

Allied World Assurance Co Holdings, AG
Form 10-Q
July 23, 2014
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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, 2014

OR

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

For the transition period from _____ to _____

Commission file number: 001-32938

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

(Exact Name of Registrant as Specified in Its Charter)

Switzerland

98-0681223

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

Lindenstrasse 8

6340 Baar

Zug, Switzerland

(Address of Principal Executive Offices and Zip Code)

41-41-768-1080

(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 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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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 July 14, 2014, 96,823,713 common shares were outstanding.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
as of June 30, 2014 and December 31, 2013

(Expressed in thousands, except share and per share amounts)

	As of June 30, 2014	As of December 31, 2013
ASSETS:		
Fixed maturity investments trading, at fair value (amortized cost: 2014: \$6,062,758; 2013: \$6,065,350)	\$6,157,084	\$6,100,798
Equity securities trading, at fair value (cost: 2014: \$885,861; 2013: \$647,301)	938,117	699,846
Other invested assets	932,639	911,392
Total investments	8,027,840	7,712,036
Cash and cash equivalents	635,138	531,936
Restricted cash	127,755	149,393
Insurance balances receivable	976,441	664,731
Funds held	414,445	632,430
Prepaid reinsurance	390,414	340,992
Reinsurance recoverable	1,301,742	1,234,504
Accrued investment income	30,968	32,236
Net deferred acquisition costs	163,259	126,661
Goodwill	277,761	268,376
Intangible assets	47,564	48,831
Balances receivable on sale of investments	164,713	76,544
Net deferred tax assets	35,867	37,469
Other assets	75,740	89,691
Total assets	\$12,669,647	\$11,945,830
LIABILITIES:		
Reserve for losses and loss expenses	\$5,935,678	\$5,766,529
Unearned premiums	1,703,684	1,396,256
Reinsurance balances payable	224,182	173,023
Balances due on purchases of investments	180,378	104,740
Senior notes	798,648	798,499
Dividends payable	21,870	16,732
Accounts payable and accrued liabilities	122,445	170,225
Total liabilities	\$8,986,885	\$8,426,004
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Common shares: 2014: par value CHF 4.10 per share and 2013: par value CHF 4.10 per share (2014: 99,515,760; 2013: 103,477,452 shares issued and 2014: 96,929,091; 2013: 100,253,646 shares outstanding)	402,907	418,988
Treasury shares, at cost (2014: 2,586,669; 2013: 3,223,806)	(65,258	) (79,992
Retained earnings	3,345,113	3,180,830
Total shareholders' equity	3,682,762	3,519,826
Total liabilities and shareholders' equity	\$12,669,647	\$11,945,830

See accompanying notes to the consolidated financial statements.

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 AND COMPREHENSIVE INCOME

for the three and six months ended June 30, 2014 and 2013
 (Expressed in thousands, except share and per share amounts)

	Three Months Ended 30, 2014	June 2013	Six Months Ended June 30, 2014	2013
REVENUES:				
Gross premiums written	\$760,405	\$765,200	\$1,661,798	\$1,602,281
Premiums ceded	(206,481)	(183,978)	(336,260)	(326,007)
Net premiums written	553,924	581,222	1,325,538	1,276,274
Change in unearned premiums	(16,677)	(73,951)	(258,006)	(305,775)
Net premiums earned	537,247	507,271	1,067,532	970,499
Net investment income	36,793	37,635	84,412	71,023
Net realized investment gains (losses)	85,217	(115,198)	139,422	(35,561)
	659,257	429,708	1,291,366	1,005,961
EXPENSES:				
Net losses and loss expenses	314,855	275,128	590,141	530,306
Acquisition costs	74,279	64,617	142,001	121,302
General and administrative expenses	96,188	80,585	176,528	163,265
Amortization of intangible assets	634	634	1,267	1,267
Interest expense	14,592	14,188	29,126	28,322
Foreign exchange loss	651	490	700	3,008
	501,199	435,642	939,763	847,470
Income (loss) before income taxes	158,058	(5,934)	351,603	158,491
Income tax expense (benefit)	6,195	(4,072)	22,768	1,361
NET INCOME (LOSS)	151,863	(1,862)	328,835	157,130
Other comprehensive income	—	—	—	—
COMPREHENSIVE INCOME (LOSS)	\$151,863	\$(1,862)	\$328,835	\$157,130
PER SHARE DATA				
Basic earnings (loss) per share	\$1.55	\$(0.02)	\$3.33	\$1.52
Diluted earnings (loss) per share	\$1.52	\$(0.02)	\$3.27	\$1.48
Weighted average common shares outstanding	97,809,639	103,267,659	98,672,618	103,552,656
Weighted average common shares and common share equivalents outstanding	99,724,802	103,267,659	100,691,568	105,949,785
Dividends paid per share	\$0.167	\$—	\$0.333	\$0.125

See accompanying notes to the consolidated financial statements.

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
 for the six months ended June 30, 2014 and 2013
 (Expressed in thousands)

	Share Capital	Treasury Shares	Retained Earnings	Total
December 31, 2013	\$418,988	\$(79,992	) \$3,180,830	\$3,519,826
Net income	—	—	328,835	328,835
Dividends	—	—	(38,345	) (38,345
Stock compensation	—	14,734	(2,756	) 11,978
Share repurchases	—	(139,532	) —	(139,532
Shares cancelled	(16,081	) 139,532	(123,451) —
June 30, 2014	\$402,907	\$(65,258	) \$3,345,113	\$3,682,762
December 31, 2012	\$454,980	\$(113,818	) \$2,985,173	\$3,326,335
Net income	—	—	157,130	157,130
Dividends — par value reduction	(12,981	) —	—	(12,981
Dividends	—	—	(17,127	) (17,127
Stock compensation	—	22,157	(19,714	) 2,443
Share repurchases	—	(82,571	) —	(82,571
Shares cancelled	(11,602	) 82,571	(70,969) —
June 30, 2013	\$430,397	\$(91,661) \$3,034,493	\$3,373,229

See accompanying notes to the consolidated financial statements.

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 for the six months ended June 30, 2014 and 2013
 (Expressed in thousands)

	Six Months Ended	
	June 30,	
	2014	2013
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Net income	\$328,835	\$157,130
Adjustments to reconcile net income to cash provided by operating activities:		
Net realized gains on sales of investments	(99,781	) (62,921
Mark to market adjustments	(59,113	) 95,698
Stock compensation expense	7,631	6,566
Undistributed loss (income) of equity method investments	13,744	(2,316
Changes in:		
Reserve for losses and loss expenses, net of reinsurance recoverables	101,911	12,901
Unearned premiums, net of prepaid reinsurance	258,006	305,776
Insurance balances receivable	(310,885	) (304,088
Funds held	217,985	(51,231
Reinsurance balances payable	51,159	69,620
Net deferred acquisition costs	(36,598	) (45,802
Net deferred tax assets	1,934	(14,970
Accounts payable and accrued liabilities	(53,397	) (45,601
Other items, net	27,507	12,880
Net cash provided by operating activities	448,938	133,642
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchases of trading securities	(3,905,650	) (3,186,162
Purchases of other invested assets	(181,419	) (141,805
Sales of trading securities	3,705,229	3,171,977