SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

Filing Date: **1995-02-22** | Period of Report: **1994-09-30**
SEC Accession No. 0000024011-95-000004

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CONTINENTAL CORP

CIK:**24011**| IRS No.: **132610607** | State of Incorp.:**NY** | Fiscal Year End: **1231**
Type: **10-Q/A** | Act: **34** | File No.: **001-05686** | Film No.: **95514262**
SIC: **6331** Fire, marine & casualty insurance

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q\A

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

For the quarterly period ended September 30, 1994

OR

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

For the transition period from   to

Commission file number 1-5686

The Continental Corporation
(Exact name of registrant as specified in its charter)

New York	13-2610607
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

180 Maiden Lane, New York, New York 10038
(Address of principal executive offices)
(Zip Code)

(212) 440-3000
(Registrant's telephone number, including area code)

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

Yes X   No

The number of shares outstanding of each of the issuer's classes of common stock as of February 10, 1995 is as follows:

55,487,419 shares of Common Stock

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AMENDMENT TO APPLICATION OR REPORT
filed pursuant to Section 12, 13, or 15(d) of the
Securities Exchange Act of 1934

THE CONTINENTAL CORPORATION

The undersigned registrant hereby amends the following items, financial statements, exhibits or other portions of its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1994 as set forth in the pages attached hereto:

Part 1 - Financial Information

Item 1 - Financial Statements

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

THE CONTINENTAL CORPORATION

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Part I- Financial Information

Item 1 - Financial Statements:

Consolidated Statements of Income - Three and
Nine Months Ended September 30, 1994 and 1993

Consolidated Balance Sheets -
September 30, 1994 and December 31, 1993

Consolidated Statements of Cash Flows -
Nine Months Ended September 30, 1994 and 1993

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Notes to Consolidated Financial Statements

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Signature

THE CONTINENTAL CORPORATION
Part I - Financial Information
Item 1 - Financial Statements
CONSOLIDATED STATEMENTS OF INCOME
(millions, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1994	1993	1994	1993
Revenues:				
Premiums	$1,080.0	$1,175.3	$3,348.9	$3,306.6
Net Investment Income	121.8	128.2	373.0	399.8
Realized Capital Gains (Losses), Net	(4.0)	30.7	21.4	114.2
Other Revenues	25.8	21.3	72.2	72.0
Total Revenues	1,223.6	1,355.5	3,815.5	3,892.6
Expenses:				
Losses and Loss Expenses	1,340.4	920.8	3,209.7	2,567.1
Insurance Operating Expenses	353.6	352.5	1,097.9	1,038.3
Other Expenses	74.5	25.6	140.5	92.3
Interest on Corporate Borrowings	9.6	8.8	27.9	38.2
Total Expenses	1,778.1	1,307.7	4,476.0	3,735.9
Income (Loss) from Continuing Operations before Income Taxes (Benefits)	(554.5)	47.8	(660.5)	156.7
Income Taxes (Benefits):				
Current	6.7	9.9	(11.9)	29.8
Deferred	(242.3)	(6.5)	(245.7)	(4.2)
Total Income Taxes (Benefits)	(235.6)	3.4	(257.6)	25.6
Income (Loss) from Continuing Operations	(318.9)	44.4	(402.9)	131.1
Income from Discontinued Operations, Net of Income				

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Taxes	39.5	0.6	39.5	8.3
Income (Loss) before Net Cumulative Effect of Changes in Accounting Principles	(279.4)	45.0	(363.4)	139.4
Net Cumulative Effect of Changes in Accounting Principles	-	-	-	1.6
Net Income (Loss)	$(279.4)	$45.0	$(363.4)	$141.0
Net Income (Loss) Available to Common Shareholders	$(279.4)	$44.2	$(363.5)	$138.6

See Notes to Consolidated Financial Statements.

THE CONTINENTAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME, CONTINUED
(millions, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1994	1993	1994	1993
Per Common Share:				
Income (Loss) from Continuing Operations	$(5.75)	$0.79	$(7.27)	$2.34
Income from Discontinued Operations, Net of Income Taxes	$ 0.71	$0.01	$ 0.71	$0.15
Net Cumulative Effect of Changes in Accounting Principles	-	-	-	$0.03
Net Income (Loss)	$(5.04)	$0.80	$(6.56)	$2.52
Dividends Declared	-	$0.25	$ 0.50	$0.75
Weighted Average Shares of Common Stock Outstanding	55,466,002	55,314,017	55,424,896	55,139,893

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See Notes to Consolidated Financial Statements.

THE CONTINENTAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(millions, except par values)

	September 30, 1994	December 31, 1993
Assets:		
Investments:		
Fixed Maturities Available-for-Sale at Fair Value (Amortized Cost: 1994-$6,292.3; 1993-$6,615.9)	$ 6,068.5	$ 6,916.4
Equity Securities Available-for-Sale at Fair Value (Cost: 1994-$575.4; 1993-$600.0)	728.9	759.1
Other Long-Term Investments at Fair Value (Cost: 1994-$609.9; 1993-$387.9)	616.7	395.9
Other Short-Term Investments	364.5	1,071.0
Total Investments	7,778.6	9,142.4
Cash and Cash Equivalents	92.2	58.5
Premiums Receivable	1,516.2	1,021.0
Accrued Interest and Dividends	112.1	160.7
Reinsurance Receivables	3,247.6	3,152.9
Prepaid Reinsurance Premiums	497.7	321.5
Reinsurance Recoverable	327.8	329.0
Deferred Policy Acquisition Costs	476.3	494.0
Property and Equipment, Net	450.1	463.5
Deferred Tax Asset	449.4	41.7
Other Assets	863.8	870.6
Net Assets of Discontinued Operations	69.6	84.6
Total Assets	$15,881.4	$16,140.4
Liabilities:		
Outstanding Losses and Loss Expenses	$ 9,686.3	$ 9,068.7
Unearned Premiums	2,514.0	2,409.7
Short-Term Debt	190.7	229.1
Long-Term Debt	777.7	774.4
Accounts Payable and Accrued Expenses	109.9	107.9
Accrued Employee Benefits	306.5	308.3
Other Liabilities	920.8	1,059.2
Total Liabilities	14,505.9	13,957.3
Commitments and Contingencies	-	-

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Shareholders' Equity:		
Preferred Stock - $4 par value	0.3	0.3
Common Stock - $1 par value	65.7	65.7
Paid-in Capital	613.2	613.2
Retained Earnings	1,220.8	1,612.5
Net Unrealized Appreciation (Depreciation) of Investments	(89.3)	322.1
Cumulative Foreign Currency Translation Adjustment	(69.8)	(61.1)
Common Stock in Treasury at Cost	(365.4)	(369.6)
Total Shareholders' Equity	1,375.5	2,183.1
Total Liabilities, Commitments and Contingencies and Shareholders' Equity	$15,881.4	$16,140.4

See Notes to Consolidated Financial Statements.

THE CONTINENTAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(millions)

	Nine Months Ended September 30, 1994	1993
Cash Flows From Operating Activities:		
Income (Loss) from Continuing Operations	$ (402.9)	$ 131.1
Adjustments to Reconcile Income (Loss) from Continuing Operations to Net Cash Provided from (Used in) Continuing Operating Activities:		
Realized Capital Gains	(21.4)	(114.2)
Outstanding Losses and Loss Expenses	617.6	(66.3)
Unearned Premiums	104.3	169.4
Premiums Receivable	(495.2)	(752.8)
Reinsurance Recoverable	1.2	95.2
Prepaid Reinsurance Premiums	(176.2)	(32.5)
Reinsurance Receivables	(94.7)	94.6
Deferred Tax Asset	(245.7)	(4.2)
Depreciation and Amortization	38.1	28.5
Other-Net	(69.2)	58.7
Net Cash Used in Continuing Operating Activities	(744.1)	(392.5)
Net Cash Provided from Discontinuing Operating Activities	27.0	106.2
	(717.1)	(286.3)

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Cash Flows From Investing Activities:		
Net Purchase of Property and Equipment	(24.7)	(31.0)
Cost of Investments Purchased	(3,635.8)	(5,045.3)
Proceeds from Investments Sold	3,460.0	4,927.2
Proceeds from Investments Matured	529.6	590.9
Net (Increase) Decrease in Long-Term Investments	(222.0)	153.6
Net Decrease (Increase) in Short-Term Investments	706.5	(66.3)
Net Cash Provided from Investing Activities	813.6	529.1
Cash Flows From Financing Activities:		
Proceeds from Treasury Shares Sold	4.2	8.2
Dividends to Shareholders	(28.4)	(44.6)
Issuance of Long-Term Debt	-	150.0
Decrease in Short-Term Debt	(38.4)	(52.4)
Retirement of Debt	-	(281.7)
Other Increase in Long-Term Debt	(0.2)	(3.8)
Net Cash Used in Financing Activities	(62.8)	(224.3)
Net Increase in Cash and Cash Equivalents	33.7	18.5
Cash and Cash Equivalents at Beginning of Year	58.5	111.5
Cash and Cash Equivalents at End of Period	$ 92.2	$ 130.0

See Notes to Consolidated Financial Statements.

THE CONTINENTAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation
The consolidated financial statements include The Continental Corporation and its majority-owned subsidiaries (collectively, "Continental"). These financial statements have been prepared in conformity with generally accepted accounting principles and are unaudited. These interim statements necessarily rely heavily on estimates. In the opinion of management, all material adjustments have been made. All adjustments recorded in Continental's interim statements are of a normal recurring nature except for the third quarter charges to establish, for the first time, loss and loss expense reserves for incurred but not reported asbestos-related, other toxic tort and environmental pollution claims, the related reinsurance receivables

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charge on environmental IBNR, and the first and third quarter restructuring charges. Certain reclassifications have been made to the prior years' financial information to conform to the 1994 presentation

Note 2: Investments

Fixed maturities available-for-sale consist of bonds and preferred stocks, presented at fair value, that management may not hold until maturity. Equity securities available-for-sale are comprised of common stocks and nonredeemable preferred stocks which are reported at fair value.

Other investments are comprised of money market instruments, mortgages receivable and certificates of deposit, which are reported at amortized cost; notes receivable, time deposits, federal funds sold and securities purchased under resale agreements, which are reported at cost; venture capital investments, which are reported at lower of cost or market; investments in minority affiliates, which are reported under the equity method of accounting; and investment in limited partnerships, which are reported at fair value. These other investments are classified as short term if their original maturity date is within one year of the balance sheet date. All investment transactions are recorded on the settlement date.

