

Global Indemnity plc
Form 10-Q
May 10, 2011

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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 March 31, 2011
OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the Transition Period From _____ to _____
001-34809
Commission File Number
GLOBAL INDEMNITY PLC
(Exact name of registrant as specified in its charter)

Ireland
(State or other jurisdiction
of incorporation or organization)

98-0664891
(I.R.S. Employer Identification No.)

**ARTHUR COX BUILDING
EARLSFORT TERRACE
DUBLIN 2
IRELAND**

(Address of principal executive office including zip code)

353 (0) 1 618 0517

(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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that 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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.:

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 April 27, 2011, the registrant had outstanding 18,354,550 Class A Ordinary Shares and 12,061,370 Class B Ordinary Shares.

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As used in this quarterly report, unless the context requires otherwise:

1)

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Global Indemnity refers to Global Indemnity plc, an exempted company incorporated with limited liability under the laws of Ireland, and its U.S. and Non-U.S. Subsidiaries;

- 2) we, us, our, and the Company refer to Global Indemnity and its subsidiaries or, prior to July 2, 2010, to United America Indemnity;
- 3) ordinary shares refers to Global Indemnity Class A and Class B ordinary shares, or, prior to July 2, 2010, to United America Indemnity Class A and Class B common shares;
- 4) United America Indemnity refers to United America Indemnity, Ltd., a Cayman Islands exempted company that, on July 2, 2010, became a direct, wholly-owned subsidiary of Global Indemnity plc, and its subsidiaries;
- 5) our U.S. Subsidiaries refers to Global Indemnity Group, Global Indemnity Group Services, LLC, AIS, Penn-America Group, Inc., and our Insurance Operations;
- 6) our United States Based Insurance Operations and Insurance Operations refer to the insurance and related operations conducted by the U.S. Insurance Companies, American Insurance Adjustment Agency, Inc., Global Indemnity Collectibles Insurance Services, LLC, United America Insurance Services, LLC, and J.H. Ferguson & Associates, LLC;
- 7) our U.S. Insurance Companies refers to the insurance and related operations conducted by United National Insurance Company, Diamond State Insurance Company, United National Casualty Insurance Company, United National Specialty Insurance Company, Penn-America Insurance Company, Penn-Star Insurance Company and Penn-Patriot Insurance Company;

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- 8) our Non-U.S. Subsidiaries refers to Global Indemnity Services Ltd., Global Indemnity (Gibraltar) Ltd., Global Indemnity (Cayman) Ltd., Global Indemnity (Luxembourg) Ltd., Wind River Reinsurance, the Luxembourg Companies, and U.A.I. (Ireland) Ltd.;
- 9) Wind River Reinsurance refers to Wind River Reinsurance Company, Ltd.;
- 10) the Luxembourg Companies refers to U.A.I. (Luxembourg) I S.à r.l., U.A.I. (Luxembourg) II S.à r.l., U.A.I. (Luxembourg) III S.à r.l., U.A.I. (Luxembourg) IV S.à r.l., U.A.I. (Luxembourg) Investment S.à r.l., and Wind River (Luxembourg) S.à r.l.;
- 11) AIS refers to American Insurance Service, Inc.;
- 12) our Predecessor Insurance Operations refers to Wind River Investment Corporation, which was dissolved on May 31, 2006, AIS, American Insurance Adjustment Agency, Inc., Emerald Insurance Company, which was dissolved on March 24, 2008, United National Insurance Company, Diamond State Insurance Company, United National Casualty Insurance Company, United National Specialty Insurance Company, and J.H. Ferguson & Associates, LLC;
- 13) our International Reinsurance Operations and Reinsurance Operations refer to the reinsurance and related operations of Wind River Reinsurance;
- 14) Global Indemnity Group refers to Global Indemnity Group, Inc., (fka United America Indemnity Group, Inc.);
- 15) Penn-America refers to our product classification that includes property and general liability products for small commercial businesses distributed through a select network of wholesale general agents with specific binding authority;
- 16) United National refers to our product classification that includes property, general liability, and professional liability lines products distributed through program administrators with specific binding authority;
- 17) Diamond State refers to our product classification that includes property, casualty, and professional liability lines products distributed through wholesale brokers and program administrators with specific binding authority;
- 18) the Statutory Trusts refers to United National Group Capital Trust I, United National Group Capital Statutory Trust II, Penn-America Statutory Trust I, whose registration was cancelled effective January 15, 2008, and Penn-America Statutory Trust II, whose registration was cancelled effective February 2, 2009;
- 19) Fox Paine & Company refers to Fox Paine & Company, LLC and affiliated investment funds;
- 20) GAAP refers to accounting principles generally accepted in the United States of America; and
- 21) \$ or dollars refers to U.S. dollars.

