

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

November 03, 2016

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, 2016

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 _____

03-0483872

the Laws of Ohio

(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

2201 4th Avenue North, Birmingham, Alabama 35203

(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 (or for such shorter period that the registrant was required to file such reports), 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 31, 2016, there were 11,055,245 shares of the registrant's common stock outstanding.

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Condensed Notes to Consolidated Financial Statements

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,		%
	2016	2015	Change	2016	2015	Change
Revenues:						
Earned premium	\$342,171	\$338,586	1.1 %	\$1,019,070	\$1,011,197	0.8 %
Installment and other fee income	26,297	24,005	9.6 %	77,200	73,122	5.6 %
Net investment income	8,125	9,970	(18.5)%	25,115	27,908	(10.0)%
Net realized gains (losses) on investments ⁽¹⁾	1,282	(410)	(412.8)%	1,257	974	29.1 %
Other income	249	232	7.6 %	727	913	(20.3)%
Total revenues	378,124	372,383	1.5 %	1,123,370	1,114,113	0.8 %
Costs and Expenses:						
Losses and loss adjustment expenses	280,866	256,063	9.7 %	809,664	774,489	4.5 %
Commissions and other underwriting expenses	88,412	86,779	1.9 %	266,183	261,880	1.6 %
Interest expense	3,507	3,506	0.0 %	10,524	10,522	0.0 %
Corporate general and administrative expenses	1,768	1,677	5.5 %	5,532	5,605	(1.3)%
Other expenses	375	1,545	(75.7)%	1,455	2,900	(49.8)%
Total costs and expenses	374,929	349,569	7.3 %	1,093,358	1,055,396	3.6 %
Earnings before income taxes	3,196	22,814	(86.0)%	30,012	58,717	(48.9)%
Provision for income taxes	442	7,077	(93.7)%	8,536	18,333	(53.4)%
Net Earnings	\$2,753	\$15,737	(82.5)%	\$21,476	\$40,384	(46.8)%
Net Earnings per Common Share:						
Basic	\$0.25	\$1.39	(82.0)%	\$1.95	\$3.55	(45.1)%
Diluted	0.25	1.38	(81.9)%	1.93	3.52	(45.2)%
Average Number of Common Shares:						
Basic	11,018	11,321	(2.7)%	11,022	11,385	(3.2)%
Diluted	11,084	11,383	(2.6)%	11,105	11,474	(3.2)%
Cash Dividends per Common Share	\$0.52	\$0.43	20.9 %	\$1.56	\$1.29	20.9 %
⁽¹⁾ Net realized gains (losses) on sales	\$1,282	\$(287)	(546.6)%	\$1,573	\$1,686	(6.7)%
Total other-than-temporary impairment (OTTI) losses	0	(123)	(100.0)%	(316)	(713)	(55.7)%
Total net realized gains (losses) on investments	\$1,282	\$(410)	(412.8)%	\$1,257	\$974	29.1 %

See Condensed Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ in thousands)

(unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net earnings	\$2,753	\$15,737	\$21,476	\$40,384
Other comprehensive income before tax:				
Net change in post-retirement benefit liability	(11	) 16	(32	) 49
Unrealized gains (losses) on investments:				
Unrealized holding gains (losses) arising during the period	4,702	(11,301	) 30,989	(16,357
Less: Reclassification adjustments for (gains) losses included in net earnings	(1,282	) 410	(1,257	) (974
Unrealized gains (losses) on investments, net	3,420	(10,891	) 29,731	(17,331
Other comprehensive income (loss), before tax	3,409	(10,875	) 29,699	(17,281
Income tax (expense) benefit related to components of other comprehensive income	(1,193	) 3,806	(10,395	) 6,049
Other comprehensive income (loss), net of tax	2,216	(7,069	) 19,304	(11,233
Comprehensive income	\$4,969	\$8,669	\$40,780	\$29,151

See Condensed Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts in line descriptions)

	September 30, 2016	December 31, 2015
	(unaudited)	
Assets		
Investments:		
Fixed maturities – at fair value (amortized cost \$1,379,525 and \$1,381,510)	\$ 1,404,633	\$ 1,381,467
Equity securities – at fair value (cost \$77,125 and \$78,815)	92,822	89,935
Short-term investments – at fair value (amortized cost \$2,257 and \$4,656)	2,255	4,651
Total investments	1,499,710	1,476,053
Cash and cash equivalents	73,616	62,483
Accrued investment income	11,253	12,245
Agents' balances and premium receivable, net of allowances for doubtful accounts of \$14,501 and \$15,385	551,914	511,543
Property and equipment, net of accumulated depreciation of \$67,849 and \$72,892	94,358	89,707
Prepaid reinsurance premium	3,384	5,385
Recoverables from reinsurers (includes \$1,078 and \$362 on paid losses and LAE)	18,659	15,056
Deferred policy acquisition costs	97,448	93,157
Current and deferred income taxes	21,803	33,926
Receivable for securities sold	1,714	0
Other assets	11,082	10,306
Goodwill	75,275	75,275
Total assets	\$ 2,460,217	\$ 2,385,135
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 676,526	\$ 669,965
Unearned premium	660,306	616,649
Long-term debt (fair value \$292,075 and \$281,581)	273,538	273,383
Commissions payable	16,686	17,406
Payable for securities purchased	24,118	7,264
Other liabilities	106,242	112,873
Total liabilities	1,757,416	1,697,540
Commitments and contingencies (See Note 9)		
Shareholders' equity:		
Common stock, no par value (50,000,000 shares authorized; 21,808,959 and 21,774,520 shares issued)	21,816	21,794
Additional paid-in capital	377,757	376,025
Retained earnings	761,831	757,604
Accumulated other comprehensive income, net of tax	27,115	7,811
Treasury stock, at cost (10,751,048 and 10,623,138 shares)	(485,717)	(475,638)
Total shareholders' equity	702,801	687,595
Total liabilities and shareholders' equity	\$ 2,460,217	\$ 2,385,135