Realized capital gains and losses on the sales of investments are included as a component of revenues, based upon the specific identification method. Provisions for impairments of investments that are considered other than temporary are reported as realized capital losses. Unrealized gains and losses on investments reported at fair value, net of related deferred taxes, are reflected in shareholders' equity.

At September 30, 1994, Continental did not invest in the securities of any issuer, except securities issued/backed by U.S. or Canadian government agencies, in excess of 10% of total shareholders' equity.

Note 3: Reinsurance

In the ordinary course of business, Continental cedes business to other insurers and reinsurers. Purchasing reinsurance enables Continental to limit its exposure to catastrophic events and other concentrations of risk. However, purchasing reinsurance does not relieve Continental of its obligations to its insureds. Continental reviews the creditworthiness of its reinsurers on an ongoing basis. To minimize potential problems, Continental's policy is to purchase reinsurance only from carriers who meet its credit quality standards. It has also taken and is continuing to take steps to settle existing reinsurance arrangements with reinsurers who do not meet its credit quality standards. Continental does not believe that there is a significant solvency risk concerning its reinsurance claims. In addition, Continental regularly evaluates the adequacy of its reserves for uncollectible reinsurance. Continental believes that it makes adequate provisions for the ultimate collectibility of its reinsurance claims and therefore believes the collection of these net recoveries to be probable.

Continental has in place various reinsurance arrangements with respect to its current operations. These arrangements are subject to retentions, coverage

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limits and other policy terms. Some of the principal treaty arrangements which are presently in effect are an excess of loss treaty reducing Continental's liability on individual property losses, a blanket casualty program reducing Continental's liability on third party liability losses, a clash casualty program reducing Continental's liability on multiple insured/single event losses, and a property catastrophe program, with a net retention of $50 million in both 1994 and 1993, reducing its liability from a catastrophic event. Continental also uses individual risk facultative and other facultative agreements to further reduce its liabilities.

Effective July 1, 1994, Continental entered into a quota share agreement (i.e., the Quota Share Cession) to reinsure a portion of its domestic personal lines business with a major U.S. reinsurer. From July 1, 1994 through December 31, 1995, Continental's quota share participation is 50% of the covered lines. Continental expects to cede premiums related to this agreement of approximately $300 million per year, through December 31, 1995. This arrangement will help Continental lower its premium-to-surplus ratio and further reduce its exposure to catastrophes subject to the agreement's catastrophe coverage limits.

Note 4: Changes in Accounting Principles

The net cumulative effect of changes in accounting principles is comprised of the following:

(millions, except per common share amounts)	Nine Months Ended September 30, 1994
Net Cumulative Effect of the Change in Accounting for Postemployment Benefits	$ (3)
Net Cumulative Effect of the Change in Accounting for Retrospectively Rated Reinsurance Contracts	5
Net Cumulative Effect of Changes in Accounting Principles	$ 2
Per Common Share:	
Net Cumulative Effect of the Change in Accounting for Postemployment Benefits	$ (0.06)
Net Cumulative Effect of the Change in Accounting for Retrospectively Rated Reinsurance Contracts	0.09
Net Cumulative Effect of Changes in Accounting Principles	$ 0.03

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Effective January 1, 1993, Continental adopted Statement of Financial Accounting Standards (SFAS No. 112), "Employers' Accounting for Post-employment Benefits", Emerging Issues Task Force Issue No. 93-6, "Accounting for Multiple-Year Retrospectively Rated Contracts By Ceding and Assuming Enterprises" and SFAS No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts".

In addition, effective December 31, 1993, Continental adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", which did not change the way Continental accounts for investments or have a material impact on its 1993 financial results.

Note 5: Restructuring Charges

In March 1994, Continental's senior management approved a definite plan to re-engineer the operations of Continental's Agency & Brokerage division (including home office, field claims and underwriting), selected operations of Continental's Special Operations division, particularly its multinational unit, and several corporate staff divisions, including Human Resources, Corporate Claims, Actuarial, Finance, and Legal. The locations identified for re-engineering are Cranbury, New Jersey; New York, New York; Duluth, Georgia; Chicago, Illinois; Dallas, Texas; Glens Falls, New York; Overland Park, Kansas; Rancho Cordova, California; Columbus, Ohio; York, Pennsylvania and certain overseas locations. These re-engineering efforts are expected to involve a net elimination of 680 positions (approximately 1,200 terminations, net of new hires and transfers), from a total company workforce of 12,255 at year end 1993, within one year from approval of the plan, as well as achieve business-related expense savings. Substantially all of the identified employees have been notified that their positions have been eliminated. The re-engineering efforts also include vacating leased space at 27 locations. As of September 30, 1994, 15 of these locations have been vacated; the lease vacating program is expected to be completed by the end of 1994. Continental has also implemented additional cost saving measures in several employee benefit programs. Included in the re-engineering plan are severance packages for all affected employees as well as extended benefits and outplacement counseling for many of them. Underwriting results for the first nine months of 1994 included a $45 million restructuring charge, including $29 million in expected severance and related benefits and $16 million in expected lease vacations and other associated costs.

In June 1994, Continental announced additional steps with a goal to improve its profitability. As part of this goal and to further reduce its operating expenses, Continental reconsidered its staffing needs and developed another plan, in the third quarter of 1994, that would result in a further net reduction of approximately 1,100 positions, (in addition to the terminations of approximately 1,200 from the March plan). Underwriting results for the third quarter include a $14 million charge for the additional staff reductions, which includes the cost for expected severance and related benefits. As of September 30, 1994, substantially all identified employees have been notified that their positions have been eliminated.

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Note 6: Income Taxes (Benefits)

The provision for income taxes (benefits) from continuing operations was as follows:

(millions)	Nine Months Ended September 30, 1994	1993
Current Tax Expenses (Benefit):		
U.S. Federal	$ (14)	$ 26
State and Local	1	1
Foreign	1	3
Total Current Expenses (Benefit)	(12)	30
Deferred Tax Expenses (Benefit):		
U.S. Federal	(243)	(5)
Foreign	(3)	1
Total Deferred Expenses (Benefit)	(246)	(4)
Total Income Taxes (Benefit)	$ (258)	$ 26

In the first nine months of 1994, there was no reduction in current income taxes through the utilization of tax net operating loss carryforwards and tax credit carryforwards. In the first nine months of 1993, a reduction in current income taxes of $6 million was recognized through the utilization of $3 million of tax net operating loss carryforwards and $3 million of tax credit carryforwards.

Unused domestic net operating loss carryforwards at September 30, 1994, available for use in future years on a tax return basis, amount to $692 million for regular tax and $431 million for AMT and expire at various stages through the year 2009.

Continental also has a foreign tax credit, general business credit and AMT credit carryforwards of $31 million, $15 million and $10 million, respectively; the foreign tax and general business credits expire at various stages through the year 2000.

Set forth below are the significant differences between the U.S. federal income tax rate and the effective tax rates as reflected in the accompanying Consolidated Statements of Income:

	Nine Months Ended September 30, (millions, except percentages) 1994		1993	
		% of Pretax		% of Pretax

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	Amount	Income	Amount	Income
Income (Loss) from Continuing Operations Before Income Taxes (Benefits)	$(660)		$ 157	
Statutory Federal Corporate Tax (Benefit)	(231)	(35)%	55	35%
Increases (Reductions) in Taxes Resulting from:				
Tax-Exempt Interest	(15)	(2)	(17)	(11)
Dividends Received Deduction	(4)	(1)	(4)	(2)
Foreign Income at Higher Rates	(5)	(1)	(1)	(1)
Change in Valuation Allowance	-	-	(7)	(4)
Other	(3)	-	-	-
Total Income Taxes (Benefit)	$(258)	(39)%	$26	17%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1993 and September 30, 1994, and the provision for deferred income taxes under SFAS #109 "Accounting for Income Taxes" for the nine months ended September 30, 1994 and 1993 are presented on pages 11 and 12.

The net deferred tax asset, before considering deferred taxes (benefits) on unrealized appreciation (depreciation) of investments, increased by $242 million at September 30, 1994. The increase was caused predominately by an increase in tax net operating loss (NOL's) carryforwards; loss reserve discounting caused by a $400 million first time charge for environmental incurred but not reported losses and loss expenses; and a $164 million charge for reinsurance receivables and other assets.

In light of significant re-engineering of operations in the third quarter of 1994 and the expected results such actions will have on increasing future taxable income, management believes it is more likely than not that a significant portion of the deferred tax asset will be realized against future taxable income.

The valuation allowance for deferred tax assets was $136 million at December 31, 1993. The net change in the valuation allowance for deferred tax assets was an increase of $32 million, resulting in a $168 million valuation allowance at September 30, 1994. The $32 million increase in the valuation allowance resulted from an increase in the deferred tax assets attributable to unrealized depreciation in the securities portfolio.

