

AMERICAN SAFETY INSURANCE HOLDINGS LTD
Form 10-K/A
April 24, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

Commission File Number: 1-14795

AMERICAN SAFETY INSURANCE HOLDINGS, LTD.

(Exact name of registrant as specified in its charter)

Bermuda
(State of incorporation
or organization)

Not applicable
(I.R.S. Employer
Identification No.)

31 Queen Street

2nd Floor

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Hamilton, Bermuda HM 11

(Address of principal executive offices, including zip code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value	New York Stock Exchange, Inc.

Securities to be registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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 and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input checked="" type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/>	Smaller reporting Company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the registrant's voting common stock held by non-affiliates based upon the closing sales price as reported by the New York Stock Exchange as of June 29, 2007 was \$180,038,343.

The number of shares of registrant's common stock outstanding on March 31, 2008 was 10,729,976.

Documents Incorporated by Reference

None.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this “Amendment”) to the Annual Report on Form 10-K of American Safety Insurance Holdings, Ltd. (the “Registrant” or the “Company”) for the year ended December 31, 2007 filed on March 17, 2008 (the “Original Filing”) is being filed solely for the purpose of including the information required by Part III of Form 10-K.

As required by Rule 12b-15, in connection with this Form 10-K/A the Registrant’s Chief Executive Officer and Chief Financial Officer are providing Rule 13a-14(a) certifications dated April 23, 2008 and written statements pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated April 23, 2008.

Except as described above, this Amendment does not modify or update disclosure in, or exhibits to, the Original Filing. Furthermore, this amendment does not change any previously reported financial results, nor does it reflect events occurring after the date of the Original Filing.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

DIRECTORS

Cody W. Birdwell, age 55, has served as a director of the Company since 1986. Mr. Birdwell has been president of Houston Sunbelt Communities, L.C. in Houston, Texas, which is engaged in subdivision and mobile home community development and sales, since 1993.

David V. Brueggen, age 61, has served as a director of the Company since 1986 and as Chairman of the Board of Directors since June 2007. Mr. Brueggen was the senior vice president of finance of Anson Industries, Inc. in Melrose Park, Illinois, which is engaged in drywall, acoustical and foam insulation contracting, prior to his retirement at December 31, 2007. Mr. Brueggen was employed by Anson Industries, Inc. since 1982. Previously, he was an audit manager with an international public accounting firm for 10 years. Mr. Brueggen is a certified public accountant.

Stephen R. Crim, age 44, has been a director of the Company since 2002. Mr. Crim became President and Chief Executive Officer of the Company in 2003 and became President of the Company's insurance and reinsurance operations in 2002. Prior to becoming President and Chief Executive Officer, Mr. Crim was responsible for all of the Company's underwriting functions since joining the Company in 1990. Previously, Mr. Crim was employed in the underwriting departments of Aetna Casualty and Surety Co. and The Hartford Insurance Co. between 1986 and 1990.

Lawrence I. Geneen, age 64, has served as a director of the Company since 2003. He is president and owner of an insurance risk management and strategic consulting firm in Scarsdale, New York. From 1999 to 2001, he was executive vice president and chief operating officer of American Management Association in New York, New York, which is engaged in management training and publishing. From 1997 to 1999, Mr. Geneen was a managing director of Marsh & McLennan, Inc. in New York, where he was responsible for global sales and client management leadership in its insurance brokerage business. From 1992 to 1997 he was a managing principal and shareholder of Johnson and Higgins, and from 1974 to 1992 he was employed in a number of executive sales positions and management positions in its insurance brokerage business.

Steven L. Groot, age 58, has served as a director of the Company since 2006. Mr. Groot served in various positions at Allstate Insurance Company in Northbrook, Illinois from 1970 to 2002, most recently as President of Direct Distribution and e-Commerce and as a member of its board of directors.

Frank D. Lackner, age 39, has been a director of the Company since 2004. Mr. Lackner served as a managing director of Fox-Pitt, Kelton in 2007 and currently is a founding partner of Lackner Capital Advisors, LLC, a consulting firm focused on the insurance industry. From 2001 to 2006, Mr. Lackner served as a managing director with Torsiello Capital Partners LLC in New York, New York, engaged in providing investment banking and financial advisory services to the

global insurance and financial services industry. From 1998 to 2001, Mr. Lackner was co-founder and president of RiskContinuum, Inc., an online reinsurance exchange start-up venture established to facilitate reinsurance opportunities for insurance brokers, corporate risk managers, insurance and reinsurance companies, which has ceased operations. From 1993 to 1997, he was a vice president with Insurance Partners L.P., a private equity investment partnership specializing in financial services. From 1992 to 1993, Mr. Lackner was an assistant underwriter with Centre Reinsurance Companies, a subsidiary of Zurich Financial Services, engaged in finite risk reinsurance and insurance transactions. Prior to joining Centre Re, Mr. Lackner was an investment banking analyst in the insurance group at Donaldson, Lufkin & Jenrette Securities Corp. from 1990 to 1992. Mr. Lackner is a director of Greenlight Capital Re, Ltd.