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(In thousands, except share amounts)

	(Unaudited) March 31, 2011	December 31, 2010
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: \$1,414,836 and \$1,393,655)	\$ 1,457,717	\$ 1,444,392
Equity securities:		
Preferred stocks:		
Available for sale, at fair value (cost: \$930 and \$930)	2,346	2,252
Common stocks:		
Available for sale, at fair value (cost: \$126,691 and \$120,674)	154,325	145,274
Other invested assets		
Available for sale, at fair value (cost: \$14,126 and \$4,255)	16,724	4,268
Securities classified as trading, at fair value (cost: \$0 and \$1,112)		1,112
 Total investments	 1,631,112	 1,597,298
Cash and cash equivalents	108,170	119,888
Accounts receivable, net	68,097	56,657
Reinsurance receivables	390,574	422,844
Deferred federal income taxes	8,044	6,926
Deferred acquisition costs	38,037	35,344
Intangible assets	18,987	19,082
Goodwill	4,820	4,820
Prepaid reinsurance premiums	8,046	11,104
Other assets	25,911	20,720
 Total assets	 \$ 2,301,798	 \$ 2,294,683
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 1,035,088	\$ 1,052,743
Unearned premiums	139,957	135,872
Ceded balances payable	9,531	12,376
Contingent commissions	4,819	9,260
Payable for securities purchased	10,916	4,768
Federal income taxes payable	8,128	55
Notes and debentures payable	121,214	121,285
Other liabilities	30,780	29,655
 Total liabilities	 1,360,433	 1,366,014

Commitments and contingencies (Note 10)

Shareholders equity:

Ordinary shares, \$0.0001 par value, 900,000,000 ordinary shares authorized; Class A ordinary shares issued: 21,388,550 and 21,340,821, respectively; Class A ordinary shares outstanding: 18,341,910 and 18,300,544, respectively; Class B ordinary shares issued and outstanding: 12,061,370 and 12,061,370, respectively	3	3
Additional paid-in capital	623,181	622,725
Accumulated other comprehensive income, net of taxes	55,787	57,211
Retained earnings	363,427	349,642
Class A ordinary shares in treasury, at cost: 3,046,640 and 3,040,277 shares, respectively	(101,033)	(100,912)
Total shareholders equity	941,365	928,669
Total liabilities and shareholders equity	\$ 2,301,798	\$ 2,294,683

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC
Consolidated Statements of Operations
(In thousands, except shares and per share data)

	(Unaudited)	
	Quarters Ended March 31,	
	2011	2010
Revenues:		
Gross premiums written	\$ 87,666	\$ 92,853
Net premiums written	\$ 83,108	\$ 81,481
Net premiums earned	\$ 75,969	\$ 70,788
Net investment income	14,414	14,579
Net realized investment gains:		
Other-than-temporary impairment losses on investments	(553)	(89)
Other-than-temporary impairment losses on investments recognized in other comprehensive income		47
Other net realized investment gains	12,550	14,246
Total net realized investment gains	11,997	14,204
Other income	11,669	
Total revenues	114,049	99,571
Losses and Expenses:		
Net losses and loss adjustment expenses	58,342	41,789
Acquisition costs and other underwriting expenses	29,852	30,148
Corporate and other operating expenses	2,780	4,896
Interest expense	1,752	1,739
Income before income taxes	21,323	20,999
Income tax expense	7,591	2,069
Income before equity in net income (loss) of partnerships	13,732	18,930
Equity in net income (loss) of partnerships, net of taxes	53	(29)
Net income	\$ 13,785	\$ 18,901
Per share data (1):		
Net income		
Basic	\$ 0.45	\$ 0.63

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Diluted	\$	0.45	\$	0.63
Weighted-average number of shares outstanding				
Basic		30,301,293		30,184,544
Diluted		30,338,413		30,204,420

(1) Shares outstanding and per share amounts have been retrospectively restated to reflect the 1-for-2 stock exchange effective July 2, 2010 when the Company completed its re-domestication to Ireland.
See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC
Consolidated Statements of Comprehensive Income
(In thousands)

