

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

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FILER

Tower Group, Inc.

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FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) May 2, 2005

Tower Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

000-50990

13-3894120

(State or other jurisdiction
of incorporation)

Commission File
Number

(IRS Employer
Identification No.)

120 Broadway, 14th Floor, New York, NY

10271

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (212) 655-2000

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.133-4(c))

Item 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

The following information, including the Exhibit to this Form 8-K, is being furnished pursuant to Item 2.02 - Results of Operations and Financial Condition on Form 8-K.

On May 2, 2005 Tower Group, Inc. issued a press release announcing its results of operations for the first quarter ended March 31, 2005. A copy of the press release is attached as Exhibit 99.1 to this Form 8-K and is incorporated by reference to this Item 2.02 as if fully set forth herein.

Item 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

The following exhibits are filed as part of this report.

Number	Description

99.1	Copy of press release issued by Tower Group, Inc. dated May 2, 2005.

This information is not deemed to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934 and is not incorporated by reference into any Securities Act registration statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Tower Group, Inc.

(Registrant)

Date: May 2, 2005

By: /s/ Steven G. Fauth

(Signature)*

Steven G. Fauth

SVP, Secretary and General Counsel

*Print name and title of the signing officer under his signature.

Tower Group, Inc. Reports a 181% Increase
in the First Quarter 2005 Net Income

NEW YORK--(BUSINESS WIRE)--May 2, 2005--Tower Group, Inc. (NASDAQ: TWGP) today reported a 181% increase in first quarter of 2005 net income of \$3.7 million as compared to first quarter of 2004 net income of \$1.3 million. Diluted earnings per share of \$0.19 for the first quarter of 2005 were based on weighted average diluted shares of 20,076,884 as compared with \$0.23 per share for the first quarter of 2004, based on weighted average diluted shares of 5,726,083. Net income for the first quarter of 2005, excluding realized gains, net of tax was \$3.6 million.

Michael H. Lee, President and Chief Executive Officer of Tower Group, Inc. commented, "Our record first quarter net income was driven by continued strong growth in our core lines of business and geographic expansion outside of downstate New York while maintaining favorable margins through our disciplined underwriting. We continue to operate efficiently and differentiate Tower in the marketplace with our demand driven approach in which we focus on the needs of our producers."

First Quarter 2005 Financial Highlights:

Total revenues increased 97% to \$42.7 million in the first quarter of 2005 as compared to \$21.7 million in the prior year's first quarter. This increase was driven primarily by increases in net premiums earned, investment income and net realized investment gains partially offset by lower total commission and fee income. Net premiums earned represented 70% of total revenues for the first quarter of 2005 as compared to 37% for the same period of 2004. Ceding commission and fee income represented 23% of total revenue for the first quarter of 2005 as compared to 60% in the first quarter of 2004. This was reflective of the reduced ceding percentage under the quota share reinsurance agreement to 25% in the first quarter of 2005 versus 60% in the first quarter of 2004 in consideration of the increased capitalization of our insurance company. Net investment income, excluding realized gains, comprised 6% of total revenues in the first quarter of 2005 and 4% in the same period of 2004.

Return on average equity was 11.5% in the first quarter of 2005 as compared with 37.9% in the first quarter of 2004. Although net income was significantly higher in the first quarter of 2005 as compared to the similar period in the prior year, the lower return on average equity resulted from the significant increase in average shareholders' equity resulting primarily from capital raised from the initial public offering and concurrent private placement in October 2004. The returns on average equity for each of the first quarter of 2005 and first quarter of 2004 were calculated by dividing annualized net income by

average shareholders' equity of \$129.6 million and \$13.9 million, respectively.

Gross premiums written in the insurance operations increased to \$64.7 million in the first quarter, which were 62% higher than in the first quarter of 2004. This growth was driven by a 17.5% increase in policies in force and premium increases on renewed business which averaged 11% for personal lines and 6% for commercial lines. Premiums written on business subject to our commercial renewal rights agreement with OneBeacon Insurance Company LLC amounted to \$8.8 million during the first quarter of 2005.

Premiums produced by the managing general agency reached \$8.4 million in the first quarter of 2005 which were 30% higher than in the first quarter of 2004. Growth was primarily due to increases in premiums produced in the middle market, small business overflow programs and business written through former OneBeacon producers that we appointed in consequence of the renewal rights transaction.

