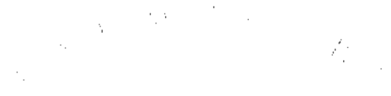
Alexander & Alexander 1991 Annual Report



SERVICE

REACH

Alexander & Alexander Services Inc. is a global insurance brokerage, risk management and human resource management consulting company with 15,600 employees serving the needs of clients from offices in more than 80 countries.

A&A designs, places and services insurance and risk management programs on behalf of businesses and other organizations as well as governmental entities and individuals. We also place reinsurance and provide risk analysis and self-insurance services.

Our worldwide human resource consulting group provides advisory and support services for the management of human resources, organizational structure and systems as well as actuarial and employee benefit design and implementation.

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Financial Highlights

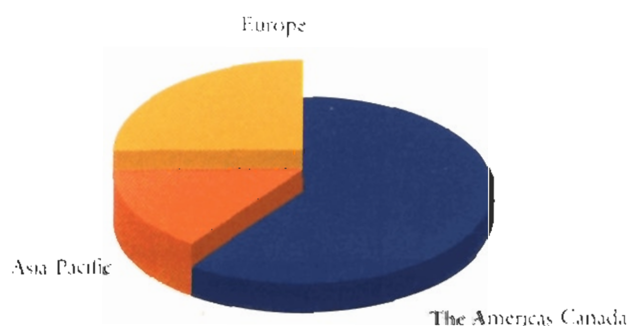
Alexander & Alexander Services Inc. and Subsidiaries

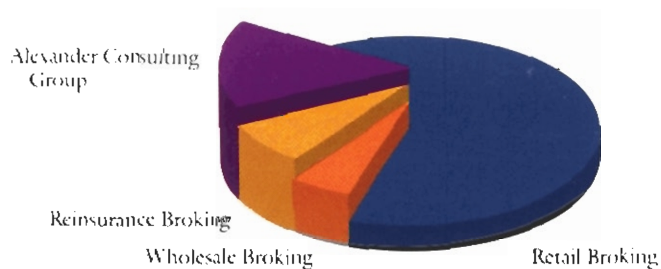
(in millions, except per share amounts)

	1991	1990
Operating revenues	$1,369.4	$1,338.4
Operating income	19.7	122.8
Net income (loss)	(12.6)	54.9
Per share of common stock:		
Net income (loss)	(.31)	1.35
Cash dividends	1.00	1.00
Total assets	$2,767.2	$2,835.0
Stockholders' equity	374.1	430.6
Book value per share	9.18	10.60
Return on average stockholders' equity	(3.13%)	13.6%
Average shares outstanding	40.8	40.7
Number of employees (thousands)	15.6	15.8

As described in Note 2 of Notes to Financial Statements, the financial results for 1991 and 1990 include special charges of $75.6 million and $12.0 million, respectively.

Sources of Revenue





To Our Fellow Stockholders:

Alexander & Alexander's 1991 financial results were disappointing, but we made solid progress toward achieving the Company's long-range goals.

Poor worldwide economic conditions dampened overall demand for many broking and consulting services. Additionally, weak pricing conditions continued in primary property and casualty insurance lines, particularly in the United States. Fiduciary investment income was significantly lower because of falling interest rates.

The Alexander Consulting Group, our human resource management consulting operation, overcame recessionary pressures in many parts of the world. Their revenues increased through innovative consultation, and profits grew as a result of improved productivity.

Weak pricing conditions continued in primary property and casualty insurance lines, particularly in the United States.

Benefits of our long-term business strategy and investments in Europe were evident. Strong revenue gains were achieved by Alexander Howden Limited and Alexander Howden Reinsurance Brokers Limited, A&A's London-based wholesale and reinsurance broking subsidiaries. They expanded market share and also benefited from insurance rate increases that began appearing in certain aviation, marine and energy markets.

A&A is creating a leaner, more client-focused company.

Increased revenues by A&A's European retail broking operations were linked in part to the liberalization of commerce in the European Community where A&A has a well-established office network.

Overall, including a previously announced special charge of $75.6 million, A&A had a net loss of $12.6 million, or $0.31 per share, for the year ending December 31. The charge reflects costs associated with the restructuring of A&A's retail operations as well as an increase in reserves established for previously reported contingencies and the write-down of certain intangible assets.

Excluding the special charge and other one-time expenses, net profit was $37.8 million, or $0.93 per share. Operating revenues were $1.37 billion, an increase of $31 million over 1990. Operating expenses increased 5 percent when non-comparable items in 1991 and 1990 are excluded.

Cash flow was strong during 1991, in part because of our cash- and capital-management programs. At year end, debt levels were lower than at any point since 1986. (Additional financial information is contained in Management's Discussion and Analysis, beginning on Page 18.)

Of 1991 developments, the restructuring has the most far-reaching implications for

clients and shareholders. It reflects a process of adjusting to fundamental changes within the global insurance industry. By creating a leaner, more client-focused company, A&A is taking steps to deal with the most extreme effects of the insurance pricing cycles that have buffeted brokers in recent years.

We also anticipate that restructuring will improve client service while saving $18 million in 1992. We expect to achieve this by operating in a more innovative way.

For example, the restructuring charge includes costs associated with implementation of a business segmentation strategy. In applying this strategy, we intend to use our resources more effectively and to enhance specialized, value-added services for industry segments. We also expect to create more clearly defined career opportunities for employees.

We are enhancing specialized, value-added services for industry segments.

Business segmentation has proved successful within the Alexander Consulting Group as well as among A&A retail broking operations in Australia, Canada and the United Kingdom. The strategy is being expanded in the U.S. by Ron W. Forrest, who in September was named chairman, chief executive officer and president of our U.S. retail operation. He formerly was head of our U.K. retail subsidiary and more recently responsible for global business development.

The Office of the Chairman. From left, deputy chairmen Michael K. White and William M. Wilson with Tinsley H. Irvin, chairman and chief executive officer.

Looking ahead, our operating plans assume that difficult business conditions will continue in 1992. In addition to the restructuring, we are reinforcing A&A's core-business emphasis with the sale of certain non-core operations. I am confident that these actions will improve profitability and contribute to our goal of generating more stable earnings.

During this time of great change, I am grateful to A&A's employees for their hard work and dedication in serving our clients. Through our joint efforts, I believe that we will meet—and exceed—the expectations of our clients and shareholders.

Tinsley H. Irvin
Chairman of the Board,
President & Chief Executive Officer

Wagons-Lits *Paris, France* *Client Since 1910*

Nearly 1,000 train coaches operated by Paris-based Wagons-Lits, including the fabled Orient Express, have traveled across the European continent for more than a century.

Europe

Roger Kuypers
Member, S.G.C.A. Directoire

The Orient Express is instantly reminiscent of luxury European train travel.

Since 1910, the world-famous coaches have been insured with the help of S.G.C.A., A&A's French broking company.

"The pooling arrangement for health cover for more than 30,000 Wagons-Lits employees in five countries is one of the first for a French multinational." —*Paul Subrini*

Compagnie Internationale des Wagons-Lits et du Tourisme, based in Paris, is a well-known name in European transportation. More than 950 Wagons-Lits coaches traverse the continent, from Egypt to Poland, London to Venice.

The firm has many interests in the travel industry, ranging from the famed cable cars that ascend near Mont Blanc to travel agencies, restaurants and catering companies.

Meeting Wagons-Lits' diverse and growing risk management needs requires close cooperation among A&A's European network offices.

For example, our ties with Wagons-Lits were recently strengthened following its acquisition of Pickfords Business Travel. This leading travel company is a longtime client of Alexander Stenhouse U.K. Limited, our London-based broking company. A&A's London and Paris offices now jointly service this growing firm.

"We placed the insurance for Europe's highest construction project, near Mont Blanc. The cable car installation takes passengers 3,842 meters above sea level." —*Roger Kuypers*

A&A's European network has offices in more than 60 cities, concentrated in the major industrial and commercial centers. With our network established, we are focusing efforts on pan-European cooperation and enhanced services.

Paul Subrini
Employee Benefits Manager
S.G.C.A.

Kimberly-Clark Corporation sells consumer products in 150 countries. This manufacturing plant in Paris, Texas, produces Huggies disposable diapers, Kimberly-Clark's best-selling product.

The Americas/Canada

Jim Moss
Account Executive
A&A Dallas

Few household products have the name recognition of those manufactured by Kimberly-Clark.

With manufacturing plants in 19 countries—and consumers around the world—the Fortune 100 multinational cannot gamble on a fragmented risk management program.

"Kimberly-Clark's captive reinsurance is placed through an exclusive Alexander Howden facility, supported by professional reinsurers in Switzerland, Japan, France and Germany." -*Mark Boucher*

A&A's answer: global insurance programs. On a worldwide basis, various property/casualty coverages are managed from A&A's Dallas office, in close coordination with Kimberly-Clark's risk management department.

The benefits are clear. Coverages arranged through local A&A offices are tailored to regional differences in laws, regulations and language.

Centralized risk management planning helps to avoid costly gaps in local policies, and better ensures a consistent level of coverage worldwide. Global programs also leverage A&A's buying power to secure a cost-effective package of insurance and services.

"From a U.S. base, A&A acts as an extension of the client's risk management department, coordinating coverages for plants around the world." *Jim Moss*

A&A professionals throughout North America, Asia/Pacific, Europe and the Middle East support regional Kimberly-Clark managers. A captive, managed by Alexander Insurance Managers in Bermuda, offers stability and capacity.

With one of the world's most extensive risk management networks—more than 300 offices in 80 countries—A&A helps clients effectively assess, control and transfer risk.

Mark Boucher
Director
Alexander Howden Limited

Boral Limited is one of Australia's leading companies in the building and construction materials industries. Its 1,200 operating sites worldwide include the Montrose Quarry in Victoria, one of the largest quarries in the Southern Hemisphere.

Paul Venning
Assistant General Manager
Alexander Stenhouse Limited, Sydney

From limestone and coal to natural gas and petroleum, few companies handle raw natural resources on the scale of Boral Limited.

Long a leading manufacturer of building and construction materials in Australia, the company is increasingly involved overseas, supplying markets throughout the U.S., the U.K., continental Europe, the Pacific and Southeast Asia.

"Where required, A&A's Global Business Unit in Singapore helps to coordinate and implement Boral's global risk management principles into their local operations." —Maggie Koh

Committed to the responsible development and use of natural resources, Boral asked Alexander Stenhouse Limited, A&A's broking operation in Australia, to assist in forming an environmental risk management program.

A&A's loss control consultants helped develop an evaluation program emphasizing self-assessment and prevention.

