HILB ROGAL & HAMILTON CO /VA/
Form 10-Q
August 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 2002 — Commission file number 0-15981

HILB, ROGAL AND HAMILTON COMPANY
(Exact name of registrant as specified in its charter)

Virginia	54-1194795
(State or other jurisdiction of incorporation or organization)	(I.R.S.Employer Identification No.)
4951 Lake Brook Drive, Suite 500, Glen Allen, VA	23060
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (804) 747-6500

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 X No ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 31, 2002
Common stock, no par value	29,362,646

HILB, ROGAL AND HAMILTON COMPANY
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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

STATEMENT OF CONSOLIDATED INCOME

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

(UNAUDITED)

	THREE MONTHS ENDED		SIX MONTHS EN	
	JUNE 30, 2002	JUNE 30, 2001	JUNE 30, 2002	JU
Revenues				

Commissions and fees	$94,739,300	$74,302,275	$193,387,386
Investment income	459,780	668,604	973,628
Other	518,198	2,818,736	1,210,060
	95,717,278	77,789,615	195,571,074
Operating expenses			
Compensation and employee benefits	52,794,699	42,754,692	106,053,719
Other operating expenses	17,717,009	14,035,720	34,555,565
Depreciation	1,729,843	1,538,519	3,440,443
Amortization of intangibles	562,980	3,446,099	1,084,598
Interest expense	1,819,236	2,353,562	3,702,610
	74,623,767	64,128,592	148,836,935
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	21,093,511	13,661,023	46,734,139
Income taxes	8,591,021	5,874,240	19,048,411
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	12,502,490	7,786,783	27,685,728
Cumulative effect of accounting change, net of tax	-	-	3,944,484
NET INCOME	$12,502,490	$ 7,786,783	$ 31,630,212
Net Income Per Share - Basic:			
Income before cumulative effect of accounting change	$0.44	$0.29	$0.98
Cumulative effect of accounting change, net of tax	-	-	0.14
Net income	$0.44	$0.29	$1.12
Net Income Per Share - Assuming Dilution:			
Income before cumulative effect of accounting change	$0.40	$0.26	$0.88
Cumulative effect of accounting change, net of tax	-	-	0.12
Net income	$0.40	$0.26	$1.00

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

	JUNE 30, 2002 (UNAUDITED)	DECEM 2
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 59,139,354	$ 51,5
Investments	2,387,137	3,4
Receivables:		
Premiums and commissions, less allowance for doubtful accounts of $3,540,071 and $3,374,285, respectively	118,107,312	116,2
Other	23,795,498	17,6
	141,902,810	133,8
Prepaid expenses and other current assets	8,500,969	8,4
TOTAL CURRENT ASSETS	211,930,270	197,4
INVESTMENTS	1,179,284	1,3
PROPERTY AND EQUIPMENT, NET	18,162,909	19,4
GOODWILL	301,434,047	286,5
OTHER INTANGIBLE ASSETS	33,606,884	33,5
Less accumulated amortization	54,754,117	53,8
	280,286,814	266,2
OTHER ASSETS	9,180,755	9,7
	$520,740,032	$494,2
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Premiums payable to insurance companies	$172,698,354	$169,5
Accounts payable	7,865,561	7,3
Accrued expenses	18,067,235	20,3
Premium deposits and credits due customers	28,125,801	20,9
Current portion of long-term debt	5,604,780	6,9
TOTAL CURRENT LIABILITIES	232,361,731	225,0
LONG-TERM DEBT	103,270,821	114,4
OTHER LONG-TERM LIABILITIES	12,943,973	11,9
SHAREHOLDERS' EQUITY		
Common Stock, no par value; authorized 50,000,000 shares; outstanding 28,591,280 and 28,310,568 shares, respectively	58,084,333	55,5
Retained earnings	115,170,830	88,6
Accumulated other comprehensive income (loss):		
Unrealized loss on derivative contracts, net of		

deferred tax benefit of $914,000 and $955,000, respectively	(1,370,530)	(1,4
Other	278,874	
	172,163,507	142,8
	$520,740,032	$494,2

