

SAFETY INSURANCE GROUP INC

Form 10-Q

August 08, 2008

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

OR

**o 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: 000-50070

SAFETY INSURANCE GROUP, INC.

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of incorporation or organization)

13-4181699

(I.R.S. Employer Identification No.)

20 Custom House Street, Boston, Massachusetts 02110

(Address of principal executive offices including zip code)

(617) 951-0600

(Registrant's telephone number, including area code)

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

Yes No

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

Large accelerated filer Accelerated filer 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 No

As of August 4, 2008, there were 16,287,003 shares of common stock with a par value of \$0.01 per share outstanding.

Table of Contents

SAFETY INSURANCE GROUP, INC.

Table of Contents

	Page No.
PART I.	FINANCIAL INFORMATION
Item 1.	Financial Statements
	<u>Consolidated Balance Sheets at June 30, 2008 and December 31, 2007 (Unaudited)</u>
	3
	<u>Consolidated Statements of Operations</u>
	<u>for the Three and Six Months Ended June 30, 2008 and 2007 (Unaudited)</u>
	4
	<u>Consolidated Statements of Changes in Shareholders' Equity</u>
	<u>for the Six Months Ended June 30, 2008 and 2007 (Unaudited)</u>
	5
	<u>Consolidated Statements of Comprehensive Income</u>
	<u>for the Three and Six Months Ended June 30, 2008 and 2007 (Unaudited)</u>
	6
	<u>Consolidated Statements of Cash Flows</u>
	<u>for the Six Months Ended June 30, 2008 and 2007 (Unaudited)</u>
	7
	<u>Notes to Unaudited Consolidated Financial Statements</u>
	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	<u>Executive Summary and Overview</u>
	18
	<u>Critical Accounting Policies and Estimates</u>
	22
	<u>Results of Operations - Three and Six Months Ended June 30, 2008 and 2007</u>
	30
	<u>Liquidity and Capital Resources</u>
	35
	<u>Forward-Looking Statements</u>
	37
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
	37
Item 4.	<u>Controls and Procedures</u>
	38
PART II.	<u>OTHER INFORMATION</u>
Item 1.	<u>Legal Proceedings</u>
	38
Item 1A.	<u>Risk Factors</u>
	38
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	38
Item 3.	<u>Defaults upon Senior Securities</u>
	39
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>
	39
Item 5.	<u>Other Information</u>
	39
Item 6.	<u>Exhibits</u>
	39
<u>SIGNATURE</u>	40
<u>EXHIBIT INDEX</u>	41

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Consolidated Balance Sheets****(Unaudited)****(Dollars in thousands, except share data)**

	June 30, 2008	December 31, 2007
Assets		
Investment securities available for sale:		
Fixed maturities, at fair value (amortized cost: \$984,596 and \$995,360)	\$ 979,271	\$ 1,002,028
Equity securities, at fair value (cost: \$8,728 and \$6,794)	8,603	6,977
Total investment securities	987,874	1,009,005
Cash and cash equivalents	64,115	46,311
Accounts receivable, net of allowance for doubtful accounts	163,843	156,343
Accrued investment income	10,404	10,972
Receivable from reinsurers related to paid loss and loss adjustment expenses	24,283	13,047
Receivable from reinsurers related to unpaid loss and loss adjustment expenses	78,396	84,290
Ceded unearned premiums	27,447	28,818
Deferred policy acquisition costs	52,185	48,652
Deferred income taxes	19,029	13,388
Equity and deposits in pools	24,245	26,235
Other assets	12,458	9,931
Total assets	\$ 1,464,279	\$ 1,446,992
Liabilities		
Loss and loss adjustment expense reserves	\$ 468,992	\$ 477,720
Unearned premium reserves	333,944	320,545
Accounts payable and accrued liabilities	34,926	50,023
Taxes payable	1,385	120
Outstanding claims drafts	17,144	17,922
Payable to reinsurers	18,810	10,662
Total liabilities	875,201	876,992
Commitments and contingencies (Note 7)		
Shareholders' equity		
Common stock: \$0.01 par value; 30,000,000 shares authorized; 16,399,106 and 16,242,213 shares issued	164	162
Additional paid-in capital	136,748	134,224
Accumulated other comprehensive (loss) income, net of taxes	(3,543)	4,453
Retained earnings	459,738	432,746
Treasury stock, at cost; 122,324 and 48,124 shares	(4,029)	(1,585)
Total shareholders' equity	589,078	570,000
Total liabilities and shareholders' equity	\$ 1,464,279	\$ 1,446,992

The accompanying notes are an integral part of these financial statements

Table of Contents

Safety Insurance Group, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

(Dollars in thousands, except per share and share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net earned premiums	\$ 147,002	\$ 153,925	\$ 297,750	\$ 307,515
Net investment income	11,207	10,780	22,735	21,819
Net realized gains (losses) on investments	2,072	(162)	2,103	(91)
Finance and other service income	4,515	3,995	9,013	7,988
Total revenue	164,796	168,538	331,601	337,231
Losses and loss adjustment expenses	91,078	92,769	186,948	185,327
Underwriting, operating and related expenses	44,474	43,021	88,939	83,719
Interest expenses	18	19	37	41
Total expenses	135,570	135,809	275,924	269,087
Income before income taxes	29,226	32,729	55,677	68,144
Income tax expense	8,295	9,813	15,701	20,580
Net income	\$ 20,931	\$ 22,916	\$ 39,976	\$ 47,564
Earnings per weighted average common share:				
Basic	\$ 1.31	\$ 1.43	\$ 2.49	\$ 2.97
Diluted	\$ 1.30	\$ 1.42	\$ 2.48	\$ 2.95
Cash dividends paid per common share	\$ 0.40	\$ 0.25	\$ 0.80	\$ 0.50
Weighted average number of common shares outstanding:				
Basic	16,033,785	16,052,236	16,029,290	16,022,487
Diluted	16,103,949	16,127,154	16,090,388	16,096,412

