

AMERICAN SAFETY INSURANCE HOLDINGS LTD
Form 10-Q
May 10, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10 Q

Ö QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE
ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED March 31, 2010

“OR”

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE
ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO .

Commission File Number 1-14795

AMERICAN SAFETY INSURANCE HOLDINGS, LTD.
(Exact name of Registrant as specified in its charter)

Bermuda
(State or other jurisdiction
of incorporation)

Not Applicable
(I.R.S. Employer
Identification No.)

The Boyle Building, 2nd Floor
31 Queen Street
Hamilton, HM 11, Bermuda
(Address, zip code of principal
executive offices)

(441) 296-8560
(Registrant's telephone number,
including area code)

Indicate by check mark whether 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 such shorter period that registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes 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 (§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 No

Edgar Filing: AMERICAN SAFETY INSURANCE HOLDINGS LTD - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act. (check one)

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 Exchange Act).
_____ Yes X No

The aggregate number of shares outstanding of Registrant’s common stock, \$0.01 par value, on May 5, 2010 was 10,349,953.

AMERICAN SAFETY INSURANCE HOLDINGS, LTD.

FORM 10-Q

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

	Page
Item 1. Financial Statements	3
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3. Quantitative and Qualitative Disclosures About Market Risk	23
Item 4. Controls and Procedures	24

PART II – OTHER INFORMATION

Item 1. Legal Proceedings	25
Item 1A. Risk Factors	25
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 3. Defaults Upon Senior Securities	25
Item 4. Submission of Matters to a Vote of Security Holders	25
Item 5. Other Information	25
Item 6. Exhibits	26

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

American Safety Insurance Holdings, Ltd. and Subsidiaries
Consolidated Balance Sheets
(dollars in thousands)

	March 31, 2010	December 31, 2009
Assets		
Investments available-for-sale:		
Fixed maturity securities, at fair value (including \$5,728 and \$5,384 from VIE)	\$ 696,200	\$ 672,278
Common stock, at fair value	7,588	7,519
Preferred stock, at fair value	3,456	3,371
Short-term investments, at fair value (including \$1,193 and \$1,161 from VIE)	51,072	67,257
Total investments	758,316	750,425
Cash and cash equivalents (including \$119 and \$54 from VIE)	36,460	34,756
Accrued investment income (including \$50 and \$50 from VIE)	6,494	6,305
Premiums receivable (including \$2,117 and \$1,058 from VIE)	23,338	21,515
Ceded unearned premiums (including \$502 and \$640 from VIE)	30,359	41,616
Reinsurance recoverable (including \$13,958 and \$13,886 from VIE)	208,098	200,764
Deferred income taxes	5,716	5,647
Deferred acquisition costs (including \$(204) and \$(22) from VIE)	17,619	16,228
Property, plant and equipment, net	11,509	10,833
Goodwill	11,083	11,083
Other assets (including \$341 and \$1,614 from VIE)	53,584	48,488
Total assets	\$ 1,162,576	\$ 1,147,660
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses (including \$17,926 and \$17,733 from VIE)	\$ 628,606	\$ 616,444
Unearned premiums (including \$1,098 and \$1,378 from VIE)	118,732	124,189
Ceded premiums payable (including \$131 and \$63 from VIE)	13,420	10,930
Funds held (including \$174 and \$191 from VIE)	50,580	48,378
Securities payable	12,057	18,790
Other liabilities (including \$724 and \$785 from VIE)	14,535	17,089
Loans payable	39,097	36,328
Total liabilities	877,027	872,148
Shareholders' equity:		
Preferred stock, \$0.01 par value; authorized 5,000,000 shares; no shares issued and outstanding	-	-
Common stock, \$0.01 par value; authorized 30,000,000 shares; issued and outstanding at March 31, 2010, 10,348,453 shares, and December 31, 2009, 10,323,875 shares	103	103
Additional paid-in capital	102,782	102,486
Retained earnings	150,327	143,823
Accumulated other comprehensive income, net	28,586	25,425
Total American Safety Insurance Holdings, Ltd. shareholders' equity	281,798	271,837

Edgar Filing: AMERICAN SAFETY INSURANCE HOLDINGS LTD - Form 10-Q

Non-controlling interest	3,751	3,675
Total shareholders' equity	285,549	275,512
Total liabilities and shareholders' equity	\$1,162,576	\$1,147,660

See accompanying notes to consolidated interim financial statements (unaudited).

