of such sale and the purchaser and seller receive an opinion of counsel from the seller or the purchaser, which opinion shall be in form and substance reasonably satisfactory to the other party and I-Alliance and their respective counsel, to the effect that such stock in the hands of the purchaser is freely transferable without restriction or registration under the Securities Act in any public or private transaction.

7.4 Indemnity. I-Alliance shall indemnify Shareholders from and against any and all liabilities to which they may become subject as a result of any untrue statement or alleged untrue statement of a material fact contained in the related registration statement, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statement therein not misleading, other than a statement or omission made in reliance on and consistent with information furnished in writing by the Shareholders for use in such registration statement, provided, however, that each Shareholder shall indemnify I-Alliance, and the underwriters of the offering, if any, from and against any and all liabilities to which I-Alliance may become subject as a result of any untrue statement or alleged untrue statement of a material fact contained in the related registration statement, or the omission or alleged omissions to state therein a material fact required to be stated therein or necessary to make the statement not misleading, but only insofar as such statement or omission was made in reliance by I-Alliance on and consistent with information furnished in writing by such Shareholder.

7.5 Documents. I-Alliance shall furnish to Shareholder one copy of the registration statement and any amendments thereto and such number of copies of the final prospectus as they may reasonably request, and shall deliver to the exchanges or NASDAQ (where listed) such number of copies of the final prospectus required to comply with the prospectus delivery requirements and permit the sale of the registered I-Alliance Shares on such exchange or national market.

ARTICLE 8 OTHER COVENANTS

8.1 Announcements. Prior to the Closing, none of the parties will make any public release of information regarding this Agreement or the transactions contemplated hereto, except that I-Alliance may issue press release after the execution of this Agreement and the Closing and as otherwise required by law.

8.2 Conduct of Business. During the period from the date hereof to the Effective Date, unless I-Alliance consents otherwise in writing (which consent will not be unreasonably withheld), ECI will conduct the business of ECI only in the ordinary course of business consistent with past practice except as contemplated by this Agreement.

8.3 Cooperation. Each party hereto agrees that before and after the Closing to execute any and all further documents and writings and to perform such other reasonable actions which may be or become necessary or expedient to effectuate and carry out this Agreement.

8.4 Tax Matters. It is the intent of the parties that the exchange of the ECI shares for the I-Alliance Shares be a tax free exchange (except to the extent of the other considerations received). I-Alliance

and Merger Sub will use all reasonable efforts to consummate the merger in such fashion, but neither I-Alliance nor Merger Sub makes any representation as to the tax treatment of Shareholders or any agreement with respect to refraining from taking any future action which could adversely affect the tax treatment of this transaction. Notwithstanding anything in this Agreement to the contrary, the Shareholders will remain solely liable for any tax consequences to them as a result of the transactions contemplated by this Agreement.

8.5 Tax Cooperation. After Closing the parties will cooperate with each other in the preparation of all tax returns, and will provide to such other parties any records and other information reasonably requested by such party in connection therewith as well as access to, and cooperation of, the auditors of such other party.

ARTICLE 9
CLOSING, CLOSING ADJUSTMENTS AND TERMINATION

9.1 Closing. The closing ("Closing"), i.e. the execution and delivery of the documents contemplated by this Agreement, will take place at the offices of I-Alliance, as soon as practical after the date of this agreement, provided that such date will not be after December 27, 1996, or at such time as mutually agreed (the "Closing Date"). The parties agree that time is of the essence.

9.2 Adjustments. The consideration paid to the Shareholders will be subject to adjustment at or after the Closing for any increase or decrease in the Net Worth of ECI at the Effective Date above or below \$150,000. The amount of such adjustment will be promptly paid by I-Alliance to the Shareholders (in proportion to their interests reflected in Schedule 2.6, or will be immediately refunded to I-Alliance (or ECI as directed by I-Alliance) by each Shareholder (in proportion to their interests reflected in Schedule 2.6) upon a demand by I-Alliance.

