# W. R. Berkley Corporation NYSE:WRB

# FQ1 2008 Earnings Call Transcripts

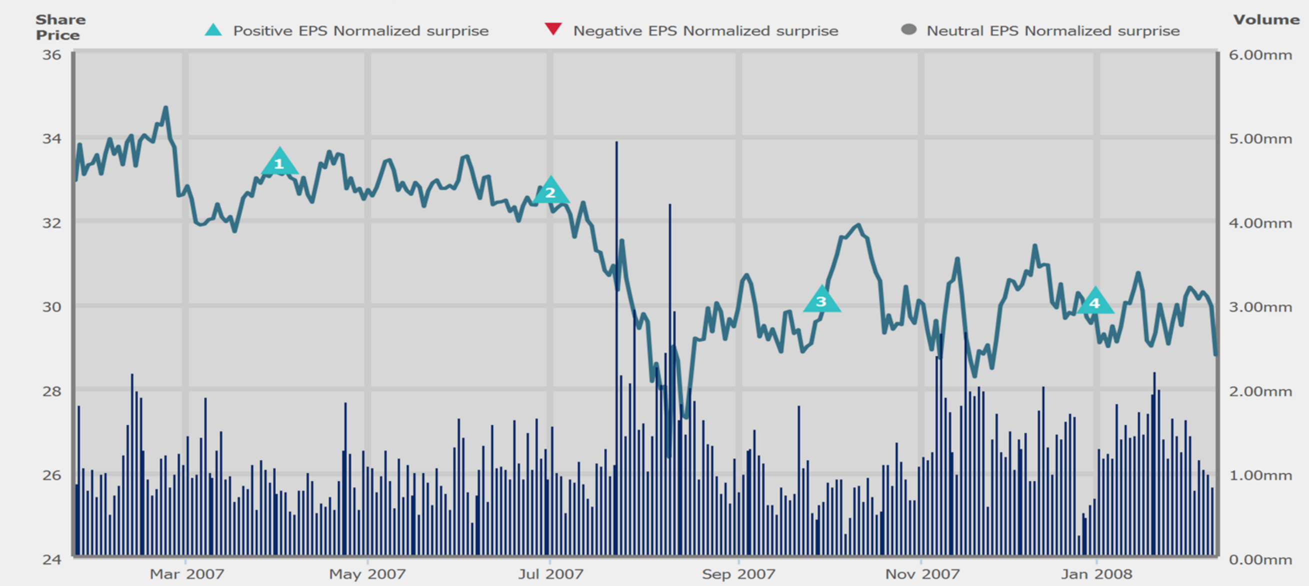
## Friday, April 25, 2008 1:30 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ1 2008- | | | -FQ2 2008- | -FY 2008- | -FY 2009- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | 0.91 | 0.83 | ▲(8.79 %) | 0.92 | 3.72 | 3.71 |
| **Revenue** | - | - | ▲(0.03 %) | - | - | - |
| **Revenue (mm)** | 1375.60 | 1375.20 | - | 1367.51 | 5455.06 | 5436.78 |

Currency: USD
Consensus as of Apr-25-2008 2:12 AM GMT

**Stock Price [USD] vs. Volume [mm] with earnings surprise annotations**




**- EPS NORMALIZED -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ1 2007** | 0.89 | 0.91 | ▲1 2.25 % |
| **FQ2 2007** | 0.91 | 0.92 | ▲2 1.10 % |
| **FQ3 2007** | 0.91 | 0.93 | ▲3 2.20 % |
| **FQ4 2007** | 0.94 | 0.97 | ▲4 3.19 % |

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# Call Participants

**EXECUTIVES**

**Eugene G. Ballard**

**William R. Berkley**

**ANALYSTS**

**Brian Meredith**
*UBS*

**Charles Gates**
*Credit Suisse*

**Jay Cohen**
*Merrill Lynch*

**Joshua Shanker**
*Citigroup*

**Ken Billingsley**
*Signal Hill*

**Laura DeVoe**
*Fontana Capital*

**Meyer Shields**
*Stifel Nicolaus*

**Scott Heleniak**
*Ferris, Baker Watts*

**Tom Powell**
*Tocqueville*

# Presentation

**Operator**

Good day and welcome to the W. R. Berkeley Corporation first quarter 2008 earnings conference call. [Operator Instructions].

Before we begin we would like to note that the speakers' remarks may contain forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words including, without limitation, believe, expect or estimate. We caution you that such forward-looking statements should not be regarded as a representation by us that the future plans, estimates or expectations, contemplated by us will in fact be achieved. Please refer to the Annual Report on Form 10-K for the year ended December 31, 2007 and our other filings made with the SEC for a description of the business environment in which we operate and the important factors that may materially affect our results.

W. R. Berkeley Corporation is not under any obligation and expressly disclaims any such obligation to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise.

I would like now like to turn the call over to William Berkley. Please go ahead sir.

