

Enstar Group LTD
Form 10-Q
August 07, 2015
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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, 2015

OR

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

For the Transition Period From to

001-33289

Commission File Number

ENSTAR GROUP LIMITED

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction
of incorporation or organization)

N/A
(I.R.S. Employer
Identification No.)

P.O. Box HM 2267

Windsor Place, 3rd Floor

22 Queen Street

Hamilton HM JX

Bermuda

(Address of principal executive office, including zip code)

(441) 292-3645

(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 (Do not check if a smaller reporting company) 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 3, 2015, the registrant had outstanding 15,939,972 voting ordinary shares and 3,315,215 non-voting convertible ordinary shares, each par value \$1.00 per share.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****ENSTAR GROUP LIMITED****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

As of June 30, 2015 and December 31, 2014

	June 30, 2015	December 31, 2014
	(expressed in thousands of U.S. dollars, except share data)	
ASSETS		
Short-term investments, trading, at fair value	\$ 210,438	\$ 130,516
Fixed maturities, trading, at fair value	5,016,891	3,832,291
Fixed maturities, held-to-maturity, at amortized cost	802,595	813,233
Fixed maturities, available-for-sale, at fair value (amortized cost: 2015 \$190,072; 2014 \$244,110)	185,647	241,111
Equities, trading, at fair value	129,276	150,130
Other investments, at fair value	959,283	836,868
Other investments, at cost	140,375	
Total investments	7,444,505	6,004,149
Cash and cash equivalents	1,076,959	963,402
Restricted cash and cash equivalents	612,373	534,974
Accrued interest receivable	41,992	37,581
Accounts receivable	169,434	79,237
Premiums receivable	414,978	391,008
Income taxes recoverable	5,279	11,510
Deferred tax assets	54,092	50,506
Prepaid reinsurance premiums	145,485	114,197
Reinsurance balances recoverable	1,613,622	1,331,555
Funds held by reinsured companies	116,376	134,628
Deferred acquisition costs	105,619	61,706
Goodwill and intangible assets	198,155	201,150
Other assets	333,491	21,282
TOTAL ASSETS	\$ 12,332,360	\$ 9,936,885
LIABILITIES		
Losses and loss adjustment expenses	\$ 6,143,471	\$ 4,509,421
Policy benefits for life and annuity contracts	1,206,131	1,220,864

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Unearned premiums	580,636	468,626
Insurance and reinsurance balances payable	300,887	276,723
Accounts payable and accrued liabilities	241,781	126,721
Income taxes payable	25,487	22,450
Deferred tax liabilities	41,086	43,958
Loans payable	650,507	320,041
Other liabilities	314,416	50,642
TOTAL LIABILITIES	9,504,402	7,039,446
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE NONCONTROLLING INTEREST	395,030	374,619
SHAREHOLDERS EQUITY		
Share capital		
Authorized, issued and fully paid, par value \$1 each (authorized 2015: 156,000,000; 2014: 156,000,000)		
Ordinary shares (issued and outstanding 2015: 15,827,102; 2014: 15,761,365)	15,827	15,761
Non-voting convertible ordinary shares:		
Series A (issued 2015: 2,972,892; 2014: 2,972,892)	2,973	2,973
Series C (issued and outstanding 2015: 2,725,637; 2014: 2,725,637)	2,726	2,726
Series E (issued and outstanding 2015: 701,615; 2014: 714,015)	702	714
Treasury shares at cost (Series A non-voting convertible ordinary shares 2015: 2,972,892; 2014: 2,972,892)	(421,559)	(421,559)
Additional paid-in capital	1,365,016	1,321,715
Accumulated other comprehensive income	(21,473)	(12,686)
Retained earnings	1,454,598	1,395,206
Total Enstar Group Limited Shareholders Equity	2,398,810	2,304,850
Noncontrolling interest	34,118	217,970
TOTAL SHAREHOLDERS EQUITY	2,432,928	2,522,820
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS EQUITY	\$ 12,332,360	\$ 9,936,885

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents**ENSTAR GROUP LIMITED****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS****For the Three and Six Month Periods Ended June 30, 2015 and 2014**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(expressed in thousands of U.S. dollars, except share and per share data)			
INCOME				
Net premiums earned	\$ 212,023	\$ 216,916	\$ 410,929	\$ 278,574
Fees and commission income	9,131	7,509	20,611	14,507
Net investment income	46,493	33,649	80,386	57,997
Net realized and unrealized (losses) gains	(11,249)	38,411	31,771	72,984
	256,398	296,485	543,697	424,062
EXPENSES				
Net increase in ultimate losses and loss adjustment expense liabilities	65,900	59,749	136,036	47,699
Life and annuity policy benefits	28,090	27,732	50,937	54,541
Acquisition costs	37,094	50,379	71,644	63,540
Salaries and benefits	52,691	55,683	110,463	87,073
General and administrative expenses	41,272	37,177	80,098	59,427
Interest expense	4,876	3,529	8,879	7,263
Net foreign exchange losses (gains)	2,452	(525)	(2,619)	1,070
	232,375	233,724	455,438	320,613
EARNINGS BEFORE INCOME TAXES				
TAXES	24,023	62,761	88,259	103,449
INCOME TAXES	(5,816)	(8,452)	(16,560)	(15,728)
NET EARNINGS				
NET EARNINGS	18,207	54,309	71,699	87,721
Less: Net earnings attributable to noncontrolling interest	(3,662)	(2,516)	(12,307)	(6,341)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED				
	\$ 14,545	\$ 51,793	\$ 59,392	\$ 81,380
EARNINGS PER SHARE BASIC				
Net earnings per ordinary share attributable to Enstar Group Limited shareholders	\$ 0.76	\$ 2.78	\$ 3.09	\$ 4.62