		Deferred Tax (Expense) Benefit		
(millions)	Balance December 31, 1993	Statement of Income	Shareholders' Equity	Balance September 30, 1994
Deferred Tax Assets:				

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Unearned Premium Reserve	$ 127	$ (6)	-	$ 121
Loss Reserve Discounting	245	32	-	277
Adoption of SFAS No. 106	70	-	-	70
Net Operating Loss Carry forward	-	165	-	165
Tax Credit Carryforwards	73	(15)	-	58
Real Estate Basis Differences	47	(2)	-	45
Allowance for Bad Debts	16	5	-	21
Capital Leases	15	-	-	15
Provision for Early Retirement	15	-	-	15
Unrealized Depreciation of investments	-	-	32	32
Other Items	28	14	-	42
Total Gross Deferred Tax Assets	636	193	32	861
Valuation Allowance	(136)	-	(32)	(168)
Net Deferred Tax Assets	500	193	-	693
Deferred Tax Liabilities:				
Deferred Acquisition Costs	154	(7)	-	147
Accrual for Retrospectively Rated Premiums	13	(11)	-	2
Audit Premiums	43	-	-	43
Installment Receivables	18	-	-	18
Unrealized Appreciation of Investments	165	(4)	(161)	-
Other Items	65	(31)	-	34
Total Gross Deferred Tax Liabilities	458	(53)	(161)	244
Deferred Tax Asset, Net	$ 42	$ 246	$ 161	$ 449

		Deferred Tax (Expense) Benefit		
(millions)	Balance December 31, 1994	Statement of Income	Shareholders' Equity	Balance September 30, 1993
Deferred Tax Assets:				
Unearned Premium Reserve	$ 112	$ 11	-	$ 123
Loss Reserve Discounting	269	69	-	338
Adoption of SFAS No. 106	68	2	-	70
Net Operating Loss Carryforward	-	-	-	-
Tax Attribute Carryforwards	76	(6)	-	70

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Real Estate Basis Differences	50	-	-	50
Allowance for Bad Debts	22	2	-	24
Capital Leases	15	-	-	15
Provision for Early Retirement	14	-	-	14
Other Items	35	(9)	-	26
Total Gross Deferred Tax Assets	661	69	-	730
Valuation Allowance	(159)	4	-	(155)
Net Deferred Tax Assets	502	73	-	575
Deferred Tax Liabilities:				
Deferred Acquisition Costs	140	14	-	154
Accrual for Retrospectively Rated Premiums	13	-	-	13
Audit Premiums	42	1	-	43
Discounted Reserves for Workers' Compensation	-	25	-	25
Installment Receivables	15	-	-	15
Unrealized Appreciation of Investments	101	5	71	177
Other Items	92	24	-	116
Total Gross Deferred Tax Liabilities	403	69	71	543
Deferred Tax Asset, Net	$ 99	$ 4	$ (71)	$ 32

Note 7: Long-Term Debt

In March 1993, Continental sold $150 million of a total of $350 million of Notes (which provided $147 million of a total $346 million in cash, net of offering and underwriting costs) outstanding under its shelf registration of up to $400 million of debt securities with the Securities and Exchange Commission. During 1993, Continental used $282 million of the net proceeds from these sales to retire its outstanding 9 3/8% Notes due July 1, 1993 and $50 million of net proceeds from these sales to reduce corporate short-term borrowings. Continental intends to raise additional capital of approximately $100 million, through the issuance of either preferred stock or notes; but does not currently contemplate incurring other borrowings other than for the purpose of reducing amounts outstanding under its revolving credit facility described below.

In December 1993, Continental entered into a revolving credit facility, providing for borrowings of up to $150 million from a syndicate of banks. During the third quarter, Continental extended the maturity of its revolving credit facility from December 30, 1994 to December 31, 1995. In addition, the revolving credit facility has been increased by $60 million and provides for borrowings of up to $210 million. Funds borrowed from the facility may be used

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for general corporate purposes, but Continental has used and intends to use the facility as an alternative to traditional sources of short-term borrowings. At September 30, 1994, Continental had a $128 million balance outstanding through the facility. As of October 31, 1994, that balance increased to a $205 million balance outstanding through the facility; the proceeds of these borrowings were used to repay other short-term borrowings.

Note 8: Preferred Stock
The Series A and Series B preferred stocks are convertible into common stock at the rate of 2.2 shares of common stock for each share of preferred stock. The number of common shares reserved for conversion of these preferred stocks is 117,847.

Note 9: Employee Stock Options and Performance Awards
Continental has a Long-Term Incentive Plan under which it grants performance awards and issues stock options to key employees. Nine million shares of common stock, the maximum number of shares which may be issued under the Plan, have been reserved for issuance. Continental has granted both incentive stock options and nonqualified stock options under the Plan. No stock option has been granted with an exercise price below the market price of Continental's common stock at the time of grant.

Performance awards are payable in either cash or shares of Continental's common stock in amounts based on Continental's performance for four-year award cycles determined by the Compensation Committee of the Board of Directors. As of September 30, 1994, 715,032 of such shares were reserved for possible payment of such awards.

The stock options are accounted for as common stock equivalents and are used in computing earnings per share. Options for 4,395,593 shares (at a weighted average exercise price of $29.70 per share) were outstanding, of which 3,667,518 were then exercisable. During the nine months ended September 30, 1994, no options were exercised.

Note 10: Discontinued Operations
In 1994, Continental recognized an additional after tax gain of $4 million related to the sale of its premium financing operations as a result of final tax elections made for 1993. In addition, Continental reduced various tax liabilities related to previously discontinued operations and realized $36 million in additional income. The reduction in the various tax liabilities is a direct result of a recent review of Continental's tax position and the development of the discontinued operations over the last two years. In December 1993, Continental completed the sale of its premium financing operations, AFCO Credit Corporation, AFCO Acceptance Corporation and their Canadian affiliate CAFO Inc., to Mellon Bank Corporation. Continental had realized a $36 million gain from this sale, net of income taxes. The 1993 results and net assets of these premium financing operations, which were previously reported in the Corporate & Other Operations segment, have been classified as discontinued in the accompanying Consolidated Financial Statements. Also included in discontinued operations are the traditional assumed reinsurance and marine reinsurance businesses, as well as the indigenous international and

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international marine insurance businesses which were discontinued in 1992. Continental has sold all of its discontinued entities intended for sale and will run-off the remaining reserves of these discontinued insurance operations. The financial statements reflect the operating results and balance sheet items of the discontinued operations separately from continuing operations. Operating results of the discontinued operations were as follows:

Insurance Operations	Three Months Ended September 30,		Nine Months Ended September 30,	
(millions)	1994	1993	1994	1993
Total Revenues	$ 20	$ 47	$ 53	$ 332
Total Expenses	20	50	53	335
Income (loss) before Income Taxes	-	(3)	-	(3)
Income Taxes (Benefits)	(36)	-	(36)	-
Income (Loss) from Discontinued Insurance Operations	$ 36	$ (3)	$ 36	$ (3)

Premium Financing Operations	Three Months Ended September 30,		Nine Months Ended September 30,	
(millions)	1994	1993	1994	1993
Total Revenues	-	$ 26	-	$ 76
Total Expenses	-	21	-	61
Income before Income Taxes	-	5	-	15
Income Taxes	-	1	-	4
Gain on Disposal of Discontinued Premium Financing Operations, Net of Income Taxes	4	-	4	-
Income from Discontinued Premium Financing Operations	$ 4	$ 4	$ 4	$ 11

Net assets of discontinued insurance operations at September 30, 1994 and December 31, 1993 were as follows:

Insurance Operations	September 30,	December 31,
(millions)	1994	1993
Assets		
Cash and Investments	$1,074	$1,167
Other Assets	595	528
	1,669	1,695
Liabilities		

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Outstanding Losses and Loss Expenses	1,274	1,346
Unearned Premiums	2	3
Other Liabilities	323	261
	1,599	1,610
Net Assets	$ 70	$ 85

Note 11: Asbestos-Related, Other Toxic Tort and Environmental Pollution Claims
Prior to the third quarter of 1994, Continental did not establish reserves for incurred but not reported asbestos-related, other toxic tort and environmental pollution claims (Environmental IBNR) because the existence of significant uncertainties, (including difficulties in determining the frequency and severity of potential claims and in predicting the outcome of judicial decisions, as case law evolves regarding liability exposure, insurance coverage and interpretation of policy language), and the absence of standard techniques to measure exposure did not allow ultimate liabilities to be reasonably estimated in accordance with accepted actuarial standards.

While Continental continues to believe that it is not possible to reasonably estimate ultimate liabilities for unreported environmental claims, it has concluded that different measurement techniques, based on industry averages, for estimating a reserve for unreported environmental claims have been sufficiently developed, and accepted in the industry, to permit Continental to determine a reasonable gross estimate for Environmental IBNR. However, due to the continuing level of uncertainty involved with environmental exposures, Continental may incur future charges for incurred but not reported environmental claims which may be material to Continental's financial position, results of operations or liquidity.

Included in Continental's liability for outstanding losses and loss expenses are gross undiscounted reserves of $790 million for asbestos-related, other toxic tort and environmental pollution claims. At September 30, 1994 the gross undiscounted reported environmental reserves for losses and loss expenses (Environmental Claims) were $310 million ($268 million at September 30, 1993) and a gross undiscounted environmental reserve of $480 million was established for losses and loss expenses for Environmental IBNR ($0 at September 30, 1993). The $310 million represents Continental's current best estimate for reported Environmental Claims. The $480 million represents Continental's best estimate for its unreported Environmental Claims, using a measurement technique believed to be reasonable, based upon information currently available. However, it is not possible at this time to estimate the amount of additional liability related to the unreported Environmental Claims that is at least reasonably possible to exist.

Included in Continental's reinsurance asset are amounts due for reported Environmental Claims of $139 million at September 30, 1994 ($120 million at September 30, 1993). A reinsurance asset of $80 million was recorded in conjunction with the establishment of the Environmental IBNR, but was fully reserved for as not recoverable due to the degree of uncertainty in the collectibility of such amounts.

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The technique utilized by Continental involves measuring total net reserves for reported Environmental Claims and Environmental IBNR in terms of the number of years such reserves could fund the net annual payments for these claims. Such technique is consistent with that utilized by an insurance rating agency and by the actuarial profession in some of its discussion papers for its preliminary work with respect to such liabilities. At the end of 1992, the industry was at a net environmental reserve to net environmental paid ratio ("Survival Ratio") of six times such paid losses, which had been increasing and was expected to continue to increase further. Continental's net environmental claims reserves would comprise approximately nine times its historical average net paid losses and loss expenses for these claims.

Net losses and loss expenses include charges for reported Environmental Claims and Environmental IBNR of $556 million and $31 million for the first nine months of 1994 and 1993, respectively. The increase is primarily related to the establishment of the Environmental IBNR.

Most of Continental's environmental pollution claims result from general liability policies written prior to 1986. Certain provisions of these policies have been subject to wide-ranging challenges by policyholders and/or differing interpretations by courts in various jurisdictions, with inconsistent conclusions as to the applicability of coverage for environmental pollution claims. Asbestos-related claims have generally arisen out of product liability coverage provided by Continental under general liability policies written prior to 1983. Thereafter, asbestos-related product exclusions were included in general liability policies. Other toxic tort claims have also generally arisen out of product coverage under general liability policies. These claims involve a variety of allegations of bodily injury arising from exposure over a period of time to products alleged to be harmful or toxic.

Note 12: Planned Sales of Subsidiaries

In third quarter 1994, the Continental entered into a definitive agreement to sell Continental Canada, a major property and casualty insurer in Canada, to Fairfax Financial Holdings Limited, a Canadian financial services company. Under the terms of the agreement, the Corporation would receive (expressed in Canadian dollars) $130 million in cash, debt securities of Fairfax Financial with a face value of $25 million and a contingent payment of up to $10 million based on the performance of Continental Canada during the five years following the sale. The approximate U.S. dollar equivalents at the exchange rate on October 31, 1994 are $97 million, $19 million and $7 million, respectively. The proposed sale is subject to satisfaction of closing conditions under the agreement, including regulatory approvals. Continental does not expect the sale of Continental Canada as proposed to have a significant impact on its financial position, results of operations or liquidity.

