

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

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): August 3, 2022

TREAN INSURANCE GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-39392
(Commission
File Number)

84-4512647
(I.R.S. Employer
Identification No.)

150 Lake Street West
Wayzata, Minnesota
(Address of principal executive offices)

55391
(Zip Code)

(952) 974-2200
(Registrant's telephone number, including area code)

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

Check the appropriate box 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 240.13e-4(c))

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	TIG	The Nasdaq Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company.

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

ITEM 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On August 3, 2022, Trean Insurance Group, Inc. (the “Company”) issued a press release announcing the Company’s financial results for the three and six months ended June 30, 2022. The full text of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference.

Pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”), the information furnished pursuant to Item 2.02 of this Current Report on Form 8-K (including Exhibit 99.1) is deemed to have been furnished and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section. Such information shall not be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

(d) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release issued by Trean Insurance Group, Inc., dated August 3, 2022
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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.

Date: August 3, 2022

TREAN INSURANCE GROUP, INC.

By: /s/ Nicholas J. Vassallo

Name: Nicholas J. Vassallo

Title: Chief Financial Officer

TREAN INSURANCE GROUP REPORTS SECOND QUARTER 2022 RESULTS

*Net Income and Adjusted Net Income of \$5.5 Million
Diluted and Adjusted Diluted Earnings per Share of \$0.11
Provides Third Quarter and Updates Full Year 2022 Outlook*

Wayzata, MN, August 3, 2022 – Trean Insurance Group, Inc. (Nasdaq: TIG) (“Trean” or the “Company”), a leading provider of products and services to the specialty insurance market, today reported results for the second quarter ended June 30, 2022.

Second Quarter 2022 and Subsequent Highlights

- Gross written premiums were \$154.2 million, a \$2.4 million, or 1.5%, decline compared to the same prior-year period.
- Net earned premiums were \$66.0 million, an \$18.1 million, or 37.7%, increase compared to the same prior-year period.
- Net income was \$5.5 million, or \$0.11 per diluted share, compared to \$2.1 million, or \$0.04 per diluted share in the same prior-year period.
- Adjusted net income⁽¹⁾ was \$5.5 million, or \$0.11 per diluted share, compared to \$4.3 million, or \$0.08 per diluted share in the same prior-year period.
- Underwriting income was \$3.4 million, a \$0.5 million, or 16.7%, increase compared to the same prior-year period.
- Loss and expense ratios were 61.9% and 32.8%, respectively, compared to 62.0% and 31.8%, respectively, in the same prior-year period.
- Combined ratio was 94.7%, compared to 93.8% for the same prior-year period.
- Return on equity of 5.3%; adjusted return on equity⁽¹⁾ of 5.4%; return on tangible equity of 11.0%; and adjusted return on tangible equity⁽¹⁾ of 11.1%.
- Subsequent to the quarter end, the Company announced a partnership in the surplus lines insurance market with Beat Capital, giving Trean its first partnership in the large non-admitted insurance underwriting space and another avenue to achieve its long-term goals.

(1) *Adjusted net income, adjusted diluted earnings per share, adjusted return on equity, adjusted return on tangible equity and underwriting income are non-GAAP financial measures. See discussion of “Key Metrics” below.*

“We delivered solid second quarter results, as our continued focus on underwriting discipline and profitable growth led to us exceeding our initial expectations and producing double-digit year-over-year adjusted net income growth and adjusted return on tangible equity,” said Julie Baron, President and Chief Executive Officer of Trean. “While our gross written premiums are being impacted by the competitive and macro environment, we continue to emphasize strong partnerships, efficient claims management and underwriting discipline, and we believe our strategic plan positions us well to drive sustainable adjusted net income growth over the long term.”

Underwriting Results

Gross written premiums were \$154.2 million for the second quarter of 2022, a 1.5% reduction compared to \$156.6 million for the second quarter of 2021, primarily driven by the Company's continued focus on maintaining underwriting discipline in an unusually competitive environment and a more gradual increase of current year premium from new program partners added in 2021 and 2022 than originally estimated.