**William R. Berkley**

Good morning. It was an unusual quarter in some ways and an outstanding quarter and others. I think from our point of view the business continues in general how we expect it to be. Our operating results from an underwriting point of view and from a premium volume point of view would generally in line with our expectations we are pleased with how things are going. As the cycle changes and it has continued to change, things get lumpier, things get somewhat less predictable unit to unit, months to months, basically we are pretty pleased with how things have gone, somewhere where our starts up are starting to generate premium volume, all this have not but we are seeing all the progress we have expected.

Our pricing levels overall year-over-year are still down roughly 5%, the biggest price declines have come in the excess of surplus lines areas and non admitted excess of surplus lines areas this is supposed to have really come in our standard work of regional business.

When we look out we see continued price deterioration. We think the industry as a whole actually on a year basis is probably not making any underwriting profits at this point in time. We think we have some underwriting profits that we still booking on an actually year basis, so we feel comfortable and were reasonably consistent in our views that the next year will be a bad year for the industry while we think we will continue to do okay.

And looking at our various segments, our specialty business in most areas within it was the most competitive and they maintain their discipline and continue to have excellent operating margins. Our regional business was able to hold their volume pretty much. It was impacted by storm activity more than anything else; otherwise, their profitability would have been relatively flat. That continues to be an area that is doing surprisingly well and other than in larger risk areas we have been able to hold on to our business without much price deterioration.

The alternative market business has been doing quite well. California workers' comp, very competitive, volume is down, while we still think that business is profitable. We think there are number of competitors that see a higher level of profitability than we do because they are certainly charging a lot less money.

Reinsurance area was our biggest decline in volume, roughly 30% decline in volume really across the board. I think that from our point of view that's where we would expect that challenging market to be felt most. It is where the most leverage is and therefore when the underlying companies cut prices and you are forced to cut prices, it is a very quick turn in your underwriting result. So, it is where discipline is required and fortunately for us we really have a terrific group of people who have in fact used that discipline.

Our international business continues to grow. We are very pleased with our UK operations where they continue to show the discipline and work towards achieving increased penetration in the right areas that give us opportunities and letting business go to competitors where there is no margin. Our business in Latin America continues to do well and we've gotten to the reinsurance business in our Hong Kong operation and it is a challenging environment as is Australia, but we are quite confident that these opportunities will result in good result for us. But overall, we are pleased with where we are. We continue to see new opportunities with outstanding people who are looking towards places to be where there isn't pressure to write business but it's not profitable and they feel there is a long-term home with people who understand the economics of the insurance business. So we continue to see themes of people, or individuals who offer us opportunities in all areas of the industry and we can continue to take advantage of that.

Gene is now going to talk a bit about our financials and then I'll come back and we'll go back to questions.

**Eugene G. Ballard**

Thank you, Bill. First quarter net income per share was up 11% to $1.03 compared with $0.93 in the first quarter of 2007. The main reason for the increase in our per share earnings is that our share repurchase program resulted in a 9% reduction and the number of shares used in our EPS calculation. The actual number of shares repurchased in the past 12 months is a total of 25.5 million or about 14% of our outstanding shares and that was purchased at an aggregate cost of about $751 million. Those shares include 10.4 million shares repurchased in the first quarter of 2008, but do not include an additional 1.5 million shares that we purchased so far in the month of April.

Although, our net income of $188.4 million was virtually unchanged from the prior year quarter there were several key differences and how we earned it, first our investment income declined by $21 million. We are going to go through those details later, but it was mostly due to lower returns on our arbitrage accounts and to a lesser extent to the use of cash to repurchase stock.

Second, slightly higher loss and expense ratios resulted in $33 million less in underwriting profits, that's inline with our expectations with the exception of storm losses, as Bill mentioned it was slightly higher than we expected. And third, we reported after-tax realized gains of $54 million and that's primarily from the sale of our interest in Kiln.

On an overall basis our written premiums declined 7.7% to $1.158 billion in the first quarter, more than half of that declined again this quarter was attributable to reinsurance segment and that was primarily as a result of reduced participation in Lloyd's business and lower writings in facultative units. Regional premiums were virtually flat, the rest of the US business was down between 5% and 8% and international premiums were up 27%.

Our overall loss ratio increased 1.5 percentage points to 60.8% in the first quarter, compared to 59.3% in last year's first quarter. We booked the current accident year at 65.6% loss ratio, which is 4 percentage point higher than the first quarter of '07 and 3 percentage points over the full year of 2007. The increase reflects our estimated impact of price changes and loss cost trends, as well the higher storm activity in the first quarter, storm losses were $14 million in the first quarter of '08 compared to $6 million in the same period in '07.

The accident year loss ratio was offset by favorable result development of $54 million this quarter that compares with $22 million in the prior year quarter. Paid losses are still well below our incurred losses even though this is the second year of decline in premiums, our paid loss ratio was 46.5% and our paid incurred loss ratio was just 76%.

Net loss reserves also continue to increase in spite of lower premiums with loss reserves increasing $160 million or 2% in the quarter to approximately $8 billion at March 31st. The expense ratio was up 1.2 percentage points to 29.4%, that's a result of lower premium volume as well as the continuation of some startup cost in our new business that gives us an overall combined ratio of 90.2% for the quarter compared with 87.5% a year ago.