American Safety Insurance Holdings, Ltd. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)
(dollars in thousands except per share data)

	Three Months Ended March 31,	
	2010	2009
Revenues:		
Direct earned premiums	\$55,742	\$50,779
Assumed earned premiums	9,020	11,040
Ceded earned premiums	(21,794)	(17,139)
Net earned premiums	42,968	44,680
Net investment income	7,905	7,790
Net realized gains (losses)	1,011	(44)
Fee income	1,093	933
Other income	20	19
Total revenues	52,997	53,378
Expenses:		
Losses and loss adjustment expenses	25,401	27,073
Acquisition expenses	9,830	10,204
Other underwriting expenses	9,827	8,846
Interest expense	759	741
Corporate and other expenses	715	682
Total expenses	46,532	47,546
Earnings before income taxes	6,465	5,832
Income taxes	(99)	208
Net earnings	6,564	5,624
Less: Net earnings attributable to the non-controlling interest	57	79
Net earnings attributable to American Safety Insurance Holdings, Ltd.	\$6,507	\$5,545
Net earnings per share:		
Basic	\$0.63	\$0.54
Diluted	\$0.61	\$0.53
Weighted average number of shares outstanding:		
Basic	10,331,810	10,286,089
Diluted	10,644,507	10,474,968

See accompanying notes to consolidated interim financial statements (unaudited).

American Safety Insurance Holdings, Ltd. and Subsidiaries
Consolidated Statements of Cash Flow
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Cash flow from operating activities:		
Net earnings attributable to American Safety Insurance Holdings, Ltd..	\$6,564	\$5,624
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net realized (gains) losses on sale of investments	(1,011)	44
Depreciation expense	635	926
Stock based compensation expense	436	519
Change in deferred acquisition costs, net	(1,391)	948
Amortization of premiums on investments	204	106
Deferred income taxes	(378)	(441)
Change in operating assets and liabilities:		
Accrued investment income	(189)	154
Premiums receivable	(1,823)	1,391
Ceded unearned premium	11,257	6,003
Reinsurance recoverable	(7,334)	(5,821)
Funds held	2,202	3,022
Unpaid losses and loss adjustment expenses	12,162	16,680
Unearned premiums	(5,457)	(10,993)
Ceded premiums payable	2,490	369
Other liabilities	(2,554)	(2,317)
Other assets , net	(5,220)	(2,013)
Net cash provided by operating activities	10,593	14,201
Cash flow from investing activities:		
Purchases of fixed maturities	(84,614)	(96,353)
Purchases of common stock	-	(124)
Proceeds from sale of fixed maturities	58,876	41,449
Proceeds from sale of equity securities	-	655
Decrease in short-term investments	16,185	37,212
Purchase of fixed assets, net	(1,262)	(406)
Net cash used in investing activities	(10,815)	(17,567)
Cash flow from financing activities:		
Repurchase of common stock	(148)	(430)
Proceeds from exercised stock options	19	463
Proceeds from termination of interest rate swaps	2,055	-
Net cash provided by financing activities	1,926	33
Net increase (decrease) in cash and cash equivalents	1,704	(3,333)
Cash and cash equivalents at beginning of period	34,756	12,898
Cash and cash equivalents at end of period	\$36,460	\$9,565

Supplemental disclosure of cash flow information:

Income taxes paid	\$10	\$1,512
Interest paid	\$700	\$761

See accompanying notes to consolidated interim financial statements (unaudited).

American Safety Insurance Holdings, Ltd. and Subsidiaries
 Consolidated Statements of Comprehensive Earnings
 (Unaudited)

	Three Months Ended March 31,	
	2010	2009
Net earnings	\$6,564	\$5,624
Other comprehensive income before income taxes:		
Unrealized gains (losses) on securities available-for-sale	5,182	(3,628)
Unrealized (losses) on hedging transactions	(681)	(590)
Reclassification adjustment for realized (gains) losses included in net earnings	(1,011)	44
Total other comprehensive income (loss) before taxes	3,490	(4,174)
Income tax (benefit) expense related to items of other comprehensive income	309	(1,028)
Other comprehensive income (loss) net of income taxes	3,181	(3,146)
Comprehensive income	\$9,745	\$2,478
Less: Comprehensive income attributable to the non-controlling interest	76	64
Comprehensive income attributable to American Safety Insurance Holdings, Ltd.	\$9,669	\$2,414

See accompanying notes to consolidated interim financial statements (unaudited).