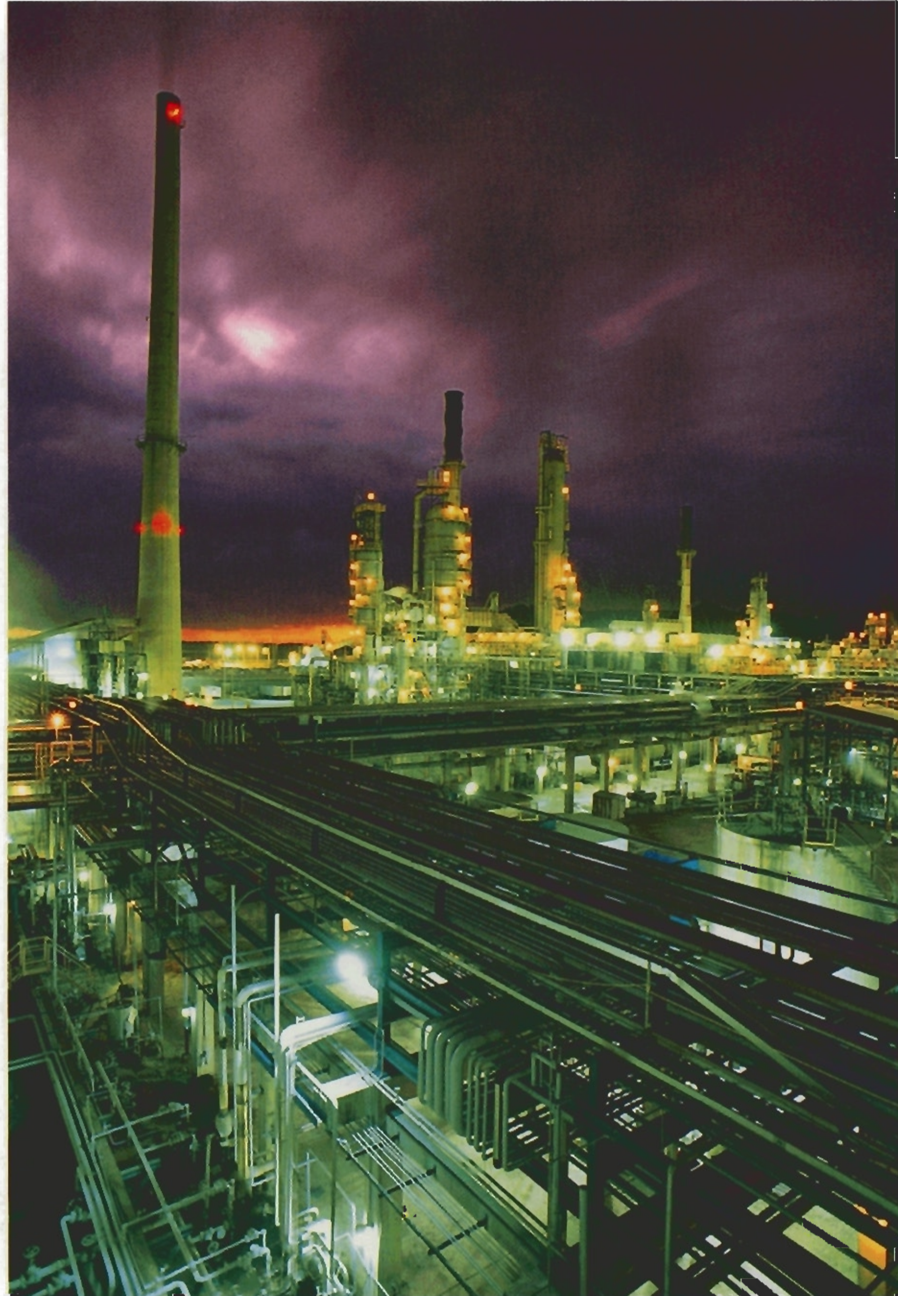
The program's focal point—consistent global standards for environmental risk information—is now an integral part of Boral's proactive environmental management and control activities.

"Global companies must have standards that can cross geographic and cultural borders. A&A, as a global operation, helps our clients put this concept into practice." —Paul Venning

On an ongoing basis, risk management needs for Boral's extensive Asia/Pacific activities are supported by A&A's regional network of 41 offices throughout Australia, New Zealand, Asia and the Pacific.

To assist in analyzing risk financing, Anistics, through offices in London, New York, Sydney and Toronto, performs loss forecasting and other types of strategic risk management analysis.

Maggie Koh
Account Executive
A&A Singapore



Sun Company has been supplying energy to the world since 1886. Its 66,000 barrel-a-day refinery in Yabucoa, Puerto Rico, one of six in the U.S. and Canada, processes foreign crudes into lubricants, jet fuel and diesel fuel.

Wholesale Broking

Steve Barber
Director, Marine & Energy Division
Alexander Howden Limited

When they began working with A&A's Baltimore office in 1921, Sun Company had just opened their first gasoline station to service the increasingly popular automobile.

Today, Sun is a major refiner and marketer in North America, as well as a leading U.S. coal producer. Sun is also involved internationally in energy exploration and production. Its products are sold to a broad base of customers, including nearly 6,000 Sunoco and Atlantic service stations.

"Alexander Howden is a key global resource for Sun. The group's expertise was vital during the difficult 1991 renewal season."

—Anita Delarue

A major part of Sun's insurance program is placed at Lloyd's and in the London and European company markets through Alexander Howden Limited (AHL), A&A's specialist wholesale broking operation.

Working with our Baltimore office, AHL maintains a broad knowledge of the company and of energy markets. Longstanding professional contacts proved to be of particular value in 1991.

"Close, regular contact is essential to the interests of our clients. I have been involved in servicing Sun for more than half of my 23 years in insurance."

—Steve Barber

Following several years of major petroleum industry losses, underwriters dramatically increased rates for many energy insurers.

Despite the size and complexity of its program, Sun was largely protected from the market's massive contraction. The respected expertise of AHL's marine and energy professionals enabled Sun to weather a difficult renewal season.

Anita Delarue
Account Executive
A&A Baltimore

In the aftermath of Typhoon Mireille in September, damage to Japan's Kyushu and Chugoku areas produced the largest single claim paid in the country. Alexander Howden Reinsurance Brokers Limited coordinated many of the major claims by insurance companies.

Reinsurance Broking

Michael Stephens
Chief Executive, Corporate Claims
Alexander Howden Reinsurance Brokers Limited

Since 1987, the world insurance industry has been hit every year by at least one natural catastrophe causing damage in excess of $1 billion. 1991 was no exception.

In September, Typhoon 19, known as "Mireille," swept across Japan, causing losses of more than $3 billion.

"We work particularly closely with our Japanese clients. Liaison and mutual trust are vital qualities in these relationships." —*Barry Mackay*

Such a massive loss can obviously have a severe impact on the liquidity of many local insurers. It was imperative to settle claims quickly.

Within hours of the typhoon, Alexander Howden Reinsurance Brokers (AHRB) assembled a London-based Catastrophe Claims Management Team to coordinate the claims and initiate prompt loss recovery.

Japan is an important territory for AHRB. As one of the region's largest reinsurance brokers, we act for four of the top 15 Japanese insurers. For one company, AHRB has been the primary reinsurance broker for more than 60 years.

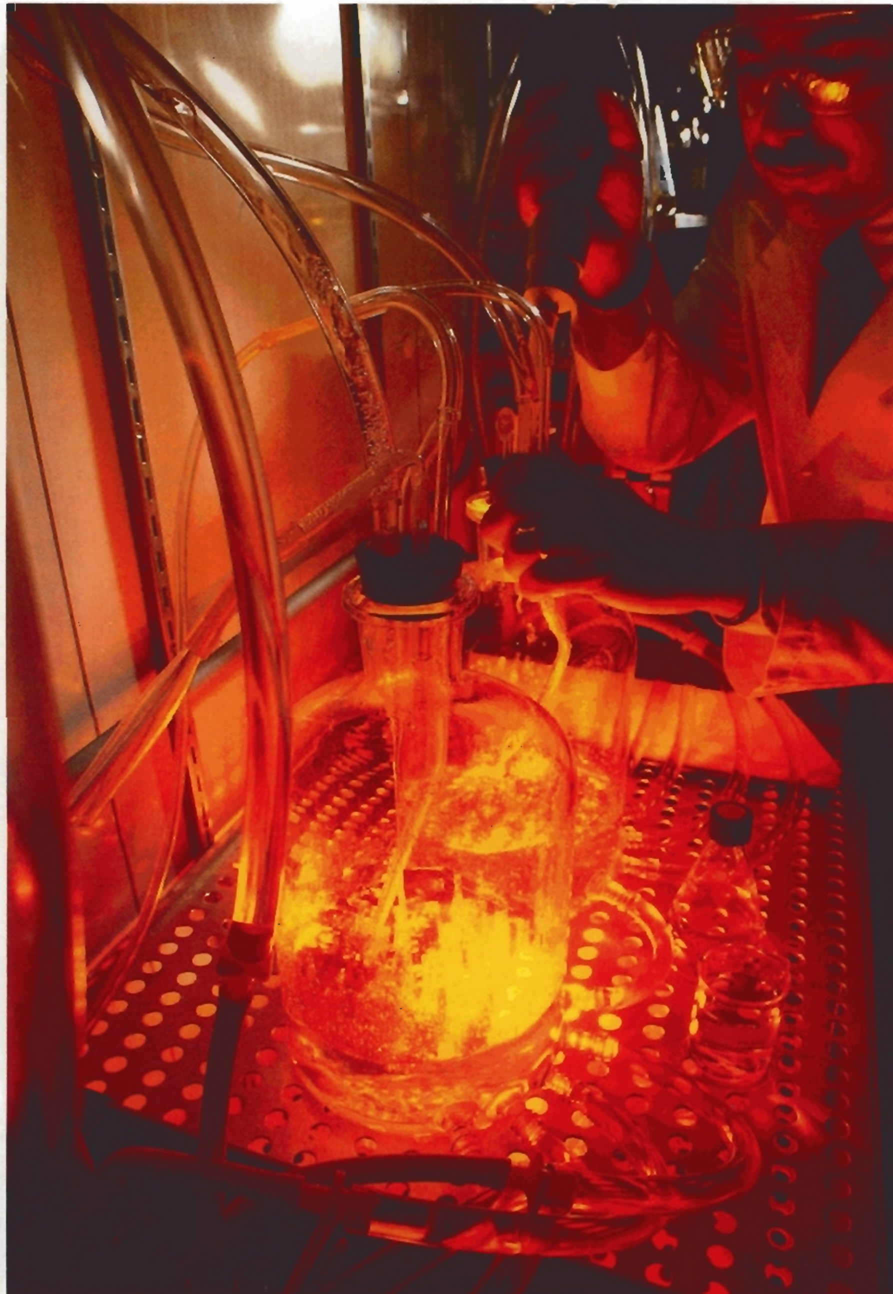
"We have decades of experience handling catastrophic losses. A well-developed plan triggers rapid collection in these exceptional circumstances."

—*Michael Stephens*

Against a background of increasing litigation, social and political pressures, and an unprecedented wave of complex claims flooding the world's reinsurance markets, a vigorous claims service is essential to meeting our clients' requirements.

Japan is but one example of our reach. Over AHRB's 150-year history, we have developed trading links throughout Europe, Asia/Pacific, and North and South America, with established servicing capabilities in virtually every country in the world.

Barry Mackay
Chief Executive, Non-Marine
Alexander Howden Reinsurance Brokers Limited



W.R. Grace & Co. is a $6 billion specialty chemicals and health care company operating in 45 countries. The Alexander Consulting Group helps multinational companies such as Grace with the design and implementation of global benefits policies.

Alexander Consulting Group

David Degann
Managing Director, Senior Consulting Actuary
Alexander Consulting Group

For W.R. Grace & Co., with its 50,000 employees in 45 countries, managing postretirement plans requires ongoing monitoring of local labor laws, tax regulations and competitive industry practices.

Differences in language, culture and economic systems also must be considered.

"Employee benefit programs are a significant corporate expenditure. We help clients get maximum results from their investment." —Michael Feehan

For more than 30 years, this Fortune 100 multinational has relied on the Alexander Consulting Group (ACG), A&A's human resource management consulting company.

For example, a complex Financial Accounting Standards Board (FASB) rule required many companies to change reporting procedures for non-U.S. pension plans.

Grace's pension plans in Australia, Germany, Japan, the Netherlands, New Zealand, Switzerland and the U.K. were immediately affected.

With actuarial consultants based in each of these countries, ACG effectively applied the new ruling to local Grace operations, in a way consistent with the financial objectives of the global organization.

"We are where our clients are—that's why ACG was able to help W.R. Grace satisfy a new financial accounting standard, efficiently and effectively." —David Degann

For more than 20,000 clients, ACG practitioners offer local, regional and international support. Its 90 offices, operating in 18 countries, provide expertise in organizational and human resource dynamics, employee benefits and compensation systems, and human resource information systems.