Our investment income was $144 million in the first quarter, that's down from $165 million in the prior year quarter and that's due to lower earnings from our alternative investment portfolio. We have about $850 million invested in three arbitrage funds and over $500 million invested in various partnerships and affiliates. And in times like these those investments may have more volatility from quarter-to-quarter, we see this in several areas, we see it in some new investment funds where management funds sometimes incurred before the money is invested. We have seen in our aviation business which we consolidate for financial reporting purposes where revenues and profits can vary significantly based on the number of claims sold from one bundle to the next.

In this quarter it was the arbitrage trading account where we were particularly impacted by the severe disruption in the financial market. Arbitrage earnings were down $18 million from $22 million in the first quarter '07 to $4 million this year and although all three arbitrage accounts were profitable in the quarter, the annualized yield was just 2% compared to 11% in the prior period. In addition, income from equity investment including affiliates was down $5 million and the expenditure for share repurchases impacted our investment income by another $7 million. The investment earnings on the rest of the portfolio were actually up 9% in the quarter. Our annualized yield on the overall portfolio was 4.4% compared with 5.5% in the first quarter of '07.

As we previously announced, we sold our interest in Kiln in the first quarter. We received $174 million for our shares and reported a realized gain on the sale of 70 million. We bought our interest in Kiln at 2002 and have booked about 50 million since then as our share of their earnings, so that brings our total pre-tax return on an original investment of $55 million to approximately $120 million. This gain was partially offset by an $18 million write-down in the value of certain securities because we considered a decline in their market value to be other than temporary. At the end of the quarter, the investment portfolio totaled $13 billion and we still have net unrealized gains of $65 million before tax.

Our overall income tax rate was 29%. That gives us net income of $188 million and annualized return on equity of 21.1% and a book value per share at March 31st of $20.23.

**William R. Berkley**

Thanks Gene. I might add that that the book value per share would have been roughly $0.50 higher if we hadn't repurchased those shares. So we think it was attractive to repurchase our shares and that made sense for us, but it did dilute our reported book value per share.

We continue to be quite optimistic that we'll still be able to maintain high double-digit returns. We expect that even in the next year's more difficult market we'll be able to be above our 15% target. Certainly, the market is getting more difficult and inflation is more and more of a concern.

We do believe however that the competitive marketplace is acting a bit differently than it has in the past. A couple of things that give us hope, first of all, in some areas where standard markets have jumped into E&S areas, they've already gotten out of those areas, because they found out very quickly how misprice business can result in the losses. And we have seen intelligent decision-making by some of the large standard markets where they thought they had opportunities and realized that was an error.

In addition to that, we think that people are going to be focused much more on their income schemes than on their balance sheets. They're going to continue to manage their balance sheets with repurchases, possibly mergers and other things. We think their income statements are going to start to sharply deteriorate next year. The people are using up redundancies fairly quickly and therefore we continue to be optimistic that the downward spiral ion the cycle should end at 2010.

With that I will be happy to answer questions. Gwen?
Question and Answer

# Question and Answer

**Operator**

[Operator Instructions]

We go first to Joshua Shanker with Citi

**Joshua Shanker**
*Citigroup*

Good morning. I don't doubt that you might be correct Bill that the industry is writing at a underwriting breakeven level and heading into a loss for next year, but you are the only one saying so. What do you think that you are seeing that everyone else is denying or maybe they are just talking their own books? And two, do you see this cycle going into the trenches of the '99, 2000 type period?

**Eugene G. Ballard**

First of all no, I don't think its '99 to 2000 type period.

**Joshua Shanker**
*Citigroup*

No, not that, but do you think we can head that direction?

**Eugene G. Ballard**

No, I don't really think so. I think that, that was in a period of self deception, there was a lot of things going on then, I think the cycle has been prolong, because Andrew came along and caused people to not take action when they should have. I think that people have a lot of accumulated reserve redundancy in the past. I think people are being optimistic. They are not trending in the increased impact of inflation going forward. They are looking backwards in inflation factors, not forwarded inflation factors. They are relying on mathematical models that predict the future by looking backward instead of saying well we need to think about what's going on ahead of time.

I just think that people are being more optimistic than they should. And maybe in fact that I'm just mistaken and we've gotten to be less good underwriters and they have gotten to be better underwriters that wouldn't surprise me however. I think that if you look historically going back over a very long period of time we've written a book of business with results that have been between 5 and 10.7 in the industry and I looked at what I think are actually results are on new business and that would tell me that the industry is certainly at best approaching breakeven and actually the best.

**Joshua Shanker**
*Citigroup*

And in terms of the modification in your investment strategy what sort of timeline are you using to judge the success of making these changes?

**William R. Berkley**

First of all I understand, we're making it in modest amounts and we're continuing to do things that we think would give us multiple returns in different ways. So we are looking at things that are potential opportunities that will benefit us in our insurance business, in our investment returns and potentially in our income statement. So we are trying to look at total returns.

