SAFETY INSURANCE GROUP INC
Form 10-Q
May 07, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 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

Commission File Number: 000-50070

SAFETY INSURANCE GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-4181699**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

20 Custom House Street, Boston, Massachusetts 02110
(Address of principal executive offices including zip code)

(617) 951-0600
(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 x No o

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 o No o

Indicate by check mark whether the registrant is large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

As of May 5, 2010, there were 15,170,879 shares of common stock with a par value of $0.01 per share outstanding.

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Safety Insurance Group, Inc. and Subsidiaries

Consolidated Balance Sheets

(Unaudited)

(Dollars in thousands, except share data)

	March 31, 2010	December 31, 2009
Assets		
Investment securities available for sale:		
Fixed maturities, at fair value (amortized cost: $1,014,040 and $989,444)	**$ 1,049,551**	$ 1,018,329
Equity securities, at fair value (cost: $12,174 and $9,736)	**12,430**	9,876
Total investment securities	**1,061,981**	1,028,205
Cash and cash equivalents	**39,060**	74,470
Accounts receivable, net of allowance for doubtful accounts	**141,175**	137,238
Accrued investment income	**9,919**	10,044
Receivable from reinsurers related to paid loss and loss adjustment expenses	**7,427**	6,851
Receivable from reinsurers related to unpaid loss and loss adjustment expenses	**60,634**	64,874
Ceded unearned premiums	**13,385**	13,698
Deferred policy acquisition costs	**50,068**	47,900
Deferred income taxes	**5,798**	8,335
Equity and deposits in pools	**24,813**	23,840
Other assets	**12,376**	12,382
Total assets	**$ 1,426,636**	$ 1,427,837
Liabilities		
Loss and loss adjustment expense reserves	**$ 430,440**	$ 439,706
Unearned premium reserves	**296,052**	282,434
Accounts payable and accrued liabilities	**35,407**	59,869
Taxes payable	**2,279**	3,916
Payable for securities purchased	**7,617**	
Payable to reinsurers	**5,068**	4,674
Other liabilities	**16,911**	16,803
Total liabilities	**793,774**	807,402
Commitments and contingencies (Note 7)		
Shareholders equity		
Common stock: $0.01 par value; 30,000,000 shares authorized; 16,734,132 and 16,624,220 shares issued	**167**	166
Additional paid-in capital	**146,108**	144,814
Accumulated other comprehensive income, net of taxes	**23,248**	18,866
Retained earnings	**513,051**	506,301
Treasury stock, at cost; 1,564,548 shares	**(49,712)**	(49,712)
Total shareholders equity	**632,862**	620,435
Total liabilities and shareholders equity	**$ 1,426,636**	$ 1,427,837

The accompanying notes are an integral part of these financial statements.

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Safety Insurance Group, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended March 31, 2010	2009
Net earned premiums	**$ 133,157**	$ 135,350
Net investment income	**10,792**	10,422
Net realized gains (losses) on investments	**110**	(318)
Finance and other service income	**4,296**	4,088
Total revenue	**148,355**	149,542
Losses and loss adjustment expenses	**88,674**	92,882
Underwriting, operating and related expenses	**41,868**	41,072
Interest expenses	**22**	22
Total expenses	**130,564**	133,976
Income before income taxes	**17,791**	15,566
Income tax expense	**5,017**	3,722
Net income	**$ 12,774**	$ 11,844
Earnings per weighted average common share:		
Basic	**$ 0.85**	$ 0.73
Diluted	**$ 0.85**	$ 0.73
Cash dividends paid per common share	**$ 0.40**	$ 0.40
Number of shares used in computing earnings per share:		
Basic	**15,085,096**	16,167,850
Diluted	**15,102,105**	16,188,609

The accompanying notes are an integral part of these financial statements.

