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Amtrust Financial Services, Inc.  
Form 10-Q  
August 10, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file no. 001-33143

AmTrust Financial Services, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

04-3106389  
(IRS Employer Identification No.)

59 Maiden Lane, 43rd Floor, New York, New York  
(Address of principal executive offices)

10038  
(Zip Code)

(212) 220-7120  
(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 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 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 a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act).

Yes  No

As of August 3, 2015, the Registrant had one class of Common Stock (\$.01 par value), of which 82,672,280 shares were issued and outstanding.

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## PART 1 - FINANCIAL INFORMATION

## Item 1. Financial Statements

## AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheet

(In Thousands, Except Par Value)

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
<b>ASSETS</b>		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost \$4,814,001; \$4,137,146)	\$4,842,644	\$4,253,274
Equity securities, available-for-sale, at fair value (cost \$99,595; \$84,075)	103,093	81,044
Equity securities, trading, at fair value (cost \$29,668; \$25,407)	30,652	26,749
Short-term investments	41,707	63,916
Equity investment in unconsolidated subsidiaries – related party	126,919	119,712
Other investments (recorded at fair value \$14,759; \$13,315)	45,572	31,186
Securities pledged, at fair value (amortized cost of \$51,862; \$0)	50,801	—
Total investments	5,241,388	4,575,881
Cash and cash equivalents	845,972	902,750
Restricted cash and cash equivalents	248,940	186,225
Accrued interest and dividends	38,167	42,173
Premiums receivable, net	2,376,818	1,851,682
Reinsurance recoverable (related party \$1,824,707; \$1,517,499)	2,799,007	2,440,627
Prepaid reinsurance premium (related party \$1,136,562; \$918,505)	1,583,560	1,302,848
Other assets (related party \$169,615; \$136,516; recorded at fair value \$267,393; \$264,517)	1,203,899	1,094,943
Deferred policy acquisition costs	695,150	628,383
Property and equipment, net	180,822	154,175
Goodwill	422,357	352,685
Intangible assets	330,871	314,996
	\$15,966,951	\$13,847,368
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Loss and loss adjustment expense reserves	\$6,380,845	\$5,664,205
Unearned premiums	3,868,747	3,447,203
Ceded reinsurance premiums payable (related party \$535,843; \$410,075)	831,665	683,421
Accrued expenses and other liabilities (related party \$167,975; \$167,975; recorded at fair value \$47,242; \$31,619)	1,289,511	991,504
Deferred income taxes	35,257	106,363
Debt	927,604	757,871
Total liabilities	13,333,629	11,650,567
Commitments and contingencies		
Redeemable non-controlling interest	977	600
Stockholders' equity:		
Common stock, \$.01 par value; 150,000 shares authorized, 98,221 and 98,211 issued in 2015 and 2014, respectively; 82,637 and 77,739 outstanding in 2015 and 2014, respectively	982	980
Preferred stock, \$.01 par value; 10,000 shares authorized, 4,968 and 4,785 issued and 482,500 outstanding in 2015 and 2014, respectively, Aggregated liquidation preference		300,000

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\$482,500, \$300,000 in 2015 and 2014, respectively

Additional paid-in capital	1,118,231	1,022,769
Treasury stock at cost; 15,584 and 20,472 shares in 2015 and 2014, respectively	(222,240	) (297,586
Accumulated other comprehensive (loss) income, net of tax	(48,545	) 56,123
Retained earnings	1,138,929	954,734
Total AmTrust Financial Services, Inc. equity	2,469,857	2,037,020
Non-controlling interest	162,488	159,181
Total stockholders' equity	2,632,345	2,196,201
	\$15,966,951	\$13,847,368

See accompanying notes to unaudited condensed consolidated financial statements.