Thomas W. Mueller, age 53, has served as a director of the Company since 1986. Mr. Mueller has been vice president of Cardinal Industrial Insulation Co., Inc. in Louisville, Kentucky, which is engaged in industrial insulation and asbestos and sound abatement, since 1975. Mr. Mueller also serves as a board member for Actors Theatre of Louisville.

Jerome D. Weaver, age 54, has served as a director of the Company since 2001. Mr. Weaver has been chief executive officer of Specialty Systems, Inc. in Indianapolis, Indiana, which is engaged in general construction and asbestos abatement, since 1996. He has been employed by Specialty Systems, Inc. since 1989.

EXECUTIVE OFFICERS

The following summarizes the business experience over the last five years of the Company's executive officers, other than Mr. Crim, whose business experience is described above under 'DIRECTORS.'

Randolph L. Hutto, age 59, has served as General Counsel and Secretary of the Company since September 2006. Prior to joining the Company, Mr. Hutto served as Executive Vice President, General Counsel and Secretary of NDC Health Corporation, a New York Stock Exchange-listed health care claims processing and information management company, from April 2004 to January 2006, and as Executive Vice President and Chief Financial Officer from November 2000 to April 2004.

Joseph D. Scollo, Jr., age 43, has served as Executive Vice President and Chief Operating Officer of the Company since January 2006. Mr. Scollo served as Executive Vice President of the Company since January 2003 and as Senior Vice President - Operations from 1998. Previously, Mr. Scollo served as Senior Vice President - Operations of United Coastal Insurance Company, New Britain, Connecticut from 1989 until 1998. Mr. Scollo has over 18 years of experience in the insurance industry. Mr. Scollo holds a certified public accountant certificate.

William C. Tepe, age 50, has served as Chief Financial Officer of the Company since November 2005. Mr. Tepe has over 25 years of experience in accounting, financial reporting, financial planning and corporate development. Prior to joining the Company, Mr. Tepe was the Chief Financial Officer and Global Controller for GAB Robins Inc., an international insurance claims management and adjusting company from 2000 until 2005. Mr. Tepe also has been employed in senior financial reporting and accounting positions within major property and casualty insurance companies such as W. R. Berkley Corp. and USF&G Corporation. Mr. Tepe is a certified public accountant.

Section 16(a) Beneficial Ownership Reporting Compliance of the Exchange Act

Section 16(a) of the Exchange Act requires the Company's officers and directors and persons who own 10% or more of the registered class of the Company's equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. SEC regulations require that such directors, officers and 10% or more shareholders furnish the Company with copies of all Section 16(a) reports they file. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company, all directors, officers or 10% shareholders complied with all Section 16(a) filing requirements during the fiscal year ended December 31, 2007.

CORPORATE GOVERNANCE

Meetings and Committees of the Board of Directors

The Board of Directors of the Company had four meetings and acted by unanimous written consent during 2007. All directors attended at least 75% of the meetings of the Board of Directors and the committees thereof on which they served during 2007.

Independence

The New York Stock Exchange listing standards require listed companies to have a board of directors with at least a majority of independent directors. The Board of Directors has determined that each current director and each nominee for election, with the exception of Mr. Crim (who is currently employed by the Company), qualifies as an independent director. In determining each director's independence, the Board of Directors did consider that Messrs. Brueggen, Mueller and Birdwell are directors of American Safety Risk Retention Group, Inc. This entity is consolidated with the Company for accounting purposes but, for purposes of independence analysis, is considered an affiliate of the Company rather than a subsidiary of the Company. The Board of Directors has determined that this relationship does not prevent these directors from being considered independent.

Committees of the Board of Directors

The Board of Directors has established four standing committees: the audit committee, the compensation committee, the finance committee and the nominating and corporate governance committee.

