

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

November 06, 2009

[Table of Contents](#)

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, 2009

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 30, 2009, there were 13,602,267 shares of the registrant's common stock outstanding.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

INDEX

	Page
<u>Part I FINANCIAL INFORMATION</u>	
Item 1	
<u>Financial Statements</u>	
<u>Consolidated Statements of Earnings</u>	3
<u>Consolidated Balance Sheets</u>	4
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Condensed Notes to Consolidated Financial Statements</u>	8
Item 2	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
Item 4	
<u>Controls and Procedures</u>	36
<u>Part II OTHER INFORMATION</u>	
Item 1	
<u>Legal Proceedings</u>	36
Item 1A	
<u>Risk Factors</u>	37
Item 2	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
Item 6	
<u>Exhibits</u>	38
<u>Signature</u>	38
EXHIBIT INDEX	
Exhibit 31.1	
<u>Certification of the Chief Executive Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002</u>	
Exhibit 31.2	
<u>Certification of the Chief Financial Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002</u>	
Exhibit 32	
<u>Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	

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)**

	Three months ended September 30			Nine months ended September 30		
	2009	2008	% Change	2009	2008	% Change
Revenues:						
Earned premium	\$ 210,337	\$ 231,094	(9.0)%	\$ 638,734	\$ 699,521	(8.7)%
Net investment income	12,107	14,098	(14.1)%	37,904	44,245	(14.3)%
Realized losses on investments*	(12,113)	(11,623)	4.2%	(18,070)	(14,788)	22.2%
Other income	25	233	(89.3)%	96	1,880	(94.9)%
Total revenues	210,357	233,802	(10.0)%	658,665	730,858	(9.9)%
Costs and Expenses:						
Losses and loss adjustment expenses	141,057	164,909	(14.5)%	443,151	500,281	(11.4)%
Commissions and other underwriting expenses	47,127	51,091	(7.8)%	139,778	160,600	(13.0)%
Interest expense	2,769	2,768	0.0%	8,306	8,303	0.0%
Corporate general and administrative expenses	1,590	1,746	(8.9)%	5,170	5,538	(6.6)%
Restructuring charges		72	(100.0)%	2	480	(99.6)%
Other expenses	404	1,196	(66.2)%	1,818	3,951	(54.0)%
Total costs and expenses	192,946	221,782	(13.0)%	598,225	679,153	(11.9)%
Earnings before income taxes	17,411	12,020	44.9%	60,440	51,705	16.9%
Provision for income taxes	9,187	7,651	20.1%	24,508	21,191	15.7%
Net Earnings	\$ 8,224	\$ 4,369	88.2%	\$ 35,932	\$ 30,514	17.8%
Earnings per Common Share:						
Basic	\$ 0.61	\$ 0.29	110.3%	\$ 2.62	\$ 1.93	35.8%
Diluted	0.60	0.28	114.3%	2.58	1.90	35.8%
Average number of Common Shares:						

Edgar Filing: INFINITY PROPERTY & CASUALTY CORP - Form 10-Q

Basic	13,534	15,260	(11.3)%	13,713	15,838	(13.4)%
Diluted	13,753	15,499	(11.3)%	13,921	16,066	(13.4)%
Cash dividends per Common Share	\$ 0.12	\$ 0.11	9.1%	\$ 0.36	\$ 0.33	9.1%
* Realized (losses) gains before impairment losses	\$ (1,077)	\$ 2,174	(149.5)%	\$ 1,311	\$ 6,706	(80.5)%
Total other-than-temporary impairment (OTTI) losses	(250)	(13,797)	(98.2)%	(11,832)	(21,494)	(45.0)%
Non-credit portion in other comprehensive income			0.0%	3,783		0.0%
OTTI losses reclassified from other comprehensive income	(10,786)		0.0%	(11,332)		0.0%
Net impairment losses recognized in earnings	(11,037)	(13,797)	(20.0)%	(19,381)	(21,494)	(9.8)%
Total realized losses on investments	\$ (12,113)	\$ (11,623)	4.2%	\$ (18,070)	\$ (14,788)	22.2%

See Notes to Consolidated Financial Statements.

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, 2009 (unaudited)	December 31, 2008
Assets		
Investments:		
Fixed maturities - at fair value (amortized cost \$1,106,733 and \$1,024,121)	\$ 1,134,811	\$ 1,032,237
Equity securities - at fair value (amortized cost \$33,244 and \$31,157)	39,436	31,157
Total investments	1,174,248	1,063,394
Cash and cash equivalents	104,215	109,274
Accrued investment income	10,166	11,028
Agents' balances and premium receivable, net of allowances for doubtful accounts of \$10,391 and \$11,652	309,700	300,751
Property, plant and equipment, net of accumulated depreciation of \$39,490 and \$49,989	29,675	33,342
Prepaid reinsurance premium	1,927	1,661
Recoverables from reinsurers (includes \$532 and \$2,898 on paid losses and loss adjustment expenses)	18,439	23,413
Deferred policy acquisition costs	71,174	70,101
Current and deferred income taxes	13,155	20,920
Receivable for securities sold	2,336	
Prepaid expenses, deferred charges and other assets	8,396	14,779
Goodwill	75,275	75,275
Total assets	\$ 1,818,706	\$ 1,723,938
Liabilities and shareholders' equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 532,025	\$ 544,756
Unearned premium	388,020	380,425
Payable to reinsurers		954
Long-term debt (fair value \$194,400 and \$179,063)	199,623	199,567
Commissions payable	23,549	22,568
Payable for securities purchased	36,873	293
Accounts payable, accrued expenses and other liabilities	45,959	50,042
Total liabilities	1,226,050	1,198,607
Commitments and contingencies (See Note 11)		
Shareholders' equity:		
Common stock, no par value 50,000,000 shares authorized 21,079,354 and 21,041,444 shares issued	21,056	20,999
Additional paid-in capital	343,732	341,889
Retained earnings	508,132	439,051
Accumulated other comprehensive income, net of tax	22,914	5,987
Treasury stock, at cost (7,474,062 and 6,895,262 shares)	(303,178)	(282,594)

