1992 Annual Report

Alexander + Alexander Services Ltd.

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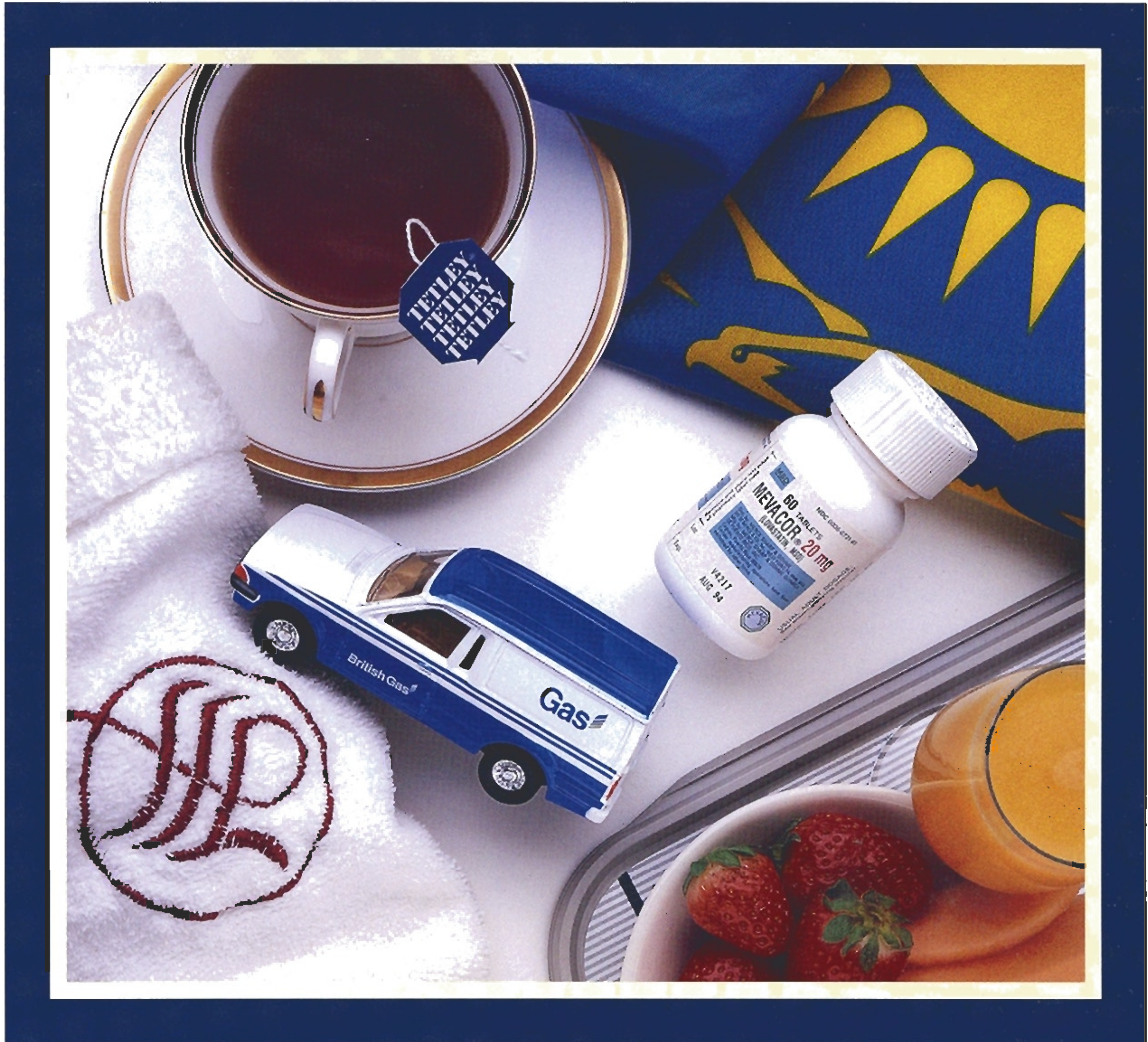

Alexander & Alexander

Alexander & Alexander Services Inc. IS A GLOBAL ORGANIZATION OF PROFESSIONAL ADVISERS PROVIDING RISK MANAGEMENT, INSURANCE BROKERAGE AND HUMAN RESOURCE MANAGEMENT CONSULTING SERVICES 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 IN ALL KEY ASPECTS OF HUMAN RESOURCE MANAGEMENT, INCLUDING ORGANIZATIONAL EFFECTIVENESS, INTEGRATED INFORMATION TECHNOLOGIES AND STRATEGIC HEALTH CARE AS WELL AS ACTUARIAL AND EMPLOYEE BENEFIT DESIGN AND IMPLEMENTATION.

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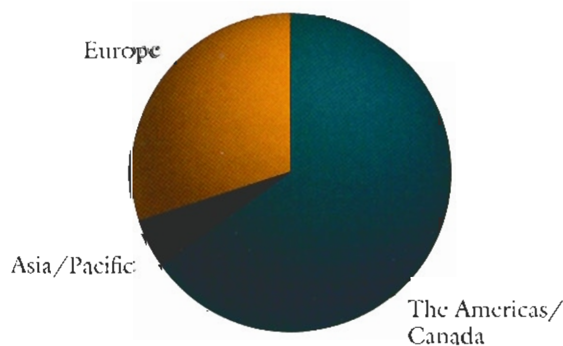
Financial Highlights

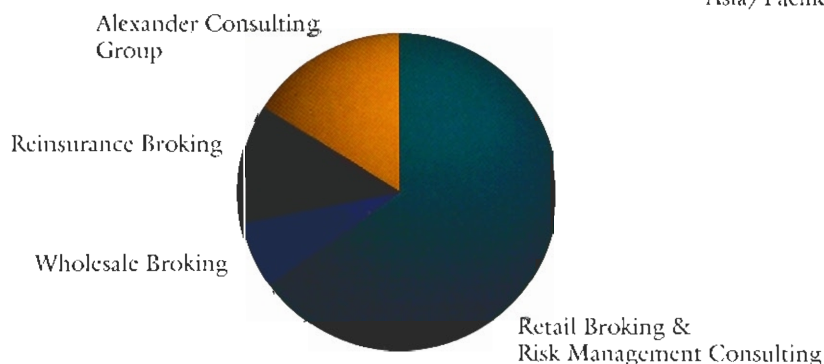
Alexander & Alexander Services Inc. and Subsidiaries
For the years ended December 31, (in millions, except per share amounts)

	1992	1991	1990
Operating Results:			
Operating Revenues	**$1,350.2**	$1,369.4	$ 1,338.4
Operating Income	**86.7**	19.7	122.8
Income (Loss) from Continuing Operations	**54.9**	(10.4)	54.9
Loss from Discontinued Operations	**(145.0)**	—	—
Cumulative Effect of Change in Accounting	**—**	(2.2)	—
Net Income (Loss)	**(90.1)**	(12.6)	54.9
Per Common Share:			
Income (Loss) from Continuing Operations	**$ 1.34**	$ (.25)	$ 1.35
Loss from Discontinued Operations	**(3.54)**	—	—
Cumulative Effect of Change in Accounting	**—**	(.06)	—
Net Income (Loss)	**(2.20)**	(.31)	1.35
Dividends Paid	**1.00**	1.00	1.00
Book Value Per Share	**4.69**	9.18	10.60
Financial Position:			
Total Assets	**$2,642.7**	$2,767.2	$2,835.0
Stockholders' Equity	**192.5**	374.1	430.6
Long-Term Debt	**125.1**	169.9	182.6
Other Data:			
Average Common Shares Outstanding	**40.9**	40.8	40.7
Number of Employees *(thousands)*	**14.7**	15.6	15.8

As described in Note 2 of Notes to Financial Statements, income (loss) from continuing operations includes restructuring and other special charges of $13.9 million in 1992, $48.2 million in 1991 and $7.2 million in 1990.

Sources of Revenue





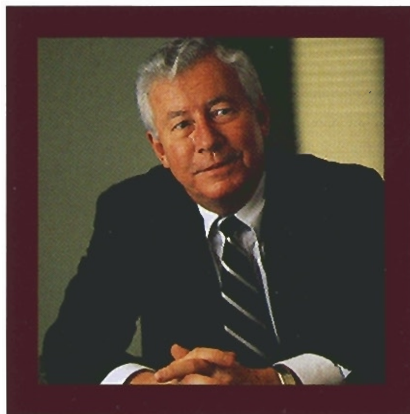
HOWARD ROSS LIBRARY
OF MANAGEMENT
APR 16 1993
McGILL UNIVERSITY

Message from the Chairman

In 1992, Alexander & Alexander Services Inc. largely completed a restructuring initiative. Although business conditions remained difficult, operating income improved. However, operating results were offset by a fourth quarter charge related to sold or discontinued underwriting operations. A&A Chairman & Chief Executive Officer T.H. Irvin discusses these and other 1992 developments in the following Q&A.

How would you summarize overall 1992 financial results?

T.H. Irvin: On an operating basis, our core businesses generally had a solid year. Operating income grew significantly in A&A's wholesale and reinsurance broking operations as well as the Alexander Consulting Group.



Our global retail operations improved in some regions, but they were constrained through much of the year by low insurance pricing and the effects of economic recession.

Although the $157.5 million fourth quarter 1992 special charge was substantial, none of the charge was related to the operations of our core businesses.

What was the primary reason for the fourth quarter charge?

The charge was mainly related to a former A&A underwriting unit, Sphere Drake Insurance Company. We sold Sphere Drake in 1987 in keeping with A&A's plan to focus on core brokerage and consulting operations.

As part of the transaction, A&A agreed to indemnify certain Sphere Drake exposures and established reserves. However, an adverse court ruling in England and claims associated with asbestosis and pollution risks substantially increased our estimated financial liability.

Some claims will not be reported or determined for years, or even decades. Although litigation and public policy changes could alter the picture in our favor, we have squarely faced our potential exposure by taking a special charge of this magnitude. And since the actual payout will be spread over many years, it will not immediately result in a significant cash outlay unless we decide to purchase reinsurance protection to cover certain of these exposures.

A year ago, A&A announced a restructuring initiative. What impact did this have on 1992 results?

The numbers tell a good story. Operating revenues were $1.35 billion in 1992, an increase of 2.7 percent over 1991 after adjusting for foreign exchange variances and the 1991 revenues of sold operations. Expenses increased barely 2 percent.

Our restructuring measures helped the Company realize approximately $27 million in 1992 operating expense savings. This easily exceeded our goal of $18 million, and much of this is permanent cost reduction.

In the U.S., where the restructuring was focused, several local operations were consolidated. Marginal offices were closed. In many cases, A&A offices were refocused to concentrate on providing service more appropriate for their client base. This has resulted in a more efficient service structure for our clients.

How did the restructuring initiative fit in the Company's strategic plan?

Since the early 1980s, we have had a bedrock A&A strategy to build a global service structure. This was accomplished through the acquisition of Alexander Howden Group and merger with Reed Stenhouse Companies. Since then, we have progressively integrated these operations.

With our restructuring initiative, we entered a more advanced phase — a phase in which core businesses are further aligned with our clients. Benefits have begun to accrue. We are realizing cost reductions as well as enhanced revenues. This is due to improved client retention rates and new business development.

By any standard, our restructuring process has been successful. The Company is becoming more client-focused than ever, and this process continues.

In what other ways is A&A responding to the evolving risk management needs of its clients?

A&A's future as a service provider offers us many opportunities. Our clients' needs are becoming more complex and their operations are increasingly diverse. Therefore, their corporate insurance function is assuming broader responsibilities and employing more sophisticated risk management techniques.

The broker's role is evolving to a more consultative approach. We increasingly provide professional advice in addition to implementing insurance and reinsurance programs. The success of the Alexander Consulting Group in expanding their consultative approach is an example of how our services can grow in the years ahead.

