

SAFETY INSURANCE GROUP INC  
Form 10-Q  
August 06, 2010  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended June 30, 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: 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)

**Not Applicable**

(Former name or former address, if changed since last report)

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 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 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, 2010, there were 15,016,772 shares of common stock with a par value of \$0.01 per share outstanding.



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SAFETY INSURANCE GROUP, INC.

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## Safety Insurance Group, Inc. and Subsidiaries

## Consolidated Balance Sheets

(Unaudited)

(Dollars in thousands, except share data)

	June 30, 2010	December 31, 2009
<b>Assets</b>		
Investment securities available for sale:		
Fixed maturities, at fair value (amortized cost: \$982,807 and \$989,444)	\$ 1,028,460	\$ 1,018,329
Equity securities, at fair value (cost: \$13,446 and \$9,736)	13,361	9,876
Total investment securities	1,041,821	1,028,205
Cash and cash equivalents	40,043	74,470
Accounts receivable, net of allowance for doubtful accounts	154,596	137,238
Receivable for securities sold	19,099	
Accrued investment income	9,695	10,044
Taxes recoverable	3,514	
Receivable from reinsurers related to paid loss and loss adjustment expenses	5,495	6,851
Receivable from reinsurers related to unpaid loss and loss adjustment expenses	58,834	64,874
Ceded unearned premiums	12,954	13,698
Deferred policy acquisition costs	53,351	47,900
Deferred income taxes	2,624	8,335
Equity and deposits in pools	27,667	23,840
Other assets	11,676	12,382
<b>Total assets</b>	<b>\$ 1,441,369</b>	<b>\$ 1,427,837</b>
<b>Liabilities</b>		
Loss and loss adjustment expense reserves	\$ 420,615	\$ 439,706
Unearned premium reserves	313,009	282,434
Accounts payable and accrued liabilities	39,170	59,869
Taxes payable		3,916
Payable to reinsurers	8,412	4,674
Other liabilities	16,476	16,803
<b>Total liabilities</b>	<b>797,682</b>	<b>807,402</b>
<b>Commitments and contingencies (Note 7)</b>		
<b>Shareholders equity</b>		
Common stock: \$0.01 par value; 30,000,000 shares authorized; 16,739,927 and 16,624,220 shares issued	167	166
Additional paid-in capital	147,325	144,814
Accumulated other comprehensive income, net of taxes	29,619	18,866
Retained earnings	522,102	506,301
Treasury stock, at cost; 1,727,455 and 1,564,548 shares	(55,526)	(49,712)
<b>Total shareholders equity</b>	<b>643,687</b>	<b>620,435</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 1,441,369</b>	<b>\$ 1,427,837</b>

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 data)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net earned premiums	\$ 136,143	\$ 131,306	\$ 269,300	\$ 266,656
Net investment income	10,857	10,706	21,649	21,128
Net realized (losses) gains on investments	(178)	1	(68)	(317)
Finance and other service income	4,576	4,293	8,872	8,381
<b>Total revenue</b>	<b>151,398</b>	<b>146,306</b>	<b>299,753</b>	<b>295,848</b>
Losses and loss adjustment expenses	87,776	86,393	176,450	179,275
Underwriting, operating and related expenses	42,257	39,548	84,125	80,620
Interest expense	22	21	44	43
<b>Total expenses</b>	<b>130,055</b>	<b>125,962</b>	<b>260,619</b>	<b>259,938</b>
Income before income taxes	21,343	20,344	39,134	35,910
Income tax expense	6,254	5,329	11,271	9,051
<b>Net income</b>	<b>\$ 15,089</b>	<b>\$ 15,015</b>	<b>\$ 27,863</b>	<b>\$ 26,859</b>
<b>Earnings per weighted average common share:</b>				
Basic	\$ 1.00	\$ 0.96	\$ 1.85	\$ 1.69
Diluted	\$ 1.00	\$ 0.96	\$ 1.84	\$ 1.69
<b>Cash dividends paid per common share</b>	<b>\$ 0.40</b>	<b>\$ 0.40</b>	<b>\$ 0.80</b>	<b>\$ 0.80</b>
<b>Number of shares used in computing earnings per share:</b>				
Basic	15,113,357	15,629,005	15,099,304	15,896,939
Diluted	15,130,393	15,648,355	15,116,127	15,916,826

The accompanying notes are an integral part of these financial statements.

