IGI INC
Form 10-K
March 31, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

OR

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

¨ 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 001-08568

IGI Laboratories, Inc.

(Name of small business issuer in its charter)

Delaware	**01-0355758**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

105 Lincoln Ave., Buena, NJ	**08310**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number: (856) 697-1441

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	**Name of each exchange on which registered**
Common Stock $0.01 Par Value	NYSE Amex

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

Indicate by check 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 ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes ¨ No x

The aggregate market value of the registrant's voting common equity held by non-affiliates of the registrant on June 30, 2009 was approximately $8,038,800. Such aggregate market value was computed by reference to the closing price of the common stock as reported on the NYSE Amex on June 30, 2009.

As of March 29, 2010, there were 17,796,247 shares of the registrant s common stock outstanding.

Documents Incorporated By Reference

Certain information contained in the definitive Proxy Statement for the Company s 2010 Annual Meeting of Stockholders is incorporated by reference into Part III hereof.

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PART I

ITEM 1.

DESCRIPTION OF BUSINESS

Overview

IGI Laboratories, Inc. is a Delaware corporation formed in 1977. On May 7, 2008, the stockholders of IGI, Inc. approved the name change of the Company from IGI, Inc. to IGI Laboratories, Inc. As used in this report, the terms the Registrant, the Company, IGI, Inc., IGI and IGI Laboratories refer to IGI Laboratories, Inc., unless the conte requires otherwise. The Company s office, laboratories and manufacturing facilities are housed at 105 Lincoln Avenue, Buena, New Jersey.

IGI is engaged in the formulation, development, manufacture and packaging of topical semi-solid and liquid products for pharmaceutical, cosmeceutical and cosmetic customers. The Company s strategic plan is to build upon this foundation by expanding into the prescription pharmaceutical arena. This strategy will be based upon three initiatives: increasing the current contract manufacturing services business, developing a generic portfolio of formulations in topical and oral liquid dosage forms, and creating unique opportunities around the Company s licensed Novasome® technology and novel dosage forms. Except as otherwise specified, information in this report is provided as of December 31, 2009 (the end of the Company s fiscal year).

Our Services

<u>Contract Manufacturing Services</u>

The Company currently serves a range of customers seeking product development and/or manufacturing services. IGI s facilities are registered with the Food and Drug Administration (FDA) for both human and veterinary products. The Company offers full turnkey services for cosmetic and over-the-counter (OTC) products in liquid, cream, and lotion forms.

The contract manufacturing services market is competitive and includes larger organizations with substantially greater resources than IGI. Current economic conditions contribute to the intensity of the competitive landscape. Contract manufacturing services will continue to be an important part of IGI s business, even as the Company transitions towards the prescription drug market.

Prescription Generic Drugs

IGI believes there is an opportunity provided by the generic prescription pharmaceutical market. With many of the necessary resources already in place (laboratory and manufacturing) and a new management with significant experience in prescription products, the Company believes it is well situated to expand into developing prescription oral liquid and topical dosage forms. These products will be submitted to the FDA as Abbreviated New Drug Applications (ANDAs) and will be subject to full review prior to approval and marketing authorization. The approval process can take 18-24 months.

The Company believes that the niche markets of oral liquids and topical products are smaller and less-crowded than other prescription markets.

Novasome® Encapsulation Technology

IGI has an exclusive license to use patented Novasome® Encapsulation technologies from Novavax, Inc. (Novavax) in the IGI field until December 11, 2015. The Company will continue to seek to build on the use of this patented Novasome® technology in topical formulations and intends to pursue collaboration opportunities with established pharmaceutical companies seeking to develop topical products with unique properties.

IGI researchers will also look for opportunities to develop new dosage forms of existing drug molecules in order to create market exclusivity.

Sales and Marketing

The Company offers its contract manufacturing services directly to its customer base of cosmetic and OTC customers. These products are sold to the public under the brand of IGI s customer.

The initial group of prescription ANDAs will be marketed by carefully-selected established partners. These partners will be responsible for sales and marketing of IGI-manufactured prescription products. The Company will later evaluate the option of marketing new prescription products directly into the drug distribution channels under the IGI Laboratories name.

IGI will look to out-license in-house developed products arising from Novasome® technology and products that are granted market exclusivity.

Manufacturing Capabilities

Our executive administrative offices are located in Buena, New Jersey, in a 25,000 square foot facility built on 2.8 acres of land in 1995, which we own. This facility is also used for production, product development, marketing and warehousing for our pharmaceutical, cosmeceutical and cosmetic products. Our manufacturing capabilities encompass a full suite of competencies including regulatory, quality assurance and in-house validation at all of the production sites.

We operate our facility in accordance with GMP, utilizing the same high standards as our pharmaceutical and biotechnology customers. Our facility is registered with the FDA. We believe that our facility and equipment are in good condition, are well maintained and are able to operate at present levels.

Our manufacturing operations are focused on regulatory compliance, continuous improvement, process standardization and excellence in execution across the organization. Our manufacturing operations are structured around an enterprise management philosophy and methodology that utilizes principles and tools common to a number of quality management programs including Six Sigma and Lean Manufacturing.

Strategy

IGI Laboratories, Inc. believes that it is strategically positioned to expand its business from being exclusively a contract service provider to being a multi-faceted pharmaceutical and cosmetic development and manufacturing company. The Company recognizes that there will be challenges in attaining status as a qualified prescription drug manufacturer, but believes the investment into facility upgrades will result in a sustainable business model.

Government Regulation and Regulatory Proceedings

In the United States, pharmaceuticals are subject to rigorous FDA regulations. The Company is required to obtain a satisfactory inspection by the FDA covering its manufacturing facilities before a product can be marketed in the United States. Any non-compliance with the regulatory guidelines may necessitate corrective action that may result in additional expenses and use of more resources. The Company was audited by the FDA in June 2009 and was found to be in compliance with the agency s regulations.

In addition to regulations enforced by the FDA, the Company is also subject to regulation under the Occupational Safety and Health Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act and other present and potential future federal, state or local regulations. The Company s analytical service group uses certain hazardous materials and chemicals in limited and controlled quantities. Although the Company believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Company could be held liable for any damages that result and any such liability could exceed the resources of the Company. The Company has procedures in place to be in compliance with the standards prescribed by the regulators.

The costs associated with complying with the various applicable federal regulations, as well as state, local, foreign and transnational regulations, could be significant and the failure to comply with all such legal requirements could have an adverse effect on the Company s results of operations and financial condition.

Environmental Matters

The Company s operations are subject to a variety of environmental, health and safety laws and regulations, including those of the EPA and equivalent state and local regulatory agencies. These laws and regulations govern, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. The Company s manufacturing facility uses, in varying degrees, hazardous substances in its processes. Contamination at its facility can result and has resulted in liability to us, for which we have recorded appropriate reserves as needed. For example, two of the Company s facilities are currently undergoing remediation of environmental contamination. See Legal Proceedings below and Note 13 to the Company s Consolidated Financial Statements.

Quality Assurance

We are committed to creating and maintaining the highest standard of regulatory compliance while providing high quality products to our customers. To meet these commitments, we have developed and implemented quality systems and concepts throughout the organization that we believe are appropriate. Our senior management team is actively involved in setting quality policies and standards as well as managing internal and external quality performance. An internal audit program monitors compliance with all applicable regulations, standards and internal policies. In addition, our facilities are subject to periodic inspection by the FDA and other equivalent local and state regulatory authorities.

Competition

The contract manufacturing services market is highly competitive and includes larger organizations with substantially greater resources than IGI. Many of IGI s competitors are those companies that commercialize and/or manufacture their required products at their own facilities. These competitors include major pharmaceutical companies, generic drug manufacturers and consumer health product companies who have substantially greater manufacturing, research and development, marketing and financial resources than IGI and, in some cases, have more geographically diversified international operations. Current economic conditions contribute to the intensity of this competitive landscape.

With respect to its development of pharmaceutical and cosmetic products, the Company competes with large, well-financed cosmetic, pharmaceutical and consumer products companies, with development and marketing groups that are experienced in the industry and possess far greater resources than those available to the Company. The Company faces great challenges ensuring that its products can compete successfully against its competitors and in developing new products that will be favorably received in the marketplace. Furthermore, certain of the Company's customers that use the Company's encapsulation technology in their products could decide to reduce their purchases from the Company or shift their business to other technologies.

Dependence on Major Customers

The Company has successfully broadened its customer base to fuel its revenue growth. Based on its product sales, the Company has three (3) major customers. Major customers of the Company are defined as having sales for the latest fiscal year equal to or greater than 10% of that year s total gross product sales. The loss of any of these customers would have a material adverse effect on the Company. In 2009, the Company had sales to three customers which individually accounted for more than 10% of the Company s product sales. These customers had sales of $780,000, $512,000 and $380,000, respectively, which in the aggregate represented 52% of revenues from product sales. Accounts receivable related to the Company s major customers comprised 67% of all accounts receivable as of December 31, 2009. In 2008, the Company had sales to four (4) customers which individually accounted for more than 10% of the Company s product sales. These customers had sales of $615,000, $555,000, $555,000 and $471,000, respectively, which in the aggregate represented 65% of revenues from product sales.

Recent Events

On March 13, 2009, we completed a $6,000,000 private placement, resulting in net proceeds of approximately $5,279,000, with certain investment funds affiliated with Signet Healthcare Partners, G.P. as more fully described in Note 8 to our Consolidated Financial Statements.

On March 29, 2010 the Company completed a $1,550,000 private placement with certain investors, including investment funds affiliated with Signet Healthcare Partners, G.P. and Jane E. Hager (the Series C Offering). As part of the Series C Offering, the Company issued 1,550 shares of Series C Convertible Preferred Stock. The Series C Convertible Preferred Stock has a par value of $0.01 per share and the holders are entitled to quarterly dividends at an annual rate of 5% when and if declared by the Board of Directors. Futhermore, each share of Series C Preferred Stock is convertible into shares of common stock equal to (i) 1,000 plus any accrued and unpaid dividends, divided by $0.69 (the closing price of the Company s Stock on the date of issuance).

Employees

On March 8, 2010, the Company had a total of 31 employees, 30 of whom were full-time and 1of whom was part-time. The Company has no collective bargaining agreement with its employees, and believes that its employee relations are good.

ITEM 1A.

RISK FACTORS

Our current business and future results may be affected by a number of risks and uncertainties, including those described below. The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could suffer. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements.

We face intense competition in the consumer products business.

Our business competes with large, well-financed cosmetic, pharmaceutical and consumer products companies with development and marketing groups that are experienced in the industry and possess far greater resources than those available to us. There is no assurance that our products can compete successfully against our competitors products or that we can develop and market new products that will be favorably received in the marketplace. In addition, certain of our customers that use our Novasome® lipid vesicles in their products may decide to reduce their purchases from us or shift their business to other technologies.

Rapidly changing technologies and developments by our competitors may make our technologies and products obsolete.

We expect to sublicense our technologies to third parties, which would manufacture and market products incorporating these technologies. However, if our competitors develop new and improved technologies that are superior to our technologies, our technologies could be less acceptable in the marketplace and our business could be harmed.

We will need to raise additional capital that will be required to operate and grow our business, and we may not be able to raise capital on terms acceptable to us or at all.

Operating our business and maintaining our growth efforts will require additional cash outlays and capital expenditures. If cash on hand and cash generated from operations are not sufficient to meet our cash requirements, we will need to seek additional capital, potentially through debt or equity financings, to fund our growth. We cannot assure you that we will be able to raise needed cash on terms acceptable to us or at all. Financings may be on terms that are dilutive or potentially dilutive to our stockholders, and the prices at which new investors would be willing to purchase our securities may be lower than the current price per share of our common stock. The holders of new securities may also have rights, preferences or privileges which are senior to those of existing holders of common stock. If new sources of financing are required, but are insufficient or unavailable, we will be required to modify our growth and operating plans based on available funding, if any, which would harm our ability to grow our business or even stay in business.

We rely on a limited number of customers for a large portion of our revenues.

We depend on a limited number of customers for a large portion of our revenue. For the year ended December 31, 2009, three of our customers accounted for 44% of our revenue, and for the year ended December 31, 2008, four of our customers accounted for 54% of our revenue. The loss of one or more of these customers could have a significant impact on our revenues and harm our business and results of operations.

We face increased financial risk from the inaccurate pricing of our agreements.

Since our product development agreements are often structured as fixed price agreements, we bear the financial risk if we initially under price our agreements or otherwise overrun our cost estimates. Such under pricing or significant cost overruns could have a material adverse effect on our business, results of operations, financial condition, and cash flows.

We are subject to stringent regulatory requirements. Failure to adhere to such requirements could harm our business and results of operations.

In the United States, pharmaceuticals are subject to rigorous FDA regulations. Any non-compliance with the regulatory guidelines may necessitate corrective action that may result in additional expenses and use of more of our resources.

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We are also subject to regulation under the Occupational Safety and Health Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act and other present and potential future federal, state or local regulations. Failure to adhere to such regulations could harm our business and results of operations. In addition, our analytical department uses certain hazardous materials and chemicals in limited and controlled quantities. We have implemented safety procedures for handling and disposing of such materials, however, such procedures may not comply with the standards prescribed by federal, state and local regulations. Even if we follow such safety procedures for handling and disposing of hazardous materials and chemicals and such procedures comply with applicable law, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, we could be held liable for any damages and any such liability could exceed our resources.

Our operations and properties are also subject to a wide variety of increasingly complex and stringent federal, state and local environmental laws and regulations, including those governing the remediation of contaminated soil and groundwater. Such environmental laws may apply to conditions at properties and facilities presently or formerly owned or operated by us, as well as to conditions at properties at which wastes or other contamination attributable to us have been sent or otherwise come to be located. Two of our facilities are currently undergoing remediation of environmental contamination. The total estimated costs for the clean-up and remediation of such facilities are $669,000 and $65,000, respectively, of which $54,000 and $15,000 remain accrued as of December 31, 2009. Based on information provided to us from our environmental consultants and what is known to date, we believe the reserves are sufficient for the remaining remediation of the environmental contamination. There is a possibility, however, that the remediation costs may exceed our estimates. In addition, we can give no assurance that the future cost of compliance with existing environmental laws will not give rise to additional significant expenditures or liabilities that would be material to us. Future events, such as new information, changes in existing environmental laws or their interpretation, and more vigorous enforcement policies of federal, state or local regulatory agencies, may have a material adverse effect on our business, financial condition and results of operations.

The failure to obtain, maintain or protect patents and other intellectual property could impact our ability to compete effectively.

To compete effectively, we need to develop and maintain a proprietary position with regard to our own technology, products and business. We have obtained or have the use of over 50 patents, either through development by us or entry into license agreements with third parties, and are seeking to develop additional patents. The risks and uncertainties that we face with respect to our patents and other proprietary rights include the following:

the pending patent applications we have filed or may file, or to which we have exclusive rights, may not result in issued patents, or may take longer than we expect to result in issued patents;

changes in U.S. patent laws may adversely affect our ability to obtain or maintain our patent protection;

we may be subject to interference proceedings;

the claims of any patents that are issued may not provide meaningful protection;

we may not be able to develop additional proprietary technologies that are patentable;

the patents licensed or issued to us or our collaborators may not provide a competitive advantage;

other companies may challenge patents licensed or issued to us or our collaborators;

other companies may independently develop similar or alternative technologies, or duplicate our technology;

other companies may design around technologies we have licensed or developed; and

enforcement of patents is complex, uncertain and expensive.

We cannot be certain that patents will be issued as a result of any future pending applications, and we cannot be certain that any of our issued patents or the proprietary rights of third parties whose patents we license, will give us adequate protection from competing products. For example, issued patents may be circumvented or challenged, declared invalid or unenforceable, or narrowed in scope. In addition, since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, we cannot be certain that we were the first to make our inventions or to file patent applications covering those inventions. In the event that another party has also filed a patent application relating to an invention claimed by us, we may be required to participate in an interference proceeding declared by the U.S. Patent and Trademark Office to determine priority of invention, which could result in substantial uncertainties and costs for us, even if the eventual outcome were favorable to us. It is also possible that others may obtain issued patents that could prevent us from commercializing our products or require us to obtain licenses requiring the payment of significant fees or royalties in order to enable us to conduct our business. As to those patents that we have licensed, our rights depend on maintaining our obligations to the licensor under the applicable license agreement, and we may be unable to do so.

The cost to us of any patent litigation or other proceeding relating to our patents or applications, even if resolved in our favor, could be substantial. Our ability to enforce our patent protection could be limited by our financial resources, and may be subject to lengthy delays. If we are unable to effectively enforce our proprietary rights, or if we are found to infringe the rights of others, we may be in breach of our license agreements with our partners.

