

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

November 06, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended September 30, 2008

OR

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-50167

**INFINITY PROPERTY AND CASUALTY CORPORATION**

(Exact name of registrant as specified in its charter)

**Incorporated under**

**the Laws of Ohio**  
(State or other jurisdiction of

**03-0483872**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**3700 Colonnade Parkway, Birmingham, Alabama 35243**

(Address of principal executive offices and zip code)

**(205) 870-4000**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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 and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if smaller reporting company)

Smaller reporting company

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

As of October 31st, 2008, there were 14,318,255 shares of the registrant's common stock outstanding.

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**Table of Contents****INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****PART I****FINANCIAL INFORMATION****ITEM 1****Financial Statements****INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EARNINGS****(In thousands, except per share data)****(unaudited)**

	<b>Three months ended September 30</b>			<b>Nine months ended September 30</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>	<b>2008</b>	<b>2007</b>	<b>% Change</b>
<b>Revenues:</b>						
Earned premium	\$ 231,094	\$ 260,485	(11.3)%	\$ 699,521	\$ 781,289	(10.5)%
Net investment income	14,098	17,109	(17.6)%	44,245	51,142	(13.5)%
Realized losses on investments	(11,623)	(1,772)	555.9%	(14,788)	(3,003)	392.4%
Other income	233	52	348.1%	1,880	1,706	10.2%
<b>Total revenues</b>	<b>233,802</b>	<b>275,874</b>	<b>(15.3)%</b>	<b>730,858</b>	<b>831,134</b>	<b>(12.1)%</b>
<b>Costs and Expenses:</b>						
Losses and loss adjustment expenses	164,909	180,504	(8.6)%	500,281	548,395	(8.8)%
Commissions and other underwriting expenses	51,091	62,657	(18.5)%	160,600	184,150	(12.8)%
Interest expense	2,768	2,767	0.0%	8,303	8,300	0.0%
Corporate general and administrative expenses	1,746	2,051	(14.9)%	5,538	6,138	(9.8)%
Restructuring charges	72	1,346	(94.7)%	480	1,065	(54.9)%
Other expenses	1,196	665	79.8%	3,951	1,634	141.8%
<b>Total costs and expenses</b>	<b>221,782</b>	<b>249,990</b>	<b>(11.3)%</b>	<b>679,153</b>	<b>749,682</b>	<b>(9.4)%</b>
<b>Earnings before income taxes</b>	<b>12,020</b>	<b>25,884</b>	<b>(53.6)%</b>	<b>51,705</b>	<b>81,452</b>	<b>(36.5)%</b>
Provision for income taxes	7,651	8,821	(13.3)%	21,191	28,309	(25.1)%
<b>Net Earnings</b>	<b>\$ 4,369</b>	<b>\$ 17,063</b>	<b>(74.4)%</b>	<b>\$ 30,514</b>	<b>\$ 53,143</b>	<b>(42.6)%</b>
<b>Earnings per Common Share:</b>						
Basic	\$ 0.29	\$ 0.93	(68.8)%	\$ 1.93	\$ 2.78	(30.6)%
Diluted	0.28	0.91	(69.2)%	1.90	2.75	(30.9)%
<b>Average number of Common Shares:</b>						
Basic	15,260	18,430	(17.2)%	15,838	19,112	(17.1)%
Diluted	15,499	18,659	(16.9)%	16,066	19,328	(16.9)%
<b>Cash dividends per Common Share</b>	<b>\$ 0.110</b>	<b>\$ 0.090</b>	<b>22.2%</b>	<b>\$ 0.330</b>	<b>\$ 0.270</b>	<b>22.2%</b>
<b>See Notes to Consolidated Financial Statements.</b>						