The audit committee is composed of independent directors in accordance with the New York Stock Exchange ("NYSE") listing standards and the rules of the Securities and Exchange Commission (the "SEC"). The audit committee reviews the scope of the Company's audit, recommends to the shareholders the engagement of the independent registered public accounting firm, and reviews such firm's reports. The audit committee operates pursuant to a written charter, a copy of which is available on our website, www.amsafety.com in the

“Committee Charting” subsection, under “Corporate Overview” in the “Investor Relations” section. The current members of the audit committee are Messrs. Brueggen (chairman), Groot and Weaver. The Board of Directors has determined that each member of the audit committee is financially literate. The Board of Directors has determined that Mr. Brueggenis qualified as an “audit committee financial expert” within the meaning of the SEC regulations, and that he, therefore, meets the requirement under the NYSE listing standards that at least one member of the audit committee have accounting or related financial management expertise. The Company’s independent registered public accounting firm reports directly to the audit committee, which controls their engagement. The audit committee pre-approves the provision of all audit and non-audit related services by the Company’s independent registered public accounting firm and meets with management and the accounting firm at each audit committee meeting in separate executive sessions, if deemed necessary, to review the Company’s financial statements and significant findings based on the auditor’s review processes. The audit committee has also established a procedure for the confidential and anonymous reporting of concerns regarding questionable accounting or auditing matters. The audit committee held seven meetings during 2007. The audit committee is responsible for reviewing the financial reports and other financial information provided by the Company to any governmental or other regulatory body and monitoring any public distribution or other uses thereof, reviewing the annual independent audit of the Company’s financial statements, reviewing the Company’s systems of internal accounting and financial controls and reviewing and monitoring the internal audit process and internal audit results.

The compensation committee is comprised of independent directors and recommends to the Board of Directors matters regarding executive compensation and stock options. The compensation committee operates pursuant to a written charter, a copy of which is available on our website, www.amsafety.com in the “Committee Charting” subsection, under “Corporate Overview” in the “Investor Relations” section. The current members of the compensation committee are Messrs. Geneen (chairman), Groot and Lackner. The compensation committee held four meetings during 2007.

The finance committee is comprised of independent directors and is responsible for recommending portfolio allocations to the Board of Directors, approving the Company’s guidelines that provide standards to ensure portfolio liquidity and safety, approving investment managers and custodians for portfolio assets, and considering other matters regarding the financial affairs of the Company. The current members of the finance committee are Messrs. Birdwell, Lackner (chairman) and Weaver. The finance committee held four meetings during 2007.

The nominating and corporate governance committee is comprised of independent directors. The committee has as its purposes identifying individuals qualified to become members of the Board of Directors and recommending to the Board of Directors candidates for election or reelection as directors; monitoring and recommending corporate governance and other Board of Directors practices; and overseeing performance reviews of the Board of Directors, its committees and the individual members of the Board of Directors. The committee operates pursuant to a written charter, which is available on our website, www.amsafety.com in the “Committee Charting” subsection, under “Corporate Overview” in the “Investor Relations” section. The current members of the nominating and corporate governance committee are Messrs. Birdwell (chairman), Geneen and Mueller. The nominating and corporate governance committee held four meetings in 2007.

Shareholders may obtain a printed copy without charge of any of the committee charters referenced above upon written request to the Secretary of the Company, 31 Queen Street, Hamilton HM 11, Bermuda.

Executive Sessions

The independent directors meet in executive sessions, at which only independent directors are present, at each meeting of the Board of Directors and as needed. Mr. Brueggen presides over the executive sessions of the Board of Directors.

Board of Directors Attendance at Annual General Meeting

It is the policy of the Company and the Board of Directors that all directors attend the Annual General Meeting and be available for questions from shareholders, except in the case of unavoidable conflicts. All of the Company's directors attended the 2007 Annual General Meeting of Shareholders.

Shareholder Communications to the Board of Directors

Shareholders and other parties interested in communicating directly with the Company's Board of Directors or any individual may contact them by writing c/o the Secretary of the Company, 31 Queen Street, Hamilton HM 11, Bermuda. The Secretary will receive the correspondence and forward it to the individual director or directors to whom the correspondence is directed or the chairman of the nominating and corporate governance committee. The Secretary will not forward any correspondence that is unduly hostile, threatening, illegal, not reasonably related to the Company or its business or similarly inappropriate.

Consideration of Director Nominees

The nominating and corporate governance committee has been delegated the task of seeking qualified candidates for directors and evaluating and recommending for subsequent ratification by the Board of Directors for nomination candidates for election or reelection as directors.