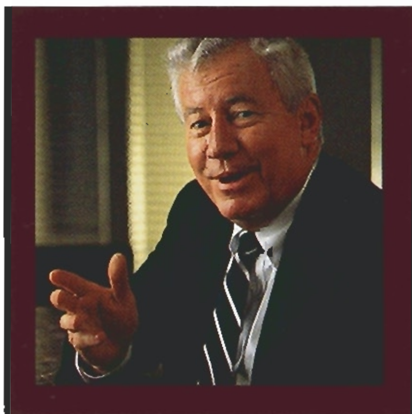
How is A&A prepared to work in the consulting-orientated environment of the '90s?

A consulting relationship with our clients draws on all parts of our organization. This requires teamwork among our business units.

Perhaps the best way to think about this is "partnering." We are in a unique position to do this effectively. The Company's core businesses combine expertise in all aspects of risk management, insurance broking and human resource management consulting. By sharing resources among regional operations as well as among A&A's core businesses, we are using our assets more cost-effectively while enhancing client service.

A good example of partnering is AlexComp Consulting Plus. This workers compensation consulting practice draws on the Alexander Consulting Group's consulting expertise as well as the risk management and brokerage strengths of Alexander & Alexander, Anistics and Alexsis Inc.

AlexComp assists companies in dealing with spiraling workers compensation costs that now average more than $20,000 a claim. The U.S. workers compensation system has become a tangle of law, medicine and public policy in many states. With AlexComp, we are providing a multifaceted solution to a multifaceted problem. Initial results are very encouraging.



I believe the road to offering our clients solutions worldwide is by emphasizing quality in each of our core businesses, and then "partnering" on behalf of our clients.

Would you comment on the management changes that took place during 1992?

Deputy Chairman Bill Wilson announced his retirement in December after 31 years of service. Both the Alexander Howden Group and the Alexander Consulting Group had reported to him, and they now report to Mike White.

I would like to add that I am delighted Bill will continue to serve on the Board of Directors and be the non-executive chairman of our consolidated European retail operations.

Additionally, Ron Iles has been named chairman of Alexander & Alexander Services UK plc. He will continue to serve as chairman and chief executive officer of Alexander Howden Reinsurance Brokers Limited. We also have merged management of A&A's European and Middle East retail operations under Ken Davis, head of our U.K. retail broking subsidiary. Ken has helped oversee the implementation of the new common trading name, Alexander & Alexander, throughout our global retail operation.

What is the outlook for A&A operations in 1993 and beyond?

As I noted earlier, A&A has been managed with several long-term objectives in mind. In addition to building our core businesses, we have also emphasized segmentation and other actions that enhance our client focus.

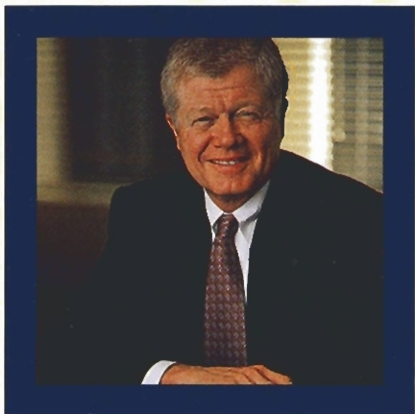
Although current business conditions seem to be improving, A&A will continue to operate in an extremely competitive world. With our dedicated and innovative employees, we intend to build a competitive advantage by fully leveraging our strategy.

I am confident that we have the vision and the people necessary to lead the industry in each of our core businesses.

Tinsley H. Irvin

TINSLEY H. IRVIN
Chairman of the Board, President
& Chief Executive Officer

Highlights of Operations



Alexander & Alexander's core businesses continued to improve in 1992 while addressing changes that have important implications for clients and shareholders.

The Company's retail broking operation capped a long-term globalization process with the decision to operate worldwide under the common trading name of "Alexander & Alexander." The change takes effect in April 1993.

Use of a common trading name was a logical step once A&A's retail operations were consolidated under single global management in January 1991. It reflects our coordinated service structure and ability to provide consistent, quality service on a worldwide basis.

Longtime clients of Reed Stenhouse, Alexander Stenhouse and other operations adopting the Alexander & Alexander name will find that our commitment to local service is stronger than ever.

A&A's London-based wholesale and reinsurance broking operations had a successful year. Both Alexander Howden Limited and Alexander Howden Reinsurance Brokers Limited greatly improved operating income and increased market share in almost every sector of their business. Together, these operations generated revenues of more than $250 million with 2,250 professionals in 46 offices located in 14 countries.

Thanks in part to new and innovative services, the Alexander Consulting Group also had a strong year. ACG moved into the Top 5 ranking of benefits consulting firms in 1992.

ACG's integrated health care and organizational effectiveness practices are outstanding examples of how we bring creative, effective solutions to our clients. ACG is also a consulring industry leader in applying integrated information technologies to human resource needs. We anticipate significant growth in this area.

Other examples of our service commitment appear in the following six reports. I believe they illustrate how A&A's core businesses are increasingly client focused and united by a determination to provide value-added solutions ... worldwide.

Michael K White

MICHAEL K. WHITE
Deputy Chairman & Executive Vice President

Westin Hotel Company

Sao Paulo, Brazil

Alexander & Alexander Brasil Ltda.: Risk surveys and servicing to Caesar Park Hotels division.

Pasadena, Calif.

Kadowaki Associates International: U.S. insurance expertise for Japanese companies.

Burlington, Vt.

Alexander Insurance Managers: Captive management.

Complex risk management needs are met through a full range of resources.

Singapore's distinctive port and skyline are visible from the 73-story Westin Stamford, the world's tallest hotel. Westin has more than 75 other hotels and resorts throughout North and South America, Asia and Europe.

- Dubai - Tokyo - Pasadena - Stockholm - Glasgow - Frankfurt - San Antonio - Madrid - Manchester - Berlin - Detroit - Buenos Aires - Toronto - Auckland -

Seattle

Alexander & Alexander: Management of risk management program worldwide.

London

Alexander Howden Limited: Property reinsurance for Westin's captive facility.

"A&A and Westin share a commitment to optimize the cost of risk. We work closely with Westin's v.p. of finance to ensure that every area, including claims administration, loss control, captive management and program structure, is focused on bottom-line financial performance."

Faith Wilder
Account Executive
A&A Inc.

RISK—AND THE MEANS TO TRANSFER OR CONTROL IT—OFTEN CROSSES BORDERS, FUNCTIONS AND DISCIPLINES. WESTIN HOTELS NEEDS A RISK MANAGEMENT TEAM WITH WORLDWIDE PRESENCE, ABLE TO INTEGRATE TRADITIONAL PROGRAMS WITH ALTERNATIVE APPROACHES, AND COMMITTED TO A TOTAL QUALITY PARTNERSHIP.

Retail Broking & Risk Management Consulting. Travelers know they can expect quality, comfortable accommodations and first-class service at a Westin Hotel. The exacting standards of Westin and its Tokyo-based parent, Aoki, extend to their risk management program, which A&A delivers through regional and global resources.

For example, service in the U.S. and Canada is coordinated through Alexander & Alexander retail operations in Seattle and Vancouver. Westin's significant hotel and resort properties throughout Asia, Europe and South America are supported by local A&A offices in these regions.

Westin's captive insurance company in Vermont is managed by Alexander Insurance Managers. U.K.-based Alexander Howden Limited, A&A's global wholesale broking operation, arranges property reinsurance for the captive facility. Anistics performs computer-based financial and risk information consulting.

A&A also has significant business ties with Westin's Japanese parent; our offices in Baltimore and Vancouver are responsible for arranging coverages for Aoki's North American construction projects. One of A&A's specialist Japanese business units, U.S.-based Kadowaki Associates International Corp., works with A&A of Japan in Tokyo as well as the Seattle and Baltimore offices to ensure the delivery of A&A's best resources to all of Aoki's interests, including Westin.

Uniting the Westin-A&A partnership is a commitment to Total Quality Management, characterized by teamwork, an emphasis on financial performance and alignment of the risk management program with Westin's business strategy.

go · Seoul - New York - Rio de Janeiro - Singapore - Edinburgh - Hong Kong - San Francisco - Wiesbaden - Orlando - Antwerp - Warsaw - Sydney - Stuttgart -

A&A is dedicated to a team approach throughout all levels of the Company.

Allied-Lyons' spirits and wines division, Hiram Walker-Allied Vintners, has a worldwide reputation for the quality and range of its brands. In Sonoma County, California, the Clos du Bois vineyards have won hundreds of awards for their red and white wines.

Anistics

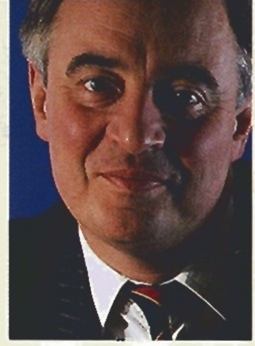
London: Loss forecasting and strategic analysis.

New York

Global Business Unit: Coordinates Allied-Lyons' risk management needs in the U.S.

London

Alexander & Alexander (UK) Ltd.: Designs and oversees global coverages.



"Within A&A, cross-border teamwork enables us to provide the appropriate, efficient and cost-effective range of services required by a client the size of Allied-Lyons."

Richard Porter
Executive Director, Development
A&A (UK) Ltd.

ALLIED-LYONS PLC HAS TWO CRITERIA FOR ITS BROKER AND RISK MANAGEMENT CONSULTANT. ONE, THE ABILITY AND DESIRE TO OFFER A HIGH STANDARD OF PROFESSIONAL SERVICE. TWO, THE CAPABILITY TO PROVIDE A COMPREHENSIVE WORLDWIDE SERVICE TAILORED TO ALLIED-LYONS' NEEDS.

Retail Broking & Risk Management Consulting. The brands of Allied-Lyons are known to millions of consumers around the world. Its spirits and wines sector (including Ballantine's, Beefeater, Canadian Club, Kahlua and Courvoisier), retail holdings (Dunkin' Donuts, Baskin-Robbins) and other food and beverage products (such as Tetley Tea) typically represent the leading brands in their respective markets. One of the U.K.'s largest brewers, Allied-Lyons operates 4,400 pubs and restaurants and some 1,000 liquor stores.

The London-based multinational is ranked among the top 25 companies in the U.K., the top 50 in Europe and the top 250 in the world. For Allied-Lyons, with 78,000 employees on five continents, globally coordinated risk management, guided by consistent quality standards, is essential.

The Alexander & Alexander (UK) Ltd. team for Allied-Lyons combines geographic breadth with discipline-specific experrise. In Europe, a network of 60 A&A branches is linked to our global organization of more than 300 offices.

The risk management team includes professionals from Alexander Insurance Managers Limited, our captive management group, and Anistics, a unit specializing in loss forecasting and other types of strategic analysis.

A&A's worldwide service network includes Global Business Units, located in nearly 40 commercial and industrial centers. GBUs are staffed with specialists who support global accounts based on their understanding of A&A's infrastructure and servicing capabilities as well as through their knowledge of global markets.

Merck & Co., Inc.

Munich, Germany

Jaspers Industrie Assekuranz: A&A retail broking affiliate arranging local coverages with pharmaceutical specialty markets.

London

Alexander Howden Limited: Wholesale broking operation providing access to London and worldwide markets.

A&A is committed to worldwide client service delivered to the local level.

The Merck Pharmaceutical Manufacturing Division focuses on the manufacture and distribution of the company's human and animal health products. Its Neopharmed plant in Bollate (Milan), Italy, prepares and sterilizes vials to be filled with the intramuscular preparation of Primaxin.

- Nashville - Toronto - Strasbourg - Rotterdam - Jakarta - Dallas - Warsaw - Kuala Lumpur - Prague - Sao Paulo - Vienna - Calgary - Amsterdam - Baltimo

Philadelphia

Alexander & Alexander Inc.: Servicing office for Merck program worldwide.