**Table of Contents****INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except share data)**

	September 30, 2008 (unaudited)	December 31, 2007
<b>Assets</b>		
Investments:		
Fixed maturities - at fair value (amortized cost \$1,132,094 and \$1,215,371)	\$ 1,123,865	\$ 1,226,804
Equity securities - at fair value (amortized cost \$49,643 and \$49,056)	41,143	49,677
Total investments	1,165,008	1,276,481
Cash and cash equivalents	79,010	46,831
Accrued investment income	11,107	13,417
Agents' balances and premium receivable, net of allowances for doubtful accounts of \$11,851 and \$15,447	326,355	333,985
Prepaid reinsurance premium	1,426	1,823
Recoverables from reinsurers (includes \$451 and \$1,280 on paid losses and loss adjustment expenses)	23,999	29,499
Deferred policy acquisition costs	75,860	75,774
Current and deferred income taxes	37,385	31,849
Receivable for securities sold	11,660	588
Prepaid expenses, deferred charges and other assets	40,451	31,088
Goodwill	75,275	75,275
Total assets	\$ 1,847,536	\$ 1,916,610
<b>Liabilities and shareholders' equity</b>		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 576,136	\$ 618,409
Unearned premium	412,062	411,237
Payable to reinsurers	184	228
Long-term debt (fair value \$192,600 and \$191,734)	199,549	199,496
Commissions payable	24,689	26,872
Payable for securities purchased	31,829	2,099
Accounts payable, accrued expenses and other liabilities	47,365	57,045
Total liabilities	1,291,814	1,315,386
Commitments and contingencies (see note 11)		
Shareholders' equity:		
Common stock, no par value 50,000,000 shares authorized 21,036,985 and 21,007,044 shares issued	20,999	20,942
Additional paid-in capital	341,762	340,195
Retained earnings	451,910	426,638
Accumulated other comprehensive income, net of tax	(10,405)	8,353
Treasury stock, at cost (6,036,762 and 4,807,362 shares)	(248,544)	(194,904)
Total shareholders' equity	555,722	601,224

Total liabilities and shareholders' equity	\$	1,847,536	\$	1,916,610
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See Notes to Consolidated Financial Statements.

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## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

## INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(In thousands)

(unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net of tax	Treasury Stock	Total
<b>Balance at December 31, 2006</b>	\$ 20,837	\$ 335,708	\$ 361,682	\$ (3,206)	\$ (50,420)	\$ 664,601
Net earnings	\$	\$	\$ 53,143	\$	\$	\$ 53,143
Net change in post-retirement benefit liability, net of tax				(33)		(33)
Change in unrealized gain on investments, net of tax				5,392		5,392
Comprehensive income						\$ 58,502
Dividends paid to common shareholders			(5,224)			(5,224)
Employee stock purchases, including tax benefit	4	162				166
Exercise of stock options, including tax benefit	39	1,151				1,190
Share-based compensation expense options		905				905
Share-based compensation expense restricted stock	3	130				133
Stock granted to directors	6	294				300
Acquisition of treasury stock					(136,760)	(136,760)
Other			(281)			(281)
<b>Balance at September 30, 2007</b>	\$ 20,889	\$ 338,350	\$ 409,320	\$ 2,153	\$ (187,180)	\$ 583,532
Net earnings	\$	\$	\$ 18,801	\$	\$	\$ 18,801
Net change in post-retirement benefit liability, net of tax				256		256
Change in unrealized gain on investments, net of tax				5,944		5,944
Comprehensive income						\$ 25,001
Dividends paid to common shareholders			(1,483)			(1,483)
Employee stock purchases, including tax benefit	2	62				64
Exercise of stock options, including tax benefit	47	1,381				1,428
Share-based compensation expense options		208				208
Share-based compensation expense restricted stock	4	194				198
Acquisition of treasury stock					(7,724)	(7,724)
<b>Balance at December 31, 2007</b>	\$ 20,942	\$ 340,195	\$ 426,638	\$ 8,353	\$ (194,904)	\$ 601,224
Net earnings	\$	\$	\$ 30,514	\$	\$	\$ 30,514
Net change in post-retirement benefit liability, net of tax				(48)		(48)
Change in unrealized loss on investments, net of tax				(18,710)		(18,710)
Comprehensive income						\$ 11,756
Dividends paid to common shareholders			(5,242)			(5,242)



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Employee stock purchases, including tax benefit	6	198				204
Exercise of stock options, including tax benefit	17	429				446
Share-based compensation expense options			347			347
Share-based compensation expense restricted stock	14	583				597
Share-based compensation expense performance share plan	13	485				498
Stock granted to directors	7	293				300
Acquisition of treasury stock					(53,640)	(53,640)
Accelerated share repurchase plan settlement payment		(768)				(768)
<b>Balance at September 30, 2008</b>	<b>\$ 20,999</b>	<b>\$ 341,762</b>	<b>\$ 451,910</b>	<b>\$ (10,405)</b>	<b>\$ (248,544)</b>	<b>\$ 555,722</b>

See Notes to Consolidated Financial Statements.