In addition to patents and patent applications, we depend upon trade secrets and proprietary know-how to protect our proprietary technology. We require our employees, consultants, advisors, and collaborators to enter into confidentiality agreements that prohibit the disclosure of confidential information to any other parties. We require our employees and consultants to disclose and assign to us their ideas, developments, discoveries, and inventions. These agreements may not, however, provide adequate protection for our trade secrets, know-how, or other proprietary information in the event of any unauthorized use or disclosure.

Economic conditions could severely impact us.

Current economic conditions may cause a decline in business and consumer spending which could adversely affect our business and financial performance. Our operating results are impacted by the health of the North American economies. Our business and financial performance, including collection of our accounts receivable, realization of inventory, recoverability of assets including investments, may be adversely affected by current and future economic conditions, such as a reduction in the availability of credit, financial market volatility and recession.

Adverse conditions in the economy and disruption of financial markets could negatively impact our customers and therefore our results of operations.

An economic downturn in the businesses or geographic areas in which we sell our products could reduce demand for these products and result in a decrease in sales volume that could have a negative impact on our results of operations. Volatility and disruption of financial markets could limit our customers ability to obtain adequate financing or credit to purchase and pay for our products in a timely manner, or to maintain operations, and result in a decrease in sales volume that could have a negative impact on our results of operations. Additionally, economic conditions and market turbulence may also impact our suppliers causing them to be unable to supply in a timely manner sufficient quantities of product components, thereby impairing our ability to manufacture on schedule and at commercially reasonable costs.

If the U.S. economy rapidly contracts or expands, we may have difficulty quickly scaling our operations in response, which may negatively impact our business and financial position.

We are dependent on our new management team.

Our success depends upon a number of senior management, technical and other key personnel, including our executive officers, our board of directors and key employees with expertise in the generic pharmaceutical industry. During 2009 and 2010 we implemented a new management team, including our new President and Chief Executive Officer and our new Chief Financial Officer. While the members of our new management team have been actively involved in the generic pharmaceutical industry, they have not worked together in their new positions with the

Company and may not be able to successfully implement our strategy in the current economic environment. Integration of our new management team could harm our ability to manage our business effectively. In addition, the failure of our new management team to address our business objectives and strategy could materially adversely affect our financial performance and our future operating results.

Our offerings and our customers products may infringe on the intellectual property rights of third parties.

From time to time, third parties have asserted intellectual property infringement claims against us and our customers and there can be no assurance that third parties will not assert infringement claims against either us or our customers in the future. While we believe that our offerings do not infringe in any material respect upon proprietary rights of other parties and/or that meritorious defenses would exist with respect to any assertions to the contrary, there can be no assurance that we would not be found to infringe on the proprietary rights of others. Patent applications in the United States and some foreign countries are generally not publicly disclosed until the patent is issued or published, and we may not be aware of currently filed patent applications that relate to our offerings or processes. If patents later issue on these applications, we may be found liable for subsequent infringement. There has been substantial litigation in the pharmaceutical and biotechnology industries with respect to the manufacture, use and sale of products and processes that are the subject of conflicting patent rights.

Any claims that our offerings or processes infringe these rights, regardless of their merit or resolution, could be costly and may divert the efforts and attention of our management and technical personnel. We may not prevail in such proceedings given the complex technical issues and inherent uncertainties in intellectual property litigation. If such proceedings result in an adverse outcome, we could, among other things, be required to:

pay damages in the form of lost profits and/or a reasonable royalty for any infringement

pay substantial damages (potentially treble damages in the United States if any such infringement is found to be willful);

pay attorney fees of a prevailing party, if the case is found to be exceptional;

cease the manufacture, use or sale of the infringing offerings or processes;

discontinue the use of the infringing technology;

expend significant resources to design around patented technology and develop non-infringing technology;

license patented technology from the third party claiming infringement, which license may not be available on commercially reasonable terms, or may not be available at all; and

In addition, our customers products may be subject to claims of intellectual property infringement and such claims could materially affect our business if their products cease to be manufactured and they have to discontinue the use of the infringing technology which we may provide. Further, depending on the particular circumstances of any given claim, it may be the case that we may be responsible for indemnifying our customer for a claim of intellectual property infringement.

If we were to assert any of our own intellectual property against third parties and our intellectual property was found: not to infringe; to be invalid; and/or unenforceable - we would lose the opportunity to leverage our own intellectual property, for example, through: licensing of our technology to others; or collection of damages and/or royalty payments based upon successful assertion of our intellectual property rights; market exclusivity via enjoining others from practicing the technology at issue.

Any of the foregoing could affect our ability to compete or have a material adverse effect on our business, financial condition and results of operations.

If we are unable to hire additional qualified personnel, our ability to grow our business may be harmed.

We will need to hire additional qualified personnel with expertise in nonclinical testing, clinical research and testing, government regulation, formulation and manufacturing, sales and marketing and finance. We compete for qualified individuals with numerous pharmaceutical and consumer products companies, universities and other research institutions. Competition for such individuals is intense, and we cannot be certain that our search for such personnel will be successful. Attracting and retaining qualified personnel will be critical to our success.

We have a history of losses and cannot assure you that we will become profitable, and as a result, we may have to cease operations and liquidate our business.

Our expenses have exceeded our revenue in each of the last six years, and no net income has been available to common shareholders during each of these years. As of December 31, 2009, our shareholders equity was $5.3 million and we had an accumulated deficit of $31.8 million. Our future profitability depends on revenue exceeding expenses, but we cannot assure you that this will occur. If we do not become profitable, we could be forced to curtail operations and sell or liquidate our business, and you could lose some or all of your investment.

If we fail to comply with the reporting obligations of the Securities Exchange Act of 1934 and Section 404 of the Sarbanes-Oxley Act of 2002, or if we fail to achieve and maintain adequate disclosure controls and procedures and internal control over financial reporting, our business results of operations and financial condition, and investors' confidence in us, could be materially adversely affected.

As a public company, we are required to comply with the periodic reporting obligations of the Exchange Act including preparing annual reports, quarterly reports and current reports. Our failure to prepare and disclose this information in a timely manner could subject us to penalties under federal securities laws, expose us to lawsuits and restrict our ability to access financing. In addition, we are required under applicable law and regulations to integrate our systems of disclosure controls and procedures and internal control over financial reporting. Our management assessed our existing disclosure controls and procedures as of December 31, 2009, and our management concluded that our disclosure controls and procedures were not effective as of December 31, 2009 due to the material weakness described below in Item 9A(T). Controls and Procedures in this Annual Report on Form 10-K.

If we fail to achieve and maintain the adequacy of our disclosure controls and procedures and internal control over financial reporting, we may not be able to ensure that we can conclude that we have effective disclosure controls and procedures and internal control over financial reporting in accordance with the Sarbanes-Oxley Act of 2002. Moreover, effective disclosure controls and procedures and internal control over financial reporting is necessary for us to produce reliable financial reports and is important to help prevent fraud. As a result, our failure to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 on a timely basis could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our common stock.

We rely on third parties for raw materials used in our contract manufacturing services business.

We currently rely on several third party suppliers to provide us with the raw materials necessary to manufacture cosmetic and OTC products. The loss of one or more of these suppliers, the non-performance of one or more of their materials or the lack of availability of raw materials could suspend our manufacturing process related to these products. This interruption of the manufacturing process could impair our ability to fill our customers orders as they are placed, which could put our business at a competitive disadvantage. In addition, while we have processes intended to reduce volatility in component and material pricing, we may not be able to successfully manage price fluctuations which may have an adverse effect on our results of operations.

Risks Related to Our Securities

Our principal stockholders, directors and executive officers own a significant percentage of our stock and will be able to exercise significant influence over our affairs.

Our current principal stockholders, directors and executive officers beneficially own approximately 67.8% of our outstanding capital stock entitled to vote. As a result, these stockholders, if acting together, would be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

Our stock price is, and we expect it to remain, volatile, which could limit investors ability to sell stock at a profit. During the last two fiscal years, our stock price has closed at a low of $.48 in the fourth quarter of 2008 and a high of $2.57 in the second quarter of 2008. The volatile price of our stock makes it difficult for investors to predict the value of their investment, to sell shares at a profit at any given time, or to plan purchases and sales in advance. A variety of factors may affect the market price of our common stock. These include, but are not limited to:

publicity regarding actual or potential clinical results relating to products under development by our competitors or us;

delay or failure in initiating, completing or analyzing nonclinical or clinical trials or the unsatisfactory design or results of these trials;

achievement or rejection of regulatory approvals by our competitors or us;

announcements of technological innovations or new commercial products by our competitors or us;

developments concerning proprietary rights, including patents;

developments concerning our collaborations;

regulatory developments in the United States and foreign countries;

economic or other crises, especially given the recent financial deterioration in the markets in which we compete, and other external factors;

stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in the cosmetic, pharmaceutical and consumer products industry;

actual or anticipated sales of our common stock, including sales by our directors, officers or significant stockholders;

period-to-period fluctuations in our revenues and other results of operations;

speculation about our business in the press or the investment community;

changes in financial estimates by us or by any securities analysts who might cover our stock; and

sales of our common stock.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation, even if it does not result in liability for us, could result in substantial costs to us and divert management s attention and resources.

Shares of our common stock are relatively illiquid which may affect the trading price of our common stock.

For the year ended December 31, 2009, the average daily trading volume of our common stock on the NYSE Amex was approximately 5,700 shares. As a result of our relatively small public float, our common stock may be less liquid than the stock of companies with broader public ownership. Among other things, trading of a relatively small volume of our common stock may have a greater impact on the trading price for our shares than would be the case if our public float were larger.

If we fail to meet the continued listing standards of the NYSE Amex our common stock could be delisted and our stock price could suffer.

On May 6, 2008, we were notified by NYSE Amex that we were below certain of the NYSE Amex continued listing standards. Specifically, we are required to reflect income from continuing operations and/or net income in one of our five most recent fiscal years and a minimum of $6 million in stockholders equity to remain listed on the exchange. We had net income from continuing operations in our 2002 fiscal year, but had net losses and losses from continuing operations in each of our 2003, 2004, 2005, 2006, 2007, 2008 and 2009 fiscal years. Our stockholders equity at December 31, 2008 was $3.0 million.

On June 8, 2008, we submitted a plan to NYSE Amex for compliance with the continued listing standards. On July 15, 2008, NYSE Amex notified us of its acceptance and granted an extension until May 6, 2009 to regain compliance subject to periodic review by NYSE Amex during the extension period.

On March 13, 2009, we completed a $6,000,000 private placement offering with certain investment funds affiliated with Signet Healthcare Partners, G.P., as more fully described in Note 9 to our Consolidated Financial Statements. In recognition of our efforts in connection with the offering, NYSE Amex granted us an extension from May 6, 2009 until May 31, 2009 to regain compliance with these continued listing standards.

On June 19, 2009, we were notified by NYSE Amex that we had resolved its continued listing deficiencies and would retain our status as a listed issuer on NYSE Amex. However, as of December 31, 2009, our stockholders equity had again fallen below the $6 million threshold and we may again be notified of a listing deficiency.

If we fail to meet the continued listing standards, our common stock could be delisted and our stock price could suffer. A delisting of our common stock could negatively impact us by further reducing the liquidity and market price of our common stock and the number of investors willing to hold or acquire our common stock, which could negatively impact our ability to raise equity financing.

If the holders of our Series A Preferred Stock, Series B-1 Convertible Preferred Stock, Series C Convertible Preferred Stock, options and warrants to purchase common stock exercise their conversion rights, our common stock will be diluted.

We have Series A Preferred Stock outstanding, Series B-1 Convertible Preferred Stock outstanding, Series C Convertible Preferred Stock outstanding, outstanding options and outstanding warrants to purchase common stock. If all or any number of these holders of derivative securities were to exercise their conversion rights, our common stock would be substantially diluted, which could negatively impact our stock price.

ITEM 1B.

UNRESOLVED STAFF COMMENTS

None

ITEM 2.

DESCRIPTION OF PROPERTY

The Company s executive administrative offices are located in Buena, New Jersey, in a 25,000 square foot facility built on 2.8 acres of land in 1995, which the Company owns. This facility is also used for production, product development, marketing and warehousing for the Company s pharmaceutical, cosmeceutical and cosmetic products. We believe this facility is in good operating condition for adequately serving our needs. The Company also owns four acres of land adjacent to its main facility that can be used for future expansion.

ITEM 3.

LEGAL PROCEEDINGS

We are involved from time to time in claims which arise in the ordinary course of business. In the opinion of management, we have made adequate provision for potential liabilities, if any, arising from any such matters. However, litigation is inherently unpredictable, and the costs and other effects of pending or future litigation, governmental investigations, legal and administrative cases and proceedings (whether civil or criminal), settlements, judgments and investigations, claims and changes in any such matters, and developments or assertions by or against us relating to intellectual property rights and intellectual property licenses, could have a material adverse effect on our business, financial condition and operating results.

On April 6, 2000, officials of the New Jersey Department of Environmental Protection (DEP) inspected the Company s leased storage site in Buena, New Jersey, and issued Notices of Violation (NOVs) relating to the storage of waste materials in a number of trailers at the site. The Company established a disposal and cleanup schedule and completed the removal of materials from the site. In March 2006, the Company received a judge s decision from the Office of Administrative Law (OAL) of a fine in the amount of $35,000 in respect to the NOVs the Company received from the DEP. Due to the criminal settlement that was reached between the Company and the DEP in 2002, the Company had a credit of $40,000 to be used against any fines determined as a result of the civil matter, therefore, the Company did not have to pay any money to the DEP for the settlement amount. The DEP subsequently issued a final decision, which accepted the violation findings but rejected the OAL Judge s penalty recommendation, reinstituting a previously proposed penalty by the DEP of $215,000, less the $40,000 credit previously mentioned or $175,000. The Company appealed this to the Superior Court of the NJ Appellate Division, which determined that the Commission s decision was reasonable thus affirming the DEP Commissioner s decision. This amount of $175,000 was accrued for in the fourth quarter of 2007. The Company reached a settlement with DEP Commissioner and agreed to pay the above amount in six equal installments. The final installment was paid on June 30, 2009.

ITEM 4.

Removed and Reserved

PART II

ITEM 5.

MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company has never paid cash dividends on its common stock ($.01 par value) and does not intend to pay cash dividends on its common stock in the foreseeable future. The principal market for the Company s Common Stock is the NYSE Amex (symbol: IG).

The following table shows the range of high and low closing sale prices on the NYSE Amex for the periods indicated:

	High	Low
2009		
First quarter	$ .79	$ .55
Second quarter	1.20	.69
Third quarter	1.35	1.04
Fourth quarter	1.16	.78
2008		
First quarter	$ 2.10	$ 1.30
Second quarter	2.57	1.95
Third quarter	2.34	1.30
Fourth quarter	1.40	.48

The approximate number of holders of record of the Company s Common Stock at March 23, 2010 was 625 (not including stockholders for whom shares are held in a nominee or street name).

ITEM 6.

SELECTED FINANCIAL DATA

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the Exchange Act) and are not required to provide the information required under this item.

ITEM 7.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Forward-Looking Statements

This Management s Discussion and Analysis of Financial Condition and Results of Operation section and other sections of this Annual Report on Form 10-K contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the industry and markets in which the Company operates and on management s beliefs and assumptions. In addition, other written or oral statements, which constitute forward-looking statements, may be made by or on behalf of the Company. Words such as expects, anticipates, intends, plans, believes, seeks, estimates, variations of such words and similar expressions are intended to identi such forward-looking statements. These statements are not guarantees of future performance, and involve certain risks, uncertainties and assumptions, which are difficult to predict. (See Item 1A: Risk Factors above.) Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Company Overview

Strategic Overview

IGI is engaged in the formulation, development, manufacture and packaging of topical semi-solid and liquid products for pharmaceutical, cosmeceutical and cosmetic customers. The Company s strategic plan is to build upon this foundation by expanding into the prescription pharmaceutical arena. This strategy will be based upon three initiatives: increasing the current contract manufacturing services business, developing a generic portfolio of formulations in topical and oral liquid dosage forms, and creating unique opportunities around the Company s licensed Novasome® technology and novel dosage forms.

The Company has structured a new management team to implement this plan. The team brings a wealth of experience in the generic pharmaceutical industry to IGI. IGI s facilities and manufacturing equipment have been designed to produce topical and liquid products and support the Company s target prescription dosage forms.

Contract manufacturing services will continue to be crucial to IGI s success. The customer base for these services is cosmetic, cosmeceutical, and over-the-counter (OTC) product marketers who require product development/manufacturing support. This is a highly-competitive market with a number of larger, greater-resourced companies offering similar services. IGI looks to create niche opportunities for itself by providing high quality, customer-oriented service.

IGI plans to build a prescription pharmaceutical portfolio in the specialty areas of oral liquid and topical dosage forms. This will be accomplished through in-house formulation and development, and submission of Abbreviated New Drug Applications (ANDAs) to the Food and Drug Administration (FDA). The entire approval process can take 3-5 years before a product is approved, of which the FDA approval portion is approximately 18 - 24 months. The Company plans to submit multiple ANDAs each year.