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

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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, Net of Tax	Treasury Stock	Total
Balance at December 31, 2014	\$ 21,745	\$ 372,368	\$ 725,651	\$ 23,494	\$(445,599)	\$ 697,659
Net earnings	—	—	40,384	—	—	40,384
Net change in post-retirement benefit liability	—	—	—	32	—	32
Change in unrealized gain on investments	—	—	—	(11,703)	—	(11,703)
Change in non-credit component of impairment losses on fixed maturities	—	—	—	438	—	438
Comprehensive income						29,151
Dividends paid to common shareholders	—	—	(14,711)	—	—	(14,711)
Shares issued and share-based compensation expense, including tax benefit	31	2,321	—	—	—	2,352
Acquisition of treasury stock	—	—	—	—	(17,353)	(17,353)
Balance at September 30, 2015	\$ 21,776	\$ 374,689	\$ 751,323	\$ 12,261	\$(462,951)	\$ 697,098
Net earnings	—	—	11,097	—	—	11,097
Net change in post-retirement benefit liability	—	—	—	469	—	469
Change in unrealized gain on investments	—	—	—	(5,092)	—	(5,092)
Change in non-credit component of impairment losses on fixed maturities	—	—	—	172	—	172
Comprehensive income						6,646
Dividends paid to common shareholders	—	—	(4,816)	—	—	(4,816)
Shares issued and share-based compensation expense, including tax benefit	18	1,336	—	—	—	1,354
Acquisition of treasury stock	—	—	—	—	(12,687)	(12,687)
Balance at December 31, 2015	\$ 21,794	\$ 376,025	\$ 757,604	\$ 7,811	\$(475,638)	\$ 687,595
Net earnings	—	—	21,476	—	—	21,476
Net change in post-retirement benefit liability	—	—	—	(21)	—	(21)
Change in unrealized gain on investments	—	—	—	19,109	—	19,109
Change in non-credit component of impairment losses on fixed maturities	—	—	—	216	—	216
Comprehensive income						40,780
Dividends paid to common shareholders	—	—	(17,249)	—	—	(17,249)
Shares issued and share-based compensation expense, including tax benefit	22	1,731	—	—	—	1,753
Acquisition of treasury stock	—	—	—	—	(10,079)	(10,079)
Balance at September 30, 2016	\$ 21,816	\$ 377,757	\$ 761,831	\$ 27,115	\$(485,717)	\$ 702,801

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in thousands, unaudited)

	Three months ended September 30,	
	2016	2015
Operating Activities:		
Net earnings	\$2,753	\$15,737
Adjustments:		
Depreciation	3,930	3,193
Amortization	5,643	5,264
Net realized (gains) losses on investments	(1,282)	410
Loss on disposal of property and equipment	143	916
Share-based compensation expense	1,060	135
Activity related to rabbi trust	46	(88)
Change in accrued investment income	482	1,133
Change in agents' balances and premium receivable	(15,356)	3,795
Change in reinsurance receivables	465	(1,284)
Change in deferred policy acquisition costs	(1,627)	771
Change in other assets	(2,363)	(2,948)
Change in unpaid losses and loss adjustment expenses	10,316	(2,009)
Change in unearned premium	14,911	(7,900)
Change in other liabilities	(3,179)	1,336
Net cash provided by operating activities	15,943	18,461
Investing Activities:		
Purchases of fixed maturities	(117,638)	(97,646)
Purchases of equity securities	0	(5,000)
Purchases of short-term investments	(3,110)	(4,752)
Purchases of property and equipment	(253)	(5,748)
Maturities and redemptions of fixed maturities	39,703	42,600
Maturities and redemptions of short-term investments	1,300	500
Proceeds from sale of fixed maturities	62,429	72,846
Proceeds from sale of equity securities	2,000	0
Proceeds from sale of short-term investments	3,592	3,086
Net cash (used in) provided by investing activities	(11,977)	5,886
Financing Activities:		
Proceeds from stock options exercised and employee stock purchases	60	58
Principal payments under capital lease obligations	(131)	(125)
Acquisition of treasury stock	(543)	(9,297)
Dividends paid to shareholders	(5,751)	(4,858)
Net cash used in financing activities	(6,366)	(14,222)
Net (decrease) increase in cash and cash equivalents	(2,400)	10,124
Cash and cash equivalents at beginning of period	76,016	60,481
Cash and cash equivalents at end of period	\$73,616	\$70,605