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

(UNAUDITED)

	COMMON STOCK	RETAINED EARNINGS	A CO IN
Balance at January 1, 2002	$55,542,485	$ 88,604,274	
Issuance of 280,712 shares of Common Stock	2,541,848		
Payment of dividends ($.1775 per share)		(5,063,656)	
Net income		31,630,212	
Derivative gain arising during 2002, net of tax			
Other	_	_	
Balance at June 30, 2002	$58,084,333	$115,170,830	
Balance at January 1, 2001	$22,361,312	$65,860,654	
Issuance of 619,958 shares of Common Stock	9,647,864		
Payment of dividends ($.1725 per share)		(4,663,613)	
Net income		15,567,809	
Cumulative effect of accounting change related to derivatives, net of tax			
Derivative loss arising during 2001, net of tax	_	_	
Balance at June 30, 2001	$32,009,176	$76,764,850	

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED CASH FLOWS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

(UNAUDITED)

	SIX MONTHS ENDED JUNE 30, 2002	JUNE 30,
OPERATING ACTIVITIES		
Net income	$ 31,630,212	$ 15,567
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of accounting change, net of tax	(3,944,484)	
Depreciation	3,440,443	3,020
Amortization of intangible assets	1,084,598	6,770
Net income plus amortization, depreciation and cumulative effect of accounting change, net of tax	32,210,769	25,358
Provision for losses on accounts receivable	584,252	447
Provision for deferred income taxes	1,913,655	
(Gain) loss on sale of assets	209,498	(2,622
Changes in operating assets and liabilities net of effects from insurance agency acquisitions and dispositions:		
(Increase) decrease in accounts receivable	(1,972,808)	7,730
(Increase) decrease in prepaid expenses	(274,074)	1,060
Increase (decrease) in premiums payable to insurance companies	1,377,091	(2,856
Increase in premium deposits and credits due customers	7,174,391	3,836
Increase in accounts payable	357,267	133
Decrease in accrued expense	(2,621,379)	(5,973
Other operating activities	(2,598,126)	1,840
NET CASH PROVIDED BY OPERATING ACTIVITIES	36,360,536	28,955
INVESTING ACTIVITIES		
Proceeds from maturities of held-to-maturity investments	1,879,064	357
Purchase of investments	(589,756)	(321
Purchase of property and equipment	(2,314,310)	(2,752
Purchase of insurance agencies, net of cash acquired	(11,890,811)	(19,270
Proceeds from sale of assets	475,329	4,285
Other investing activities	192,005	(134
NET CASH USED IN INVESTING ACTIVITIES	(12,248,479)	(17,836
FINANCING ACTIVITIES		
Proceeds from long-term debt	-	25,235
Principal payments on long-term debt	(12,851,039)	(9,868
Proceeds from issuance of Common Stock	1,361,897	1,873
Dividends	(5,063,656)	(4,663
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(16,552,798)	12,577
INCREASE IN CASH AND CASH EQUIVALENTS	7,559,259	23,697

Cash and cash equivalents at beginning of period	51,580,095	28,880
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 59,139,354	$ 52,577

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

June 30, 2002

(UNAUDITED)

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Hilb, Rogal and Hamilton Company (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period ended June 30, 2002, are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the year ended December 31, 2001.

Certain amounts for the prior period have been reclassified to conform to current year presentation.

