

Enstar Group LTD  
Form 10-Q  
August 06, 2010

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

**Form 10-Q**

- þ** **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**  
**o** **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, 3<sup>rd</sup> Floor**  
**18 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

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company in Rule 12b-2 of the Exchange Act. (Check one):

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 Exchange Act). Yes  No

As of August 5, 2010, the registrant had outstanding 13,835,787 ordinary shares, 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, 2010 and December 31, 2009**

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>(expressed in thousands of U.S. dollars, except share data)</b>	
<b>ASSETS</b>		
Short-term investments, available-for-sale, at fair value (amortized cost: 2010 \$nil; 2009 \$45,046)	\$	\$ 45,206
Short-term investments, held-to-maturity, at amortized cost (fair value: 2010 \$90,008; 2009 \$159,333)	90,084	159,210
Short-term investments, trading, at fair value (amortized cost: 2010 \$522,060; 2009 \$nil)	521,544	
Fixed maturities, available-for-sale, at fair value (amortized cost: 2010 \$33,388; 2009 \$69,976)	33,633	69,892
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2010 \$1,360,245; 2009 \$1,169,934)	1,340,764	1,152,330
Fixed maturities, trading, at fair value (amortized cost: 2010 \$241,587; 2009 \$85,775)	247,037	88,050
Equities, trading, at fair value (cost: 2010 \$41,421; 2009 \$21,257)	41,722	24,503
Other investments, at fair value (cost: 2010 \$240,351; 2009 \$165,872)	166,781	81,801
Total investments	2,441,565	1,620,992
Cash and cash equivalents	723,735	1,266,445
Restricted cash and cash equivalents	382,123	433,660
Accrued interest receivable	20,259	16,108
Accounts receivable, net	58,868	17,657
Income taxes recoverable	6,990	3,277
Reinsurance balances receivable	756,081	638,262
Investment in partly owned company		20,850
Goodwill	21,222	21,222
Other assets	193,050	132,369
<b>TOTAL ASSETS</b>	<b>\$ 4,603,893</b>	<b>\$ 4,170,842</b>
<b>LIABILITIES</b>		

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Losses and loss adjustment expenses	\$ 2,894,353	\$ 2,479,136
Reinsurance balances payable	189,023	162,576
Accounts payable and accrued liabilities	35,609	60,878
Income taxes payable	23,022	51,854
Loans payable	270,919	254,961
Other liabilities	79,974	85,285
<b>TOTAL LIABILITIES</b>	<b>3,492,900</b>	<b>3,094,690</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS EQUITY</b>		
Share capital		
Authorized issued and fully paid, par value \$1 each (authorized 2010: 156,000,000; 2009: 156,000,000)		
Ordinary shares (issued and outstanding 2010: 13,703,981; 2009: 13,580,793)	13,704	13,581
Non-voting convertible ordinary shares (issued 2010: 2,972,892; 2009: 2,972,892)	2,973	2,973
Treasury shares at cost (non-voting convertible ordinary shares 2010: 2,972,892; 2009: 2,972,892)	(421,559)	(421,559)
Additional paid-in capital	727,323	721,120
Accumulated other comprehensive income	(6,416)	8,709
Retained earnings	505,408	477,057
<b>Total Enstar Group Limited Shareholders Equity</b>	<b>821,433</b>	<b>801,881</b>
Noncontrolling interest	289,560	274,271
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>1,110,993</b>	<b>1,076,152</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 4,603,893</b>	<b>\$ 4,170,842</b>