With respect to the committee's evaluation of director nominee candidates, the committee has no formal requirements or minimum standards for the individuals that it nominates. The committee evaluates each candidate for nomination to election to the Board of Directors based on certain minimum requisite qualifications set forth by the Board of Directors. Some factors that the committee generally views as relevant and is likely to consider in its evaluation of candidates include, but are not limited to:

- Career experience, particularly experience germane to the Company's business;

- Personal and professional ethics;
- Expertise that may serve the Company and complement the expertise of other Board of Directors members;
- Ability to devote significant time and effort to Board of Directors and Board of Directors committee responsibilities;
- Whether the candidate is independent; and
- Whether a candidate is financially literate or an “audit committee financial expert” (as defined by the SEC).

The committee does not assign a particular weight to these individual factors. Rather, the committee looks for a mix of factors, when considered in combination with the expertise and credentials of the other candidates and the existing Board of Directors that will provide shareholders with an experienced and diverse Board of Directors.

With respect to the identification of nominee candidates, the committee does not have a formalized process. Instead, its members and the senior management of the Company generally recommend candidates of whom they are aware personally or by reputation. The Company historically has not utilized a recruiting firm to assist in the process, but may do so in the future.

The nominating and corporate governance committee welcomes recommendations from shareholders. The nominating and corporate governance committee evaluates a candidate for director recommended by a shareholder in the same manner that the committee evaluates a candidate recommended by other means. In order to make a recommendation, the nominating and corporate governance committee asks that a shareholder send the nominating and corporate governance committee:

- A resume for the candidate, detailing the candidate’s work experience and credentials;
- A written confirmation from the candidate that he or she (1) would like to be considered as a candidate and would serve if nominated and elected, (2) consents to the disclosure of his or her name, (3) is, or is not, “independent” as that term is defined in the charter of the nominating and corporate governance committee, and (4) has no plans to change or influence the control of the Company;
- The name of the recommending shareholder as it appears in the Company’s books, the number of shares that are owned by that shareholder and written confirmation that the shareholder consents to the disclosure of his or her name. (If the recommending person is not a shareholder of record, he or she should provide proof of share ownership);

- Personal and professional references, including contact information; and

- Any other information relating to the candidate required to be disclosed in a proxy statement for election of directors under Regulation 14A of the Securities Exchange Act of 1934 (the “Exchange Act”).

This information should be sent to the nominating and corporate governance committee, c/o Secretary, American Safety Insurance Holdings, Ltd., 31 Queen Street, Hamilton HM 11, Bermuda, who will forward the information to the chairman of the committee. In order to be considered at the 2009 Annual General Meeting of Shareholders, the Secretary must receive this information by January 23, 2009.

In addition to the procedures described above for recommending prospective nominees, shareholders may directly nominate directors for consideration at the Annual General Meeting of Shareholders.

Code of Business Conduct and Ethics

The Board of Directors has approved a Code of Business Conduct and Ethics in accordance with rules of the SEC and the New York Stock Exchange listing standards applicable to all directors, officers and employees, including the principal executive officers, principal financial officers, principal and senior accounting officers or controller, or persons performing similar functions. The Code of Business Conduct and Ethics is intended to provide guidance to directors and management to assure compliance with law and promote ethical behavior. The Company’s Code of Business Conduct and Ethics is available on our website, www.amsafety.com in the “Governance Documents” subsection, under “Corporate Overview” in the “Investor Relations” section. Shareholders may request a printed copy of the Code of Business Conduct and Ethics upon written request to the Secretary of the Company, 31 Queen Street, Hamilton HM 11 Bermuda.

Corporate Governance Guidelines

The Company is committed to having sound corporate governance practices, and the Board of Directors has adopted Corporate Governance Guidelines that provide a framework for the governance of the Company. The Board of Directors reviews these guidelines periodically and monitors developments in the area of corporate governance. Corporate Governance Guidelines are available on our website, www.amsafety.com in the “Governance Documents” subsection, under “Corporate Overview” in the “Investor Relations” section. Shareholders may request a printed copy without charge upon written request to the Secretary of the Company, 31 Queen Street, Hamilton HM 11 Bermuda.

Item 11. Executive Compensation.