NOTE B--CHANGES IN ACCOUNTING METHOD

Effective January 1, 2002, the Company changed its method of accounting for commissions on premiums billed and collected directly by insurance carriers on its middle-market property and casualty business. Prior to 2002, this revenue was recognized when received. Beginning January 1, 2002, this revenue is recorded on the later of the billing date or the effective date, consistent with the revenue recognition policy for agency billed business. This is the predominant practice followed in the industry. Management believes that this new methodology is preferable and that it better matches the income with the related expenses. For the three months ended June 30, 2002, the effect of this change was to increase net income by $0.9 million ($0.03 per share). For the six months ended June 30, 2002, the effect of this change was to increase net income by $5.5 million ($0.17 per share), which included the cumulative effect adjustment of $3.9 million ($0.12 per share), net of income taxes of $2.6 million. No prior period pro forma amounts have been presented to reflect the effect of retroactive application of the change as it is not practical for the Company to compute prior period pro forma amounts due to the lack of prior period data.

NOTE C--INTANGIBLE ASSETS

In June 2001, the Financial Accounting Standards Board issued Statements of

Financial Accounting Standards No. 141, "Business Combinations" (Statement 141), and No. 142, "Goodwill and Other Intangible Assets" (Statement 142). Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement 141 also included guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. Under Statement 142, goodwill will no

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

June 30, 2002

(UNAUDITED)

NOTE C--INTANGIBLE ASSETS-Continued

longer be amortized but will be subject to annual impairment tests. Intangible assets with finite lives will continue to be amortized over their useful lives. The Company adopted Statement 142 effective January 1, 2002.

The Company has tested goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company completed the first of the required impairment tests of goodwill as of January 1, 2002. No impairment charge resulted from this test.

The following table provides a reconciliation of the June 30, 2002 and 2001 reported net income to adjusted net income had Statement 142 been applied as of January 1, 2001.

	For the Three Months Ended June 30,		For the
	2002	2001	2002
Net Income - as reported	$12,502,490	$ 7,786,783	$31,630,2
Goodwill amortization, net of tax	-	2,080,092	
Adjusted net income	$12,502,490	$ 9,866,875	$31,630,2
Net Income Per Share - Basic:			
Net income - as reported	$0.44	$0.29	$1.
Goodwill amortization, net of tax	-	0.08	
Adjusted net income	$0.44	$0.37	$1.
Net Income Per Share - Assuming Dilution:			
Net income - as reported	$0.40	$0.26	$1.

Goodwill amortization, net of tax	-	0.07	
Adjusted net income	$0.40	$0.33	$1.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

June 30, 2002

(UNAUDITED)

NOTE C--INTANGIBLE ASSETS-Continued

Intangible assets consist of the following:

	As of June 30, 2002		As of Decem
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount
Amortizable intangible assets:			
Expiration rights	$4,950,000	$4,623,000	$5,085,000
Non-compete agreements	28,157,000	7,055,000	27,932,000
Tradename	500,000	63,000	500,000
Total	$33,607,000	$11,741,000	$33,517,000
Indefinite-lived intangible assets:			
Goodwill, net	$258,421,000		$243,526,000

Aggregate amortization expense for the six months ended June 30, 2002 and 2001 was $1,085,000 and $6,771,000, respectively.

Estimated amortization expense:	
For year ended December 31, 2002	$2,187,000
For year ended December 31, 2003	1,965,000
For year ended December 31, 2004	1,857,000
For year ended December 31, 2005	1,801,000
For year ended December 31, 2006	1,791,000
For year ended December 31, 2007	1,789,000

The changes in the net carrying amount of goodwill for the six months ended June 30, 2002, are as follows:

Balance as of December 31, 2001	$243,526,000
Goodwill acquired	15,037,000
Goodwill disposed	(142,000)
Balance as of June 30, 2002	$ 258,421,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

June 30, 2002

(UNAUDITED)

NOTE D--INCOME TAXES

Deferred taxes result from temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. The Company's effective rate varies from the statutory rate primarily due to state income taxes and non-deductible amortization.

NOTE E--ACQUISITIONS

During the first six months of 2002, the Company acquired certain assets and liabilities of four insurance agencies for approximately $8,473,000 ($7,986,000 in cash and $487,000 in guaranteed future payments) in purchase accounting transactions. The purchase price may be increased based on agency profitability per the contracts. These acquisitions are not material to the consolidated financial statements individually or in aggregate.

