

INFINITY PROPERTY & CASUALTY CORP
Form 10-Q
November 08, 2005
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended September 30, 2005

Commission File No. 0-50167

INFINITY PROPERTY AND CASUALTY CORPORATION

Incorporated under
the Laws of Ohio

IRS Employer Identification
Number 03-0483872

3700 Colonnade Parkway, Birmingham, Alabama 35243

(205) 870-4000

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

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Indicate by check mark whether the Registrant is an accelerated filer. Yes No

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

As of November 1, 2005, there were 20,687,032 shares of the Registrant's Common Stock outstanding.

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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			Nine months ended		
	September 30,			September 30,		
	2005	2004	% Change	2005	2004	% Change
Revenues:						
Earned premiums	\$ 243,915	\$ 220,549	10.6%	\$ 722,684	\$ 649,642	11.2%
Net investment income	16,157	16,071	0.5%	48,891	49,162	(0.6)%
Realized gains on investments	1,791	2,805	(36.1)%	22,303	5,851	281.2%
Other income	919	1,067	(13.9)%	3,078	4,408	(30.2)%
Total revenues	262,782	240,492	9.3%	796,956	709,063	12.4%
Costs and Expenses:						
Losses and loss adjustment expenses	168,383	151,563	11.1%	500,887	449,760	11.4%
Commissions and other underwriting expenses	54,332	47,037	15.5%	155,434	134,389	15.7%
Interest expense	2,765	2,888	(4.3)%	8,295	7,962	4.2%
Corporate general and administrative expenses	1,847	1,529	20.8%	5,089	4,764	6.8%
Loss on retirement of long-term debt					3,436	(100.0)%
Other expenses	6,601	6,250	5.6%	26,126	14,941	74.9%
Total expenses	233,928	209,267	11.8%	695,830	615,252	13.1%
Earnings before income taxes	28,854	31,225	(7.6)%	101,126	93,811	7.8%
Provision for income taxes	2,173	8,272	(73.7)%	26,773	29,096	(8.0)%
Net Earnings	\$ 26,681	\$ 22,953	16.2%	\$ 74,353	\$ 64,715	14.9%

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Earnings per Common Share:						
Basic	\$ 1.29	\$ 1.12	15.2%	\$ 3.60	\$ 3.15	14.3%
Diluted	\$ 1.28	\$ 1.10	16.4%	\$ 3.56	\$ 3.10	14.8%
Average number of Common Shares:						
Basic	20,642	20,567	0.4%	20,632	20,555	0.4%
Diluted	20,889	20,841	0.2%	20,882	20,855	0.1%
Cash dividends per Common Share	\$.060	\$.055	9.1%	\$ 0.180	\$ 0.165	9.1%

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)**

	September 30,	December 31,
	2005	2004
	<u>(unaudited)</u>	<u></u>
Assets		
Investments		
Fixed maturities - at market (amortized cost - \$1,297,326 and \$1,260,836)	\$ 1,298,959	\$ 1,304,080
Equity securities - at market (amortized cost - \$56,119 and \$21,529)	55,992	24,993
	<u>1,354,951</u>	<u>1,329,073</u>
Total investments	1,354,951	1,329,073
Cash and cash equivalents	87,900	112,052
Accrued investment income	14,719	16,732
Agents' balances and premiums receivable, net of allowances for doubtful accounts of \$11,838 and \$11,524	295,202	264,978
Prepaid reinsurance premiums	11,047	12,858
Recoverables from reinsurers	22,389	20,202
Deferred policy acquisition costs	76,083	68,454
Current and deferred income taxes	26,496	12,656
Prepaid expenses, deferred charges and other assets	21,840	32,658
Goodwill	75,275	75,275
	<u>1,985,902</u>	<u>1,944,938</u>
Total assets	\$ 1,985,902	\$ 1,944,938
Liabilities and Shareholders' Equity		
Unpaid losses and loss adjustment expenses	\$ 640,358	\$ 659,272
Unearned premiums	423,044	387,917
Payable to reinsurers	4,525	3,953
Long term debt (fair value - \$194,042 at September 30, 2005 and \$198,010 at December 31, 2004)	199,350	199,305
Commissions payable	29,603	25,257
Accounts payable, accrued expenses and other liabilities	99,982	121,813
	<u>1,396,862</u>	<u>1,397,517</u>
Total liabilities	1,396,862	1,397,517
Shareholders' Equity:		
Common stock, no par value		
-50,000,000 shares authorized		
-20,719,999 and 20,670,878 shares issued	20,720	20,671
Additional paid-in capital	331,235	329,994
Retained earnings	237,336	166,710
Unearned compensation (restricted stock)	(90)	(314)
Unrealized gain, net	977	30,360
Treasury stock, at cost (34,014 and 0 shares)	(1,138)	
	<u></u>	<u></u>

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Total shareholders' equity	589,040	547,421
Total liabilities and shareholders' equity	\$ 1,985,902	\$ 1,944,938