So just as, we had an extraordinarily good relationship with the current people, we learned a lot from them, they were just fabulous people and we couldn't have been happier with our investment there, and with our relationship with an outstanding management team. And we gained in lots of ways from participating in reinsurance with them from ownership and from getting a much more in depth understanding of the London market. We like that kind of things, so we came up with a great capital gain. We came up with earnings.

We came with increased knowledge and insight. So, we are looking for all kinds of things that fit that criteria and we are continuing to do that. So, we wouldn't invest in an ostrich farm but we would invest in insurance brokerage business where we thought the people were talented. We would invest in other kinds of things that we thought brought insight to our business model and way to greater knowledge and leverage on things we do. So, we are looking at that all over.

**Joshua Shanker**
*Citigroup*

Okay. Thanks. Don't count out the ostrich farm yet, but thank you very much though.

**Operator**

We will go next to Ken Billingsley with Signal Hill.

**Ken Billingsley**
*Signal Hill*

Good morning. First of all just a quick question on reserve releases. Did you say it was $54 million for the quarter?

**Eugene G. Ballard**

That's right.

**Ken Billingsley**
*Signal Hill*

Versus $22 million in the first quarter of '07?

**Eugene G. Ballard**

That's right.

**Ken Billingsley**
*Signal Hill*

Okay. Great. On the investment accounts, on specifically the arbitrage funds, given the definition of what arbitrage is supposed to be, is this just a timing issue or was it …?

**Eugene G. Ballard**

First just a couple of things, first of all, less deals, our biggest arbitrage account is only half invested. So, therefore -- not as fully invested, so a big part of that is cash at the moment. Second of all, we made money in all our arbitrage accounts, we didn't get stuck in lots of these broken deals but because we have these more conservative investors accounts, there isn't as much to do with the moment. In addition to which the spreads on the more conservative deals have not been as wide because there are fewer deals more people looking at fewer deals now as the spread. So it's the combination of those two, but the biggest one is that there weren't as many deals being done because financing wasn't available.

**Ken Billingsley**
*Signal Hill*

And on stock buyback, obviously, I am assuming you are going to continue with I guess the kind of robust focus their given though lack of opportunities right now?

**William R. Berkley**

Our view has been the same and that is we would not basically reduce our capital levels below to where they were. New earnings would be used to buyback stock. We didn't find opportunities to expand. But there are opportunities. They are the ones we found they don't require much capital, but I shouldn't lead you to believe there are opportunities.

There are not opportunities to buy things nor a lot of things we see to grow significantly, but there are still opportunities and given that they would give us returns higher than buying back our own stock we would pursue them.

**Ken Billingsley**
*Signal Hill*

And then loss cost trends, you mentioned that been nothing. You are not the only one that's mentioned increasing loss cost trends in general. Can you talk to what you are seeing where the change is occurring. Is it a change in the policies and the way they have been written that is making them look as if loss cost trends are increasing or terms and conditions unchanged and this is actually a fundamental change in the marketplace in general.

**William R. Berkley**

No fundamental change, no loss cost increasing. It's our perception of what's going on with inflation and looking out. It's not a change in average losses or anything like that. It's just simply an examination of where things are going actually in settlement have been reasonably good. So its not, hey we have this issues, its changing, its really, this is a business that you have to look ahead and what we are seeing is ultimately loss cost trends follows inflation, medical inflation as well as primary inflation, medical cost to increase and they continue to increase, therefore we have look at what we are going to eventually pay not what we currently paying. So, its our estimate when we look ahead that loss cost trends are going to higher. It isn't based on what's happening today.

**Ken Billingsley**
*Signal Hill*

Because its an expectation, not an experience.

**William R. Berkley**

It is expectation, but unfortunately that's the nature of our business, we have to make those expectations when we establish our prices and when we establish our reserves.

**Ken Billingsley**
*Signal Hill*

And base on your history and way the market history in general, when companies start setting those expectations do they tend to be true in this environment? As people see that there is money up there, do the claims tend to follow that?

**William R. Berkley**

No.

**Ken Billingsley**
*Signal Hill*

Okay.

**William R. Berkley**

And the answer that the claims do not necessarily follow reserves, but claims do tend to follow inflation however.

**Ken Billingsley**
*Signal Hill*

Last question here is, heard from a few, from on a broker and as a underwriter that mention that in particular regions and on specific lines of business that underwriters are beginning to pay boosted commissions to place the business and get some of the business, so they can grow certain lines in books of their business, are you experiencing that in competition and are you guys doing that may be particular lines as well?

**Eugene G. Ballard**

I don't believe we are doing it any place, not to say that there isn't one line and company that we might be doing it, I don't think we are. As far as I know it doesn't happen any place. I think, they probably a couple small companies that are extremely aggressive but they probably don't need to because their prices are so low they get the business anyway.

**Ken Billingsley**
*Signal Hill*

Very good, thank you.

