

AMERICAN SAFETY INSURANCE HOLDINGS LTD
Form 10-K/A
April 30, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended December 31, 2008

Commission file number 1-14795

AMERICAN SAFETY INSURANCE HOLDINGS, LTD.

(Exact name of registrant as specified in its charter)

Bermuda

Not applicable

(State of incorporation
or organization)

(I.R.S. Employer

Identification No.)

31 Queen Street

2nd Floor

Hamilton, Bermuda

HM 11

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number: (441) 296-8560

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value	New York Stock Exchange, Inc.

Securities to be registered pursuant to Section 12(g) of the 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 mark 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 mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

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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 (§229.405 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 o No []

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer.

Large Accelerated Filer ___ Accelerated Filer X
Non-accelerated Filer ___ Smaller reporting company _____

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 registrant's voting common stock held by non-affiliates based upon the closing sales price as reported by the New York Stock Exchange as of June 30, 2008 was \$150,911,802.

The number of shares of registrant's common stock outstanding on March 31, 2009 was 10,318,998.

Documents Incorporated by Reference

None.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this “Amendment”) to the Annual Report on Form 10-K of American Safety Insurance Holdings, Ltd. (the “Registrant” or the “Company”) for the year ended December 31, 2008 filed on March 16, 2009 (the “Original Filing”) is being filed for the purpose of correcting information contained in Item 6. Summary Financial Data in the Original Filing and including the information required by Part III of Form 10-K.

Item 6. Selected Financial Data

The table on the following page sets forth selected consolidated financial data with respect to the Company for the periods indicated. The balance sheet and statement of operations data have been derived from the audited consolidated financial statements of the Company. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and notes thereto included elsewhere in the Original Filing.

Years Ended December 31

2008 **2007** **2006** **2005** **2004**

(dollars in thousands except per share data and ratios)

Statement of Operations Data:

Gross premiums written	\$260,384	\$218,370	\$239,607	\$234,058	\$220,294
Net premiums written	179,865	150,001	157,268	138,515	131,664
Net premiums earned	174,471	148,793	146,756	137,580	136,300
Fee income earned	2,632	2,145	1,685	1,197	210
Net investment income	29,591	30,268	21,766	14,316	9,773
Net realized (losses) gains	(14,348)	(311)	1,190	(54)	208
Real estate sales	-	-	-	3,000	67,967
Total revenue	192,322	180,961	171,439	156,114	214,777
Losses and loss adjustment expenses incurred	110,146	91,184	92,329	84,406	93,503
Acquisition expenses	43,484	28,872	27,378	28,752	26,649
Payroll and other underwriting expenses	33,882	26,952	25,043	21,190	19,966
Real estate expenses	(2,747)	326	381	2,439	55,480
Earnings before income taxes	341	28,929	22,846	16,048	18,453
Net earnings	310	28,192	20,532	14,656	14,757

Net earnings per share:

Basic	\$0.03	\$ 2.65	\$2.35	\$2.18	\$ 2.15
Diluted	\$0.03	\$ 2.56	\$2.26	\$2.05	\$ 2.01

Common shares and common share equivalents used in computing net basic earnings per share

10,459	10,648	8,730	6,737	6,864
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Common shares and common share equivalents used in computing net diluted earnings per share

10,686	10,997	9,095	7,164	7,343
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Balance Sheet Data (at end of period):

Total investments, excluding real estate	\$673,739	\$617,211	\$551,158	\$415,497	\$327,037
Total assets	1,026,364	934,009	847,131	694,999	583,204
Unpaid losses and loss adjustment expenses	586,647	504,779	439,673	393,493	321,038
Unearned premiums	122,259	111,459	115,198	97,983	93,082
Loans payable	38,932	38,646	38,139	37,810	13,019
Total liabilities	809,334	703,609	650,981	576,564	474,424
Total shareholders' equity	217,030	230,400	196,150	118,435	108,780

GAAP Underwriting Ratios:

Loss and loss adjustment expense ratio ⁽¹⁾	63.1%	61.3%	62.9%	61.4%	68.6%
Expense ratio ⁽²⁾	42.9%	36.1%	34.6%	36.3%	34.2%
Combined ratio ⁽³⁾	106.0%	97.4%	97.5%	97.7%	102.8%

Other Data:

Return on average shareholders' equity ⁽⁴⁾	6.6%	13.5%	12.4%	13.0%	14.6%
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Years Ended December 31

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Debt to total capitalization					
ratio ⁽⁵⁾	15.2%	14.4%	16.3%	24.2%	10.7%
Net premiums written to equity ⁽⁶⁾	0.8X	0.7X	0.8X	1.2X	1.2X

(1) *Loss and loss adjustment expenses ratio*: The loss and loss adjustment expenses ratio, expressed as a percentage of loss and loss adjustment expenses to net premiums earned.