EARNINGS PER SHARE DILUTED

Net earnings per ordinary share attributable to Enstar Group Limited shareholders	\$	0.75	\$	2.68	\$	3.07	\$	4.52
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Weighted average ordinary shares outstanding basic	19,252,359	18,636,085	19,244,951	17,605,808
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Weighted average ordinary shares outstanding diluted	19,383,753	19,327,516	19,364,775	18,004,873
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See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents**ENSTAR GROUP LIMITED****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****For the Three and Six Month Periods Ended June 30, 2015 and 2014**

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	2015	2014	2015	2014
	(expressed in thousands of U.S. dollars)			
NET EARNINGS	\$ 18,207	\$ 54,309	\$ 71,699	\$ 87,721
Other comprehensive income (loss), net of tax:				
Unrealized holding gains (losses) on investments arising during the period	2,162	906	(2,194)	459
Reclassification adjustment for net realized and unrealized losses included in net earnings	(38)	(253)	(144)	(134)
Unrealized gains (losses) arising during the period, net of reclassification adjustment	2,124	653	(2,338)	325
Currency translation adjustment	3,299	4,714	(12,587)	6,772
Total other comprehensive income (loss)	5,423	5,367	(14,925)	7,097
Comprehensive income	23,630	59,676	56,774	94,818
Less comprehensive income attributable to noncontrolling interest	(533)	(3,552)	(6,169)	(8,546)
COMPREHENSIVE INCOME ATTRIBUTABLE TO ENSTAR GROUP LIMITED	\$ 23,097	\$ 56,124	\$ 50,605	\$ 86,272

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS
EQUITY

For the Six Month Periods Ended June 30, 2015 and 2014

	Six Months Ended June 30, 2015 2014 (expressed in thousands of U.S. dollars)	
Share Capital Ordinary Shares		
Balance, beginning of period	\$ 15,761	\$ 13,803
Issue of shares	6	1,901
Conversion of Series E Non-Voting Convertible Ordinary Shares	12	
Share awards granted/vested	48	43
Balance, end of period	\$ 15,827	\$ 15,747
Share Capital Series A Non-Voting Convertible Ordinary Shares		
Balance, beginning and end of period	\$ 2,973	\$ 2,973
Share Capital Series C Non-Voting Convertible Ordinary Shares		
Balance, beginning and end of period	\$ 2,726	\$ 2,726
Share Capital Series E Non-Voting Convertible Ordinary Shares		
Balance, beginning of period	\$ 714	\$
Shares converted to Ordinary Shares	(12)	
Conversion of Series B Convertible Participating Non-Voting Perpetual Preferred Stock		714
Balance, end of period	\$ 702	\$ 714
Share Capital Series B Convertible Participating Non-Voting Perpetual Preferred Stock		
Balance, beginning of period	\$	\$
Issue of stock		714
Convert to Series E Non-Voting Convertible Ordinary Shares		(714)
Balance, end of period	\$	\$
Treasury Shares		
Balance, beginning and end of period	\$ (421,559)	\$ (421,559)
Additional Paid-in Capital		
Balance, beginning of period	\$ 1,321,715	\$ 962,145

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Issue of shares and warrants, net	911	353,832
Amortization of equity incentive plan	2,821	1,525
Equity attributable to Enstar Group Limited on acquisition of noncontrolling shareholders interest in subsidiaries	39,569	
Balance, end of period	\$ 1,365,016	\$ 1,317,502
Accumulated Other Comprehensive Income Attributable to Enstar Group Limited		
Balance, beginning of period	\$ (12,686)	\$ 13,978
Currency translation adjustment		
Balance, beginning of period	(2,779)	14,264
Change in currency translation adjustment	(10,227)	4,791
Purchase of noncontrolling shareholders interest in subsidiaries	2,937	
Balance, end of period	(10,069)	19,055
Defined benefit pension liability		
Balance, beginning and end of period	(7,726)	(2,249)
Unrealized (losses) gains on investments		
Balance, beginning of period	(2,181)	1,963
Change in unrealized (losses) gains on investments, net of tax	(1,809)	101