Net premiums written increased 207% to \$45.4 million in the first quarter of 2005 as compared to \$14.8 million in the same period of 2004. The increase was driven by the growth in gross premiums written and a reduction in the quota share ceding percentage to 25 % beginning in 2005 compared with 60% during the first nine months of 2004.

Net premiums earned rose 279% to \$30.0 million for the first quarter of 2005 as compared to \$7.9 million in the same quarter of 2004 due to overall growth in gross premiums written and the decision to cede a lower percentage of premiums as mentioned above. In addition, the first quarter's net earned premium was increased by \$5.5 million from the \$13.1 million of retained unearned premiums and related risks by the Company as of December 31, 2004 that would have been ceded to Converium Reinsurance (North America) Inc. absent the 2004 novation.

Due to the significant reduction in quota share reinsurance beginning in the fourth quarter 2004, the ratio of net premiums earned to net premiums written declined to 46% in the fourth quarter 2004 and began its gradual increase to 66% in the first quarter 2005. We anticipate that this ratio will continue to gradually increase each quarter throughout 2005 and will average approximately 75 % to 80 % for the full year.

Ceding commission revenue declined 43% to \$5.8 million in the first quarter of 2005 as compared to \$10.3 million in the first quarter of 2004 reflecting the significant reduction in the quota share ceding percentage.

The net loss ratio improved to 60.2% for the first quarter of 2005 as compared to 63.3% in the first quarter of 2004. The improvement resulted from the increase in net premiums earned which reduced the proportional effect of catastrophe reinsurance premiums on the net loss ratio. In addition, while 2005 was a harsh winter in our operating territory, claims reported during the first quarter for our property lines were favorable as compared to the same quarter in the prior year.

The gross expense ratio increased modestly by 0.2 points to 31.3% in the first quarter of 2005 as compared to 31.1% in the first quarter

of 2004. The increase was related to establishing two new branch offices and additional expenses incurred as a public company. The net expense ratio increased 11.8 percentage points in the first quarter of 2005 as compared to the same period in 2004 primarily due to the lower ceding commission revenue discussed above. Ceding commission revenue caused the net expense ratio of 28.3% to be 3.0 percentage points lower than the gross expense ratio for the first quarter of 2005. In the first quarter of 2004, ceding commission revenue caused the net expense ratio of 16.5% to be 14.6 percentage points lower than the gross expense ratio.

The net combined ratio increased to 88.5% in the first quarter of 2005 from 79.8% in the same period in the prior year primarily due to the increase in the net expense ratio driven by the lower ceding commission revenue. Nevertheless, the combined ratio remains extremely favorable.

Pre-tax income in our insurance services segment increased to \$1.0 million in the first quarter of 2005 from \$0.5 million in the same quarter of 2004 primarily as a result of a 73% increase in direct commission revenue due to an increase in premiums placed with issuing carriers and additional commission revenue of \$491,000 resulting from favorable loss development on the premiums produced. This increase was partially offset by a 34% increase in expenses for the first quarter of 2005 compared to the same period in 2004.

Net investment income was a strong contributor to revenue growth in the first quarter of 2005, increasing 242% to \$2.6 million versus \$0.8 million in the first quarter of 2004. The acceleration of net investment income was primarily due to the growth in invested assets provided by operations, net proceeds from subordinated debentures underlying trust preferred securities in December 2004 for \$26.8 million and net proceeds of \$107.8 million from our initial public offering (IPO) and concurrent private placement in October 2004. The positive effects were offset by a slight decline in the yield on fixed maturity investments held at March 31, 2005 as compared to the same period in 2004. The pre-tax yield for our fixed income investments held at March 31, 2005 and March 31, 2004 was 4.6% and 4.8%, respectively. On a tax equivalent basis, the yield was 5.1% for invested assets held both at March 31, 2005 and March 31, 2004.

Net realized capital gains were \$0.2 million for the first quarter of 2005 as compared to \$11,000 in the same quarter of the prior year. The increase resulted from the sale of common stocks for which the proceeds were reinvested into higher dividend yielding securities.