American Safety Insurance Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements

March 31, 2010
(Unaudited)

Note 1 - Basis of Presentation

The accompanying consolidated financial statements of American Safety Insurance Holdings, Ltd. (“American Safety Insurance”) and its subsidiaries and American Safety Risk Retention Group, Inc. (“American Safety RRG”), a non-subsiary risk retention group affiliate (collectively, the “Company”), are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of financial statements in conformity with GAAP requires management to make estimates, based on the best information available, in recording transactions resulting from business operations. Certain balance sheet amounts involve accounting estimates and/or actuarial determinations and are therefore subject to change and include, but are not limited to, invested assets, deferred income taxes, reinsurance recoverables, goodwill and the liabilities for unpaid losses and loss adjustment expenses. As additional information becomes available (or actual amounts are determinable), the recorded estimates may be revised and reflected in operating results. While management believes that these estimates are adequate, such estimates may change in the future.

The results of operations for the three months ended March 31, 2010 may not be indicative of the results that may be expected for the fiscal year ending December 31, 2010. These unaudited interim consolidated financial statements and notes should be read in conjunction with the financial statements and notes included in the audited consolidated financial statements on Form 10-K of the Company for the fiscal year ended December 31, 2009.

The unaudited interim consolidated financial statements include the accounts of American Safety Insurance, each of its subsidiaries and American Safety RRG. All significant intercompany balances as well as normal recurring adjustments have been eliminated. Unless otherwise noted, all balances are presented in thousands.

Certain balance sheet and statement of operations items have been reclassified for the 2009 periods. The presentation is consistent with the presentation for the three months ended March 31, 2010 and did not result in any impact to net earnings or shareholders’ equity.

Note 2 - Investments

The amortized cost and estimated fair values of the Company's investments at March 31, 2010 and December 31, 2009 are as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
March 31, 2010				
Securities available for sale:				
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. Government				
corporations and agencies	\$86,840	\$2,094	\$(308)	) \$88,626
States of the U.S. and political subdivisions of the states	23,540	964	(110)	) 24,394
Corporate securities	287,419	16,128	(568)	) 302,979
Mortgage-backed securities	204,040	7,915	(433)	) 211,522
Commercial mortgage-backed securities	28,834	6,069	-	) 34,903
Asset-backed securities	33,072	733	(29)	) 33,776
Total fixed maturities	\$663,745	\$33,903	\$(1,448)	) \$696,200
Common stock	\$7,582	\$6	\$-	) \$7,588
Preferred stock	\$3,273	\$242	\$(59)	) \$3,456
December 31, 2009:				
Securities available for sale:				
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. Government				
corporations and agencies	\$101,638	\$1,936	\$(316)	) \$103,258
States of the U.S. and political subdivisions of the states	35,253	1,058	(228)	) 36,083
Corporate securities	260,511	13,937	(378)	) 274,070
Mortgage-backed securities	196,738	7,483	(537)	) 203,684
Commercial mortgage-backed securities	28,739	4,813	(21)	) 33,531
Asset-backed securities	21,034	618	-	) 21,652
Total fixed maturities	\$643,913	\$29,845	\$(1,480)	) \$672,278
Common stock	\$7,582	\$-	\$(63)	) \$7,519
Preferred stock	\$3,273	\$179	\$(81)	) \$3,371

Note 3 - Segment Information

Our business segments are classified into insurance operations and other, with the insurance operations consisting of three divisions: excess and surplus lines (E&S), alternative risk transfer (ART) and assumed reinsurance (Assumed Re). E&S includes seven products: environmental, construction, products liability, excess, property, surety and healthcare. ART includes two business lines: specialty programs and fully funded. In our Assumed Re division, the Company assumes specialty property and casualty business from unaffiliated insurers and reinsurers.