NOTE F--SALE OF ASSETS AND OTHER GAINS

During the six months ended June 30, 2002 and 2001, the Company sold certain insurance accounts and other assets resulting in a loss of approximately $209,000 and a gain of $2,623,000, respectively, including a $206,000 loss and a $2,584,000 gain during the second quarters of 2002 and 2001, respectively. Revenues, expenses and assets related to these dispositions were not material to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

June 30, 2002

(UNAUDITED)

NOTE G--NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share.

	THREE MONTHS ENDED		
	June 30, 2002	June 30, 2001	June 30

Numerator for basic net income per share - net income	$12,502,490	$ 7,786,783	$31,63
Effect of dilutive securities:			
5.25% convertible debenture	272,785	271,251	54
Numerator for dilutive net income per share - net income available after assumed conversions	$12,775,275	$ 8,058,034	$32,17
Denominator			
Weighted average shares	28,229,270	26,887,510	28,18
Effect of guaranteed future shares to be issued in connection with agency acquisitions	25,552	43,886	3
Denominator for basic net income per share	28,254,822	26,931,396	28,22
Effect of dilutive securities:			
Employee stock options	1,060,328	734,046	1,04
Employee non-vested stock	165,958	99,286	15
Contingent stock - acquisitions	38,111	36,536	2
5.25% convertible debenture	2,813,187	2,813,186	2,81
Dilutive potential common shares	4,077,584	3,683,054	4,04
Denominator for diluted net income per share - adjusted weighted average shares and assumed conversions	32,332,406	30,614,450	32,26
Net Income Per Share:			
Basic	$0.44	$0.29	
Assuming Dilution	$0.40	$0.26	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

June 30, 2002

(UNAUDITED)

NOTE H--SUBSEQUENT EVENT

On July 1, 2002 the Company acquired all of the issued and outstanding membership interest units of Hobbs Group, LLC ("Hobbs") other than those owned by Hobbs IRA Corp. ("HIRAC"), and all of the issued and outstanding capital stock of HIRAC pursuant to a Purchase Agreement, dated May 10, 2002, by and among the Company, Hobbs, the members of Hobbs (other than HIRAC) and the shareholders of HIRAC.

This acquisition allows the Company to expand its capabilities in the upper middle-market. In addition, Hobbs will provide the Company with additional market presence and expertise in the employee benefits services area and an entrance into executive benefits. Hobbs will also bring increased depth to the geographic reach of the Company's existing national platform.

The amount the Company paid in connection with the acquisition consisted of approximately $114.2 million in cash, which included the Company's assumption and retirement of certain debt of Hobbs, and the issuance to the members of Hobbs (other than HIRAC) and the shareholders of HIRAC of an aggregate of 719,729 shares of the Company's common stock ("Common Stock"). In addition, the Company has agreed to pay up to approximately $101.9 million in cash and shares of Common Stock contingent on Hobbs' achieving certain financial performance goals within the next two years. The Company has further agreed to assume and satisfy certain existing earn-out and deferred compensation obligations of Hobbs from Hobbs' prior acquisitions estimated to approximate a net present value of $30 million.

The Company's statement of consolidated income does not include any results of operations from Hobbs as the acquisition was consummated on July 1, 2002. The following unaudited pro forma results of operations of the Company give effect to the acquisition of Hobbs as though the transaction had occurred on January 1, 2002 and 2001, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

June 30, 2002

(UNAUDITED)

NOTE H--SUBSEQUENT EVENT-Continued

	Three Months Ended June 30		Six Months End June 30
	2002	2001	2002
Total Revenues	$121,864,000	$100,490,000	$246,516,000
Income before cumulative effect of accounting change and extraordinary item	$ 13,318,000	$ 9,297,000	$ 30,146,000
Net Income	$ 12,907,000	$ 9,297,000	$ 33,680,000
Income per share before cumulative effect of accounting change and extraordinary item:			
Basic	$0.46	$0.34	$1.04
Assuming Dilution	$0.41	$0.31	$0.93
Net Income Per Share:			
Basic	$0.45	$0.34	$1.16