	(Unaudited)	
	Quarters Ended March 31,	
	2011	2010
Net income	\$ 13,785	\$ 18,901
Other comprehensive loss, net of tax:		
Unrealized holding gains arising during period	7,335	9,978
Portion of other-than-temporary impairment losses recognized in other comprehensive loss, net of tax	(4)	(1)
Recognition of previously unrealized holding gains	(8,755)	(10,993)
Unrealized foreign currency translation losses		(113)
Other comprehensive loss, net of tax	(1,424)	(1,129)
Comprehensive income, net of tax	\$ 12,361	\$ 17,772

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC
Consolidated Statements of Changes in Shareholders' Equity
(In thousands, except share amounts)

	(Unaudited) Quarter Ended March 31, 2011	Year Ended December 31, 2010
Number of Class A ordinary shares issued:		
Number at beginning of period	21,340,821	21,243,345
Ordinary shares issued under share incentive plans	33,558	20,828
Ordinary shares issued to directors	14,171	76,648
Number at end of period	21,388,550	21,340,821
Number of Class B ordinary shares issued:		
Number at beginning and end of period	12,061,370	12,061,370
Par value of Class A ordinary shares:		
Balance at beginning and end of period	\$ 2	\$ 2
Par value of Class B ordinary shares:		
Balance at beginning and end of period	\$ 1	\$ 1
Additional paid-in capital:		
Balance at beginning of period	\$ 622,725	\$ 619,473
Share compensation plans	456	3,252
Balance at end of period	\$ 623,181	\$ 622,725
Accumulated other comprehensive income, net of deferred income tax:		
Balance at beginning of period	\$ 57,211	\$ 48,481
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period	(1,422)	8,703
Unrealized foreign currency translation losses		(43)
Other comprehensive income (loss)	(1,422)	8,660
Change in other-than-temporary impairment losses recognized in other comprehensive income, net of taxes	(2)	70
Balance at end of period	\$ 55,787	\$ 57,211

Retained earnings:

Balance at beginning of period	\$	349,642	\$	264,739
Net income		13,785		84,903
Balance at end of period	\$	363,427	\$	349,642

Number of Treasury Shares:

Number at beginning of period		3,040,277		3,028,106
Class A ordinary shares purchased		6,363		12,171
Number at end of period		3,046,640		3,040,277

Treasury Shares, at cost:

Balance at beginning of period	\$	(100,912)	\$	(100,720)
Class A ordinary shares purchased, at cost		(121)		(192)
Balance at end of period	\$	(101,033)	\$	(100,912)
Total shareholders' equity	\$	941,365	\$	928,669

Share amounts have been retrospectively restated to reflect the 1-for-2 stock exchange effective July 2, 2010 when the Company completed its re-domestication to Ireland.

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC
Consolidated Statements of Cash Flows
(In thousands)

	(Unaudited)	
	Quarter Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 13,785	\$ 18,901
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of trust preferred securities issuance costs	20	20
Amortization and depreciation	522	528
Restricted stock expense	562	1,167
Deferred federal income taxes	(435)	(865)
Amortization of bond premium and discount, net	940	657
Net realized investment gains	(11,997)	(14,204)
Equity in net (income) loss of partnerships	(53)	29
Changes in:		
Accounts receivable, net	(11,440)	953
Reinsurance receivables	32,270	22,643
Unpaid losses and loss adjustment expenses	(17,655)	(25,100)
Unearned premiums	4,085	6,890
Ceded balances payable	(2,845)	(13,983)
Other assets and liabilities, net	(4,512)	(9,236)
Contingent commissions	(4,441)	(5,692)
Federal income taxes payable	8,073	3,124
Deferred acquisition costs	(2,693)	(474)
Prepaid reinsurance premiums	3,058	3,803
Net cash provided by (used for) operating activities	7,244	(10,839)
Cash flows from investing activities:		
Proceeds from sale of fixed maturities	220,016	275,773
Proceeds from sale of stocks	29,365	10,324
Proceeds from maturity of fixed maturities	22,845	17,925
Proceeds from sale of other invested assets	1,348	68
Purchases of fixed maturities	(253,112)	(356,759)
Purchases of stocks	(29,100)	(10,937)
Purchases of other invested assets	(10,026)	
Net cash used for investing activities	(18,664)	(63,606)
Cash flows from financing activities:		
Tax expense associated with share-based compensation plans	(106)	(192)
Purchases of Class A ordinary shares	(121)	(120)
Principal payments of term debt	(71)	(71)

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Net cash used for financing activities	(298)	(383)
Effect of exchange rates on cash and cash equivalents		(113)
Net change in cash and cash equivalents	(11,718)	(74,941)
Cash and cash equivalents at beginning of period	119,888	186,087
Cash and cash equivalents at end of period	\$ 108,170	\$ 111,146

See accompanying notes to consolidated financial statements.