MERCK & CO., INC. IS PROUD OF ITS REPUTATION OF RESEARCH INNOVATION, PRODUCT QUALITY, INDUSTRY LEADERSHIP AND OUTSTANDING FINANCIAL PERFORMANCE. HELPING TO PROTECT THAT REPUTATION IS A TAILORED PROGRAM OF COMPREHENSIVE COVERAGES FOR MERCK WORLDWIDE.

Retail Broking & Risk Management Consulting. Over its 100-year history, the scientists and management of Merck have built an enviable record of accomplishment, with new discoveries and products ranging from vitamins and antibiotics to breakthroughs for treating many life-threatening diseases.

More recently, strategic alliances with other pharmaceutical and chemical firms have reinforced and extended Merck's ability to bring valuable products to society.

The company's reputation for product innovation, management performance and financial soundness is no secret. For an unprecedented seventh year in a row, Merck was named "America's Most Admired Company" in Fortune magazine's corporate reputations survey, published in 1993.

For almost 70 years, Merck's partner in evaluating, controlling and managing its global liability exposures has been Alexander & Alexander Inc. Besides designing programs, performing loss forecasting and coordinating other actuarial services, A&A also assesses the coverages and exposures of joint ventures.

Complex liability coverages are placed in London and European markets by Alexander Howden Limited, our U.K.-based wholesale broking operation. Alexander Howden handles large and complex risks that require access to London and world markets.

Personal relationships and service are always key to longstanding partnerships. The A&A and Merck association has been strengthened by the in-depth knowledge of A&A Senior Account Executive W. Beaumont Whitney III. He and his father before him have together served Merck since the 1930s.

"Risk is inherent in any product that is consumed, and pharmaceuticals are a prime example. One of our major challenges is to make sure underwriters around the world recognize Merck's exemplary quality controls and uncompromising commitment to the safety and efficacy of its products."

Jim Walters
Risk Management Unit Manager, A&A Inc.

British Gas

Alexander Insurance Managers Ltd.

Douglas, Isle of Man: Captive management.

British Gas is the world's largest integrated gas production and distribution company. It is involved in more than 60 platforms around the world, and is the sole owner of the Morecambe Field in the Irish Sea.

Massive energy coverages require access to the capacity of London and worldwide markets.

London

Alexander Howden Limited: Works with underwriters worldwide to enhance British Gas' insurance program.

Anistics

London: Risk information and strategic risk management consulting.

THE RISK MANAGEMENT INSURANCE REQUIREMENTS OF BRITISH GAS RANGE FROM THE ENORMOUS EXPOSURES OF OFFSHORE GAS PRODUCTION AND STORAGE FACILITIES TO THE LESS EXOTIC—BUT EQUALLY IMPORTANT—RISKS INHERENT IN SERVICING ITS 20 MILLION COMMERCIAL AND DOMESTIC CUSTOMERS.

Wholesale Broking. British Gas is the largest integrated gas production and distribution company in the world, with more than 75,000 employees and revenues exceeding £10 billion. Long a leading supplier in Great Britain, British Gas has expanded its operations, acquiring energy disrribution companies in Canada and Argentina, while continuing its activities in Africa, the Far East and other parts of the world.

British Gas' production interests include more than 60 platforms, along with the sole ownership of the Morecambe Field in the Irish Sea and the massive Rough offshore gas storage facility in the North Sea.

British Gas Insurance Company Limited, which insures the majority of the group's exposures, utilizes Alexander Howden Limited to develop and enhance an insurance program involving more than 100 underwriters.

With the added expertise of Alexander Insurance Managers Limited, A&A's captive management specialists, British Gas Insurance Company has been built into a substantial insurer and retains a large primary insurance exposure.

Not surprising for a company of its size, British Gas is frequently engaged in new contracts and joint ventures around the world. In 1992, Alexander Howden assisted in insurance programs for projects in Argentina, various former Soviet states, Canada, the U.S., North Africa and elsewhere.

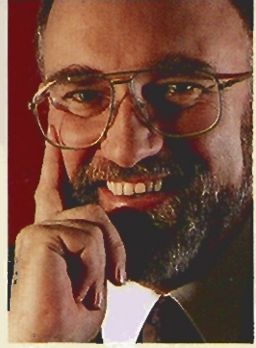
Other A&A resources supporting British Gas include Alexander Howden Reinsurance Brokers, Anistics, Independent Engineering Services and the overseas network of Alexander & Alexander retail broking offices.

"British Gas, which prides itself on its energy technology, is also keenly interested in advanced risk management concepts. This has enabled us to help develop a strong partnership between its insurance company and world insurance and reinsurance markets."

David Scott
Managing Director,
Marine & Energy
Alexander Howden

Our reinsurance operation has trading links with virtually every nation on Earth.

A Soviet republic since 1920, Kazakhstan declared its independence in 1991. Today, it is aggressively pursuing foreign trade and investment opportunities, signaling a long-range commitment to global business ties.



London

Alexander Howden Reinsurance Brokers Limited: Provides Kazinstrakh with access to global markets as well as training and consulting services.

Kazakhstan

Kazinstrakh, the country's most prominent insurer, requires international insurance advice.

IN THE AFTERMATH OF THE SOVIET UNION'S COLLAPSE, KAZAKHSTAN IS STRUGGLING TO MODERNIZE BY FORGING ALLIANCES WITH WESTERN BUSINESS. MASSIVE NEW DEVELOPMENT PROJECTS HAVE CREATED AN IMMEDIATE NEED FOR RISK MANAGEMENT TECHNIQUES AND COUNSEL.

Reinsurance Broking. In 1991, Kazakhstan became the last Soviet republic to declare its independence. Since then, the speed of change has accelerated: Kazakhstan is aggressively seeking foreign investment to help develop its considerable reserves of oil, natural gas, copper and zinc.

Key to its future prosperity is an influx of capital and technology to upgrade its existing infrastructure. With a comparatively stable political environment, Kazakhstan is an increasingly attractive area for Western investment.

In dealing with the unprecedented risks involved, Kazakhstan is assisted by Alexander Howden Reinsurance Brokers Limited. In November 1992, AHRB signed a formal cooperation agreement with Kazakhstan's most prominent insurer, Kazinstrakh, to help it gain access to London and international markets, expertise and training. Over the past 30 years, AHRB has established significant business ties with the governments and state insurers of Central and Eastern Europe. Today, we are building on those relationships to meet their growing need for complex insurance services and markets.

Continuing a tradition dating to the mid-1800s, AHRB provides essential support to insurance and reinsurance companies in London and throughout the world. Its 1,300 staff in 26 offices combine decades of expertise with the innovation needed in today's complex and demanding commercial climate.

"Insurance and reinsurance companies often play a significant role in the financial infrastructure of emerging nations. Kazakhstan requires experienced international insurance advice as the economy rapidly develops its enormous natural resources."

Chris Laurie
Director
Alexander Howden
Reinsurance Brokers

Miami - Surabaya - Geneva - Brussels - Redhill - St. Louis - Hannover - San Francisco - Buenos Aires - Toronto - Orlando - Auckland - Frankfurt - Austin -

New York

Alexander & Alexander: Claims management, risk financing, actuarial services. Anistics: Data collection and analysis.

Dallas

Alexander & Alexander Consulting Group: Health & Welfare unit, for plan implementation.

ACG helps clients manage broad financial, human resource and strategic business issues.

Sky Chefs is the second largest in-flight caterer in the U.S., operating 36 flight kitchens in the continental U.S. and Hawaii. In 1992, it produced more than 66 million meals for over 35 domestic and international airlines.

Omaha, Neb.

Alexander & Alexander Inc.: Safety and loss control services.

Lyndhurst, N.J.

Alexander & Alexander Consulting Group: Medical management expertise, as well as full project coordination.

THE U.S. WORKERS COMPENSATION CRISIS DEFIES SIMPLE OR PACKAGED SOLUTIONS. THE COMPOUND EFFECT OF SOARING HEALTH CARE COSTS, SHIFTING EMPLOYEE EXPECTATIONS, UNPREDICTABLE CLAIMS AWARDS, UNFAMILIAR OCCUPATIONAL HAZARDS AND MORE, THREATENS THE FINANCIAL HEALTH OF MANY COMPANIES.

Alexander Consulting Group. ACG is leading an integrated, companywide effort to help clients control workers compensation costs. AlexComp Consulting Plus is a new service blending ACG expertise in management relations and communications, organizational effectiveness, actuarial sciences and medical management with Alexander & Alexander Inc., Alexsis and Anistics expertise in risk financing, claims management, loss control, and data collection and analysis.

After examining the multiple forces driving workers compensation costs and taking into account local mandates, AlexComp professionals apply a phased consulting approach to provide clients with distinctive workers comp solutions.

Sky Chefs, a Texas-based airline caterer, set a goal to cut its workers compensation costs by 50 percent over a three-year period. In less than a year, ACG helped Sky Chefs reach half its goal and the client has already acknowledged a 10-to-1 return on its investment.

ACG offers human resource management consulting services in areas such as strategic health care and flexible compensation, organizational effectiveness, integrated information technologies, and actuarial and employee benefit design and implementation. More than 2,100 professionals in 91 offices in 18 countries help clients align their human resource initiatives with both strategic and operational objectives.

"Our approach meshed with Sky Chefs' philosophy right from the start. We were able to apply our energies and skills to identify what was driving their workers comp costs, how to lower those costs, and which solutions, from a broad range of alternatives, best suited their needs."

Ed Freedman
Managing Director
Alexander & Alexander Consulting Group

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Selected Financial Data

Alexander & Alexander Services Inc. and Subsidiaries
For the years ended December 31, (in millions, except per share amounts)

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Operating income	86.7	19.7	122.8	107.6	122.2
Income (loss) from continuing operations (a)	54.9	(10.4)	54.9	59.0	71.0
Loss from discontinued operations (b)	(145.0)	–	–	–	(6.0)
Extraordinary credits	–	–	–	1.1	2.5
Cumulative effect of change in accounting	–	(2.2)	–	–	–
Net income (loss)	(90.1)	(12.6)	54.9	60.1	67.5
Per Share of Common Stock:					
Income (loss) from continuing operations	$ 1.34	$ (.25)	$ 1.35	$ 1.45	$ 1.71
Loss from discontinued operations	(3.54)	–	–	–	(.14)
Extraordinary credits	–	–	–	.03	.06
Cumulative effect of change in accounting	–	(.06)	–	–	–
Net income (loss)	$ (2.20)	$ (.31)	$ 1.35	$ 1.48	$ 1.63
Dividends paid	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Weighted Average Shares Outstanding	40.9	40.8	40.7	40.6	41.4
Financial Position:					
Total assets	$2,642.7	$2,767.2	$2,835.0	$2,604.7	$2,635.2
Current assets	2,061.4	2,083.5	2,047.0	1,892.7	1,918.4
Working capital	124.4	134.4	95.2	149.1	147.3
Long-term debt	125.1	169.9	182.6	215.5	214.6
Stockholders' equity	192.5	374.1	430.6	375.1	371.6

(a) As described in Note 2 of Notes to Financial Statements, income (loss) from continuing operations includes restructuring and other special charges of $13.9 million in 1992, $48.2 million in 1991 and $7.2 million in 1990.

(b) As described in Note 5 of Notes to Financial Statements, the 1992 loss from discontinued operations primarily reflects an increase in the Company's estimated liabilities under indemnities provided to the purchasers of discontinued businesses.