Michael Feehan
Senior Actuary
Alexander Consulting Group

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Selected Financial Data

Alexander & Alexander Services Inc. and Subsidiaries

(in millions, except per share amounts)

	1991(a)	1990	1989	1988	1987
Summary of Operations					
Operating revenues	$1,369.4	$1,338.4	$1,248.9	$1,227.7	$1,183.3
Operating income	19.7	122.8	107.6	122.2	113.6
Income (loss) from continuing operations	(10.4)	54.9	59.0	71.0	74.9
Loss from discontinued operations			—	(6.0)	(10.0)
Cumulative effect of change in accounting	(2.2)		—		
Extraordinary credits	—		1.1	2.5	3.5
Net income (loss)	(12.6)	54.9	60.1	67.5	68.4
Per share of common stock:					
Income (loss) from continuing operations	$ (.25)	$ 1.35	$ 1.45	$ 1.71	$ 1.77
Loss from discontinued operations	—			(.14)	(.24)
Cumulative effect of change in accounting	(.06)				—
Extraordinary credits	—		.03	.06	.09
Net income (loss)	$ (.31)	$ 1.35	$ 1.48	$ 1.63	$ 1.62
Cash dividends	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Weighted average number of shares	40.8	40.7	40.6	41.4	42.3
Financial Position					
Current assets	$2,083.5	$2,047.0	$1,892.7	$1,918.4	$1,962.1
Working capital	134.4	95.2	149.1	147.3	99.3
Total assets	2,767.2	2,835.0	2,604.7	2,635.2	2,661.8
Long-term debt	169.9	182.6	215.5	214.6	170.2
Stockholders' equity	374.1	430.6	375.1	371.6	389.4

(a) *Includes a provision of $75.6 million for restructuring and other costs as more fully described in Note 2 of Notes to Financial Statements.*

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Intense price competition among North American property and casualty insurers and worldwide recessionary conditions have severely impacted the Company's financial results in recent years. For the fifth consecutive year, premium rates declined in North America. Although rates on certain lines of coverages stabilized or increased slightly in 1991, the overall impact of premium changes on the Company's revenues was negative. In addition, the weak economy, particularly in the U.S., has led to lower insured values, lower interest rates and significantly reduced demand for consulting services. Despite these conditions, the Company achieved modest revenue growth in 1991 due to net new business production and new product development.

Insurance industry observers and analysts are still unable to predict a change in the market cycle with any significant degree of accuracy. However, it is currently anticipated that the market conditions which influence the Company's revenue growth, including premium and interest rates, will remain depressed in 1992.

In January 1992, the Company announced a restructuring plan based on a global business segmentation strategy. That strategy should enable the Company to enhance client service as well as future profitability by better aligning its resources with the servicing requirements of its customers. In the U.S., for example, our retail insurance broking operations are being organized into three segments: the Global Network Segment, the Corporate Specialty Segment and the Small Commercial Business Segment. This segmentation effort should help to reduce the Company's cost of delivering quality service to its customers. The special charge recorded in the fourth quarter of 1991 of $75.6 million includes the $45.5 million of costs relating to this restructuring plan.

The restructuring is expected to produce cost savings of approximately $18 million in 1992 and should position the Company to benefit from any future improvements in property and casualty insurance pricing.

In addition to the special charge, the Company also announced plans to sell two non-core businesses in early 1992, including certain non-broking operations in the Netherlands and a U.S.-based administrator of workers' compensation funds, for estimated proceeds of approximately $58 million. These transactions were consumated in February 1992.

The following discussion and analysis of significant factors affecting the Company's financial condition and results of operations should be read in conjunction with the accompanying financial statements and related notes.

Results of Operations

Operating Revenues

Consolidated operating revenues increased 2.3 percent to $1,369.4 million in 1991 compared to a 7.2 percent increase in 1990. Average foreign exchange rates did not vary significantly between 1991 and 1990 and, accordingly, such variances had minimal impact on the comparability of 1991 versus 1990 revenues. Foreign exchange variances are a more significant factor in the comparability of 1990 versus 1989 results due to the weakening of the U.S. dollar versus most currencies in 1990. Excluding the effects of foreign exchange rates, consolidated revenues increased 2.5 percent in 1991 and 4.7 percent in 1990.

Commissions and fees increased by 3.3 percent in 1991 compared to a 6.8 percent increase in 1990. After excluding the variances in foreign exchange rates, total commissions and fees increased 3.4 percent and 4.6 percent in 1991 and 1990, respectively.

Worldwide retail insurance broking and risk management revenues, which represent approximately two thirds of total commissions and fees, increased 1.6 percent in 1991 compared to a 0.9 percent increase in 1990. In both years, net new business production was offset by declining premium rates, particularly in the U.S. Risk management revenues grew significantly in 1991 due primarily to selected rate increases and significant new business generated by the claims administration operation in the U.S.

Wholesale broking revenues increased by 10.1 percent in 1991 and 9.5 percent in 1990 primarily due to strong new business production. In 1991, significant revenue gains were made in respect of packaged facilities for specific risks in the North American non-marine segment whereas 1990's growth was concentrated in the energy division.

Worldwide reinsurance broking commissions increased 8.9 percent in 1991 and 22.9 percent in 1990 as premium rate increases on selected lines of business and new business production in the international operations were

partially offset by lost business and lower renewal premiums in the U.S. operations. A substantial portion of the increase in 1990 resulted from reinstatement premiums charged by reinsurance companies following payment of claims on catastrophic coverages.

Worldwide revenues of the Alexander Consulting Group increased by 5.5 percent and 15.2 percent in 1991 and 1990, respectively. The demand for consulting services in the areas of employee benefits, compensation and incentive programs and communication consulting continues to be driven by the needs of employers to manage the steep rise in health care expenses as well as new accounting and legislative changes. Revenue growth was constrained in 1991 by the recessionary pressures affecting many clients with such conditions expected to continue in 1992.

Investment income earned on fiduciary funds declined 10.7 percent in 1991 as higher investment levels, particularly in the Company's United Kingdom operations, were more than offset by the significant decline in worldwide short-term interest rates. Investment income increased by 12.7 percent in 1990 due to higher short-term interest rates and investment levels from the international operations offset, in part, by lower interest rates in the U.S.

Special Charges

In the fourth quarter of 1991, the Company recorded a $75.6 million charge ($48.2 million or $1.18 per share after taxes) associated with the restructuring of its insurance broking operations and other expenses.

The restructuring portion of the charge ($45.5 million) will cover the anticipated costs of closing or consolidating certain offices as well as the restructuring of others. Severance payments, leasehold write-offs and employee relocation expenses are included. The restructuring charge also includes the anticipated cost of selling or winding down a property tax consulting operation.

In addition to the restructuring costs, the special charge includes $17.1 million relating primarily to the write-off of certain intangible assets and $13.0 million relating to increases in reserves for certain non-operating contingencies, primarily provisions for indemnity payments to purchasers of former A&A businesses.

In 1990, the Company recorded a pre-tax charge of $12.0 million ($7.2 million or $0.18 per share after taxes), which included $6.5 million for the estimated costs of restructuring the Company's global operations, including severance, relocation, lease abandonment and promotional expenses, and $5.5 million relating to certain litigation and contingency matters.

Operating Expenses

Operating expenses increased by 6.5 percent and 5.9 percent in 1991 and 1990, respectively. Excluding the impact of foreign exchange variances, consolidated operating expenses increased by 6.2 percent in 1991 and 3.1 percent in 1990.

Salaries and related benefit costs increased by 6.7 percent and 7.6 percent in 1991 and 1990, respectively. In 1991, 1990 and 1989, the Company recognized gains of $5.1 million, $13.2 million and $15.7 million, respectively, from the settlement of pension obligations to certain retired employees in Canada, the United Kingdom and the United States. Excluding these pension gains and the impact of foreign exchange rates, salaries and benefits increased by 5.8 percent in 1991 and 4.3 percent in 1990. These increases are attributable to normal salary progressions, incentive compensation and higher pension costs offset, in part, by slightly lower headcount.

Other operating expenses increased by 6.0 percent and 3.4 percent in 1991 and 1990, respectively. Excluding the impact of foreign exchange variances and a $7.7 million write-off of certain system development costs in 1989, other operating expenses increased by 5.0 percent in 1991 and 4.3 percent in 1990.

Expense growth in the comparable periods includes increased computer systems costs due to upgrading of business information systems and higher occupancy costs due to escalating rents. Insurance costs also increased in 1991 and 1990 reflecting higher premiums and self-insurance reserves for the Company's professional indemnity programs. The Company believes its reserves for self-insured programs are adequate to cover all potential claims; however, the continued escalation of legal costs and indemnity awards may impact the future costs of insurance coverages.

In December 1990, the Financial Accounting Standards Board (FASB) issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which must be adopted by 1993. The statement requires accrual of postretirement benefits during the years an employee provides services as opposed to the pay-as-you-go method. Although the Company has not yet fully determined the impact of implementing this standard, the change will likely increase the annual expense for postretirement benefits by approximately $2.0 to $3.0 million per year. The increased expense

includes amortizing the estimated transition obligation over a 20-year period.

Other Income and Expenses
Investment income earned on operating funds decreased by 15.5 percent and 9.9 percent in 1991 and 1990, respectively. In 1991, the decrease is primarily due to lower worldwide interest rates. In 1990, higher international interest rates were more than offset by lower rates in the U.S.

Interest expense decreased by $6.4 million in 1991 due primarily to lower interest rates and debt levels. In 1990, interest expense increased by $2.9 million primarily due to higher average debt levels.

In 1989, other income (expenses) includes a $5.3 million gain on the sale of an office building in the United Kingdom.

Income Taxes
Excluding the special charge described above, the underlying effective tax rate was 44.6 percent in 1991 which compares to 43.8 percent in 1990 and 39.4 percent in 1989. These rates are generally higher than the U.S. statutory rate of 34 percent due primarily to state and local taxes, amortization of goodwill and certain expenses which are not deductible by statute in the jurisdictions in which the Company conducts business. In 1989, the effective rate was favorably impacted by the sales of real estate and businesses.

As more fully described in Note 3, during 1991 the Company received the final revenue agent's report from the Internal Revenue Service (IRS) and a notice of tax deficiency in the amount of $85 million for the years 1980 to 1986. Most of the tax deficiency relates to the disallowance of items arising out of the 1982 acquisition of Alexander Howden. The IRS has not yet assessed interest on the tax deficiency or additional tax liabilities which would be due in years after 1986 as a result of the assessment. The Company's estimate of such additional tax and interest, net of the federal tax benefit, is approximately $94 million.

The Company filed its formal protest contesting the proposed tax deficiency with the Appeals Division of the IRS during 1991. Discussions have commenced with the IRS and it is expected that they will continue through the remainder of the year or until the contested issues are resolved. The Company has substantial arguments to sustain its position on the proposed adjustments and further believes its reserves are sufficient to cover potential liabilities which may arise on settlement of these issues.

In February 1992, the FASB issued SFAS No. 109, "Accounting for Income Taxes," which supercedes SFAS No. 96. The company does not plan to adopt the provisions of SFAS No. 109 until the first quarter of 1993 and does not believe that adoption will have a material impact on the Company's financial position or results of operations.

Discontinued Operations
There were no additional provisions required for the Company's discontinued operations in 1991, 1990 or 1989.

During 1989, the Company finalized reinsurance agreements providing the Atlanta and Bermuda insurance companies with insurance coverage for their reserves as of December 31, 1988, and for up to $50 million of additional coverage for potential losses in excess of those reserves.

In 1991, Sphere Drake lost an appeal relating to an adverse court decision and in February 1992, the House of Lords denied the Company's final appeal. The Company has indemnified the purchasers of Sphere Drake for losses incurred in connection with this litigation. A trial to determine the amount of Sphere Drake's liability in connection with this matter is currently scheduled for March 1992; however, the Company has established a $20.0 million liability for the estimated costs of this litigation.

The Company believes that the estimated reinsurance premium adjustment and the deferred interest income on the Sphere Drake zero coupon notes as described in Note 10 adequately provides for the estimated losses throughout the period of runoff or indemnification; however, there is no assurance that further adverse developments may not occur due to the variables inherent in the estimation process.

Cumulative Effect Adjustment and Extraordinary Credit

Effective January 1, 1991, the Company adopted the provisions of SFAS No. 106 relating to deferred compensation plans. This statement required the Company to change the period of accrual of deferred compensation expense from normal retirement age (generally age 65) to the date the employee becomes eligible to receive the benefit which is age 55 under the Company's plan. The cumulative effect of this accounting change for years prior to 1991, net of a related income tax benefit of $1.8 million, was $2.2 million or $0.06 per share. The effect of applying this new accounting method was not material to the results of operations in 1991 and, if applied retroactively, to 1990 or 1989.

The extraordinary credit of $1.1 million in 1989 represents the tax benefits of utilizing net operating loss carryforwards.