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Safety Insurance Group, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders Equity

(Unaudited)

(Dollars in thousands)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income, Net of Taxes	Retained Earnings	Treasury Stock	Total Shareholders Equity
Balance at December 31, 2008	$ 165	$ 140,261	$ (6,528)	$ 476,989	$ (7,516)	$ 603,371
Net income, January 1 to March 31, 2009				11,844		11,844
Other comprehensive income, net of deferred federal income taxes			9,923			9,923
Exercise of options and unearned compensation on restricted stock, net of deferred federal income taxes	1	981				982
Dividends paid				(6,474)		(6,474)
Acquisition of treasury stock					(14,114)	(14,114)
Balance at March 31, 2009	$ 166	$ 141,242	$ 3,395	$ 482,359	$ (21,630)	$ 605,532

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income, Net of Taxes	Retained Earnings	Treasury Stock	Total Shareholders Equity
Balance at December 31, 2009	**$ 166**	**$ 144,814**	**$ 18,866**	**$ 506,301**	**$ (49,712)**	**$ 620,435**
Net income, January 1 to March 31, 2010				**12,774**		**12,774**
Other comprehensive income, net of deferred federal income taxes			**4,382**			**4,382**
Exercise of options and unearned compensation on restricted stock, net of deferred federal income taxes	**1**	**1,294**				**1,295**
Dividends paid				**(6,024)**		**(6,024)**
Balance at March 31, 2010	**$ 167**	**$ 146,108**	**$ 23,248**	**$ 513,051**	**$ (49,712)**	**$ 632,862**

The accompanying notes are an integral part of these financial statements.

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Safety Insurance Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2010	**2009**
Net income	**$ 12,774**	$ 11,844
Other comprehensive income, net of tax:		
Unrealized holding gains during the period, net of tax expense of $2,398 and $5,231	**4,453**	9,716
Reclassification adjustment for (gains) losses included in net income, net of tax (expense) benefit of ($39) and $111	**(71)**	207
Unrealized gains on securities available for sale	**4,382**	9,923
Comprehensive income	**$ 17,156**	$ 21,767

The accompanying notes are an integral part of these financial statements.

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Safety Insurance Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31, 2010	2009
Cash flows from operating activities:		
Net income	**$ 12,774**	$ 11,844
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	**3,104**	3,144
Provision for deferred income taxes	**178**	187
Net realized (gains) losses on investments	**(110)**	318
Changes in assets and liabilities:		
Accounts receivable	**(3,937)**	713
Accrued investment income	**125**	130
Receivable from reinsurers	**3,664**	4,632
Ceded unearned premiums	**313**	417
Deferred policy acquisition costs	**(2,168)**	(969)
Other assets	**(1,437)**	(2,334)
Loss and loss adjustment expense reserves	**(9,266)**	(10,802)
Unearned premium reserves	**13,618**	5,188
Accounts payable and accrued liabilities	**(24,462)**	(19,362)
Payable to reinsurers	**394**	(560)
Other liabilities	**(1,467)**	(564)
Net cash used for operating activities	**(8,677)**	(8,018)
Cash flows from investing activities:		
Fixed maturities purchased	**(97,256)**	(37,229)
Equity securities purchased	**(3,239)**	(2,462)
Proceeds from sales, paydowns and calls of fixed maturities	**53,564**	22,003
Proceeds from maturities of fixed maturities	**25,500**	322
Proceed from sales of equity securities	**800**	1,064
Proceed from maturities of short-term securities		15,000
Fixed assets purchased	**(146)**	(60)
Net cash used for investing activities	**(20,777)**	(1,362)
Cash flows from financing activities:		
Proceeds and excess tax benefits from exercise of stock options	**68**	121
Dividends paid to shareholders	**(6,024)**	(6,474)
Acquisition of treasury stock		(14,114)
Net cash used for financing activities	**(5,956)**	(20,467)
Net decrease in cash and cash equivalents	**(35,410)**	(29,847)
Cash and cash equivalents at beginning of year	**74,470**	60,451
Cash and cash equivalents at end of period	**$ 39,060**	$ 30,604

The accompanying notes are an integral part of these financial statements.

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Safety Insurance Group, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(Dollars in thousands except per share and share data)

1. Basis of Presentation

The consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

The consolidated financial statements include Safety Insurance Group, Inc. and its subsidiaries (the Company). The subsidiaries consist of Safety Insurance Company, Safety Indemnity Insurance Company, Safety Property and Casualty Insurance Company, Whiteshirts Asset Management Corporation (WAMC), and Whiteshirts Management Corporation, which is WAMC s holding company. All intercompany transactions have been eliminated. Prior period amounts have been reclassified to conform to the current period presentation.