**Operator**

We'll go next to Charles Gate with Credit Suisse

**Charles Gates**
*Credit Suisse*

Hi, good morning. Could you elaborate on the competitive environment in excess and surplus line? In your initial remarks you indicated that you saw some standard markets withdrawals to the extent you can would you also speak to that?

**Eugene G. Ballard**

I think first of all the access in surplus lines best business. Its business that leaves the standard market as the market gets hard because the standard market starts to get a sharper pencil and do more analytics about what's good in their business and what's not so good. So they say in health spas, health spas that have tanning salons are bringing us 85% of our losses and getting us 15% of our premiums, so we are not going to write back.

Well you have four or five years of good business and all of a sudden you say, how can we expand this business? So you decide why we have this exclusions pertaining salon? So you start to write tanning salons when you are writing your health spa business. And all of a sudden, in a year you start to get your losses, so I'd now answered both questions at once. They started to write all the tanning salons included in the health spas at accorded to the price we charged they got the business back and they instantly realized people got sunburns and there were all kinds of claims and they got out of the business very quickly, because the truth is most of the big companies have better information systems.

They know what they are doing and that's really why I'm more optimistic about the cycle turning somewhat more quickly than I think some of my competitors think. I think -- so, I think that's an example Charlie of both, but I think that the E&S -- most of the people in the E&S business are being reasonably disciplined. I think that you do have some new Bermuda people who are getting into the long tail lines of business and the E&S area is being one of them, and I think that that is also impacting it a little bit. So, you know, I think that those are two areas, but I think the business certainly that we are writing -- our retention rates are down a little bit, but the business is still pretty good and I think we are still riding at a substantial underwriting margin.

**Charles Gates**
*Credit Suisse*

In answering one of the earlier questions, I think you opined that it was a different competitive environment than '99 and 2000.

**Eugene G. Ballard**

Yes.

**Charles Gates**
*Credit Suisse*

Could you elaborate on that?

**Eugene G. Ballard**

Yeah, I think in '99 and 2000 people weren't paying attention to the money. They were much more concerned about growth. You know, we're at a mode in the world where growing was everything, getting bigger. It was an environment where growth took over profitability and everybody wanted to grow and analyst on calls like this focused on top line more than they did on bottom line, more than they did on returns, and people got rewarded for growth without respect to discipline profitability or even understanding what they were doing.

**Charles Gates**
*Credit Suisse*

In your former remarks, I think you made reference through a fact that larger accounts were more competitive. Roughly, where do you think larger accounts come in? What did you mean by a larger account?

**William R. Berkley**

I would say a year ago when this started it was sort of 250,000. I say today we are at 100,000-150,000 and that's one of the things that's commenced the movement of the cycle. Probably, six or eight months or a year from now that number may start to dip down below 100,000. But that is the issue that's there. That desire to compete at a lower level and the reason big accounts are what people compete for is very simply is how you can get more premium volume easier and its one of the cornerstones you have to understand. A lot of these companies don't have the capacities to write a large volume of business. They only can deal with the small volume of business and they are going to get a lot of premium for that. Therefore, they have to have large accounts.

**Charles Gates**
*Credit Suisse*

What is the principle reason why reinsurance writings are down so much?

**William R. Berkley**

I think that first of all in our facultative area, we price on our own. So we don't base it as a percentage of what they charge. We have established if you will a primary price for an excess layer of business and we are finding some of our pricing is higher than the primary pricing is getting for their business. So it's hard for them to buy reinsurance. They have prices that are more expensive than they are getting for their primary layers which is one of the reasons we are little pessimistic about the results for the underlying industry.

The second piece is, in the PD [ph] area and a couple of other things that we are doing in other places we are finding that, the terms and conditions and ability to deal with some of the larger companies in the industry and what they want to do for buy insurance causes to elect not to participate on some of those GDs. And then there is some people they are saying, hey, I don't want to give business away, I need the premium, why should I buy reinsurance, I have enough capital. So, I think its those reasons.

**Charles Gates**
*Credit Suisse*

My final question, I realize Safeco was largely a personal lines company, what do you think is the impact of the Liberty Mutual, Safeco acquisition on the commercial lines cycle?

**Eugene G. Ballard**

I don't think it has much impact, I think it was a great deal for Ted Kelly and a great deal for Liberty and I think that it was a great deal for Paula Reynolds for Safeco. I think it was Liberty Mutual lines to get out of the West Coast. I think Safeco was clearly the best company out there and it fit the strategy of Liberty. They have a lower hurdle rate for cost to capital, because they are Mutual. And I think that, I don't know whether it was the right price or the wrong price, but they got the premier participant available to them in the West Coast so I think it was a great deal for Kelly and Liberty. And I think for Paula she got her shareholder, given the environment, given where things a really excellent deal. So, I think it was a good deal for everybody. And I don't think it will have a big effect on commercial line side.

**Charles Gates**
*Credit Suisse*

Thank you.