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- (2) *Expense ratio*: The expense ratio is the ratio, expressed as a percentage, of acquisition and other operating expenses less fee income to net premiums earned. Our reported expense ratio excludes certain holding company expenses such as interest expense as well as real estate and rescission expenses.

- (3) *Combined ratio:* The combined ratio is the sum of the losses and loss adjustment expenses ratio and the expense ratio.

- (4) *Return on average shareholders' equity*: Return on average shareholders' equity is the ratio, expressed as a percentage, of net earnings, excluding realized gains and losses, to the average of the beginning of period and end of period total shareholders' equity, excluding accumulated other comprehensive income.

- (5) *Debt to total capitalization ratio*: The debt to total capitalization ratio, is the ratio, expressed as a percentage, of total debt to the sum of total debt and shareholders' equity. The Company's total debt consists solely of loans payable.

- (6) *Net premiums written to equity*: The net premiums written to equity is the ratio of net premiums written to the total shareholders' equity.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

DIRECTORS

Cody W. Birdwell, age 56, has served as a director of the Company since 1986. Mr. Birdwell has been president of Houston Sunbelt Communities, L.C. in Houston, Texas, which is engaged in subdivision and mobile home community development and sales, since 1993.

David V. Brueggen, age 62, has served as a director of the Company since 1986, as Chairman of the Board of Directors since June 2007 and as Chairman of the Audit Committee since January 2008. Mr. Brueggen was the senior vice president of finance of Anson Industries, Inc. in Melrose Park, Illinois, which is engaged in drywall, acoustical and foam insulation contracting, prior to his retirement at December 31, 2007. Mr. Brueggen was employed by Anson Industries, Inc. since 1982. Previously, he was an audit manager with an international public accounting firm for 10 years. Mr. Brueggen is a certified public accountant.

Harris R. Chorney, age 57, has been a director of the Company since January 2009. Mr. Chorney is the founding principal of Holder & Wilcox, LLC, a retained executive search firm focusing on the human capital needs of the insurance industry founded in 2001. From 2000 to 2001, Mr. Chorney served as a managing director at KPMG Consulting and from 1983 to 2000 was Assurance Partner at KPMG LLP, serving as partner in charge of KPMG's US insurance practice. Mr. Chorney was also a member of KPMG's International Insurance and US Financial Services Leadership Committees from 1993 to 2000.

Stephen R. Crim, age 45, has been a director of the Company since 2002. Mr. Crim became President and Chief Executive Officer of the Company in 2003 and became President of the Company's insurance and reinsurance operations in 2002. Prior to becoming President and Chief Executive Officer, Mr. Crim was responsible for all of the Company's underwriting functions since joining the Company in 1990. Previously, Mr. Crim was employed in the underwriting departments of Aetna Casualty and Surety Co. and The Hartford Insurance Co. between 1986 and 1990.

Lawrence I. Geneen, age 65, has served as a director of the Company since 2003. He is president and owner of an insurance risk management and strategic consulting firm in Scarsdale, New York. From 1999 to 2001, he was executive vice president and chief operating officer of American Management Association in New York, New York, which is engaged in management training and publishing. From 1997 to 1999, Mr. Geneen was a managing director of Marsh & McLennan, Inc. in New York, where he was responsible for global sales and client management leadership in its insurance brokerage business. From 1992 to 1997 he was a managing principal and shareholder of Johnson and Higgins, and from 1974 to 1992 he was employed in a number of executive sales positions and management positions in its insurance brokerage business.

Steven L. Groot, age 59, has served as a director of the Company since 2006. Mr. Groot served in various positions at Allstate Insurance Company in Northbrook, Illinois from 1970 to 2002, most recently as President of Direct Distribution and e-Commerce and as a member of its board of directors.