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AmTrust Financial Services, Inc.  
 Condensed Consolidated Statements of Income  
 (Unaudited)  
 (In Thousands, Except Per Share Data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Premium income:				
Net written premium	\$1,008,721	\$923,670	\$2,051,910	\$2,053,951
Change in unearned premium	(39,751 )	(48,733 )	(133,563 )	(349,963 )
Net earned premium	968,970	874,937	1,918,347	1,703,988
Service and fee income (related parties - three months \$21,281; \$15,118 and six months \$38,685; \$27,318)	107,737	99,542	220,623	190,500
Net investment income	36,283	32,594	70,856	61,121
Net realized and unrealized (loss) gain on investments	(2,642 )	3,906	13,011	9,345
Total revenues	1,110,348	1,010,979	2,222,837	1,964,954
Expenses:				
Loss and loss adjustment expense	638,475	587,233	1,251,758	1,145,803
Acquisition costs and other underwriting expenses (net of ceding commission - related party - three months \$129,222; \$91,245 and six months \$247,909; \$179,351)	238,710	208,060	470,386	394,669
Other	98,130	87,588	196,587	175,179
Total expenses	975,315	882,881	1,918,731	1,715,651
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	135,033	128,098	304,106	249,303
Other income (expense):				
Interest expense (net of interest income - related party - three months \$2,211; \$0 and six months \$4,399; \$0)	(9,646 )	(12,587 )	(19,901 )	(24,084 )
Loss on extinguishment of debt	—	—	(4,714 )	—
Gain (loss) on investment in life settlement contracts net of profit commission	3,096	(5,070 )	14,469	(2,270 )
Foreign currency (loss) gain	(47,320 )	1,084	(7,366 )	(768 )
Gain on sale of subsidiary	—	6,631	—	6,631
Total other expense	(53,870 )	(9,942 )	(17,512 )	(20,491 )
Income before income taxes and equity in earnings of unconsolidated subsidiaries	81,163	118,156	286,594	228,812
Provision for income taxes	4,472	17,966	51,284	45,410
Income before equity in earnings of unconsolidated subsidiaries	76,691	100,190	235,310	183,402
Equity in earnings of unconsolidated subsidiaries – related parties	4,042	3,999	9,571	22,515
Net income	\$80,733	\$104,189	\$244,881	\$205,917
Net (income) loss attributable to redeemable non-controlling interest and non-controlling interest of subsidiaries	(1,346 )	4,026	(5,429 )	4,090
Net income attributable to AmTrust Financial Services, Inc.	\$79,387	\$108,215	\$239,452	\$210,007
Dividends on preferred stock	(8,639 )	(1,941 )	(14,008 )	(3,882 )
	\$70,748	\$106,274	\$225,444	\$206,125

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Net income attributable to AmTrust common stockholders

Earnings per common share:

Basic earnings per share	\$0.86	\$1.41	\$2.75	\$2.75
Diluted earnings per share	\$0.84	\$1.33	\$2.69	\$2.60
Dividends declared per common share	\$0.25	\$0.20	\$0.50	\$0.40
Net realized gain on investments:				
Total other-than-temporary impairment loss	\$(1,466 )	\$(1,896 )	\$(2,482 )	\$(3,539 )
Portion of loss recognized in other comprehensive income	—	—	—	—
Net impairment losses recognized in earnings	(1,466 )	(1,896 )	(2,482 )	(3,539 )
Other net realized (loss) gain on available for sale securities and unrealized (loss) gain on trading securities	(1,176 )	5,802	15,493	12,884
Net realized investment (loss) gain	\$(2,642 )	\$3,906	\$13,011	\$9,345

See accompanying notes to unaudited condensed consolidated financial statements.

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AmTrust Financial Services, Inc.  
Condensed Consolidated Statements of Comprehensive Income  
(Unaudited)  
(In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$80,733	\$104,189	\$244,881	\$205,917
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	14,021	6,288	(51,332)	) 7,803
Change in fair value of interest rate swap	163	42	190	234
Gross unrealized holding (loss) gain, net of tax	(59,591)	) 46,578	(52,321)	) 87,451
Reclassification adjustments - Other net realized gain on investments	(790)	) 149	(1,205)	) (1,796)
Other comprehensive (loss) income, net of tax	\$(46,197)	) \$53,057	\$(104,668)	) \$93,692
Comprehensive income	34,536	157,246	140,213	299,609
Less: Comprehensive income (loss) attributable to redeemable non-controlling interest and non-controlling interest	1,346	(4,026)	) 5,429	(4,090)
Comprehensive income attributable to AmTrust Financial Services, Inc.	\$33,190	\$161,272	\$134,784	\$303,699

See accompanying notes to unaudited condensed consolidated financial statements.