Assuming Dilution	$0.40	$0.31	$1.04
	=====	=====	=====

The pro forma results for the three and six months ended June 30, 2002 include an extraordinary loss of $0.4 million related to Hobbs' debt extinguishment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

June 30, 2002

(UNAUDITED)

NOTE H--SUBSEQUENT EVENT-Continued

In addition, on July 1, 2002, the Company entered into a Second Amended and Restated Credit Agreement (the Amended Credit Agreement), dated as of July 1, 2002. The Amended Credit Agreement amends and restates an Amended and Restated Credit Agreement, dated as of April 6, 2001, and provides for a credit facility of up to an aggregate of $290.0 million. In particular, the Amended Credit Agreement maintains the availability to the Company of a revolving credit facility in the aggregate principal amount of $100.0 million and a term loan facility with an aggregate principal amount of $190.0 million. Pursuant to the Amended Credit Agreement, the increased term loan facility was made available to finance the cash payment in connection with the Hobbs acquisition and for working capital and general corporate purposes.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations:

Three Months Ended June 30, 2002

Net income for the three months ended June 30, 2002 was $12.5 million, or $0.40 per share, compared with $7.8 million, or $0.26 per share for the comparable period last year. Excluding net non-recurring gains and adjusting amortization to a pro forma basis in 2001 as if the new accounting standards related to goodwill had been adopted as of January 1, 2001, net income was $12.6 million for the quarter, a 51.3% increase from $8.3 million last year. Net income per share on the same basis was $0.40, compared with $0.28 last year. See "Note C - Intangible Assets" of Notes to Consolidated Financial Statements.

Commissions and fees were $94.7 million, an increase of 27.5% from commissions and fees of $74.3 million during the comparable period of the prior year. Approximately $12.5 million of commissions were derived from purchase acquisitions of new insurance agencies. This increase was offset by decreases of approximately $0.5 million from the sale of certain offices and accounts in 2002 and 2001. Excluding the effect of acquisitions and dispositions, commissions and fees increased 11.3%. This reflects new business production and continued industry-wide premium increases. Other income decreased $2.3 million primarily due to the sale of an agency and certain insurance accounts in 2001.

Expenses for the quarter increased $10.5 million or 16.4%. Compensation and benefits, other operating expenses and depreciation expense increased $10.0 million, $3.7 million and $0.2 million, respectively, primarily due to purchase acquisitions of insurance agencies and increased revenue production. Amortization of intangibles decreased approximately $2.9 million due primarily to the adoption of Statement 142. Interest expense decreased by $0.5 million due to decreased bank borrowings and decreased interest rates.

The Company's overall tax rate for the three months ended June 30, 2002 was 40.8% compared to 43.0% for the same period of the prior year. The decrease is primarily related to the non-amortization of goodwill resulting from the adoption of Statement 142.

Six Months Ended June 30, 2002

For the six months ended June 30, 2002, net income was $31.6 million, or $1.00 per share, compared to $15.6 million, or $0.53 per share last year. Excluding the effect of gains and the 2002 cumulative effect of an accounting change relating to revenue recognition and adjusting 2001 amortization to a pro forma basis, net income was $27.8 million, or $0.88 per share, up from $18.1 million or $0.61 per share a year ago.

Commissions and fees were $193.4 million, an increase of 27.8% from commissions and fees of $151.3 million during the comparable period of the prior year. Approximately $27.9 million of

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commissions were derived from purchase acquisitions of new insurance agencies. This increase was offset by decreases of approximately $1.4 million from the sale of certain offices and accounts in 2002 and 2001. Commissions and fees, excluding the effect of acquisitions and dispositions, increased 10.3%. This increase principally reflects new business production, firming premium levels and higher non-standard commissions.