Due to rising interest rates, the change in gross unrealized investment losses was approximately \$3.0 million net of a tax benefit during the first quarter of 2005.

Interest expense increased to \$1.2 million in the first quarter of 2005 from \$0.7 million in the first quarter of 2004. This increase was primarily a result of \$0.5 million on subordinated debentures underlying trust preferred securities issued in December 2004 and a \$0.2 million interest expense increase as a result of crediting reinsurers on funds withheld in segregated trusts as collateral for reinsurance recoverables effective January 1, 2004 with an annual

effective yield of 2.5%. These increases were offset by reductions of \$0.2 million of interest expenses on other borrowings and preferred stock repaid in the fourth quarter of 2004.

The effective income tax rate was 35.2% and 39.2% for the first quarter of 2005 and first quarter of 2004, respectively. The effective tax rate in the first quarter of 2005 was lower due to the benefit of tax-exempt interest income in the first quarter of 2005 of \$0.7 million as compared to \$0.1 million in the same period of 2004.

First Quarter Highlights

	First Quarter 2005	First Quarter 2004
	-----	-----
Total Underwriting Profit (Loss)	\$ 3,457	\$ 1,605
Insurance Services Segment Pre-Tax Income	1,040	472
Net Investment Income	2,615	764
Net Realized Investment Gains	209	11
Corporate Expenses	(422)	(28)
Interest Expense	(1,165)	(651)
Income Before Income Taxes	5,734	2,173
Income Tax Expense	2,017	851
Net Income	\$ 3,717	\$ 1,322
EPS - Basic	\$ 0.19	\$ 0.30
EPS - Diluted	\$ 0.19	\$ 0.23
Book Value Per Share	\$ 6.57	\$ 3.37

Additional Highlights and Disclosures:

Acquisition of Tower National Insurance Company :

On March 28, 2005, Tower Group, Inc. announced the completion of the acquisition of Tower National Insurance Company (f/k/a North American Lumber Insurance Company), an insurance company with nine active licenses mostly on the east coast, including New Jersey, Connecticut and various New England states. The acquisition is consistent with our plans to expand insurance operations territorially through becoming licensed in states other than New York.

Reinsurance Transactions:

Like many other insurance companies, we have received an inquiry from the New York Insurance Department relating to risk transfer under our reinsurance arrangements. We have been providing information to the New York Insurance Department in response to these inquiries. We believe that our reinsurance agreements demonstrate an appropriate transfer of risk and proper accounting. Our auditors have confirmed their agreement with our view as part of their audit of our 2004

financial statements.

Dividend Declaration:

Tower Group, Inc. announced today that the Company's Board of Directors has approved a quarterly dividend of \$0.025 per share payable June 27, 2005 to stockholders of record as of June 15, 2005.

2005 Guidance:

We continue to believe that strong growth opportunities remain in our targeted markets despite price softening in the broad P&C market. We expect overall market conditions to remain favorable for our products for the remainder of 2005 and remain on target with our guidance for the full year of 2005 that was provided in our first quarter earnings release. For the second quarter of 2005, we project net income to increase to a range between \$4.5 million and \$4.9 million. We project the diluted earnings per share in the second quarter to be in the range between \$0.23 and \$0.25 per diluted share. For the full year, we anticipate net income to increase to a range between \$19.7 million and \$ 20.5 million and diluted earnings per share to be between \$ 0.98 and \$1.02 per diluted share.

About Tower Group, Inc.

Tower Group, Inc., headquartered in New York City, offers property and casualty insurance products and services through its insurance company and insurance service subsidiaries. Its insurance company subsidiary, Tower Insurance Company of New York, is rated A- (Excellent) by A.M. Best Company and offers commercial insurance products to small to medium-size businesses and personal insurance products to individuals. Its insurance services subsidiary, Tower Risk Management, acts as a managing general agency, adjusts claims and negotiates reinsurance terms on behalf of other insurance companies. In March 2005, Tower Group, Inc. acquired its other insurance company subsidiary, Tower National Insurance Company (f/k/a North American Lumber Insurance Company).