Gross unearned premiums decreased \$3.0 million in the second quarter of 2022, compared to an increase of \$17.9 million in the same prior-year period. As of June 30, 2022, the Company had net unearned premiums reflected on its balance sheet of \$104.5 million, an increase of \$2.7 million, or 2.6%, compared to March 31, 2022 and up \$31.1 million, or 42.4%, from June 30, 2021. The continued growth in net unearned premium represents a material source of deferred potential profit.

Net earned premiums increased 37.7% to \$66.0 million for the second quarter of 2022, compared to \$47.9 million for the second quarter of 2021, primarily driven by an increase in both gross earned premiums and retention of gross written premiums.

General and administrative expenses were \$21.7 million for the second quarter of 2022, compared to \$15.3 million for the same prior-year period, primarily driven by an increase in net commissions resulting from increased gross earned premiums and increased retention. The Company's expense ratio was 32.8% for the second quarter of 2022, compared to 31.8% for the same prior-year period.

Net income was \$5.5 million for the second quarter of 2022, compared to net income of \$2.1 million for the same prior-year period. Diluted earnings per share for the second quarter of 2022 was \$0.11. Adjusted net income⁽¹⁾, which excludes intangible asset amortization, noncash stock compensation, the change in fair value of embedded derivatives and their related tax impact, and unrealized gains or losses on equity securities, was \$5.5 million for the second quarter of 2022, compared to adjusted net income of \$4.3 million for the same prior-year period. Adjusted diluted earnings per share for the second quarter of 2022 was \$0.11.

Underwriting income of \$3.4 million resulted in a combined ratio of 94.7% for the second quarter of 2022, compared to underwriting income of \$3.0 million and a combined ratio of 93.8% for the same prior-year period. Losses and loss adjustment expenses for the second quarter of 2022 were \$40.9 million, which resulted in a 61.9% loss ratio, compared to 62.0% in the same prior-year period. Prior period favorable loss development for the second quarter 2022 totaled \$0.4 million.

Investment Results

Net investment loss was \$0.4 million for the second quarter of 2022, compared to net investment income of \$2.1 million in the same prior-year period, primarily due to \$3.4 million of unrealized losses on equity securities incurred in the second quarter of 2022.

Cash and invested assets consist primarily of fixed maturities, equity securities and cash equivalents. The Company's investment portfolio totaled \$497.5 million as of June 30, 2022 and was primarily comprised of fixed maturity securities that were classified as available-for-sale. The Company also had \$100.7 million of cash and cash equivalents on its balance sheet as of June 30, 2022. The Company's fixed maturities portfolio had an average rating of "AA" as of both June 30, 2022 and December 31, 2021.

Other

Other revenue was \$1.8 million for the second quarter of 2022, compared to \$1.2 million for the same prior-year period, due primarily to a year-over-year increase in brokerage revenue.

Stockholders' Equity and Returns

Total stockholders' equity was \$410.1 million at June 30, 2022, compared to \$421.9 million at December 31, 2021. Return on equity was 5.3% for the second quarter of 2022, compared to 2.0% for the same prior-year period, and adjusted return on equity⁽¹⁾ was 5.4% for the second quarter of 2022, up from 4.2% for the same prior-year period. Return on tangible equity was 11.0% for the second quarter of 2022, compared to 4.2% for the same prior-year period and adjusted return on tangible equity was 11.1% for the second quarter of 2022, compared to 8.6% for the same prior-year period.