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

Alexander & Alexander Services Inc. and Subsidiaries

Results of Operations

Overview

The Company's financial results for 1992 reflect a net loss of $90.1 million or $2.20 per share, including a $145 million or $3.54 per share loss from discontinued operations. Income from continuing operations was $54.9 million or $1.34 per share, including after-tax gains of $28.5 million or $0.70 per share from the sale of three non-core businesses and after-tax special charges of $13.9 million or $0.34 per share relating to the costs of indemnities provided to the purchaser of a former Company operation.

In 1991, the Company incurred a net loss of $12.6 million or $0.31 per share, including after-tax special charges of $48.2 million or $1.18 per share associated with the restructuring of the insurance broking operations and other non-recurring costs, an after-tax gain of $2.8 million or $0.07 per share from the settlement of certain pension obligations and an after-tax cumulative effect adjustment of $2.2 million or $0.06 per share from a change in accounting for deferred compensation.

In 1990, net income was $54.9 million or $1.35 per share, including an after-tax special charge of $7.2 million or $0.18 per share associated with restructuring and certain litigation and contingency costs and an after-tax gain of $8.6 million or $0.21 per share from the settlement of certain pension obligations.

The Company's insurance services activities during the three year comparative period have been affected by the continuation of weak insurance pricing in North America, poor worldwide economic conditions and low interest rates. The Company anticipates higher premium rates in selected lines of insurance, including property and reinsurance business in 1993; however, casualty pricing remains uncertain and overall economic conditions are not expected to show much improvement.

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

Operating Revenues

Consolidated operating revenues decreased by $19.2 million or 1.4 percent in 1992 compared to an increase of $31 million or 2.3 percent in 1991. Revenues in 1992 were negatively impacted by the 1992 sales of non-core businesses, two of which occurred in the first quarter. Excluding the effect of these sold businesses, total revenues increased by $28.6 million or 2.2 percent in 1992 over 1991.

Approximately 45 percent of consolidated revenues are generated by the Company's international operations. Excluding the effects of foreign exchange rates and the revenues of sold operations, total operating revenues increased 2.7 percent in 1992 and 2.5 percent in 1991.

Commissions and Fees

Total commissions and fees decreased by $10 million or 0.8 percent in 1992 compared to a $40.7 million or 3.3 percent increase in 1991. Excluding the impact of sold operations and exchange rate variances, commissions and fees increased by 3.6 percent and 3.4 percent in 1992 and 1991, respectively.

Worldwide retail insurance broking and risk management revenues increased by 0.6 percent in 1992 compared to a 1.6 percent increase in 1991. In the comparable periods, brokerage revenue growth was constrained as the continuation of premium rate reductions, particularly in North America, offset the increased volume of net new business production. Also impeding growth in 1992 was a downturn in the demand for third party claims administration services largely due to the recession.

Wholesale broking commissions and fees increased by 17.7 percent in 1992 and 10.1 percent in 1991 on the strength of significant new business production, particularly in the packaged facilities segment of the North American non-marine market. In 1992, revenue growth was also significant in other non-marine segments and within the marine and energy division, due to a combination of strong retention of existing business and new production.

Reinsurance broking revenues increased by 13.1 percent and 8.9 percent in 1992 and 1991, respectively, due to strong new business production, particularly in the international operations, and premium rate increases on selected lines of business. Revenue gains in 1992 were achieved in the non-marine and aviation markets due to rate increases and new business. It is anticipated that rates will continue to increase in 1993 in most classes of business across the aviation, non-marine and marine markets. However, particularly in the marine and non-marine markets, it is becoming more difficult to place business at terms acceptable to clients, because a significant percentage of the previously available capacity has ceased to underwrite these risks or has withdrawn from the market entirely.

Consulting revenues of the Alexander Consulting Group increased by 6.2 percent in 1992 and 5.5 percent in 1991. This growth results from an increase in value-added human resources management and other consulting services. Revenue growth has moderated over the last several years as clients have reduced discretionary spending and exerted pressures to reduce consulting fees stemming from the downturn in worldwide economic conditions. Such conditions are expected to continue throughout 1993 with revenue growth generated by net new business as well as new products and services. In addition, revenue growth could be further stimulated by new health care proposals put forth by the new administration in the U.S. during 1993.

Fiduciary Investment Income
Investment income earned on fiduciary funds declined by $9.2 million or 11.2 percent in 1992 and $9.7 million or 10.7 percent in 1991. These results reflect the significant decline in worldwide average short-term interest rates, partially offset by higher average investment levels.

Special Charges
In 1992, the Company recorded a $16.5 million pre-tax charge ($13.9 million after-tax or $0.34 per share) for the estimated cost of indemnities provided to the purchasers of Shand, Morahan & Company (Shand).

In 1991, the Company recorded a $75.6 million pre-tax charge ($48.2 million after-tax or $1.18 per share) associated with the restructuring of its insurance broking operations and other expenses. The restructuring portion of the charge amounted to $45.5 million and included the anticipated costs of closing or consolidating certain offices as well as the restructuring of others. In addition to the restructuring costs, the special charge included $17.1 million relating primarily to the write-off of certain intangible assets and $13 million relating primarily to the estimated costs of indemnities given to the purchasers of Shand.

In 1990, the Company recorded a pre-tax charge of $12 million ($7.2 million after-tax or $0.18 per share), which included $6.5 million for estimated restructuring costs of the global operations and $5.5 million relating to certain litigation and contingency matters.

As a result of its restructuring efforts, the Company realized operating expense savings of approximately $27 million in 1992.

Operating Expenses
Consolidated operating expenses, excluding the special charges described above, decreased by $23.6 million or 1.8 percent in 1992 compared to a $78 million or 6.5 percent increase in 1991. Excluding the 1991 expenses of the sold operations and the impact of exchange rate variances, operating expenses increased by 2.1 percent in 1992 and 6.2 percent in 1991.

Staff Costs
Total salaries and benefits increased by $2 million or 0.3 percent in 1992 compared to an increase of $49.8 million or 6.7 percent in 1991. In 1991 and 1990, the Company recognized gains of $5.1 million and $13.2 million, respectively, from the settlement of pension obligations to certain employees in Canada and the United Kingdom. Excluding the pension gains, the 1991 expenses of operations sold in 1992 and foreign exchange rate variances, total staff-related costs increased by 4.3 percent and 5.8 percent in 1992 and 1991, respectively. The increase in salaries and benefits includes normal salary increases and, particularly in 1992, higher incentive costs in the wholesale, reinsurance and consulting operations due to performance-related incentive plans. Partially offsetting these increases were the effects of lower headcounts due to the restructuring efforts. Overall, the Company realized staff cost savings of approximately $14 million due to the restructuring program.

Other Operating Expenses
Other operating expenses decreased by $25.6 million or 5.2 percent in 1992 compared to an increase of $28.2 million or 6 percent in 1991. Excluding the effects of foreign exchange variances and the 1991 expenses of sold operations, other operating expenses decreased by 0.5 percent in 1992 and increased by 5 percent in 1991. Other operating expenses in 1992, including premises costs and amortization of intangibles, were favorably impacted by the restructuring and other special charges recorded in prior years.

Insurance costs increased in both periods reflecting higher third-party insurance premiums and self-insurance reserves for the Company's professional indemnity programs. The Company believes its insurance-related reserves are sufficient to cover all potential claims and liabilities; however, there is no assurance that escalating litigation costs and indemnity awards, as well as insurance company insolvencies, will not adversely impact the future overall 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 will be adopted by the Company in the first quarter of 1993. The statement requires accrual of postretirement benefits during the years an employee provides services as opposed to the pay-as-you-go method. The change will likely increase the annual cost of providing postretirement benefits by approximately $1 million per year. The increased expense includes amortization of the estimated transition obligation of approximately $17 million over a 20-year period.

Other Income and Expenses
Investment income earned on operating funds decreased by $1 million or 7.7 percent in 1992 compared to a decrease of $2.4 million or 15.6 percent in 1991. Excluding exchange rate variances and the 1991 investment income earned by the sold operations, investment income declined by 3.8 percent and 13.4 percent in 1992 and 1991, respectively. The decreases in these comparable periods reflect the significantly lower short-term interest rates throughout most of the major world markets.

Interest expense decreased by $4.2 million or 18.9 percent in 1992 compared to a decrease of $6.4 million or 22.4 percent in 1991. This reflects significantly lower worldwide interest rates and a 21.7 percent and 6.4 percent decrease in average commercial paper outstanding in 1992 and 1991, respectively.

In 1992, other income (expenses) includes $43.8 million of gains on the sales of three non-core businesses, including the first quarter sales of a U.S.-based administrator of workers compensation funds and a non-broking operation in the Netherlands and a fourth quarter sale of a United Kingdom - based pension fund management operation.

Income Taxes

The Company's effective underlying tax rates, excluding the special charges described above, were 41.4 percent, 44.6 percent and 43.8 percent in 1992, 1991 and 1990, respectively. These rares are 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 for tax purposes in the jurisdictions in which the Company conducts business. In 1992, the effective tax rate was favorably impacted by lower taxes on the gains on sales of businesses; however, this was partially offset by additional provisions for tax contingency matters described below.

A substantial portion of the special charges recorded in 1992, including the loss from discontinued operations, represent capital losses thar can be utilized for tax purposes only to the extent of offsetting capital gains, thus no tax benefit has been recognized by the Company.

As discussed in Note 4 of the Notes to Financial Statements, during 1991 the Company received a notice of tax deficiency from the Internal Revenue Service (IRS) in the amount of $85 million for the years 1980 to 1986. The notice relates principally to the disallowance of a loss sustained in the 1982 acquisition of Alexander Howden and other related issues associated with the acquisition.

The notice does not include interest on the tax deficiency or other tax liabilities which would be due in years after 1986 due to the accelerarion in the use of net operating losses and tax credits. The Company's estimate of such additional tax and interest, net of federal tax benefit, is approximately $108 million. The Company is currently under examination by the IRS for the years 1987 to 1989.

The Company filed a formal protest contesting the proposed tax deficiency and has commenced discussions with the IRS. While none of the contested issues are finally resolved and no final settlement has been reached, overall the Company believes the ongoing discussions are progressing satisfactorily and it is possible a settlement could be reached during 1993.

The Company believes its reserves are sufficient to cover potential liabilities which may arise on settlement of these issues.

In December 1987, the FASB issued SFAS No. 96, "Accounting for Income Taxes". In February 1992, the FASB issued SFAS No. 109, which supersedes SFAS No. 96. The Company will adopt the provisions of SFAS No. 109 in the first quarter of 1993. Based upon current tax rates and the overall tax position of the Company, the adoption of SFAS No. 109 will not have a material impact on the Company's financial position or results of operations.

Discontinued Operations

The $145 million provision recorded in the fourth quarter of 1992 relates primarily to indemnities provided by the Company to the purchasers of Sphere Drake Insurance Company (Sphere Drake), a U.K.-based insurance company.

Indemnities provided by the Company to the purchasers of Sphere Drake include a provision covering losses on the insurance pooling arrangements from 1953 to 1967, between Sphere Drake and Orion Insurance Company (Orion), a U.K.-based insurance company, which constitute the major portion of the special charge related to the Sphere Drake indemnities. The Company had contended that these arrangements were contractually settled pursuant to a 1975 agreement between Sphere Drake and Orion; however, Orion contested the enforceability of the 1975 agreement and prevailed in the English courts in 1992.