Compensation Discussion and Analysis

Compensation Committee. As described in Item 10 of this Form 10-K/A, we have a compensation committee of the Board of Directors (the “Committee”) that consists of Messrs. Geneen (Chairman), Groot and Lackner. The Committee operates pursuant to a written charter, which is available on our website, www.amsafety.com. The charter is reviewed annually by the Committee. The Board of Directors has determined that

the members of the Committee are “non-employee directors” (within the meaning of Rule 16b-3 of the Securities

Exchange Act of 1934, as amended), “outside directors” (within the meaning of Section 162(m) of the Internal Revenue Code) and “independent directors” (within the standards set forth by the New York Stock Exchange). In addition, no Committee member is a current or former employee of the Company or any of its subsidiaries. Generally, the Committee is responsible for recommending to the Board of Directors matters regarding executive compensation. The Committee generally meets quarterly, and on an as-needed basis.

General Philosophy. We compensate our senior management through a combination of base salary, bonus and equity compensation that we design to be competitive with comparable employers and to align our management’s incentives with the long-term interests of our shareholders. The purpose of our compensation program generally is to develop and implement a fair, consistent and competitive program, which will attract, motivate and retain highly qualified talent. The Committee views the compensation program as a management tool that, through the setting of goals and objectives, encourages management to achieve or exceed the Company’s business objectives. In making compensation decisions, we establish target overall cash compensation and then allocate that compensation among base salary and bonus. We then determine what level, if any, of equity compensation is appropriate. At the senior management level, we design incentive compensation to reward company-wide performance by tying awards to the achievement of goals and objectives which relate to (i) our performance in such areas as growth and return on equity, (ii) individual performance and (iii) business unit performance, as discussed below under **2007 Bonus Plan, Annual Cash Bonus and Equity Compensation**. The compensation for each of our named executive officers (“NEOs”) consists of a base salary, an annual bonus, stock options, health insurance and other benefits and perquisites.

Committee Process. The Committee designs, evaluates and approves our executive compensation plans, policies and programs. The Committee annually reviews and evaluates the goals and objectives relevant to the compensation of our NEOs and annually evaluates the performance of our Chief Executive Officer in light of those goals and objectives. In addition, the Committee reviews and approves compensation levels and compensation awards for our other NEOs recommended by the Chief Executive Officer, who reviews individual and corporate performance for the other NEOs and makes recommendations to the Committee. These recommendations are generally approved. In all cases, however, the Committee is an active participant in establishing the goals for bonuses.

The Committee also administers our equity-based compensation plan, although it has delegated to our Chief Executive Officer the authority to make limited awards to newly-hired executives and other key employees as necessary or appropriate to attract and retain highly qualified individuals to the Company. The Committee is authorized to retain experts, consultants and other advisors to aid in the discharge of its duties. The Committee reports regularly to the Board of Directors on matters relating to the Committee’s responsibilities, and it is common for all of our non-employee directors to attend Committee meetings. The Committee follows regulatory and legislative developments and considers corporate governance best practices in performing its duties.

Targeted Overall Compensation for 2007. Our NEOs received a combination of base salary, cash bonus and stock options as part of their overall compensation. Base salaries are intended to be competitive with base salaries paid by comparable insurance companies. Cash bonus and stock option grants are intended to incentivize NEOs and are structured to align the interests of the NEOs with the success of the Company. With respect to Stephen R. Crim, our President and Chief Executive Officer, we considered Mr. Crim's responsibilities and his contributions to the Company's operating results during his tenure in establishing his targeted overall compensation for 2007. Although we do take into consideration compensation levels at similar or peer companies, we did not perform a formal survey of those levels nor did we retain a compensation consultant to advise us with respect to compensation levels for 2007. Given our size and what we consider modest levels of compensation, we did not believe that the benefits of these processes justify the cost. Rather we subjectively assessed the appropriate areas of compensation levels. The Chief Executive Officer reviewed the other NEO's performance and made compensation recommendations to the Committee, which were reviewed by the Committee in light of the overall compensation. The Committee followed a similar process to the process used for Mr. Crim when reviewing and approving the targeted compensation for our other NEOs, Joseph D. Scollo, Jr., our Executive Vice President and Chief Operating Officer, William C. Tepe, our Chief Financial Officer, Randolph Hutto, our General Counsel and Secretary, and Thomas Callahan, our former Senior Vice President.

Base Salaries. The base salaries for our NEOs during the year ended December 31, 2007, were established by contract in the case of Messrs. Crim, Scollo, Tepe and Hutto and by considering the performance and contribution of each of the other NEOs to the Company and to that officer's business responsibilities, as applicable. These amounts reflect levels that we concluded were appropriate based on our general experience. Our base salaries are intended to be competitive with base salaries paid by other similar insurance companies to executives with similar qualifications, experience and responsibilities, although we did not follow a formal practice in this regard. The Committee periodically discusses salary recommendations with the Chief Executive Officer with regard to other Company executive officers. These salary recommendations are generally based on an evaluation of the individual's performance of the position held, the Company's operating results, and the individual's contribution to the Company's operating results.