Full Year 2022 Outlook

The Company is updating its outlook for the full year 2022 to the following:

- Gross written premium is now expected to be between \$615 million and \$630 million, compared to the prior range of between \$655 million and \$670 million. The new outlook represents a year-over-year reduction of 3% on the low end and 1% on the high end and reflects the Company's continued focus on underwriting discipline in an unusually competitive environment, as well as a more gradual increase of current year premium from new program partners added in 2021 and 2022 than originally estimated.
- Net earned premium outlook is still expected to be between \$255 million and \$265 million. This represents year-over-year growth of 28% on the lower end and 33% on the upper end and reflects an expected increased retention rate throughout 2022 based on current contracts in-force.
- Total revenue is still expected to be between \$268 million and \$278 million.
- Expense ratio is still expected to be between 32% and 33% of net earned premium. Expense ratio reflects the aforementioned expected increase in retention, which would reduce the Company's ceding commission offset to general and administrative expenses, as well as additional reductions in ceding commissions resulting from adding more short-tail lines of business, which typically have lower front fees, and expected continued operational investments in the Company.
- The Company expects that its loss ratio in the second half of 2022 will be consistent with its loss ratio in the first half of 2022 barring any large unusual loss activity.

Third Quarter 2022 Outlook

The company is providing the following outlook for the third quarter 2022:

- Gross written premium between \$150 million and \$160 million.
- Adjusted net income between \$4.3 million and \$5.3 million.

The Company reminds investors that its outlook is forward-looking information and is based on management's assumptions and expectations as of the date of this release and is inherently subject to a number of risks and uncertainties, including as to the Company's level of losses and loss development, many of which are beyond the Company's immediate control.

Webcast and Conference Call

A webcast and conference call to discuss the Company's results will be held today beginning at 5:00 p.m. (Eastern Time). The audio webcast is accessible through the investor relations section of the Company's website at <https://investors.trean.com>.

The dial-in number for the conference call is (877) 407-3982 (toll-free) or (201) 493-6780 (international), conference ID# 13731059. Any person interested in listening to the call should dial in or access the website at least 10 minutes before the call.

A replay of the call will be available at <https://www.trean.com/> for one year following the call.

Key Metrics

The Company discusses certain key financial and operating metrics, described below, which provide useful information about its business and the operational factors underlying its financial performance.

Underwriting income is a non-GAAP financial measure defined as income before taxes excluding net investment income, investment revaluation gains, net realized capital gains or losses, intangible asset amortization, noncash stock compensation, interest expense, other revenue and other income and expenses. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of underwriting income to income before taxes in accordance with GAAP.

Adjusted net income is a non-GAAP financial measure defined as net income excluding the impact of various specific events, noncash intangible asset amortization and stock compensation, other expenses and gains or losses that the Company does not believe reflect its core operating performance, which items may have a disproportionate effect in a given period, affecting comparability of the Company's results across periods. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of adjusted net income to net income in accordance with GAAP.

Loss ratio, expressed as a percentage, is the ratio of losses and loss adjustment expenses to net earned premiums.

Expense ratio, expressed as a percentage, is the ratio of general and administrative expenses to net earned premiums.

Combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio under 100% generally indicates an underwriting profit. A combined ratio over 100% generally indicates an underwriting loss.

Return on equity is net income expressed on an annualized basis as a percentage of average beginning and ending stockholders' equity during the period.

Adjusted return on equity is a non-GAAP financial measure defined as adjusted net income expressed on an annualized basis as a percentage of average beginning and ending stockholders' equity during the period. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of adjusted return on equity to return on equity in accordance with GAAP.

Tangible stockholders' equity is defined as stockholders' equity less goodwill and other intangible assets.

Return on tangible equity is a non-GAAP financial measure defined as net income expressed on an annualized basis as a percentage of average beginning and ending tangible stockholders' equity during the period.

Adjusted return on tangible equity is a non-GAAP financial measure defined as adjusted net income expressed on an annualized basis as a percentage of average beginning and ending tangible stockholders' equity during the period. See "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of adjusted return on tangible equity to return on equity in accordance with GAAP.