Edgar Filing: INFINITY PROPERTY & CASUALTY CORP - Form 10-Q

Total shareholders' equity	592,656	525,331
Total liabilities and shareholders' equity	\$ 1,818,706	\$ 1,723,938

See Notes to Consolidated Financial Statements.

Table of Contents

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
Balance at December 31, 2007	\$ 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 gain on investments, net of tax				(18,710)		(18,710)
Comprehensive income						\$ 11,756
Dividends paid to common shareholders			(5,242)			(5,242)
Employee stock purchases, including tax benefit	6	198				204
Exercise of stock options, including tax benefit	17	429				446
Share-based compensation expense	34	1,708				1,742
Acquisition of treasury stock					(53,640)	(53,640)
Accelerated share repurchase plan settlement payment		(768)				(768)
Balance at September 30, 2008	\$ 20,999	\$ 341,762	\$ 451,910	\$ (10,405)	\$ (248,544)	\$ 555,722
Net earnings	\$	\$	\$ (11,257)	\$	\$	\$ (11,257)
Net change in post-retirement benefit liability, net of tax				242		242
Change in unrealized gain on investments, net of tax				16,150		16,150
Comprehensive income						\$ 5,135
Dividends paid to common shareholders			(1,568)			(1,568)
Employee stock purchases, including tax benefit	1	50				52
Exercise of stock options, including tax benefit	3	104				107
Share-based compensation expense	(4)	(27)				(31)
Acquisition of treasury stock					(34,051)	(34,051)
Other			(34)			(34)
Balance at December 31, 2008	\$ 20,999	\$ 341,889	\$ 439,051	\$ 5,987	\$ (282,594)	\$ 525,331
Net earnings	\$	\$	\$ 35,932	\$	\$	\$ 35,932
Net change in post-retirement benefit liability, net of tax				(73)		(73)
Change in unrealized gain on investments, net of tax				29,834		29,834
Non-credit component of impairment losses on fixed maturities, net of tax				11,936		11,936

Edgar Filing: INFINITY PROPERTY & CASUALTY CORP - Form 10-Q

Comprehensive income						\$ 77,629
Reclassification of non-credit component of previously recognized impairment losses on fixed maturities		38,107	(38,107)			
Tax benefit on reclassification			13,338			13,338
Dividends paid to common shareholders		(4,958)				(4,958)
Employee stock purchases, including tax benefit	4	160				164
Exercise of stock options, including tax benefit	24	601				625
Share-based compensation expense	29	1,082				1,111
Acquisition of treasury stock					(20,583)	(20,583)
Balance at September 30, 2009	\$ 21,056	\$ 343,732	\$ 508,132	\$ 22,914	\$ (303,178)	\$ 592,656

See Notes to Consolidated Financial Statements.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(unaudited)**

	Three months ended September 30,	
	2009	2008
Operating activities:		
Net earnings	\$ 8,224	\$ 4,369
Adjustments:		
Depreciation and amortization	2,706	3,001
Realized losses on investing activities	12,113	11,623
Loss on disposal of fixed assets	2	455
Share-based compensation expense	321	448
Decrease in accrued investment income	156	1,836
(Increase) decrease in agents' balances and premium receivable	(3,091)	8,605
Decrease in reinsurance receivables	1,514	2,004
Decrease in deferred policy acquisition costs	45	2,119
Decrease in other assets	1,218	5,237
Decrease in insurance claims and reserves	(913)	(14,262)
Decrease in payable to reinsurers		(102)
Increase in other liabilities	(1,259)	(6,570)
Net cash provided by operating activities	21,035	18,763
Investing activities:		
Purchases of and additional investments in:		
Fixed maturities	(236,935)	(96,031)
Equity securities	(1,700)	(108)
Property and equipment	(1,433)	(4,082)
Maturities and redemptions of fixed maturity investments	51,757	15,000
Sales:		
Fixed maturities	152,044	156,300
Net cash (used in) provided by investing activities	(36,266)	71,079
Financing activities:		
Proceeds from stock option exercise and employee stock purchase plan, including tax benefit	529	306
Acquisition of treasury stock	(1,692)	(46,107)
Dividends paid to shareholders	(1,633)	(1,676)
Net cash used in financing activities	(2,796)	(47,477)