The compensation of our Chief Executive Officer, Stephen R. Crim, Executive Vice President and Chief Operating Officer, Joseph D. Scollo, Jr., Chief Financial Officer, William C. Tepe, and General Counsel, Randolph L. Hutto, are governed primarily by employment agreements, the material terms of which are more specifically described below under **Employment Agreements**. These employment agreements provide for a base salary of \$420,000 for Mr. Crim, \$345,000 for Mr. Scollo, \$315,000 for Mr. Tepe and \$308,850 for Mr. Hutto effective as of August 1, 2007. Prior to August 1, 2007, the base salaries for Messrs. Crim, Scollo and Tepe were governed under their predecessor contracts under which Mr. Crim received a base salary of \$400,000, Mr. Scollo received \$325,000. Mr. Tepe's predecessor employment agreement provided for a base salary of \$300,000 in each of 2006 and 2007. It also

provided that he would be eligible for a merit increase at each annual performance evaluation, beginning April 1, 2007. Mr. Hutto's base salary prior to August 1, 2007 was based on consideration of performance, contribution to the Company and business responsibilities. Each NEO was eligible for merit raises based on a review of each individual's performance as of April 1, 2007 under which, Messrs. Crim, Scollo, Tepe and Hutto received \$20,000, \$20,000, \$15,000 and \$8,850, as the respective merit increases. The previous base salaries plus the merit increase set the basis for the base salaries detailed in each of the employment agreements entered into on August 1, 2007. Compensation, including base salary and bonus opportunity, for Mr. Callahan was based on a determination by the Chief Executive Officer, discussed with and approved by the Committee. 2007 base salary for Mr. Callahan was \$255,625.

2007 Bonus Plan. In addition to base salary, for 2007 each NEO was eligible for an annual cash bonus and stock options, as discussed below, under the Company's 2007 Bonus Plan (the "Bonus Plan"). Pursuant to the Bonus Plan, participants are separated into 4 groups and the eligible bonus range target and maximum are determined by group. All Company employees are eligible for cash bonuses. All NEOs are within Group 1 (Crim, Scollo, Tepe) or Group 2 (Hutto and Callahan). The Bonus Plan is administered by our Human Resources Department, with input from the Chief Executive Officer and the Committee. The Bonus Plan is established each year and bonus awards under the Bonus Plan are based on the achievement of goals and objectives established by the Committee which relate to (i) the Company's performance in such areas as return on equity, premium growth and combined ratio (ii) individual performance and, where relevant, (iii) business unit performance. The Bonus Plan is intended to structure compensation so that the bonus represents a greater percentage of overall compensation for those executives with the greatest responsibility for the Company's success. As a result, as management responsibility increases, the bonus potential increases and goals and objectives are more heavily weighted toward overall Company performance. The goals and objectives were established by the Committee in January 2007 and consisted primarily of targets for profitability, return on equity, strategic planning and operational efficiency. The Committee established goals and objectives for 2008 in January 2008. These goals and objectives for 2008 are similar to those established for 2007, with components for return on equity, premium growth and realization of certain operational efficiencies and are more specifically described below under **2008 Long Term Incentive Plan**.

Annual Cash Bonus. In accordance with the 2007 Bonus Plan, each of our NEOs are eligible to receive an annual cash bonus, in an amount to be determined by the Board of Directors. For the year ended December 31, 2007, Messrs. Crim, Scollo, Tepe, Hutto and Callahan earned cash bonuses in the amount of \$140,000, \$120,000, \$105,000, \$65,631 and \$56,328, respectively. For Messrs. Crim, Scollo and Tepe, these amounts were based 100% on the achievement of the specified corporate performance goals pursuant to the Bonus Plan. The target bonus for each of Mr. Crim, Scollo and Tepe was 34% of their respective 2007 salaries, subject to increase or decrease in the discretion of the Compensation Committee. The performance goals for 2007 were achieved at a 75% level. Messrs. Crim, Scollo, and Tepe's respective bonuses were determined by applying 75% to the target bonus to which the Committee then exercised its discretion to increase above the 75% level so that in each case the bonus paid approximated the target bonus. Mr. Hutto's target bonus was 25% of his salary, based 50% upon achievement of the corporate performance goals and 50% upon achievement of

specified personal goals. He achieved 100% of his personal goals, resulting in 50% of the target bonus, and the corporate performance goals were achieved at the 75% level, resulting in his bonus being computed at 87.5% of target. Mr. Callahan's bonus target was 25% of his salary, based 50% on corporate performance goals, 25% on his business unit goals and 25% on his personal goals. As Mr. Callahan achieved 100% of both his unit and personal goals, his bonus was computed at 87.5% of target.