Liquidity and Capital Resources

Cash flow from operations was more than sufficient to fund the operating and capital expenditure requirements as well as dividend payments in 1991. The increase in cash, cash equivalents and short-term investments represents primarily fiduciary funds which are generally not available for operating needs of the Company. Fiduciary funds are invested primarily in government securities and bank time deposits.

The Company's net capital expenditures for property and equipment and acquisitions were $25.8 million in 1991, a decrease of $21.1 million from 1990's level. It is anticipated that capital expenditures in 1992 will approximate 1991 amounts.

There were no purchases made of the Company's common stock in 1991 or 1990. A total of 3.7 million shares have been purchased at a cost of $80.3 million since the board of directors authorized the purchase of up to 5.0 million shares in 1988. Any future repurchases will be dependent upon the market price of the Company's stock and other considerations.

Total debt outstanding at December 31, 1991, was $176.8 million compared to $192.7 million at December 31, 1990.

In mid-1991, the Company entered into a new long-term revolving credit agreement with various banks which expires in July 1995. The new agreement increased the Company's credit facility from $100 million to $150 million. Supplementing the credit agreement, the Company has committed unsecured lines of credit totaling $157.2 million as support for possible future cash needs.

At December 31, 1991, the Company had $41.4 million of commercial paper outstanding under a program by which the Company may borrow up to $150 million.

Following the announcement of the 1991 special charge referred to above, two rating agencies reaffirmed their debt ratings on the Company and a third rating agency reduced its rating by one grade. As a result, the Company anticipates that the cost of borrowings under its commercial paper program may be slightly higher in 1992.

In 1991, the Accumulated Translation Adjustment account, which represents the cumulative effect of translating functional currencies of the Company's international operations to U.S. dollars, negatively impacted Stockholders' Equity by $7.0 million. The decrease resulted from a modest strengthening of the U.S. dollar during 1991.

The Company believes that cash flow from operations, supplemented by the proceeds from the sale of assets and seasonal short-term borrowings, will be sufficient to satisfy working capital and other requirements in 1992. As more fully described in Notes 3, 10 and 11, the Company has significant tax and litigation exposures which may require cash resources. The Company believes it has substantial arguments and legal defenses against such exposures; however, the timing and ultimate outcome cannot be predicted with certainty. In the event additional funds are required, the Company believes it has sufficient resources, including credit capacity, to cover potential liabilities which may arise on settlement of these issues.

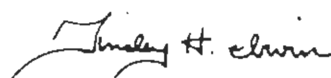
Report of Management

Management of the Company is responsible for all the information and representations contained in the consolidated financial statements and other sections of the annual report. Management believes that the consolidated financial statements and related information have been prepared in accordance with generally accepted accounting principles appropriate in the circumstances. These financial statements necessarily include amounts that are based on management's judgement and best estimates.

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that accounting records provide a reliable basis for the preparation of financial statements. The internal accounting control system is augmented by an internal auditing program, written policies and guidelines, including the Company's policy on General Business Ethics, and careful selection and training of qualified personnel.

Deloitte & Touche has been engaged, with the approval of the Company's stockholders, as the independent auditors to audit the financial statements of the Company and to express an opinion thereon. Their opinion is based on procedures believed by them to be sufficient to provide reasonable assurance that the financial statements present fairly, in all material respects, the Company's financial position, cash flows and results of operations. Their report is set forth on Page 23.

The Audit Committee of the board of directors is composed of five directors, none of whom is an employee of the Company or any of its subsidiaries. It assists the board in exercising its fiduciary responsibilities for oversight of audit and related matters, including corporate accounting, reporting and control practices. It is responsible for recommending to the board the independent auditors to be employed for the coming year, subject to stockholder approval. The Audit Committee meets periodically with management, internal auditors and the independent auditors to review internal accounting controls, auditing and financial reporting matters. The independent auditors and the internal auditors have unrestricted access to the Audit Committee.



Tinsley H. Irvin
Chairman of the Board,
President &
Chief Executive Officer

Paul E. Rohner
Senior Vice President &
Chief Financial Officer

Independent Auditors' Report

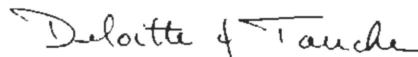
To The Stockholders of Alexander & Alexander Services Inc.

We have audited the accompanying consolidated balance sheets of Alexander & Alexander Services Inc. and Subsidiaries as of December 31, 1991 and 1990, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the companies at December 31, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles.

As discussed in Note 7 to the consolidated financial statements, in 1991 the Company changed its method of accounting for deferred compensation.



DELOITTE & TOUCHE
Baltimore, Maryland
February 12, 1992

Consolidated Statements of Operations

Alexander & Alexander Services Inc. and Subsidiaries

For the years ended December 31, (in millions, except per share amounts)

	1991	1990	1989
Operating revenues:			
Commissions and fees	$1,287.7	$1,247.0	$1,167.7
Fiduciary investment income	81.7	91.4	81.2
	1,369.4	1,338.4	1,248.9
Operating expenses:			
Salaries and benefits	790.8	741.0	688.5
Other	496.3	468.1	452.8
Special charges (Note 2):			
Restructuring	45.5	6.5	—
Other	17.1	—	—
	1,349.7	1,215.6	1,141.3
Operating income	19.7	122.8	107.6
Other income (expenses):			
Investment income	13.0	15.4	17.1
Interest expense	(22.2)	(28.6)	(25.7)
Other	(0.6)	(1.8)	3.4
Special charges (Note 2)	(13.0)	(5.5)	—
	(22.8)	(20.5)	(5.2)
Income (loss) before income taxes and minority interest	(3.1)	102.3	102.4
Income taxes (Note 3)	4.9	44.8	40.3
Income (loss) before minority interest	(8.0)	57.5	62.1
Minority interest	(2.4)	(2.6)	(3.1)
Income (loss) before cumulative effect of change in accounting and extraordinary credit	(10.4)	54.9	59.0
Cumulative effect of change in accounting (Note 7)	(2.2)		—
Extraordinary credit (Note 3)	—		1.1
Net income (loss)	$ (12.6)	$ 54.9	$ 60.1
Per share of common stock (Note 1):			
Income (loss) before cumulative effect of change in accounting and extraordinary credit	$ (.25)	$ 1.35	$ 1.45
Cumulative effect of change in accounting	(.06)	—	—
Extraordinary credit	—	—	.03
Net income (loss)	$ (.31)	$ 1.35	$ 1.48
Cash dividends	$ 1.00	$ 1.00	$ 1.00
Weighted average number of shares	40.8	40.7	40.6

See Notes to Financial Statements.

Consolidated Balance Sheets

Alexander & Alexander Services Inc. and Subsidiaries

As of December 31, (in millions, except per share amounts)

	1991	1990
ASSETS		
Current assets:		
Cash and cash equivalents	$ 573.6	$ 412.2
Short-term investments	261.2	283.8
Accounts receivable (net of allowance for doubtful accounts of $23.8 in 1991 and 1990)		
Customer accounts	1,118.7	1,245.7
Other	130.0	105.3
Total current assets	2,083.5	2,047.0
Property and equipment—at cost:		
Land and buildings (Note 5)	37.5	40.1
Furniture and equipment	346.7	349.4
Leasehold improvements	113.8	112.2
	498.0	501.7
Less accumulated depreciation and amortization	(286.2)	(257.0)
Property and equipment—net	211.8	244.7
Other assets:		
Long-term notes and other receivables (Notes 10 and 11)	43.5	72.8
Intangible assets (net of accumulated amortization of $117.5 in 1991 and $113.5 in 1990) (Note 2)	218.7	248.6
Other (Notes 5, 7 and 10)	209.7	221.9
	$2,767.2	$2,835.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,687.0	$1,706.7
Short-term debt (Note 4)	6.9	10.1
Other payables and accrued expenses	255.2	235.0
Total current liabilities	1,949.1	1,951.8
Long-term liabilities:		
Long-term debt (Note 5)	169.9	182.6
Deferred income taxes (Note 3)	80.4	96.7
Other (Notes 7, 10 and 12)	193.7	173.3
Total long-term liabilities	444.0	452.6
Commitments and contingent liabilities (Notes 3, 9, 10 and 11)		
Stockholders' equity (Notes 5, 6 and 8):		
Preferred stock, authorized 9.5 shares $1 par value; issued and outstanding, none	—	—
Series A Junior Participating Preferred stock, authorized 0.5 shares; issued and outstanding, none	—	—
Common stock, authorized 60.0 shares $1 par value; issued and outstanding 37.4 and 37.0 shares, respectively	37.4	37.0
Class A common stock, authorized 13.0 shares $.00001 par value; issued and outstanding 2.9 and 3.0 shares, respectively	—	—
Class C common stock, authorized 5.5 shares $1 par value; issued and outstanding 0.5 and 0.6 shares, respectively	0.5	0.6
Paid-in capital	292.4	289.0
Retained earnings	47.8	101.0
Accumulated translation adjustments	(4.0)	3.0
Total stockholders' equity	374.1	430.6
	$2,767.2	$2,835.0

See Notes to Financial Statements.

Consolidated Statements of Cash Flows

Alexander & Alexander Services Inc. and Subsidiaries

For the years ended December 31, (in millions)

	1991	1990	1989
Cash provided (used) by:			
Operating activities:			
Income (loss) before cumulative effect of change in accounting and extraordinary credit	$ (10.4)	$ 54.9	$ 59.0
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	72.2	72.3	76.4
Deferred income taxes	(17.3)	(2.5)	2.2
Losses (gains) on disposition of subsidiaries and other assets	0.3	(0.2)	(7.8)
Gain on pension plan settlements	(5.1)	(13.2)	(15.7)
Special charges, net of tax	48.2	7.2	—
Other	5.8	2.8	5.8
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable	99.9	(38.0)	34.8
Other assets	(16.4)	(16.7)	(6.5)
Accounts payable	(3.3)	(2.4)	26.3
Other current liabilities	(14.2)	37.9	4.4
Other liabilities	27.6	3.1	12.5
Discontinued operations	(1.7)	(2.8)	(15.6)
Cumulative effect of change in accounting	(2.2)	—	—
Extraordinary credit	—		1.1
Net cash provided by operating activities	183.4	102.4	176.9
Investing activities:			
Purchases of property and equipment—net	(23.2)	(42.2)	(49.6)
Purchases of businesses (net of cash acquired)	(2.6)	(4.7)	(8.5)
Proceeds from sales of subsidiaries and other assets (net of cash sold)	2.8	0.8	75.3
Purchases of investments	(952.7)	(989.3)	(1,390.3)
Sales/maturities of investments	1,006.8	1,029.2	1,224.9
Net cash provided (used) by investing activities	31.1	(6.2)	(148.2)
Financing activities:			
Cash dividends	(40.6)	(40.7)	(40.2)
Net change in short-term debt	(7.8)	(48.6)	8.1
Additions to long-term debt	2.5	24.5	4.1
Repayments of long-term debt	(10.3)	(9.4)	(13.4)
Repurchase of common stock	—	—	(5.4)
Issuance of common stock	0.9	0.2	3.6
Net cash used by financing activities	(55.3)	(74.0)	(43.2)
Effect of exchange rate changes on cash and cash equivalents	2.2	32.5	(10.7)
Cash and cash equivalents at beginning of year	412.2	357.5	382.7
Cash and cash equivalents at end of year	$ 573.6	$ 412.2	$ 357.5
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	$ 17.2	$ 29.6	$ 26.8
Income taxes	38.4	23.6	29.8
Non-cash investing and financing activities:			
Common stock issued for business acquisitions and employee benefit plans	1.7	1.7	3.2

See Notes to Financial Statements.

