

Argonaut Group, Inc.

Argonaut Group, Inc. (NASDAQ: AGII)
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Employees: 814
Revenue: \$ 292,600,000
Net Income: \$ 2,900,000
Assets: \$ 1,863,200,000
Liabilities: \$ 1,415,700,000
As of December 31, 2001

Description: Argonaut Group is a holding company with subsidiaries in the insurance and real estate industries. Subsidiary Argonaut Insurance focuses on workers' compensation insurance, which accounts for more than half of Argonaut Group's premiums. Specializing in the construction industry, the division also writes general and automobile lines for commercial clients. Argonaut Great Central sells property, liability, commercial multiple-peril, and workers' compensation policies in some 30 states, focusing on the hospitality industry. Subsidiary AGI Properties conducts real estate leasing in California. Argonaut has acquired specialty insurer Front Royal.

Asbestos Discussion from SEC filings:

From the Company's Form 10-K for the period ending December 31, 2002 at
<http://www.sec.gov/Archives/edgar/data/800082/000080008203000007/body2.txt>
Filed On: April 2, 2003

Argonaut Insurance Company is exposed to asbestos liability at the primary level through claims filed against its direct insureds, as well as through its position as a reinsurer of other primary carriers. Argonaut Insurance Company's direct liability arises primarily from policies issued from the mid 1970s to early 1980s which pre-dated policy contract wording that excluded asbestos exposure. The majority of the policies were issued on behalf of small contractors or construction companies. The Company believes that the frequency and severity of asbestos claims for such insureds is typically less than that experienced for large, industrial manufacturing and distribution concerns.

Argonaut Insurance Company also assumed risk as a reinsurer for a limited period of

time, primarily for the period from 1970 to 1975, a portion of which was assumed from the London market. Argonaut Insurance Company reinsured risks on policies written by direct carriers. The reinsurance typically provided coverage for limits attaching at a relatively high dollar amount which are payable only after other layers of reinsurance are exhausted. Some of the claims now being filed on policies reinsured by Argonaut Insurance Company are on behalf of claimants who may have been exposed at some time to asbestos incorporated into buildings they occupied, but have no current medical problems resulting from such exposure. Additionally, lawsuits are being brought against businesses that were not directly involved in the manufacture or

installation of materials containing asbestos. The Company believes that claims generated out of this population of claimants will likely be characterized by high frequency but low severity, resulting in incurred losses generally lower than the asbestos claims filed over the past decade and could be below Argonaut Insurance Company's attachment level.

Corporate policy beginning in 1985 was to exclude asbestos coverage on all general liability policies. During the third quarter of

2002, management identified claims associated with certain general liability policies issued through one office from 1985 to the early 1990's which did not exclude absolute asbestos coverage. The Company strengthened its loss reserves by \$7.0 million in the third quarter for these claims. The Company reviewed policy files issued during this period for additional exposures and management believes the policies written were limited to this specific time frame and location.

Asbestos Discussion from SEC filings:

From the Company's Form 10-Q for the quarter ended September 30, 2002

<http://www.sec.gov/Archives/edgar/data/800082/000080008202000017/form10qrev.txt>

Filed On: November 13, 2002

Run-off Lines. Corporate policy beginning in 1985 was to exclude asbestos coverage on all general liability policies. During the three months ended September 30, 2002, management identified claims associated with a certain general liability policies issued through one office from 1985 to the early 1990's which did not exclude absolute asbestos coverage. In response, the Company increased loss reserves by \$7.0 million during the three months ended September 30, 2002 resulting in an underwriting loss for the run-off lines of \$7.2 million. Although the Company continues to review policy files issued during this period for additional exposure, management believes the policies written were limited to the specific time frame and location first identified.

In addition to revisions to loss reserves to reflect any material case-specific development in asbestos claims, the Company periodically reviews all environmental and asbestos related reserves to evaluate the impact, if any, of new developments in litigation trends, changes in actuarial assumptions, and other industry-wide information then available. The Company expects to complete its periodic review now in progress during the fourth quarter of 2002. The results of this study may indicate further development on these reserves, which would have a negative impact on the financial condition of the Company and its RBC ratio, and may subject the Company to the levels of regulatory authority noted previously.

On October 7, 2002, an action was filed by Western MacArthur Company, MacArthur Company, Western Asbestos Company and certain other individual claimants in the Superior Court of Alameda County, California against Argonaut Insurance Company ("Argonaut"), The Home Insurance Company and The Hartford Accident & Indemnity Company entitled Lila Mitchell, et al. v. Argonaut Insurance Company, et al., Alameda Superior Court Case No.

2002067900. This case seeks coverage for claims already at issue in the previously filed action entitled Western MacArthur Company and MacArthur Company v. United States Fidelity & Guaranty Co., The Saint Paul Companies, Inc., St. Paul Fire & Marine Ins. Co., and Argonaut Insurance Company, Alameda Superior Court Case No. 721595-7 seeking adjudication of the same issues as presented in that action. Argonaut's sole nexus to these suits is nine construction wrap-up policies with an occurrence limit of \$200,000 per policy issued to Western MacArthur Company and Western Asbestos Company, respectively, for liability arising out of work

performed on five construction sites in the 1960's and 70's. Management estimates that approximately 1% of the claimants in the purported class action suits against Western MacArthur were associated in any way with the job sites covered by the Argonaut policies. Argonaut has in the ordinary course of business set up reserves in connection with these claims in prior years. Based on the above circumstances, management's evaluation of Argonaut's exposure to the Western MacArthur litigation remains unchanged and no adjustments to the existing reserves are planned based on any of the recent events in this series of lawsuits.

Asbestos Discussion from SEC filings:

From the Company's Form 10-Q for the quarter ended June 30, 2002

<http://www.sec.gov/Archives/edgar/data/800082/000080008202000012/q210q.txt>

Filed On: August 14, 2002

The Company has exposures related to asbestos and environmental liability claims arising out of general liability coverage primarily written in the 1970's and to a lesser extent the mid 1980's. In addition to the general uncertainties encountered in estimating reserves, there are significant additional uncertainties in estimating the amount of the Company's potential losses from asbestos and environmental claims. Compounding these uncertainties are recent inconsistent judicial interpretation of applicable laws that may lead to the

expansion of the scope of policy coverage. The Company establishes reserves to the extent that, in the judgment of management, the facts and prevailing law reflect an exposure for the Company or its reinsurers. Due to these uncertainties and the ever-changing legal environment regarding these claims, the ultimate losses may vary materially from current loss reserves and could have a material adverse effect on the Company's future financial condition, results of operations and cash flows.

Asbestos-Related News:

[Argonaut Group Inc. Posts Wide Loss, Reorganizes \(Published March 21, 2003\)](#)
[Continues To Face Decades-Old Asbestos Liability Claims \(Published October 18, 2002\)](#)