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Condensed Notes to Consolidated Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in thousands, unaudited)

	Nine months ended September 30,	
	2016	2015
Operating Activities:		
Net earnings	\$21,476	\$40,384
Adjustments:		
Depreciation	10,451	9,116
Amortization	16,482	16,460
Net realized gains on investments	(1,257)	(974)
Loss on disposal of property and equipment	544	1,155
Share-based compensation expense	1,411	1,863
Excess tax benefits from share-based payment arrangements	(157)	(298)
Activity related to rabbi trust	112	(77)
Change in accrued investment income	992	590
Change in agents' balances and premium receivable	(40,372)	(54,108)
Change in reinsurance receivables	(1,602)	(2,805)
Change in deferred policy acquisition costs	(4,292)	(8,145)
Change in other assets	1,097	(6,385)
Change in unpaid losses and loss adjustment expenses	6,562	10,841
Change in unearned premium	43,657	55,787
Change in other liabilities	(6,924)	6,435
Net cash provided by operating activities	48,182	69,839
Investing Activities:		
Purchases of fixed maturities	(379,135)	(385,319)
Purchases of equity securities	0	(7,000)
Purchases of short-term investments	(8,250)	(8,413)
Purchases of property and equipment	(15,648)	(33,953)
Maturities and redemptions of fixed maturities	115,848	149,102
Maturities and redemptions of short-term investments	1,300	785
Proceeds from sale of fixed maturities	265,544	224,982
Proceeds from sale of equity securities	2,000	4,489
Proceeds from sale of short-term investments	9,258	3,086
Proceeds from sale of property and equipment	2	0
Net cash used in investing activities	(9,081)	(52,240)
Financing Activities:		
Proceeds from stock options exercised and employee stock purchases	185	191
Excess tax benefits from share-based payment arrangements	157	298
Principal payments under capital lease obligations	(380)	(371)
Acquisition of treasury stock	(10,681)	(16,942)
Dividends paid to shareholders	(17,249)	(14,711)
Net cash used in financing activities	(27,967)	(31,535)
Net increase (decrease) in cash and cash equivalents	11,133	(13,936)
Cash and cash equivalents at beginning of period	62,483	84,541

Cash and cash equivalents at end of period \$73,616 \$70,605
See Condensed Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

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Note 1 Significant Reporting and Accounting Policies

Nature of Operations

We are a holding company that provides insurance through our subsidiaries for personal automobiles with a concentration on nonstandard risks, commercial vehicles and classic collectors. Although licensed to write insurance in all 50 states and the District of Columbia, we focus on select states that we believe 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 our Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 2015. This Quarterly Report on Form 10-Q, including the Condensed Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, focuses on our financial performance since the beginning of the year. These financial statements reflect certain adjustments necessary for a fair presentation of our results of operations and financial position. Such adjustments consist of normal, recurring accruals recorded to accurately match expenses with their related revenue streams and the elimination of all significant intercompany transactions and balances.

We have evaluated events that occurred after September 30, 2016, for recognition or disclosure in our financial statements and the notes to the financial statements.

Schedules may not foot due to rounding.

Estimates

We based certain accounts and balances within these financial statements upon our estimates and assumptions. The amount of reserves for claims not yet paid, for example, is an item that we can only record by estimation. Unrealized capital gains and losses on investments are subject to market fluctuations, and we use judgment in the determination of whether unrealized losses on certain securities are temporary or other-than-temporary. Should actual results differ significantly from these estimates, the effect on our results of operations could be material. The results of operations for the periods presented may not be indicative of our results for the entire year.

Recently Adopted Accounting Standards

In April 2015 the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) related to the presentation of debt issuance costs. The guidance requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. We adopted this standard retrospectively as of January 1, 2016.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

The following table illustrates the effect of adopting this standard on the Consolidated Balance Sheets (\$ in millions):

	December 31, 2015		
	As Reported	As Adjusted	Difference
Other assets	\$11.9	\$ 10.3	\$ (1.6)
Total assets	2,386.8	2,385.1	(1.6)
Long-term debt	275.0	273.4	(1.6)
Total liabilities	1,699.2	1,697.5	(1.6)
Total liabilities and shareholders' equity	2,386.8	2,385.1	(1.6)

Recently Issued Accounting Standards

In October 2016 the FASB issued an ASU related to the recognition of income tax on intra-entity transfers of assets other than inventory. The guidance requires the income tax to be recognized when the transfer occurs rather than when the asset is sold to an outside party. The standard is effective for annual periods beginning after December 15, 2017, and interim periods within the year of adoption, and is to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.