IGI has exclusive rights for the use of Novasome® technology in topical formulations and intends to pursue collaboration opportunities with established pharmaceutical companies seeking to develop topical products with unique properties. In addition, the Company will explore line extension opportunities through innovative packaging or alternate dosage forms of existing pharmaceutical molecules.

Recent Events

On March 13, 2009, we completed a $6,000,000 private placement, resulting in net proceeds of approximately $5,279,000, with certain investment funds affiliated with Signet Healthcare Partners, G.P. as more fully described in Note 8 to our Consolidated Financial Statements.

On March 29, 2010 the Company completed a $1,550,000 private placement with certain investors, including investment funds affiliated with Signet Healthcare Partners, G.P. and Jane E. Hager (the Series C Offering). As part of the Series C Offering, the Company issued 1,550 shares of Series C Convertible Preferred Stock. The Series C Convertible Preferred Stock has a par value of $0.01 per share and the holders are entitled to quarterly dividends at an annual rate of 5% when and if declared by the Board of Directors. Futhermore, each share of Series C Preferred Stock is convertible into shares of common stock equal to (i) 1,000 plus any accrued and unpaid dividends, divided by $0.69 (the closing price of the Company s Stock on the date of issuance).

Results of Operations

2009 Compared to 2008

The Company had a net loss attributable to common stockholders of $7,408,000, or $(0.46) per share, in 2009 compared to a net loss of $1,852,000, or $(0.12) per share, in 2008 which resulted from the following:

Revenues	***For the years ended*** December 31, 2009	December 31, 2008	***$ change***	***% change***
	(in thousands)			
Product Sales, net	$ 3,203	$ 3,376	$ (173)	(5%)
Research and Development Income	281	273	8	3%
Licensing and Royalty Income	294	420	(126)	(30%)
Total Revenues	$ 3,778	$ 4,069	$ (291)	(7%)

The revenues from product sales decreased by 5% for the year ended December 31, 2009 compared to the same period in 2008. The decrease in product sales relates to a decrease in sales to two existing customers partially offset by sales to seven new customers for the year ended December 31, 2009 as compared to the year ended December 31, 2008. Research and development income will not be consistent and will vary, depending on the required timeline of each development project. Licensing and royalty income decreased due to the decrease in sales of Novasome based products marketed by J&J Consumer and Estee Lauder. The Company believes the loss of certain royalties is related to the normal life cycle of the products and that certain royalties of the Company may continue to decline.

Costs of Sales	***For the years ended*** December 31, 2009	December 31, 2008	***$ change***	***% change***
	(in thousands)			
Costs of Sales	$ 3,527	$ 2,851	$ 676	24%

Cost of sales increased by 24% for the year ended December 31, 2009 compared to the same period in 2008. Cost of sales as a percentage of revenues can vary depending on the product mix. The increase in our cost of sales was primarily due to our underutilized manufacturing capacity which led to higher cost of sales due to the unabsorbed overhead expenses along with creation of reserves to inventory arising out of expired materials and inventories related to products recalled of approximately $104,000.

	For the years ended			
Operating Expenses	***December 31, 2009***	***December 31, 2008***	***$ change***	***% change***
	(in thousands)			
Selling General and Administrative Expenses	$ 3,602	$ 2,777	$ 825	30%
Product Development and Research Expense	$ 740	$ 502	$ 238	47%

Selling, general and administrative expenses for the year ended December 31, 2009 increased by $825,000 or 30% as compared to the same period in 2008 as a result of the severance payment of $341,000 to our former President and Chief Executive Officer as per his separation agreement, employees compensation payable in stock of $280,000, an increase in consulting fees of $50,000, an increase in salaries of approximately $115,000 and an increase of $475,000 in legal and other professional fees, partially offset by a decrease in expense from the issuance of stock options of $404,000.

This increase of $825,000 or 30% is a direct result of the Company creating its pharmaceutical foundation, transitioning from a contract manufacturer to a generic topical pharmaceutical company. The Company reinforced its Board of Directors by adding individuals with generic pharmaceutical industry experience. As the Company continued to develop its long-term strategy, it utilized the external resources of various topical industry consultants in developing its future product portfolio, while at the same time recruiting a new management team in Finance, Quality, Regulatory and Business Development to strengthen the Company.

Product development and research expenses for the year ended December 31, 2009 increased by 47% as compared to the same period in 2008 due to testing expenses related to new products of $104,000, an increase in consulting fees of $60,000, expense from the issuance of stock options of $20,000 and an increase in salaries of $44,000.

	For the years ended			
Interest income (expense), net	***December 31, 2009***	***December 31, 2008***	***$ change***	***% change***
	(in thousands)			
Interest Income	$ 19	$ 11	$ 8	73%
Interest Expense	$ 957	$ 26	$ 931	3581%

Interest income increased by 73% for the year ended December 31, 2009 as compared to the same period in 2008 due to higher average cash balances offset by lower interest rates in 2009. Interest expense increased by 3,581% for the year ended December 31, 2009 as compared to the same period in 2008 due to approximately $943,000 of accrued interest and amortization of debt discount and debt issuance costs related to the convertible notes payable issued in connection with the Offering (see Footnote 8 to our Consolidated Financial Statements) that were included in interest expense in 2009.

The amounts in other income, net of $1,000 and $28,000 in 2009 and 2008, respectively, were miscellaneous income.

The tax benefit of $108,000 in 2009 and $196,000 in 2008 was the result of a sale of a portion of the Company s state tax operating loss carry forwards to a third party.

	For the years ended			
Net loss attributable to common stockholders	***December 31, 2009***	***December 31, 2008***	***$ change***	***% change***
	(in thousands, except per share numbers)			
Net loss attributable to common stockholders	$ (7,408)	$ (1,852)	$ 5,556	300%
Net loss per share	$ (0.46)	$ (0.12)	$ 0.34	283%

Net loss attributable to common stockholders increased by 300% for the year ended December 31, 2009 as compared to the same period in 2008 is due to approximately $943,000 of accrued interest and amortization of debt discount and debt issuance costs related to the convertible notes payable issued in connection with the Offering (see Footnote 8 to our Consolidated Financial Statements) that were included in interest expense and the dividend accreted for beneficial conversion features of $2,488,000 as well as the items noted above.

Liquidity and Capital Resources

The Company s principal sources of liquidity are cash and cash equivalents of approximately $1,124,000 at December 31, 2009 and cash from operations, compared to $171,000 for the same period in 2008. The Company sustained net losses attributable to common stockholders of $7,408,000 and $1,852,000 for the years ended December 31, 2009 and 2008, respectively, and had working capital of $1,917,000 at December 31, 2009.

The Company s business operations have been partially funded over the past three years through the exercise of stock options by our directors and officers and through private placements of our stock. If necessary, we may continue to seek to raise additional capital through the sale of our equity. We may accomplish this via a strategic alliance with a third party. There may be additional acquisition and growth opportunities that may require external financing. There can be no assurance that such financing will be available or available on terms acceptable to the Company.

On January 29, 2009, the secured line of credit with Pinnacle Mountain Partners, LLC, (Pinnacle), a company owned by Dr. Edward and Jane Hager, significant stockholders of the Company, and in the case of Mrs. Hager, a director of the Company, was amended and extended for a term of six months (the Second Amendment to Loan and Security Agreement), as more fully described in Footnote 6 to our Consolidated Financial Statements. The Company had an outstanding principal balance under the Second Amendment to Loan and Security Agreement with a face value of $500,000 as of May 15, 2009 and interest expense related to this line of credit was $14,065 for the period January 1, 2009 to May 15, 2009 (date of conversion).

On March 13, 2009, the Company completed a $6,000,000 private placement, resulting in net proceeds of approximately $5,279,000, with certain investment funds affiliated with Signet Healthcare Partners, G.P. (the Offering), as more fully described in Footnote 8 to our Consolidated Financial Statements. As a condition to the consummation of the Offering, on March 13, 2009, the Company and Pinnacle entered the Third Amendment to Loan and Security Agreement pursuant to which the parties agreed to change the final payment date of the amounts borrowed under the line of credit from July 31, 2009 to instead provide that 50% of the amount of all loans and advances made by Pinnacle under the line of credit will become due and payable on July 31, 2010 and the remaining outstanding loans and advances, together with interest thereon, will become due and payable on July 31, 2011.

In addition, as a condition to the consummation of the Offering, the Company and Pinnacle entered into a note conversion agreement dated March 13, 2009, pursuant to which Pinnacle agreed to convert the principal amount outstanding under the Third Amended and Restated Revolving Note (the Note Payable) into shares of the Company s common stock at a conversion rate of $0.41 per share upon receipt of stockholder approval by the Company of such conversion (the Note Conversion). For additional information relating to the Note Conversion, see Footnote 6 to our Consolidated Financial Statements. For additional information relating to the Offering, see Footnote 8 to our Consolidated Financial Statements.

In connection with the Offering, certain holders of our capital stock, representing approximately 51.7% of the voting power of the outstanding shares of our capital stock entitled to vote to approve the Offering, entered into a voting agreement, pursuant to which such holders agreed to vote or execute and deliver a written consent in favor of approving the Offering. At the Company s 2009 annual meeting of stockholders held on May 15, 2009, the Company s stockholders approved the Offering and Note Conversion. Immediately upon stockholder approval, the $4,782,600 aggregate principal amount of promissory notes issued in the Offering by the Company to the investment funds affiliated with Signet Healthcare Partners, G.P., together with accrued and unpaid interest, were converted into an aggregate of approximately 804 shares of the Company s Series B-1 Convertible Preferred Stock and the warrants to purchase shares of the Company s Series B-2 Preferred Stock issued to these investment funds were cancelled. Additionally, the $500,000 principal amount outstanding under the Pinnacle Note Payable was converted into 1,219,512 shares of the Company s common stock.

The Company believes that its operating cash flow along with its existing capital resources and a recently completed stock offering as detailed below will be sufficient to support its current business plan through March 2011. On March 29, 2010, the Company completed a $1,550,000 private placement with certain investors, including investment funds affiliated with Signet Healthcare Partners, G.P. and Jane E. Hager (the Series C Offering). As part of the Series C Offering, the Company issued 1,550 shares of Series C Convertible Preferred Stock. The Series C Convertible Preferred Stock has a par value of $0.01 per share and the holders are entitled to quarterly dividends at an annual rate of 5%, when and if declared by the Board of Directors. Furthermore, each share of Series C Preferred Stock is convertible into shares of common stock equal to (i) 1,000 plus any accrued and unpaid dividends, divided by (ii) $0.69 (the closing price of the Company s common stock on the date of issuance). The Company may require additional funding. This funding will depend, in part, on the timing and structure of potential business arrangements. If necessary, the Company may continue to seek to raise additional capital through the sale of its equity. It may accomplish this via a strategic alliance with a third party. In addition, there may be additional acquisition and growth opportunities that may require external financing. However, the trading price of the Company s stock, a downturn in the U.S. equity and debt markets and the negative economic trends in general could make it more difficult to obtain financing through the issuance of equity securities or otherwise. There can be no assurance that such financing will be available on terms acceptable to the Company, or at all.

The Company s operating activities used $3,619,000 in 2009, compared to $722,000 used during 2008. The increase in cash used in 2009 was primarily due to the decrease in revenues and the increase in costs and expenses during 2009.

The Company s investing activities used $736,000 of cash in 2009 compared to $119,000 cash used in 2008. Cash used in 2009 was for capital expenditures related to additional equipment and improvements for the manufacturing area, the packaging and filing lines and the analytical area. Cash used in 2008 was for capital expenditures related to additional equipment and improvements for the packaging and filling lines.

The Company s financing activities provided $5,308,000 of cash during the year ended December 31, 2009 compared to $98,000 provided by financing activities during the year ended December 31, 2008. The cash provided for the year ended December 31, 2009 is mainly from the proceeds of the Offering as more fully described in Footnote 8 to our Consolidated Financial Statements. The cash used for the year December 31, 2008 represents a pay down of the note payable balance offset by proceeds from the exercise of common stock options and warrants.

Recent Pronouncements

In June 2009, the FASB issued ASC 105, *Generally Accepted Accounting Principles* which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of ASC 105, the Company has updated references to GAAP in its financial statements issued for the period ended December 31, 2009. The adoption of ASC 105 did not impact the Company s financial position or results of operations.

ASC 805-10, 805-20 and 805-30 10 on *Business Combinations* establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. ASC 805 also establishes disclosure requirements, which will enable users to evaluate the nature and financial effects of the business combination. ASC 805 is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008. ASC 805 will only have an impact on the Company s financial position or results of operations if it enters into a business combination.

ASC 810-10-65, on *Consolidation* establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The code also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. ASC 810 is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008. The Company has evaluated the new statement and has determined that it does not have a significant impact on the determination or reporting of its financial results.

ASC 808 on *Collaborative Arrangements* provides guidance concerning determining of whether an arrangement constitutes a collaborative arrangement within the scope of the Issue; how costs incurred and revenue generated on sales to third parties should be reported in the income statement; how an entity should characterize payments on the income statement; and what participants should disclose in the notes to the financial statements about a collaborative arrangement. ASC 808 is effective for the Company s collaborations existing after January 1, 2009. The Company has evaluated the new statement and has determined that it does not have a significant impact on the determination or reporting of its financial results.

ASC 350 relating to *Intangibles - Goodwill and Other* amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under the earlier standard. ASC 350 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The guidance in ASC 350 for determining the useful life of a recognized intangible asset shall be applied prospectively to intangible assets acquired after adoption, and the disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, adoption. The Company has evaluated the new statement and has determined that it does not have a significant impact on the determination or reporting of its financial results.

ASC 470-20 deals with *Debt with Conversion and Other Options,* and requires separate accounting for the debt and equity components of convertible debt issuances. The requirements for separate accounting must be applied retrospectively to previously issued cash-settleable convertible instruments as well as prospectively to newly issued instruments, negatively affecting both net income and earnings per share for issuers of the instruments. ASC 470 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company has evaluated the new statement and has determined that it does not have a significant impact on the determination or reporting of its financial results.

ASC 260-10-45-28 dealing with *Earnings per Share* addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in calculating, Earnings per Share. This ASC requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents as a separate class of securities in calculating earnings per share. ASC 260-10- 45-28 is effective for fiscal years beginning after December 15, 2008; earlier application is not permitted. The Company has evaluated the new statement and has determined that it does not have a significant impact on the determination or reporting of its financial results.

Critical Accounting Policies and Estimates

The SEC defines critical accounting policies as those that require application of management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Our significant accounting policies are described in Footnote 1 to our Consolidated Financial Statements. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, the following policies could be deemed to be critical within the SEC definition.

Environmental Remediation Liability

On April 6, 2000, officials of the New Jersey Department of Environmental Protection (DEP) inspected the Company s leased storage site in Buena, New Jersey, and issued Notices of Violation (NOVs) relating to the storage of waste materials in a number of trailers at the site. The Company established a disposal and cleanup schedule and completed the removal of materials from the site. In March 2006, the Company received a judge s decision from the Office of Administrative Law (OAL) of a fine in the amount of $35,000 in respect to the NOVs the Company received from the DEP. Due to the criminal settlement that was reached between the Company and the DEP in 2002, the Company had a credit of $40,000 to be used against any fines determined as a result of the civil matter, therefore, the Company did not have to pay any money to the DEP for the settlement amount. The DEP subsequently issued a final decision, which accepted the violation findings but rejected the OAL Judge s penalty recommendation, reinstituting a previously proposed penalty by the DEP of $215,000, less the $40,000 credit previously mentioned or $175,000. The Company appealed this to the Superior Court of the NJ Appellate Division, which determined that the Commission s decision was reasonable thus affirming the DEP Commissioner s decision. This amount of $175,000 was accrued for in the fourth quarter of 2007. The Company reached a settlement with DEP Commissioner and agreed to pay the above amount in six equal installments. The final installment was paid on June 30, 2009.

On March 2, 2001, the Company became aware of environmental contamination resulting from an unknown heating oil leak at its Companion Pet Products manufacturing facility. The Company immediately notified the New Jersey DEP and the local authorities, and hired a contractor to assess the exposure and required clean up costs. The total estimated costs for the clean-up and remediation is $669,000, of which $54,000 remains accrued as of December 31,

2009. Based on information provided to the Company from its environmental consultant and what is known to date, the Company believes the reserve is sufficient for the remaining remediation of the environmental contamination. There is a possibility, however, that the remediation costs may exceed the Company s estimates.

In response to an observation by the New Jersey DEP of pesticide contamination in a portion of its property located at 105 Lincoln Avenue in Buena, Atlantic County, New Jersey, the Company contracted with an environmental and remediation firm to complete soil delineation of the pesticide contamination, its remediation and disposal. The estimated cost for the remediation is $65,000, of which $15,000 remains accrued as of December 31, 2009. Based on information provided to the Company from its environmental consultant and what is known to date, the Company believes the reserve is sufficient for the remaining remediation of the environmental contamination. There is a possibility, however, that the remediation costs may exceed the Company s estimates.