**Operator**

And we will go next to Meyer Shields with Stifel Nicolaus

**Meyer Shields**
*Stifel Nicolaus*

Thanks. Good morning. A couple of questions on reserves. First of all could you give the breakdown by segment?

**William R. Berkley**

We really generally don't do that but of course if you want to call to Gene afterward, I am sure we'll phone you.

**Meyer Shields**
*Stifel Nicolaus*

Okay. As a matter of strategy are the reserve releases that you have been reporting in recent quarters are function of same things settled to less in the reserve or that reassessment of the cost?

**William R. Berkley**

I think it's a combination of how claims are settling out and how comfortable people are in the operating units. It's a constant dialogue that happens between our actuaries here, our financial people here, our senior vice president is here the people running the company and it's a conclusion that there is a level of reserves that we're willing to tolerate being conservative and at some point in time as things start settle out, you start seeing well. You really need to justify not doing something.

So it's a continuing dialogue as the environment changes as claim settlement changes, and I think that we try not to push people too hard as to take the reserves down, we try and do is have their negotiations that takes place. Everyone running an operating company always wants to have little extra there because that way they are not going to deliver surprise to us. So, it's serve a combination, or its not, this is that is how it is, this is ongoing negotiation.

**Meyer Shields**
*Stifel Nicolaus*

Okay. When you look out at broader economy, do you think that the conditions that limited the merger arbitrage up to in this in the first quarter continued to the rest of the year?

**William R. Berkley**

I am inclined to think that in the short run you may be in the second quarter you will see some of that but there are a lot of companies that are in good shape and they are looking to find companies that are not. So, my inclination is they are going to be more industrial transactions as the year goes along, so that gap is going to change. And candidly, I think the other piece is that big chunks of merger arbitrage are done by investment banks and hedge funds who may not have as much liquidity and as much money focused on the merger arb business as they did a year ago, so spreads might in fact widen a little bit. But it's really hard to prognosticate that area of the business. My own inclination is that second half will be much more active than the first half as companies get a little bit more of a handle on what's going on try to seize opportunities.

**Meyer Shields**
*Stifel Nicolaus*

And one nitpicky question if I can? I guess given that tax rate on net investment income went down either sequentially or year-over-year. Is that more a function of the fact that there were less income from merger arbitrage or...?

**Eugene G. Ballard**

No, it was municipal bond. We have a bigger -- the differential between the municipal bonds and corporate got much narrower, so we were bigger investors in municipals.

**Meyer Shields**
*Stifel Nicolaus*

Great, thank you very much.

**Operator**

We will go next to Brian Meredith with UBS.

**Brian Meredith**
*UBS*

Yes, thanks. One quick question, I've number of questions -- the Kiln sale. What's the drag would it be going forward on a quarterly earnings basis, like $1 million or $2 million I think what I calculated, is that right?

**Eugene G. Ballard**

Kiln was an up and down. I would guess, it's probably more like $3 million but it has yield well. We didn't show the cash, but we also picked up $175 million -- $170 million of cash during that.

**Brian Meredith**
*UBS*

Okay.

**Eugene G. Ballard**

So, even investing that at an okay rate would diminish that net differential to quite a bit less.

**Brian Meredith**
*UBS*

Great. And then Bill, my next question here. If I look at your year-over-year increase in your loss picks, excluding capacity losses here, it's quite a bit higher than most of the other commercial line carriers reporting write-down. I guess, the question is, is it one, your mix of business relative to some of the other commercial line carriers. Two, do you think you are just much more conservatively at loss picks or three, is everybody else just lying about their loss picks?

**William R. Berkley**

Well, let's just say, there is a lot of complexity in the question because we would never want to accuse any of our competitors being anything other than 100% honest.

I think that we are being cautious and pessimistic because we had a very painful '99 and 2000 and I was only two storeys up before when I thought about jumping out of the window. Now I am four storeys up, I actually might get hurt. So I don't want to have losses.

We want to be able to continue to report reasonable result, and therefore being cautious in how you establish your loss picks is a good thing. I think there may be some level of conservatism in our part, some level of optimism on our competitor's part, but as I said four storeys I might not survive the jump.

**Brian Meredith**
*UBS*

Thanks Bill.

**Operator**

We will go next to Laura DeVoe [ph] with Fontana Capital.

**Laura DeVoe**
*Fontana Capital*

Good morning. Thanks for taking my call. I just had a question on the investment portfolio and related to $5 million First Mobile Head [ph] shares which I believe you own. Please confirm that that's in your portfolio and then if so, just talk about what the accounting treatment is and the impact to earnings and book value and whether or not you experienced any unrealized or realized losses on that stock, was it part of the 18 million that you had mentioned earlier?

**Eugene G. Ballard**

We don't own any First Mobile head [ph] stocks.

**Laura DeVoe**
*Fontana Capital*

No. Okay. That makes it easy. Thank you very much.

**Operator**

We will go next to Jay Cohen with Merrill Lynch.

**Eugene G. Ballard**

And by the way, we never did own First Mobile Head stocks. Go ahead, Jay. I am sorry.