The financial information as of March 31, 2010 and for the three months ended March 31, 2010 and 2009 is unaudited; however, in the opinion of the Company, the information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial condition and results of operations for the periods. These unaudited consolidated financial statements may not be indicative of financial results for the full year and should be read in conjunction with the audited financial statements included in the Company s annual report on Form 10-K filed with the U.S. Securities and Exchange Commission (SEC) on March 15, 2010.

The Company is a leading provider of personal lines property and casualty insurance focused on the Massachusetts and New Hampshire markets. The Company s principal product line is private passenger automobile insurance, which accounted for 69.2% of its direct written premiums in 2009. The Company operates through its insurance company subsidiaries, Safety Insurance Company, Safety Indemnity Insurance Company, and Safety Property and Casualty Insurance Company (together referred to as the Insurance Subsidiaries).

2. Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Codification (ASC) 105, *Generally Accepted Accounting Principles*. ASC 105 is now the single source of authoritative nongovernmental GAAP. ASC 105 reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant SEC guidance organized using the same topical structure in separate sections. ASC 105 was effective for financial statements issued for reporting periods that ended after September 15, 2009. As of September 30, 2009, all of the Company s disclosures in its consolidated financial statements were referenced in accordance with ASC 105. The implementation of ASC 105 did not have an impact on the Company s consolidated results of operations or financial position as it did not change authoritative guidance.

ASC 320, *Investments Debt and Equity Securities* requires entities to separate an other-than-temporary impairment of a debt security into two components when there are credit related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. The amount of the other-than-temporary impairment related to a credit loss is recognized in earnings, and the amount of the other-than-temporary impairment related to other factors is recorded in other comprehensive loss. The Company adopted ASC 320 effective April 1, 2009. The adoption of ASC 320 did not have an impact on the Company s consolidated results of operations or financial position. For further information, see Note 5, Investments.

ASC 825*, Financial Instruments* requires disclosures about fair value of financial instruments in interim and annual financial statements and is effective for periods ending after June 15, 2009. The Company adopted ASC 825 effective for its interim reporting period ending June 30, 2009, and its adoption did not have an impact on the Company s consolidated financial condition or results of operations. For further information, see Note 5, Investments.

ASC 820, *Fair Value Measurements and Disclosures* expands certain disclosure requirements and is effective for periods ending after June 15, 2009. The Company adopted ASC 820 effective for its interim period ending June 30, 2009, and its adoption did not have an impact on the Company s consolidated financial condition or results of operations.

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(Dollars in thousands except per share and share data)

ASC 855, *Subsequent Events* establishes principles and requirements for subsequent events. ASC 855 is effective for interim and annual financial periods ending after June 15, 2009, and was applied prospectively. In February 2010, the FASB issued updated guidance which amended the subsequent events disclosure requirements to eliminate the requirement for SEC filers to disclose the date through which it has evaluated subsequent events, clarify the period through which conduit bond obligors must evaluate subsequent events and refine the scope of the disclosure requirements for reissued financial statements. The updated guidance was effective upon issuance. The adoption of the guidance had no impact on the Company s consolidated financial condition or results of operations.

In January 2010, the FASB issued ASC Update No. 2010-06 (Topic 820), *Improving Disclosures about Fair Value Measurements* which amends and clarifies existing guidance related to fair value measurements and disclosures. This guidance requires new disclosures for (1) transfers in and out of Level 1 and Level 2 and reasons for such transfers; and (2) the separate presentation of purchases, sales, issuances and settlement in the Level 3 reconciliation. It also clarifies guidance around disaggregation and disclosures of inputs and valuation techniques for Level 2 and Level 3 fair value measurements. The Company adopted this guidance effective the quarter ended March 31, 2010, except for the new disclosures in the Level 3 reconciliation. The Level 3 disclosures are effective for periods ending after December 15, 2010. The adoption of the guidance did not have and is not expected to have an impact on the Company s consolidated financial condition or results of operations when fully adopted.

3. Earnings per Weighted Average Common Share

Basic earnings per weighted average common share (EPS) is calculated by dividing net income by the weighted average number of basic common shares outstanding during the period including unvested restricted shares which are considered participating securities. Diluted earnings per share amounts are based on the weighted average number of common shares including unvested restricted shares and the net effect of potentially dilutive common shares outstanding. At March 31, 2010 and 2009, the Company s potentially dilutive instruments were common shares under options of 212,375 and 233,046, respectively.