During the fourth quarter of 1992, the Company was first able to obtain detailed information from Orion concerning the types and amounts of claims being reported to Orion pursuant to the insurance pooling arrangements for the 1953 to 1967 years. The types of claims being reported are primarily asbestosis, environmental pollution and latent disease claims in the U.S. and are coupled with snbstantial litigation expenses. Liabilities for these claims cannot be estimated by conventional actuarial reserving techniques because the available historical experience is not sufficient to apply such techniques for these types of claims and case law, which will ultimarely determine the extent of these liabilities, is still evolving. To date, U.S. case law has already altered the intent and scope of these policies to some extent. Therefore, the Company has obtained advice from various professional actuarial experts who used available information and various techniques in estimating the Company's ultimate exposure. Based on this advice, and after taking into account an estimate of Sphere Drake's share of uncollectible reinsurance recoverables associated with the insurance pooling arrangements, the Company established additional reserves in 1992, which are included in the provision for loss from discontinued operations. However, given the expansion of coverage and liability by certain state courts and legislatures for environmental pollution and other losses in the past and the possibility of similar interpretations in rhe furure, as well as the uncertainty in determining what scientific standards will be acceptable for measuring site cleanup, additional potential liability could develop. The Company is currently exploring the possibility of acquiring reinsurance protection for these exposures.

The Sphere Drake indemnities and other liabilities arising out of the discontinued operations are expected to be sertled over many years and could extend over a 20 to 30 year period. Consequently, management of the Company does not expect the loss from discontinued operations to result in an immediate significant cash outlay unless the Company decides to pur-

chase reinsurance. The Company also believes that, based on current loss projections and other factors, the reserves relating to discontinued operations are adequate. There can be, 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 other offsets and the outcome of certain litigation matters, as well as the environmental pollution and other matters described above.

Cumulative Effect Adjustment

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 was $2.2 million, net of a related income tax benefit of $1.8 million, or $0.06 per share. This change in accounting method was not material to the results of operations in 1991 and, if applied retroactively, to 1990.

Liquidity and Capital Resources

In 1992, cash flow from operations was sufficient to fund the Company's operating and capital expenditure requirements as well as dividend payments. Cash flow was supplemented by $61.1 million of cash from the sales of non-core businesses. In addition, total debt outstanding at December 31, 1992, was $131.8 million, a $45 million decrease from December 31, 1991.

The increase in cash, cash-equivalents and short-term investments primarily represents fiduciary funds which are generally not available for the operating needs of the Company. Such funds are invested in high-quality instruments, including bank time deposits and governmental securities.

The Company's net capital expenditures for property and equipment and acquisitions declined by $4.9 million to $18.3 million at December 31, 1992. Capital expenditures in 1993 are expected to increase moderately from the 1992 level.

In 1988, the Board of Directors authorized the purchase of up to 5 million shares of the Company's Common Stock. A total of 3.7 million shares were purchased at a cost of $80.3 million in 1988 and 1989. No purchases have been made since 1989 and none are anticipated in 1993.

The Company has a $150 million long-term credit agreement with various banks which expires in July 1995. Supplementing the credit agreement, the Company has unsecured lines of credit totaling $197.4 million as support for possible future cash needs.

As a result of the 1992 fourth quarter special charge and loss from discontinued operations, the Company's long-term credit agreement was amended to change certain restrictions, including limiting the level of borrowing to $75 million under certain circumstances. The Company's term loans were also amended. In addition, certain rating agencies have downgraded the Company's commercial paper to below investment grade or indicated that they would do so. The Company had no commercial paper outstanding at December 31, 1992, and does not expect to issue such short-term financing until the Company's credit rating has improved.

In 1992, the Accumulated Translation Adjustments account, which represents the cumulative effect of translating the Company's international operations to U.S. dollars, negatively impacted total Stockholders' Equity by $55 million. This decrease resulted from a substantial strengthening of the U.S. dollar against most of the major currencies of the Company's overseas operations.

As more fully described in Notes 4, 5, and 12 of the Notes to Financial Statements, the Company has significant tax and litigation exposures which may require substantial 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.

As described above, the 1992 provision for the Company's discontinued operations is not expected to result in significant cash outflow in 1993 unless reinsurance is purchased to cover certain of these liabilities.

As a result of the net loss for 1992, the Company has an accumulated deficit of $83.2 million at December 31, 1992. Under Maryland law, dividends may be paid as long as, after giving effect to the dividend, a corporation is able to pay its debts as they become due in the usual course of business and total assets of the corporation exceed total liabilities plus any preferential rights of stockholders upon dissolution of the corporation. The Company's current financial position satisfies these requirements and the Board of Directors declared the regular quarterly dividend of $0.25 per share payable in March 1993. The Board of Directors will continue to monitor the Company's financial performance with respect to future dividend declarations.

In February 1993, the Board of Directors authorized the issuance of up to 9 million shares of the Company's Preferred Stock. On March 18, 1993, the Company issued 2.3 million shares of $3.625 Series A Convertible Preferred Stock through a private placement offering. Such shares are convertible into Common Stock at a conversion price of $31.875 per share of Common Stock and are redeemable, in whole or in part, by the Company beginning in March, 1997. The net proceeds to the Company were $110.9 million and are available for general corporate purposes.

The Company believes that cash flow from operations will be sufficient to satisfy working capital and other operating requirements in 1993. In the event additional funds are required, the Company believes it will have sufficient resources, including borrowing capacity, to meet such requirements.

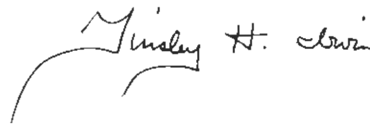
Report of Management

The Company's management is responsible for the preparation and contents of the information contained in the consolidated financial statements and other sections of this 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, including amounts that are based on management's judgement and best estimates.

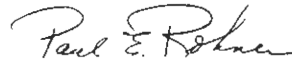
The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that accounting records provide a reliable basis for the preparation of financial statements. The internal accounting control 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 25.

The Audit Committee of the Board of Directors is composed of five directors, none of whom is an employee of the Company. 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 of Directors 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

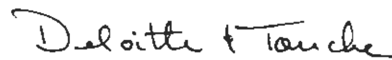
To The Stockholders of Alexander & Alexander Services Inc.

We have audited the accompanying consolidated balance sheets of Alexander & Alexander Services Inc. and Subsidiaries as of December 31, 1992 and 1991, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended December 31, 1992. 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, 1992 and 1991, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992 in conformity with generally accepted accounting principles.

As discussed in Note 6 to the consolidated financial statements, in 1991 the Company changed its method of accounting for deferred compensation.



DELOITTE & TOUCHE
Baltimore, Maryland
February 11, 1993 (March 18, 1993 as to certain information in Notes 8 and 10)

Consolidated Statements of Operations

Alexander & Alexander Services Inc. and Subsidiaries
For the years ended December 31, (in millions, except per share amounts)

	1992	1991	1990
Operating revenues:			
Commissions and fees	$1,277.7	$1,287.7	$1,247.0
Fiduciary investment income	72.5	81.7	91.4
	1,350.2	1,369.4	1,338.4
Operating expenses:			
Salaries and benefits (Note 6)	792.8	790.8	741.0
Other	470.7	496.3	468.1
Special charges (Note 2):			
Restructuring	—	45.5	6.5
Other	—	17.1	—
	1,263.5	1,349.7	1,215.6
Operating income	86.7	19.7	122.8
Other income (expenses):			
Investment income	12.0	13.0	15.4
Interest expense	(18.0)	(22.2)	(28.6)
Other (Note 3)	39.9	(0.6)	(1.8)
Special charges (Note 2)	(16.5)	(13.0)	(5.5)
	17.4	(22.8)	(20.5)
Income (loss) before income taxes and minority interest	104.1	(3.1)	102.3
Income taxes (Note 4)	47.4	4.9	44.8
Income (loss) before minority interest	56.7	(8.0)	57.5
Minority interest	(1.8)	(2.4)	(2.6)
Income (loss) from continuing operations	54.9	(10.4)	54.9
Loss from discontinued operations (Note 5)	(145.0)	—	—
Income (loss) before cumulative effect of accounting change	(90.1)	(10.4)	54.9
Cumulative effect of change in accounting (Note 6)	—	(2.2)	—
Net income (loss)	$ (90.1)	$ (12.6)	$ 54.9
Per share of common stock (Note 1):			
Income (loss) from continuing operations	$ 1.34	$ (.25)	$ 1.35
Loss from discontinued operations	(3.54)	—	—
Income (loss) before cumulative effect of accounting change	(2.20)	(.25)	1.35
Cumulative effect of change in accounting	—	(.06)	—
Net income (loss)	$ (2.20)	$ (.31)	$ 1.35
Cash dividends	$ 1.00	$ 1.00	$ 1.00
Weighted average number of shares	40.9	40.8	40.7

See Notes to Financial Statements.

Consolidated Balance Sheets

Alexander & Alexander Services Inc. and Subsidiaries
For the years ended December 31, (in millions, except per share amounts)

	1992	1991
Assets		
Current assets:		
Cash and cash equivalents	$ 579.6	$ 573.6
Short-term investments	239.1	261.2
Accounts receivable (net of allowance for doubtful accounts of $21.6 in 1992 and $23.8 in 1991)		
Customer accounts	1,144.9	1,118.7
Others	97.8	130.0
Total current assets	2,061.4	2,083.5
Property and equipment—at cost:		
Land and buildings (Note 8)	34.5	37.5
Furniture and equipment	308.3	346.7
Leasehold improvements	103.4	113.8
	446.2	498.0
Less accumulated depreciation and amortization	(279.9)	(286.2)
Property and equipment — net	166.3	211.8
Other assets:		
Long-term notes and other receivables (Note 5)	33.5	43.5
Intangible assets (net of accumulated amortization of $107.7 in 1992 and $117.5 in 1991) (Note 2)	187.1	218.7
Other (Notes 5, 6, and 8)	194.4	209.7
	$2,642.7	$2,767.2
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$1,713.1	$1,687.0
Short-term debt (Note 7)	6.7	6.9
Other payables and accrued expenses (Note 5)	217.2	255.2
Total current liabilities	1,937.0	1,949.1
Long-term liabilities:		
Long-term debt (Note 8)	125.1	169.9
Deferred income taxes (Note 4)	71.7	80.4
Other (Notes 5, 6 and 13)	316.4	193.7
Total long-term liabilities	513.2	444.0
Commitments and contingent liabilities (Notes 4, 5, 11 and 12)		
Stockholders' equity (Notes 8, 9 and 10):		
Preferred stock, authorized 9.5 shares $1 par value; issued and outstanding, none	—	—
Series A junior participating preferred stock, authorized 0.5 shares $1 par value; issued and outstanding, none	—	—
Common stock, authorized 60 shares $1 par value; issued and outstanding 37.8 and 37.4 shares, respectively	37.8	37.4
Class A common stock, authorized 13 shares $.00001 par value; issued and outstanding 2.8 and 2.9 shares, respectively	—	—
Class C common stock, authorized 5.5 shares $1 par value; issued and outstanding 0.4 and 0.5 shares, respectively	0.4	0.5
Paid-in capital	296.5	292.4
Retained earnings (deficit)	(83.2)	47.8
Accumulated translation adjustments	(59.0)	(4.0)
Total stockholders' equity	192.5	374.1
	$2,642.7	$2,767.2

See Notes to Financial Statements.