**Jay Cohen**
*Merrill Lynch*

It's okay. Thanks. Most of my questions were answered. On the arbitrage account, how much flexibility do you have to take money out of that and redeploy, when in fact the activity is pretty low?

**William R. Berkley**

We have all flexibility to take out.

**Jay Cohen**
*Merrill Lynch*

And is that something you have been contemplating on doing?

**William R. Berkley**

We haven't ever, since ever, in recent past we haven't -- and we actually have talked about in the biggest of the arbitrage account having more flexibility there and we have discussed it yet. And it's something we may well do, but we have lots of short-term cash, so I think that what we are more likely to do is just find a better way to invest the short-term cash. We still have well over $1 billion, actually probably $1.5 billion of short-term investments of our own. So, we would change the money from the arbitrage account to our own short-term account, which might somewhat improve the results and it would make arbitrage look better, but it wouldn't change our overall income line.

**Jay Cohen**
*Merrill Lynch*

Got it. All right. Thanks.

**Operator**

We will go next to Steve Cab [ph] with Tocqueville.

**Tom Powell**
*Tocqueville*

It is Tom Powell [ph]. Thank you. On your investments, did you have any write-downs in the overall investments that go through comprehensive income, or because, you took realized gains, but if you had, I just want to know if you had any valuations that went -- negative valuations that went through comprehensive income?

**Eugene G. Ballard**

Hold on a minute.

**William R. Berkley**

Yeah, I mean the net unrealized gains were $67 millions at the beginning of the quarter and after tax $52 million at the end of the quarter, so that change -- that's the change that went to OCI.

**Tom Powell**
*Tocqueville*

So, about $12 million?

**William R. Berkley**

$15 million.

**Eugene G. Ballard**

$15 million roughly.

**Tom Powell**
*Tocqueville*

Yes, thank you. Now next involving investments. Do you have -- are all your investments valued at market value, whether it is read only market values or how much of your investments are value at fair value that you determine?

**William R. Berkley**

Almost all of it, the only thing it wouldn't be at fair value would be the small amount of investments we have in private equity transaction.

**Eugene G. Ballard**

I would say we have a $150 million that are at other than fair market value. And that just serves the private equity investment.

**Tom Powell**
*Tocqueville*

Okay. Now with the reduced premiums written and your projection as I see it further reduced premiums being written, is there going to be a corresponding reduction in the overhead expenses?

**Eugene G. Ballard**

For the first, I believe that premium will go down modestly, but no I would not expect the overhead will go down very significantly. This policy count doesn't goes down and in fact there is probably more stuff to do. Incentive compensation will probably go down, but that's the only thing that…

**Tom Powell**
*Tocqueville*

So there isn't much room for reducing this area?

**Eugene G. Ballard**

Not a great consequently.

**Tom Powell**
*Tocqueville*

On this lines of invest these income and invest these expenses, which both went up about $20 million like almost a match in a car relation. Could you please review what that represents and why it moves like that?

**Eugene G. Ballard**

Its one investment is a couple of aviation businesses we own on fixed based operators and it's a somewhat cyclical business based on how we sell airplanes and a bunch of other things. And while it's predictable over a year, it is not so predictable on a quarter-to-quarter basis.

**William R. Berkley**

That's in terms of profit, in terms of the revenue change. That's because we got into the business.

**Eugene G. Ballard**

Yeah, we bought another business.

**Tom Powell**
*Tocqueville*

I mean so there is hope that you are going to be making money in this business. You mentioned then on the sale of this Kiln that you got $175 million in cash.

**Eugene G. Ballard**

$172 million.

**Tom Powell**
*Tocqueville*

Alright. And that you realized in the past about $3 million quarterly -- I mean annual income from it?

**Eugene G. Ballard**

Quarterly earnings.

**Tom Powell**
*Tocqueville*

Quarterly? So, that was $12 million, is that right?

**William R. Berkley**

Well, what I see -- the question wasn't that, the question was what would be a fair estimate of the average annual impact and it was lumpy and if you go back a couple of years it was higher, it was a variation. The question was asked in a different context and there were a lot of relationships with Kiln.

**Tom Powell**
*Tocqueville*

Well, what I am trying to ascertain is whether there is going to be a net decrease in income in '08 because of the sale?

**William R. Berkley**

And that's what the fellow -- that's what he was trying to do when I said to him that the quarterly numbers were roughly $3 million, maybe $4 million and we had effectively $170 million that we will be able to invest that will give us investment income, which would probably give us a $2 million after-tax as the current municipal bond rates, so there will be some modest impact.

**Tom Powell**
*Tocqueville*

Alright. Thank you very much.

**Operator**

We'll go next to Scott Heleniak with Ferris, Baker Watts.

**Scott Heleniak**
*Ferris, Baker Watts*

Hi, good morning. Just two quick questions: the service business revenue was up versus last year, I guess it was a little surprising that it was down for several quarters, anything to read into that, any major change?