Forward-Looking Statements

This press release contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements that are not historical or current facts. These statements may discuss the Company's net income, cash flow, financial condition, impairments, expenditures, growth, strategies, plans, achievements, capital structure, organizational structure, market opportunities and general market and industry conditions. Such forward-looking statements can be identified by words such as "anticipate," "estimate," "expect," "intend," "plan," "predict," "project," "believe," "seek," "outlook," "future," "will," "would," "should," "could," "may," "can have," "likely" and similar terms. Forward-looking statements are based on management's current expectations and assumptions about future events. These statements are only predictions and are not guarantees of future performance. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements if the underlying assumptions prove to be incorrect or as a result of risks, uncertainties, and other factors, including the impact of the COVID-19 pandemic on the business and operations of the Company, our program partners and other business relations. Other factors that may cause such differences include the risks described in the Company's filings with the U.S. Securities and Exchange Commission, including the Company's Annual Report on Form 10-K for the year ended December 31, 2021. These forward-looking statements speak only as of the date on which they are made. Except as required by applicable securities laws, the Company disclaims any obligation to update or revise any forward-looking statement, whether as a result of new information, future developments, changes in assumptions or otherwise. Investors are cautioned not to place undue reliance on the forward-looking statements contained in this press release or in other filings and public statements of the Company.

About Trean Insurance Group, Inc.

Trean Insurance Group, Inc. (Nasdaq: TIG) provides products and services to the specialty insurance market. Trean underwrites specialty casualty insurance products both through its program partners and its own managing general agencies. Trean also provides its program partners with a variety of services including issuing carrier services, claims administration and reinsurance brokerage. Trean is licensed to write business across 49 states and the District of Columbia. For more information, please visit www.trean.com.

Contacts

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Trean Insurance Group, Inc. and Subsidiaries
Condensed Consolidated and Combined Statements of Operations
(in thousands, except for share and per share amounts)
(unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Revenues				
Gross written premiums	\$ 154,189	\$ 156,551	\$ 315,592	\$ 303,281
Decrease (increase) in gross unearned premiums	\$ 2,953	(17,927)	\$ 89	(36,358)
Gross earned premiums	\$ 157,142	138,624	\$ 315,681	266,923
Ceded earned premiums	\$ (91,132)	(90,681)	\$ (185,494)	(177,846)
Net earned premiums	\$ 66,010	47,943	\$ 130,187	89,077
Net investment income (loss)	\$ (391)	2,103	\$ 2,185	4,375
Net realized gains	\$ 1,349	10	\$ 302	23
Other revenue	\$ 1,804	1,229	\$ 5,005	5,884
Total revenue	\$ 68,772	51,285	\$ 137,679	99,359
Expenses				
Losses and loss adjustment expenses	\$ 40,887	29,725	\$ 80,080	54,606
General and administrative expenses	\$ 21,679	15,267	\$ 39,979	27,158
Other expenses	\$ 268	845	\$ 268	845
Intangible asset amortization	\$ 1,500	1,413	\$ 2,999	2,827
Noncash stock compensation	\$ 403	419	\$ 559	630
Interest expense	\$ 467	425	\$ 875	852
Total expenses	\$ 65,204	48,094	\$ 124,760	86,918
Gains (losses) on embedded derivatives	\$ 3,356	(686)	\$ 9,592	1,990
Other income	\$ 24	35	\$ 47	156
Income before taxes	\$ 6,948	2,540	\$ 22,558	14,587
Income tax expense	\$ 1,457	414	\$ 4,727	3,019
Net income	\$ 5,491	\$ 2,126	\$ 17,831	\$ 11,568
Earnings per share:				
Basic	\$ 0.11	\$ 0.04	\$ 0.35	\$ 0.23
Diluted	\$ 0.11	\$ 0.04	\$ 0.35	\$ 0.23
Weighted average shares outstanding:				
Basic	51,197,111	51,152,979	51,187,509	51,150,881
Diluted	51,197,533	51,166,587	51,187,720	51,173,204