Consolidated Statements of Cash Flows

Alexander & Alexander Services Inc. and Subsidiaries
For the years ended December 31, (in millions, except per share amounts)

	1992	1991	1990
Cash provided (used) by:			
Operating activities:			
Income (loss) from continuing operations	$ 54.9	$ (10.4)	$ 54.9
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	60.5	72.2	72.3
Deferred income taxes	(2.9)	(17.3)	(2.5)
Gains on disposition of subsidiaries and other assets	(43.8)	0.3	(0.2)
Gain on pension plan settlements	—	(5.1)	(13.2)
Special charges, net of tax	13.9	48.2	7.2
Other	10.1	5.8	2.8
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable	(137.3)	99.9	(38.0)
Other assets	26.2	(16.4)	(16.7)
Accounts payable	229.9	(3.3)	(2.4)
Other current liabilities	(27.2)	(14.2)	37.9
Other liabilities	(6.8)	27.6	3.1
Discontinued operations, net	(11.1)	(1.7)	(2.8)
Cumulative effect of change in accounting	—	(2.2)	—
Net cash provided by operating activities	166.4	183.4	102.4
Investing activities:			
Purchases of property and equipment—net	(18.3)	(23.2)	(42.2)
Purchases of businesses (net of cash acquired)	(5.7)	(2.6)	(4.7)
Proceeds from sales of subsidiaries and other assets (net of cash sold)	61.1	2.8	0.8
Purchases of investments	(1,133.8)	(952.7)	(989.3)
Sales or maturities of investments	1,087.8	1,006.8	1,029.2
Net cash provided (used) by investing activities	(8.9)	31.1	(6.2)
Financing activities:			
Cash dividends	(40.9)	(40.6)	(40.7)
Net change in short-term debt	(41.5)	(7.8)	(48.6)
Additions to long-term debt	29.6	2.5	24.5
Repayments of long-term debt	(31.4)	(10.3)	(9.4)
Issuance of common stock	2.0	0.9	0.2
Net cash used by financing activities	(82.2)	(55.3)	(74.0)
Effect of exchange rate changes on cash and cash equivalents	(69.3)	2.2	32.5
Cash and cash equivalents at beginning of year	573.6	412.2	357.5
Cash and cash equivalents at end of year	$ 579.6	$ 573.6	$ 412.2
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	$ 15.9	$ 17.2	$ 29.6
Income taxes	47.6	38.4	23.6
Non-cash investing and financing activities:			
Common stock issued for business acquisitions and employee benefit plans	1.4	1.7	1.7

See Notes to Financial Statements.

Consolidated Statements of Stockholders' Equity

Alexander & Alexander Services Inc. and Subsidiaries
For the years ended December 31, (in millions, except per share amounts)

	1992	1991	1990
Common stock:			
Balance, beginning of year	$ 37.4	$ 37.0	$ 36.7
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, 0.2 and 0.1 shares, respectively	0.2	0.2	0.1
Other, principally stock option transactions	0.1	0.1	0.1
Balance, end of year	$ 37.8	$ 37.4	$ 37.0
Class A common stock:			
Balance, beginning of year	$ 0.0	$ 0.0	$ 0.0
Conversions into common stock, 0.1, 0.1 and 0.1 shares, respectively	—	—	—
Balance, end of year	$ 0.0	$ 0.0	$ 0.0
Class C common stock:			
Balance, beginning of year	$ 0.5	$ 0.6	$ 0.6
Conversions into common stock, 0.1, 0.1 shares and none, respectively	(0.1)	(0.1)	—
Balance, end of year	$ 0.4	$ 0.5	$ 0.6
Paid-in capital:			
Balance, beginning of year	$292.4	$289.0	$287.6
Issued for acquisitions	1.3	1.6	1.6
Conversions into common stock	(0.1)	(0.1)	(0.1)
Other, principally stock option transactions	2.9	1.9	(0.1)
Balance, end of year	$296.5	$292.4	$289.0
Retained earnings (deficit):			
Balance, beginning of year	$ 47.8	$101.0	$ 86.8
Net income (loss)	(90.1)	(12.6)	54.9
Dividends	(40.9)	(40.6)	(40.7)
Balance, end of year	$ (83.2)	$ 47.8	$101.0
Accumulated translation adjustments:			
Balance, beginning of year	$ (4.0)	$ 3.0	$(36.6)
Foreign currency translation adjustments	(55.0)	(7.0)	39.6
Balance, end of year	$ (59.0)	$ (4.0)	$ 3.0

See Notes to Financial Statements.

Notes to Financial Statements

(in millions, except per share amounts)

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 Investments
Cash equivalents are highly liquid investments, including certificates of deposit, government securities and time deposits, with maturities of three months or less at the time of purchase. Short-term investments are similar investments with maturities of more than three months but less than one year from the date of purchase. Cash equivalents and short-term investments are stated at cost which approximates market value.

Included in Other assets in the Consolidated Balance Sheets at December 31, 1992 and 1991, are $83.6 million and $61.2 million, respectively, of investments with maturities of greater than one year. Such long-term investments are carried at the lower of aggregate cost or market, which approximated $89.3 million at December 31, 1992.

The Company's investment policies include placing its temporary cash investments with highly rated financial institutions and limiting the amount of exposure to any one institution in order to reduce credit risk.

Foreign Currency Translation
The financial statements of the Company's foreign operations, where the local currency is the functional currency, are translated into U.S. dollars at the exchange rates in effect at each year end for assets and liabilities and average exchange rates during the year for the results of operations. The related unrealized gains or losses resulting from translation are reported as a separate component of stockholders' equity.

The Company enters into foreign exchange forward contracts to hedge the impact of currency fluctuations, primarily relating to U.S. dollar revenues generated by certain foreign subsidiaries. Gains and losses on these contracts are recognized in the period in which the exchange rates change. At December 31, 1992, the Company had approximately $70.6 million of net forward exchange contracts outstanding. These 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 $5.6 million, $3.2 million and $8.6 million for the years ended December 31, 1992, 1991 and 1990, 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 $14 million, $19.1 million and $17.4 million for the years ended December 31, 1992, 1991 and 1990, 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 consulting and other 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 commou 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 1992, the Company recorded a $16.5 million pre-tax charge ($13.9 million after-tax or $0.34 per share) for the estimated cost of indemnities provided to the purchasers of Shand, Morahan & Company (Shand). See Note 5 for a discussion of the 1992 charge for discontinued operations.

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, represented the anticipated costs of closing or consolidating certain broking offices and restructuring others. Severance payments, leasehold write-offs and employee relocation expenses were included in the charge. The special charge included in operating expenses of $17.1 million represented primarily the write-down of goodwill and other intangible assets related to certain acquired businesses. The $13 million included in non-operating expenses represented 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 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. Dispositions

During 1992, the Company sold three non-core businesses, including a U.K.-based pension fund management operation, a Netherlands-based non-broking operation and a U.S.-based administrator of workers compensation funds. Total proceeds on these sales were $77.4 million with resulting pre-tax gains of $43.8 million ($28.5 million after tax or $.70 per share). These gains are included in Other income (expenses) in the Consolidated Statements of Operations.

4. Income Taxes

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

For the years ended December 31,	1992	1991	1990
United States	$(31.8)	$(93.2)	$ 0.6
International	135.9	90.1	101.7
	$104.1	$ (3.1)	$102.3

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

For the years ended December 31,	1992	1991	1990
Current:			
Federal	$(1.4)	$ 4.7	$ 13.1
State and local	(0.3)	5.0	3.5
International	54.6	39.9	35.5
	52.9	49.6	52.1
Deferred:			
Federal	(3.5)	(31.6)	(11.5)
State and local	1.2	(8.4)	(1.3)
International	(3.2)	(4.7)	5.5
	(5.5)	(44.7)	(7.3)
	$47.4	$ 4.9	$ 44.8

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.

As a result of the 1992 special charge and loss from discontinued operations described in Notes 2 and 5, for financial reporting purposes the Company has approximately $130 million of capital loss carryforwards at December 31, 1992. For tax reporting purposes, such capital loss carryforwards are approximately $14 million.

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

For the years ended December 31,	1992	1991	1990
Depreciation	$ (2.5)	$ (3.1)	$(1.9)
Tax leases	(3.2)	(5.0)	(3.1)
Financial accounting accruals, net	(17.5)	(8.7)	1.9
Net deferred losses on subsidiary dispositions	3.6	(0.3)	—
Special charges	14.3	(27.4)	(4.8)
Other	(0.2)	(0.2)	0.6
	$ (5.5)	$(44.7)	$(7.3)

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

For the years ended December 31,	1992	1991	1990
Computed "expected" tax expense (benefit)	$35.4	$(1.0)	$34.8
State and local income taxes-net of federal income tax	0.5	(2.3)	1.5
Foreign statutory rates over U.S. federal statutory rate	1.7	0.4	1.3
Amortization of intangible assets	2.6	2.5	2.8
Repatriation of foreign earnings, net of tax credits	0.5	1.5	0.9
Other non-deductible expenses	3.9	3.9	4.2
Other, net	2.8	(0.1)	(0.7)
	$47.4	$ 4.9	$44.8

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 notice does not include 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 Company's estimate of such additional tax and interest, net of federal tax benefit, that would be due, is approximately $108 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 and filed a protest with the Appeals Office of the IRS. The Company commenced discussions with the Appeals Office during 1992 and it is expected that these discussions will continue until the contested issues are resolved. While no final settlement has been reached, overall the Company believes the ongoing discussions are progressing satisfactorily. However, as appropriate, the Company will continue to pursue other administrative and judicial relief.

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.

Federal income taxes have not been provided on undistributed earnings of foreign subsidiaries which aggregated approximately $335 million at December 31, 1992.

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 supersedes 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.

5. *Discontinued Operations*

In March 1985, the Company discontinued the insurance underwriting operations 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. In 1992, the Company recorded a $145 million provision for losses from discontinued operations relating primarily to indemnities provided by the Company to the purchasers of Sphere Drake. The provision represents primarily capital losses that can be utilized for tax purposes only to the extent of offsetting capital gains; thus, no tax benefit has been recognized by the Company.

The Sphere Drake sales agreement provides indemnities by 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 ($29.2 million and $36.1 million at December 31, 1992 and 1991, respectively). The repayment of these uotes by the buyer is subject to offset based upon the adequacy of the loss reserves and reinsurance recoverables recorded on rhe books of Sphere Drake at December 31, 1986. The recognition of the interest income on the zero coupon notes is being deferred until the issues and indemnifications related to the discontinued operations have been resolved. Since the date of sale, there has been deterioration in loss reserves and uncollectible reinsurance balances that will offset a substantial portion of the interest income earned on the Sphere Drake zero coupon notes.

Indemnities provided by the Company to the purchasers of Sphere Drake also include a provision covering future losses on the insurance pooling arrangements from 1953 to 1967 between Sphere Drake and Orion Insurance Company (Orion), a U.K.-based insurance company. The Company had contended that these arrangements had been contractually settled pursuant to a 1975 agreement between Sphere Drake and Orion; however, Orion contested the enforceability of the 1975 agreement and prevailed in the English courts in 1992.

During the fourth quarter of 1992, the Company was first able to obtain detailed information from Orion concerning the types and amounts of claims being reported to Orion pursuant to the insurance pooling arrangements for the 1953 to 1967 years. The types of claims being reported are primarily asbestosis, environmental pollution and

latent disease claims in the U.S. and are coupled with substantial litigation expenses. Liabilities for these claims cannot be estimated by conventional actuarial reserving techniques because the available historical experience is not sufficient to apply such techniques for these types of claims and case law, which will ultimately determine the extent of these liabilities, is still evolving. To date, U.S. case law has already altered the intent and scope of these policies to some extent. Therefore, the Company has obtained advice from various professional actuarial experts who used available information and various techniques in estimating the Company's ultimate exposure. Based on this advice, and after taking into account an estimate of Sphere Drake's share of uncollectible reinsurance recoverables associated with the insurance pooling arrangements, the Company established additional reserves in 1992, which constitute the major portion of the loss from discontinued operations. However, given the expansion of coverage and liability by certain state courts and legislatures for environmental pollution and other losses in the past and the possibility of similar interpretations in the future, as well as the uncertainty in determining what scientific standards will be acceptable for measuring site cleanup, additional porential liability could develop.

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 had indemnified the purchasers of Sphere Drake in connection with this litigation. The trial was held in late 1991 with an adverse decisiou issued in April 1992. The Company intends to appeal the decision and believes it has a reasonable prospect of success. However, any losses incurred in connection with this matter should be substantially offset by the reserve described in Note 13. To the extent that losses, if any, exceed the reserve, the excess will be charged to discontinued operations.