Equity Compensation. The Committee believes strongly that equity-based awards are an integral part of total compensation for employees with significant responsibility for our long-term results. Incentive stock options and nonqualified stock options that are tied to corporate performance provide an effective means of delivering incentive compensation, encourage stock ownership on the part of management and align the interests of management with the interests of the shareholders. As part of our 2007 compensation program, each NEO was eligible for a stock option bonus pursuant to the Company's 2007 Incentive Stock Plan (the "2007 Plan").

The 2007 Plan was approved by our shareholders in June 2007. The 2007 Plan is intended to further the interests of the Company and its shareholders by attracting, retaining and motivating officers, employees, consultants and advisors to participate in the long-term development of the Company through stock ownership and is the successor plan to the 1998 Incentive Stock Option Plan (the "1998 Plan"). The 2007 Plan defines the incentive arrangements for eligible participants and authorizes the granting of incentive stock options, nonqualified options, restricted stock awards and other forms of equity compensation, which may be made subject to the discretion of the Committee and, for annual awards, are generally made in conjunction with the achievement of the goals and objectives detailed in the Bonus Plan as discussed above. The Committee is authorized to determine the terms and conditions of all option grants, subject to the limitations set forth in the 2007 Plan. In accordance with the terms of the 2007 Plan, the option price per share will not be less than the fair market value of the common shares on the date of grant, the term of any options granted may be no longer than ten years and there may or may not be a vesting period before any recipient may exercise any of those options. The rights of recipients receiving these stock options generally vest equally over three years, beginning with the first anniversary date of grant. However, in some instances, particularly with initial option grants to new key employees, the options vest 100% on the fifth anniversary of the grant date. Generally, the vesting of options issued under either the 1998 Plan or the 2007 Plan is accelerated in the event of a change in control of the Company. All options expire ten years from the date of grant, unless sooner exercised.

With the exception of significant promotions and new hires, we generally make these types of awards at a meeting of the Committee each year following the availability of the financial results for the prior year and prior to March 15. This timing was selected because it enables us to consider the Company's prior year performance, the performance of the potential recipients and our expectations for future years. The Committee's schedule is determined several months in advance, and the proximity of any awards to earnings announcements or other market events is coincidental. The option grants discussed below were made by the Committee in March 2008 pursuant to the 2007 Plan and based on each NEO's performance for the year ended December 31, 2007. Much like the cash bonus portion of the 2007 Plan, the 2007 Plan provides for options to be granted based on the attainment of the Company's performance goals and, in some cases, in combination with achievement of individual goals and objectives.

Messrs. Crim, Scollo and Tepe's option grants were determined by applying the 75% Company performance level to the target grant level, resulting in option grants of 10,000, 7,500 and 7,500 shares, respectively. Mr. Hutto's grant was based on the 75% achievement of the Company's performance goals and 100% achievement of his personal goals, or 87.5% of target, resulting in an option grant of 5,000 shares.

Pursuant to their employment agreements, each of Messrs. Crim, Scollo, Tepe and Hutto is eligible to participate in all Company equity plans. During 2007, Mr. Crim, Mr. Scollo, Mr. Tepe and Mr. Hutto were granted options valued at \$106,600, \$79,950, \$79,950 and \$21,320, respectively under the 1998 Plan. These grants were based on each NEO's performance in 2006 and were discretionary in nature. The options were granted on March 15, 2007 at an exercise price of \$19.05 per share and vest ratably over three years. Mr. Callahan did not receive any option grants during 2007.

2008 Long-Term Incentive Plan. In 2007, the Compensation Committee retained the Lockton Benefits Group to review the Company's compensation programs. Based on the results of this review, the Compensation Committee adopted the 2008 Long-Term Incentive Plan. Commencing with calendar 2008, the Compensation Committee has implemented this comprehensive, long-term incentive compensation program. The goal of our comprehensive compensation program is to fairly compensate our executives in a manner to be competitive with comparable employers and to align our executives' incentives with the short term operational and financial success of the Company and the long-term interests of our stockholders. Our compensation programs will support management's goal of hiring, retaining and rewarding qualified executives who embrace the Company's mission of providing innovative insurance solutions for specialty risks in underserved markets and who are committed to providing continuing value to our stockholders. All of our compensation programs are strategy-focused, competitive and, where appropriate, may include supplemental and perquisite programs.