In October 1994, Continental entered into an agreement in principle to sell its Casualty Insurance unit to Fremont General Corporation for $250 million in cash. Casualty Insurance, based in Chicago, is the leading writer of workers' compensation insurance in Illinois. The unit also has facilities operating in Wisconsin, Indiana, Michigan and California. In 1993, Casualty wrote

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$362 million in premiums, overwhelmingly in the Midwest. The proposed transaction is subject to completion of a definitive agreement, regulatory approvals, and satisfaction of other closing conditions under the agreement. Continental expects to recognize a gain on the sale of this operation but does not expect the sale to have a significant impact on its financial position or liquidity.

Also in October 1994, Continental entered into an agreement with Insurance Partners, L.P., and related parties to sell the operations of Continental Asset Management (CAM) for about $35 million in notes. Under the terms of this agreement, Continental has an option to purchase a 20% interest in these operations. The proposed transaction is subject to satisfaction of closing conditions, including financing and applicable regulatory approvals. Continental Asset Management is an investment advisory firm which manages Continental's investment portfolio and provides investment management services for outside clients, including property/casualty insurance companies. The agreement contemplates that Continental will continue to receive investment advisory services from CAM. The purchase price will be subject to adjustments under circumstances relating to the loss, if any, of unaffiliated clients prior to the consummation of the purchase and to a shortfall, if any, in fees by Continental's affiliates over a 7 year period following the consummation of the purchase. Due to the conditions of sale, Continental will not immediately recognize any gain from this transaction.

Note 13: Subsequent Event - Planned Capital Infusion
In order to bolster insurance operating capital and to maintain the financial strength and claims paying ability ratings of its domestic insurance subsidiaries, Continental has entered into a definitive agreement to sell preferred stock with an aggregate liquidation preference of $200 million to Insurance Partners, L.P. The agreement provides that Insurance Partners, L.P., will acquire for $200 million in cash two series of cumulative preferred stock issues, each series paying an annual cash dividend of 9.75%. In addition, Insurance Partners, L.P., will receive an option to acquire $125 million in liquidation preference of a separate series of 9.75% non-convertible preferred stock. Of the $200 million, about $165 million will be for a series of convertible preferred stock, convertible into approximately 19.9% of Continental's currently outstanding common shares, at a conversion price of $15.00 per share. The balance, about $35 million, will be for a series of nonconvertible preferred stock redeemable under certain circumstances
at a price which would include a redemption premium for any increase in the per share price of Continental's common stock over a strike price of $15.00. The two preferred issues will mature in 15 years, but may be redeemed by Continental after seven years under certain circumstances. The option and its underlying preferred stock will be redeemable under certain circumstances at a price which would include a redemption premium for any increase in the per share price of the common stock over a strike price of $17.00.

At the time of their issuance, for financial statement reporting, these securities will be presented separately from shareholder's equity and to the $200 million of proceeds received will be allocated to the preferred stock issues and the option based on the relative fair value of the securities

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issued, net of related transaction fees. Any difference between the recorded amount and liquidation value will be accreted using the interest method through a charge to retained earnings. In addition, changes in the redemption premium will also be adjusted through retained earnings generally when the fair value of the common shares exceeds the strike prices. The amounts of the preferred dividends, periodic accretion and changes for the recognition of the redemption charges will reduce income applicable to common shareholders in the calculation of earnings per share.

The terms of the preferred stock provide that Continental will continue to not pay dividends on its common stock for an additional period of three years from the time the preferred stock is sold and would after three years be subject to limitations in payment of such dividends if any Continental preferred stock is not rated at least BBB- by Standard & Poor's Insurance Rating Services and Baa3 by Moody's Investor Services.

The agreement also provides that, following the investment by Insurance Partners, Continental will further strengthen its capital base by raising $100 million, at Continental's option, in non-convertible preferred stock or debt.

Following the anticipated purchase of the preferred stock, Insurance Partners will be entitled to nominate up to four directors to serve on Continental's board.

In addition, Richard M. Haverland has been elected Vice Chairman and a Director of The Continental Corporation's Board. Upon completion of the planned transaction, Mr. Haverland will become Chairman and Chief Executive Officer, succeeding John P. Mascotte, who will resign.

The proposed transaction is subject to satisfaction of closing conditions under the agreement, including regulatory approvals. If the agreement is terminated by Continental in order to enter into an agreement for a merger or similar transaction, Insurance Partners would be paid a termination fee representing the higher of $17.5 million or 1.875% of the aggregate value of the other transaction and expenses incurred in connection with this transaction.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Operations: Continental's principal business is property and casualty insurance. These Insurance Operations are comprised of three segments: Agency & Brokerage Commercial, Agency & Brokerage Personal and Specialized Commercial. The results of Continental's non-insurance operations, including investment management, claims adjusting and risk management, are reported in the Corporate & Other Operations segment. Insurance Operations generated 98% of consolidated revenues for the first nine months of 1994, including 88% from premiums earned and 10% from investment activities (net investment income and realized

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capital gains). In 1993, Continental sold its premium financing operations, the results of which were reported as discontinued.

Results of Operations - First nine months 1994 compared with first nine months 1993.

Summary: The net result for the first nine months of 1994 included a $403 million loss from continuing operations and $40 million of income from discontinued operations. The loss from continuing operations included the following: a $400 million charge to establish, for the first time, loss and loss expense reserves for incurred but not reported asbestos-related, other toxic tort and environmental pollution claims ("Environmental IBNR") (see "Asbestos-Related, Other Toxic Tort and Environmental Pollution Claims") and a $164 million charge for reinsurance receivables and other assets partially offset by $34 million of returned reinsurance premiums and a $258 million tax benefit resulting from the first nine months of 1994 pretax loss and an increase in Continental's effective tax rate (see "Results of Operations - Income Taxes"). The $164 million charge for reinsurance receivables and other assets included an $80 million charge for a provision for future uncollectible reinsurance receivables on Environmental IBNR (the "Reinsurance Receivables Charge") (see "Asbestos-Related, Other Toxic Tort and Environmental Pollution Claims"), a $31 million charge for an additional provision for uncollectible premiums receivable (the "Premiums Receivable Charge"), and a $53 million provision for other assets. The Premiums Receivable Charge was a result of a review of premiums receivable completed in the third quarter of 1994, which included an assessment of the effects of declining books of business subject to premium accrual. The charge for other assets includes a $27 million write-off of unreconciled intercompany balances, as a result of an investigation completed in the third quarter, a $17 million charge for reinsurance balances related to the Canadian subsidiary being sold which were deemed unrecoverable and a $9 million write-down of goodwill associated with a group put up for sale. The loss from continuing operations for the first nine months of 1994 also included a $45 million first quarter charge (the "Restructuring Charge") to restructure the field claims operations and several corporate staff units (see "Restructuring Charge") and a $14 million third quarter charge (the "Additional Staff Reduction Charge") for additional staff reductions (see "Additional Improvements"). The income from discontinued operations for the first nine months of 1994 consisted of a $36 million reduction of various tax liabilities for operations discontinued in 1992 and a $4 million additional after tax gain from the sale in 1993 of the premium financing operations (see "Other Developments - Discontinued Operations"). The net result for the first nine months of 1993 included $131 million of income from continuing operations, $8 million of income from discontinued operations and a $2 million benefit from

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the cumulative effect of changes in accounting principles.

Insurance Operations: Insurance Operations had a loss before income taxes for the first nine months of 1994 of $573 million, $761 million worse than the first nine months of 1993. Underwriting results for the first nine months of 1994 were down $660 million and investment results were down $101 million, including an $88 million decrease in realized capital gains and a $13 million decrease in net investment income.

The $660 million decrease in underwriting results was primarily due to the charge to establish Environmental IBNR; the Reinsurance Receivables Charge; the Premiums Receivable Charge; the Insurance Operations' $17 million share of the provision for other assets; increases in weather-related losses not officially designated as catastrophic and in large losses; the Restructuring Charge ($26 million in loss expenses and $19 million in insurance operating expenses); the Additional Staff Reduction Charge ($2 million in loss expenses and $12 million in insurance operating expenses); and a $45 million increase in net reported environmental losses and loss expenses partially offset by a $34 million increase in returned reinsurance premiums. Premiums earned increased $42 million, primarily due to the increase in returned reinsurance premiums and increases in certain non-package standard commercial and specialty lines (resulting from both price increases and acceptance of new risk) partially offset by the cession of $110 million of domestic personal lines business under a quota share agreement (the "Quota Share Cession") (see "Reinsurance") and the Premiums Receivable Charge. Losses and loss expenses increased $643 million, primarily due to the charge to establish Environmental IBNR, the Reinsurance Receivables Charge, increases in non-catastrophe weather-related losses and large losses, the Restructuring Charge, the increase in net reported environmental losses and loss expenses and inflation in loss costs, partially offset by a $77 million Quota Share Cession and a decrease in the amount of risk accepted. Insurance operating expenses increased $59 million, primarily due to the Restructuring Charge, the provision for other assets, the Additional Staff Reduction Charge, and a $24 million decrease in servicing carrier income (which is recorded as a reduction in commission expenses), partially offset by a $42 million decrease in commission expenses (a $75 million ceding commission resulting from the Quota Share Cession less related deferred acquisition costs).

Underwriting results for the first nine months of 1994 included pretax catastrophe losses of $139 million, compared with $135 million for the first nine months of 1993. Catastrophe losses for the first nine months of 1994 included $43 million from January snow and ice storms and $30 million from the California earthquake; catastrophe losses for the first nine months of 1993 included $44 million from the East Coast blizzard.

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The insurance segments' premiums earned and underwriting results for the first nine months of 1994 and 1993 were as follows:

(millions)

INSURANCE SEGMENT*	Premiums Earned		Underwriting Results	
	1994	1993	1994	1993
Agency & Brokerage Commercial	$1,683	$1,595	$(595)	$(169)
Agency & Brokerage Personal	550	647	(68)	(52)
Specialized Commercial	1,116	1,065	(296)	(78)
Total Insurance Operations	$3,349	$3,307	$(959)	$(299)

* Distinct investment portfolios are not maintained for individual insurance segments; accordingly, Insurance Operations' investment results are explained in aggregate below.