AmTrust Financial Services, Inc.  
Consolidated Statements of Cash Flows  
(Unaudited)  
(In Thousands)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$244,881	\$205,917
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,519	29,328
Net amortization of bond premium or discount	6,537	9,573
Equity earnings on investment in unconsolidated subsidiaries	(9,571)	(22,515)
(Gain) loss on investment in life settlement contracts, net	(14,469)	2,270
Realized gain on available for sale securities and unrealized gain on trading securities	(15,493)	(12,884)
Non-cash write-down of available for sale securities	2,482	3,539
Discount on notes payable	2,769	1,585
Stock based compensation	10,436	8,661
Loss on extinguishment of debt	4,714	—
Bad debt expense	7,724	12,607
Foreign currency loss	7,366	768
Gain on sale of subsidiary	—	(6,631)
Changes in assets - (increase) decrease:		
Premiums and note receivables	(536,715)	(289,596)
Reinsurance recoverable	(355,989)	(310,426)
Deferred policy acquisition costs, net	(66,026)	(163,056)
Prepaid reinsurance premiums	(280,712)	(208,020)
Other assets	(124,061)	(86,494)
Changes in liabilities - increase (decrease):		
Reinsurance premium payable	155,340	150,814
Loss and loss expense reserve	664,495	689,825
Unearned premiums	394,994	611,575
Funds held under reinsurance treaties	13,525	19,763
Accrued expenses and other current liabilities	189,847	53,644
Deferred tax liability	(158,508)	(42,566)
Net cash provided by operating activities	182,085	657,681
Cash flows from investing activities:		
Purchases of fixed maturities, available-for-sale	(1,168,051)	(1,084,823)
Purchases of equity securities, available-for-sale	(14,923)	(102,722)
Purchase of equity securities, trading	(109,555)	—
Purchase of other investments	(27,234)	(3,317)
Sales and maturity of fixed maturities, available-for-sale	560,386	630,456
Sales of equity securities, available-for-sale	12,184	92,391
Sales of equity securities, trading	108,325	—
Sales of other investments	13,337	17,373
Net sales (purchases) of short term investments	42,501	37,542
Acquisition of life settlement contracts	—	(25,419)

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Receipt of life settlement contract proceeds	81,014	5,027	
Acquisition of subsidiaries, net of cash obtained	(121,401)	(75,922)	)
Sale of subsidiary, net of cash for subsidiary	—	20,059	)
Increase in restricted cash and cash equivalents	(62,715)	(80,628)	)
Purchase of property and equipment	(44,386)	(22,544)	)
Net cash used in investing activities	(730,518)	(592,527)	)

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Cash flows from financing activities:			
Revolving credit facility borrowings	430,000	—	
Revolving credit facility payments	(365,000)	) —	
Repurchase agreements, net	48,819	(293,222)	)
Secured loan agreements payments	(3,478)	) (534)	)
Promissory notes payments	—	(10,695)	)
Convertible senior notes settlement	(53,606)	) —	
Subordinated notes due 2055 proceeds	150,000	—	
Financing fees	(4,990)	)	
Common stock issuance (purchase), net	171,672	(10,969)	)
Preferred stock issuance, net	176,529	—	
Non-controlling interest (distributions)/capital contributions for consolidated subsidiaries, net	(41)	) 11,090	
Stock option exercise and other	(1,982)	) 2,469	
Dividends distributed on common stock	(39,901)	) (25,600)	)
Dividends distributed on preferred stock	(14,008)	) (3,882)	)
Net cash provided by (used in) financing activities	494,014	(331,343)	)
Effect of exchange rate changes on cash	(2,359)	) 5,276	
Net increase in cash and cash equivalents	(56,778)	) (260,913)	)
Cash and cash equivalents, beginning of the period	902,750	830,022	
Cash and cash equivalents, end of the period	\$845,972	\$569,109	
Supplemental Cash Flow Information			
Income tax payments	\$226,278	\$39,839	
Interest payments on debt	\$18,245	\$18,453	

See accompanying notes to unaudited condensed consolidated financial statements.