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## 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 (Loss) Income, Net of Taxes	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 2008	\$ 165	\$ 140,261	\$ (6,528)	\$ 476,989	\$ (7,516)	\$ 603,371
Net income, January 1 to June 30, 2009				26,859		26,859
Other comprehensive income, net of deferred federal income taxes			14,473			14,473
Exercise of options and unearned compensation on restricted stock, net of deferred federal income taxes	1	2,096				2,097
Dividends paid				(12,679)		(12,679)
Acquisition of treasury stock					(32,432)	(32,432)
Balance at June 30, 2009	\$ 166	\$ 142,357	\$ 7,945	\$ 491,169	\$ (39,948)	\$ 601,689

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income, Net of Taxes	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 2009	\$ 166	\$ 144,814	\$ 18,866	\$ 506,301	\$ (49,712)	\$ 620,435
Net income, January 1 to June 30, 2010				27,863		27,863
Other comprehensive income, net of deferred federal income taxes			10,753			10,753
Exercise of options and unearned compensation on restricted stock, net of deferred federal income taxes	1	2,511				2,512
Dividends paid				(12,062)		(12,062)
Acquisition of treasury stock					(5,814)	(5,814)
Balance at June 30, 2010	\$ 167	\$ 147,325	\$ 29,619	\$ 522,102	\$ (55,526)	\$ 643,687

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)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Net income</b>	<b>\$ 15,089</b>	<b>\$ 15,015</b>	<b>\$ 27,863</b>	<b>\$ 26,859</b>
<b>Other comprehensive income, net of tax:</b>				
Unrealized holding gains during the period, net of tax expense of \$3,368, \$2,451 \$5,766, and \$7,682	<b>6,255</b>	4,551	<b>10,708</b>	14,267
Reclassification adjustment for losses (gains) included in net income, net of tax benefit (expense) of \$62, \$(1), \$23, and \$111	<b>116</b>	(1)	<b>45</b>	206
Unrealized gains on securities available for sale	<b>6,371</b>	4,550	<b>10,753</b>	14,473
<b>Comprehensive income</b>	<b>\$ 21,460</b>	<b>\$ 19,565</b>	<b>\$ 38,616</b>	<b>\$ 41,332</b>

The accompanying notes are an integral part of these financial statements.

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## Safety Insurance Group, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

	Six Months Ended June 30,	
	2010	2009
<b>Cash flows from operating activities:</b>		
Net income	\$ 27,863	\$ 26,859
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	6,120	6,237
(Benefit) provision for deferred income taxes	(78)	610
Net realized losses on investments	68	317
Changes in assets and liabilities:		
Accounts receivable	(17,358)	(8,405)
Accrued investment income	349	(143)
Receivable from reinsurers	7,396	8,688
Ceded unearned premiums	744	4,122
Deferred policy acquisition costs	(5,451)	(2,943)
Other assets	(7,503)	(1,285)
Loss and loss adjustment expense reserves	(19,091)	(16,600)
Unearned premium reserves	30,575	11,139
Accounts payable and accrued liabilities	(20,699)	(17,392)
Payable to reinsurers	3,738	3,221
Other liabilities	(4,243)	(2,527)
Net cash provided by operating activities	2,430	11,898
<b>Cash flows from investing activities:</b>		
Fixed maturities purchased	(128,337)	(108,252)
Equity securities purchased	(5,797)	(3,232)
Proceeds from sales, paydowns and calls of fixed maturities	87,656	51,398
Proceeds from maturities of fixed maturities	25,500	5,322
Proceed from sales of equity securities	2,079	1,764
Proceed from maturities of short-term securities		82,996
Fixed assets purchased	(296)	(132)
Net cash (used for) provided by investing activities	(19,195)	29,864
<b>Cash flows from financing activities:</b>		
Proceeds and excess tax benefits from exercise of stock options	214	175
Dividends paid to shareholders	(12,062)	(12,679)
Acquisition of treasury stock	(5,814)	(32,433)
Net cash used for financing activities	(17,662)	(44,937)
<b>Net decrease in cash and cash equivalents</b>	<b>(34,427)</b>	<b>(3,175)</b>
Cash and cash equivalents at beginning of year	74,470	60,451
<b>Cash and cash equivalents at end of period</b>	<b>\$ 40,043</b>	<b>\$ 57,276</b>