Consolidated Statements of Stockholders' Equity

Alexander & Alexander Services Inc. and Subsidiaries

For the three years ended December 31, (in millions)

	1991	1990	1989
Common stock:			
Balance, beginning of year	$ 37.0	$ 36.7	$ 36.6
Issued for acquisitions, 0.1, 0.1 and 0.1 shares, respectively	0.1	0.1	0.1
Conversions of Class A and Class C shares into common stock, 0.2, 0.1 and 0.1 shares, respectively	0.2	0.1	0.1
Common stock purchased and retired, 0.2 shares in 1989		—	(0.2)
Other, principally stock option transactions	0.1	0.1	0.1
Balance, end of year	$ 37.4	$ 37.0	$ 36.7
Class A common stock:			
Balance, beginning of year	$ 0.0	$ 0.0	$ 0.0
Conversions into common stock, 0.1, 0.1 shares and none, respectively	—	—	—
Balance, end of year	$ 0.0	$ 0.0	$ 0.0
Class C common stock:			
Balance, beginning of year	$ 0.6	$ 0.6	$ 0.7
Conversions into common stock, 0.1, none and 0.1 shares, respectively	(0.1)	—	(0.1)
Balance, end of year	$ 0.5	$ 0.6	$ 0.6
Paid-in capital:			
Balance, beginning of year	$289.0	$287.6	$284.7
Issued for acquisitions	1.6	1.6	3.1
Conversions into common stock	(0.1)	(0.1)	
Common stock purchased and retired	—	—	(5.2)
Other, principally stock option transactions	1.9	(0.1)	5.0
Balance, end of year	$292.4	$289.0	$287.6
Retained earnings:			
Balance, beginning of year	$101.0	$ 86.8	$ 66.9
Net income (loss)	(12.6)	54.9	60.1
Dividends	(40.6)	(40.7)	(40.2)
Balance, end of year	$ 47.8	$101.0	$ 86.8
Accumulated translation adjustments:			
Balance, beginning of year	$ 3.0	$ (36.6)	$ (17.3)
Foreign currency translation adjustments	(7.0)	39.6	(19.3)
Balance, end of year	$ (4.0)	$ 3.0	$ (36.6)

See Notes to Financial Statements

1. Significant Accounting Policies

Consolidation

The accompanying consolidated financial statements include the accounts of Alexander & Alexander Services Inc. and its majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Cash Equivalents and Short-Term Investments

Cash equivalents are highly liquid investments with maturities of three months or less at the time of purchase and are carried at cost which approximates market value.

Short-term investments have maturities of greater than three months but less than one year at time of purchase and are carried at cost which approximates market value.

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at each year end. Operating results are translated at average rates of exchange prevailing during the year. Unrealized gains or losses resulting from translation are included as a separate component of stockholders' equity.

Forward exchange contracts are purchased by the Company to hedge the impact of currency fluctuations affecting the operating results of certain foreign subsidiaries. Gains and losses on these contracts are generally recognized in the period in which the applicable exchange rates change. At December 31, 1991, the Company had approximately $108.6 million of forward exchange contracts outstanding. These forward exchange contracts are generally purchased from large financial institutions and management does not anticipate incurring losses due to nonperformance by these institutions.

Net foreign currency transaction gains, included in operating income, amounted to $3.2 million, $8.6 million and none for the years ended December 31, 1991, 1990 and 1989, respectively.

Property and Depreciation

The cost of property and equipment is depreciated generally on the straight-line method over the estimated useful lives of the related assets which range up to 40 years for buildings and 10 years for equipment. Leasehold improvements are capitalized and amortized over the shorter of the life of the asset or the lease term.

Intangible Assets

Intangible assets resulting from acquisitions, principally expiration lists and goodwill, are amortized on the straight-line method over periods not exceeding 17 and 40 years, respectively. The costs of non-compete agreements are amortized on the straight-line method over the terms of the agreements. Amortization of intangible assets included in operating expenses amounted to $19.1 million, $17.4 million and $16.8 million for the years ended December 31, 1991, 1990 and 1989, respectively.

Income Taxes

Deferred income taxes are provided on revenue and expense items recognized for financial accounting purposes in different periods than for income tax purposes. Income taxes are generally not provided on undistributed earnings of foreign subsidiaries because they are considered to be permanently invested or will not be repatriated unless any additional federal income taxes would be substantially offset by foreign tax credits.

Fiduciary Funds

Premiums which are due from insureds are reported as assets of the Company and as corresponding liabilities, net of commissions, to the insurance carriers. Premiums received from insureds but not yet remitted to the carriers are held as cash or investments in a fiduciary capacity.

Revenue Recognition

Commissions are generally recognized on the effective date of the policies or the billing date, whichever is later. Any subsequent commission adjustments, including policy cancellations, are generally recognized upon notification from the insurance carriers. Contingent commissions and commissions on policies billed and collected directly by insurance carriers are recognized when received. Fees for services rendered are generally recognized when earned.

Per Share Data

Earnings per share are based on the weighted average number of common shares and their economic equivalents outstanding during each period and, if dilutive, shares issuable under stock option plans or debenture conversion rights. Dividends per share are based on the Company's common and economic equivalent shares outstanding at each record date.

Presentation

Unless otherwise indicated, all amounts are stated in millions of U.S. dollars. Certain prior period amounts have been reclassified to conform with the current year presentation.

2. Special Charges

In the fourth quarter of 1991, the Company recorded a pre-tax charge of $75.6 million ($48.2 million after-tax or $1.18 per share) that includes expenses associated with the restructuring of its insurance broking operations and other costs.

The restructuring portion of this charge, amounting to $45.5 million, represents the anticipated costs of closing or consolidating certain broking offices and restructuring others. Severance payments, leasehold write-offs and employee relocation expenses are included in the charge. The estimated costs of selling or liquidating a property tax consulting operation are also included in the restructuring provision.

The special charge included in operating expenses of $17.1 million represents primarily the write-down of goodwill and other intangible assets related to certain acquired businesses. The $13.0 million included in non-operating expenses represents increases to reserves previously established for reported contingencies, primarily indemnities for certain sold operations.

In 1990, the Company also recorded a pre-tax charge of $12.0 million ($7.2 million after-tax or $0.18 per share) including a $6.5 million provision for the restructuring of the Company's global operations and $5.5 million for certain litigation and contingency matters.

3. Income Taxes

The components of income (loss) before income taxes are as follows:

For the years ended December 31,	1991	1990	1989
United States	$ (93.2)	$ 0.6	$ 28.8
International	90.1	101.7	73.6
	$ (3.1)	$102.3	$102.4

The components of the provision for income taxes are as follows:

For the years ended December 31,	1991	1990	1989
Current:			
Federal	$ 4.7	$13.1	$15.3
State and local	5.0	3.5	4.0
International	39.9	35.5	18.8
	49.6	52.1	38.1
Deferred:			
Federal	(31.6)	(11.5)	(3.5)
State and local	(8.4)	(1.3)	0.5
International	(4.7)	5.5	5.2
	(44.7)	(7.3)	2.2
	$ 4.9	$44.8	$40.3

The Company files a U.S. federal consolidated tax return which includes the losses of its U.S. discontinued operations. The current federal provision recognizes the amounts payable to the discontinued operations for the tax benefits relating to such losses.

The components of the deferred income tax provision are as follows:

For the years ended December 31,	1991	1990	1989
Depreciation	$ (3.1)	$(1.9)	$(0.2)
Tax leases	(5.0)	(3.1)	(3.0)
Financial accounting accruals, net	(8.7)	1.9	9.4
Net deferred losses on subsidiary dispositions	(0.3)	...	(3.4)
Special charges	(27.4)	(4.8)	
Other	(0.2)	0.6	(0.6)
	$(44.7)	$(7.3)	$ 2.2

A reconciliation of the tax provision and the amount computed by applying the U.S. federal income tax rate of 34% to income (loss) before income taxes is as follows:

For the years ended December 31,	1991	1990	1989
Computed "expected" tax expense (benefit)	$ (1.0)	$34.8	$34.8
State and local income taxes net of federal income tax	(2.3)	1.5	2.9
Foreign statutory rates over U.S. federal statutory rate	0.4	1.3	1.4
Benefit of income taxed at capital gains or other rates			(2.1)
Amortization of intangible assets	2.5	2.8	2.5
Repatriation of foreign earnings, net of tax credits	1.5	0.9	-
Other non-deductible expenses	3.9	4.2	4.7
Other, net	(0.1)	(0.7)	(3.9)
	$ 4.9	$44.8	$40.3

During 1991, the Company received the revenue agent's final report for the years 1980 to 1986 and notice of tax deficiency from the Internal Revenue Service (IRS) for $85 million. The notice of tax deficiency relates principally to the disallowance of a loss sustained in connection with the acquisition of Alexander Howden and other related issues also arising out of the acquisition.

The IRS has not assessed interest on the tax deficiency or other tax liabilities which would be due in years after 1986 due to acceleration in the use of net operating losses and tax credits. The additional tax and interest, net of federal tax benefit, on these adjustments is approximately $94 million. The Company is currently under examination by the IRS for the years 1987 to 1989.

The Company has substantial arguments to sustain its position on the unagreed issues, has filed a protest with the Appeals Division of the IRS, and will continue to pursue administrative and judicial relief, as appropriate.

Management believes that its reserves, including the $61.1 million tax benefit on the loss sustained in connection with the acquisition of Alexander Howden, which has been deferred, are sufficient to cover liabilities which may arise on settlement of these issues.

The extraordinary credit of $1.1 million in 1989 represents the tax benefit resulting from the utilization of net operating loss carryforwards.

Federal income taxes have not been provided on undistributed earnings of foreign subsidiaries which aggregated approximately $274.6 million at December 31, 1991. These earnings are considered permanently invested or will not be repatriated unless federal income taxes would be substantially offset by foreign tax credits.

In February 1992, the Financial Accounting Standards Board issued SFAS No. 109, "Accounting for Income Taxes," which requires an asset and liability approach for financial accounting and reporting for income taxes and provides for implementation no later than the first quarter of 1993. This statement supercedes SFAS No. 96. Management believes that when the Company adopts this new standard in the first quarter of 1993 it will not have a material impact on the financial position or results of operations.

4. Short-Term Debt

Consolidated short-term debt consists of the following:

As of December 31,	1991	1990
Commercial paper	$41.4	$40.8
Notes payable to financial institutions	0.5	8.9
Current portion of long-term debt (Note 5)	6.9	10.1
	48.8	59.8
Less short-term debt reclassified as long-term (Note 5)	41.9	49.7
	$ 6.9	$10.1

Information with respect to short-term borrowing activity is as follows:

As of December 31,	1991	1990	1989
Commercial paper:			
Balance at year end	$41.4	$40.8	$42.5
Weighted average interest rate	5.0%	8.5%	8.7%
Maximum outstanding	$75.9	$75.1	$64.5
Average outstanding	$49.4	$52.8	$44.8
Weighted average interest rate during the year	6.0%	8.5%	9.5%
Notes payable to financial institutions:			
Balance at year end	$ 0.5	$ 8.9	$52.7
Weighted average interest rate	11.7%	8.3%	11.5%
Maximum outstanding	$43.2	$71.2	$52.7
Average outstanding	$14.5	$42.6	$26.5
Weighted average interest rate during the year	10.3%	11.4%	12.1%

The maximum outstanding balance above reflects the maximum amount of each category outstanding at any month end. The maximum aggregate short-term debt outstanding at any month end was $119.1 million, $125.0 million and $95.2 million in 1991, 1990 and 1989, respectively.

Including the $150 million credit facility described in Note 5(B), the Company has committed unsecured lines of credit totaling $307.2 million of which $306.5 million was unused as of December 31, 1991. The lines may be drawn as needed with interest at market rates and carry an annual commitment fee of no greater than ¼% of the line. In addition, the Company has approximately $68.2 million of uncommitted bank lines of credit which are available for general corporate purposes, of which $67.0 million was unused at December 31, 1991.

5. Long-Term Debt

Consolidated long-term debt outstanding is as follows:

As of December 31,	1991	1990
11% Convertible subordinated debentures (A)	$ 66.9	$ 66.9
Reclassified short-term debt (B)	41.9	49.7
Long-term credit agreement (B)	—	6.5
Obligation under capital lease (C)	24.2	24.5
Non-recourse mortgage notes (D)	16.9	17.8
Senior notes (E)	20.0	20.0
Other	6.9	7.3
	176.8	192.7
Less current portion (Note 4)	6.9	10.1
	$169.9	$182.6

The principal payments required during the next five years, excluding the reclassified short-term debt, are $6.9 million in 1992, $6.6 million in 1993, $6.0 million in 1994, $5.9 million in 1995 and $5.7 million in 1996.