Investment income decreased $0.3 million, or 24.8%, primarily due to a lower interest rate environment. Other income decreased $1.9 million or 61.0% from the prior year primarily due to the net impact of nonrecurring gains from the sale of an agency, certain insurance accounts and other assets.

Expenses increased by $20.4 million or 15.9%. Increases include $20.5 million in compensation and benefits, $6.1 million in other operating expenses and $0.4 million of depreciation expense, due primarily to purchase acquisitions of new insurance agencies and increased revenue production. Amortization of intangibles decreased approximately $5.7 million due primarily to the adoption of Statement 142. Interest expense decreased by $1.0 million due to decreased bank borrowings and by declines in interest rates.

The Company's overall tax rate was 40.8% for the six months ended June 30, 2002 compared to the rate of 43.0% for the six months ended June 30, 2001. The decrease was primarily related to the non-amortization of goodwill resulting from adoption of Statement 142.

For the three months ended June 30, 2002, net income as a percentage of revenues did not vary significantly from the three months ended March 31, 2002. Commission income was lower during the second quarter due to lower contingent commissions, the majority of which are historically received during the first quarter.

The timing of contingent commissions, policy renewals, acquisitions and dispositions may cause revenues, expenses and net income to vary significantly from quarter to quarter. As a result of the factors described above, operating results for the six months ended June 30, 2002 should not be considered indicative of the results that may be expected for the entire year ending December 31, 2002.

Liquidity and Capital Resources:

Net cash provided by operations totaled $36.4 million and $29.0 million for the six months ended June 30, 2002 and 2001, respectively, and is primarily dependent upon the timing of the collection of insurance premiums from clients and payment of those premiums to the appropriate insurance underwriters.

The Company has historically generated sufficient funds internally to finance capital expenditures for property and equipment. Cash expenditures for the acquisition of property and equipment were $2.3 million and $2.8 million for the six months ended June 30, 2002 and 2001, respectively. The timing and extent of the purchase and sale of investments is dependent upon cash needs and yields on alternate investments and cash equivalents. The purchase of insurance

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agencies accounted for under the purchase method of accounting utilized cash of $11.9 million and $19.3 million in the six months ended June 30, 2002 and 2001, respectively. Cash expenditures for such insurance agency acquisitions have been primarily funded through operations and long-term borrowings. In addition, a portion of the purchase price in such acquisitions may be paid through the Company's Common Stock and deferred cash payments. Cash proceeds from the sale of accounts and other assets amounted to $0.5 million and $4.3 million in the six months ended June 30, 2002 and 2001, respectively. The Company did not have any material capital expenditure commitments as of June 30, 2002.

Financing activities utilized cash of $16.6 million and provided cash of $12.6 million in the six months ended June 30, 2002 and 2001, respectively. The Company has consistently made scheduled debt payments and annually increased its dividend rate. The Company is currently authorized to purchase an additional 748,200 shares. The Company anticipates the continuance of its dividend policy. As of June 30, 2002, the Company had a bank credit agreement for $140.0 million under which loans are due in various amounts through 2004 and 5.25% Convertible Subordinated Debentures with a $32.0 million face value due 2014. At June 30, 2002, there were loans of $70.0 million outstanding under the bank agreement, with $70.0 million available under the revolving portion of the facility for future borrowings.

Subsequent to the end of the quarter, the Company signed the Second Amended and Restated Credit Agreement (Amended Credit Agreement). The new agreement amends and restates an Amended and Restated Credit Agreement dated April 6, 2001. The new agreement provides a $190.0 million term loan facility under which borrowings are due in various amounts through 2007 including $152.4 million due 2007. The Amended Credit Agreement also maintains the availability to the Company of a revolving credit facility in the aggregate principal amount of $100.0 million. The proceeds were used in part, to fund the cash portion of the Hobbs Group, LLC acquisition. Subsequent to amending the credit agreement and closing the acquisition of Hobbs Group, LLC, the Company had loans of $190.0 million outstanding under the Amended Credit Agreement, with $100.0 million available under the revolving portion of the facility.