The Sphere Drake indemnities and other liabilities arising out of the discontinued operations are expected to be settled over many years and could extend over a 20 to 30 year period. Consequently, the Company does not expect an immediate significant cash outlay unless the Company decides to purchase reinsurance for such exposures.

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.

A summary of the net assets (liabilities) of the Company's discontinued operations is as follows:

As of December 31,	1992	1991
Assets		
Cash and investments	$ 18.8	$19.2
Other assets	10.0	11.9
Deferred costs	—	10.2
	28.8	41.3
Liabilities		
Claim and other liabilities	131.4	41.0
Reserve for discontinued operations	29.0	—
	160.4	41.0
Net assets (liabilities) of discontinued operations	$(131.6)	$ .3

The net assets (liabilities) of the Company's discontinued operations are presented in the Consolidated Balance Sheets as follows:

As of December 31,	1992	1991
Other assets	$ –	$12.3
Other payables and accrued expenses	(7.0)	(12.0)
Other long-term liabilities	(124.6)	–
Net assets (liabilities) of discontinued operations	$(131.6)	$ .3

Changes in the net assets (liabilities) of the Company's discontinued operations are as follows:

For the years ended December 31,	1992	1991	1990
Beginning balance	$ .3	$(5.5)	$(10.5)
Provision for loss	(145.0)	–	–
Payment of claims and expenses	13.1	5.8	5.0
Ending balance	$(131.6)	$ .3	$ (5.5)

An analysis of the Company's (reserve) deferred costs related to its discontinued operations is as follows:

For the years ended December 31,	1992	1991	1990
Balance, beginning of year	$ 10.2	$(18.2)	$(20.1)
Provisions for loss	(145.0)	—	—
Net loss (income) of companies being rnnoff	(.1)	2.2	1.5
Transfer to claim and other liabilities	88.0	20.0	—
U.K. tax refunds	—	—	(2.9)
Legal and other costs related to Sphere Drake	16.8	4.4	1.3
Other	1.1	1.8	2.0
Balance, end of year	$ (29.0)	$ 10.2	$(18.2)

The Company believes that, based on current loss projections, the estimated reinsurance premium adjustment described above, the interest income on the Sphere Drake zero coupon notes and the established claim liabilities and other reserves will be sufficient to cover 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 and the environmental pollution and other matters described above.

6. 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 and 1990, the Company's Canadian and United Kingdom pension plans settled the accumulated benefit obligation to certain retirees by purchasing annuity contracts for $25.7 million and $52.1 million, respectively. The resulting pre-tax gains of $5.1 million and $13.2 million for the years 1991 and 1990 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) are summarized as follows:

For the years ended December 31,	1992	1991	1990
Service cost	$ 29.4	$ 27.7	$ 27.7
Interest cost	36.9	33.8	37.1
Actual return on plan assets	(68.9)	(98.0)	(36.0)
Net amortization and deferral	3.7	40.7	(31.8)
Net pension costs (credit)	$ 1.1	$ 4.2	$ (3.0)

The following table sets forth the funded status and amounts recognized in the Company's Consolidated Balance Sheets:

As of December 31,	1992		1991	
	U.S.	International	U.S.	International
Vested benefit obligation	$ 179.1	$ 165.9	$ 139.7	$ 146.8
Accumulated benefit obligation	$ 191.2	$ 177.1	$ 164.3	$ 151.7
Projected benefit obligation	$(247.6)	$(214.5)	$(218.2)	$(204.1)
Plan assets at fair market value	265.9	303.3	256.4	314.9
Excess of plan assets over projected benefit obligation	18.3	88.8	38.2	110.8
Unrecognized net loss (gain)	10.5	(24.0)	(5.7)	(33.2)
Unrecognized prior service cost	(1.5)	9.4	(0.9)	12.2
Unrecognized net assets being amortized over the plans' average remaining service lives	(18.7)	(33.0)	(21.0)	(41.8)
Prepaid pension cost	$ 8.6	$ 41.2	$ 10.6	$ 48.0
Assumed discount rate	8.0%	5.5-10.0%	8.25%	6.5-10.5%
Assumed rate of compensation increase	5.0%	4.5- 7.0%	5.5%	5.0- 7.0%
Expected rate of return on plan assets	10.75%	7.5-11.0%	10.75%	7.5-11.0%

At December 31, 1992 and 1991, approximately 81% and 80%, respectively, of all plan assets are invested in equity securities and 19% and 20%, 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 $10.8 million in 1992, $11.4 million in 1991 and $11.2 million in 1990.

Postretirement Benefits
Substantially all of the Company's U.S. employees, after reaching age 55, may become eligible for certain postretirement health care (up ro age 65) and life insurance benefits. A substantial portion of the costs associated with postretirement benefits are borne by the employees. The costs for these benefits, which are recognized as expenses when premiums or claims are paid, were approximately $2.1 million in 1992, and $1.5 million in 1991 and 1990, 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 will result in an increase to the annual expense of approximately $1 million.

The Company will adopt this statement in 1993. When adopted, the transition obligation of approximately $17 million 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, 1992, the cash surrender value of these policies was $1.2 million, which is net of $26.6 million of policy loans. The Company's obligation under the plan, including accumulated interest, was $18.6 million and $20.7 million at December 31, 1992 and 1991, 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 ro 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.

7. Short-Term Debt

Consolidated short-term debt consists of the following:

As of December 31,	1992	1991
Commercial paper	$ —	$41.4
Notes payable to financial institutions	0.4	0.5
Current portion of long-term debt (Note 8)	6.7	6.9
	7.1	48.8
Less short-term debt reclassified as long-term (Note 8)	0.4	41.9
	$6.7	$ 6.9

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

As of December 31,	1992	1991	1990
Commercial paper:			
Balance at year end	$ —	$41.4	$40.8
Weighted average interest rate	—%	5.0%	8.5%
Maximum outstanding	$52.8	$75.9	$75.1
Average outstanding	$38.7	$49.4	$52.8
Weighted average interest rate during the year	4.2%	6.0%	8.5%
Notes payable to financial institutions:			
Balance at year end	$ 0.4	$ 0.5	$ 8.9
Weighted average interest rate	12.4%	11.7%	8.3%
Maximum outstanding	$37.2	$43.2	$71.2
Average outstanding	$20.6	$14.5	$42.6
Weighted average interest rate during the year	8.6%	10.3%	11.4%

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 $78.9 million, $119.1 million and $125 million in 1992, 1991 and 1990, respectively.

Supplementing the $150 million credit facility described in Note 8(B), the Company has unsecured lines of credit available for general corporate purposes totaling $197.4 million of which $197 million were unused as of December 31, 1992. These lines consist of both committed and uncommitted facilities in the U.S. and certain other countries. If drawn, the lines bear interest at market rates and carry an annual commitment fee of no greater than 1/2% of the line.

8. Long-Term Debt

Consolidated long-term debt outstanding is as follows:

As of December 31,	1992	1991
11% Convertible subordinated debentures (A)	$ 60.2	$ 66.9
Reclassified short-term debt (B)	0.4	41.9
Long-term credit agreement (B)	—	—
Obligation under capital lease (C)	23.1	24.2
Non-recourse mortgage notes (D)	19.4	16.9
Term loans (E)	25.0	—
Senior notes, due in 1992	—	20.0
Other	3.7	6.9
	131.8	176.8
Less current portion (Note 7)	6.7	6.9
	$125.1	$169.9

The principal payments required during the next five years, excluding the reclassified short-term debt, are $6.7 million in 1993, $6.2 million in 1994, $31.4 million in 1995, $6.4 million in 1996, and $6.2 million in 1997.

The estimated fair value of the Company's long-term debt at December 31, 1992 is $126.7 million based upon the market prices for similar issues or current interest rates offered to the Company for debt with the same remaining maturities.

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. The remaining debentures are redeemable any time, at 103.67% of par value prior to April 15, 1993, 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 par value through the operation of a mandatory sinking fund. The Company may make an optional sinking fund payment in each year not exceeding the amount of the mandatory sinking fund payment.

B. Long-Term Credit Agreement
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 1992 special charge and loss from discontinued operations described in Notes 2 and 5, on March 5, 1993, the agreement was amended, effective for the period December 31, 1992 through December 31, 1993, to change certain of the restrictions and to limit the level of borrowing to $75 million under certain circumstances.

In the event short-term borrowings cannot be made advantageously, the Company intends to use this facility to refinance its short-term borrowings on a long-term basis. Accordingly, $0.4 million and $41.9 million of short-term debt has been reclassified as long-term debt at December 31, 1992 and 1991, respectively.

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 $30.1 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% 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 are as follows:

As of December 31,	1992	1991
Future minimum lease payments to be received	$ 69.2	$ 71.8
Unguaranteed residual value accruing to the benefit of the Company	7.9	7.9
Less unearned income	(57.0)	(59.0)
Net investment in lease	$ 20.1	$ 20.7

Future minimum lease payments to be received are approximately $2.9 million for each of the next five years and an aggregate of $54.6 million thereafter.

E. Term Loans
In February 1992, a U.S. subsidiary of the Company entered into an unsecured $15 million three-year loan agreement with a bank. The interest rate (4% at December 31, 1992) floats with the LIBOR rate. The agreement,

guaranteed by the Company, contains the same restrictions as those in the Company's long-term credit agreement.

In August, 1992 a U.S. subsidiary entered into an unsecured $10 million three-year term loan agreement with a bank. The interest rate (4.2% at December 31, 1992) floats with the LIBOR rate. The agreement, guaranteed by the Company, contains restrictions on minimum consolidated net worth and maximum consolidated indebtedness.

As a result of the 1992 special charge and loss from discontinued operations described in Notes 2 and 5, as of March 18, 1993, amendments to both term loan agreements were completed to change certain of the restrictions.

9. Stock Option and Incentive Plans

In 1992, the stockholders approved amendments to the 1988 Long-Term Incentive Compensation Plan (1988 Plan) which provides for the granting of up to 5 million shares of the Company's Common Stock to officers and key employees as stock options. The 1988 Plan includes grants in the form of 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 1,250,000 shares may be issued under the 1988 Plan. There were 92,810, 22,880 and 85,434 shares issued in 1992, 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 1992 and 1991; however, 21,582 shares were issued in 1991 to participants for awards made in prior years.

Stock option transactions were as follows:

	Number of Shares	Option Price Per Share Range
Outstanding, January 1, 1990	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
Granted	485,000	21.63- 23.69
Exercised	(106,439)	21.56- 27.38
Canceled	(210,590)	
Outstanding, December 31, 1992	2,925,055	$17.75-$38.63

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

1992	1,976,017
1991	1,724,060
1990	1,483,344

10. Common and Preferred Stock

Common Stock

In addition to its Common Stock, $1.00 par value (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, 1992, the Company had 5.6 million shares of Common Stock reserved for issuance under employee stock option plans, 1.5 million shares reserved for issuance in the event of conversion of the 11% convertible subordinated debentures and 3.3 million shares reserved for issuance upon redemption or conversion of the Class A and Class C 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 RSC Class 1 and AAE Dividend 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 $60.2 million or $47.5 million, assuming certain solvency tests are met under Canadian law, and 99.1 million pounds sterling or $149.7 million, respectively, at December 31, 1992. In the event sufficient earnings are not available in the Canadian or the United Kingdom subsidiary to declare dividends, the Company's legal structure allows it to make earnings or capital available in those subsidiaries to pay dividends.

Preferred Stock and Related Rights

The Company's Preferred Stock, $1.00 par value (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.