The accompanying notes are an integral part of these financial statements

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Consolidated Statements of Changes in Shareholders' Equity****(Unaudited)****(Dollars in thousands)**

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income/(Loss), Net of Taxes	Retained Earnings	Treasury Stock	Total Shareholders Equity
Balance at December 31, 2006	\$ 161	\$ 129,785	\$ 21	\$ 366,381	\$	\$ 496,348
Net income, January 1 to June 30, 2007				47,564		47,564
Other comprehensive loss, net of deferred federal income taxes			(8,172)			(8,172)
Exercise of options and unearned compensation on restricted stock, net of deferred federal income taxes	1	2,512				2,513
Dividends paid				(8,100)		(8,100)
Balance at June 30, 2007	\$ 162	\$ 132,297	\$ (8,151)	\$ 405,845	\$	\$ 530,153

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income/(Loss), Net of Taxes	Retained Earnings	Treasury Stock	Total Shareholders Equity
Balance at December 31, 2007	\$ 162	\$ 134,224	\$ 4,453	\$ 432,746	\$ (1,585)	\$ 570,000
Net income, January 1 to June 30, 2008				39,976		39,976
Other comprehensive loss, net of deferred federal income taxes			(7,996)			(7,996)
Exercise of options and unearned compensation on restricted stock, net of deferred federal income taxes	2	2,524				2,526
Dividends paid				(12,984)		(12,984)
Acquisition of treasury stock					(2,444)	(2,444)
Balance at June 30, 2008	\$ 164	\$ 136,748	\$ (3,543)	\$ 459,738	\$ (4,029)	\$ 589,078

The accompanying notes are an integral part of these financial statements

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Consolidated Statements of Comprehensive Income****(Unaudited)****(Dollars in thousands)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	\$ 20,931	\$ 22,916	\$ 39,976	\$ 47,564
Other comprehensive income, net of tax:				
Unrealized holding losses during the period, net of tax benefit of \$(5,703), \$(5,079), \$(3,569) and \$(4,433)	(10,592)	(9,432)	(6,629)	(8,231)
Reclassification adjustment for (gains) losses included in net income, net of tax (benefit) expense of \$(725), \$57, \$(736) and \$32	(1,347)	105	(1,367)	59
Unrealized losses on securities available for sale	(11,939)	(9,327)	(7,996)	(8,172)
Comprehensive income	\$ 8,992	\$ 13,589	\$ 31,980	\$ 39,392

The accompanying notes are an integral part of these financial statements

Table of Contents

Safety Insurance Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

	Six Months Ended June 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 39,976	\$ 47,564
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	5,729	4,673
(Benefit) provision for deferred income taxes	(1,336)	136
Net realized (gains) losses on investments	(2,103)	91
Changes in assets and liabilities:		
Accounts receivable	(7,500)	(17,285)
Accrued investment income	568	11
Receivable from reinsurers	(5,342)	(1,687)
Ceded unearned premiums	1,371	(93)
Deferred policy acquisition costs	(3,533)	(4,963)
Other assets	1,578	(12,272)
Loss and loss adjustment expense reserves	(8,728)	8,790
Unearned premium reserves	13,399	23,105
Accounts payable and accrued liabilities	(15,097)	(18,497)
Payable to reinsurers	8,148	12,002
Other liabilities	366	2,023
Net cash provided by operating activities	27,496	43,598
Cash flows from investing activities:		
Fixed maturities purchased	(93,251)	(125,306)
Equity securities purchased	(3,494)	(3,329)
Proceeds from sales of fixed maturities	85,756	152,385
Proceeds from maturities of fixed maturities	17,675	11,000
Proceed from sales of equity securities	1,560	979
Fixed assets purchased	(3,143)	(5,488)
Net cash provided by investing activities	5,103	30,241
Cash flows from financing activities:		
Proceeds and excess tax benefits from exercise of stock options	633	429
Dividends paid to shareholders	(12,984)	(8,100)
Acquisition of treasury stock	(2,444)	
Net cash used for financing activities	(14,795)	(7,671)
Net increase in cash and cash equivalents	17,804	66,168
Cash and cash equivalents at beginning of year	46,311	26,283
Cash and cash equivalents at end of period	\$ 64,115	\$ 92,451

The accompanying notes are an integral part of these financial statements

Table of Contents

Safety Insurance Group, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(Dollars in thousands except per share and share data)

1. Basis of Presentation

The consolidated financial statements have been prepared on the basis of 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 and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

The consolidated financial statements include Safety Insurance Group, Inc. and its subsidiaries (the Company). The subsidiaries consist of Safety Insurance Company, Safety Indemnity Insurance Company, Safety Property and Casualty Insurance

Company, Whiteshirts Asset Management Corporation (WAMC), and Whiteshirts Management Corporation, which is WAMC s holding company. All intercompany transactions have been eliminated. Prior period amounts have been reclassified to conform to the current period presentation.

The financial information as of June 30, 2008 and for the three and six months ended June 30, 2008 and 2007 is unaudited; however, in the opinion of the Company, the information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial condition and results of operations for the periods. These unaudited consolidated financial statements may not be indicative of financial results for the full year and should be read in conjunction with the audited financial statements included in the Company s annual report on Form 10-K filed with the U.S. Securities and Exchange Commission (SEC) on March 14, 2008.