Long-Lived Assets

The Company s long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net undiscounted cash flows expected to be generated by the asset.
If the assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets.

Deferred Tax Valuation Allowance

Deferred taxes arise due to temporary differences in the bases of assets and liabilities and from net operating losses and credit carry forwards. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in the Company's statement of operations become deductible expenses under applicable income tax laws or loss or credit carry forwards are utilized. Accordingly, realization of deferred tax assets is dependent on future taxable income against which these deductions, losses and credits can be utilized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers historical operating losses, scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. As a result, the Company concluded that it was more likely than not that it will be unable to realize the gross deferred tax assets in the foreseeable future and established a valuation reserve for all such deferred tax assets.

Revenue Recognition

The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, delivery has occurred or contractual services rendered, the sales price is fixed or determinable, and collection is reasonably assured in conformity with SAB No. 104, *Revenue Recognition*.

The Company derives its revenues from three basic types of transactions: sales of manufactured product, licensing of technology, and research and product development services performed for third parties. Due to differences in the substance of these transaction types, the transactions require, and the Company utilizes, different revenue recognition policies for each.

Product Sales: The Company recognizes revenue when title transfers to its customers, which is generally upon shipment of products. These shipments are made in accordance with sales commitments and related sales orders entered into with customers either verbally or in written form. The revenues associated with these transactions, net of appropriate cash discounts, product returns and sales reserves, are recorded upon shipment of the products.

Licensing Revenues: Revenues earned under licensing or sublicensing contracts are recognized ratably over the life of the agreements. Advance payments by customers are initially recorded as deferred income on the Consolidated Balance Sheet and then recognized ratably over the life of the agreement or as contract obligations are completed.

Product Development Services*:* The Company establishes agreed upon product development agreements with its customers to perform product development services. Product development revenues are recognized in accordance with the product development agreement upon the completion of the phases of development and when we have no future performance obligations relating to that phase of development. Revenue recognition requires the Company to assess progress against contracted obligations to assure completion of each stage. Payments under these arrangements are generally non-refundable and are reported as deferred until they are recognized as revenue. If no such arrangement exists, product development fees are recognized ratably over the entire period during which the services are performed.

In making such assessments, judgments are required to evaluate contingencies such as potential variances in schedule and the costs, the impact of change orders, liability claims, contract disputes and achievement of contractual performance standards. Changes in total estimated contract cost and losses, if any, are recognized in the period they are determined. Billings on product development contracts are typically based upon terms agreed upon by the Company and customer and are stated in the contracts themselves and do not always align with the revenues recognized by the Company. On occasions when revenue recognized exceeds the milestone or progress billree and six months ended June 30, 2005 as compared to the same periods in 2004. This expense includes the April 2005 interest payment on CRNA s 7 1/8% senior debt note. Prior to this interest payment, Converium Holdings (North America) Inc. received a capital contribution from Converium AG. In addition, the interest expense includes the interest payment for the Guaranteed Subordinated Notes.

Impairment of goodwill: Impairment of goodwill was nil for the three and six months ended June 30, 2005 as compared to US$ 94.0 million for the same periods in 2004.
SFAS No. 142, Goodwill and Other Intangible Assets , requires impairment testing of goodwill annually or more regularly if any event or change in business circumstances occurs which would indicate that the carrying value of goodwill may be impaired. Due to the reserving actions taken in the second quarter of 2004 in respect of prior year development in business written in North America, and a subsequent decision to take a full valuation allowance against the net deferred tax asset at CRNA, a goodwill impairment test was conducted to assess the fair value of the reporting units at that date. As a result of this assessment, an impairment charge of US$ 94.0 million was recorded in the second quarter of 2004.
Amortization of intangible assets: Amortization of intangible assets was US$ 7.0 million and US$ 14.0 million for the three and six months ended June 30, 2005 as compared to US$ 0.8 million and US$ 1.5 million for the same periods in 2004. This amortization relates to the intangible asset for Global Aerospace Underwriting Managers Limited (GAUM).
Restructuring costs: The reduction of premium volume required an adjustment of our cost base globally going forward. Consequently, we notified certain of our employees that their employment would be terminated. We recorded restructuring costs of US$ 3.5 million and US$ 13.6 million for the three and six months ended June 30, 2005, respectively, related to these global cost management measures.
In addition, as a result of the global restructuring, a decision was made in January 2005 to vacate our primary office space in New York, New York and consolidate in our Stamford, Connecticut office space. We expect the transfer to be effective within the third quarter of 2005, resulting in additional restructuring costs. Office space in Zurich is also under review, which could result in additional restructuring costs in future quarters.
Income tax benefit (expense): We recorded an income tax benefit of US$ 21.6 million and US$ 25.4 million for the three and six months ended June 30, 2005, respectively. Over the past year, we have established a full valuation allowance against existing tax losses carried forward in our primary locations, resulting in minimal current income tax expense relating to pre-tax income. Therefore tax benefits and expenses are primarily driven by the development of existing deferred tax assets and liabilities, which are established to reflect differences in the tax accounting rules of local jurisdictions and US GAAP accounting.
In the second quarter of 2005, our income tax benefit resulted from the reduction of deferred acquisition costs (DAC), caused by the decline in our overall non-life premium volume, and certain timing differences related to the recognition of investment gains and losses.

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In the first half of 2005, our income tax benefit resulted from the positive effect of a reduction of DAC, the effect of certain timing differences related to the recognition of investment gains and losses, and certain other deferred tax liability reductions, offset by a reduction in the profit allocated to the Bermuda branch and an increase of the valuation allowance on existing losses carried forward.

Our consolidated income tax expense for the three and six months ended June 30, 2004 reflected an additional expense of US$ 269.8 million, related to the establishment of a full valuation allowance against the net deferred income tax balances previously carried at CRNA.

Business development

Converium s business is organized around three ongoing operating segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance, which are based principally on global lines of business, in addition to a Run-Off segment. The Run-Off segment includes all business originating from CRNA and CINA, excluding the US originated aviation business. In addition to the four segments financial results, the Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee, and other corporate functions as well as other expenses not allocated to the operating segments. Prior year figures have been restated to reflect the new segment reporting structure.

The following table compares Converium s segment results for the three and six months ended June 30, 2005 and 2004 and reconciles segment results to income (loss) before taxes:

	Three months ended June 30		Six months ended June 30	
(US$ million)	2005	2004	2005	2004
Segment income (loss):				
Standard Property & Casualty Reinsurance	32.5	22.0	34.9	69.0
Specialty Lines	41.3	-10.6	11.7	37.4
Life & Health Reinsurance	0.3	1.9	6.5	3.4
Run-Off	6.9	-289.6	2.3	-284.2
Corporate Center	-11.8	-7.4	-19.0	-17.1
Total segment income (loss)	69.2	-283.7	36.4	-191.5
Other (loss) income	-1.5	5.4	-9.3	8.1
Interest expense	-8.0	-8.8	-15.9	-16.6
Impairment of goodwill		-94.0		-94.0
Amortization of intangible assets	-7.0	-0.8	-14.0	-1.5
Restructuring costs	-3.5		-13.6	
Net income (loss) before taxes	49.2	-381.9	-16.4	-295.5

Standard Property & Casualty Reinsurance

	Three months ended June 30		% change 2005 over 2004	Six months ended June 30		% change 2005 over 2004
(US$ million)	2005	2004		2005	2004	
Gross premiums written	47.9	284.5	-83.2	460.4	918.4	-49.9
Net premiums written	43.3	255.7	-83.1	446.2	855.1	-47.8
Net premiums earned	178.9	334.5	-46.5	420.9	706.5	-40.4

Total investment results	30.8	28.8	57.8	55.2
Segment income	32.5	22.0	34.9	69.0
Loss ratio	74.8%	74.2%	78.0%	71.7%
Underwriting expense ratio	17.3%	22.8%	20.0%	21.2%
Administration expense ratio	28.6%	6.6%	7.0%	4.2%
Combined ratio	120.7%	103.6%	105.0%	97.1%
Retention ratio (net premiums written divided by gross premiums written)	90.4%	89.9%	96.9%	93.1%

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Standard Property & Casualty Reinsurance reported segment income for the three and six months ended June 30, 2005 and 2004. These results were primarily attributable to the following:

A solid underwriting performance supported by net positive development of prior years loss reserves of US$ 3.3 million in the first half of 2005 and the absence of major catastrophic events in the second quarter of 2005. For the second quarter of 2005, the Standard Property & Casualty Reinsurance segment recorded net strengthening of prior years loss reserves of US$ 6.9 million primarily related to strengthening within the Motor line of business (US$ 17.9 million), which was partially offset by positive development within the Property line of business (US$ 17.6 million). Included within the US$ 17.6 million positive development for the Property line of business was a strengthening of US$ 4.4 million (US$ 11.8 million year-to-date) related to the US/Caribbean hurricanes that occurred in late 2004. For the three and six months ended June 30, 2004, US$ 5.1 million and US$ 1.1 million, respectively of net reserve strengthening was recorded.

For the three months ended June 30, 2005, the loss ratio remained relatively flat as compared to the same period of 2004.

The impact of winter storm *Erwin*, which resulted in net pre-tax losses in the amount of US$ 32.5 million, net of US$ 3.0 million in reinstatement premium, during the first quarter of 2005, added 7.7 percentage points to the loss ratio for the six months ended June 30, 2005.

Strong investment results for the three and six months ended June 30, 2005 as compared to the same periods of 2004.

For the three months ended June 30, 2005, gross premiums written decreased 83.2% to US$ 47.9 million, net premiums written decreased 83.1% to US$ 43.3 million and net premiums earned decreased 46.5% to US$ 178.9 million. For the six months ended June 30, 2005, gross premiums written decreased 49.9% to US$ 460.4 million, net premiums written decreased 47.8% to US$ 446.2 million and net premiums earned decreased 40.4% to US$ 420.9 million. Premium volume for the three and six months ended June 30, 2005 was impacted by the ratings downgrades that occurred in 2004, which resulted in clients canceling their business or reducing their shares with us. In addition, due to the seasonality involved with the renewal of our business in different markets, we generally record the largest share of our premium volume in the first quarter of a given year and approximately half of our annual premium volume is recorded by the end of the second quarter of a given year. For the six months ended June 30, 2005, the reduction in net premiums written in the Standard Property & Casualty Reinsurance segment by line of business included:

Motor (decreased by 60.7% or US$ 195.1 million to US$ 126.5 million), largely reflecting reduced writings in the France and United Kingdom books of business due to profitability considerations as well as cancellation of business due to ratings downgrades in 2004;

Property (decreased by 16.9% or US$ 53.3 million to US$ 262.0 million), largely reflecting reduced writings due to the ratings downgrades in 2004;

General Third Party Liability (decreased by 76.1% or US$ 146.4 million to US$ 46.0 million), which decreased due to revisions to premium estimates on our London Market North America and United Kingdom book of business; and

Personal accident (assumed from non-life insurers) (decreased by 54.7% or US$ 14.1 million to US$ 11.7 million), which decreased as a result of the cancellation or non-renewal of business and reduced shares in current business due to the ratings downgrades in 2004.

Our underwriting expense ratio decreased for the second quarter of 2005 due to our Lloyd s participations, which form an increasing share of the Standard Property & Casualty Reinsurance segment. Due to the way the Lloyd s business is reported to us, this premium is accounted for net of acquisition costs so that as the proportion of business from this source rises we see a corresponding fall in the acquisition cost ratio.

Our administration expense ratio increased significantly for the second quarter of 2005, as our cost management measures are not fully reflected in our cost base and because of the significant reduction in net premiums written.

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Specialty Lines

(US$ million)	Three months ended June 30 2005	2004	% change 2005 over 2004	Six months ended June 30 2005	2004	% change 2005 over 2004
Gross premiums written	247.3	375.2	-34.1	401.8	723.0	-44.4
Net premiums written	229.5	347.2	-33.9	384.9	670.6	-42.6
Net premiums earned	327.3	300.3	9.0	619.7	582.3	6.4
Total investment results	34.9	36.3		65.9	69.6	
Segment income (loss)	41.3	-10.6		11.7	37.4	
Loss ratio	72.7%	91.4%		82.4%	81.0%	
Underwriting expense ratio	21.8%	20.6%		21.8%	21.2%	
Administration expense ratio	5.1%	3.1%		7.4%	2.9%	
Combined ratio	99.6%	115.1%		111.6%	105.1%	
Retention ratio (net premiums written divided by gross premiums written)	92.8%	92.5%		95.8%	92.8%	

Specialty Lines reported segment income for the three and six months ended June 30, 2005 as compared to a segment loss for the three months ended June 30, 2004 and a segment income for the six months ended June 30, 2004. These results were primarily attributable to the following:

A solid underwriting performance supported by US$ 10.5 million of net positive development of prior years loss reserves in the second quarter of 2005, which was primarily driven by positive development within the Aviation line of business (US$ 19.5 million) and was partially offset by net strengthening within additional lines of business within the segment. The net positive development for the quarter resulted in the Specialty Lines segment recording net positive development of US$ 6.3 million for the first half of 2005. In the second quarter of 2004, US$ 51.3 million of net strengthening of prior years loss reserves was recorded, which resulted in 2004 year-to-date net strengthening of prior years loss reserves in the amount of US$ 32.2 million.

The commutation of certain retrocession contracts which had a negative effect on losses of US$ 38.7 million during the first quarter of 2005.

Strong investment results for the three and six months ended June 30, 2005 as compared to the same periods of 2004.

For the three months ended June 30, 2005, gross premiums written decreased 34.1% to US$ 247.3 million, net premiums written decreased 33.9% to US$ 229.5 million and net premiums earned increased 9.0% to US$ 327.3 million. For the six months ended June 30, 2005, gross premiums written decreased 44.4% to US$ 401.8 million, net premiums written decreased 42.6% to US$ 384.9 million and net premiums earned increased 6.4%

to US$ 619.7 million. Premium volume for the three and six months ended June 30, 2005 was impacted by the ratings downgrades that occurred in 2004, which resulted in clients canceling their business or reducing their shares with us. For the six months ended June 30, 2005, the reduction in net premiums written in the Specialty Line segment by line of business included:

- Aviation & Space (decreased by 31.5% or US$ 59.8 million to US$ 129.9 million);
- Credit & Surety (decreased by 69.2% or US$ 69.4 million to US$ 30.9 million);
- Professional Liability and other Special Liability (decreased by 45.5% or US$ 97.6 million to US$ 116.8 million);
- Engineering (decreased by 39.6% or US$ 29.6 million to US$ 45.2 million);
- Marine & Energy (decreased by 25.8% or US$13.9 million to US$ 40.0 million); and
- Workers Compensation (decreased by 97.3% or US$ 32.3 million to US$ 0.9 million), which in addition to the affects of the ratings downgrades that occurred in 2004, decreased due to the non-renewal of two large contracts.

These decreases were offset by an increase in net premiums written in the Agribusiness line of business, which increased by US$ 17.0 million to US$ 21.2 million. Additionally, in Specialty Lines, we successfully renewed the significant business with our strategic partner, MDU.

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Our underwriting expense ratio increased for the six months ended June 30, 2005 from 21.2% to 21.8% due to the change in the business mix, which has shifted from non-proportional to proportional, and the additional fronting commission of the GAUM business due to the ratings downgrades in 2004.

Our administration expense ratio increased for the six months ended June 30, 2005 from 2.7% to 7.4%, as our cost management measures are not fully reflected in our cost base and because of the significant reduction in net premiums written.

Life & Health Reinsurance

(US$ million)	Three months ended June 30 2005	2004	% change 2005 over 2004	Six months ended June 30 2005	2004	% change 2005 over 2004
Gross premiums written	59.3	70.6	-16.0	176.4	189.8	-7.1
Net premiums written	55.7	57.2	-2.6	169.5	168.4	0.7
Net premiums earned	74.1	83.6	-11.4	155.2	151.3	2.6
Total investment results	6.5	5.2		12.5	9.9	
Segment income	0.3	1.9		6.5	3.4	
Underwriting expense ratio	25.4%	25.5%		29.6%	22.0%	
Administration expense ratio	7.4%	7.7%		4.8%	4.4%	
Retention ratio (net premiums written divided by gross premiums written)	93.9%	81.0%		96.1%	88.7%	

Life & Health Reinsurance reported segment income for the three months and six months ended June 30, 2005 and 2004. The segment income in 2005 was primarily attributable to the expansion of existing reinsurance transactions in Continental Europe, which was partially offset by negative development of US$ 1.5 million in the first quarter of 2005 related to the tsunami that occurred in late 2004.