The accompanying notes are an integral part of these financial statements.



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**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, 2010 and for the three and six months ended June 30, 2010 and 2009 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 15, 2010.

The Company is a leading provider of personal lines property and casualty insurance focused primarily on the Massachusetts market. The Company 's principal product line is private passenger automobile insurance, which accounted for 69.2% of its direct written premiums in 2009. The Company operates through its insurance company subsidiaries, Safety Insurance Company, Safety Indemnity Insurance Company, and Safety Property and Casualty Insurance Company (together referred to as the Insurance Subsidiaries ).

The Insurance Subsidiaries began writing private passenger automobile and homeowners insurance in New Hampshire on October 15, 2008. For the six months ended June 30, 2010 and the year ended December 31, 2009, the Company wrote \$1,191 and \$978, respectively, in direct written premiums in New Hampshire.

**2. Recent Accounting Pronouncements**

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In June 2009, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Codification (ASC) 105, *Generally Accepted Accounting Principles*. ASC 105 is now the single source of authoritative nongovernmental GAAP. ASC 105 reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant SEC guidance organized using the same topical structure in separate sections. ASC 105 was effective for financial statements issued for reporting periods that ended after September 15, 2009. As of September 30, 2009, all of the Company's disclosures in its consolidated financial statements were referenced in accordance with ASC 105. The implementation of ASC 105 did not have an impact on the Company's consolidated results of operations or financial position as it did not change authoritative guidance.

ASC 320, *Investments - Debt and Equity Securities* requires entities to separate an other-than-temporary impairment of a debt security into two components when there are credit related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. The amount of the other-than-temporary impairment related to a credit loss is recognized in earnings, and the amount of the other-than-temporary impairment related to other factors is recorded in other comprehensive loss. The Company adopted ASC 320 effective April 1, 2009. The adoption of ASC 320 did not have an impact on the Company's consolidated results of operations or financial position. For further information, see Note 5, *Investments*.

ASC 825, *Financial Instruments* requires disclosures about fair value of financial instruments in interim and annual financial statements and is effective for periods ending after June 15, 2009. The Company adopted ASC 825 effective for its interim reporting period ending June 30, 2009, and its adoption did not have an impact on the Company's consolidated financial condition or results of operations. For further information, see Note 5, *Investments*.

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**Safety Insurance Group, Inc. and Subsidiaries**

**Notes to Unaudited Consolidated Financial Statements**

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

ASC 820, *Fair Value Measurements and Disclosures* expands certain disclosure requirements and is effective for periods ending after June 15, 2009. The Company adopted ASC 820 effective for its interim period ending June 30, 2009, and its adoption did not have an impact on the Company's consolidated financial condition or results of operations.

ASC 855, *Subsequent Events* establishes principles and requirements for subsequent events. ASC 855 is effective for interim and annual financial periods ending after June 15, 2009, and was applied prospectively. In February 2010, the FASB issued updated guidance which amended the subsequent events disclosure requirements to eliminate the requirement for SEC filers to disclose the date through which it has evaluated subsequent events, clarify the period through which conduit bond obligors must evaluate subsequent events and refine the scope of the disclosure requirements for reissued financial statements. The updated guidance was effective upon issuance. The adoption of the guidance had no impact on the Company's consolidated financial condition or results of operations.