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	<b>Three months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating activities:</b>		
Net earnings	\$ 4,369	\$ 17,063
Adjustments:		
Depreciation and amortization	3,001	2,349
Realized losses on investing activities	11,623	1,772
Loss on disposal of fixed assets	455	
Share-based compensation expense	448	533
Decrease in accrued investment income	1,836	2,015
Decrease in agents' balances and premium receivable	8,605	17,446
Decrease (increase) in reinsurance receivables	2,004	(699)
Decrease in deferred policy acquisition costs	2,119	4,014
Decrease (increase) in other assets	5,237	(842)
Decrease in insurance claims and reserves	(14,262)	(24,873)
Decrease in payable to reinsurers	(102)	(62)
Decrease in other liabilities	(6,570)	(7,531)
Other, net		(281)
<b>Net cash provided by operating activities</b>	<b>18,763</b>	<b>10,903</b>
<b>Investing activities:</b>		
Purchases of and additional investments in:		
Fixed maturities	(96,031)	(167,128)
Equity securities	(108)	(193)
Property and equipment	(4,082)	(6,259)
Maturities and redemptions of fixed maturity investments	15,000	28,065
Sales:		
Fixed maturities	156,300	175,433
Equity securities		
<b>Net cash provided by investing activities</b>	<b>71,079</b>	<b>29,918</b>
<b>Financing activities:</b>		
Proceeds from stock option exercise and employee stock purchase plan, including tax benefit	306	412
Acquisition of treasury stock	(46,107)	(124,324)
Dividends paid to shareholders	(1,676)	(1,723)
<b>Net cash used in financing activities</b>	<b>(47,477)</b>	<b>(125,635)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>42,365</b>	<b>(84,814)</b>
Cash and cash equivalents at beginning of period	36,644	164,133
<b>Cash and cash equivalents at end of period</b>	<b>\$ 79,010</b>	<b>\$ 79,319</b>

**See Notes to Consolidated Financial Statements.**

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	<b>Nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating Activities:</b>		
Net earnings	\$ 30,514	\$ 53,143
Adjustments:		
Depreciation and amortization	9,179	6,290
Realized losses on investing activities	14,788	3,003
Loss on disposal of fixed assets	455	
Share-based compensation expense	1,742	1,339
Decrease in accrued investment income	2,311	3,918
Decrease (increase) in agents' balances and premium receivable	7,630	(14,654)
Decrease in reinsurance receivables	5,897	4,700
Increase in deferred policy acquisition costs	(86)	(4,165)
Decrease (increase) in other assets	76	(6,879)
(Decrease) increase in insurance claims and reserves	(41,448)	24,982
Decrease in payable to reinsurers	(44)	(338)
Decrease in other liabilities	(11,864)	(26,227)
Other, net		(281)
<b>Net cash provided by operating activities</b>	<b>19,150</b>	<b>44,830</b>
<b>Investing Activities:</b>		
Purchases of and additional investments in:		
Fixed maturities	(474,545)	(539,568)
Equity securities	(588)	(93,479)
Property and equipment	(11,897)	(16,484)
Maturities and redemptions of fixed maturity investments	49,210	73,260
Sales:		
Fixed maturities	508,480	542,493
Equity securities		100,105
<b>Net cash provided by investing activities</b>	<b>70,661</b>	<b>66,328</b>
<b>Financing Activities:</b>		
Proceeds from stock option exercise and employee stock purchase plan, including tax benefit	649	1,355
Accelerated share repurchase settlement payment	(768)	
Acquisition of treasury stock	(52,271)	(137,157)
Dividends paid to shareholders	(5,242)	(5,224)
<b>Net cash used in financing activities</b>	<b>(57,632)</b>	<b>(141,026)</b>
Net increase (decrease) in cash and cash equivalents	32,179	(29,868)
Cash and cash equivalents at beginning of period	46,831	109,187
<b>Cash and cash equivalents at end of period</b>	<b>\$ 79,010</b>	<b>\$ 79,319</b>

**See Notes to Consolidated Financial Statements.**

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**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2008**

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**Note 1 Reporting and Accounting Policies**

**Nature of Operations**

Infinity Property and Casualty Corporation ( Infinity or the Company ) is a holding company that, through subsidiaries, provides personal automobile insurance with a concentration on nonstandard auto insurance. Although licensed to write insurance in all 50 states, Infinity focuses on select states that management believes offer the greatest opportunity for premium growth and profitability.

**Basis of Consolidation and Reporting**

The accompanying consolidated financial statements are unaudited and should be read in conjunction with Infinity Property and Casualty Corporation's Annual Report on Form 10-K for the year ended December 31, 2007. This Quarterly Report on Form 10-Q, including the Notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, focuses on Infinity's financial performance since the beginning of the year.

These financial statements reflect certain adjustments necessary for a fair presentation of Infinity's results of operations and financial position. Such adjustments consist of normal, recurring accruals recorded to ac