The Agency & Brokerage Commercial segment's underwriting results for the first nine months of 1994 were $426 million worse than the first nine months of 1993, primarily due to the segment's $224 million share of the charge to establish Environmental IBNR; its $45 million share of the Reinsurance Receivables Charge; the Premiums Receivable Charge; increases in non-catastrophe weather-related losses and large losses; its $29 million share of the Restructuring Charge ($17 million in loss expenses and $12 million in insurance operating expenses); its $11 million share of the provision for other assets; its $9 million share of the Additional Staff Reduction Charge ($1 million in loss expenses and $8 million in insurance operating expenses); and a $35 million increase in net reported environmental losses and loss expenses; partially offset by a $34 million increase in returned reinsurance premiums. Premiums earned increased $88 million, primarily due to increases in certain non-package standard commercial lines and the increase in returned reinsurance premiums partially offset by the Premiums Receivable Charge. Losses and loss expenses increased $450 million, primarily due to the charge to establish Environmental IBNR; the Reinsurance Receivables Charge; increases in non-catastrophe weather-related losses and large losses; the Restructuring Charge; the increase in net reported environmental losses and loss expenses; and inflation in loss costs. Insurance operating expenses increased $64 million, primarily due to the Restructuring Charge, the Additional Staff Reduction Charge, the provision for other assets and a $24 million decrease in servicing carrier income.

The Agency & Brokerage Personal segment's underwriting results for the first nine months of 1994 were $16 million worse than the first nine months of 1993, primarily due to a $16 million increase in catastrophe losses, the segment's $13 million share of the Restructuring Charge ($9 million in loss expenses and $4

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million in insurance operating expenses), its $6 million share of the provision for other assets and its $5 million share of the Additional Staff Reduction Charge ($1 million in loss expenses and $4 million in insurance operating expenses) partially offset by better loss experience and a decrease in relative underwriting expenses. Premiums earned decreased $97 million, primarily due to the Quota Share Cession and a decrease in the amount of risk accepted partially offset by price increases. Losses and loss expenses decreased $57 million, primarily due to the Quota Share Cession and the decrease in the amount of risk accepted partially offset by the increase in catastrophe losses, an increase in non-catastrophe weather-related losses, the Restructuring Charge and inflation in loss costs. Insurance operating expenses decreased $24 million, primarily due to a $42 million decrease in commission expense resulting from the Quota Share Cession partially offset by the Restructuring Charge, the Additional Staff Reduction Charge and the provision for other assets.

The Specialized Commercial segment's underwriting results for the first nine months of 1994 were $218 million worse than the first nine months of 1993, primarily due to the segment's $176 million share of the charge to establish Environmental IBNR, its $35 million share of the Reinsurance Receivables Charge and a $10 million increase in net reported environmental losses and loss expenses, partially offset by a $13 million decrease in catastrophe losses. Premiums earned increased $51 million, primarily due to both price increases and acceptance of new risk in certain lines. Premiums earned increased $51 million in domestic marine, $46 million in specialty casualty, $33 million in workers' compensation in selected markets, and $19 million in aviation. These increases were partially offset by a $77 million decrease in customized financial coverages and a $24 million decrease in multinational business. Losses and loss expenses increased $250 million, despite the decrease in catastrophe losses, primarily due to the charge to establish Environmental IBNR; the Reinsurance Receivables Charge; the increase in the amount of risk accepted; the increase in net reported environmental losses and loss expenses; and inflation in loss costs. Insurance operating expenses increased $19 million, primarily due to an increase in business written.

Net investment income for Insurance Operations for the first nine months of 1994 was $363 million, down $13 million from the first nine months of 1993, primarily due to the reinvestment of proceeds from sales, redemptions and maturities of fixed income securities into lower yielding intermediate-term securities. Fixed income securities include short-term investments, fixed maturities investments and nonredeemable preferred stock and comprise 83% of Continental's investments.

Realized capital gains for Insurance Operations for the first

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nine months of 1994 were $24 million, compared with $112 million for the first nine months of 1993. Sales of securities in the fixed income portfolio produced net realized capital losses of $7 million, compared with gains of $76 million in the first nine months of 1993. Sales of securities in the common stock portfolio produced $31 million of net realized capital gains, compared with gains of $36 million in the first nine months of 1993.

Corporate & Other Operations: Corporate & Other Operations had a loss before income taxes for the first nine months of 1994 of $88 million, $56 million worse than the first nine months of 1993. This decrease is primarily due to Corporate & Other Operations' $36 million share of the provision for other assets, a $19 million decrease in investment results (a $14 million decrease in net investment income and a $5 million decrease in realized capital gains) and higher corporate operating expenses partially offset by a $10 million decrease in corporate interest expense.

Income Taxes: In the first nine months of 1994, Continental recorded federal and foreign income tax benefits of $257 million and $2 million, respectively, and state and other income tax expenses of $1 million. In the first nine months of 1993 Continental recorded federal, foreign, and state and other income tax expenses of $21 million, $4 million, and $1 million, respectively. The income tax benefits for the first nine months of 1994 reflect the recognition of a deferred tax asset for the period's operating loss.

This recognition of a deferred tax asset for the period's operating losses gives rise to a change in the Corporation's overall effective tax rate. In the first nine months of 1994, Continental recorded an overall effective tax rate of 39% compared with 17% for the first nine months of 1993. The increase in the effective income tax rate is primarily due to the recognition of a deferred tax asset based upon management's estimate of increased future taxable income as discussed below.

Under Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes", deferred tax assets are initially recognized for net operating losses (NOLs), credits and differences between the financial statement carrying amounts and tax basis of assets and liabilities that will result in future deductible amounts; a valuation allowance is then established to reduce that deferred tax asset, if it is more likely than not that the related tax benefits will not be realized from future taxable income after considering tax planning. In establishing a valuation allowance, all available evidence, both positive and negative, must be considered. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized and then only for that portion.

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Management believes that future taxable income will be sufficient to validate a significant portion of the deferred tax asset. Management anticipates that increases in future taxable income will arise primarily as a result of the completion of a re-engineering of its operations. These actions involve the following changes: (a) a reduction in volume of the business most prone to catastrophes, (b) the 1992 discontinuance of the traditional assumed reinsurance and marine reinsurance businesses, as well as indigenous international and international marine insurance businesses, (c) a reduction in staff and a concomitant $120 million reduction in expenses, (d) the estimated reduction in potential future charges resulting from the third quarter reserve adjustments, (e) anticipated income from the $300 million planned for capital infusion, and (f) the disposition of various subsidiaries at a substantial taxable gain.

Taking these actions into account, management has estimated that future taxable income will be sufficient to support a significant portion of the deferred tax asset. Because of uncertainties inherent in estimating the sufficiency of future taxable income, management concluded that a valuation allowance in the range of 20-25% of the net deferred tax asset after excluding unrealized depreciation is appropriate.

Discontinued Operations: In the first nine months of 1994, discontinued operations had income, net of income taxes, of $40 million, including a $36 million reduction of various tax liabilities on the books of operations discontinued in 1992 and a $4 million additional after tax gain from the sale of the premium financing operations. In the first nine months of 1993, discontinued operations had income, net of income taxes, from discontinued premium financing operations of $8 million.

Results of Operations - Third quarter 1994 compared with third quarter 1993.

Summary: The net result for third quarter 1994 included a $319 million loss from continuing operations and $40 million of income from discontinued operations. Net income for third quarter 1993 included $44 million of income from continuing operations and $1 million of income from discontinued operations.

Insurance Operations: Insurance Operations had a third quarter 1994 loss before income taxes of $499 million, $556 million worse than third quarter 1993. Third quarter 1994 underwriting results were down $516 million and investment results were down $40 million, including a $34 million decrease in net realized capital gains and a $6 million decrease in net investment income.

The $516 million decrease in underwriting results was primarily

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due to the $400 million charge to establish Environmental IBNR, the $80 million Reinsurance Receivables Charge, the $31 million Premiums Receivable Charge, the Insurance Operations' $17 million share of the provision for other assets, the $14 million Additional Staff Reduction Charge ($2 million in loss expenses and $12 million in insurance operating expenses) and a $25 million increase in net reported environmental losses and loss expenses partially offset by a $6 million decrease in catastrophe losses and a $25 million increase in returned reinsurance premiums. Premiums earned decreased $95 million, primarily due to a $110 million Quota Share Cession and a decrease in the amount of risk accepted partially offset by the increase in returned reinsurance premiums. Losses and loss expenses increased $421 million, primarily due to the charge to establish Environmental IBNR, the Reinsurance Receivables Charge, the increase in net reported environmental losses and loss expenses and inflation in loss costs partially offset by a $77 million Quota Share Cession, the decrease in catastrophe losses and the decrease in the amount of risk accepted. Insurance operating expenses remained flat with the prior year's third quarter.

Third quarter 1994 underwriting results included pretax catastrophe losses of $22 million, compared with $28 million in third quarter 1993.

The insurance segments' third quarter premiums earned and underwriting results were as follows:

(millions)

	Premiums Earned		Underwriting Results	
INSURANCE SEGMENT*	1994	1993	1994	1993
Agency & Brokerage Commercial	$ 590	$ 566	$ (371)	$ (46)
Agency & Brokerage Personal	112	227	(9)	(17)
Specialized Commercial	378	382	(234)	(35)
Total Insurance Operations	$1,080	$1,175	$ (614)	$ (98)

*Distinct investment portfolios are not maintained for individual insurance segments; accordingly, Insurance Operations' investment results are explained in aggregate below.

The Agency & Brokerage Commercial segment's third quarter 1994 underwriting results were $325 million worse than third quarter 1993, primarily due to the segment's $224 million share of the charge to establish Environmental IBNR, its $45 million share of the Reinsurance Receivables Charge, the Premiums Receivable Charge, its $11 million share of the provision for other assets, its $9 million share of the Additional Staff Reduction Charge ($1 million in loss expenses and $8 million in insurance operating expenses), a $16 million increase in net reported

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environmental losses and loss expenses and inflation in loss costs partially offset by a $24 million increase in returned reinsurance premiums and a $9 million decrease in catastrophe losses. Premiums earned increased $24 million, primarily due to the increase in returned reinsurance premiums and an increase in certain non-package standard commercial lines partially offset by the Premiums Receivable Charge. Losses and loss expenses increased $315 million, primarily due to the charge to establish Environmental IBNR, the Reinsurance Receivables Charge, the increase in net reported environmental losses and loss expenses, worse loss experience and inflation in loss costs partially offset by the decrease in catastrophe losses and a decrease in the amount of risk accepted. Insurance operating expenses increased $34 million, primarily due to the Additional Staff Reduction Charge, the provision for other assets and an increase in relative underwriting expenses.