In January 2010, the FASB issued ASC Update No. 2010-06 (Topic 820), *Improving Disclosures about Fair Value Measurements* which amends and clarifies existing guidance related to fair value measurements and disclosures. This guidance requires new disclosures for (1) transfers in and out of Level 1 and Level 2 and reasons for such transfers; and (2) the separate presentation of purchases, sales, issuances and settlement in the Level 3 reconciliation. It also clarifies guidance around disaggregation and disclosures of inputs and valuation techniques for Level 2 and Level 3 fair value measurements. The Company adopted this guidance effective for quarter ended March 31, 2010, except for the new disclosures in the Level 3 reconciliation. The Level 3 disclosures are effective for periods ending after December 15, 2010. The adoption of the guidance did not have and is not expected to have an impact on the Company's consolidated financial condition or results of operations when fully adopted.

**3. Earnings per Weighted Average Common Share**

Basic earnings per weighted average common share (EPS) is calculated by dividing net income by the weighted average number of basic common shares outstanding during the period including unvested restricted shares which are considered participating securities. Diluted earnings per share amounts are based on the weighted average number of common shares including unvested restricted shares and the net effect of potentially dilutive common shares outstanding. At June 30, 2010 and 2009, the Company's potentially dilutive instruments were common shares under options of 206,580 and 229,503, respectively.

The following table sets forth the computation of basic and diluted EPS for the periods indicated.

Three Months Ended June 30,		Six Months Ended June 30,	
2010	2009	2010	2009

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Net income as reported	\$	<b>15,089</b>	\$	15,015	\$	<b>27,863</b>	\$	26,859
Less dividends:								
Distributed to common shareholders		<b>5,928</b>		6,093		<b>11,840</b>		12,483
Distributed to participating security holders		<b>111</b>		112		<b>222</b>		196
Total undistributed earnings	\$	<b>9,050</b>	\$	8,810	\$	<b>15,801</b>	\$	14,180
Undistributed earnings to common shareholders	\$	<b>8,884</b>	\$	8,659	\$	<b>15,511</b>	\$	13,949
Undistributed earnings to participating security holders	\$	<b>166</b>	\$	151	\$	<b>290</b>	\$	231
Net income available to common shareholders for basic and diluted earnings per share	\$	<b>15,089</b>	\$	15,015	\$	<b>27,863</b>	\$	26,859
Weighted average number of common shares outstanding		<b>14,835,856</b>		15,350,120		<b>14,822,545</b>		15,637,755
Common equivalent shares- restricted stock		<b>277,501</b>		278,885		<b>276,759</b>		259,184
Weighted average common and common equivalent shares outstanding used to calculate basic earnings per share		<b>15,113,357</b>		15,629,005		<b>15,099,304</b>		15,896,939
Common equivalent shares- stock options		<b>17,036</b>		19,350		<b>16,823</b>		19,887
Weighted average common and common equivalent shares outstanding used to calculate diluted earnings per share		<b>15,130,393</b>		15,648,355		<b>15,116,127</b>		15,916,826
Basic earnings per share	\$	<b>1.00</b>	\$	0.96	\$	<b>1.85</b>	\$	1.69
Diluted earnings per share	\$	<b>1.00</b>	\$	0.96	\$	<b>1.84</b>	\$	1.69

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Unaudited Consolidated Financial Statements****(Dollars in thousands except per share and share data)**

Diluted EPS excludes stock options with exercise prices and exercise tax benefits greater than the average market price of the Company's common stock during the period because their inclusion would be anti-dilutive. There were 119,725 anti-dilutive stock options for both the three and six months ended June 30, 2010. There were 167,925 anti-dilutive stock options for both the three and six months ended June 30, 2009.

**4. Stock-Based Compensation****Management Omnibus Incentive Plan**

Long-term incentive compensation is provided under the Company's 2002 Management Omnibus Incentive Plan (the Incentive Plan) which provides for a variety of stock-based compensation awards, including nonqualified stock options, incentive stock options, stock appreciation rights and restricted stock (RS) awards.