The Amended Credit Agreement contains certain covenants that restrict, or may have the effect of restricting, the payment of dividends or distributions, and the purchase or redemption by the Company of its capital stock. Management does not believe that the restrictions contained in the Amended Credit Agreement will, in the foreseeable future, adversely affect the Company's ability to pay cash dividends at the current dividend rate.

The Company had a current ratio (current assets to current liabilities) of 0.91 to 1.00 as of June 30, 2002. Shareholders' equity of $172.2 million at June 30, 2002, is improved from $142.8 million at December 31, 2001. The debt to equity ratio of 0.60 to 1.00 is decreased from the ratio at December 31, 2001 of 0.80 to 1.00 due to the issuance of Common Stock, decreased borrowings and increased net income.

The Company believes that cash generated from operations, together with proceeds from borrowings, will provide sufficient funds to meet the Company's short and long-term funding needs.

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Business Acquisition

On July 1, 2002 the Company acquired all of the issued and outstanding membership interest units of Hobbs Group, LLC ("Hobbs") other than those owned by Hobbs IRA Corp. ("HIRAC"), and all of the issued and outstanding capital stock of HIRAC pursuant to a Purchase Agreement, dated May 10, 2002, by and among the Company, Hobbs, the members of Hobbs (other than HIRAC) and the shareholders of HIRAC.

Hobbs, which is based in Atlanta, Georgia, is one of the nation's premier independent insurance brokers serving upper middle-market and top-tier clients and provides property and casualty insurance brokerage, risk management, executive compensation and employee benefits services. This acquisition allows the Company to expand its capabilities in the upper middle-market. In addition, Hobbs will provide the Company with additional market presence and expertise in the employee benefits services area and an entrance into executive benefits. Hobbs will also bring increased depth to the geographic reach of the Company's existing national platform.

The amount the Company paid in connection with the acquisition consisted of approximately $114.2 million in cash, which included the Company's assumption and retirement of certain debt of Hobbs, and the issuance to the members of Hobbs (other than HIRAC) and the shareholders of HIRAC of an aggregate of 719,729 shares of the Company's Common Stock. In addition, the Company has agreed to pay up to approximately $101.9 million in cash and shares of Common Stock contingent on Hobbs' achieving certain financial performance goals within the next two years. The Company has further agreed to assume and satisfy certain existing earn-out and deferred compensation obligations of Hobbs from Hobbs' prior acquisitions estimated to approximate a net present value of $30 million. In addition, on July 1, 2002, the Company granted 625,000 stock options to key employees of Hobbs. The options have an exercise price equal to the fair market value at date of grant, expire in seven years and vest at a rate of 25% a year for four years.

Market Risk

The Company has certain investments and utilizes (on a limited basis) derivative financial instruments which are subject to market risk; however, the Company believes that exposure to market risk associated with these instruments is not material.

New Accounting Standard

The Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (Statement 142), effective January 1, 2002, which, among other things, ends the practice of amortizing goodwill. Net income for the quarter ended June 30, 2001 would have increased by $0.07 and $0.13 per share, respectively, on a pro forma basis, assuming adoption of Statement 142 as of January 1, 2001. The Company has tested goodwill for impairment using the

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two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company completed the first of the required impairment tests of goodwill as of January 1, 2002. No impairment charge resulted from this test.

Change in Accounting Principle

Effective January 1, 2002, the Company changed its method of accounting for commissions on premiums billed and collected directly by insurance carriers on its middle-market property and casualty business. Prior to 2002, this revenue was recognized when received. Beginning January 1, 2002, this revenue is recorded on the later of the billing date or the effective date, consistent with the revenue recognition policy for agency billed business. This is the predominant practice followed in the industry. Management believes that this new methodology is preferable and that it better matches the income with the related expenses. For the three months ended June 30, 2002, the effect of this change was to increase net income by $0.9 million ($0.30 per share). For the six months ended June 30, 2002, the effect of this change was to increase net income by $5.5 million ($0.17 per share), which included the cumulative effect adjustment of $3.9 million ($0.12 per share), net of income taxes of $2.6 million. No prior period pro forma amounts have been presented to reflect the effect of retroactive application of the change as it is not practical for the Company to compute prior period pro forma amounts due to the lack of prior period data.