The Agency & Brokerage Personal segment's third quarter 1994 underwriting results were $8 million better than third quarter 1993, primarily due to better loss experience and a decrease in relative underwriting expenses partially offset by an $11 million increase in catastrophe losses, the segment's $6 million share of the provision for other assets and its $5 million share of the Additional Staff Reduction Charge ($1 million in loss expenses and $4 million in insurance operating expenses). Premiums earned decreased $115 million, primarily due to the Quota Share Cession. Losses and loss expenses decreased $82 million, primarily due to the Quota Share Cession and a decrease in the amount of risk accepted partially offset by an $11 million increase in catastrophe losses and inflation in loss costs. Insurance operating expenses decreased $41 million, primarily due to a $42 million decrease in commission expense resulting from the Quota Share Cession and a decrease in relative underwriting expenses partially offset by the Additional Staff Reduction Charge and the provision for other assets.

The Specialized Commercial segment's third quarter 1994 underwriting results were $199 million worse than third quarter 1993, primarily due to the segment's $176 million share of the charge to establish Environmental IBNR, its $35 million share of the Reinsurance Receivables Charge and a $9 million increase in net reported environmental losses and loss expenses partially offset by an $8 million decrease in catastrophe losses. Premiums earned decreased $4 million, primarily due to a $29 million decrease in customized financial coverages and an $11 million charge related to reinsurance disputes partially offset by increases in certain lines ($14 million in domestic marine, $10 million in specialty casualty, $8 million in aviation and $5 million in workers' compensation in selected markets) due to both price increases and acceptance of new risks.
Losses and loss expenses increased $188 million primarily due to

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the charge to establish Environmental IBNR, the Reinsurance Receivables Charge, the increase in net reported environmental losses and loss expenses and inflation in loss costs partially offset by the decrease in catastrophe losses and better loss experience in certain lines. Insurance operating expenses increased $7 million primarily due an increase in relative underwriting expenses.

Third quarter 1994 net investment income for Insurance Operations was $119 million, down $6 million from third quarter 1993, primarily due to the reinvestment of proceeds from sales, redemptions and maturities of fixed income securities into lower yielding intermediate-term securities.

Third quarter 1994 realized capital losses for Insurance Operations were $4 million compared with realized capital gains of $30 million in third quarter 1993. Sales of securities in the fixed income portfolio produced $10 million of net realized capital losses, compared with gains of $21 million in third quarter 1993. Sales of appreciated securities in the common stock portfolio produced $6 million of net realized capital gains, compared with $9 million in third quarter 1993.

Corporate & Other Operations: Corporate & Other Operations had a third quarter 1994 loss before income taxes of $56 million, $47 million worse than third quarter 1993. This decrease is primarily due to Corporate & Other Operations' $36 million share of the provision for other assets and an increase in corporate operating expenses.

Income Taxes: In third quarter 1994, Continental recorded federal and foreign income tax benefits of $235 million and $1 million, respectively, and no state and other income tax expense or benefit. In third quarter 1993, Continental recorded federal income tax expense of $3 million and no foreign or state and other income tax expenses or benefits. The decrease in the federal income tax expense reflects third quarter 1994's operating losses.

The federal tax benefit for third quarter 1994 is primarily due to a $240 million increase in the deferred tax asset recognized, which resulted in an effective tax rate of 43% in the third quarter 1994. This compares with effective tax rates of 22% and 21% for the first three and first six months of 1994, respectively (see "Results of Operations - First Nine Months 1994 compared with First Nine Months 1993 - Income Taxes").

Discontinued Operations: In third quarter 1994, discontinued operations had income, net of income taxes, of $40 million, including a $36 million reduction of various tax liabilities on

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the books of operations discontinued in 1992 and a $4 million additional after tax gain from the sale in 1993 of the premium financing operations. In third quarter 1993, discontinued premium financing operations had income, net of income taxes, of $1 million.

Other Developments

Planned Capital Infusion: In order to bolster insurance operating capital and to maintain the financial strength and claims paying ability ratings of its domestic insurance subsidiaries (see "Rating Agencies"), Continental has entered into a definitive agreement to sell preferred stock with an aggregate liquidation preference of $200 million to Insurance Partners, L.P. The agreement provides that Insurance Partners, L.P., will acquire for $200 million in cash two series of cumulative preferred stock issues, each series paying an annual cash dividend of 9.75% (approximately $20 million). In addition, Insurance Partners, L.P., will receive an option to acquire $125 million in liquidation preference of a separate series of 9.75% non-convertible preferred stock. Of the $200 million, about $165 million will be for a series of convertible preferred stock, convertible into approximately 19.9% of Continental's currently outstanding common shares, at a conversion price of $15.00 per share. The balance, about $35 million, will be for a series of nonconvertible preferred stock redeemable under certain circumstances at a price which would include a redemption premium for any increase in the per share price of the common stock over a strike price of $15.00. The two preferred issues will mature in 15 years, but may be redeemed by Continental after seven years under certain circumstances. The option and its underlying preferred stock will be redeemable under certain circumstances at a price which would include a redemption premium for any increase in the per share price of the common stock over a strike price of $17.00.

At the time of their issuance, for financial statement reporting, these redeemable securities will be presented separately from shareholder's equity and the $200 million of proceeds received will be allocated to the preferred stock issued and to the option based on the relative fair value of the securities issued, net of related transaction fees. Any difference between the recorded amount and liquidation value will be accreted using the interest method through a charge to retained earnings. In addition, changes in the redemption premium will also be adjusted through retained earnings generally when the fair value of the common shares exceeds the strike prices. The amounts of the preferred dividends, periodic accretion and changes for the recognition of the redemption charges will reduce income applicable to common shareholders in the calculation of earnings per share.

The terms of the preferred stock provide that Continental will

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continue to not pay dividends on its common stock for an additional period of three years from the time the preferred stock is sold and would after three years be subject to limitations in payment of such dividends if any Continental preferred stock is not rated at least BBB- by Standard & Poor's Insurance Rating Services and Baa3 by Moody's Investor Services (see "Liquidity").

The agreement also provides that, following the investment by Insurance Partners, Continental will further strengthen its capital base by raising $100 million, at Continental's option, in non-convertible preferred stock or debt.

Following the anticipated purchase of the preferred stock, Insurance Partners will be entitled to nominate up to four directors to serve on Continental's board.

In addition, Richard M. Haverland has been elected Vice Chairman and a Director of The Continental Corporation's Board. Upon completion of the planned transaction, Mr. Haverland will become Chairman and Chief Executive Officer, succeeding John P. Mascotte, who will resign.

The proposed transaction is subject to satisfaction of closing conditions under the agreement, including regulatory approvals. If the agreement is terminated by Continental in order to enter into an agreement for a merger or similar transaction, Insurance Partners would be paid a termination fee representing the higher of $17.5 million or 1.875% of the aggregate value of the other transaction and expenses incurred in connection with this transaction.

Economic Issues: Price levels in the property and casualty insurance markets are cyclical and materially affect Continental's underwriting results. Continental is reunderwriting its existing book of business to focus on those areas in which management believes Continental can achieve an underwriting profit. The slowdown in Continental's premium growth from 1993 reflects actions taken in 1994 to significantly curtail business for which management believes prices are inadequate relative to loss costs. Premiums, net income and cash flow will depend on the degree to which these efforts are successful.

Inflation generally increases the cost of losses covered by insurance contracts. However, the effect of inflation varies by line of business. Since the overall rate of inflation has been relatively constant and historically normal in recent years, such effects have been less significant than in previous years, except in medical care costs. The medical cost inflation rate, while now generally decreasing in anticipation of enactment of a comprehensive health care reform program, is still higher than the overall inflation rate. Lines of insurance involving medical

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care costs, such as automobile, workers' compensation and medical malpractice, comprised 38% of Continental's premiums earned for the first nine months of 1994. The method used by Continental to estimate individual case reserves and reserves for unreported claims implicitly considers the effect of inflation in the projection of ultimate costs.

Asbestos-Related, Other Toxic Tort and Environmental Pollution Claims:
Prior to the third quarter of 1994, Continental did not establish reserves for incurred but not reported asbestos-related, other toxic tort and environmental pollution claims (Environmental IBNR) because the existence of significant uncertainties, (including difficulties in determining the frequency and severity of potential claims and in predicting the outcome of judicial decisions, as case law evolves regarding liability exposure, insurance coverage and interpretation of policy language), and the absence of standard techniques to measure exposure did not allow ultimate liabilities to be reasonably estimated in accordance with accepted actuarial standards.

While Continental continues to believe that it is not possible to reasonably estimate ultimate liabilities for unreported environmental claims, it has concluded that different measurement techniques, based on industry averages, for estimating a reserve for unreported environmental claims have been sufficiently developed, and accepted in the industry, to permit Continental to determine a reasonable gross estimate for Environmental IBNR. However, due to the continuing level of uncertainty involved with environmental exposures, Continental may incur future charges for incurred but not reported environmental claims which may be material to Continental's financial position, results of operations or liquidity.

Included in Continental's liability for outstanding losses and loss expenses are gross undiscounted reserves of $790 million for asbestos-related, other toxic tort and environmental pollution claims. At September 30, 1994 the gross undiscounted reported environmental reserves for losses and loss expenses (Environmental Claims) were $310 million ($268 million at September 30, 1993) and a gross undiscounted environmental reserve of $480 million was established for losses and loss expenses for Environmental IBNR ($0 at September 30, 1993). The $310 million represents Continental's current best estimate for reported Environmental Claims. The $480 million represents Continental's best estimate for its unreported Environmental Claims, using a measurement technique believed to be reasonable, based upon information currently available. However, it is not possible at this time to estimate the amount of additional liability related to the unreported Environmental Claims that is at least reasonably possible to exist.

Included in Continental's reinsurance asset are amounts due for reported Environmental Claims of $139 million at September 30, 1994 ($120 million at September 30, 1993). A reinsurance asset of $80 million was recorded in conjunction with the establishment of the Environmental IBNR, but was fully reserved for as not recoverable due to the degree of uncertainty in the collectibility of such amounts.