Technical result for the three months ended June 30, 2005 was US$ 1.5 million compared to US$ 4.1 million for the same period in 2004. The technical result for the six months ended June 30, 2005 was US$ 8.1 million compared to US$ 5.4 million for the same period in 2004. Technical result is defined as net premiums earned minus losses, loss adjustment expenses and life benefits minus underwriting acquistiion costs plus technical interest.

The decrease in segment income and technical result for the second quarter of 2005 was primarily driven by our decision to non-renew two large contracts as well as updated cedent information pertaining to our European and Latin American markets.

For the three months ended June 30, 2005, gross premiums written decreased 16.0% to US$ 59.3 million, net premiums written decreased 2.6% to US$ 55.7 million and net premiums earned decreased 11.4% to US$ 74.1 million. For the six months ended June 30, 2005, gross premiums written decreased 7.1% to US$ 176.4 million, net premiums written increased 0.7% to US$ 169.5 million and net premiums earned increased 2.6% to US$ 155.2 million.

For the six months ended June 30, 2005, net premiums written growth in the Life & Health Reinsurance segment was primarily within the Life and Disability reinsurance line of business which increased by 8.5% or US$ 10.3 million to

US$ 132.2 million primarily due to the expansion of existing reinsurance transactions as well new business being written. This increase was offset by a decrease of 20.0% or US$ 9.3 million in net premiums written to US$ 37.3 million in the Accident and Health line of business due to the cancellation of contracts where the overall performance was not in-line with our profitability targets as well as the impact of the ratings downgrades that occurred in 2004.

Run-Off

	Three months ended June 30		% change 2005 over 2004	Six months ended June 30		% change 2005 over 2004
(US$ million)	2005	2004		2005	2004	
Gross premiums written	7.5	297.3	-97.5	40.9	580.0	-92.9
Net premiums written	2.4	288.7	-99.2	35.2	553.3	-93.6
Net premiums earned	32.5	291.5	-88.9	105.8	562.8	-81.2
Total investment results	14.6	18.9		32.1	36.3	
Segment income (loss)	6.9	-289.6		2.3	-284.2	

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The Run-Off segment reported segment income of US$ 6.9 million and US$ 2.3 million for the three and six months ended June 30, 2005, respectively, versus a segment loss for the same periods of 2004. In the second quarter of 2005, the Run-Off segment recorded US$ 3.1 million of net positive development of prior years loss reserves, which resulted in net strengthening of prior years loss reserves of US$ 13.3 million in the first half of 2005. In the second quarter of 2004 the Run-Off segment strengthened prior years loss reserves by US$ 331.3 million, primarily within the Professional Liability and other Special Liability and General Third Party Liability lines of business, which resulted in US$ 397.4 million of net reserve strengthening of prior years loss reserves in the first half of 2004.

Corporate Center

(US$ million)	Three months ended June 30 2005	2004	% change 2005 over 2004	Six months ended June 30 2005	2004	% change 2005 over 2004
Operating and administration expenses	-11.8	-7.4	59.5	-19.0	-17.1	11.1

The Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee, and other corporate functions as well as other expenses not allocated to the operating segments. The Corporate Center costs increased for the three and six months ended June 30, 2005 as compared to the comparable periods of 2004 due to increased legal, audit and consulting fees related to our organizational and operational restructuring.

Financial Condition and Liquidity

Invested assets

As of June 30, 2005 and December 31, 2004, total invested assets (excluding cash and cash equivalents) were US$ 7.7 billion and US$ 7.8 billion respectively.

As of June 30, 2005, Converium reported total investments including cash and cash equivalents and excluding the Funds Withheld Asset of US$ 6,807.6 million. Of this total, certain amounts were pledged as follows: (i) US$ 1,098.5 million were pledged as collateral relating to outstanding letters of credit of US$ 989.6 million (these outstanding letters of credit are related to the US$ 1.6 billion Syndicated Letter of Credit Facility), (ii) US$ 959.8 million were pledged as collateral relating to other irrevocable letters of credit, (iii) US$ 231.5 million were pledged primarily as deposits with cedents, (iv) US$ 282.3 million were deposited in trust or with regulatory authorities or states, and (v) US$ 554.6 million were pledged to support Converium internal reinsurance transactions.

In order to better match cash flow profiles and liquidity constraints for potential commutations, during the first half of 2005, we aligned the investment portfolio in our North American operations to reflect the run-off situation. We lowered our exposure to mortgage-backed securities and replaced them with asset-backed securities and commercial mortgage-backed securities, which have less interest rate sensitivity than current investments but still offer attractive yields.

Our asset mix, including cash and cash equivalents, consisted of the following at June 30, 2005 and December 31, 2004:

Asset class	As of June 30, 2005	As of Dec. 31, 2004
Fixed maturity securities (including the Funds Withheld Asset)	87.0%	82.5%
Equity securities [1]	4.0%	3.6%
Cash and short-term investments	4.6%	9.4%

Real estate and other[1, 2]	4.4%	4.5%
Total	100.0%	100.0%

1 PSP Swiss Property AG is included in Real estate and other with a market value of US$ 98.8 million as of June 30, 2005 and US$ 98.9 million as of December 31, 2004.

2 Included in the caption real estate and other are investments in funds of hedge funds, which had a carrying value of US$ 103.3 million as of June 30, 2005 and US$ 102.5 million as of December 31, 2004.

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Fixed maturities

As of June 30, 2005, our fixed maturities portfolio, excluding the Funds Withheld Asset (described more fully below), had a carrying value of US$ 5.8 billion and represented 72.4% of our total investment portfolio including cash and cash equivalents (87.0% including the Funds Withheld Asset). This represents an increase in carrying value of US$ 85.8 million, or 1.5%, from December 31, 2004. This increase is driven by the purchase of additional investments, as well as by a decrease in unrealized losses caused by interest rate decreases that occurred in the second quarter of 2005.

We invest in government, agency and corporate fixed income securities of issuers from around the world that meet our liquidity and credit standards. We place an emphasis on investing in listed fixed income securities that we believe to be liquid.

The table below presents the composition of our fixed income securities portfolio, excluding short-term investments, based on carrying value by scheduled maturity.

(US$ million) As of June 30, 2005	Estimated fair value Available-for-sale (AFS)	% of total AFS	Carrying value Held-to-maturity (HTM)	% of total HTM
Less than one year	225.1	4.6	30.5	3.7
One year through five years	2,911.5	58.8	489.2	59.7
Five years through ten years	1,009.9	20.4	278.9	34.0
Over ten years	86.2	1.7	21.3	2.6
Subtotal	4,232.7	85.5	819.9	100.0
Mortgage and asset-backed securities	555.7	11.2		
Unit trust bonds	162.7	3.3		
Total as of June 30, 2005	4,951.1	100.0	819.9	100.0

Most of our fixed income securities are rated by Standard & Poor s, Moody s or similar rating agencies. As of June 30, 2005, approximately 96.4% of our fixed income securities portfolio was invested in securities rated A or better by these agencies and approximately 83.0% was invested in AAA/Aaa rated securities.

The table below presents the composition of our fixed income securities portfolio by rating, using the lower of these ratings for any security where there is a split rating.

(US$ million) As of June 30, 2005	Estimated fair value Available-for-sale (AFS)	% of total AFS	Carrying value Held-to-maturity (HTM)	% of total HTM
AAA/Aaa	3,994.4	80.7	794.9	97.0
AA/Aa2	442.3	8.9	14.3	1.7
A/A2	308.7	6.2	10.7	1.3
BBB/Baa2	92.2	1.9		
BB	7.5	0.2		
Not rated*	106.0	2.1		
Total as of June 30, 2005	4,951.1	100.0	819.9	100.0

* Includes US$ 81.9 million private collateralized

loans issued by
German banks
with a credit
rating
equivalent to
S&P AAA.

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Equity securities

As of June 30, 2005, our equity securities portfolio had a carrying value of US$ 419.4 million (including PSP Swiss Property AG). This represents an increase in carrying value of US$ 20.0 million, or 5.0%, from December 31, 2004, which was mainly driven by purchases of equity securities in the first quarter of 2005. Equity securities were approximately 4.0% and 3.5% of our total investment portfolio as of June 30, 2005 and December 31, 2004, respectively, including cash and cash equivalents and excluding PSP Swiss Property AG.

Substantially our entire equity portfolio consists of listed securities held directly or through funds. All the equity portfolios are in developed markets. As experienced in recent years, the equity markets around the world can produce highly volatile and significantly varied results due to local and worldwide economic and political conditions.

Funds Withheld Asset

The transfer of certain historical reinsurance business to Converium was affected as of July 1, 2001 by means of the Quota Share Retrocession Agreement with Zurich Financial Services. In addition, on that date, the Funds Withheld Asset was established. Its initial balance was set to match the net balance of the liabilities, less the premium receivables (including outstanding collectible balances and reinsurance deposits) on the business to which the Quota Share Retrocession Agreement applies. As of June 30, 2005, the Funds Withheld Asset was US$ 1,159.2 million. The decrease of US$ 145.9 million over December 31, 2004 was substantially due to paid claims.

The table below shows the distribution of the Funds Withheld Asset by currency as of June 30, 2005 and December 31, 2004.

	As of June 30, 2005	As of December 31, 2004
US dollar	43%	41%
UK pound	28%	29%
Euro	24%	25%
Swiss franc	3%	2%
Japanese yen	2%	3%
Total	100%	100%
Weighted average interest rate	5.4%	5.4%

In general, the Funds Withheld Asset is reduced by paid claims, profit commissions, amounts paid to maintain the retrocession agreements and other amounts paid on the business subject to the Quota Share Retrocession Agreement, and is increased by premiums (less premium refunds), salvage and subrogation, recoveries under retrocession agreements, profit commissions and other amounts received for the business subject to the Quota Share Retrocession Agreement. The balance of the Funds Withheld Asset will decrease over time. However, business historically written on the Zurich Insurance Company (ZIC) and Zurich International (Bermuda) Ltd (ZIB) balance sheets was written on the Converium balance sheet and continued to be renewed, where it met Converium s profitability targets. As a result, we will generate operating cash flow from the new and renewal business written by Converium, which we expect to at least partially offset reductions of the balance of the Funds Withheld Asset.

Short-term investments

Our short-term investment portfolio includes investments in fixed-term deposits and fiduciary investments. These investments generally have maturities of between three months and one year. As of June 30, 2005, we had short-term investments with a carrying value of US$ 81.5 million, representing 1.0% of our total investment portfolio, including cash and cash equivalents. Short-term investments at December 31, 2004 were US$ 117.3 million or 1.4% of our total investment portfolio, including cash and cash equivalents.

Real estate and other investments

At June 30, 2005, we had real estate held for investment of US$ 152.0 million, consisting primarily of investments in residential and commercial rental properties located in Switzerland and indirect real estate in the Eurozone. Our real

estate portfolio represented 1.9% of our total investment portfolio, including cash and cash equivalents. At December 31, 2004, we had real estate held for investment of US$ 147.9 million, which represented 1.7% of our total investment portfolio, including cash and cash equivalents.
In addition to these properties, Converium owns a 4.9% participation in PSP Swiss Property AG (an indirect real estate investment, included in equity securities) with a market value of US$ 98.8 million as of June 30, 2005 and US$ 98.9 million as of December 31, 2004.
As of June 30, 2005 and December 31, 2004, we had US$ 103.3 million and US$ 102.5 million, respectively in funds of hedge funds. These investments are included under the caption Other investments in the balance sheet.

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Premiums receivable

We had premiums receivable of US$ 1,610.9 million at June 30, 2005 compared to US$ 2,145.5 million at December 31, 2004, a decrease of US$ 534.6 million, or 24.9%. This decrease is primarily due to the reduction in business volume. Premiums receivable include those currently due, as well as deferred premiums receivable, which is comprised primarily of accruals on premium balances which have not yet been reported and which are not contractually due to be paid until some time in the future. Current premiums receivable represented 20.6% and 19.4% of total premiums receivable at June 30, 2005 and December 31, 2004, respectively, and accrued premiums receivable represented 79.4% and 80.6%, respectively. Allowances of US$ 32.9 million have been recorded for estimated uncollectible receivables and reinsurance recoverables at June 30, 2005, compared to US$ 40.6 million at December 31, 2004. See Footnote 7 for additional information regarding retrocessional risk management.

Reinsurance assets

Retrocessional reinsurance arrangements generally do not relieve Converium from its direct obligations to its reinsureds. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any retrocessionaire is unable or unwilling to meet the obligations assumed under the retrocessional agreements. Converium held US$ 708.8 million in collateral as security under related retrocessional agreements in the form of deposits, securities and/or letters of credit at June 30, 2005.

As of June 30, 2005, we had reinsurance recoverables from retrocessionaires of approximately US$ 1,415.3 million on paid and unpaid losses and loss adjustment expenses, unearned premium reserves and future life benefits balances, compared to US$ 1,571.3 million at December 31, 2004.

Gross loss and loss adjustment expense reserves and future life benefits

We had gross loss and loss adjustment expense reserves of US$ 8,266.8 million at June 30, 2005, compared to US$ 8,915.6 million at December 31, 2004. Gross reserves for future life benefits were US$ 398.9 million at June 30, 2005, compared to US$ 407.1 million at December 31, 2004.

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Management s discussion and analysis
of financial condition and results of operations (continued)

Shareholders equity

As of June 30, 2005, we had total shareholders equity of US$ 1,648.2 million (US$ 11.26 per share) compared to US$ 1,720.2 million (US$ 11.76 per share) as of December 31, 2004, a decrease of US$ 72.0 million (US$ 0.50 per share). This decrease is mainly comprised of a reduction in the net balances of unrealized gains and losses on investments, net of taxes, of US$ 15.6 million due to the developments in the financial markets in the first half of 2005 and a reduction in cumulative translation adjustments of US$ 67.8 million due to the strengthening of the US dollar against our other major currencies such as the British pound, Swiss franc and Euro. Book value is calculated using shares outstanding at the end of the period.

Cash flows and liquidity sources

(US$ million)

	Six months ended June 30	
	2005	2004
Cash (used in) provided by operating activities	-37.6	442.5

Cash and cash equivalents decreased by US$ 399.5 million to US$ 281.4 million as of June 30, 2005 from US$ 680.9 million as of December 31, 2004. Our cash position decreased due the deployment of operating cash into fixed maturity securities.

Our cash flows from operating activities result principally from premiums, collections on losses recoverable and investment income, net of paid losses, acquisition costs and underwriting expenses. Our cash used in operating activities was US$ 37.6 million for the six months ended June 30, 2005 as compared to cash provided by operating activities of US$ 442.5 million for the six months ended June 30, 2004, a decrease of US$ 480.1 million, or 108.5%. This decrease was due to a reduction in overall business volume.

Critical accounting policies

Our consolidated financial statements include amounts that, either by their nature or due to requirements of accounting principles generally accepted in the United States (US GAAP), are determined using best estimates and assumptions. While we believe that the amounts included in our consolidated financial statements reflect our best judgment, actual amounts could ultimately differ materially from those currently presented in our consolidated financial statements. We believe the items that require the most subjective and complex estimates are:

- Unpaid loss and loss adjustment expense reserves;
- Collectibility of reinsurance recoverables, including bad debt provisions;
- Impairments to the carrying value of individual investments within our investment portfolio;
- The valuation allowances against our net deferred tax assets;
- Impairments of goodwill and other intangible assets; and
- Assessment of risk transfer for certain structured reinsurance contracts.

More information regarding the estimates and assumptions required to arrive at the amounts recorded is included in the section entitled Critical Accounting Policies in our Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2004 Annual Report.

Management s discussion and analysis
of financial condition and results of operations (continued)

Cautionary note regarding forward-looking statements

This Management s discussion and analysis of financial condition and results of operations contains certain forward-looking statements. Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements.

In particular, statements using words such as expect, anticipate, intend, believe or words of similar import generally involve forward-looking statements. In light of the risks and uncertainties inherent in all future projections, the inclusion of forward-looking statements should not be considered a representation by us that our objectives or plans will be achieved. Numerous factors could cause our actual results to differ materially from those in any forward-looking statements, including the following:

- The impact of the ratings changes and a further lowering or loss of one of our financial strength ratings;
- Uncertainties of assumptions used in our reserving process;
- Risks associated with implementing our business strategies and our capital improvement measures and the run off our North American business;
- Cyclicality of the reinsurance industry;
- The occurrence of natural and man-made catastrophic events with a frequency or severity exceeding our estimates;
- Acts of terrorism and acts of war;
- Changes in economic conditions, including interest and currency rate conditions that could affect our investment portfolio;
- Actions of competitors, including industry consolidation and development of competing financial products;
- A decrease in the level of demand for our reinsurance or increased competition in our industries or markets;
- A loss of our key employees or executive officers;
- Political risks in the countries in which we operate or in which we reinsure risks;
- The passage of additional legislation or the promulgation of new regulation in a jurisdiction in which we or our clients operate or where our subsidiaries are organized;
- The impact of the SEC and New York Attorney General s investigations of the insurance industry;
- Changes in our investment results due to the changed composition of our invested assets or changes in our investment policy;
- Failure of our retrocessional reinsurers to honor their obligations;
- Failure to prevail in any current or future arbitration or litigation; and
- Extraordinary events affecting our clients, such as bankruptcies and liquidations.