Frank D. Lackner, age 40, has been a director of the Company since 2004. Mr. Lackner served as a managing director of Fox-Pitt, Kelton in 2007 and currently is a founding partner of Lackner Capital Advisors, LLC, a consulting firm focused on the insurance industry. From 2001 to 2006, Mr. Lackner served as a managing director with Torsiello Capital Partners LLC in New York, New York, engaged in

providing investment banking and financial advisory services to the global insurance and financial services industry. From 1998 to 2001, Mr. Lackner was co-founder and president of RiskContinuum, Inc., an online reinsurance exchange start-up venture established to facilitate reinsurance opportunities for insurance brokers, corporate risk managers, insurance and reinsurance companies, which has ceased operations. From 1993 to 1997, he was a vice president with Insurance Partners L.P., a private equity investment partnership specializing in financial services. From 1992 to 1993, Mr. Lackner was an assistant underwriter with Centre Reinsurance Companies, a subsidiary of Zurich Financial Services, engaged in finite risk reinsurance and insurance transactions. Prior to joining Centre Re, Mr. Lackner was an investment banking analyst in the insurance group at Donaldson, Lufkin & Jenrette Securities Corp. from 1990 to 1992. Mr. Lackner is a director of Greenlight Capital Re, Ltd.

Thomas W. Mueller, age 54, has served as a director of the Company since 1986. Mr. Mueller has been vice president of Cardinal Industrial Insulation Co., Inc. in Louisville, Kentucky, which is engaged in industrial insulation and asbestos and sound abatement, since 1975. Mr. Mueller also serves as a board member for Actors Theatre of Louisville.

Jerome D. Weaver, age 55, has served as a director of the Company since 2001. Mr. Weaver has been chief executive officer of Specialty Systems, Inc. in Indianapolis, Indiana, which is engaged in general construction and asbestos abatement, since 1996. He has been employed by Specialty Systems, Inc. since 1989.

EXECUTIVE OFFICERS

The following summarizes the business experience over the last five years of the Company's executive officers, other than Mr. Crim, whose business experience is described above under 'DIRECTORS.'

Guy Cloutier, age 57, has served as Senior Vice President & Chief Actuary of the Company's Bermuda reinsurance subsidiary, American Safety Reinsurance, Ltd., since 2007. Prior to joining American Safety Reinsurance, Ltd., Mr. Cloutier was the President and Sole Owner of Ordinance Holdings, Ltd., a Bermuda-based company engaged in actuarial consulting and reinsurance brokerage, formed in 2003.

Randolph L. Hutto, age 60, has served as General Counsel and Secretary of the Company since September 2006. Prior to joining the Company, Mr. Hutto served as Executive Vice President, General Counsel and Secretary of NDC Health Corporation, a New York Stock Exchange-listed health care claims processing and information management company, from April 2004 to January 2006, and as Executive Vice President and Chief Financial Officer from November 2000 to April 2004.

Joseph D. Scollo, Jr., age 43, has served as Executive Vice President and Chief Operating Officer of the Company since January 2006. Mr. Scollo served as Executive Vice President of the Company since January 2003 and as Senior Vice President - Operations from 1998 until January 2003. Previously, Mr. Scollo served as Senior Vice President - Operations of United Coastal Insurance Company in New Britain, Connecticut from 1989 until 1998. Mr. Scollo has over 18 years of experience in the insurance industry. Mr. Scollo holds a certified public accountant certificate.

Section 16(a) Beneficial Ownership Reporting Compliance of the Exchange Act

Section 16(a) of the Exchange Act requires the Company's executive officers and directors and persons who own 10% or more of the registered class of the Company's equity securities to file with the

SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. SEC regulations require that such directors, officers and 10% or more shareholders furnish the Company with copies of all Section 16(a) reports they file. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company, all directors, officers or 10% shareholders complied with all Section 16(a) filing requirements during the fiscal year ended December 31, 2008.

CORPORATE GOVERNANCE

Audit Committee of the Board of Directors

The Board of Directors has established an audit committee composed of independent directors and which reviews the scope of the Company's audit, recommends to the shareholders the engagement of the independent registered public accounting firm, and reviews such firm's reports. The audit committee operates pursuant to a written charter, a copy of which is available on our website, www.amsafety.com in the "Committee Charting" subsection, under "Corporate Overview" in the "Investor Relations" section. The current members of the audit committee are Messrs. Brueggen (chairman), Chorney and Weaver. The Board of Directors has determined that each member of the audit committee is financially literate. The Board of Directors has also determined that each of Mr. Brueggen and Mr. Chorney is qualified as an "audit committee financial expert" within the meaning of the SEC regulations, and therefore, meets the requirement under the New York Stock Exchange listing standards that at least one member of the audit committee have accounting or related financial management expertise. The Company's independent registered public accounting firm reports directly to the audit committee, which controls their engagement. The audit committee pre-approves the provision of all audit and non-audit related services by the Company's independent registered public accounting firm and meets with management and the accounting firm at each audit committee meeting in separate executive sessions, if deemed necessary, to review the Company's financial statements and significant findings based on the auditor's review processes. The audit committee has also established a procedure for the confidential and anonymous reporting of concerns regarding questionable accounting or auditing matters. The audit committee held five meetings during 2008. The audit committee is responsible for reviewing the financial reports and other financial information provided by the Company to any governmental or other regulatory body and monitoring any public distribution or other uses thereof, reviewing the annual independent audit of the Company's financial statements, reviewing the Company's systems of internal accounting and financial controls and reviewing and monitoring the internal audit process and internal audit results. However, the audit committee is not responsible for planning or conducting the audit or for determining whether the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Nor is the audit committee responsible for ensuring that the Company complies with all laws and regulations and its Code of Business Conduct and Ethics.

Code of Business Conduct and Ethics

The Board of Directors has approved a Code of Business Conduct and Ethics in accordance with rules of the SEC and the New York Stock Exchange listing standards applicable to all directors, officers and employees, including the principal executive officers, principal financial officers, principal and senior accounting officers or controller, or persons performing similar functions. The Code of Business Conduct and Ethics is intended to provide guidance to directors and management to assure compliance with law and promote ethical behavior. The Company's Code of Business Conduct and Ethics is available on our website, www.amsafety.com in the "Governance Documents" subsection, under "Corporate Overview" in the "Investor Relations" section. Shareholders may request a printed copy of the Code of Business Conduct and Ethics, free of charge, upon written request to the Secretary of the Company, 31 Queen Street, Hamilton HM 11 Bermuda.

Corporate Governance Guidelines

The Company is committed to having sound corporate governance practices, and the Board of Directors has adopted Corporate Governance Guidelines that provide a framework for the governance of the Company. The Board of Directors reviews these guidelines periodically and monitors developments in the area of corporate governance. Our Corporate Governance Guidelines are available on our website, www.amsafety.com in the “Governance Documents” subsection, under “Corporate Overview” in the “Investor Relations” section. Shareholders may request a printed copy without charge upon written request to the Secretary of the Company, 31 Queen Street, Hamilton HM 11 Bermuda.

Item 11. Executive Compensation.

Compensation Discussion and Analysis

Compensation Committee. We have a compensation committee of the Board of Directors (the “Committee”) that consists of Messrs. Geneen (Chairman), Groot and Lackner. The Committee operates pursuant to a written charter, which is available on our website, www.amsafety.com. The charter is reviewed annually by the Committee. The Board of Directors has determined that the members of the Committee are “non-employee directors” (within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934, as amended), “outside directors” (within the meaning of Section 162(m) of the Internal Revenue Code) and “independent directors” (within the standards set forth by the New York Stock Exchange). In addition, no Committee member is a current or former employee of the Company or any of its subsidiaries. Generally, the Committee is responsible for recommending to the Board of Directors matters regarding executive compensation. The Committee generally meets quarterly, and on an as-needed basis.

General Philosophy. We compensate our senior management through a combination of base salary, bonus and equity compensation that we design to be competitive with comparable employers and to align our management’s incentives with the long-term interests of our shareholders. The purpose of our compensation program generally is to develop and implement a fair, consistent and competitive program, which will attract, motivate and retain highly qualified talent. The Committee views the compensation program as a management tool that, through the setting of goals and objectives, encourages management to achieve or exceed the Company’s business objectives. In making compensation decisions, we establish target overall cash compensation and then allocate that compensation among base salary and bonus. We then determine what level, if any, of equity compensation is appropriate. At the senior management level, we design incentive compensation to reward company-wide performance by tying awards to the achievement of goals and objectives which relate to (i) our performance in such areas as growth and return on equity, (ii) individual performance and (iii) business unit performance, as discussed below under **Annual Cash Bonuses and Equity Compensation**. The compensation for each of our named executive officers (“NEOs”) consists of a base salary, an annual bonus opportunity, stock options, restricted stock awards, health insurance and other benefits and perquisites.

Our management incentive plans are designed to be self-funding and provide participant target incentive awards that increase or decrease based on individual and Company performance results. Incentive compensation will become a larger portion of an executive’s total direct compensation as he or she assumes significant responsibilities and has a significant impact on the financial or operational success of the Company.

Committee Process. The Committee designs, evaluates and approves our executive compensation plans, policies and programs. The Committee annually reviews and evaluates the goals and objectives relevant to the compensation of our NEOs and annually evaluates the performance of

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our Chief Executive Officer in light of those goals and objectives. In addition, the Committee reviews and approves compensation levels and compensation awards for our other NEOs recommended by the Chief Executive Officer, who reviews individual and corporate performance for the other NEOs and makes recommendations to the Committee. These recommendations are generally approved. In all cases, however, the Committee is an active participant in establishing the goals for bonuses.

The Committee also administers our equity-based compensation plan, although it has delegated to our Chief Executive Officer the authority to make limited awards to newly-hired executives and other key employees as necessary or appropriate to attract and retain highly qualified individuals to the Company. The Committee is authorized to retain experts, consultants and other advisors to aid in the discharge of its duties. The Committee reports regularly to the Board of Directors on matters relating to the Committee's responsibilities, and it is common for all of our non-employee directors to attend Committee meetings. The Committee follows regulatory and legislative developments and considers corporate governance best practices in performing its duties.

Targeted Overall Compensation for 2008. The goal of our comprehensive compensation program is to fairly compensate our executives in a manner to be competitive with comparable employers and to align our executives' incentives with the short term operational and financial success of the Company and the long-term interests of our stockholders. Our compensation programs will support management's goal of hiring, retaining and rewarding qualified executives who embrace the Company's mission of providing innovative insurance solutions for specialty risks in underserved markets and who are committed to providing continuing value to our stockholders. All of our compensation programs are strategy-focused, competitive and, where appropriate, may include supplemental and perquisite programs.

Going forward, base compensation generally will be established at a level competitive with a defined peer group but in no event less than the 50th percentile of peer data. Total direct compensation will be targeted at the 75th percentile when targeted goals are achieved. Generally the goal for direct compensation of senior executives will be 50% for base salary, 25% for annual cash bonus and 25% for long-term equity. Executives will be eligible for annual performance-based salary adjustments if they achieve pre-established performance goals and objectives.

Where appropriate, executives will be selected to participate in the Company's supplemental or perquisite programs, depending upon comparable data, retention value of the executive and cost to the Company.

Our Chief Executive Officer, Chief Financial Officer and the three other executive officers of the Company who received a combined salary and bonus in excess of \$100,000 during 2008 (our "NEOs") include Stephen R. Crim, William C. Tepe, Joseph D. Scollo, Jr., Randolph Hutto and Guy Cloutier. Mr. Tepe resigned from the Company on March 31, 2009.

With respect to Stephen R. Crim, our President and Chief Executive Officer, we considered Mr. Crim's responsibilities and his contributions to the Company's operating results during his tenure in establishing his targeted overall compensation for 2008. Although we do take into consideration compensation levels at similar or peer companies, we did not perform a formal survey of those levels nor did we retain a compensation consultant to advise us with respect to compensation levels for 2008. Given our size and what we consider modest levels of compensation, we did not believe that the benefits of these processes justify the cost. Rather we subjectively assessed the appropriate areas of compensation levels. We followed a similar process when establishing targeted compensation for our other NEOs, Joseph D. Scollo, Jr., our Executive Vice President and Chief Operating Officer, William C. Tepe, our Chief Financial Officer, and Randolph Hutto, our General Counsel and Secretary, and Guy Cloutier, the Senior Vice President of our reinsurance subsidiary. The Chief Executive Officer reviews the other NEO's performance and makes compensation recommendations to the Committee, which are reviewed by the Committee in light of the overall compensation.

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Base Salaries. The base salaries for our NEOs during the year ended December 31, 2008, were established by contract in the case of each of Messrs. Crim, Scollo, Tepe and Hutto, and by considering his performance and contribution to the Company and his business responsibilities in the case of Mr. Cloutier. These amounts reflect levels that we concluded were appropriate based on our general experience. Our base salaries are intended to be competitive with base salaries paid by other similar insurance companies to executives with similar qualifications, experience and responsibilities, although we do not follow a formal practice in this regard. The Committee periodically discusses salary recommendations with the Chief Executive Officer with regard to other Company executive officers. These salary recommendations are generally based on an evaluation of the individual's performance of the position held, the Company's operating results, and the individual's contribution to the Company's operating results.

The compensation of our Chief Executive Officer, Stephen R. Crim, Executive Vice President and Chief Operating Officer, Joseph D. Scollo, Jr., Chief Financial Officer, William C. Tepe, and General Counsel, Randolph L. Hutto, are governed primarily by employment agreements, the material terms of which are more specifically described below under **Employment Agreements**. These employment agreements provide for a base salary of \$420,000 for Mr. Crim, \$345,000 for Mr. Scollo, \$315,000 for Mr. Tepe and \$308,850 for Mr. Hutto effective as of August 1, 2007, subject to annual review and adjustment. Compensation, including base salary and bonus opportunity, for Mr. Cloutier was based on a determination by the Chief Executive Officer, discussed with and approved by the Committee. The base salaries for Messrs. Crim, Scollo, Tepe, Hutto and Cloutier in 2008 were \$420,000.00, \$368,765.58, \$322,245.39, \$317,036.33 and \$350,000.00, respectively.

2008 Long-Term Incentive Plan. In 2007, the Committee retained the Lockton Benefits Group to review the Company's compensation programs. Based on the results of this review, the Compensation Committee adopted the 2008 Long-Term Incentive Plan (the "LTIP"). Commencing with calendar 2008, the Committee has implemented this comprehensive, long-term incentive compensation program. The LTIP is administered by our Human Resources Department, with input from the Chief Executive Officer and the Committee.

The LTIP is designed to compensate and retain those executives and key employees that contribute most to driving revenue and profitability. This philosophy represents a modification from prior year plans, which were more focused on title than revenue and profitability. Under the 2008 structure, there are 3 groups eligible for stock awards or stock options in addition to a cash bonus. All NEOs are in Group 1 and are eligible to receive stock options, restricted stock grants and annual performance-based cash bonus awards. Restricted stock awards are designed as an aid in retention of personnel and are not directly tied to performance. Restricted stock vests 25% on each of the first and second anniversaries of the award, with the final 50% vesting on the third anniversary of the award. The stock options are designed to reward long term performance and vest on the third anniversary of the grant date.

The incentive payouts generally applicable to NEOs based on meeting established targets, expressed as a value % of the NEO's base salary, include 40% cash bonus, 25% stock options and 15% restricted stock awards. The targets are established each year. The Committee reserves the right to modify the bonus payout terms of the LTIP for select individuals deemed to contribute most to the Company's financial performance. Any modifications to the bonus payouts as described above will be at the sole discretion of the Committee based upon recommendations made by the Chief Executive Officer and based on the individual's contributions to the Company's financial performance.

The cash bonus portion of the LTIP is designed to reward short term performance, and is distributed based on a combination of achieving annual financial targets and established qualitative goals. For 2008, weighting of 30%/70% for growth verses profitability was used as respects financial targets, but a portion of the bonus is based upon achievement of other personal and qualitative goals established annually. Our NEOs receive 80% of their cash bonus based on meeting certain corporate financial goals and 20% of their cash bonus based on meeting certain personal and qualitative goals.

To reward NEOs for achieving optimal results, leverage ratios apply to performance bonus amounts for exceeding or missing financial targets. The following leverage ratios apply to the cash bonus portion under the LTIP:

% ACHIEVED OF TARGET