The following table sets forth the computation of basic and diluted EPS for the periods indicated.

	Three Months Ended March 31,			
		2010		**2009**
Net income as reported	**$**	**12,774**	$	11,844
Less dividends:				
Distributed to common shareholders		**5,912**		6,390
Distributed to participating security holders		**112**		84
Total undistributed earnings	**$**	**6,750**	$	5,370

Undistributed earnings to common shareholders	**$**	**6,626**	$	5,290
Undistributed earnings to participating security holders	**$**	**124**	$	80
Net income available to common shareholders for basic and diluted earnings per share	**$**	**12,774**	$	11,844
Weighted average number of common shares outstanding		**14,809,087**		15,928,586
Common equivalent shares- restricted stock		**276,009**		239,264
Weighted average common and common equivalent shares outstanding used to calculate basic earnings per share		**15,085,096**		16,167,850
Common equivalent shares- stock options		**17,009**		20,759
Weighted average common and common equivalent shares outstanding used to calculate diluted earnings per share		**15,102,105**		16,188,609
Basic earnings per share	**$**	**0.85**	$	0.73
Diluted earnings per share	**$**	**0.85**	$	0.73

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Diluted EPS excludes stock options with exercise prices and exercise tax benefits greater than the average market price of the Company s common stock during the period because their inclusion would be anti-dilutive. There were 119,725 and 168,925 anti-dilutive stock options for the three months ended March 31, 2010 and 2009, respectively.

4. Stock-Based Compensation

Management Omnibus Incentive Plan

Long-term incentive compensation is provided under the Company s 2002 Management Omnibus Incentive Plan (the Incentive Plan) which provides for a variety of stock-based compensation awards, including nonqualified stock options, incentive stock options, stock appreciation rights and restricted stock (RS) awards.

The maximum number of shares of common stock with respect to which awards may be granted is 2,500,000. Shares of stock covered by an award under the Incentive Plan that are forfeited will again be available for issuance in connection with future grants of awards under the plan. At March 31, 2010, there were 813,484 shares available for future grant. The Board of Directors and the Compensation Committee intend to issue more awards under the Incentive Plan in the future.

A summary of stock based awards granted under the Incentive Plan during the three months ended March 31, 2010 is as follows:

Type of Equity Awarded	Effective Date	Number of Awards Granted		Fair Value per Share (1)	Vesting Terms
RS	**March 9, 2010**	**77,360**	**$**	**38.78**	**3 years, 30%-30%-40%**
RS	**March 9, 2010**	**4,000**	**$**	**38.78**	**No vesting period (2)**
RS	**March 23, 2010**	**25,590**	**$**	**38.09**	**5 years, 20% annually**

(1) The fair value per share of the restricted stock grant is equal to the closing price of our common stock on the grant date.

(2) The shares cannot be sold, assigned, pledged, or otherwise transferred, encumbered or disposed of until the recipient is no longer a member of our Board of Directors.

Accounting and Reporting for Stock-Based Awards

ASC 718, *Compensation Stock Compensation* requires the Company to measure and recognize the cost of employee services received in exchange for an award of equity instruments. The Company adopted ASC 718 effective January 1, 2006. Under the provisions of ASC 718, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite service period (generally the vesting period of the equity grant).

As permitted by ASC 718, the Company elected the modified prospective transition method. Under the modified prospective transition method, (i) compensation expense for share-based awards granted prior to January 1, 2006 is recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under ASC 718 as adjusted to incorporate forfeiture assumptions under ASC 718, and (ii) compensation expense for all share-based awards granted subsequent to December 31, 2005 is based on the grant date fair value estimated in accordance with the provisions of ASC 718.