A. 11% Convertible Subordinated Debentures

The debentures are unsecured subordinated obligations maturing April 15, 2007. The debentures were issued in connection with the acquisition of Alexander Howden under an Indenture agreement dated February 1, 1982, and are convertible into common stock at $39 per share, subject to adjustment under certain conditions and to prior redemption. During the fourth quarter of 1990, the Company purchased $0.7 million face value of the debentures at approximate par value. The remaining debentures are redeemable any time, at the Company's option, at 104.40% of par value prior to April 15, 1992, and at declining prices thereafter until April 15, 1997. Commencing April 15, 1992, and annually thereafter, 5% of the aggregate principal amount outstanding as of October 15, 1991, must be redeemed at the principal amount through the operation of a mandatory sinking fund.

B. Long-Term Credit Agreements

In July 1991, the Company entered into a new long-term credit agreement with various banks which expires in July 1995. The new agreement increased the Company's credit facility from $100 million to $150 million. The agreement contains various restrictions including limits on minimum net worth, maximum consolidated debt, minimum interest coverage and minimum consolidated cash flow from continuing operations. As a result of the 1991 special charge referred to in Note 2, the Company was not in technical compliance with certain covenants contained in the credit agreement; however, waivers were obtained on those covenants through September 30, 1992. The Company has the option to select domestic or Eurocurrency borrowings priced at a spread over the appropriate index. The Company has not borrowed under this agreement.

In the event short-term borrowings cannot be made advantageously, the Company intends to use this facility to refinance a portion of its short-term borrowings on a long-term basis. Accordingly, $41.9 million and $49.7 million of short-term debt has been reclassified as long-term debt at December 31, 1991 and 1990, respectively.

In addition, a Canadian subsidiary had a three-year credit agreement with a Canadian financial institution which expired in May 1991.

C. Obligation Under Capital Lease

A French subsidiary has a lease agreement for office facilities which is classified as a capital lease. Future minimum lease payment obligations are approximately $2.5 million for each of the next five years and an aggregate of $33.2 million thereafter.

D. Non-Recourse Mortgage Notes

Two subsidiaries of the Company have an investment in a direct financing lease of an office building and related non-recourse mortgage notes. The mortgage notes bear interest at rates between 12.1% and 13.0% and are payable in semiannual installments of $1.4 million (including principal and interest) through September 2010.

The components of the net investment in the direct financing lease, included in Other Assets in the Consolidated Balance Sheets as of December 31, 1991 and 1990, are as follows:

	1991	1990
Future minimum lease payments to be received	$ 71.8	$ 74.3
Unguaranteed residual value accruing to the benefit of the Company	7.9	7.9
Less unearned income	(59.0)	(60.9)
Net investment in lease	$ 20.7	$ 21.3

Future minimum lease payments to be received are approximately $2.8 million for each of the next five years and an aggregate of $57.8 million thereafter.

E. Senior Notes

The senior notes are due in June 1992, bear interest, adjusted every six months, based upon LIBOR plus ½% (5.0% at December 31, 1991) and are subject to various restrictions including limits on minimum consolidated net worth, maximum consolidated indebtedness, minimum interest coverage and minimum consolidated cash flow. As a result of the 1991 special charge referred to in Note 2, the Company was not in technical compliance with certain covenants contained in the note agreement; however, waivers were obtained on those covenants through June 30, 1992. These notes have been classified as long-term debt as the Company intends to refinance these notes on a long-term basis.

6. Stock Option and Incentive Plans

In 1988, the shareholders approved the 1988 Long-Term Incentive Compensation Plan (1988 Plan) which provides for the granting of up to 3 million shares of the Company's common stock to officers and key employees as stock options, including incentive stock options and non-qualified options, stock appreciation rights, restricted stock awards, performance share/unit awards and other stock based awards.

Stock options may be granted under the 1988 Plan at a price not less than the fair market value of the common stock on the date the option is granted and, with respect to incentive stock options, must be exercised not later than 10 years from date of grant and, with respect to non-qualified options, must be exercised not later than 10 years and one day from date of grant.

Stock appreciation rights may be granted alone or in conjunction with a stock option at a price not less than the fair market value of the common stock at date of grant. Upon exercise of a stock appreciation right, the participant will receive cash, common stock or a combination thereof equal to the excess of the market value over the exercise price of the stock appreciation right. Exercise of either the right or the stock option will result in the surrender of the other.

Restricted stock awards may be granted which limit the sale or transfer of the shares until the expiration of a specified time period. Such awards are subject to forfeiture if the participant does not remain in the employ of the Company throughout the restricted time period. A maximum of 750,000 shares may be issued under the 1988 Plan. There were 22,880 and 85,434 shares issued in 1991 and 1990, respectively.

Performance share/unit awards may be granted based upon certain performance criteria as determined by the Compensation and Benefits Committee of the board of directors. Upon achievement of the performance share/unit criteria, the participant will receive cash, common stock or a combination thereof equal to the award. There were 1,400 performance share/unit awards made in 1990. No performance share/unit awards were made in 1991; however, 21,582 shares were issued to participants for awards made in prior years.

The Company's Long-Term Compensation Program (1982 Program), adopted in 1982, was superseded by the 1988 Plan described above. The 1982 Program consisted of three independent plans providing for stock option, performance bonus awards and restricted stock awards. No stock options were granted after December 31, 1988, and no performance bonus or restricted stock awards were made after May 19, 1988.

Stock option transactions under these programs were as follows:

	Number of Shares	Option Price Per Share Range
Outstanding, January 1, 1989	2,154,773	$17.75–$38.63
Granted	481,500	25.00
Exercised	(185,736)	17.75–31.13
Canceled	(100,883)	
Outstanding, December 31, 1989	2,349,654	$17.75–$38.63
Granted	839,900	19.75–23.88
Exercised	(9,665)	17.75–24.75
Canceled	(293,730)	
Outstanding, December 31, 1990	2,886,159	$17.75–$38.63
Granted	95,500	23.13–23.25
Exercised	(38,204)	17.75–25.38
Canceled	(186,371)	
Outstanding, December 31, 1991	2,757,084	$17.75–$38.63

The number of options exercisable at December 31 were as follows:

1991	1,724,060
1990	1,483,344
1989	1,254,304

7. Employees' Retirement Plans and Benefits

Pension Plans

The Company has contributory and non-contributory defined benefit pension plans covering substantially all employees. The plans generally provide pension benefits that are based on the employee's years of service and compensation prior to retirement. In general, it is the Company's policy to fund these plans consistent with laws and regulations of the respective jurisdictions in which the Company operates. An overfunding exists in the United States' largest plan. As a result, the Company does not anticipate making any contributions to this plan until the overfunding is substantially reduced.

During 1991, 1990 and 1989 the Company's Canadian, United Kingdom and United States pension plans, respectively, settled the accumulated benefit obligation to certain retirees by purchasing annuity contracts for $25.7 million, $52.1 million and $37.4 million, respectively. The resulting pre-tax gains of $5.1, $13.2 and $15.7 million for the years 1991, 1990 and 1989, respectively, have been recognized as a reduction of pension expense and are included in salaries and benefits in the Consolidated Statements of Operations.

Total pension costs (credit) for the years ended December 31, 1991, 1990 and 1989 are summarized as follows:

	1991	1990	1989
Service cost	$ 27.7	$ 27.7	$ 24.8
Interest cost	33.8	37.1	29.9
Actual return on plan assets	(98.0)	(36.0)	(101.5)
Net amortization and deferral	40.7	(31.8)	48.6
Net pension costs (credit)	$ 4.2	$ (3.0)	$ 1.8

The following table sets forth the funded status and amounts recognized in the Company's Consolidated Balance Sheets as of December 31, 1991 and 1990:

	1991		1990	
	U.S.	International	U.S.	International
Vested benefit obligation	$ 139.7	$ 146.8	$ 118.2	$ 148.5
Accumulated benefit obligation	$ 164.3	$ 151.7	$ 125.9	$ 154.2
Projected benefit obligation	$(218.2)	$(204.1)	$(165.5)	$(222.1)
Plan assets at fair market value	256.4	314.9	207.5	304.1
Excess of plan assets over projected benefit obligation	38.2	110.8	42.0	82.0
Unrecognized net gain	(5.7)	(33.2)	(5.5)	(2.1)
Unrecognized prior service cost	(0.9)	12.2	(2.0)	12.9
Unrecognized net assets being amortized over the plans' average remaining service lives	(21.0)	(41.8)	(23.4)	(50.4)
Prepaid pension cost	$ 10.6	$ 48.0	$ 11.1	$ 42.4
Assumed discount rate	8.25%	6.5–10.5%	9.25%	8.0–10.25%
Assumed rate of compensation increase	5.5%	5.0–7.0%	6.0%	6.0–9.0%
Expected rate of return on plan assets	10.75%	7.5–11.0%	10.75%	8.5–11.0%

At December 31, 1991 and 1990, approximately 80% and 77%, respectively, of all plan assets are invested in equity securities and 20% and 23%, respectively, in cash equivalents and/or fixed income securities.

Thrift Plans

The Company maintains thrift plans for most U.S. and Canadian employees. Under the thrift plans, eligible employees may contribute amounts through payroll deduction, supplemented by Company contributions, for investments in various funds established by the plans. The cost of these plans was $11.4 million in 1991, $11.2 million in 1990 and $6.5 million in 1989.

Postretirement Benefits

Substantially all of the Company's U.S. employees, after reaching age 55, may become eligible for certain post-retirement health care (up to age 65) and life insurance benefits. The costs for these benefits, which are recognized as expenses when premiums or claims are paid, were approximately $1.5 million in 1991, 1990 and 1989, respectively.

Certain of the Company's international subsidiaries have similar plans for their employees; however, most retirees are covered primarily by government sponsored programs. As a result, the cost to the Company for retired employees is not significant for these programs.

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which will require accrual of postretirement benefits during the years an employee provides services. The impact of this new standard has not been fully determined; however, the change will likely result in an increase to the annual expense of approximately $2.0 to $3.0 million.

The Company plans to adopt this statement in 1993. When adopted, the transition obligation relating to prior employee service will be recognized over 20 years.

Deferred Compensation Plan

The Company has a deferred compensation plan which permitted certain of its key officers and employees to defer a portion of their incentive compensation during 1986 to 1989. The Company has purchased whole life insurance policies on each participant's life to assist in the funding of the deferred compensation liability. At December 31, 1991, the cash surrender value of these policies was $15.0 million, which is net of $10.8 million of policy loans. The Company's obligation under the plan, including accumulated interest, was $20.7 million and $14.4 million at December 31, 1991 and 1990,

respectively, and is included in Other Long-Term Liabilities in the Consolidated Balance Sheets.

Prior to January 1, 1991, the deferred compensation expense was being accrued on a present value basis over the period of active employment to normal retirement at age 65. Effective January 1, 1991, the Company adopted the provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," relating to deferred compensation plans. This statement required the accrual of deferred compensation expense over the period of active employment to the full eligibility date, which is generally age 55 under the Company's plan.

The cumulative effect of this accounting change for years prior to 1991 was an increase to the net loss in 1991 of $2.2 million, net of related income tax benefit of $1.8 million, or $0.06 per share.

The effect of applying this new accounting method was not material to the results of operations in 1991, and, if applied retroactively, to 1990 or 1989.

8. Common and Preferred Stock

Common Stock

In addition to its common stock, the Company has issued two classes of voting equity securities, Class A and Class C common stock, with voting rights equal to the Company's common stock. Associated with each such share is a dividend paying share issued by a Canadian (RSC Class 1 share) or a United Kingdom (AAE Dividend share) subsidiary which pays dividends in Canadian dollars and pounds sterling, respectively, equivalent to the dividends paid on shares of common stock. Holders of these securities, therefore, hold the economic equivalent of shares of common stock. Each Class A share (together with an RSC Class 1 share) and Class C share (together with an AAE Dividend share) may be exchanged at any time for a share of common stock.

At December 31, 1991, the Company had 3.9 million shares of common stock reserved for issuance under employee stock option plans, 0.1 million shares reserved for contingent issuance under business purchase agreements, 1.7 million shares reserved for issuance in the event of conversion of the 11% convertible subordinated debentures and 3.4 million shares reserved for issuance upon redemption or conversion of the Class A and Class C common shares.