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The technique utilized by Continental involves measuring total net reserves for reported Environmental Claims and Environmental IBNR in terms of the number of years such reserves could fund the net annual payments for these claims. Such technique is consistent with that utilized by an insurance rating agency and by the actuarial profession in some of its discussion papers for its preliminary work with respect to such liabilities. At the end of 1992, the industry was at a net environmental reserve to net environmental paid ratio ("Survival Ratio") of six times such paid losses, which had been increasing and was expected to continue to increase further. Continental's net environmental claims reserves would comprise approximately nine times its historical average net paid losses and loss expenses for these claims.

Net losses and loss expenses include charges for reported Environmental Claims and Environmental IBNR of $556 million and $31 million for the first nine months of 1994 and 1993, respectively. The increase is primarily related to the establishment of the Environmental IBNR.

Most of Continental's environmental pollution claims result from general liability policies written prior to 1986. Certain provisions of these policies have been subject to wide-ranging challenges by policyholders and/or differing interpretations by courts in various jurisdictions, with inconsistent conclusions as to the applicability of coverage for environmental pollution claims. Asbestos-related claims have generally arisen out of product liability coverage provided by Continental under general liability policies written prior to 1983. Thereafter, asbestos-related product exclusions were included in general liability policies. Other toxic tort claims have also generally arisen out of product coverage under general liability policies. These claims involve a variety of allegations of bodily injury arising from exposure over a period of time to products alleged to be harmful or toxic.

Restructuring Charge: In March 1994, Continental's senior management approved a definite plan to re-engineer the operations of Continental's Agency & Brokerage division (including home office, field claims and underwriting), selected operations of Continental's Special Operations division, particularly its multinational unit, and several corporate staff divisions, including Human Resources, Corporate Claims, Actuarial, Finance, and Legal. The locations identified for re-engineering are Cranbury, New Jersey; New York, New York; Duluth, Georgia; Chicago, Illinois; Dallas, Texas; Glens Falls, New York; Overland Park, Kansas; Rancho Cordova, California; Columbus, Ohio; York, Pennsylvania and certain overseas locations. These re-engineering efforts are expected to involve a net elimination of 680 positions (approximately 1,200 terminations, net of new hires and transfers), from a total company workforce of 12,255 at year end 1993, within one year from approval of the plan, as well as achieve business-related expense savings. Substantially all of the identified employees have been notified that their positions have been eliminated. The re-engineering efforts also include vacating leased space at 27 locations. As of September 30, 1994, 15 of these locations have been vacated; the lease vacating

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program is expected to be completed by the end of 1994. Continental has also implemented additional cost saving measures in several employee benefit programs. Included in the re-engineering plan are severance packages for all affected employees as well as extended benefits and outplacement counseling for many of them. Underwriting results for the first nine months of 1994 included a $45 million restructuring charge, including $29 million in expected severance and related benefits and $16 million in expected lease vacations and other associated costs.

Through the third quarter 1994, Continental paid $10 million in expenses ($8 million in severance and related benefits, and $2 million in lease vacations and other associated costs) associated with its planned restructuring, which reduced its outstanding liability at September 30, 1994 to $35 million.

Additional Improvements: In June 1994, Continental announced additional steps with a goal to improve its profitability and strengthen the capital base of its domestic insurance subsidiaries. To improve its profitability, Continental began to curtail its property writings, especially in catastrophe-prone areas (see "Economic Issues"). Also, to further reduce its operating expenses, Continental reconsidered its staffing needs and developed another plan in the third quarter of 1994 that would result in a further net reduction of approximately 1,100 positions (in addition to the terminations of approximately 1,200 from the March plan). Underwriting results for the third quarter include the $14 million Additional Staff Reduction Charge, which include the cost for expected severance and related benefits. As of September 30, 1994, no payments were made relating to this charge. In addition, substantially all identified employees have been notified that their positions have been eliminated. Management believes that its previously announced re-engineering actions (see "Restructuring Charge") together with this elimination of another 1,100 positions will create annual pretax savings of about $120 million compared with its reported 1993 expenses.

To strengthen the capital base of its domestic insurance subsidiaries, during the second and third quarters of 1994, The Continental Corporation redeployed $275 million of capital to its domestic insurance operations. This redeployment represents essentially all of its currently available surplus from operations other than its domestic insurance operations. In addition, Continental has arranged the Quota Share Cession to lower its premium-to-surplus ratio and further reduce its exposure to catastrophes (see "Reinsurance"). Continental will conduct its regular annual in-depth review of its core (non-environmental) reserves at year-end. This review could result in substantial additional reserve strengthening.

Planned Sales of Subsidiaries: In third quarter 1994, the

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Continental entered into a definitive agreement to sell Continental Canada, a major property and casualty insurer in Canada, to Fairfax Financial Holdings Limited, a Canadian financial services company. Under the terms of the agreement, the Corporation would receive (expressed in Canadian dollars) $130 million in cash, debt securities of Fairfax Financial with a face value of $25 million and a contingent payment of up to $10 million based on the performance of Continental Canada during the five years following the sale. The approximate U.S. dollar equivalents at the exchange rate on October 31, 1994 are $97 million, $19 million and $7 million, respectively. The proposed sale is subject to satisfaction of closing conditions under the agreement, including regulatory approvals. Continental does not expect the sale of Continental Canada as proposed to have a significant impact on its financial position, results of operations or liquidity.

In October 1994, Continental entered into an agreement in principle to sell its Casualty Insurance unit to Fremont General Corporation for $250 million in cash. Casualty Insurance, based in Chicago, is the leading writer of workers' compensation insurance in Illinois. The unit also has facilities operating in Wisconsin, Indiana, Michigan and California. In 1993, Casualty wrote $362 million in premiums, overwhelmingly in the Midwest. The proposed transaction is subject to completion of a definitive agreement, regulatory approvals, and satisfaction of other closing conditions under the agreement. Continental expects to recognize a gain on the sale of this operation but does not expect the sale to have a significant impact on its financial position or liquidity.

Also in October 1994, Continental entered into an agreement with Insurance Partners, L.P., and related parties to sell the operations of Continental Asset Management (CAM) for about $35 million in notes. Under the terms of this agreement, Continental has an option to purchase a 20% interest in these operations. The proposed transaction is subject to satisfaction of closing conditions, including financing and applicable regulatory approvals. Continental Asset Management is an investment advisory firm which manages Continental's investment portfolio and provides investment management services for outside clients, including property/casualty insurance companies. The agreement contemplates that Continental will continue to receive advisory services from CAM. The purchase price will be subject to adjustments under circumstances relating to the loss, if any, of unaffiliated clients prior to the consummation of the purchase and to a shortfall, if any, in fees by Continental's affiliates over a 7 year period following the consummation of the purchase. Due to the conditions of sale, Continental will not immediately recognize any gain from this transaction.

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Discontinued Operations: In 1994, Continental recognized an additional after tax gain of $4 million related to the sale of its premium financing operations as a result of final tax elections made for 1993. In addition, Continental reduced various tax liabilities related to previously discontinued operations and realized $36 million in additional income. The reduction in the various tax liabilities is a direct result of a recent review of Continental's tax position (see "Results of Operations - Income Taxes") and the development of the discontinued operations over the last two years. In December 1993, Continental completed the sale of its premium financing operations, AFCO Credit Corporation, AFCO Acceptance Corporation and their Canadian affiliate CAFO Inc., to Mellon Bank Corporation. Continental realized a $36 million gain from this sale, net of income taxes. The 1993 results and net assets of these premium financing operations, which were previously reported in the Corporate & Other Operations segment, have been classified as discontinued in the accompanying Consolidated Financial Statements.

New Accounting Pronouncements: Effective January 1, 1993, Continental adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits," Emerging Issues Task Force issue No. 93-6, "Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises," and SFAS No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts". The cumulative change to Continental's results for the first nine months of 1993 from these adoptions was a net benefit of $2 million.

In addition, effective December 31, 1993, Continental adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which did not change the way Continental accounts for investments or have a material impact on its 1993 financial results.

Financial Resources and Liquidity

Cash Flow Analysis: Operating activities for the first nine months of 1994 used $717 million in cash and cash equivalents, whereas operating activities for the first nine months of 1993 used cash and cash equivalents of $286 million. The principal causes for the increase in cash used by operations were a $242 million increase in losses and loss expenses paid, the repayment of $188 million of obligations under reverse repurchase and dollar reverse repurchase agreements and a $56 million increase in underwriting expenses paid. These increases were partially offset by a $91 million increase in premiums collected and a $12 million increase in investment income received. In addition, discontinued operations provided $27 million in cash for continuing operations in the first nine months of 1994 whereas it provided $106 million in the first nine months of 1993. The decrease represents cash proceeds received from sales of

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discontinued operations in 1993.

Investing activities for the first nine months of 1994 provided $814 million in cash and cash equivalents, whereas investing activities for the first nine months of 1993 provided $529 million in cash and cash equivalents. Increases in investments are reported as uses of cash and cash equivalents, and proceeds from sales, redemptions and maturities of investments are reported as provisions of cash and cash equivalents. The increase in cash provided by investing activities is primarily due to higher 1994 net sales of securities as a result of increased cash used by operating activities.

Financing activities for the first nine months of 1994 used $63 million in cash and cash equivalents, whereas financing activities for the first nine months of 1993 used $224 million in cash and cash equivalents. Increases in borrowings are reported as provisions of cash and cash equivalents, while decreases in borrowings and payments of dividends are reported as uses of cash and cash equivalents. The decrease in cash used by financing activities is primarily due to a $282 million retirement of debt in the first nine months of 1993, $14 million reduction in short-term debt partially offset by the issuance of $150 million of Notes in the first nine months of 1993 and a $17 million decrease in dividends paid to shareholders.

As a result of the operating, investing and financing activities described above, cash and cash equivalents provided by operations increased $15 million from the first nine months of 1993.

Liquidity: To meet its cash obligations, including claims payments, operating expenses, interest and principal payments on debt, declared shareholder dividends and taxes, Continental holds cash reserves, short-term money market instruments and other fixed income securities with maturities of less than one year.

In March 1993, Continental sold $150 million of a total of $350 million of Notes (which provided $147 million of a total of $346 million in cash, net of offering and underwriting costs) outstanding under its shelf registration of up to $400 million of debt securities with the Securities and Exchange Commission. During 1993, Continental used $282 million of the net proceeds from these sales to retire its outstanding 9 3/8% Notes due July 1, 1993 and $50 million of net proceeds from these sales to reduce corporate short-term borrowings. Continental intends to raise additional capital of approximately $100 million, through the issuance of either preferred stock or notes; but does not currently contemplate incurring other borrowings other than for the purpose of reducing amounts outstanding under its revolving credit facility described below.