Forward-Looking Statements

The Company cautions readers that the foregoing discussion and analysis includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by that Act. These forward-looking statements are believed by the Company to be reasonable based upon management's current knowledge and assumptions about future events, but are subject to the uncertainties generally inherent in any such forward-looking statement, including factors discussed above as well as other factors that may generally affect the Company's business, financial condition or operating results. Reference is made to the discussion of "Forward-Looking Statements" contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, regarding important risk factors and uncertainties that could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied in any forward-looking statement made by or on behalf of the Company.

Item 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is set forth under the caption "Market Risk" in Item 2 -- Management's Discussion and Analysis of Financial

Condition and Results of Operations.

PART II - OTHER INFORMATION

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Information required by this item was previously reported in the Company's Form 10-Q for the quarter ended March 31, 2002.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

Exhibit No.	Document
10.1	Second Amended and Restated Credit Agreement, dated as of July 1, 2002, among the Company, as Borrower; the lenders named therein; Wachovia Bank, National Association (formerly known as First Union National Bank), as administrative agent; PNC Bank, National Association, as documentation agent; and Bank of America Securities, LLC, as syndication agent (incorporated by reference to Exhibit 99.7 to the Company's Form 8-K dated July 16, 2002, File No. 0-15981)
10.2	Senior Executive Employment Agreement with Thomas A. Golub entered into May 10, 2002 (incorporated by reference to Exhibit 99.3 to the Company's Form 8-K dated July 16, 2002, File No. 0-15981)
10.3	Amended and Restated Consulting Agreement between the Company and Robert H. Hilb
99.1	Certification Statement of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
99.2	Certification Statement of Chief Financial Officer pursuant to 18 U.S.C. Section 1350

b) Reports on Form 8-K

(i) The Company filed a Current Report on Form 8-K with the Securities and Exchange Commission on May 13, 2002. The Form 8-K reported items 5 and 7 and attached as an exhibit and incorporated by reference a press release that announced the signing of a definitive agreement under which the Company would acquire Hobbs Group, LLC (Hobbs), for a combination of cash and stock, with a fixed amount of $142.0 million payable at closing, up to an additional $102.0 million on Hobbs' attaining certain financial goals within the next two years and the assumption of existing earnouts from Hobbs' prior acquisitions, estimated to be a new present value of $30.0 million.

(ii) The Company filed a current Report on Form 8-K with the Securities and Exchange Commission on July 16, 2002. The Form 8-K which was dated July 1, 2002, reported items 2 and 7 and announced the consummation of the Hobbs acquisition and included as exhibits (i) the audited financial statements of Hobbs for the years ended December 31, 2001, 2000 and 1999, (ii) unaudited financial statements of Hobbs as of March 31, 2002 and 2001, (iii) pro forma condensed combined balance sheet of the Company giving effect to the acquisition as if the acquisition had occurred on March 31, 2002 and (iv) pro forma condensed combined statements of income for the three months ended March 31, 2002 and the year ended December 31, 2001 giving effect to the acquisition as if the acquisition had occurred January 1, 2001.

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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 thereunto duly authorized.

Hilb, Rogal and Hamilton Company
(Registrant)

Date	August 14, 2002	By: /s/ Andrew L. Rogal Chairman and Chief Executive Officer (Principal Executive Officer)
Date	August 14, 2002	By: /s/ Carolyn Jones Senior Vice President and Chief Financial Officer (Principal Financial Officer)
Date	August 14, 2002	By: /s/ Robert W. Blanton, Jr. Vice President and Controller (Chief Accounting Officer)

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HILB, ROGAL AND HAMILTON COMPANY

EXHIBIT INDEX

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