Cautionary Note Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This release or any other written or oral statements made by or on behalf of the Company may include forward-looking statements that reflect the Company's current views with respect to future events and financial performance. All statements other than statements of historical fact included in this release are forward-looking statements. Forward-looking statements can generally be identified by the use of forward-looking terminology such as "may," "will," "plan," "expect," "intend," "estimate," "anticipate," "believe" or "continue" or their negative or variations or similar terminology. All forward-looking statements

address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include but are not limited to ineffectiveness or obsolescence of our business strategy due to changes in current or future market conditions; increased competition on the basis of pricing, capacity, coverage terms or other factors; greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than our underwriting, reserving or investment practices anticipate based on historical experience or industry data; the effects of acts of terrorism or war; developments in the world's financial and capital markets that adversely affect the performance of our investments; changes in regulations or laws applicable to us, our subsidiaries, brokers or customers; acceptance of our products and services, including new products and services; changes in the availability, cost or quality of reinsurance and failure of our reinsurers to pay claims timely or at all; decreased demand for our insurance or reinsurance products; loss of the services of any of our executive officers or other key personnel; the effects of mergers, acquisitions and divestitures; changes in rating agency policies or practices; changes in legal theories of liability under our insurance policies; changes in accounting policies or practices; and changes in general economic conditions, including inflation and other factors. Forward-looking statements speak only as of the date on which they are made, and the Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

For more information visit Tower's website at <http://www.twrgrp.com/>.

Insurance Overall Results of Operations
Insurance and Reinsurance Segments
First Quarter

	First Quarter 2005	First Quarter 2004	%
	-----	-----	-----
Revenues:			
Earned Premiums:			
Gross Premiums Earned	\$ 45,868	\$ 37,342	22.8%
Less: Ceded Premiums Earned	(15,850)	(29,412)	-46.1%
	-----	-----	
Net Premiums Earned	30,018	7,930	278.5%
Ceded Commission Revenue	5,846	10,301	-43.2%
Policy Billing Fees	196	174	12.6%
	-----	-----	
Total	36,060	18,405	95.9%
Expenses:			
Loss & Loss Adjustment Expenses			

Gross Loss & Loss Adjustment Expenses	26,078	21,505	21.3%
Less: Ceded Loss & Loss Adjustment Expenses	(8,016)	(16,488)	-51.4%
	-----	-----	
Net Loss & Loss Adjustment Expenses	18,062	5,017	260.0%
Underwriting Expenses			
Commissions Paid to Producers	7,581	6,136	23.5%
Other Underwriting Expenses	6,960	5,647	23.3%
	-----	-----	
Total Underwriting Expenses	14,541	11,783	23.4%
	-----	-----	
Total Expenses	32,603	16,800	94.1%
	-----	-----	
Underwriting Profit	\$ 3,457	\$ 1,605	115.4%
	=====	=====	
Key Measures:			
Written Premiums			
Gross	\$ 64,668	\$ 40,013	61.6%
Ceded	(19,307)	(25,223)	-23.5%
	-----	-----	
Net	\$ 45,361	\$ 14,790	206.7%
	=====	=====	
Loss Ratios			
Gross	56.9%	57.6%	
Net	60.2%	63.3%	
Accident Year Loss Ratios			
Gross	57.9%	56.3%	
Net	60.1%	62.7%	
Expense Ratios			
Gross	31.3%	31.1%	
Net	28.3%	16.5%	
Combined Ratios (GAAP)			
Gross	88.2%	88.7%	
Net	88.5%	79.8%	

Insurance Services Segment Results of Operations
First Quarter

	First Quarter 2005	First Quarter 2004	%
	-----	-----	-----
Revenues:			
Direct Commission Revenue from MGA	\$ 2,525	\$ 1,457	73.3%
Claims Administration Revenue	1,053	869	21.2%
Reinsurance Intermediary Fees	203	198	2.5%
Policy Billing Fees	5	-	-
	-----	-----	
Total	3,786	2,524	50.0%
Expenses:			
Direct Commission Expense Paid to Producers	1,211	950	27.5%

Other Insurance Services Expenses	485	300	61.7%
Claims Expense Reimbursement to TICNY	1,050	802	30.9%
	-----	-----	
Total Expenses	2,746	2,052	33.8%
	-----	-----	
Insurance Services Pre-tax Income (Loss)	\$ 1,040	\$ 472	120.3%
	=====	=====	