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During the first nine months of 1994, Continental's domestic insurance subsidiaries paid it $58 million in dividends. Each of the states in which one or more of these subsidiaries are domiciled have enacted a formula which governs the maximum amount of dividends that they may pay without prior regulatory approval. These formulas, which are substantially similar, limit such dividends based on such factors as policyholder surplus, net income, net investment income, and/or unassigned surplus. Under the restrictions currently in effect, the maximum amount available for payment of dividends to Continental by its domestic insurance subsidiaries during the year ending December 31, 1994 without regulatory approval is estimated to be $129 million, in addition to the $58 million paid during the first nine months of 1994. Continental anticipates that dividends from its domestic insurance subsidiaries will enable it to meet its near term obligations for interest and principal payments on debt, anticipated preferred stock dividends, corporate expenses and taxes . To the extent that its insurance subsidiaries do not generate amounts available for distribution sufficient to meet Continental's cash requirements without regulatory approval, Continental would seek approval for additional distributions. In August 1994, Continental's Board of Directors, citing the need to further strengthen the Corporation's capital base, eliminated the quarterly cash dividend of $.25 per share on the Corporation's common stock. The preferred stock issuable to Insurance Partners will prohibit payment of common stock dividends for three years and restricts common stock dividends thereafter under certain circumstance (see "Planned Capital Infusion").

Continental anticipates using cash flows from operations to pay for the remaining charges associated with its planned restructuring and additional improvements ($49 million). Based on its restructuring program, the remaining costs should be paid over the fourth quarter of 1994 with any residual amount to be paid in first quarter 1995.

During the third quarter, Continental extended the maturity of its revolving credit facility from December 30, 1994 to December 31, 1995. In addition, the revolving credit facility has been increased by $60 million and provides for borrowings of up to $210 million from a syndicate of banks. Funds borrowed through the facility may be used for general corporate purposes, but Continental has used and intends to use the facility primarily as an alternative to traditional sources of short-term borrowings. At September 30, 1994, Continental had a $128 million balance outstanding through the facility. As of October 31, 1994, that balance increased to $205 million outstanding through the facility; the proceeds of these borrowings were used to repay other short-term borrowings. Under the revolving credit agreement, Continental is required, among other things, to maintain a modified debt to capital (debt plus shareholders'

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equity minus net unrealized appreciation (depreciation) of investments) ratio of 40% and a minimum level of statutory surplus for its domestic insurance subsidiaries of $1,465 million. As at September 30, 1994 (the most recent date for compliance computations), Continental maintained a debt to capital ratio of approximately 39.9% and statutory surplus for such subsidiaries of $1,480 million.

Investments: Fixed maturities available-for-sale consist of certain bonds and redeemable preferred stocks that management may not hold until maturity and which have an average Standard & Poor's rating of AA (or its Moody's equivalent). Continental's fixed maturities available-for-sale had a balance sheet fair value of $6,068 million at September 30, 1994 (compared with a fair value of $6,291 million at September 30, 1993) and included mortgage-backed securities with a fair value of $1,337 million and an amortized cost of $1,400 million at September 30, 1994 (compared with a fair value of $1,235 million and an amortized cost of $1,226 million at September 30, 1993). Continental's mortgage-backed securities have an average Standard & Poor's rating of AAA (or its Moody's equivalent) and an average life of 9 years. Continental has an insignificant investment in collateralized mortgage obligations which put the return of principal at risk if interest rates or prepayment patterns fluctuate.

At September 30, 1994, Continental's bond portfolio classified by Moody's rating was as follows:

Moody's Rating	Percentage of Bond Portfolio
Aaa	53.2%
Aa	20.2
A	15.5
Baa	6.8
Below Baa	4.3
	100.0%

At September 30, 1994, the fixed maturities portfolio included an immaterial amount of securities, the fair value of which is expected to be lower than their carrying value for more than a temporary period; such investments have been recorded in the accompanying Consolidated Balance Sheets at their net realizable value.

Continental also maintains an equity securities portfolio, the fair value of which was $729 million at September 30, 1994. At September 30, 1994, Continental also had a $110 million investment in privately placed direct mortgages, which are included in the balance sheet caption "Other Long-Term Investments."

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Unrealized appreciation on investments decreased $531 million, before income taxes, from December 31, 1993. Unrealized appreciation on fixed maturities decreased $524 million. Unrealized appreciation on common stocks increased $2 million, while unrealized appreciation on nonredeemable preferred stocks decreased $8 million. Unrealized appreciation on other long-term investments decreased $1 million. In addition, unrealized appreciation on investments held by discontinued operations decreased $49 million, before income taxes, from December 31, 1993.

In October, Continental sold a significant portion of its appreciated equity securities and recognized $92 million of realized capital gains. At October 31, 1994, Continental equity securities had a fair value of $424 million, which represents a $305 million decrease from the fair value at September 30, 1994.

Continental holds a small amount of derivative financial investments for the purposes of enhancing income and total return and/or hedging long-term investments. At September 30, 1994 the total notional value of these investments amounted to $478 million and include financial future contracts, interest rate swap agreements, swaptions, financial options and foreign currency forward contracts. Continental does not expect to recognize material gains or losses related to these investments.

Continental's book value per share at September 30, 1994 was $24.75, compared with $39.40 at December 31, 1993, reflecting a $7.42 per share decline in the unrealized appreciation of investments (primarily due to the rise in interest rates during the first nine months of 1994), the $6.56 per share loss for the first nine months of 1994, a $0.16 per share worsening of the foreign currency translation adjustment and a $0.50 per share shareholder dividend payment.

Rating Agencies: In June, 1994, A.M. Best Company affirmed the financial strength rating of Continental's domestic insurance subsidiaries as "A-" (Excellent), A.M. Best Company's fourth highest of six secure financial strength ratings, but placed the rating under review with developing implications, pending further evaluation of the companies capital preservation efforts, restructuring plans and future business plans. In October 1994, as a result of Continental's recent capital preservation efforts (see "Planned Capital Infusion", "Restructuring Charge", "Additional Improvements", and "Planned Sale of Subsidiaries"), and its capital raising efforts (see "Planned Capital Infusion"), A.M. Best Company completed the announced review of the rating and affirmed the financial strength rating of the domestic insurance subsidiaries as "A-" (Excellent). Management believes that failure to maintain this rating would have a material adverse effect on its results of operations and financial condition.

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In September and October 1994, Moody's Investor Services ("Moody's"), an independent rating agency, lowered the claims paying ability rating of the Corporation's principal insurance subsidiaries from A2 (Good), Moody's sixth highest of ten investment grade ratings, to A3 (Good), Moody's seventh highest rating, and then from A3 to Baa1 (Adequate), Moody's eighth highest rating, and the Corporation's senior debt rating from Baa1 to Baa2, Moody's ninth highest rating, and then from Baa2 to Baa3, Moody's lowest investment grade rating. Also in October 1994, Standard & Poor's Insurance Rating Services("S&P"), another independent rating agency, lowered the claims paying ability rating of the Corporation's principal insurance subsidiaries from AA-(Excellent), S&P's fourth highest of ten investment grade ratings, to A- (Good), S&P's seventh highest rating, and the Corporation's senior debt rating from A- to BBB-, S&P's lowest investment grade rating. These downgrades are expected to cause an increase in Continental's borrowing costs which is not expected to be significant.

Reinsurance: In the ordinary course of business, Continental cedes business to other insurers and reinsurers. Purchasing reinsurance enables Continental to limit its exposure to catastrophic events and other concentrations of risk. However, purchasing reinsurance does not relieve Continental of its obligations to its insureds. Continental reviews the creditworthiness of its reinsurers on an ongoing basis. To minimize potential problems, Continental's policy is to purchase reinsurance only from carriers who meet its credit quality standards. It has also taken and is continuing to take steps to settle existing reinsurance arrangements with reinsurers who do not meet its credit quality standards. Continental does not believe that there is a significant solvency risk concerning its reinsurance claims. In addition, Continental regularly evaluates the adequacy of its reserves for uncollectible reinsurance. Continental believes that it makes adequate provisions for the ultimate collectibility of its reinsurance claims and therefore believes the collection of these net recoveries to be probable.

Continental has in place various reinsurance arrangements with respect to its current operations. These arrangements are subject to retentions, coverage limits and other policy terms. Some of the principal treaty arrangements which are presently in effect are an excess of loss treaty reducing Continental's liability on individual property losses, a blanket casualty program reducing Continental's liability on third party liability losses, a clash casualty program reducing Continental's liability on multiple insured/single event losses, and a property catastrophe program, with a net retention of $50 million in both 1994 and 1993, reducing its liability from a catastrophic event. Continental also uses individual risk facultative and other facultative agreements to further reduce its liabilities.

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Effective July 1, 1994, Continental entered into a quota share agreement (i.e., the Quota Share Cession) to reinsure a portion of its domestic personal lines business with a major U.S. reinsurer. From July 1, 1994 through December 31, 1995, Continental's quota share participation is 50% of the covered lines. Continental expects to cede premiums related to this agreement of approximately $300 million per year, through December 31, 1995. This arrangement will help Continental lower its premium-to-surplus ratio and further reduce its exposure to catastrophes subject to the agreement's catastrophe coverage limits.

Sale of Premiums Receivable: In December, 1993, Continental sold $513 million of premiums receivables balances. This sale accelerated the cash flow from the sold receivables, increasing cash provided by operations in 1993, but reducing cash by $487 million for the first nine months of 1994, when this portion of the receivables would have been collected. As a result, the balance sheet caption "Premiums Receivable" at September 30, 1994 is lower by $26 million than it otherwise would have been. In the event that the receivables are not collected, Continental's credit risk is limited to the amount that the purchasers of such receivables hold as a deposit ($15 million at September 30, 1994).

SIGNATURE

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

The Continental Corporation
(Registrant)

Dated: February 22, 1995

By s\Heath Fitzsimmons

Heath Fitzsimmons
Senior Vice President and
Chief Financial Officer

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Mr. Fitzsimmons has signed this Report on behalf of the Registrant in his capacity as a duly authorized officer and as the Chief Financial Officer of the Registrant.

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