Key Metrics
(in thousands, except for percentages)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Key metrics:				
Underwriting income ⁽¹⁾	\$3,444	\$2,951	\$10,128	\$ 7,313
Adjusted net income ⁽¹⁾	\$5,546	\$4,316	\$13,850	\$12,425
Loss ratio	61.9%	62.0%	61.5%	61.3%
Expense ratio	32.8%	31.8%	30.7%	30.5%
Combined ratio	94.7%	93.8%	92.2%	91.8%
Return on equity	5.3%	2.0%	8.6%	5.6%
Adjusted return on equity ⁽¹⁾	5.4%	4.2%	6.7%	6.0%
Return on tangible equity ⁽¹⁾	11.0%	4.2%	17.6%	11.6%
Adjusted return on tangible equity ⁽¹⁾	11.1%	8.6%	13.7%	12.5%

⁽¹⁾ *Adjusted net income, adjusted return on equity, return on tangible equity, adjusted return on tangible equity and underwriting income are non-GAAP financial measures. See “Reconciliation of Non-GAAP Financial Measures” below for a reconciliation to the applicable GAAP measure.*

Trean Insurance Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands)

	<u>June 30, 2022</u> (unaudited)	<u>December 31, 2021</u>
Assets		
Fixed maturities, available for sale	\$ 466,819	\$ 471,061
Equity securities, at fair value	30,698	969
Total investments	497,517	472,030
Cash and cash equivalents	100,716	129,577
Restricted cash	299	407
Accrued investment income	2,736	2,344
Premiums and other receivables	153,822	141,920
Income taxes receivable	969	460
Reinsurance recoverable	388,801	377,241
Prepaid reinsurance premiums	115,459	129,411
Deferred policy acquisition cost, net	16,195	13,344
Property and equipment, net	7,590	7,632
Right of use asset	3,807	4,530
Goodwill	142,347	142,347
Intangible assets, net	70,116	73,114
Other assets	10,906	8,658
Total assets	\$ 1,511,280	\$ 1,503,015
Liabilities		
Unpaid loss and loss adjustment expenses	\$ 577,686	\$ 544,320
Unearned premiums	219,949	219,940
Funds held under reinsurance agreements	200,338	199,410
Reinsurance premiums payable	45,250	45,130
Accounts payable and accrued expenses	23,601	29,448
Lease liability	4,178	4,976
Deferred tax liability	539	7,520
Debt	29,621	30,362
Total liabilities	1,101,162	1,081,106
Commitments and contingencies		
Stockholders' Equity		
Common stock, \$0.01 par value per share (600,000,000 authorized; 51,202,136 and 51,176,887 issued and outstanding as of June 30, 2022 and December 31, 2021, respectively)	512	512
Additional paid-in capital	289,174	288,623
Retained earnings	146,221	128,390
Accumulated other comprehensive income	(25,789)	4,384
Total stockholders' equity	410,118	421,909
Total liabilities and stockholders' equity	\$ 1,511,280	\$ 1,503,015

Supplemental Table of Other Revenue Components

<i>(unaudited, in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Other Revenue				
Brokerage	\$1,222	\$ 770	\$3,815	\$4,225
Managing general agent fees	84	30	168	319
Third-party administrator fees	249	376	572	754
Consulting and other fee-based revenue	249	53	450	586
Total Other Revenue	<u>1,804</u>	<u>1,229</u>	<u>5,005</u>	<u>5,884</u>

Supplemental Table of Net Investment Income Components

<i>(unaudited, in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Fixed maturities	\$ 1,807	\$1,577	\$ 3,561	\$3,137
Income on funds held investments	774	519	1,442	1,199
Equity securities	456	6	610	36
Unrealized losses on equity securities	(3,441)	—	(3,441)	—
Interest on cash and short-term investments	13	1	13	3
Total net investment income (loss)	<u>\$ (391)</u>	<u>\$2,103</u>	<u>\$ 2,185</u>	<u>\$4,375</u>

Supplemental Table of Gains (Losses) on Embedded Derivative Components

<i>(unaudited, in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Change in fair value of embedded derivatives	\$4,140	\$(167)	\$11,036	\$ 3,189
Effect of net investment income on funds held investments	(774)	(519)	(1,442)	(1,199)
Effect of realized gains on funds held investments	(10)	—	(2)	—
Total gains (losses) on embedded derivatives	<u>\$3,356</u>	<u>\$(686)</u>	<u>\$ 9,592</u>	<u>\$ 1,990</u>

