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Amtrust Financial Services, Inc.
Form 10-Q
November 14, 2016

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 September 30, 2016

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:

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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(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 November 1, 2016, the Registrant had one class of Common Stock (\$.01 par value), of which 170,450,763 shares were issued and outstanding.

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Balance Sheet

(In Thousands, Except Par Value)

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost \$6,800,294; \$5,482,042)	\$7,043,815	\$5,433,797
Equity securities, available-for-sale, at fair value (cost \$160,011; \$109,346)	165,743	104,497
Equity securities, trading, at fair value (cost \$34,091; \$26,937)	34,439	27,271
Short-term investments	49,008	84,266
Equity investment in unconsolidated subsidiaries – related party	153,040	138,023
Other investments (related party \$67,077; \$64,869; recorded at fair value \$40,267; \$30,309)	125,201	99,012
Total investments	7,571,246	5,886,866
Cash and cash equivalents	1,092,836	931,970
Restricted cash and cash equivalents	557,159	380,699
Accrued interest and dividends	52,569	51,487
Premiums receivable, net	2,405,638	2,115,653
Reinsurance recoverable (related party \$2,376,739; \$1,963,140)	4,040,073	3,008,670
Prepaid reinsurance premium (related party \$1,196,420; \$1,066,961)	2,018,372	1,531,866
Other assets (related party \$177,352; \$189,223; recorded at fair value \$332,085; \$264,001)	1,393,379	1,398,064
Deferred policy acquisition costs	964,642	704,243
Property and equipment, net	339,063	281,456
Goodwill	654,861	432,700
Intangible assets	429,700	367,345
	\$21,519,538	\$17,091,019
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss adjustment expense reserves	\$9,427,770	\$7,208,367
Unearned premiums	4,900,926	4,014,728
Ceded reinsurance premiums payable (related party \$734,103; \$379,988)	932,199	651,051
Accrued expenses and other liabilities (related party \$167,975; \$167,975; recorded at fair value \$92,337; \$132,558)	1,317,386	1,140,830
Debt	1,235,316	989,356
Total liabilities	17,813,597	14,004,332
Commitments and contingencies		
Redeemable non-controlling interest	1,187	1,172
Stockholders' equity:		
Common stock, \$0.01 par value; 500,000 shares authorized; 196,455 issued in 2016 and 2015, respectively; 170,427 and 175,915 outstanding in 2016 and 2015, respectively	1,965	1,964
Preferred stock, \$0.01 par value; 10,000 shares authorized; 5,399 and 4,968 issued and outstanding; \$913,750 and \$482,500 aggregated liquidation preference in 2016 and 2015, respectively.	913,750	482,500
Additional paid-in capital	1,376,463	1,383,492

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Treasury stock at cost; 26,028 and 20,540 shares in 2016 and 2015, respectively	(311,328) (162,867)
Accumulated other comprehensive loss, net of tax	(51,024) (130,262)
Retained earnings	1,591,664	1,334,233	
Total AmTrust Financial Services, Inc. equity	3,521,490	2,909,060	
Non-controlling interest	183,264	176,455	
Total stockholders' equity	3,704,754	3,085,515	
	\$21,519,538	\$17,091,019	

See accompanying notes to unaudited consolidated financial statements.

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AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(Unaudited)

(In Thousands, Except Per Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Premium income:				
Net written premium	\$1,216,050	\$1,142,983	\$3,705,165	\$3,194,893
Change in unearned premium	(19,814)	(97,575)	(252,895)	(231,138)
Net earned premium	1,196,236	1,045,408	3,452,270	2,963,755
Service and fee income (related parties - three months \$19,367; \$19,250 and nine months \$61,137; \$57,935)	146,611	126,143	429,082	346,766
Net investment income	59,919	40,425	160,079	111,281
Net realized gain on investments	8,230	17,682	31,304	30,693
Total revenues	1,410,996	1,229,658	4,072,735	3,452,495
Expenses:				
Loss and loss adjustment expense	811,048	709,604	2,310,514	1,961,362
Acquisition costs and other underwriting expenses (net of ceding commission - related party - three months \$158,216; \$138,036 and nine months \$440,561; \$385,945)	283,958	258,016	847,395	728,402
Other	137,542	116,900	398,698	313,487
Total expenses	1,232,548	1,084,520	3,556,607	3,003,251
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	178,448	145,138	516,128	449,244
Other income (loss):				
Interest expense (net of interest income - related party - three months \$2,061; \$2,115 and nine months \$6,436; \$6,514)	(23,950)	(12,862)	(61,388)	(32,763)
Loss on extinguishment of debt	—	(557)	—	(5,271)
Gain on investment in life settlement contracts net of profit commission	5,485	4,616	28,891	19,085
Foreign currency (loss) gain	(8,320)	24,721	(70,428)	17,355
Acquisition gain on purchase	—	5,826	48,775	5,826
Total other income (loss)	(26,785)	21,744	(54,150)	4,232
Income before income taxes and equity in earnings of unconsolidated subsidiaries	151,663	166,882	461,978	453,476
Provision for income taxes	35,516	(12,649)	91,160	38,635
Income before equity in earnings of unconsolidated subsidiaries	116,147	179,531	370,818	414,841
Equity in earnings of unconsolidated subsidiaries – related parties	1,954	13,477	12,532	23,048
Net income	\$118,101	\$193,008	\$383,350	\$437,889
Net income attributable to redeemable non-controlling interest and non-controlling interest of subsidiaries	(2,975)	(1,511)	(12,809)	(6,940)
Net income attributable to AmTrust Financial Services, Inc.	\$115,126	\$191,497	\$370,541	\$430,949
Dividends on preferred stock	(11,576)	(8,789)	(31,943)	(22,797)
Net income attributable to AmTrust common stockholders	\$103,550	\$182,708	\$338,598	\$408,152
Earnings per common share:				
Basic earnings per share	\$0.61	\$1.10	\$1.96	\$2.48

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Diluted earnings per share	\$0.60	\$1.09	\$1.93	\$2.43
Dividends declared per common share	\$0.17	\$0.15	\$0.47	\$0.40
Net realized loss on investments:				
Total other-than-temporary impairment loss	\$ (9,461)	\$ (7,636)	\$ (26,417)	\$ (10,118)
Portion of loss recognized in other comprehensive income	—	—	—	—
Net impairment losses recognized in earnings	(9,461)	(7,636)	(26,417)	(10,118)
Net realized gain on available for sale securities	14,380	16,049	53,106	29,306
Net unrealized gain on trading securities and other investments	3,311	9,269	4,615	11,505
Net realized investment gain (loss)	\$8,230	\$17,682	\$31,304	\$30,693
See accompanying notes to unaudited consolidated financial statements.				

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AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
(Unaudited)
(In Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 118,101	\$ 193,008	\$ 383,350	\$ 437,889