- 9.3 Termination. This Agreement may be terminated at any time on or prior to the Effective Date:
- 9.3.1 by I-Alliance or ECI if any court of competent jurisdiction will issue any order (other than temporary restraining order) restraining, enjoining or prohibiting the transactions;
 - 9.3.2 by mutual written agreement of I-Alliance and ECI;
 - 9.3.3 by either I-Alliance or ECI if the Effective Date will not have occurred on or before December 3, 1996, time being of the essence, provided that the right to terminate this Agreement pursuant to this section will not be available to any party whose failure to fulfill any obligation of this Agreement has been the cause or resulted in the failure of the Effective Date to occur on or before such date;
 - 9.3.4 Breach by ECI. By I-Alliance if there has been a material breach on the part of ECI in its representations, warranties or covenants set forth herein, provided however that if such breach is susceptible to cure, then ECI will have 30 days after receipt of notice from I-Alliance, of its intent to terminate this Agreement, in which to cure such breach; and
 - 9.3.5 Breach by I-Alliance. By ECI if there has been a material breach on the part of I-Alliance in its representations, warranties or covenants set forth herein, provided however that if such breach is susceptible to cure, then I-Alliance will have 30 days after receipt of notice from ECI, of its intent to terminate this Agreement, in which to cure such breach.

9.4 Affect of Termination. If this Agreement is terminated pursuant to this Article, all obligations of the parties under this Agreement will terminate (except for this Article), and no party hereto will have any further liability to the other parties hereto, except that such termination will be without prejudice to any claim which a party may have against another for breach of this Agreement that occurred prior to the date of termination.

ARTICLE 10
SURVIVAL, INDEMNIFICATION AND LIMIT OF LIABILITY

10.1 Survival. All of the representations or warranties contained herein will survive for a period of three years from the Closing Date and will then expire. Upon the expiration of representations and warranties pursuant to this section, unless written notice of a claim based on such representations and warranty specifying in reasonable detail the facts on which the claim is based will have been delivered to the indemnifying party prior to expiration of such representation and warranty, such representation and warranty will be of no further force or effect, as if never made and no action may be brought based on the same, whether for breach of contract or any other legal theory, except, however, that claims based on fraud, willful misrepresentation or with respect to the representations and warranties set forth in Section 4.1.1 may be asserted at any time within one year after I-Alliance learns of such fraud, willful misrepresentation or breach.

10.2 Shareholders Indemnity. Each Shareholder agrees to indemnify, defend and hold I-Alliance Indemnified Parties harmless from and against all Losses incurred by I-Alliance Indemnified Parties resulting from or on account of a breach of any representation, warranty or covenant of such Shareholder made in this Agreement.

10.3 Limit of Liability. No Shareholder will be liable to I-Alliance under this Agreement (except for and excluding amounts described in Section 10.4 below) for an amount in excess of the consideration received by such Shareholder pursuant to this Agreement.

10.4 Shareholders Additional Indemnity. Each Shareholder agrees to indemnify, defend and hold I-Alliance Indemnified Parties harmless from and against all Losses incurred by I-Alliance Indemnified Parties resulting from or on account of Indemnified Tax Liability or Errors and Omissions Liability (as defined below).

For purposes of this Article the following definitions apply:

10.4.1 "Indemnified Tax Liability" will mean any and all federal, state or local income tax or franchise tax liability of ECI (or on account of ECI) whether in the current or future tax years, on account of the distribution to the Shareholders and others of the Contingent Receivable and or the realization thereof.

10.4.2 "Errors and Omissions Liability" will mean any liability to ECI due to errors and omissions of its employees and agents occurring before the Closing Date which has not been disclosed in the Schedules to this Agreement and whose existence is not a breach of the representations and warranties contained herein, to the extent such liability is not reimbursed by insurance coverage maintained by ECI prior to the Closing Date.

10.4.3 "Contingent Receivable" will mean a certain receivable for contingent commissions for business written prior to the Closing which was distributed or otherwise transferred from ECI to its then shareholders prior to this Agreement.

10.5 Limit of Liability. No Shareholder will be liable to I-Alliance under Section 10.4 above for an amount in excess of the amount actually received by (or on behalf of) such Shareholder from its interest in the Contingent Receivable (plus any remaining interest the Shareholder has therein), provided that such Shareholder has given I-Alliance as of the Closing a first security interest in such Contingent Receivable on terms reasonably satisfactory to I-Alliance.

ARTICLE 11
MISCELLANEOUS PROVISIONS

11.1 Amendment and Modification. This Agreement may be amended, modified and supplemented only by a writing signed by I-Alliance and the Shareholders.

11.2 Waiver of Compliance. Any failure of I-Alliance or the Shareholders to comply with any obligation, covenant, agreement or condition herein contained may be expressly waived, in writing only, by (i) I-Alliance in the case of any failure of the Shareholders or (ii) the Shareholders in the case of any failure of I-Alliance. Such waiver shall be effective only in the specific instance and for the specific purpose for which made or given.

11.3 Expenses. Each party will pay its own expenses incurred in connection with this Agreement or any transaction contemplated by this Agreement. The foregoing shall not be construed as limiting any other rights which any party may have as a result of misrepresentation of or breach by any other party.

11.4 Notices. All notices, requests, demands and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given when delivered by hand, or when mailed by certified or registered mail (return receipt requested), postage prepaid or when delivered by fax (evidenced by confirmation of successful transmission), as follows:

A. If to I-Alliance:

International Alliance Services, Inc.
10055 Sweet Valley Drive
Valley View, Ohio 44125
Phone: (216) 447-9000
Fax: (216) 447-9137
Attn: Joseph E. LoConti

With a copy to:
Anne L. Meyers & Associates Co., LPA
2 Summit Park Drive, Ste. 150
Cleveland, Ohio 44131-2553
Phone: (216) 520-4344
Fax: (216) 520-4350
Attn: Anne L. Meyers

or to such other person or place as I-Alliance or I-Alliance shall designate by notice in the manner provided in this Section 11.4:

B. If to the Shareholders:

To the Shareholders at their
respective addresses set forth on
Exhibit A

With a copy to:

or to such other person as the Shareholders shall designate by notice in the manner provided in this Section 11.4.

11.5 Assignment. This Agreement shall be binding upon and inure to the benefit of I-Alliance and its successors and assigns, and to the Shareholders and their respective successors and assigns or heirs, executors, administrators and personal representatives, as the case may be, but neither this Agreement nor any of the rights, interests and obligations hereunder shall be assigned by I-Alliance or any of the Shareholders without the prior written consent of the other parties.

11.6 Third Parties. This Agreement is not intended to and shall not be construed to give any Person other than the parties hereto any interest or rights (including, without limitation, any third party beneficiary rights) with respect to or in connection with any agreement or provision contained herein or contemplated hereby.

11.7 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Ohio, without regard to principles of conflicts of laws. I-Alliance and the Shareholders hereby irrevocably submit to the jurisdiction of the courts of the State of Ohio, with venue in Cuyahoga County, over any dispute arising out of this Agreement and agree that all claims in respect of such dispute or proceeding shall be heard and determined in such court. I-Alliance and the Shareholders hereby irrevocably waive, to the fullest extent permitted by applicable law, any objection which they may have to the venue of any such dispute brought in such court or any defense of inconvenient forum for the maintenance of such dispute. I-Alliance and the Shareholders hereby consent to process being served by them in any suit, action or proceeding by delivering it in the manner specified by the provisions of Section 11.4 of this Agreement.

11.8 Counterparts. This Agreement may be executed in two more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

11.9 Headings. The headings of the sections, schedules and articles of this Agreement are inserted for the sake of convenience only and shall not constitute a part hereof.

11.10 Entire Agreement. This Agreement, including the schedules and exhibits, contains the entire understanding of the parties in respect of the subject matter contained herein and therein and there are no other terms or conditions, representations or warranties, written or oral, express or implied, except as set forth herein.

[Remainder of page left intentionally blank]

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

INTERNATIONAL ALLIANCE SERVICES, INC.

By: _____
Joseph E. LoConti, Vice Chairman

IASI/ECI ACQUISITION CO.

By: _____
Craig L. Stout, President

ENVIRONMENTAL & COMMERCIAL INSURANCE
AGENCY, INC.

By: _____
Christopher J. Timm, President

SHAREHOLDERS:

Christopher J. Timm

Shirley Sue Ellis

Mark J. Perkins

LOCK-UP AGREEMENT

This LOCK-UP AGREEMENT (this "Agreement"), dated as of November 30, 1996, is entered into by and between _____ ("Stockholder"), and International Alliance Services, Inc., a Delaware corporation ("I-Alliance").

W I T N E S S E T H:

WHEREAS, contemporaneously with the delivery of this Agreement, SMR & Co. Business Services, of which Stockholder is a shareholder, and IASI/SMR Acquisition Co., a wholly-owned subsidiary of I-Alliance, 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 SMR & Co. Business Services with and into IASI/SMR Acquisition Co. with SMR & Co. Business Services being the surviving corporation (the "Merger").

WHEREAS, as a condition to the closing of the transactions contemplated by the Merger Agreement (the "Closing"), Stockholder agrees not to make any Transfer (defined herein) of (i) the shares (the "Shares") of I-Alliance common stock, \$.01 par value per share ("Shares"), and warrants to purchase shares of Common Stock (the "Warrants") to be acquired by Stockholder pursuant to the Merger Agreement and (ii) the shares of Common Stock to be acquired by Stockholder upon exercise of the Warrants (the "Warrant Shares"), except as expressly permitted by this Agreement;

NOW, THEREFORE, in consideration of 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 Restrictions on Transfer. Stockholder hereby agrees that, without the unanimous consent of the Board of Directors of I-Alliance, it will not, directly or indirectly sell, assign, transfer, pledge (other than by pledge or other grant of a security interest if the pledgee agrees in writing to be bound by the terms of this Agreement) or otherwise dispose of, (collectively, "Transfer"), the Shares prior to the end of the two-year period following the date hereof; provided, however, that after the expiration of six months from the date hereof, Stockholder may thereafter Transfer, in the aggregate, up to fifteen (15%) per cent of the Shares.

Stockholder hereby agrees that, without the unanimous consent of the Board of Directors of I-Alliance, it will not Transfer the Warrants or the Warrant Shares prior to the end of the thirty (30) month period following the date hereof; provided that (a) after the expiration of six months from the date hereof, Stockholder may thereafter Transfer Warrants for or Warrant Shares totaling, in the aggregate, up to thirty three (33%) per cent of the number of Warrant Shares issuable on the exercise of all the Warrants; and (b) after the expiration of eighteen (18) months from the date hereof, Stockholder may thereafter Transfer Warrants for or Warrant Shares totaling (together with any Warrants or Warrant Shares Transferred pursuant to the preceding subparagraph (a)), in the aggregate, up to sixty six (66%) per cent of the number of Warrant Shares issuable on the exercise of all the Warrants.

Notwithstanding the foregoing, Stockholder may Transfer the Shares, Warrants or Warrant Shares (a) to the spouse or children of such Stockholder, whether directly or in trust (including pursuant to the uniform gift to minors provisions) for their sole benefit, provided that the transferee agrees in writing to be bound by the terms of this Agreement, and provided further that Stockholder may not disclaim beneficial ownership of such Shares, Warrants or Warrant Shares for purposes of any filing pursuant to any securities law, or (b) to a third party making a cash tender or exchange offer in compliance with Regulations 14D and 14E under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), following the filing with the SEC in compliance with the

Exchange Act by I-Alliance of a Recommendation Statement on Schedule 14D-9 pursuant to which I-Alliance affirmatively recommends to the I-Alliance stockholders the acceptance of such cash tender or exchange offer.

2 Miscellaneous

2.1 Severability. If any term, provision, covenant or restriction of this Agreement is held by a 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.

2.2 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, but 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.

2.3 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.

2.4 Specific Performance. The parties hereto acknowledge that I-Alliance 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 I-Alliance upon such violation, I-Alliance shall have the right to enforce such covenants and agreements by specific performance, injunctive relief or by any other means available to I-Alliance at law or in equity.

2.5 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 Stockholder:

Attention: _____
Telecopy: _____

With a copy to:

Attention: _____
Telecopy: _____

If to _____:

Attention: _____
Telecopy: _____

With a copy to:

Attention: _____
Telecopy: _____

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.

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

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

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

2.9 _____ Definitions. All capitalized terms used herein shall have the meanings defined in the Merger Agreements, unless otherwise defined herein.

2.10 _____ 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.

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

"Stockholder"

"I-Alliance"

International Alliance Services, Inc.

By: _____

Printed Name: _____

Title: _____

International Alliance Services, Inc.
Earnings per Common Share Data
(Amounts in Thousands)

Net income and common shares used in the calculations of earnings per common share for the years ended December 31, 1996, 1995, 1994, 1993 and 1992 were computed as follows:

	1996(1)(2)		1995(1)(2)	1994(1)(2)	1993(1)(2)	1992(1)(2)
	Primary	Fully Diluted				
Income:						
Income From continuing operations	\$ 4,422	\$ 4,422	\$ 3,469	\$ 3,500	\$ 2,218	\$ 1,372
Interest expense reduction, net of tax . . .	39	30	-	-	-	-
Interest income, net of tax	2,165	626	-	-	-	-
	-----	-----	-----	-----	-----	-----
	\$ 6,617	\$ 5,078	\$ 3,469	\$ 3,500	\$ 2,218	\$ 1,372
	(38)	(38)	-	-	-	-
Loss from discontinued operations	-----	-----	-----	-----	-----	-----
Net income applicable to common stock . . .	\$ 6,579	\$ 5,040	\$ 3,469	\$ 3,500	\$ 2,218	\$ 1,372
	=====	=====	=====	=====	=====	=====
Common Shares:						
Weighted average common shares	17,863	17,863	14,760	14,760	14,760	14,760
Common stock equivalents	14,350	14,350	2,196	2,196	2,196	2,196
	-----	-----	-----	-----	-----	-----
	32,213	32,213	16,956	16,956	16,956	16,956
	=====	=====	=====	=====	=====	=====

(1) The Company has reflected the shares received in the RESI Transaction as if the shares had been issued January 1, 1994.

(2) As a result of the significant number of warrants outstanding at December 31, 1996, 1995, 1994, 1993 and 1992, the Company computed weighted average common shares under the modified treasury stock method.

SUBSIDIARIES OF
INTERNATIONAL ALLIANCE SERVICES, INC.
(as of December 31, 1996)

Adams Oil, Inc.
American Inspection and Audit Services, Inc.
Century Surety Company
Century Surety Underwriters, Inc. of Indiana
Chem-Freight, Inc.
Commercial Surety Agency, Inc. dba Century Surety Underwriters
Continental Heritage Insurance Company
Contract Operations Planning, Incorporated
Contract Surety Reinsurance Corp.
CSC Insurance Agency, Inc.
Diversified Environmental Resources, Inc.
Environmental & Commercial Insurance Agency, Inc.
Evergreen National Indemnity Company
IASI Management Co.
Keystone Chemical Co.
Palro Environmental Management Systems Ltd.
RES Finance Co.
RES Trademark Co.
Republic Canada, Inc.
Republic Environmental Recycling (New Jersey), Inc.
Republic Environmental Systems, Inc.
Republic Environmental Systems (Brantford) Ltd.
Republic Environmental Systems (Brockville) Ltd.
Republic Environmental Systems (Cleveland), Inc.
Republic Environmental Systems Ltd.
Republic Environmental Systems (Fort Erie) Ltd.
Republic Environmental Systems Management Co.
Republic Environmental Systems (New York), Inc.
Republic Environmental Systems (North Jersey), Inc.
Republic Environmental Systems (Ohio), Inc.
Republic Environmental Systems (Pennsylvania), Inc.
Republic Environmental Systems (Pickering) Ltd.
Republic Environmental Systems (Technical Services Group), Inc.
Republic Environmental Systems (Transportation Group), Inc.
Republic Environmental Systems (Windsor) Ltd.
SMR & Co. Business Services

INDEPENDENT ACCOUNTANTS CONSENT

The Board of Directors
International Alliance Services, Inc.

We consent to incorporation by reference in Amendment No. 2 to the registration statement (No. 333-15413) on Form S-3 of International Alliance Services, Inc. of our report dated March 25, 1997, relating to the consolidated and combined balance sheets of International Alliance Services, Inc. and subsidiaries as of December 31, 1996 and 1995, and the related consolidated and combined statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1996, and all related schedules, which report appears in the December 31, 1996 annual report on Form 10-K of International Alliance Services, Inc.

/s/ KPMG Peat Marwick LLP

Cleveland, Ohio
March 28, 1997