Series A Convertible Preferred Stock

In February 1993, the Board of Directors authorized the issuance of up to 9 million shares of the Company's Preferred Stock. On March 18, 1993, the Company completed a private placement of 2.3 million shares of $3.625 Series A Convertible Preferred Stock (Convertible Preferred Shares). The net proceeds to the Company were $110.9 million. Holders of the Convertible Preferred Shares will be entitled to receive cumulative cash dividends at an annual rate of $3.625 per share, payable quarterly in arrears. The Convertible Preferred Shares have priority as to dividends over the Common Stock. The shares are convertible into Common Stock at any time after 90 days from issuance, unless previously redeemed, at a conversion price of $31.875 per share of Common Stock, subject to adjustments. Common Stock issued upon conversion will include Rights, as described below, provided the conversion occurs prior to the distribution or redemption or expiration of such Rights. The Convertible Preferred Shares may be redeemed by the Company on and after March 22, 1997, in whole or in part, at $52.18 per share until March 14, 1998 and declining rarably annually to $50 per share on or after March 15, 2003, plus accrued and unpaid dividends. The Convertible Preferred Shares are non-voting, except as provided by law and except that, among other things, holders will be entitled to vote as a separate class with any other series of outstanding Preferred Stock to elect a maximum of two directors if the equivalent of six or more quarterly dividends on the Convertible Preferred Shares are in arrears. The Convertible Preferred Shares have a liquidation preference of $50 per share.

Series A Junior Participating Preferred Stock

In 1987, a series of Preferred Stock, Series A Junior Participating Preferred Stock (Participating Preferred Shares), $1.00 par value per share was authorized and 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 was declared. Each Right, as amended, entitles the holder thereof to buy one one-hundredth of a Participating Preferred Share at a price of $85 (subject to adjustments). The Rights become exercisable only following the announcement by the Company that a person or a group has acquired beneficial ownership of 10% or more of the Company's voting shares or has commenced a tender or exchange offer that if consumated would result in the ownership of 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 Participating 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%, but less than 50%, of the Company's voting shares, the Board of Directors may exchange each Right for one one-hundredth of a Participating Preferred Share. The Rights are redeemable by the Board until the time of announcement that any person or group has beneficially acquired 10% or more of the Company's voting shares. All rights beneficially owned by a holder of 10% or more of the voting shares become void once such holder passes the 10% 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.

On April 21, 1992, the Board of Directors of the Company approved an Amendment to the Rights Agreement (the "Amendment") between the Company and First Chicago Trust Company of New York. The Amendment provides for certain technical revisions in the Rights Agreement including definition of Shares Acquisition Date to mean the first date of public announcement by the Company that an Acquiring Person has become such. The Amendment also provides that if the Rights become exercisable, the Company, acting by

resolution of the Board of Directors, may (and if a sufficient number of Participating Preferred Shares is not available for issuance upon exercise of the Rights, shall) issue equity securities, debt securities, cash and/or other property in lieu of Participating Preferred Shares.

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, 1992, the total number of shares purchased was 3.7 million at an average price of $21.77 per share. No shares were repurchased in 1992 or 1991.

11. Commitments

Lease Commitments

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

Future minimum annual rentals under noncancelable operating leases, which have been translated at December 31, 1992 closing foreign exchange rates, are as follows:

	Operating Leases
1993	$ 91.6
1994	85.3
1995	75.3
1996	62.1
1997	45.8
Thereafter	275.5
Total minimum lease payments	$635.6

Rent expense for office space, which includes property taxes and certain other costs, amounted to $95.8 million, $96.5 million and $96.9 million for the years ended December 31, 1992, 1991 and 1990, 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, 1992, the principal amounts of swap agreements outstanding were $155.4 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.

12. 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 three pending actions, plaintiffs seek compensatory and punitive damages totaling $105 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 Shand Morahan & Company, Inc. (Shand), its domestic underwriting management subsidiary. The proceeds included a deferred payment of $29.3 million plus interest, due in 1992, which was subject to offset based upon the adequacy of the loss reserves and the provision for uncollectible 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.

The Company recorded provisions of $10 million and $10.9 million in 1991 and 1988, respectively, reducing the carrying value of the deferred payment to $8.4 million, as a result of deterioration in loss reserves and additional

uncollectible reinsurance recoverable balances reported to the Company by ESI. In February 1993, the amount of the deferred payment was resolved through arbitration and the purchaser paid the Company $8.5 million.

In addition, the Company has agreed to indemnify the purchasers of Shand against certain other contingencies, including the Mutual Fire, Marine and Inland Insurance Company contingency described below.

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 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 case was subsequently removed to the U.S. District Court for the Eastern District of Pennsylvania. 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 and the Company, at this time, is unable to make a reasonable estimate of the alleged damages. The case is presently scheduled to be placed on the trial calendar in June 1993. Management believes that there are valid defenses to the allegations set forth in the complaint and the Company intends to defend vigorously against this action.

Also, the sales contract between the Company and Shand's purchasers obligates the Company to certain indemnities with respect to transactions involving Mutual Fire. In November 1992, the purchaser asserted indemnification claims related to reinsurance recoverables due from Mutual Fire. In February 1993, A&A agreed to settle certain of these claims. The Company has estimated its exposure under this settlement, net of anticipated recoveries from certain trusteed assets held for Shand's benefit, and established a reserve as part of the 1992 special charge described in Note 2. The Mutual Fire rehabilitator has challenged Shand's right to recover a portion of these assets.

The purchaser of Shand has also notified the Company of claims relating to reinsurance recoverables based on alleged errors and omissions of Shand in placing reinsurance. These claims are potentially subject to indemnification by the Company under the terms of the sales agreement. The Company intends to vigorously dispute these claims.

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.

13. 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 million to the Company. Recognition of this recovery in the Consolidated Statements of Operations 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.

14. 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 and 1990 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, 1992:

	Operating Revenues	Operating Income	Identifiable Assets	Depreciation & Amortization	Capital Expenditures
Business Segments:					
1992					
Insurance services	$1,127.9	$85.0	$2,451.7	$52.9	$16.2
Human resource management consulting	222.3	33.1	134.1	7.0	2.1
General corporate	—	(31.4)	56.9	0.6	—
	$1,350.2	$86.7	$2,642.7	$60.5	$18.3
1991					
Insurance services	$ 1,158.0	$ 24.5	$ 2,582.3	$63.6	$16.9
Human resource management consulting	211.4	26.4	129.9	7.8	6.0
General corporate	—	(31.2)	55.0	0.8	0.3
	$ 1,369.4	$ 19.7	$ 2,767.2	$72.2	$23.2
1990					
Insurance services	$ 1,138.0	$129.8	$ 2,667.6	$64.3	$35.1
Human resource management consulting	200.4	24.3	118.3	7.3	6.5
General corporate	—	(31.3)	49.1	0.7	0.6
	$ 1,338.4	$122.8	$ 2,835.0	$72.3	$42.2

	Operating Revenues	Operating Income (a)	Identifiable Assets
Geographical Areas:			
1992			
United States	$ 738.5	$ 24.8	$ 977.7
United Kingdom	311.7	57.7	997.0
Canada, principally Reed Stenhouse Cos. Ltd.	130.0	16.1	213.6
Other countries	170.0	19.5	397.5
General corporate	—	(31.4)	56.9
	$1,350.2	$ 86.7	$2,642.7
1991			
United States	$ 772.1	$ (32.8)	$ 1,054.6
United Kingdom	289.7	48.3	999.6
Canada, principally Reed Stenhouse Cos. Ltd.	136.5	21.4	222.3
Other countries	171.1	14.0	435.7
General corporate	—	(31.2)	55.0
	$ 1,369.4	$ 19.7	$ 2,767.2
1990			
United States	$ 777.6	$ 62.2	$ 1,194.4
United Kingdom	269.4	59.2	966.8
Canada, principally Reed Stenhouse Cos. Ltd.	133.1	17.4	200.7
Other countries	158.3	15.3	424.0
General corporate	—	(31.3)	49.1
	$ 1,338.4	$122.8	$ 2,835.0

(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.

15. Quarterly Financial Data (Unaudited)

Quarterly operating results for 1992 and 1991 are summarized below (in millions, except per share data).

	Operating Revenue	Operating Income	Income (Loss) from Continuing Operations	Net Income (Loss)
1992				
1st	$ 321.2	$ 13.9	$ 20.8	$ 20.8
2nd	347.1	32.9	16.9	16.9
3rd	339.0	19.1	8.8	8.8
4th	342.9	20.8	8.4	(136.6) (a)
Year	$1,350.2	$ 86.7	$ 54.9	$ (90.1)
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) (b)
Year	$ 1,369.4	$ 19.7	$ (10.4)	$ (12.6)

Per Share of Common Stock:	Income (Loss) from Continuing Operations	Net Income (Loss)	Dividends	High	Low
1992					
1st	$ .51	$ .51	$ .25	$23-3/8	$19-3/4
2nd	.41	.41	.25	22-3/8	18
3rd	.22	.22	.25	27-3/8	21-1/4
4th	.20	(3.34) (a)	.25	27-5/8	25-1/8
Year	$ 1.34	$(2.20)	$1.00		
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) (b)	.25	21-1/8	18
Year	$ (.25)	$ (.31)	$ 1.00		

(a) Includes a provision of $145 million or $3.54 per share associated with the discontinued and sold underwriting operations (see Note 5).

(b) 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 broking operations and other expenses (see Note 2).

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

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

John A. Bogardus, Jr.[2][4]
Former Chairman of the Board

Dr. Robert E. Boni[1][2][3]

Peter C. Godsoe[3][4]
President & Chief Executive 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
Former 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

Lawrence E. Burk
Global Managing Director
Business Development
Senior Vice President
Alexander & Alexander International Inc.

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

Dr. Robert H. Moore
Senior Vice President
Corporate Relations

Dan R. Osterhout
Senior Vice President
Alexander & Alexander Services Inc.
President & Chief Operating Officer
Alexander & Alexander Inc.

Charles M. Patrick, Jr.
President
Alexander & Alexander 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
Senior Vice President
Financial Management

Kevin J. Smith
Vice President & Controller
Alexander & Alexander Services Inc.
Chairman & Chief Executive Officer
Alexis Inc.

Thomas Soper III
Senior Vice President
Human Resources

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

Frank R. Wieczynski
Secretary

Alexander & Alexander Services Inc. Principal Worldwide Operations

RETAIL BROKING & RISK MANAGEMENT CONSULTING

Alexander & Alexander

Alexander Insurance Managers Limited

Alexsis Inc.

Anistics

WHOLESALE INSURANCE BROKING

Alexander Howden Intermediaries

REINSURANCE BROKING

Alexander Howden Reinsurance Brokers Limited

Alexander Reinsurance Intermediaries, Inc.

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

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

Annual Meeting of Stockholders
Date: Thursday, May 20, 1993
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, 1993, there were approximately 2,433 record holders of the Company's Common Stock, 703 beneficial holders of Class A Common Stock and 1,416 record holders of Class C Common Stock.

Stock Listings
Alexander & Alexander's 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 Class 1 Special Shares are listed on the Toronto and Montreal stock exchanges.

Alexander & Alexander's 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 1992 Annual Report on Form 10-K may be obtained by writing to:
Alexander & Alexander Services Inc.
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
Facsimile (410) 363-5900

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Auditors
Deloitte & Touche

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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
Brazil
British Virgin Islands
Canada
Cayman Islands
Channel Islands
Chile
China
Colombia
Costa Rica
Curacao
Cyprus
Czech Republic
Denmark
Djibouti
Dominica
Dominican Republic
Ecuador
Egypt
El Salvador
Fiji
Finland
France
Germany
Greece
Grenada
Guadeloupe
Guatemala
Guyana
Haiti
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Nicaragua
Nigeria
Norway
Oman
Pakistan
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Papua New Guinea
Paraguay
Peru
Philippines
Poland
Portugal
Puerto Rico
Qatar
Republic of Korea
St. Kitts & Nevis
St. Lucia
St. Vincent & the Grenadines
Saudi Arabia
Singapore
Spain
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

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New York, N.Y. 10036