Tower Group, Inc.
Consolidated Balance Sheet

	(Unaudited)	
	March	December
	31,	31,
	2005	2004

	(\$ in thousands, except par value and share amounts)	
ASSETS		
Fixed-maturity securities, available-for-sale, at fair value (amortized cost \$255,034 in 2005 and \$223,562 in 2004)	\$ 251,929	\$ 224,523
Equity securities, at fair value (cost \$29,681 in 2005 and \$1,827 in 2004)	29,710	2,485
Common trust securities - statutory business trusts, equity method	1,426	1,426
	-----	-----
Total investments	283,065	228,434
Cash and cash equivalents	24,130	55,201
Investment income receivable	2,449	1,975
Agents' balances receivable	34,126	33,473
Assumed premiums receivable	1,144	1,197
Ceding commission receivable	8,727	8,329
Reinsurance recoverable	100,454	101,173
Receivable -- claims paid by agency	2,251	1,622
Prepaid reinsurance premiums	31,847	28,391
Deferred acquisition costs net of deferred ceding commission revenue	22,223	18,740
Federal income taxes and state taxes recoverable	-	1,975
Deferred income taxes	480	-
Intangible assets	6,039	4,978
Fixed assets, net of accumulated depreciation	5,620	5,420
Other assets	3,860	3,239
	-----	-----
Total Assets	\$ 526,415	\$ 494,147
	=====	=====
LIABILITIES		
Loss and loss adjustment expenses	\$ 140,518	\$ 128,722
Unearned premium	114,306	95,505

Reinsurance balances payable	8,867	2,735
Payable to issuing carriers	15,473	18,652
Funds held as agent	782	785
Funds held under reinsurance agreements	53,559	54,152
Accounts payable and accrued expenses	11,240	12,410
Checks outstanding	2,694	2,726
Payable for securities	1,272	-
Federal and state income taxes payable	459	-
Deferred income taxes	-	1,587
Subordinated debentures	47,426	47,426
	-----	-----
Total Liabilities	396,596	364,700
	-----	-----
STOCKHOLDERS' EQUITY		
Common stock (\$0.01 par value per share; 40,000,000 shares authorized; 19,835,635 and 19,826,135 shares issued in 2005 and 2004)	198	198
Paid-in-capital	112,478	112,375
Accumulated other comprehensive net income	(1,999)	1,052
Retained earnings	21,453	18,224
Unearned compensation - restricted stock	(1,817)	(1,908)
Treasury stock (88,967 shares in 2005 and 2004)	(494)	(494)
	-----	-----
Total Stockholders' Equity	129,819	129,447
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 526,415	\$ 494,147
	=====	=====

Tower Group, Inc.
Consolidated Statements of Income and
Comprehensive Net Income
(Unaudited)

	Three Months Ended	
	March 31,	
	2005	2004
	-----	-----
	(\$ in thousands, except share and per share amounts)	
Revenues		
Net premiums earned	\$ 30,018	\$ 7,930
Ceding commission revenue	5,846	10,301
Insurance services revenue	3,781	2,524
Net investment income	2,615	764
Net realized gains on investments	209	11
Policy billing fees	201	174

Total revenues	42,670	21,704
Expenses		
Loss and loss adjustment expenses	18,062	5,017
Direct commission expense	8,792	7,086
Other operating expenses	8,917	6,777
Interest expense	1,165	651
Total expenses	36,936	19,531
Income before income taxes	5,734	2,173
Income tax expense	2,017	851
Net income	\$ 3,717	\$ 1,322

Comprehensive Net Income

Net income	\$ 3,717	\$ 1,322
Other comprehensive income:		
Gross unrealized investment holding (losses) gains arising during period	(4,486)	947
Less: reclassification adjustment for gains included in net income	(209)	(11)
	(4,695)	936
Income tax benefit (expense) related to items of other comprehensive income	1,644	(318)
Total other comprehensive net (loss) income	(3,051)	618
Comprehensive Net Income	\$ 666	\$ 1,940

Earnings Per Share

Basic earnings per common share	\$ 0.19	\$ 0.30
Diluted earnings per common share	\$ 0.19	\$ 0.23

Weighted Average Common Shares Outstanding:

Basic	19,521,111	4,407,434
Diluted	20,076,884	5,726,083

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