Supplemental Table of Net G&A Components

<i>(unaudited, in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Direct commissions	\$ 29,133	\$ 27,602	\$ 57,041	\$ 50,710
Ceding commissions	(26,628)	(29,684)	(53,625)	(57,892)
Net commissions	2,505	(2,082)	3,416	(7,182)
Insurance-related expense	5,889	5,149	11,660	9,425
G&A operating expenses	13,285	12,200	24,903	24,915
Total G&A expense	<u>\$ 21,679</u>	<u>\$ 15,267</u>	<u>\$ 39,979</u>	<u>\$ 27,158</u>
G&A operating expense - % of GWP	8.6%	7.8%	7.9%	8.2%
Retention rate⁽¹⁾	42.0%	34.6%	41.2%	33.4%
Direct commission rate⁽²⁾	18.5%	19.9%	18.1%	19.0%
Ceding commission rate⁽³⁾	29.2%	32.7%	28.9%	32.6%

(1) Net earned premiums as a percentage of gross earned premiums.

(2) Direct commissions as a percentage of gross earned premiums.

(3) Ceding commissions as a percentage of ceded earned premiums.

Reconciliation of Non-GAAP Financial Measures

Underwriting income

The Company defines underwriting income as income before taxes excluding net investment income, non-cash changes in fair value of embedded derivatives, investment revaluation gains, net realized capital gains or losses, intangible asset amortization, noncash stock compensation, interest expense, other revenue and other income and expenses. Underwriting income represents the pre-tax profitability of the Company's underwriting operations and allows management to evaluate the Company's underwriting performance without regard to investment income, intangible asset amortization, noncash stock compensation, interest expense, other revenue and other income and expenses. The Company uses this metric because the Company believes it gives management and other users of the Company's financial information useful insight into the Company's underwriting business performance by adjusting for these expenses and sources of income. Underwriting income should not be viewed as a substitute for net income calculated in accordance with GAAP, and other companies may define underwriting income differently.

<i>(unaudited, in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income	\$ 5,491	\$ 2,126	\$17,831	\$ 11,568
Income tax expense	1,457	414	4,727	3,019
Income before taxes	6,948	2,540	22,558	14,587
Other revenue	(1,804)	(1,229)	(5,005)	(5,884)
Change in fair value of embedded derivatives	(3,356)	686	(9,592)	(1,990)
Net investment income	391	(2,103)	(2,185)	(4,375)
Net realized gains	(1,349)	(10)	(302)	(23)
Other expenses	268	845	268	845
Interest expense	467	425	875	852
Intangible asset amortization	1,500	1,413	2,999	2,827
Noncash stock compensation	403	419	559	630
Other income	(24)	(35)	(47)	(156)
Underwriting income	\$ 3,444	\$ 2,951	\$10,128	\$ 7,313

Adjusted net income and adjusted net income outlook

The Company defines adjusted net income as net income excluding the impact of certain items, including noncash intangible asset amortization and stock compensation, non-cash changes in fair value of embedded derivatives, other expenses and gains or losses that the Company believes do not reflect its core operating performance, which items may have a disproportionate effect in a given period, affecting comparability the Company's results across periods. The Company calculates the tax impact only on adjustments that would be included in calculating the Company's income tax expense using an expected effective tax rate for the applicable years. The Company uses adjusted net income as an internal performance measure in the management of its operations because the Company believes it gives its management and other users of its financial information useful insight into the Company's results of operations and underlying business performance by eliminating the effects of these items. Adjusted net income should not be viewed as a substitute for net income calculated in accordance with GAAP, and other companies may define adjusted net income differently.