The factors listed above should not be construed as exhaustive. We cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statements. Except as otherwise required by law, we undertake no obligation to publicly release any future revisions we may make to forward-looking statements to reflect subsequent events or circumstances or to reflect the occurrence of unanticipated events.

The Company has made it a policy not to provide any quarterly or annual earnings guidance and it will not update any past outlook for full year earnings. It will, however, provide investors with a perspective on its value drivers, its strategic initiatives and those factors critical to understanding its business and operating environment.

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Converium Holding AG and Subsidiaries
Interim statements of income (loss) (unaudited)

(US$ million, except per share information)	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Revenues				
Gross premiums written	362.0	1,027.6	1,079.5	2,411.2
Less ceded premiums written	-31.1	-78.8	-43.7	-163.8
Net premiums written	330.9	948.8	1,035.8	2,247.4
Net change in unearned premiums	281.9	61.1	265.8	-244.5
Net premiums earned	612.8	1,009.9	1,301.6	2,002.9
Net investment income	87.8	76.7	170.0	149.3
Net realized capital (losses) gains	-1.0	12.5	-1.7	21.7
Other (loss) income	-1.5	5.4	-9.3	8.1
Total revenues	698.1	1,104.5	1,460.6	2,182.0
Benefits, losses and expenses				
Losses, loss adjustment expenses and life benefits	-449.3	-1,103.8	-1,035.1	-1,824.7
Underwriting acquisition costs	-130.9	-224.3	-291.3	-433.4
Other operating and administration expenses	-50.2	-54.7	-107.1	-107.3
Interest expense	-8.0	-8.8	-15.9	-16.6
Impairment of goodwill		-94.0		-94.0
Amortization of intangible assets	-7.0	-0.8	-14.0	-1.5
Restructuring costs	-3.5		-13.6	
Total benefits, losses and expenses	-648.9	-1,486.4	-1,477.0	-2,477.5
Income (loss) before taxes	49.2	-381.9	-16.4	-295.5
Income tax benefit (expense)	21.6	-278.1	25.4	-298.8
Net income (loss)	70.8	-660.0	9.0	-594.3
Basic earnings (loss) per share	0.48	-8.32	0.06	-7.49
Diluted earnings (loss) per share	0.48	-8.32	0.06	-7.49

The notes to the interim financial statements are an integral part of these financial statements.

Converium Holding AG and Subsidiaries
Interim balance sheets

(US$ million, except share information)	June 30, 2005 (unaudited)	Dec. 31, 2004
Assets		
Invested assets		
Held-to-maturity securities:		
Fixed maturities	819.9	850.4
Available-for-sale securities:		
Fixed maturities	4,951.1	4,834.8
Equity securities	419.4	399.4
Other investments	254.3	281.4
Short-term investments	81.5	117.3
Total investments	6,526.2	6,483.3
Funds Withheld Asset	1,159.2	1,305.1
Total invested assets	7,685.4	7,788.4
Other assets		
Cash and cash equivalents	281.4	680.9
Premiums receivable:		
Current	331.9	416.5
Accrued	1,279.0	1,729.0
Reserves for unearned premiums, retro	83.6	111.6
Reinsurance assets:		
Underwriting reserves	940.8	1,226.2
Insurance balances receivable	390.9	233.5
Funds held by reinsureds	1,609.4	1,721.3
Non-risk transfer reinsurance assets	139.1	137.0
Deferred policy acquisition costs	334.7	484.7
Deferred income taxes	70.2	78.3
Other assets	346.3	335.4
Total assets	13,492.7	14,942.8
Liabilities and shareholders equity		
Liabilities		
Reinsurance liabilities		
Loss and loss adjustment expenses, gross	8,266.8	8,915.6
Future life benefits, gross	398.9	407.1
Reinsurance balances payable	528.8	919.4
Reserves for unearned premiums, gross	971.8	1,312.3
Other reinsurance liabilities	173.2	110.4
Funds held under reinsurance contracts	445.8	379.3
Non-risk transfer reinsurance liabilities	311.3	348.5
Deferred income taxes	145.0	157.2
Accrued expenses and other liabilities	211.7	281.7

Debt	391.2	391.1
Total liabilities	11,844.5	13,222.6
Shareholders equity		
Common stock CHF 5 nominal value, 146,689,462 and 146,689,462 shares issued, respectively (146,330,942 and 146,272,886 shares outstanding, respectively)	554.9	554.9
Additional paid-in capital	1,423.1	1,430.6
Treasury stock (358,520 and 416,576 shares, respectively)	-2.0	-7.7
Unearned stock compensation	-4.4	-7.5
Total accumulated other comprehensive income:		
Accumulated other comprehensive income	-5.6	-6.7
Net unrealized gains on investments, net of taxes	101.1	116.7
Cumulative translation adjustments	126.3	194.1
Total accumulated other comprehensive income	221.8	304.1
Retained deficit	-545.2	-554.2
Total shareholders equity	1,648.2	1,720.2
Total liabilities and equity	13,492.7	14,942.8

The notes to the interim financial statements are an integral part of these financial statements.

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Converium Holding AG and Subsidiaries
Interim statements of cash flows (unaudited)

(US$ million)	Six months ended June 30	
	2005	2004
Cash flows from operating activities		
Net income (loss)	9.0	-594.3
Adjustments for		
Net realized capital losses (gains) on investments	1.7	-21.7
Amortization of premium/discount	27.4	28.7
Depreciation and amortization	21.8	12.2
Deferred income tax (benefit) expense	-8.5	
Impairment of goodwill and deferred tax assets		363.8
Total adjustments	42.4	383.0
Changes in operational assets and liabilities		
Deferred policy acquisition costs	117.0	-43.9
Reinsurance assets	115.8	102.6
Reserves for unearned premium, retro	26.2	28.0
Funds held by reinsureds	-8.0	-204.6
Funds Withheld Asset	80.4	157.0
Premiums receivable	321.7	-272.7
Non-risk transfer reinsurance assets	-2.1	
Unearned premiums, gross	-284.1	219.5
Losses and loss adjustment expenses, gross	-322.4	707.8
Future life benefits, gross	19.2	21.1
Reinsurance balances payable	-225.7	187.8
Funds held under reinsurance contracts	90.5	-41.0
Other reinsurance liabilities	70.5	-90.7
Non-risk transfer reinsurance liabilities	-2.2	-9.7
Income taxes, net		-10.2
Net changes in all other operational assets and liabilities	-85.8	-97.2
Total changes in operational assets and liabilities	-89.0	653.8
Cash (used in) provided by operating activities	-37.6	442.5
Cash flows from investing activities		
Purchases of fixed maturities held-to-maturity		-92.7
Proceeds from sales and maturities of fixed maturities available-for-sale	1,859.1	1,629.2
Purchases of fixed maturities available-for-sale	-2,280.9	-1,994.8
Cash flows from investing activities (fixed maturities)	-421.8	-458.3
Proceeds from sales of equity securities	26.6	449.2
Purchases of equity securities	-50.6	-520.9
Cash flows from investing activities (equity securities)	-24.0	-71.7
Net increase in short-term investments	59.4	-9.1
Proceeds from sales of other assets	9.4	23.1
Purchases of other assets	-28.9	-51.6

Cash flows from investing activities (other)	39.9	-37.6
Net cash used in investing activities	-405.9	-567.6
Cash flows from financing activities		
Purchases of common shares	-1.5	-4.9
Dividends to shareholders		-47.9
Net cash used in financing activities	-1.5	-52.8
Effect of exchange rate changes on cash and cash equivalents	45.5	2.6
Change in cash and cash equivalents	-399.5	-175.3
Cash and cash equivalents as of January 1	680.9	255.5
Cash and cash equivalents as of June 30	281.4	80.2

The notes to the interim financial statements are an integral part of these financial statements.

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Converium Holding AG and Subsidiaries
Consolidated statements of changes in shareholders equity (unaudited)
(US$ million)

	Common stock	Additional paid-in capital	Treasury stock	Unearned stock compen-sation	Accumulated other comprehensive income	Retained deficit	Total equity
Balance, December 31, 2004	554.9	1,430.6	-7.7	-7.5	304.1	-554.2	1,720.2
Net income						9.0	9.0
Change in net unrealized gains (losses) on investments, net of taxes					-15.6		-15.6
Translation adjustments		-0.9			-66.7		-67.6
Total comprehensive loss							-74.2
Purchases of common shares			-1.5				-1.5
Releases of common shares from treasury		-7.2	7.2				
Net amortization of stock compensation		0.6		3.1			3.7
Balance, June 30, 2005	554.9	1,423.1	-2.0	-4.4	221.8	-545.2	1,648.2

The notes to the interim financial statements are an integral part of these financial statements.

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Converium Holding AG and Subsidiaries
Notes to the interim financial statements (unaudited)
Schedule of segment data
(US$ million)

	Standard Property & Casualty Reinsurance		Specialty Lines		Total Non-life consolidated	
	2005	2004	2005	2004	2005	2004
Three months ended June 30						
Gross premiums written	47.9	284.5	247.3	375.2	295.2	659.7
Less ceded premiums written	-4.6	-28.8	-17.8	-28.0	-22.4	-56.8
Net premiums written	43.3	255.7	229.5	347.2	272.8	602.9
Net change in unearned premiums	135.6	78.8	97.8	-46.9	233.4	31.9
Net premiums earned	178.9	334.5	327.3	300.3	506.2	634.8
Total investment results	30.8	28.8	34.9	36.3	65.7	65.1
Revenues	209.7	363.3	362.2	336.6	571.9	699.9
Losses, loss adjustment expenses and life benefits	-133.8	-248.1	-238.0	-274.4	-371.8	-522.5
Underwriting acquisition costs	-31.0	-76.3	-71.3	-62.0	-102.3	-138.3
Other operating and administration expenses	-12.4	-16.9	-11.6	-10.8	-24.0	-27.7
Benefits, losses and expenses	-177.2	-341.3	-320.9	-347.2	-498.1	-688.5
Segment income (loss)	32.5	22.0	41.3	-10.6	73.8	11.4
Other (loss) income						
Interest expense						
Impairment of goodwill						
Amortization of intangible assets						
Restructuring costs						
Income (loss) before taxes						
Income tax benefit (expense)						
Net income (loss)						
Ratios						
Loss ratio (Losses divided by net premiums earned)	74.8%	74.2%	72.7%	91.4%	73.4%	82.3%
Underwriting expense ratio (Underwriting acquisition costs divided by net premiums earned)	17.3%	22.8%	21.8%	20.6%	20.2%	21.8%
	28.6%	6.6%	5.1%	3.1%	8.8%	4.6%

Administration expense ratio (Other operating and administration expenses divided by net premiums written)						
Combined ratio (Sum of the loss, underwriting expense and administration expense ratios)	120.7%	103.6%	99.6%	115.1%	102.4%	108.7%

** Run-Off is comprised of business formerly reported in all three of the ongoing business segments. The prior year figures have been restated to reflect the revised segment structure.

Converium Holding AG and Subsidiaries
Notes to the interim financial statements (unaudited)

Life & Health Reinsurance		Total On-Going Business		**Run-off		Corporate Center		Total consolidated	
2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
59.3	70.6	354.5	730.3	7.5	297.3			362.0	1,027.6
-3.6	-13.4	-26.0	-70.2	-5.1	-8.6			-31.1	-78.8
55.7	57.2	328.5	660.1	2.4	288.7			330.9	948.8
18.4	26.4	251.8	58.3	30.1	2.8			281.9	61.1
74.1	83.6	580.3	718.4	32.5	291.5			612.8	1,009.9
6.5	5.2	72.2	70.3	14.6	18.9			86.8	89.2
80.6	88.8	652.5	788.7	47.1	310.4			699.6	1,099.1
-57.4	-61.2	-429.2	-583.7	-20.1	-520.1			-449.3	-1,103.8
-18.8	-21.3	-121.1	-159.6	-9.8	-64.7			-130.9	-224.3
-4.1	-4.4	-28.1	-32.1	-10.3	-15.2	-11.8	-7.4	-50.2	-54.7
-80.3	-86.9	-578.4	-775.4	-40.2	-600.0	-11.8	-7.4	-630.4	-1,382.8
0.3	1.9	74.1	13.3	6.9	-289.6	-11.8	-7.4	69.2	-283.7
								-1.5	5.4
								-8.0	-8.8
									-94.0
								-7.0	-0.8
								-3.5	
								49.2	-381.9
								21.6	-278.1
								70.8	-660.0
25.4%	25.5%								

7.4%	7.7%

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Converium Holding AG and Subsidiaries
Notes to the interim financial statements (unaudited)
Schedule of segment data
(US$ million)

	Standard Property & Casualty Reinsurance		Specialty Lines		Total Non-life consolidated	
	2005	2004	2005	2004	2005	2004
Six months ended June 30						
Gross premiums written	460.4	918.4	401.8	723.0	862.2	1,641.4
Less ceded premiums written	-14.2	-63.3	-16.9	-52.4	-31.1	-115.7
Net premiums written	446.2	855.1	384.9	670.6	831.1	1,525.7
Net change in unearned premiums	-25.3	-148.6	234.8	-88.3	209.5	-236.9
Net premiums earned	420.9	706.5	619.7	582.3	1,040.6	1,288.8
Total investment results	57.8	55.2	65.9	69.6	123.7	124.8
Revenues	478.7	761.7	685.6	651.9	1,164.3	1,413.6
Losses, loss adjustment expenses and life benefits	-328.1	-506.9	-510.5	-471.4	-838.6	-978.3
Underwriting acquisition costs	-84.3	-149.9	-135.1	-123.7	-219.4	-273.6
Other operating and administration expenses	-31.4	-35.9	-28.3	-19.4	-59.7	-55.3
Benefits, losses and expenses	-443.8	-692.7	-673.9	-614.5	-1,117.7	-1,307.2
Segment income (loss)	34.9	69.0	11.7	37.4	46.6	106.4
Other (loss) income						
Interest expense						
Impairment of goodwill						
Amortization of intangible assets						
Restructuring costs						
Income (loss) before taxes						
Income tax benefit (expense)						
Net income (loss)						
At June 30, 2005						
Reinsurance assets underwriting reserves	229.9		265.8		495.7	
	2,777.0		3,057.6		5,834.6	

Losses and loss adjustment expenses, gross						
Future life benefits, gross						
Ratios						
Loss ratio (Losses divided by net premiums earned)	78.0%	71.7%	82.4%	81.0%	80.6%	75.9%
Underwriting expense ratio (Underwriting acquisition costs divided by net premiums earned)	20.0%	21.2%	21.8%	21.2%	21.1%	21.2%
Administration expense ratio (Other operating and administration expenses divided by net premiums written)	7.0%	4.2%	7.4%	2.9%	7.2%	3.6%
Combined ratio (Sum of the loss, underwriting expense and administration expense ratios)	105.0%	97.1%	111.6%	105.1%	108.9%	100.7%

* US$ 13.6 million has been expensed related to the costs associated with global restructurings, of which US$ 5.4 million were attributable to the Standard Property & Casualty Reinsurance segment, US$ 5.9 million were attributable to the Specialty Lines segment, US$ 1.7 million were attributable to the Life & Health Reinsurance segment and US$ 0.6 million

were attributable to the Run-Off segment.

** Run-Off is comprised of business formerly reported in all three of the ongoing business segments. The prior year figures have been restated to reflect the revised segment structure.