Dividend Restrictions

No dividends may be declared or paid on the Company's common stock unless an equivalent amount per share is declared and paid on the economic equivalent shares. Accordingly, the Company's ability to pay dividends is limited by the amounts available to the Canadian and U.K. subsidiaries for such purposes. These amounts approximate Canadian $46.5 million or $40.2 million, assuming certain solvency tests are met under Canadian law, and 131.7 million pounds sterling or $246.5 million, respectively, at December 31, 1991. In the event sufficient earnings are not available in Canada or the United Kingdom to declare dividends, the Company's legal structure allows it to make earnings or capital available in those countries to pay dividends.

Preferred Stock and Related Rights

The Company's preferred stock can be issued in one or more series with full or limited voting rights, with the rights of each series to be determined by the board of directors before each issuance.

In 1987, the board of directors authorized a series of preferred stock, Series A Junior Participating Preferred Stock (Preferred Shares), $1.00 par value per share and declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock, each common stock equivalent and each subsequently issued share. Each Right, as amended, entitles the holder thereof to buy one one-hundredth of a Preferred Share at a price of $85 (subject to adjustments). The Rights become exercisable only if a person or a group acquires beneficial ownership of 10% or more of the Company's voting shares or announces a tender or exchange offer for 10% or more of such voting shares. If the Rights become exercisable, each holder will be entitled to purchase at the then-current exercise price that number of Preferred Shares having a value equal to twice the then-current exercise price. If the Company is subsequently acquired, each Right will entitle the holder to purchase at the then-current exercise price, stock of the surviving company having a market value of twice the exercise price of each Right. In addition, if a person or group acquires more than 10% percent, but less than 50% percent, of the Company's voting shares, the board of directors may exchange each Right for one one-hundredth of a Preferred Share. The Rights are redeemable by the board until the time any person or group has beneficially acquired 10% percent or more of the Company's voting shares. All rights beneficially owned by a holder of 10% percent of more of the voting shares become void once such holder passes the 10% percent threshold. The Rights are redeemable by action of the board of directors

prior to becoming exercisable at a redemption price of $.01 per Right. The Rights will expire on July 6, 1997.

Treasury Stock

The board of directors has authorized, subject to certain business and market conditions, the purchase of up to 5 million shares of the Company's common stock. As of December 31, 1991, the total number of shares purchased was 3.7 million at an average price of $21.77 per share. No shares were repurchased in 1991 or 1990.

9. Commitments

Lease Commitments

The Company leases property and equipment under noncancelable operating lease agreements which expire at various dates through 2014.

Future minimum annual rentals under noncancelable operating leases, which have been translated at December 31, 1991 closing foreign exchange rates, are as follows:

	Operating Leases
1992	$ 96.5
1993	89.3
1994	76.8
1995	66.1
1996	54.9
Thereafter	300.3
Total minimum lease payments	$683.9

Rent expense for office space, which includes property taxes and certain other costs, amounted to $96.5 million, $96.9 million and $91.3 million for the years ended December 31, 1991, 1990 and 1989, respectively.

Other Commitments

The Company has guaranteed certain borrowings and letters of credit and has otherwise agreed to reimburse the payment of certain other asserted or unasserted liabilities of subsidiaries. While these assurances and guarantees may expose the Company to financial consequences, it is management's opinion that any adverse effects will not be material to the Company's financial condition.

The Company has entered into asset-based interest rate swap agreements with large financial institutions to hedge a portion of its investment portfolio against short-term interest rate fluctuations. Any differences in interest income between the fixed and floating interest rates are recorded monthly. At December 31, 1991, the principal amounts of swap agreements outstanding were $130.6 million. The Company is exposed to credit losses on only the interest element in the event of nonperformance by these financial institutions, however, management does not anticipate incurring losses due to such nonperformance.

10. Discontinued Operations

In March 1985, the Company discontinued the insurance underwriting subsidiaries acquired in 1982 as part of the Alexander Howden acquisition. In 1987, the Company sold Sphere Drake Insurance Group (Sphere Drake) and is currently running-off the Atlanta and Bermuda insurance companies. The provision for loss, which was established as a result of discontinuing these operations, has not required adjustment during the three-year period ended December 31, 1991.

The Sphere Drake sales agreement provides indemnities from the Company for various potential liabilities. In connection with certain of these indemnities, the Company purchased from the buyer 25.7 million pounds sterling zero coupon notes with interest rates from 10% to 12% due in 1995. These long-term notes receivable are included in the Consolidated Balance Sheets at a discounted value of 19.3 million pounds sterling ($36.1 million and $37.2 million at December 31, 1991 and 1990, respectively). The repayment of these notes by the buyer is subject to offset based upon the adequacy of the loss reserves and reinsurance recoverables recorded on the books of Sphere Drake at December 31, 1986. The recognition of the interest income on the zero coupon notes will be deferred until the issues and indemnifications related to the discontinued operations have been resolved.

There has been some deterioration in loss reserves and uncollectible reinsurance balances, along with an adverse court decision issued against Sphere Drake in the United Kingdom relating to an indemnified legal contingency. A trial date to determine the amount of damages is scheduled for 1992; however, the Company established a $20 million liability in 1991 with respect to this issue.

In 1984, Sphere Drake filed a lawsuit against the Names on Lloyd's Syndicate 701 seeking payment of funds due Sphere Drake pursuant to a stop-loss reinsurance contract with Syndicate 701 and a determination of continuing stop-loss coverage protecting Sphere Drake under that contract. The Company has indemnified the purchasers of Sphere Drake in connection with this litigation. A trial was held in late 1991 and the Company is awaiting the judge's decision. Management believes that Sphere Drake has a strong position in this case. However, any losses incurred in connection with this matter should be substantially offset by the reserve described in Note 12.

During 1989, the Company finalized reinsurance agreements providing the Atlanta and Bermuda insurance companies with insurance coverage for their reserves as of December 31, 1988, and for up to $50 million of insurance coverage for potential losses in excess of those reserves. The agreements also provide for a reinsurance premium adjustment whereby at any time after January 1, 2001, the reinsurance agreements can be terminated and any excess funds, net of any reinsurance premium paid to a substitute reinsurance company, would be returned to the Company.

The Company believes that, based on current loss projections, the estimated reinsurance premium adjustment described above and the interest income on the Sphere Drake zero coupon notes will be substantially in excess of the currently deferred costs of approximately $10.2 million relating to the discontinued operations, any future indemnifications and offsets related to the Sphere Drake agreement, the future run-off expenses net of any investment income of the Atlanta and Bermuda operations, and any other expenses associated with its discontinued operations. There is, however, no assurance that further adverse developments may not occur due to variables inherent in the estimation process, including estimating insurance reserves, the recoverability of reinsurance balances and certain litigation matters.

A summary of the net assets (liabilities) of the Company's discontinued operations as of December 31, 1991 and 1990 is as follows:

	1991	1990
Assets		
Cash and investments	$ 19.2	$18.9
Other assets	11.9	13.4
Deferred costs (reserves)	10.2	(18.2)
	41.3	14.1
Liabilities		
Claim liabilities	6.9	4.0
Other	14.1	15.6
	21.0	19.6
Net assets (liabilities) of discontinued operations	$ 20.3	$ (5.5)

During 1991 and 1990, the Company remitted approximately $1.7 million and $2.8 million, respectively, to its discontinued operations representing tax benefits from prior years' losses and funding of claim and expense liabilities.

An analysis of the Company's net deferred costs (reserves) of its discontinued operations is as follows:

	1991	1990	1989
Balance, beginning of year	$(18.2)	$(20.1)	$(20.0)
Net loss (income) of companies being runoff	2.2	1.5	(2.0)
Lawsuit indemnity provison	20.0	–	–
U.K tax refunds	–	(2.9)	–
Legal and other costs related to Sphere Drake	4.4	1.3	.5
Other	1.8	2.0	1.4
Balance, end of year	$ 10.2	$(18.2)	$(20.1)

In 1990, the Company received tax refunds, including interest, in the United Kingdom amounting to $2.9 million. This settlement relates principally to the utilization of prior years' losses and the tax deductibility of certain items relating to Alexander Howden's underwriting operations.

11. Contingencies

The Company and its subsidiaries are subject to various claims and lawsuits from both private and governmental parties in the ordinary course of business, consisting principally of alleged errors and omissions in connection with the placement of insurance and in rendering consulting services. In some of these cases, the remedies that may be sought or damages claimed are substantial. Additionally, the Company and its subsidiaries are subject to the risk of losses resulting from the potential uncollectibility of insurance and reinsurance balances and claims advances made on behalf of clients.

Following the acquisition of Alexander Howden in January 1982, certain claims, relating primarily to the placement of reinsurance by Alexander Howden subsidiaries and questionable broking and underwriting practices of former Alexander Howden officials and others, were asserted. In particular, claims have been asserted against the Company and certain of its subsidiaries alleging, among other things, that certain of the Company's subsidiaries accepted, on behalf of certain insurance companies, insurance or reinsurance at premium levels not commensurate with the level of underwriting risks assumed and retroceded or reinsured those risks with financially unsound reinsurance companies. In two pending actions, plaintiffs seek compensatory and punitive

damages totaling $69 million based on treble damage claims under the Racketeer Influenced and Corrupt Organizations Act (RICO). Related actions and claims contain a variety of similar allegations and seek treble damages. In December 1991, one of these related actions was settled with such settlement covered by the Company's professional indemnity insurance program. Management of the Company believes that there are valid defenses to all the claims that have been made with respect to these activities. The Company is vigorously defending the pending actions.

In 1987, the Company sold its domestic underwriting management subsidiary, Shand Morahan & Company, Inc. (Shand). The proceeds included a deferred payment of $29.3 million plus interest, due in 1992, which is subject to offset based upon the adequacy of the loss reserves and reinsurance recoverables recorded, as of December 31, 1986, on the books of Evanston Services Inc. (ESI), a 52%-owned insurance underwriting subsidiary of Shand at date of sale. In addition, the Company has agreed to indemnify the purchasers of Shand against certain contingencies, including the Mutual Fire, Marine and Inland Insurance Company contingency described below.

The Company recorded a $10.9 million provision in 1988 relating to the indemnities given by the Company. The provision resulted from deterioration in loss reserves and additional uncollectible reinsurance balances reported to the Company by ESI, as well as the Company's estimate of additional deterioration based on the volatile nature of ESI's book of business which includes long-duration liability exposures. In addition, as indicated in Note 2, the Company's fourth quarter 1991 special charge includes $10 million for possible indemnities to purchasers of former A&A businesses.

In October 1991, the Company was notified by the purchasers of Shand that significant additional deterioration in loss reserves and uncollectible reinsurance balances has occurred. Based upon the purchaser's nonbinding estimate, a write-off of the total deferred payment balance would be required.

The Company disagrees with certain of the methods and assumptions used by the purchaser in calculating their estimate of the indemnity and has concluded that their estimate is overstated. The Company has appointed independent actuaries and accountants to resolve this matter in accordance with the terms of the sales agreement.

Prior to its sale in 1987, Shand and its subsidiaries provided underwriting management services for and placed insurance and reinsurance with and on behalf of the Mutual Fire, Marine and Inland Insurance Company (Mutual Fire). Mutual Fire was placed in rehabilitation by the Courts of the Commonwealth of Pennsylvania in December 1986. In January 1990, the Supervisory Court approved a plan of rehabilitation for Mutual Fire. The rehabilitator, in February 1991, filed a complaint in the commonwealth court against Shand and the Company. The complaint alleges that Shand, and in certain respects the Company, breached duties to, and agreements with, Mutual Fire. In addition to claiming compensatory damages, the complaint seeks punitive damages and recovery of certain commissions paid to Shand and the Company. The complaint does not specify, to any meaningful degree, the amount of alleged damages incurred or sought. Other claims have been or may be asserted by other affected parties, including insureds of Mutual Fire, relating to Mutual Fire transactions.

The sales contract between the Company and Shand's purchasers obligates the Company to certain indemnities with respect to transactions involving Mutual Fire. Management believes that there are valid defenses to the allegations set forth in the complaint and the Company intends to vigorously defend against these actions.

These contingent liabilities involve significant amounts. While it is not possible to predict with certainty the outcome of such contingent liabilities, the applicability of coverage for such matters under the Company's professional indemnity insurance program, or their financial impact on the Company, management presently believes that such impact will not be material to the Company's financial condition.