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, 2010 and 2009**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(expressed in thousands of U.S. dollars, except share and per share data)</b>			
<b>INCOME</b>				
Consulting fees	\$ 3,500	\$ 4,179	\$ 17,628	\$ 7,515
Net investment income	22,998	18,493	49,119	35,802
Net realized (losses) gains	(4,227)	5,080	(2,025)	(930)
	22,271	27,752	64,722	42,387
<b>EXPENSES</b>				
Net reduction in ultimate loss and loss adjustment expense liabilities:				
Reduction in estimates of net ultimate losses	(35,104)	(17,742)	(37,046)	(47,566)
Reduction in provisions for bad debt	(7,768)		(13,107)	(9,714)
Reduction in provisions for unallocated loss and loss adjustment expense liabilities	(11,696)	(9,422)	(20,661)	(19,540)
Amortization of fair value adjustments	12,202	9,771	18,852	32,748
	(42,366)	(17,393)	(51,962)	(44,072)
Salaries and benefits	14,254	11,914	29,444	24,331
General and administrative expenses	15,801	10,910	26,288	23,292
Interest expense	2,805	4,675	5,199	9,640
Net foreign exchange (gain) loss	(5,615)	(1,611)	1,973	(13)
	(15,121)	8,495	10,942	13,178
<b>EARNINGS BEFORE INCOME TAXES AND SHARE OF NET EARNINGS OF PARTLY OWNED COMPANY</b>	<b>37,392</b>	<b>19,257</b>	<b>53,780</b>	<b>29,209</b>
<b>INCOME TAXES</b>	<b>(16,115)</b>	<b>23</b>	<b>(22,037)</b>	<b>641</b>
<b>SHARE OF NET EARNINGS OF PARTLY OWNED COMPANY</b>	<b>2,203</b>		<b>9,353</b>	<b>269</b>
<b>NET EARNINGS</b>	<b>23,480</b>	<b>19,280</b>	<b>41,096</b>	<b>30,119</b>
Less: Net earnings attributable to noncontrolling interests	(11,050)	(10,529)	(12,745)	(9,837)
<b>NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED</b>	<b>\$ 12,430</b>	<b>\$ 8,751</b>	<b>\$ 28,351</b>	<b>\$ 20,282</b>

EARNINGS PER SHARE BASIC:

Net earnings attributable to Enstar Group Limited ordinary shareholders	\$	0.91	\$	0.65	\$	2.08	\$	1.51
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EARNINGS PER SHARE DILUTED:

Net earnings attributable to Enstar Group Limited ordinary shareholders	\$	0.89	\$	0.63	\$	2.04	\$	1.48
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Weighted average shares outstanding	basic	13,702,832	13,532,608	13,661,516	13,448,525
Weighted average shares outstanding	diluted	14,019,489	13,787,553	13,925,551	13,700,853

See accompanying notes to the unaudited condensed consolidated financial statements



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For the Three and Six Month Periods Ended June 30, 2010 and 2009**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(expressed in thousands of U.S. dollars)</b>			
NET EARNINGS	\$ 23,480	\$ 19,280	\$ 41,096	\$ 30,119
Other comprehensive income:				
Unrealized holding losses on investments arising during the period	(6,412)	(7,024)	(5,652)	(14,873)
Reclassification adjustment for net realized losses (gains) included in net earnings	4,227	(5,080)	2,025	930
Currency translation adjustment	(22,688)	41,207	(17,116)	37,225
Total other comprehensive (loss) income:	(24,873)	29,103	(20,743)	23,282
Comprehensive (loss) income	(1,393)	48,383	20,353	53,401
Less comprehensive income attributable to noncontrolling interests	(3,965)	(18,674)	(7,125)	(20,668)
<b>COMPREHENSIVE (LOSS) INCOME</b>				
<b>ATTRIBUTABLE TO ENSTAR GROUP LIMITED</b>	<b>\$ (5,358)</b>	<b>\$ 29,709</b>	<b>\$ 13,228</b>	<b>\$ 32,733</b>

See accompanying notes to the unaudited condensed consolidated financial statements

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES  
IN SHAREHOLDERS EQUITY  
For the Six Month Periods Ended June 30, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
	<b>(expressed in thousands of U.S. dollars)</b>	
<b>Share Capital Ordinary Shares</b>		
Balance, beginning of period	\$ 13,581	\$ 13,334
Issue of shares	44	167
Share awards granted/vested	79	77
Balance, end of period	\$ 13,704	\$ 13,578
<b>Share Capital Non-Voting Convertible Ordinary Shares</b>		
Balance, beginning and end of period	\$ 2,973	\$ 2,973
<b>Treasury Shares</b>		
Balance, beginning and end of period	\$ (421,559)	\$ (421,559)
<b>Additional Paid-in Capital</b>		
Balance, beginning of period	\$ 721,120	\$ 709,485
Share awards granted/vested	5,286	3,567
Issue of shares	318	5,195
Amortization of share awards	599	
Balance, end of period	\$ 727,323	\$ 718,247
<b>Accumulated Other Comprehensive (Loss) Income Attributable to Enstar Group Limited</b>		
Balance, beginning of period	\$ 8,709	\$ (30,871)
Cumulative translation adjustments	(12,103)	26,434
Net movement in unrealized holding gains on investments	(3,022)	(13,983)
Balance, end of period	\$ (6,416)	\$ (18,420)
<b>Retained Earnings</b>		