Within E&S, our environmental insurance products provide general pollution and professional liability coverage for contractors and consultants in the environmental remediation industry and property owners. Construction provides general liability insurance for residential and commercial contractors. Products liability provides general liability and product liability coverages for smaller manufacturers and distributors, non-habitational real estate and certain real property owner, landlord and tenant risks. Excess provides excess and umbrella liability coverages over our own and other carriers' primary casualty policies, with a focus on construction risks. Our property coverage encompasses surplus lines commercial property business and commercial multi-peril (CMP) policies. Surety provides payment and performance bonds primarily to the environmental remediation and construction industries. Healthcare provides customized liability insurance solutions primarily for long-term care facilities.

In our ART division, specialty programs provide insurance to homogeneous niche groups through third party program managers. Our specialty programs consist primarily of property and casualty insurance coverages for certain classes of specialty risks including, but not limited to, construction contractors, pest control operators, small auto dealers, real estate brokers, consultants, restaurant and tavern owners, bail bondsmen and parent/teacher associations. Fully funded policies give our insureds the ability to fund their liability exposure via a self-insurance vehicle. We write fully funded general and professional liability for businesses operating primarily in the healthcare and construction industries.

Our assumed reinsurance division offers property and casualty reinsurance products in the form of treaty and facultative contracts. We provide this coverage on an excess of loss and quota share basis targeting small specialty insurers, risk retention groups and captives. We reinsure casualty business, which includes general liability, commercial auto, professional liability and workers' compensation, as well as, on a limited basis, property catastrophe.

Our Other segment includes lines of business that we have placed in run-off, such as workers' compensation, excess liability insurance for municipalities, other commercial lines, real estate and other ancillary product lines.

The Company measures geographic segments using net income, total assets and total equity. The reportable insurance divisions are measured by underwriting profit (loss) and pre-tax operating income.

The following table presents key financial data by segment for the three months ended March 31, 2010 and 2009 respectively (dollars in thousands):

	Three Months Ended March 31, 2010							Total
	E&S	Insurance ART	Reinsurance	Other Run-off				
Gross Written Premiums	\$29,628	\$18,234	\$11,455	\$-			\$59,317	
Net Written Premiums	24,353	14,092	10,336	-			48,781	
Net Earned Premiums	22,152	11,163	9,653	-			42,968	
Underwriting Profit (Loss)	(2,521)	11	756	(1)			(1,755)	
Fee income	146	831	116	-			1,093	
Investment income	5,449	1,129	1,088	239			7,905	
Pre-tax operating income	3,074	1,971	1,960	238			7,243	
Realized gains (losses)							1,011	
Interest and Holding Company expenses							1,789	
Income before taxes							6,465	
Income taxes							(99)	
Income after taxes							6,564	
Earnings from non-controlling interest							57	
Net income attributable to ASIH, Ltd.							\$6,507	
Loss Ratio	59.4 %	57.5 %	60.3 %	*NM			59.1 %	
Expense Ratio	51.3 %	35.0 %	30.7 %	NM			43.2 %	
Combined Ratio **	110.7 %	92.5 %	91.0 %	NM			102.3 %	

* NM = Ratio is not meaningful

** The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of losses and loss adjustment expenses, acquisition expenses and other underwriting expenses net of fee income to earned premiums.

	Three Months Ended March 31, 2009					Total
	E&S	Insurance ART	Reinsurance	Other Run-off		
Gross Written Premiums	\$28,840	\$13,655	\$8,398	\$-		\$50,893
Net Written Premiums	21,356	9,490	8,884	-		39,730
Net Earned Premiums	23,064	10,660	10,956	-		44,680
Underwriting Profit (Loss)	(1,299)	862	(393)	-		(830)
Fee income	176	597	160	-		933
Investment income	5,633	1,007	886	264		7,790
Pre-tax operating income	4,511	2,465	653	264		7,893
Realized gains (losses)						(44)
Interest and Holding Company expenses						2,017
Income before taxes						5,832
Income taxes						208
Income after taxes						5,624
Earnings from non-controlling interest						79
Net income attributable to ASIH, Ltd.						\$5,545
Loss Ratio	59.0	% 52.9	% 71.4	% *NM		60.6 %
Expense Ratio	45.8	% 33.4	% 30.8	% NM		40.5 %
Combined Ratio	104.9	% 86.3	% 102.1			