<i>(unaudited, in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income	\$ 5,491	\$2,126	\$ 17,831	\$11,568
Intangible asset amortization	\$ 1,500	1,413	\$ 2,999	2,827
Noncash stock compensation	\$ 403	419	\$ 559	630
Change in fair value of embedded derivatives	\$(4,140)	167	\$(11,036)	(3,189)
Unrealized losses on equity securities	\$ 3,441	—	\$ 3,441	—
Realized gain on sale of investment	\$(1,400)	—	\$ (1,400)	—
Other expenses	\$ 268	845	\$ 268	845
Total adjustments	\$ 72	2,844	\$ (5,169)	1,113
Tax impact of adjustments	\$ (17)	(654)	\$ 1,188	(256)
Adjusted net income	\$ 5,546	\$4,316	\$ 13,850	\$12,425

The Company's outlook for second quarter 2022 adjusted net income constitutes forward-looking information and the Company believes that it cannot reconcile such forward-looking information to the most comparable GAAP measure without unreasonable efforts. Certain of the GAAP components cannot be reliably quantified due to the combination of variability and volatility of such components and may, depending on the size of the components, have a significant impact on the reconciliation.

Adjusted return on equity

The Company defines adjusted return on equity as adjusted net income expressed on an annualized basis as a percentage of average beginning and ending stockholders' equity during the period. The Company uses adjusted return on equity as an internal performance measure in the management of its operations because the Company believes it gives management and other users of the Company's financial information useful insight into the Company's results of operations and underlying business performance by adjusting for items that the Company believes do not reflect its core operating performance and that may diminish comparability across periods. Adjusted return on equity should not be viewed as a substitute for return on equity calculated in accordance with GAAP, and other companies may define adjusted return on equity differently.

<i>(unaudited, in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Adjusted return on equity calculation:				
Numerator: adjusted net income	\$ 5,546	\$ 4,316	\$ 13,850	\$ 12,425
Denominator: average stockholders' equity	413,258	415,159	416,014	413,725
Adjusted return on equity	5.4%	4.2%	6.7%	6.0%
Return on equity	5.3%	2.0%	8.6%	5.6%

Return on tangible equity and adjusted return on tangible equity

The Company defines tangible stockholders' equity as stockholders' equity less goodwill and other intangible assets. The Company defines return on tangible equity as net income expressed on an annualized basis as a percentage of average beginning and ending tangible stockholders' equity during the period. The Company defines adjusted return on tangible equity as adjusted net income expressed on an annualized basis as a percentage of average beginning and ending tangible stockholders' equity during the period. The Company regularly evaluates acquisition opportunities and have historically made acquisitions that affect stockholders' equity. The Company uses return on tangible equity and adjusted return on tangible equity as internal performance measures in the management of the Company's operations because the Company believes they give management and other users of its financial information useful insight into the Company's results of operations and underlying business performance by adjusting for the effects of acquisitions on the Company's stockholders' equity and, in the case of adjusted return on tangible equity, by adjusting for items that the Company believes do not reflect its core operating performance and that may diminish comparability across periods. Return on tangible equity and adjusted return on tangible equity should not be viewed as substitutes for return on equity calculated in accordance with GAAP, and other companies may define return on tangible equity and adjusted return on tangible equity differently.

<i>(unaudited, in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Return on tangible equity calculation:				
Numerator: net income	\$ 5,491	\$ 2,126	\$ 17,831	\$ 11,568
Denominator:				
Average stockholders' equity	413,258	415,159	416,014	413,725
Less: Average goodwill and other intangible assets	213,213	213,836	213,962	214,543
Average tangible stockholders' equity	200,045	201,323	202,052	199,182
Return on tangible equity	11.0%	4.2%	17.6%	11.6%
Return on equity	5.3%	2.0%	8.6%	5.6%

<i>(unaudited, in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Adjusted return on tangible equity calculation:				
Numerator: adjusted net income	\$ 5,546	\$ 4,316	\$ 13,850	\$ 12,425
Denominator: average tangible stockholders' equity	200,045	201,323	202,052	199,182
Adjusted return on tangible equity	11.1%	8.6%	13.7%	12.5%
Return on equity	5.3%	2.0%	8.6%	5.6%