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Converium Holding AG and Subsidiaries
Notes to the interim financial statements (unaudited)

Life & Health Reinsurance		Total On-Going Business		**Run-off		Corporate Center		Total consolidated	
2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
176.4	189.8	1,038.6	1,831.2	40.9	580.0			1,079.5	2,411.2
-6.9	-21.4	-38.0	-137.1	-5.7	-26.7			-43.7	-163.8
169.5	168.4	1,000.6	1,694.1	35.2	553.3			1,035.8	2,247.4
-14.3	-17.1	195.2	-254.0	70.6	9.5			265.8	-244.5
155.2	151.3	1,195.8	1,440.1	105.8	562.8			1,301.6	2,002.9
12.5	9.9	136.2	134.7	32.1	36.3			168.3	171.0
167.7	161.2	1,332.0	1,574.8	137.9	599.1			1,469.9	2,173.9
-107.2	-117.1	-945.8	-1,095.4	-89.3	-729.3			-1,035.1	-1,824.7
-45.9	-33.3	-265.3	-306.9	-26.0	-126.5			-291.3	-433.4
-8.1	-7.4	-67.8	-62.7	-20.3	-27.5	-19.0	-17.1	-107.1	-107.3
-161.2	-157.8	-1,278.9	-1,465.0	-135.6	-883.3	-19.0	-17.1	-1,433.5	-2,365.4
6.5	3.4	53.1	109.8	2.3	-284.2	-19.0	-17.1	36.4	-191.5
								-9.3	8.1
								-15.9	-16.6
									-94.0
								-14.0	-1.5
								*-13.6	
								-16.4	-295.5
								25.4	-298.8
								9.0	-594.3
55.8		551.5		389.3				940.8	
261.5		6,096.1		2,170.7				8,266.8	
398.9		398.9						398.9	

29.6%	22.0%
4.8%	4.4%

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Converium Holding AG and Subsidiaries
Notes to the interim financial statements (unaudited continued)
1. Basis of preparation
The interim financial statements for Converium Holding AG and subsidiaries (Converium or the Company) have been prepared on the basis of United States generally accepted accounting principles for interim financial information. Accordingly, such financial statements do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results of operations for the interim period are not necessarily indicative of the results that may be expected for the year ended December 31, 2005, as interim results may be affected by several factors including, but not limited to, changes in the economic environment and catastrophic losses. These interim financial statements should be read in conjunction with the audited financial statements of Converium for the year ended December 31, 2004.
In the first quarter of 2005, Converium formally adopted a change to the reporting line of the management of its North American operations. This change was introduced to reflect the placement of Converium Reinsurance (North America) Inc. (CRNA) into orderly run-off and management s desire to monitor this business on a stand-alone basis. Therefore, Converium s business is now organized around three ongoing operating segments: Standard Property & Casualty Reinsurance, Specialty Lines and Life & Health Reinsurance, which are based principally on global lines of business, in addition to a Run-Off segment. The Run-Off segment includes all business: both life and non-life, originating from CRNA and Converium Insurance (North America) Inc., excluding the US origianated aviation business. In addition to the four segments financial results, the Corporate Center carries certain administration expenses, such as costs of the Board of Directors, the Global Executive Committee and other corporate functions as well as other expenses not allocated to operating segments. As well as reporting individual segment results, management also presents the aggregation of Standard Property & Casualty Reinsurance and Specialty Lines, referred to later in the financial statements as ongoing non-life business, as these are both non-life segments, the aggregation of which management considers meaningful in understanding the performance of Converium. This measure excludes the non-life business contained within the Run-Off segment in line with management s desire to monitor this segment on a stand-alone basis. The aggregation of the Life & Health Reinsurance segment with the ongoing non-life business is referred to as total ongoing business.

Reclassification

In the second quarter of 2005, Converium refined its chart of accounts to enhance the presentation of the line items within its financial statements. Certain reclassifications have been made to prior year amounts to conform to current year s presentation.

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Therefore, actual results could differ from those estimates.
The most significant estimates include those used in determining reserves for non-life loss and loss adjustment expenses, premium accruals and deferred policy acquisition costs, reinsurance recoverables, impairments, income taxes, and commitments and contingencies.
2. New accounting pronouncements
The following new standards have been or will be required to be adopted by Converium in the future:
SFAS 123 (revised 2004), Share-Based Payment
In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment . This Statement is a revision of SFAS No. 123, Accounting for Stock-Based Compensation and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees . This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an

entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. For public entities, this Statement is effective as of the beginning of the next fiscal year that begins after June 15, 2005. As Converium has already adopted the standards of SFAS No.123, this statement is not expected to have a material impact on the financial condition or results of operations.

EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments

In March 2004, the Emerging Issues Task Force (EITF) reached a final consensus on EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments . EITF Issue No. 03-1 was effective for periods beginning after June 15, 2004 and adopts a three-step impairment model for securities within its scope. In September 2004, the FASB staff issued clarifying guidance for comment in FASB Staff Position (FSP) EITF Issue No. 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1 (FSP Issue No. 03-1-a) and subsequently EITF Issue 03-1-b which delay the implementation of the impairment measurement and recognition guidance contained in paragraphs 10 through 20 of EITF Issue No. 03-1.

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The delay in the recognition and measurement guidance contained in EITF 03-1 paragraphs 10 through 20 could potentially result in the recognition of unrealized losses, including those declines in value that are attributable to interest rate movements, as other-than-temporary impairments, except those deemed to be minor in nature. The amount of impairments to be recognized, if any, will depend on the final standard, market conditions and management s intent and ability to hold securities with unrealized losses at the time of the impairment evaluation. The delay in issuance of EITF Issue No. 03-1 does not suspend the requirement to recognize other-than-temporary-impairments. In the interim period the Company has applied existing authoritative guidance.
FASB Staff Position (FSP) FIN 46(R)-5, Implicit Variable Interests Under FASB Interpretation No. 46(R)
In March 2005, the FASB issued FASB Staff Position (FSP) FIN 46(R)-5, Implicit Variable Interests Under FASB Interpretation No. 46(R), which requires an enterprise to consider whether it holds an implicit variable interest in a Variable Interest Entity (VIE) and what effect this may have on the calculation of expected losses and residual returns of the VIE and the determination of which party, if any, is considered the primary beneficiary of the VIE. This statement was adopted for the first quarterly reporting period beginning after March 3, 2005 and did not have a material impact on the Company s financial condition or results of operations.
FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations
In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, (FIN 47) Accounting for Conditional Asset Retirement Obligations which clarifies the term conditional asset retirement obligation as used in FASB Statement No. 143, Accounting for Asset Retirement Obligations. FIN 47 will result in (a) more consistent recognition of liabilities relating to asset retirement obligations, (b) more information about expected future cash outflows associated with those obligations, and (c) more information about investments in long-lived assets because additional asset retirement costs will be recognized as part of the carrying amounts of the assets. FIN 47 is effective for the fiscal years ending after December 15, 2005 but is not expected to have a material impact on the Company s financial condition or results of operations.
SFAS 154, Accounting Changes and Error Corrections
In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections , which replaces APB Opinion No 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements , and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting prinicples and changes the requirements for accounting for, and reporting of, a change in accounting principle. This Statement will be effective for fiscal years beginning after December 15, 2005.
EITF Issue No. 04-5, Determining Wheter a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights
In June 2005, the FASB ratified the Emerging Issues Task Force (EITF) Issue No. 04-5, Determining Wheter a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights . The EITF reached a consensus that a sole general partner is presumed to control a limited partnership (or similar entity) and should consolidate the limited partnership unless (1) the limited partners possess substantive kick-out rights or (2) the limited partners possess substantive participating rights similar to the rights described in EITF Issue No. 96-16, Investor s Accounting for an Investee When the Investor has a majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights. This issue was effective for all new and modified agreements, upon the FASB s ratification in June 2005. For pre-existing agreements that are not modified, the consensus is effective as of the beginning of the first fiscal reporting period beginning after December 15, 2005. This issue is not expected to have a material impact on the Company s financial condition or results of operations.
3. Restructuring costs
The reduction of premium volume required an adjustment of Converium s cost base globally going forward. Consequently, Converium notified certain of its employees that their employment would be terminated. Converium

recorded restructuring costs of US$ 3.5 million and US$ 13.6 million for the three and six months ended June 30, 2005, respectively, related to these global cost management measures. For the six months ended June 30, 2005, US$ 5.4 million were attributable to the Standard Property & Casualty Reinsurance segment, US$ 5.9 million were attributable to the Specialty Lines segment, US$ 1.7 million were attributable to the Life & Health Reinsurance segment and US$ 0.6 million were attributable to the Run-Off segment.

In addition, as a result of the global restructuring, a decision was made in January 2005 to vacate Converium s primary office space in New York, New York and consolidate in its Stamford, Connecticut office space. Converium expects the transfer to be effective within the third quarter of 2005, resulting in additional restructuring costs. Office space in Zurich is also under review, which could also result in additional restructuring costs in future quarters.

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Notes to the interim financial statements (unaudited continued)
4. Foreign currency translation and transactions
Table 4.1 summarizes the principal exchange rates that have been used for translation purposes (US dollar per foreign currency unit). Net realized gains (losses) on foreign currency transactions were immaterial for the three and six months ended June 30, 2005 and 2004, respectively.

Table 4.1
Exchange rates

	Balance sheets		Statements of income (loss) and cash flows	
	June 30, 2005	December 31, 2004	June 30, 2005	June 30, 2004
UK pound	1.7925	1.9199	1.8737	1.8220
Euro	1.2107	1.3593	1.2857	1.2275
100 Japanese yen	0.9025	0.9759	0.9439	0.9226
Danish krone	0.1625	0.1827	0.1727	0.1649
Swiss franc	0.7806	0.8794	0.8314	0.7904

5. Invested assets and investment income

Table 5.1
Net investment income

	Three months ended June 30		Six months ended June 30	
(US$ million)	2005	2004	2005	2004
Investment income:				
Fixed maturities	62.1	47.8	116.0	94.0
Equity securities	2.7	7.1	3.9	9.2
Short-term investments and cash and cash equivalents	3.8	1.2	7.1	2.2
Real estate	2.3	2.3	4.7	4.7
Other	4.5	2.0	11.2	6.0
Funds Withheld Asset	16.2	19.0	33.1	39.3
Total investment income	91.6	79.4	176.0	155.4
Investment expenses	- 3.0	- 2.4	- 4.7	- 5.4
Real estate expenses	- 0.8	- 0.3	- 1.3	- 0.7
Net Total investment income	87.8	76.7	170.0	149.3

Table 5.2
Net realized capital (losses) gains

	Three months ended June 30		Six months ended June 30	
(US$ million)	2005	2004	2005	2004
Fixed maturities:				
Realized capital gains	4.0	4.0	8.9	8.6
Realized capital losses	- 4.9	- 6.2	- 8.5	- 7.4
Equity securities:				

Realized capital gains	1.7	17.4	1.8	25.9
Realized capital losses	- 0.1		- 0.7	- 0.8
Write-down of impaired investments	- 2.8	- 1.5	- 4.9	- 2.6
Other	1.1	- 1.2	1.7	- 2.0
Net realized capital (losses) gains	- 1.0	12.5	- 1.7	21.7

As of June 30, 2005, Converium reported total investments including cash and cash equivalents and excluding the Funds Withheld Asset of US$ 6,807.6 million. Of this total, certain amounts were pledged as follows: (i) US$ 1,098.5 million were pledged as collateral relating to outstanding letters of credit of US$ 989.6 million (these outstanding letters of credit are related to the US$ 1.6 billion Syndicated Letter of Credit Facility), (ii) US$ 959.8 million were pledged as collateral relating to other irrevocable letters of credit, (iii) US$ 231.5 million were pledged primarily as deposits with cedents, (iv) US$ 282.3 million were deposited in trust or with regulatory authorities or states, and (v) US$ 554.6 million were pledged to support Converium internal reinsurance transactions.

Converium Holding AG and Subsidiaries
Notes to the interim financial statements (unaudited continued)

Table 5.3
Investments in fixed maturities and equity securities

(US$ million)	Cost or amortized cost		Gross unrealized gains		Gross unrealized losses		Estimated fair value	
	June 30 2005	Dec. 31 2004	June 30 2005	Dec. 31 2004	June 30 2005	Dec. 31 2004	June 30 2005	Dec. 31 2004
Held-to-maturity								
Fixed maturities:								
Transferred in:								
US government	409.7	414.2	0.5		- 11.6	- 11.3	398.6	402.9
Other governments	13.5	15.3	1.0	0.5			14.5	15.8
Newly invested:								
US government	169.6	170.1	2.0	0.9	- 0.3	- 0.2	171.3	170.8
Other governments	227.1	250.8	7.6	3.7			234.7	254.5
Total held-to-maturity	819.9	850.4	11.1	5.1	- 11.9	- 11.5	819.1	844.0
Available-for-sale								
Fixed maturities:								
US government	1,823.3	1,765.6	14.7	9.1	- 12.9	- 11.6	1,825.1	1,763.1
Other governments	1,710.5	1,769.3	29.1	15.7	- 4.7	- 2.0	1,734.9	1,783.0
Corporate and other debt securities	823.6	661.1	13.7	13.4	- 1.9	- 2.4	835.4	672.1
Mortgage and asset-backed securities	555.2	612.2	3.1	5.7	- 2.6	- 1.3	555.7	616.6
Total	4,912.6	4,808.2	60.6	43.9	- 22.1	- 17.3	4,951.1	4,834.8
Equity securities	332.1	328.9	88.9	73.0	- 1.6	- 2.5	419.4	399.4
Total available-for-sale	5,244.7	5,137.1	149.5	116.9	- 23.7	- 19.8	5,370.5	5,234.2

6. Goodwill and other intangible assets

Goodwill was US$ 49.5 million and US$ 49.2 million, at June 30, 2005 and December 31, 2004, respectively.

At June 30, 2005 and December 31, 2004, the current carried value of goodwill associated with the 30.1% stake in Global Aerospace Underwriting Managers Limited (GAUM) remained constant at GBP 13.1 million (US$ 25.2 million). Of the remaining balance of goodwill as of June 30, 2005 and December 31, 2004, US$ 24.0 million related to Converium AG s 49.9% strategic investment in the Medical Defence Union Services Ltd (MDUSL) executed during 2000.

SFAS 142, Goodwill and Other Intangible Assets , requires impairment testing of goodwill annually or more regularly if any event or change in business circumstances occurs which would indicate that the carrying value of goodwill may be impaired. SFAS 142 also requires that useful lives for intangible assets other than goodwill be reassessed and the remaining amortization periods be adjusted accordingly. Goodwill and other intangible assets are included in the balance sheet under the caption Other assets .

Other intangible assets were GBP 3.8 million (US$ 7.6 million) and GBP 11.2 million (US$ 20.6 million) as at June 30, 2005 and December 31, 2004, respectively, which relate to customer related intangible assets associated with the 30.1% investment in GAUM.

In the light of changing business circumstances associated with Converium s S&P ratings downgrade in the third quarter of 2004, Converium entered into fronting agreements with Munich Re and National Indemnity in order to support and sustain the aviation business from GAUM. These fronting agreements currently extend to September 30, 2005 with no contractual guarantee that they will be extended beyond that date. In view of this fact, during the fourth quarter of 2004 Converium reassessed the remaining useful life of the intangible asset to correspond with the date of cessation of the existing fronting agreements. As a result of this change the intangible asset amortization charge for the second quarter of 2005 is GBP 3.7 million (US$ 7.0 million) compared to a GBP 0.4 million (US$ 0.8 million) charge for the second quarter of 2004.

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Notes to the interim financial statements (unaudited continued)
7. Losses and loss adjustment expenses
Reserve development
For the three months ended June 30, 2005, Converium recorded net positive development of prior years loss reserves in the amount of US$ 6.7 million, which resulted in an overall net strengthening of prior years loss reserves of US$ 3.7 million for the first half of 2005. The development of prior years loss reserves for the three months ended June 30, 2005 includes US$ 6.9 million of net strengthening in the Standard Property & Casualty Reinsurance segment primarily related to strengthening within the Motor line of business (US$ 17.9 million), which was offset by positive development within the Property line of business (US$ 17.6 million). The Specialty Lines segment experienced net positive development of US$ 10.5 million primarily driven by positive development within the Aviation line of business (US$ 19.5 million), which was partially offset by net strengthening within additional lines of business within the segment. In addition, the Run-Off segment experienced US$ 3.1 million in net positive development. The development of prior years loss reserve for the first half of 2005 consisted of net positive development of US$ 3.3 million in the Standard Property & Casualty Reinsurance segment and US$ 6.3 million in the Specialty Lines segment, offset by net strengthening of prior years loss reserves of US$ 13.3 million in the Run-Off segment.
As a result of the reserve volatility of old underwriting years and the adverse loss-reporting trend that continued throughout the early part of 2004, Converium recorded net strengthening of prior years loss reserves in the amount of US$ 387.7 million for the three months ended June 30, 2004, which resulted in an overall net strengthening of prior years loss reserves of US$ 430.7 million for the first half of 2004. The development of prior years loss reserves for the three months ended June 30, 2004 includes net strengthening of US$ 5.1 million in the Standard Property & Casualty Reinsurance segment, US$ 51.3 million in the Specialty Lines segment and US$ 331.3 in the Run-Off segment. The development of prior years loss reserves for the first half of 2004, consisted of net strengthening of prior years loss reserves of US$ 1.1 million in the Standard Property & Casualty Reinsurance segment, US$ 32.2 million in the Specialty Lines segment and US$ 397.4 million in the Run-Off segment.
Natural catastrophes
Winter storm *Erwin* which swept across Northern Europe in January 2005 resulted in net pre-tax losses for Converium in the amount of US$ 32.5 million, net of US$ 3.0 million in reinstatement premium, all of which impacted the first quarter of 2005 result of the Standard Property & Casualty Reinsurance segment. The second quarter of 2005 was absent any major natural catastrophes.
In the first half of 2005, Converium was also impacted by net strengthening of prior years loss reserves of US$ 15.3 million from the US/Caribbean hurricanes that occurred in late 2004, of which US$ 11.8 million impacted the Standard Property & Casualty Reinsurance segment and US$ 3.5 million impacted the Specialty Lines segment. This net strengthening is included in the net strengthening of prior years loss reserves shown above.
Retrocessional risk management
As a result of its risk management monitoring process, Converium reached a decision in the first quarter of 2005 to commute the obligations of one of its retrocessionaire s due to deterioration in that company s rating and concerns about the future ownership and prospects of the company. As a result Converium commuted certain retrocession contracts with reinsurance recoverables in the amount of US$ 100.1 million for a commutation settlement of US$ 60.1 million, which generated a negative impact of US$ 40.0 million on the net results in the first quarter of 2005, US$ 38.7 million of which is in losses. In the second quarter of 2005, our risk management monitoring process did not result in any such retrocession commutations.
8. Guaranteed Minimum Death Benefit (GMDB)
Converium assumed certain retrocession liability with regard to Guaranteed Minimum Death Benefit (GMDB) features attached to variable annuity policies written in the United States. These treaties are all in run-off and cover in total 1.4 million policies that were issued mainly in the late 1990 s and that incorporate various benefit types originating from different primary insurers. Claims occur in the event of death if a policy is in-the-money, which means that the GMDB exceeds the account balance. Under these circumstances, the difference between the GMDB

and the account balance or the GMDB and the cash surrender value becomes due, depending on the definition of the underlying reinsurance agreements.