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(Dollars in thousands except per share and share data)

Stock Options

The fair value of stock options used to compute net income and earnings per share for the three month periods ended March 31, 2010 and 2009 is the estimated fair value at grant date using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended March 31, 2010	2009
Expected dividend yield	**1.36% - 1.68%**	1.36% - 2.16%
Expected volatility	**0.31 - 0.36**	0.28 - 0.36
Risk-free interest rate	**4.35% - 4.76%**	3.23% - 4.76%
Expected holding period	**6.5 - 7 years**	6.5 - 7 years

Expected dividend yield is the Company s dividend yield on the measurement date and is based on the assumption that the current yield will continue in the future. Expected volatility is based on historical volatility of the Company s common stock as well as the volatility of a peer group of property and casualty insurers measured for a period equal to the expected holding period of the option. The risk-free interest rate is based upon the yield on the measurement date of a zero-coupon U.S. Treasury bond with a maturity period equal to the expected holding period of the option. The expected holding period is based upon the simplified method provided in SEC Staff Accounting Bulletin No. 107, *Share-Based Payment*, which utilizes the mid-points between the vesting dates and the expiration date of the option award to calculate the overall expected term. There were no stock options granted during the three month periods ended March 31, 2010 and 2009.

The following table summarizes stock option activity under the Incentive Plan for the three months ended March 31, 2010.

	Shares Under Option		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value
Outstanding at beginning of year	**215,337**	**$**	**35.40**			
Exercised	**(2,962)**	**$**	**16.74**			
Outstanding at end of period	**212,375**	**$**	**35.66**	**5.2 years**	**$**	**1,047**
Exercisable at end of period	**188,430**	**$**	**34.75**	**5.1 years**	**$**	**1,047**

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based upon the Company s closing stock price of $37.67 on March 31, 2010, which would have been received by the option holders had all option holders exercised their options as of that date. The range of exercise prices on stock options outstanding under the Incentive Plan was $12.00 to $42.85 at March 31, 2010 and 2009. The total intrinsic value of options exercised during the three months ended March 31, 2010 and 2009 was $62 and $98, respectively.

A summary of the status of non-vested options as of March 31, 2010 is presented below.

	Number of Shares		Weighted Average Grant Date Exercise Price
Non-vested at beginning of year	**60,490**	**$**	**41.26**
Vested	**(36,545)**	**$**	**40.22**
Non-vested at end of period	**23,945**	**$**	**42.85**

As of March 31, 2010, there was $317 of unrecognized compensation expense related to non-vested option awards that is expected to be recognized over a weighted average period of 0.8 years. Cash received from options exercised was $50 and $77 for the three months ended March 31, 2010, and 2009, respectively.

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Notes to Unaudited Consolidated Financial Statements

(Dollars in thousands except per share and share data)

Restricted Stock

Restricted stock awarded to employees in the form of unvested shares is recorded at the market value of the Company s common stock on the grant date and amortized ratably as expense over the requisite service period.

The following table summarizes restricted stock activity under the Incentive Plan during the three months ended March 31, 2010.

	Shares Under Restriction		Weighted Average Fair Value
Outstanding at beginning of the year	**298,834**	**$**	**34.28**
Granted	**106,950**	**$**	**38.61**
Vested and unrestricted	**(104,283)**	**$**	**36.27**
Outstanding at end of period	**301,501**	**$**	**35.13**

As of March 31, 2010, there was $9,489 of unrecognized compensation expense related to non-vested restricted stock awards that is expected to be recognized over a weighted average period of 1.9 years. The total fair value of the shares that were vested and unrestricted during the three months ended March 31, 2010 and 2009 was $3,782 and $3,412, respectively. For the three months ended March 31, 2010 and 2009, the Company recorded compensation expense related to restricted stock of $681 and $647 net of income tax benefits of $367 and $349, respectively.

5. Investments

The gross unrealized gains and losses on investments in fixed maturity securities and equity securities, including interests in mutual funds, were as follows for the periods indicated:

	As of March 31, 2010									
					Gross Unrealized Losses (3)					
	Cost or Amortized Cost		Gross Unrealized Gains		Non-OTTI Unrealized Losses		OTTI Unrealized Losses (4)		Estimated Fair Value	
U.S. Treasury securities and obligations of U.S. Government agencies(1)	**$**	**315,311**	**$**	**15,030**	**$**	**(409)**	**$**		**$**	**329,932**

Obligations of states and political subdivisions	**445,800**	**15,421**	**(960)**		**460,261**
Asset-backed securities (1)	**81,302**	**2,630**	**(1,361)**		**82,571**
Corporate and other securities	**171,627**	**5,434**	**(274)**		**176,787**
Subtotal, fixed maturity securities	**1,014,040**	**38,515**	**(3,004)**		**1,049,551**
Equity securities (2)	**12,174**	**256**			**12,430**
Totals	**$ 1,026,214**	**$ 38,771**	**$ (3,004)**	**$**	**$ 1,061,981**