The maximum number of shares of common stock with respect to which awards may be granted is 2,500,000. Shares of stock covered by an award under the Incentive Plan that are forfeited will again be available for issuance in connection with future grants of awards under the plan. At June 30, 2010, there were 813,484 shares available for future grant. The Board of Directors and the Compensation Committee intend to issue more awards under the Incentive Plan in the future.

A summary of stock based awards granted under the Incentive Plan during the six months ended June 30, 2010 is as follows:

Type of Equity Awarded	Effective Date	Number of Awards Granted	Fair Value per Share (1)	Vesting Terms
RS	March 9, 2010	77,360	\$ 38.78	3 years, 30%-30%-40%
RS	March 9, 2010	4,000	\$ 38.78	No vesting period (2)
RS	March 23, 2010	25,590	\$ 38.09	5 years, 20% annually

(1) The fair value per share of the restricted stock grant is equal to the closing price of the Company's common stock on the grant date.

(2) The shares cannot be sold, assigned, pledged, or otherwise transferred, encumbered or disposed of until the recipient is no longer a member of the Board of Directors.



**Accounting and Reporting for Stock-Based Awards**

ASC 718, *Compensation - Stock Compensation* requires the Company to measure and recognize the cost of employee services received in exchange for an award of equity instruments. The Company adopted ASC 718 effective January 1, 2006. Under the provisions of ASC 718, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite service period (generally the vesting period of the equity grant).

As permitted by ASC 718, the Company elected the modified prospective transition method. Under the modified prospective transition method, (i) compensation expense for share-based awards granted prior to January 1, 2006 is recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under ASC 718 as adjusted to incorporate forfeiture assumptions under ASC 718, and (ii) compensation expense for all share-based awards granted subsequent to December 31, 2005 is based on the grant date fair value estimated in accordance with the provisions of ASC 718.

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Unaudited Consolidated Financial Statements****(Dollars in thousands except per share and share data)****Stock Options**

The fair value of stock options used to compute net income and earnings per share for the three and six month periods ended June 30, 2010 and 2009 is the estimated fair value at grant date using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Expected dividend yield	<b>1.68%</b>	1.36% - 1.87%	<b>1.36% - 1.68%</b>	1.36% - 2.16%
Expected volatility	<b>0.36</b>	0.31 - 0.36	<b>0.31 - 0.36</b>	0.28 - 0.36
Risk-free interest rate	<b>4.76%</b>	3.82% - 4.76%	<b>4.35% - 4.76%</b>	3.23% - 4.76%
Expected holding period	<b>6.5 years</b>	6.5 - 7 years	<b>6.5 - 7 years</b>	6.5 - 7 years

Expected dividend yield is the Company's dividend yield on the measurement date and is based on the assumption that the current yield will continue in the future. Expected volatility is based on historical volatility of the Company's common stock as well as the volatility of a peer group of property and casualty insurers measured for a period equal to the expected holding period of the option. The risk-free interest rate is based upon the yield on the measurement date of a zero-coupon U.S. Treasury bond with a maturity period equal to the expected holding period of the option. The expected holding period is based upon the simplified method provided in SEC Staff Accounting Bulletin No. 107, *Share-Based Payment*, which utilizes the mid-points between the vesting dates and the expiration date of the option award to calculate the overall expected term. There were no stock options granted during the three and six month periods ended June 30, 2010 and 2009.

The following table summarizes stock option activity under the Incentive Plan for the six months ended June 30, 2010.

	Shares Under	Weighted Average	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	Option	Exercise Price		
Outstanding at beginning of year	<b>215,337</b>	<b>\$ 35.40</b>		
Exercised	<b>(8,757)</b>	<b>\$ 20.20</b>		
Outstanding at end of period	<b>206,580</b>	<b>\$ 36.04</b>	<b>5.0 years</b>	<b>\$ 900</b>
Exercisable at end of period	<b>182,635</b>	<b>\$ 35.15</b>	<b>4.9 years</b>	<b>\$ 900</b>

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based upon the Company's closing stock price of \$37.02 on June 30, 2010, which would have been received by the option holders had all option holders exercised their options as of that date. The range of exercise prices on stock options outstanding under the Incentive Plan was \$12.00 to \$42.85 at June 30, 2010 and 2009. The total intrinsic value of options exercised during the six months ended June 30, 2010 and 2009 was \$147 and \$129, respectively.