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	Paid-in Capital	Retained Earnings	Unearned Compensation	Unrealized Gain (Loss) on Securities	Treasury Stock	Total
Balance at December 31, 2003	\$ 20,484	\$ 324,787	\$ 74,856	\$ (1,000)	\$ 36,243	\$	\$ 455,370
Net earnings			64,715				64,715
Change in unrealized gain-investments					(3,799)		(3,799)
Change in unrealized gain-derivative					(215)		(215)
Comprehensive income							60,701
Dividends paid to common stockholders			(3,408)				(3,408)
Issuance of common stock	171	4,685					4,856
Amortization of unearned compensation				537			537
Exercise of stock options	2	38					40
Balance at September 30, 2004	\$ 20,657	\$ 329,510	\$ 136,163	\$ (463)	\$ 32,229	\$	\$ 518,096
Net earnings	\$	\$	\$ 31,683	\$	\$	\$	\$ 31,683
Change in unrealized gain-investments					(1,869)		(1,869)
Comprehensive income							29,814
Dividends paid to common stockholders			(1,136)				(1,136)
Employee stock purchases	2	63					65
Exercise of stock options	12	168					180
Amortization of unearned compensation		253		149			402
Balance at December 31, 2004	\$ 20,671	\$ 329,994	\$ 166,710	\$ (314)	\$ 30,360	\$	\$ 547,421
Net earnings	\$	\$	\$ 74,353	\$	\$	\$	\$ 74,353
Change in unrealized gain-investments					(29,383)		(29,383)
Comprehensive income							44,970
Dividends paid to common stockholders			(3,724)				(3,724)
Employee stock purchases	7	199					206
Exercise of stock options	38	649					687
Stock granted to directors	4	121					125
Acquisition of treasury stock						(1,138)	(1,138)
Amortization of unearned compensation		272		224			496
Other			(3)				(3)

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Balance at September 30, 2005	<u>\$ 20,720</u>	<u>\$ 331,235</u>	<u>\$ 237,336</u>	<u>\$ (90)</u>	<u>\$ 977</u>	<u>\$ (1,138)</u>	<u>\$ 589,040</u>
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See Notes to Consolidated Financial Statements

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	Three months ended	
	September 30,	
	2005	2004
Operating Activities:		
Net earnings	\$ 26,681	\$ 22,953
Adjustments:		
Depreciation and amortization	4,552	3,122
Realized gains on investing activities	(1,792)	(2,805)
Change in accrued investment income	437	370
Change in agents balances and premiums receivable	11,735	2,315
Change in reinsurance receivables	1,380	672
Change in deferred policy acquisition costs	3,100	(135)
Change in other assets	(8,755)	2,457
Change in insurance claims and reserves	(21,884)	(7,504)
Change in payable to reinsurers	271	(2,066)
Change in other liabilities	(4,172)	11,453
Other, net	42	326
Net cash provided by operating activities	11,595	31,158
Investing Activities:		
Purchases of and additional investments in:		
Fixed maturities	(168,566)	(83,282)
Equity securities	(16,576)	(2,197)
Property and equipment	(53)	(1,058)
Maturities and redemptions of fixed maturity investments	27,718	18,204
Sales:		
Fixed maturities	4,376	30,563
Stock in subsidiary		
Equity securities	3,938	3,957
Property and equipment	49	47
Net cash used in investing activities	(149,114)	(33,766)
Financing Activities:		
Debt issuance costs		
Proceeds from stock option exercise and employee stock purchase plan	392	40
Acquisition of treasury stock	(1,000)	
Dividends paid to shareholders	(1,242)	(1,136)

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Net cash used in financing activities	(1,850)	(1,096)
Net Decrease in Cash and Cash Equivalents	(139,369)	(3,704)
Cash and cash equivalents at beginning of period	227,269	125,932
Cash and cash equivalents at end of period	\$ 87,900	\$ 122,228

See Notes to Consolidated Financial Statements

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	Nine months ended	
	September 30,	
	2005	2004
Operating Activities:		
Net earnings	\$ 74,353	\$ 64,715
Adjustments:		
Depreciation and amortization	11,948	11,785
Realized gains on investing activities	(22,303)	(5,851)
Change in accrued investment income	2,013	595
Change in agents balances and premiums receivable	(30,224)	(9,305)
Change in reinsurance receivables	(376)	18,666
Change in deferred policy acquisition costs	(7,629)	(11,359)
Change in other assets	8,588	5,688
Change in insurance claims and reserves	16,213	(21,106)
Change in payable to reinsurers	572	(17,423)
Change in other liabilities	(18,819)	16,215
Other, net	123	170
	<u>34,459</u>	<u>52,790</u>
Net cash provided by operating activities	34,459	52,790
Investing Activities:		
Purchases of and additional investments in:		
Fixed maturities	(414,966)	(254,979)
Equity securities	(44,509)	(2,197)
Property and equipment	(3,386)	(3,376)
Maturities and redemptions of fixed maturity investments	88,387	103,346
Sales:		
Fixed maturities	305,283	79,882
Stock in subsidiary		10,380
Equity securities	14,301	6,807
Property and equipment	248	1,430
	<u>(54,642)</u>	<u>(58,707)</u>
Net cash used in investing activities	(54,642)	(58,707)
Financing Activities:		
Repayment of long-term debt		(195,500)
Proceeds from senior notes		199,256
Debt issuance costs		(2,141)
Proceeds from issuance of common stock		4,856

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Proceeds from stock option exercise and employee stock purchase plan	893	40
Acquisition of treasury stock	(1,138)	
Dividends paid to shareholders	(3,724)	(3,408)
	<u> </u>	<u> </u>
Net cash (used in) provided by financing activities	(3,969)	3,103
Net Decrease in Cash and Cash Equivalents	(24,152)	(2,814)
Cash and cash equivalents at beginning of period	112,052	125,042
	<u> </u>	<u> </u>
Cash and cash equivalents at end of period	\$ 87,900	\$ 122,228
	<u> </u>	<u> </u>

See Notes to Consolidated Financial Statements

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INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 *Basis of Presentation*

The accompanying Consolidated Financial Statements are unaudited and should be read in conjunction with Infinity Property and Casualty Corporation's (Infinity or the Company) annual report on Form 10-K for the year ended December 31, 2004. 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 accurately match expenses with their related revenue streams and to eliminate all significant inter-company transactions and balances. In addition, certain reclassification adjustments have been made to historical results to achieve consistency in presentation.