**William R. Berkley**

No. American Mining has a contract where they have some service revenue that was due and the key risk has been able to grow bit and it did quite well in the quarter. They just performed really well. I don't think it should be budgetary although where we think American Mining has some real opportunities to expand.

**Scott Heleniak**
*Ferris, Baker Watts*

Okay. And, I was wondering if you can go ahead talk about that acquisition as well? Is that performing kind of in line with the expectations or a little bit better since you…?

**William R. Berkley**

We are very pleased with this people. We are very pleased with the company. It was a great opportunity for us and it put us in a position to get involved in the extractive industries, which is something we really felt is a long-term global future and this was a way to get in and start to learn about the business in the way they gave as a good return with really outstanding piece.

**Scott Heleniak**
*Ferris, Baker Watts*

Okay. Thanks.

**Operator**

We'll go next to Meyer Shields with Stifel Nicolaus.

**Meyer Shields**
*Stifel Nicolaus*

Thanks. I appreciate your patience. How much of the growth in the international segment was foreign exchange?

**William R. Berkley**

Not very much, because, you know, there hasn't been the huge change, we don't have a lot of euro-based transactions, sterling is the biggest currency and then you got to remember it goes the other way for Argentina, so that wasn't very much.

We grew by opening in Brazil. We expanded in Spain. We establish a new division that's doing global construction which is really engineering business. It's not like construction business in the US, so that's really what it is. So it's real growth in business, not exchange.

**Meyer Shields**
*Stifel Nicolaus*

Yeah. When you look at pricing for smaller deals, along the lines of American Mining, does the pricing kind of reflect what's going on with public traded insurance?

**William R. Berkley**

There are no standards. I think that -- you know, there are some companies that are smaller companies that have management, they want a great future and they really go out and select the people they want to do deals with just like teams of people do and then there are other public companies that only are interested or primarily are interested in finding the deals that's okay for the people to get the very best price. So, I think there is a wide range of opportunities out there. I think we'll get it through and through and there isn't rule of thumb that I could tell you what it is or how it is. It really depends on the alignment of management and ownership and all kinds of things and we're hopeful we find the right mix. But we've always had a hard time buying a lot of stuffs because we are cheap and being cheap there aren't a lot of things that have the quality characteristics we have in mind and the people in mind, then the price in mind. So we hope we can find some people that we are able to do deals with but one time with us.

**Meyer Shields**
*Stifel Nicolaus*

And I guess lastly, is the percentage of your premiums written that represents the property business, is that shrinking more rapidly?

**William R. Berkley**

Maybe yeah. I would say it serves very slightly that it's slightly more rapidly. I think our facultative property is gone down more quickly than our casualty facultative business. So my guess is that it's happening but it's not an overwhelming thing, although as in property fact we have seen that happen substantially. And we also, we really -- we had a consortium interest with Kiln in small way writing cap business and it was a very small thing, but it was property business and we are out of that now.

**Meyer Shields**
*Stifel Nicolaus*

Okay, thank you very much.

**Operator**

We go next to Charles Gate with Credit Suisse.

**Charles Gates**
*Credit Suisse*

Only one more question. You've had this dramatic increase in unemployment, I guess there are 200,000 more people unemployed today as opposed to January 1st. You had this dramatic increase in the price of oil. As you look at the coverages that company writes, which lines do you think would be most impacted by this change in the economic environment? And that's my last question.

**William R. Berkley**

We don't limit questions Charlie.

**Charles Gates**
*Credit Suisse*

Thank you.

**William R. Berkley**

I think obviously workers' comp is going to be impacted. Our construction business is going to be impacted. We have some people who are going to start building some divisions that they actually never started. Clearly transportation business is impacted because price of fuel is reducing the amount people drive -- that long haul truckers drive, and they are being more conscience of the speed limits because better fuel economy starts to mean real dollars. So, I think it is having impacts all across the board. I think that so far we haven't seen any particular problems in workers' comp, although, they -- you know, these things do price these. Employment is still pretty strong and you know, I think that the biggest impact I would guess is at this point in our long haul trucking business and our trucking business in general.

**Charles Gates**
*Credit Suisse*

And that's Carolina casualty?

**William R. Berkley**

That's Carolina but we ride local trucking in other places too.

**Charles Gates**
*Credit Suisse*

How big is the construction book?

**William R. Berkley**

We don't go through that overall. I think it's basically -- it is basically part of our E&S business and we ride a little bit in the regional business.

**Charles Gates**
*Credit Suisse*

Okay. Thank you.

**Operator**

There are no other questions at this time. I would like to turn the conference back to our speakers for any closing remarks.

**William R. Berkley**

Thank you all. Astonishingly in spite of what the environment is, we are really very optimistic about the year and about next year. We think we will be able to continue to deliver good returns and take advantage of opportunities. We are continuing to see opportunities. We see new teams of people being added every week and we feel confident we will be at great position to take advantage of this when the market turns and we think we will be able to deliver those more than adequate returns to the balance of the cycle. Thank you all very much.

**Operator**

Thank you everyone. That does conclude today's conference. You may now disconnect