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Safety Insurance Group, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(Dollars in thousands except per share and share data)

	As of December 31, 2009				
			Gross Unrealized Losses (3)		
	Cost or Amortized Cost	Gross Unrealized Gains	Non-OTTI Unrealized Losses	OTTI Unrealized Losses (4)	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government agencies (1)	$ 315,992	$ 12,341	$ (955)	$	$ 327,378
Obligations of states and political subdivisions	468,319	16,218	(1,116)		483,421
Asset-backed securities (1)	82,694	606	(2,469)		80,831
Corporate and other securities	122,439	4,737	(477)		126,699
Subtotal, fixed maturity securities	989,444	33,902	(5,017)		1,018,329
Equity securities (2)	9,736	140			9,876
Totals	$ 999,180	$ 34,042	$ (5,017)	$	$ 1,028,205

(1) Obligations of U.S. Government agencies include collateralized mortgage obligations issued, guaranteed and/or insured by the following issuers: Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) and Small Business Administration (SBA). The total of these fixed maturity securities was $294,489 and $294,648 at amortized cost and $309,022 and $306,077 at fair value as of March 31, 2010 and December 31, 2009, respectively. As such, the asset-backed securities presented exclude such issuers already presented under U.S. Treasury securities and obligations of U.S. Government Agencies.

(2) Equity securities includes interests in mutual funds of $10,879 and $9,736 at cost and $11,090 and $9,876 at fair value as of March 31, 2010 and December 31, 2009, respectively, held to fund the Company s executive deferred compensation plan.

(3) The Company s investment portfolio included 80 and 89 securities in an unrealized loss position at March 31, 2010 and December 31, 2009, respectively.

(4) Amounts in this column represent OTTI recognized in accumulated other comprehensive income.

The amortized cost and the estimated fair value of fixed maturity securities, by maturity, are shown below for the periods indicated. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	As of March 31, 2010	
	Amortized Cost	**Estimated Fair Value**
Due in one year or less	**$ 44,041**	**$ 44,701**
Due after one year through five years	**263,317**	**273,019**
Due after five years through ten years	**189,231**	**195,907**
Due after ten years through twenty years	**131,973**	**134,420**

Due after twenty years		**9,687**		**9,911**
Asset-backed securities		**375,791**		**391,593**
Totals	**$**	**1,014,040**	**$**	**1,049,551**

The gross realized gains (losses) on sales of fixed maturity and equity securities were as follows for the periods indicated:

	Three Months Ended March 31,			
		2010		**2009**
Gross realized gains				
Fixed maturity securities	**$**	**242**	$	
Gross realized losses				
Fixed maturity securities		**(132)**		
Equity securities				(318)
Net realized gains (losses) on investments	**$**	**110**	$	(318)

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Safety Insurance Group, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(Dollars in thousands except per share and share data)

Proceeds from fixed maturities maturing were $25,500 and $322 for the three months ended March 31, 2010 and 2009, respectively.

In the normal course of business, the Company enters into transactions involving various types of financial instruments, including investments in fixed maturities and equity securities. Investment transactions have credit exposure to the extent that a counter party may default on an obligation to the Company. Credit risk is a consequence of carrying, trading and investing in securities. To manage credit risk, the Company focuses on higher quality fixed income securities, reviews the credit strength of all companies in which it invests, limits its exposure in any one investment and monitors the portfolio quality, taking into account credit ratings assigned by recognized statistical rating organizations.

The following tables as of March 31, 2010 and December 31, 2009 illustrate the gross unrealized losses included in the Company s investment portfolio and the fair value of those securities aggregated by investment category. The tables also illustrate the length of time that they have been in a continuous unrealized loss position.

	As of March 31, 2010					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies	$ 20,692	$ 378	$ 503	$ 31	$ 21,195	$ 409
Obligations of states and political subdivisions	49,414	263	11,949	697	61,363	960
Asset-backed securities			14,465	1,361	14,465	1,361
Corporate and other securities	46,116	254	1,776	20	47,892	274
Total temporarily impaired securities	$ 116,222	$ 895	$ 28,693	$ 2,109	$ 144,915	$ 3,004

	As of December 31, 2009		
	Less than 12 Months	12 Months or More	Total