Going forward, our executive compensation programs will be benchmarked to an industry-specific peer group and, where appropriate, to standardized insurance industry survey data. Compensation comparability will be determined using, among other organizational criteria, financial performance, organizational structure, number of employees, market capitalization and service offerings. Generally base compensation will be established at a level competitive with our defined peer group but in no event less than the 50th percentile of peer data. Total direct compensation will be targeted at the 75th percentile when targeted short and long term performance goals are achieved. Executives will be eligible for annual performance-based salary adjustments if they achieve pre-established performance goals and objectives.

Our management incentive plans are designed to be self-funding and provide participant target incentive awards that increase or decrease based on individual and company performance results. Incentive compensation will become a larger portion of an executive's total direct compensation as he or she assumes significant responsibilities and has a significant impact on the financial or operational success of the Company.

Where appropriate, executives will be selected to participate in the Company's supplemental or perquisite programs, depending upon comparable data, retention value of the executive and cost to the Company.

The 2008 Long-Term Incentive Plan is designed to compensate and retain those executives and key employees that contribute most to driving revenue and profitability. This philosophy represents a modification to prior year plans, which were more focused on title than revenue/profitability. Under the 2008 structure, the following groups will be eligible for stock awards or stock options in addition to a cash bonus:

Group 1 - Corporate executives, including Messrs. Crim, Scollo, Tepe and Hutto, with primary responsibility for overall corporate performance;

Group 2 - Operations executives with primary responsibility for performance of the Company's operating companies (U.S. and Bermuda) and employees with primary responsibility for key product lines results.

Group 1 will be eligible to receive performance based stock options tied directly to achieving established long term growth and profitability targets. Both groups will be eligible to receive restricted stock grants and annual performance-based cash bonus awards. Restricted stock awards are designed as an aid in retention of personnel and are not directly tied to performance. Restricted stock will vest 25% on each of the first and second anniversaries of the award, with the final 50% vesting on the third anniversary of the award. The stock options will vest on the third anniversary of the grant date, with the number of options that vest based on the three year results as compared to pre-established targets.

The long-term incentive payouts to be received by NEOs if they meet established targets, include the following (expressed as a value % of the participant's base salary):

GROUP	CASH BONUS	P E R F O R M A N C E RESTRICTED STOCK STOCK OPTIONS	
1	40%	25%	15%
2	25%	N/A	10%

The Compensation Committee reserves the right to modify the bonus payout terms of the plan for select individuals deemed to contribute most to the Company's financial performance. Select NEOs, such as the Chief Executive Officer and the Chief Operations Officer, will be eligible for increased stock option grants based on the Company's long term financial performance. Any modifications to the bonus payouts as described above will be at the sole discretion of the Compensation Committee based upon recommendations made by the CEO and based on the individual's contributions to the Company's financial performance.

The performance stock options are designed to reward long term performance and will be based on achieving corporate growth and profitability targets over a three-year period as established by the Compensation Committee. Gross written premium will be the measure used for the growth target, with a 30% weighting, and return on equity will be the measure for profitability, with a 70% weighting. The weightings were established in alignment with the Company's philosophy to focus on underwriting discipline and profitability.

The cash bonus portion of the plan is designed to reward short term performance, and will be distributed based on a combination of achieving annual financial targets and established qualitative goals. The same weighting of 30%/70% (gross written premium/return on equity) for growth verses profitability will be used as respects financial targets, but a portion of the bonus will be based upon achievement of other individual qualitative goals established annually. Below is a table that describes the weightings for the annual cash bonuses:

PARTICIPANT GROUP	CORPORATE FINANCIAL GOALS	GROUP FINANCIAL GOALS	INDIVIDUAL GOALS
1	80%	N/A	20%
2	30%	50%	20%

To reward participants for achieving optimal results, leverage ratios will apply to performance bonus amounts for exceeding or missing financial targets. Thus, the leverage ratio will be multiplied across each target level equally to increase or decrease received bonus based upon the achievement of the financial target. The following leverage ratios will apply to both the cash bonus and stock option portions under the plan:

% ACHIEVED OF TARGET