The following types of Guaranteed Minimum Death Benefits are covered:

Return of premium: The GMDB is the amount of total deposits adjusted for partial withdrawals, if any.

Ratchet: After a given number of years, the GMDB is adjusted to the current account balance, if greater. Most common is a 1-year ratchet, meaning that the GMDB is adjusted annually on the policy s anniversary date.

Rollup: The GMDB increases each year from the initial premium adjusted for later deposits and partial withdrawals by a fixed percentage. Rollup guarantees reinsured under Converium s agreements grant an annual accumulation percentage between 3% and 7%. In many products, especially for higher rollup percentages, an upper limit applies (e.g. 200% of the paid policyholder premium adjusted for later deposits and partial withdrawals).

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Reset: After a given number of years, the GMDB is adjusted to the current account balance. This means that the GMDB can be reduced but often not below the paid-up premium (adjusted for later deposits and partial withdrawals).

Combinations of the above.

Guarantees that increase over the time are, for a majority of the assumed business, only applied up to a certain age (e.g. 85). For the majority of the portfolio, a maximum death benefit age exists and as a consequence, Converium will be off the risk afterwards.

Converium does not hold any contract holder funds. These assets remain with the originating ceding companies.

The GMDB liability is determined each period based on the information provided by Converium s ceding companies. The current account value, the guaranteed death benefit and details of the covered benefit types are taken into consideration for the evaluation of the net amount at risk (NAR) and the expected future liability. The liability according to SOP 03-1 is estimated at the end of the reporting period.

For the evaluation of the liabilities, Converium uses an actuarial model that considers 1,000 stochastically generated investment performance scenarios. The mean performance assumed for equities is 9.6% and the mean performance for other investment types such as bonds and cash deposits varies between 4.8% and 5.7%. The corresponding volatility assumptions are 18.3% and 1.5% to 2.2%, respectively. The discount rate used in the model is stochastically generated in line with the other investment scenarios and takes into consideration the current yield level. It is assumed to be an average of 5.7% over the long run. The mortality assumption is 100% of the Annuity 2000 table. Lapse rates vary by duration and range from 6.5% to 20%. Partial withdrawals, either applied pro-rata or on a dollar-for-dollar basis according to the policy conditions, are also considered in the modeling. The corresponding parameter, reflecting the on-average withdrawn amount of the account value, varies by duration and is assumed to range from 2.4% to 7.5% per annum.

As of June 30, 2005, the following values were estimated as described above:

Table 8.1
(US$ million)

Guarantee type	Average age	GMDB	Account Value	NAR	Gross SOP 03-1 Reserve
Ratchet	65.9	1,963.4	1,660.5	357.5	24.6
Rollup	70.6	565.4	387.5	184.2	23.1
Rollup & ratchet	66.7	24.0	19.4	6.3	0.4
Return of premium	63.8	20.2	20.3	2.2	0.1
Reset	59.1	273.6	289.7	18.5	1.1
Reset & return of premium	60.7	123.7	122.8	8.6	0.5
Total	67.1	2,970.3	2,500.2	577.3	49.8

The table below shows the cash flow and claim reserves balances for the periods shown:

Table 8.2
(US$ million)

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Received reinsurance premium, net of commission and brokerage	1.0	0.8	2.1	2.1

Paid losses	2.9	2.3	6.1	6.4

	As of June 30, 2005	As of December 31, 2004
Claim reserves (including case reserves and IBNR)	6.4	4.9

9. Income taxes

Converium recorded an income tax benefit of US$ 21.6 million and US$ 25.4 million for the three and six months ended June 30, 2005, respectively. Over the past year, Converium has established a full valuation allowance against existing tax losses carried forward in its primary locations, resulting in minimal current income tax expense relating to pre-tax income. Therefore tax benefits and expenses are primarily driven by the development of existing deferred tax assets and liabilities, which are established to reflect differences in the tax accounting rules of local jurisdictions and US GAAP accounting.

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In the second quarter of 2005, Converium s income tax benefit resulted from the reduction of deferred acquisition costs (DAC), caused by the decline in its overall non-life premium volume, and certain timing differences related to the recognition of investment gains and losses.
In the first half of 2005, Converium s income tax benefit resulted from the positive effect of a reduction of DAC, the effect of certain timing differences related to the recognition of investment gains and losses, and certain other deferred tax liability reductions, offset by a reduction in the profit allocated to the Bermuda branch and an increase of the valuation allowance on existing losses carried forward.
Converium s consolidated income tax expense for the three and six months ended June 30, 2004 reflected an additional expense of US$ 269.8 million, related to the establishment of a full valuation allowance against the net deferred income tax balances previously carried at CRNA.
10. Employee benefits
The following table shows the net periodic benefit expense for the three and six months ended June 30, 2005 and 2004.
Table 10.1
Net periodic benefit expense

	Three months ended June 30		Six months ended June 30	
(US$ million)	2005	2004	2005	2004
Service cost	2.1	2.1	4.3	4.4
Interest cost	0.9	0.7	1.8	1.5
Expected return on plan assets	- 0.9	- 0.8	- 1.9	- 1.6
Employee contributions	- 0.8	- 0.8	- 1.6	- 1.6
Amortization of actuarial losses	0.2		0.4	
Amortization of past service cost	- 0.1		- 0.2	- 0.1
Net periodic benefit expense	1.4	1.2	2.8	2.6

The expected future cash flow in 2005 to be paid by Converium in respect of pension plans at June 30, 2005 was as follows:
Table 10.2
Expected future cash flow

(US$ million)	
Employer contributions	
2005 (estimate)	5.0

11. Related party transactions
SATEC
In 2002, Converium acquired a 48% participation in SATEC, a leading global space-underwriting agency based in Venice, Italy. As part of this transaction Converium entered into usufruct agreements with the co-owners of SATEC regarding some of their participation rights in the company. Following a review of the current business circumstances in conjunction with the company in the second quarter of 2005, Converium has recorded a further impairment charge of US$ 2.4 million in respect of the usufruct agreements. An impairment charge of US$ 2.5 million was recorded in respect of the usufruct agreements in the fourth quarter of 2004. This latest impairment charge has led to the full impairment of the usufruct agreements in the accounting records of Converium.
12. Commitments and contingencies
Converium Rückversicherung (Deutschland) AG, Germany had an outstanding commitment of Euro 30 million (US$ 36.4 million) to fund an investment in a Morgan Stanley Real Estate Fund (Eurozone Office Fund), a Fonds Commun

de Placement under Luxembourg Law. The manager called this commitment during the commitment period. The capital called totaled Euro 30.0 million (US$ 36.4 million), which resulted in no remaining commitment.

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Superior National Matters
On January 6 and January 7, 2005, CRNA and CINA, respectively, entered into a Settlement Agreement and Mutual Release (the Settlement Agreement) with the California Insurance Commissioner (the Commissioner) relating to the January 16, 2002 complaint that the Commissioner filed against a subsidiary of ZFS, Centre Insurance Company (CIC) and affiliates, as well as CRNA and CINA. The Commissioner had initiated this action in Superior Court of the State of California, County of Los Angeles, on behalf of the Superior National Insurance Companies in Liquidation (SNICL).
The complaint alleged several counts, including voidable preferences and fraudulent transfers, the recovery of transfers totaling US$ 202.9 million, damages for breach of contract in the amount of US$ 59.8 million, additional damages in an amount to be proved at trial, and punitive damages. The overwhelming bulk of the damages sought appeared to arise out of CIC transactions, not CRNA or CINA transactions. As part of the transactions which effectively spun-off CRNA and CINA from ZFS, ZFS agreed to indemnify CRNA and CINA for liabilities arising out of or related to the assets not assumed by or transferred to CRNA and CINA in the separation from ZFS. The principal claim brought against CRNA appeared to arise from CRNA s commutation of certain reinsurance obligations. In that connection, however, while the complaint did in fact reference the commutation, the payment involved was a commutation payment made by CRNA, not to CRNA. As best as could be discerned, the liquidator was apparently claiming that the amount paid by CRNA was inadequate consideration for the reinsurance obligations commuted and thus this commutation constituted a fraudulent transfer. All the claims, though, were never well defined and no discovery was ever undertaken to better elucidate them.
Neither CRNA nor CINA shall pay any amounts whatsoever in exchange for the full and final discharge of liabilities, as set forth in the Settlement Agreement, that the Commissioner has granted to both companies. Instead, CIC shall be making the full payment that will provide the complete release to CRNA and CINA, as well as all other parties in the complaint. At a hearing on February 17, 2005, the Settlement Agreement was approved by the court presiding over the liquidation of the estates of SNICL. On April 18, 2005 the settlement was deemed final and on or about May 18, 2005 payments required of parties under the Settlement Agreement (which did not include CRNA or CINA), were made. A dismissal of the case was entered by the court on June 1, 2005.
U.S. Life Insurance Company arbitration
The arbitration initiated on November 29, 1999 by U.S. Life Insurance Company (U.S. Life) against Superior National Insurance Company in Liquidation (SNICIL), CINA and CIC, which was previously reported, has been settled as between U.S. Life and CINA. The settlement in January 2005 followed a December 2004 decision of the arbitration panel to reject U.S. Life s claim for rescission and to instead reform the reinsurance treaty provided by U.S. Life to a 90% quota share as opposed to a 100% quota share. U.S. Life and CINA agreed to settle the matter with a full and final commutation of the treaty in exchange for a commutation payment by U.S. Life.
Canada Life
On December 21, 2001, The Canada Life Assurance Company, Toronto (Canada Life), brought an action against Converium Rückversicherung (Deutschland) AG (Converium Germany) in the US District Court of the Southern District of New York. Canada Life alleged that Converium Germany breached certain quota share retrocession agreements with Canada Life by failing to indemnify its full percentage of Canada Life s September 11th losses and by failing to post an US$ 82.4 million letter of credit for its liability pursuant to the ISA facilities underlying agreements. Converium Germany is disputing this claim on the grounds that its liability under the pertinent contracts is limited and is also raising other contracts defenses. In its decision of April 11, 2002, the US District Court of the Southern District of New York dismissed Canada Life s action, ruling that The Air Transportation Safety and System Stabilization Act, which Canada Life claimed to give the court jurisdiction over the subject matter, is not applicable. The court ruled that the Act applies broadly to the actions filed by individual victims of the September 11th attacks but does not apply to disputes among reinsurers. The Second Circuit Court of Appeal affirmed the dismissal. As a result of the decision of the US District Court of the Southern District of New York, Converium Germany sent Canada Life a request to

arbitrate. Following the organizational meeting of the arbitrators on October 8, 2003, the discovery and deposition began. The hearing is expected to take place in the third quarter of 2005. Meanwhile, the arbitration panel ordered Converium Germany to post pre-award security in the form of a Letter of Credit in the amount of US$ 66.0 million, which Converium Germany has complied with. Since then, the hearing has taken place in the time between July 11 and July 22, 2005, and it is expected that the panel will issue an arbitration award once they have concluded their deliberations.

Converium Germany has fully reserved this claim. However, arrangements entered into with Zurich Financial Services provide for the claim to be covered by the agreed-to cap for September 11th related losses provided to us by Zurich Financial Services in conjunction with Converium s Initial Public Offering.

Class Action Lawsuits

On July 14, 2005, Judge Mukasey of the U.S. District Court for the Southern District of New York approved a stipulation entered into among the parties to consolidate Meyer v. Converium Holding AG, et al., 04 Civ. 7897 (MBM), a class action lawsuit against Converium and certain of its officers and directors, with the related class actions pending before it (i.e., case nos. 04 Civ. 8038, 04 Civ. 8060, 04 Civ. 8295, 04 Civ. 8994 & 04 Civ. 9479) (collectively, the Meyers Cases). The approved stipulation further appoints putative class members the Public Employees Retirement System of Mississippi and Avalon Holdings

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Inc. as lead plaintiffs, and the law firms of Bernstein Litowitz Berger & Grossman LLP, Cohen Milstein, Haufeld & Toll, P.L.L.C. and Spector, Roseman & Kodroff P.C. as lead counsel. Rubin v. Converium Holding AG, et al., 05 Civ. 3871 (MBM), a related state court action, has been removed to federal court and assigned to Judge Mukasey.

MBIA

On March 8, 2005, MBIA Inc. (MBIA) issued a press release stating that MBIA s audit committee undertook an investigation to determine whether there was an oral agreement with MBIA under which MBIA would replace Axa Re Finance as a reinsurer to CRNA by no later than October 2005. The press release stated that it appears likely that such an agreement or understanding with Axa Re Finance was made in 1998. Thereafter, on April 19, 2005, CRNA received subpoenas from the U.S. Securities and Exchange Commission and the Office of the New York Attorney General seeking documents related to certain transactions between CRNA and MBIA.

In view of the industry investigations and the events relating to MBIA described above, we have engaged counsel to assist us in a review and analysis of certain of our reinsurance transactions, including the MBIA transactions. We are fully cooperating with the governmental authorities in connection with their investigation. The impact of our ongoing review and analysis and the ongoing regulatory investigations on us is uncertain, and there can be no assurance as to whether or not the outcome of such investigations will have a material impact on Converium.

13. Regulation

United States

As a result of the reserve strengthening Converium recorded in the second quarter of 2004 and the placement of CRNA into orderly run-off, the Connecticut Insurance Department (the Department) has implemented additional financial monitoring of CRNA. CRNA has entered into a letter of understanding with the Department pursuant to which CRNA will be prevented from taking a number of actions without first obtaining the Department s approval. The restrictions will continue until March 15, 2006, at which time the Department will reassess the financial condition of CRNA.

14. Earnings (loss) per share

Converium Holding AG has purchased 200,000 shares for the six months ended June 30, 2005 related to share-based compensation plans.

The following shows the components of the earnings (loss) per share calculation:

	Three months ended June 30		Six months ended June 30	
(US$ million, except per share information)	2005	2004	2005	2004
Net income (loss)	70.8	- 660.0	9.0	- 594.3
Average basic shares outstanding (millions)	146.4	39.8	146.4	39.8
Average diluted shares outstanding (millions)	147.7	40.5	147.6	40.5
Basic earnings (loss) per share	0.48	- 8.32	0.06	- 7.49
Diluted earnings (loss) per share	0.48	- 8.32	0.06	- 7.49

The earnings per share calculation is based on an adjusted number of average shares outstanding (reflecting the Rights Offering that occurred in October 2004) and the June 30, 2004 amounts have been restated accordingly.

Diluted earnings (loss) per share is computed similar to basic earnings per share except that the weighted average shares outstanding is increased, if dilutive, to include potential common shares, such as shares from non-vested stock grants and the assumed exercise of stock options.

15. Subsequent events

Subsequent to the close of the second quarter of 2005, there have been several natural catastrophic events which have occurred including, Hurricane Dennis, Eastern European floods and Japanese earthquakes as well as the recent terrorist incidents in both London and Egypt and the plane crash in Toronto, which will ultimately impact the insurance industry as a whole and which may directly impact the financial results of Converium. Converium is currently closely reviewing its portfolio of business to identify any potential losses arising from these incidents. Based on initial reports, Converium does not expect its combined losses from the above events to exceed US$ 20.0 million.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amended report on Form 6-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

CONVERIUM HOLDING AG

By: /s/ Terry Clarke

Name: Terry Clarke
Title: Chief Executive Officer,
Converium Holding AG

By: /s/ Andreas Zdrenyk

Name: Andreas Zdrenyk
Title: Chief Financial Officer,
Converium Holding AG

Date: August 19, 2005