12. Litigation Settlement

In November 1986, the Company settled its lawsuit, which commenced in 1983, against certain former auditors of Alexander Howden. The terms of the settlement included the payment of $24.0 million to the Company. Recognition of this recovery in the Consolidated Statements of Income has been deferred pending final resolution of specific loss contingencies arising out of the Alexander Howden acquisition which were known at the date of the settlement. The amount of the recovery is included in Other Long-term Liabilities in the Company's Consolidated Balance Sheet.

In 1987, the Company's after-tax contribution to the settlement offered to members of Lloyd's syndicates formerly managed by PCW Underwriting Agencies Ltd. was charged against this recovery and, accordingly, the amount deferred was reduced to approximately $22.3 million.

13. Business Segments

Segment information is provided for the Company's two reportable segments, Insurance Services and Human Resource Management Consulting. Certain prior period amounts have been restated to conform with the current year presentation.

Insurance Services operations include retail, wholesale and reinsurance broking and risk management. The Company's extensive services permit it to handle diverse lines of coverage. Operating income in 1991 includes the special charges described in Note 2.

Human Resource Management Consulting includes a variety of human resource management consulting services, including actuarial and benefit plan consulting services, flexible compensation consulting, communications and management consulting services and executive planning services, as well as human resource organizational analysis and planning.

The following tables present information about the Company's operations by business segment and geographical areas for each of the three years in the period ended December 31, 1991:

	Operating Revenues	Operating Income	Identifiable Assets	Depreciation & Amortization	Capital Expenditures
Business Segments:					
1991					
Insurance services	$1,158.0	$ 20.1	$2,582.3	$63.6	$16.9
Human resource management consulting	211.4	26.4	129.9	7.8	6.0
General corporate	–	(26.8)	55.0	0.8	0.3
	$1,369.4	$ 19.7	$2,767.2	$72.2	$23.2
1990					
Insurance services	$1,138.0	$126.3	$2,667.6	$64.3	$35.1
Human resource management consulting	200.4	24.3	118.3	7.3	6.5
General corporate	–	(27.8)	49.1	0.7	0.6
	$1,338.4	$122.8	$2,835.0	$72.3	$42.2
1989					
Insurance services	$1,077.5	$117.7	$2,455.7	$69.7	$42.2
Human resource management consulting	171.4	18.0	135.2	6.1	6.0
General corporate	–	(28.1)	13.8	0.6	1.4
	$1,248.9	$107.6	$2,604.7	$76.4	$49.6

	Operating Revenues	Operating Income(a)	Identifiable Assets
Geographical Areas:			
1991			
United States	$ 772.1	$ (34.2)	$1,054.6
United Kingdom	289.7	45.6	999.6
Canada, principally Reed Stenhouse Cos. Ltd.	136.5	21.1	222.3
Other countries	171.1	14.0	435.7
General corporate	—	(26.8)	55.0
	$1,369.4	$ 19.7	$2,767.2
1990			
United States	$ 777.6	$ 62.1	$1,194.4
United Kingdom	269.4	56.1	966.8
Canada, principally Reed Stenhouse Cos. Ltd.	133.1	17.1	200.7
Other countries	158.3	15.3	424.0
General corporate	—	(27.8)	49.1
	$1,338.4	$122.8	$2,835.0
1989			
United States	$ 770.7	$ 79.2	$1,227.8
United Kingdom	210.8	27.0	800.2
Canada, principally Reed Stenhouse Cos. Ltd.	125.6	15.1	190.0
Other countries	141.8	14.4	372.9
General corporate	—	(28.1)	13.8
	$1,248.9	$107.6	$2,604.7

(a) The special charges referred to in Note 2 have been allocated to their respective geographical areas in 1991 and 1990, primarily the United States.

14. Quarterly Financial Data (Unaudited)

Quarterly operating results for 1991 and 1990 are summarized below (in millions, except per share data). The first quarter of 1991 has been restated from amounts previously reported to reflect the adoption of SFAS No. 106 relating to deferred compensation expense as described in Note 7.

	Operating Revenue	Operating Income	Income Before Change in Accounting	Net Income
1991				
1st	$ 332.4	$ 15.3	$ 4.1	$ 1.9
2nd	344.0	26.9	13.5	13.5
3rd	332.7	15.1	7.2	7.2
4th	360.3	(37.6)	(35.2)	(35.2) (a)
Year	$1,369.4	$ 19.7	$ (10.4)	$ (12.6)
1990				
1st	$ 311.2	$ 18.2	$ 5.2	$ 5.2
2nd	335.7	36.8	17.7	17.7
3rd	336.6	24.6	12.0	12.0
4th	354.9	43.2	20.0	20.0
Year	$1,338.4	$122.8	$ 54.9	$ 54.9

	Income Before Change in Accounting	Net Income	Dividends	High	Low
Per Share of Common Stock:					
1991					
1st	$ .10	$ .04	$ .25	$27 5/8	$20 7/8
2nd	.33	.33	.25	27 1/2	20 1/4
3rd	.18	.18	.25	22 3/4	19 5/8
4th	(.86)	(.86) (a)	.25	21 1/8	18
Year	$ (0.25)	$ (0.31)	$1.00		
1990					
1st	$ .13	$ .13	$ .25	$31 1/2	$24 1/2
2nd	.43	.43	.25	28 7/8	23 1/4
3rd	.30	.30	.25	25 5/8	17 1/4
4th	.49	.49	.25	24	16 1/8
Year	$ 1.35	$ 1.35	$1.00		

(a) Includes a provision of $75.6 million ($48.2 million after-tax or $1.18 per share) associated with the restructuring of the Company's insurance brokering operations and other expenses.

Board of Directors & Officers, Major Subsidiaries and Operating Units

Alexander & Alexander Services Inc. Board of Directors

Tinsley H. Irvin[1]
Chairman of the Board, President & Chief Executive Officer

James D. Berry[2][3]

Dr. Kenneth Black, Jr.[2][3]
Regents' Professor of Insurance
Georgia State University

John A. Bogardus, Jr.[4]
Former Chairman of the Board

Dr. Robert E. Boni[1][2][4]

Peter C. Godsoe[3]
President & Chief Operating Officer
The Bank of Nova Scotia

Angus M.M. Grossart[2][4]
Managing Director
Noble Grossart Limited
(A U.K. merchant bank.)

Vincent R. McLean[1][2][3][4]

Michael K. White[1]
Deputy Chairman & Executive Vice President

William M. Wilson[1]
Deputy Chairman & Executive Vice President

Executive & Other Corporate Officers

Tinsley H. Irvin
Chairman of the Board, President & Chief Executive Officer

Michael K. White
Deputy Chairman & Executive Vice President

William M. Wilson
Deputy Chairman & Executive Vice President

Angelo M. D'Alessandro
Chairman & Chief Executive Officer
Alexander Consulting Group Inc.

Ron W. Forrest
Senior Vice President
Alexander & Alexander Services Inc.
Chairman & Chief Executive Officer
Alexander & Alexander Inc.

Ronald A. Iles
Senior Vice President
Alexander & Alexander Services Inc.
Chairman
Alexander Howden Reinsurance Brokers Limited

R. Alan Kershaw
Vice President & Treasurer

Jayne D. Maas
Vice President & Director of Taxes

Dennis L. Mahoney
Chairman
Alexander Howden Limited

James A. McCormick
Executive Vice President & Managing Director, Risk Management Services
Alexander & Alexander International Inc.

Dr. Robert H. Moore
Senior Vice President
Corporate Relations

Dan R. Osterhout
Senior Vice President
Alexander & Alexander Services Inc.
Operations Director
Alexander & Alexander Inc.

Charles M. Patrick, Jr.
President
A&A of Japan Inc.

John C. Reece
Vice President & Chief Information Officer

Ronald J. Roessler
Senior Vice President & General Counsel

Paul E. Rohner
Senior Vice President & Chief Financial Officer

Donald L. Seeley
Vice President
Financial Management

Kevin J. Smith
Vice President & Controller

Thomas Soper III
Senior Vice President
Human Resources

Kenneth J. Test
Vice President, Director of Corporate Auditing Operations

Frank R. Wieczynski
Secretary

Alexander & Alexander Services Inc. Principal Worldwide Operating Units:

Retail Broking

Alexander & Alexander Inc

Alexander Stenhouse Limited

Reed Stenhouse Limited

Wholesale Broking

Alexander Howden Asia Pacific

Alexander Howden Limited

Alexander Howden North America, Inc.

Reinsurance

Alexander Howden Reinsurance Brokers Limited

Alexander Reinsurance Intermediaries, Inc.

Risk Management Services

Alexander Insurance Managers Limited

Alexander Trade Services

Alexsis Inc

Anistics

Human Resource Management Consulting Services

Alexander Consulting Group Inc.

(1) Member, Executive Committee
(2) Member, Audit Committee
(3) Member, Compensation and Benefits Committee
(4) Member, Finance-Investment Committee

Investor Information

Corporate Headquarters
Alexander & Alexander Services Inc.
1211 Avenue of the Americas
New York, N.Y. 10036
(212) 840-8500

Annual Meeting of Stockholders
Date: Thursday, May 14, 1992
Time: 9:30 a.m.
Place: The Equitable Center Auditorium
787 Seventh Avenue (between West 51st and West 52nd Sts.)
New York, N.Y. 10019

Approximate Number of Equity Security Holders
As of March 2, 1992, there were approximately 2,604 record holders of the Company's common stock, 776 beneficial holders of Class A common stock and 1,513 record holders of Class C common stock.

Stock Listings
Alexander & Alexander common stock is listed on the New York and London stock exchanges, and its Class C common stock is listed on the London stock exchange. Reed Stenhouse's RSC Special Class 1 stock is listed on the Toronto and Montreal stock exchanges.

Alexander & Alexander common stock is traded on the New York Stock Exchange under the symbol AAL.

Notice of Form 10-K
A copy of the Company's 1991 Annual Report on Form 10-K may be secured by writing to:
Alexander & Alexander Services Inc.
Corporate Secretary
10461 Mill Run Circle
Owings Mills, Md. 21117

Investors, bankers, security analysts and others desiring additional information should contact:
Frank R. Wieczynski
Secretary
(410) 363-5802

Transfer Agents and Registrars
First Chicago Trust Company of New York
30 West Broadway
New York, N.Y. 10007-2192

The Royal Trust Company
48/50 Cannon St.
London EC4N 6LD
England

Montreal Trust Company of Canada
151 Front Street West
Toronto, Ontario M5J 2N1
Canada

Auditors
Deloitte & Touche

A&A Around the World

Alexander & Alexander Services Inc. serves clients worldwide. This listing includes those countries in which we have offices, affiliates or other established servicing capabilities.

Anguilla
Antigua & Barbuda
Argentina
Aruba
Australia
Austria
Bahamas
Bahrain
Barbados
Belgium
Bermuda
Bolivia
Botswana
Brazil
British Virgin Islands
Canada
Cayman Islands
Chile
China
Colombia
Costa Rica
Curacao
Cyprus
Denmark
Djibouti
Dominica
Dominican Republic
Ecuador
Egypt
Fiji
Finland
France
Germany
Greece
Grenada
Guadeloupe
Guatemala
Guyana
Haiti
Hong Kong
India
Indonesia
Ireland
Israel
Italy
Jamaica
Japan
Kenya
Kuwait
Luxembourg
Malawi
Malaysia
Malta
Mexico
Montserrat
Morocco
Netherlands
New Zealand
Nigeria
Norway
Oman
Pakistan
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Portugal
Puerto Rico
Qatar
St. Kitts & Nevis
St. Lucia
St. Vincent & the Grenadines
Saudi Arabia
Singapore
South Korea
Spain
Sri Lanka
Suriname
Swaziland
Sweden
Switzerland
Taiwan
Thailand
Trinidad & Tobago
Turkey
Turks & Caicos Islands
United Arab Emirates
United Kingdom
United States
Uruguay
U.S. Virgin Islands
Venezuela
Zaire
Zimbabwe

The Barton Gillet Company, Baltimore, Md
Photography: Ken Haas (Page 3), Steve Uzzell (Pages 6, 8, 10 and 12), Wagons-Lits, W. R. Grace
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