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A summary of the status of non-vested options as of June 30, 2010 is presented below.

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Exercise Price</b>
Non-vested at beginning of year	<b>60,490</b>	<b>\$ 41.26</b>
Vested	<b>(36,545)</b>	<b>\$ 40.22</b>
Non-vested at end of period	<b>23,945</b>	<b>\$ 42.85</b>

As of June 30, 2010, there was \$233 of unrecognized compensation expense related to non-vested option awards that is expected to be recognized over a weighted average period of 0.6 years. Cash received from options exercised was \$177 and \$121 for the six months ended June 30, 2010, and 2009, respectively.

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Unaudited Consolidated Financial Statements****(Dollars in thousands except per share and share data)****Restricted Stock**

Restricted stock awarded to employees in the form of unvested shares is recorded at the market value of the Company's common stock on the grant date and amortized ratably as expense over the requisite service period.

The following table summarizes restricted stock activity under the Incentive Plan during the six months ended June 30, 2010.

	Shares Under Restriction	Weighted Average Fair Value
Outstanding at beginning of the year	298,834	\$ 34.28
Granted	106,950	\$ 38.61
Vested and unrestricted	(104,283)	\$ 36.27
Outstanding at end of period	301,501	\$ 35.13

As of June 30, 2010, there was \$8,503 of unrecognized compensation expense related to non-vested restricted stock awards that is expected to be recognized over a weighted average period of 1.8 years. The total fair value of the shares that were vested and unrestricted during the six months ended June 30, 2010 and 2009 was \$3,782 and \$3,412, respectively. For the six months ended June 30, 2010 and 2009, the Company recorded compensation expense related to restricted stock of \$1,322 and \$1,256 net of income tax benefits of \$712 and \$677, respectively.

**5. Investments**

The gross unrealized gains and losses on investments in fixed maturity securities and equity securities, including interests in mutual funds, were as follows for the periods indicated:

	Cost or Amortized Cost	Gross Unrealized Gains	As of June 30, 2010		Estimated Fair Value
			Gross Unrealized Non-OTTI Unrealized Losses	Losses (3) OTTI Unrealized Losses (4)	
U.S. Treasury securities	\$ 7,536	\$ 279	\$	\$	\$ 7,815

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Obligations of states and political subdivisions	437,048	17,296	(536)	453,808
Residential mortgage-backed securities (1)	274,318	17,946	(17)	292,247
Commercial mortgage-backed securities	72,403	2,826		75,229
Other asset-backed securities	22,313	918	(683)	22,548
Corporate and other securities	169,189	7,658	(34)	176,813
Subtotal, fixed maturity securities	982,807	46,923	(1,270)	1,028,460
Equity securities (2)	13,446	281	(366)	13,361
Totals	\$ 996,253	\$ 47,204	\$ (1,636)	\$ 1,041,821

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Unaudited Consolidated Financial Statements****(Dollars in thousands except per share and share data)**

	Cost or Amortized Cost	Gross Unrealized Gains	As of December 31, 2009		Estimated Fair Value
			Gross Unrealized Non-OTTI Unrealized Losses	Gross Unrealized Losses (3) OTTI Unrealized Losses (4)	
U.S. Treasury securities	\$ 12,738	\$ 203	\$ (409)	\$	\$ 12,532
Obligations of states and political subdivisions	468,319	16,218	(1,116)		483,421
Residential mortgage-backed securities (1)	289,736	11,271	(546)		300,461
Commercial mortgage-backed securities	73,431	594	(1,109)		72,916
Other asset-backed securities	22,781	879	(1,360)		