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GLOBAL INDEMNITY PLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Principles of Consolidation and Basis of Presentation

Global Indemnity plc (Global Indemnity or the Company) was incorporated on March 9, 2010 and is domiciled in Ireland. Global Indemnity replaced the Company's predecessor; United America Indemnity, Ltd., as the ultimate parent company as a result of a re-domestication transaction. See Note 2 below for details regarding the re-domestication. United America Indemnity, Ltd. was incorporated on August 26, 2003, and is domiciled in the Cayman Islands. United America Indemnity, Ltd. is now a subsidiary of the Company and an Irish tax resident. The Company's Class A ordinary shares are publicly traded on the NASDAQ Global Select Market. On July 6, 2010, the Company changed its trading symbol on the NASDAQ Global Select Market from INDM to GBLI.

The interim consolidated financial statements are unaudited, but have been prepared in conformity with GAAP, which differs in certain respects from those principles followed in reports to insurance regulatory authorities. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The unaudited consolidated financial statements include all adjustments that are, in the opinion of management, of a normal recurring nature and are necessary for a fair statement of results for the interim periods. Results of operations for the quarters ended March 31, 2011 and 2010 are not necessarily indicative of the results of a full year. The accompanying notes to the unaudited consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in the Company's 2010 Annual Report on Form 10-K.

The consolidated financial statements include the accounts of Global Indemnity and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The Company's wholly owned business trust subsidiaries, United National Group Capital Trust I (UNG Trust I) and United National Group Capital Statutory Trust II (UNG Trust II), are not consolidated pursuant to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). The Company's business trust subsidiaries have issued \$30.0 million in floating rate capital securities (Trust Preferred Securities) and \$0.9 million of floating rate common securities. The sole assets of the Company's business trust subsidiaries are \$30.9 million of junior subordinated debentures issued by the Company, which have the same terms with respect to maturity, payments, and distributions as the Trust Preferred Securities and the floating rate common securities.

2. Redomestication

In February 2010, the Company's Board of Directors approved a plan for the Company to re-domesticate from the Cayman Islands to Ireland. At a special shareholders meeting held on May 27, 2010, the Company's shareholders voted in favor of completing the re-domestication proposal pursuant to which all United America Indemnity, Ltd. ordinary shares would be cancelled and all holders of such shares would receive ordinary shares of Global Indemnity plc, a newly formed Irish company that was incorporated on March 9, 2010, on a one-for-two basis (two United America Indemnity, Ltd. shares exchanged for one Global Indemnity plc share). The re-domestication transaction was completed on July 2, 2010, following approval from the Grand Court of the Cayman Islands, at which time Global Indemnity plc replaced United America Indemnity, Ltd. as the ultimate parent company, and United America Indemnity, Ltd. became a wholly-owned subsidiary of Global Indemnity plc. Shares of United America Indemnity, Ltd. previously traded on the NASDAQ Global Select Market under the symbol INDM. Shares of the Irish company, Global Indemnity plc, began trading on the NASDAQ Global Select Market on July 6, 2010 under the symbol GBLI.

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GLOBAL INDEMNITY PLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

3. Profit Enhancement Initiative

On November 2, 2010, we committed to a Profit Enhancement Initiative with respect to our U.S. Insurance Operations. The plan was initiated on November 4, 2010, and is part of our efforts to streamline our operations in response to the continuing impact of the domestic recession as well as the competitive landscape within the excess and surplus lines market. This initiative is intended to enhance profitability and earnings by aligning corporate overhead costs with changes in our business. In the fourth quarter of 2010, the Company reduced its U.S. based census by approximately 25%, closed underperforming U.S. facilities, and supplemented staffing in Bermuda and in Ireland. All action items relating to this initiative were implemented by December 31, 2010.

The total cost of implementing this initiative was recorded in our consolidated statements of operations within our Insurance Operations segment in the fourth quarter of 2010. Components of the initiative included: (1) employee termination and severance charges of \$1.71 million; (2) expenses of \$1.53 million relating to discontinuing use of leased office space, net of expected sublease income; (3) restructuring expenses of \$0.63 million for related asset and leasehold improvement impairments; and (4) expenses of \$2.91 million relating to the curtailment of our workers compensation product initiative, consisting of a minimum ceded premium charge of \$1.48 million on our workers compensation reinsurance treaty and \$1.43 million in asset impairments.

The following table summarizes charges incurred in 2010 by expense type and the remaining liability as of December 31, 2010 and March 31, 2011: