

HILB ROGAL & HOBBS CO  
Form 10-Q  
November 05, 2007  
Table of Contents

**UNITED STATES**  
**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, 2007

Commission File Number 0-15981

---

**HILB ROGAL & HOBBS COMPANY**

(Exact name of registrant as specified in its charter)

---

Virginia  
(State or other jurisdiction of  
incorporation or organization)

54-1194795  
(I.R.S. Employer  
Identification No.)

4951 Lake Brook Drive, Suite 500

Glen Allen, Virginia  
(Address of principal executive offices)

23060  
(Zip Code)

(804) 747-6500

(Registrant's telephone number, including area code)

---

## Edgar Filing: HILB ROGAL & HOBBS CO - Form 10-Q

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  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 October 31, 2007
Common Stock, no par value	37,031,714

---

**Table of Contents**

**HILB ROGAL & HOBBS COMPANY**

**INDEX**

	<b>Page</b>
<b><u>Part I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements.</u></b>	
<u>Statement of Consolidated Income for the three months and nine months ended September 30, 2007 and 2006</u>	3
<u>Consolidated Balance Sheet September 30, 2007 and December 31, 2006</u>	4
<u>Statement of Consolidated Shareholders' Equity for the nine months ended September 30, 2007 and 2006</u>	5
<u>Statement of Consolidated Cash Flows for the nine months ended September 30, 2007 and 2006</u>	6
<u>Notes to Consolidated Financial Statements</u>	7-18
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	19-26
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	27
<u>Item 4. Controls and Procedures.</u>	27
<b><u>Part II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings.</u>	28
<u>Item 1A. Risk Factors.</u>	28
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	28
<u>Item 6. Exhibits.</u>	29
<u>Signatures</u>	30

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS.****STATEMENT OF CONSOLIDATED INCOME****HILB ROGAL & HOBBS COMPANY AND SUBSIDIARIES****(UNAUDITED)**

<i>(in thousands, except per share amounts)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>REVENUES</b>				
Core commissions and fees	\$ 186,381	\$ 167,479	\$ 532,841	\$ 478,624
Contingent commissions	4,149	1,914	45,724	43,040
Investment income	4,305	3,131	10,465	7,695
Other	674	641	4,763	6,014
	195,509	173,165	593,793	535,373
<b>OPERATING EXPENSES</b>				
Compensation and employee benefits	113,161	97,776	333,833	294,890
Other operating expenses	41,894	32,430	111,753	97,023
Depreciation	2,145	2,090	6,447	6,217
Amortization of intangibles	7,743	5,571	22,252	15,376
Interest expense	6,116	4,987	16,761	14,180
Regulatory charge and related costs	(5,725)		(5,725)	
Loss on extinguishment of debt	72		72	897
Integration costs		(243)		(243)
	165,406	142,611	485,393	428,340
<b>INCOME BEFORE INCOME TAXES</b>	30,103	30,554	108,400	107,033
Income taxes	10,477	11,486	41,340	41,412
<b>NET INCOME</b>	<b>\$ 19,626</b>	<b>\$ 19,068</b>	<b>\$ 67,060</b>	<b>\$ 65,621</b>
Net Income Per Share:				
Basic	\$ 0.53	\$ 0.53	\$ 1.84	\$ 1.83
Assuming Dilution	\$ 0.53	\$ 0.53	\$ 1.81	\$ 1.81

See notes to consolidated financial statements.

**Table of Contents****CONSOLIDATED BALANCE SHEET****HILB ROGAL & HOBBS COMPANY AND SUBSIDIARIES**

<i>(in thousands)</i>	September 30, 2007 (UNAUDITED)	December 31, 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents, including \$95,589 and \$59,821, respectively, of restricted funds	\$ 319,488	\$ 254,811
Receivables:		
Premiums and commissions, less allowance for doubtful accounts of \$4,134 and \$3,713, respectively	256,758	273,523
Other	44,314	34,169
	301,072	307,692
Prepaid expenses and other current assets	43,609	33,869
<b>TOTAL CURRENT ASSETS</b>	<b>664,169</b>	<b>596,372</b>
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>24,660</b>	<b>22,178</b>
<b>GOODWILL</b>	<b>719,104</b>	<b>636,997</b>
<b>OTHER INTANGIBLE ASSETS</b>	<b>305,052</b>	<b>219,458</b>
Less accumulated amortization	91,591	70,801
	932,565	785,654
<b>OTHER ASSETS</b>	<b>46,542</b>	<b>33,943</b>
	\$ 1,667,936	\$ 1,438,147
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Premiums payable to insurance companies	\$ 432,812	\$ 385,556
Accounts payable	34,687	22,572
Accrued expenses	49,366	70,703
Premium deposits and credits due customers	47,625	38,760
Current portion of long-term debt	15,251	9,060
<b>TOTAL CURRENT LIABILITIES</b>	<b>579,741</b>	<b>526,651</b>
<b>LONG-TERM DEBT</b>	<b>310,578</b>	<b>231,957</b>
<b>DEFERRED INCOME TAXES</b>	<b>43,404</b>	<b>32,231</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>44,594</b>	<b>43,939</b>
<b>SHAREHOLDERS EQUITY</b>		
Common Stock, no par value; authorized 100,000 shares; outstanding 36,995 and 36,312 shares, respectively	281,512	250,359
Retained earnings	403,155	350,084
Accumulated other comprehensive income		
Unrealized gain (loss) on interest rate swaps, net of deferred tax (expense) benefit of \$51 and \$(404), respectively	(79)	636
Foreign currency translation adjustments	5,031	2,290

Edgar Filing: HILB ROGAL & HOBBS CO - Form 10-Q

689,619

603,369

\$ 1,667,936 \$ 1,438,147

See notes to consolidated financial statements.

**Table of Contents****STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY****HILB ROGAL & HOBBS COMPANY AND SUBSIDIARIES****(UNAUDITED)**

<i>(in thousands, except per share amounts)</i>	<b>Common Stock</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>
Balance at January 1, 2007	\$ 250,359	\$ 350,084	\$ 2,926
Issuance of 683 shares of Common Stock	23,371		
Stock-based compensation	5,312		
Income tax benefit from exercise of stock options	2,470		
Payment of dividends (\$0.380 per share)		(13,989)	
Derivative loss, net of tax			(715)
Foreign currency translation adjustments			2,741
Net income		67,060	
Balance at September 30, 2007	\$ 281,512	\$ 403,155	\$ 4,952
Balance at January 1, 2006 (as previously reported)	\$ 233,292	\$ 312,040	\$ 925
Cumulative effect of restatement on prior period		(31,853)	
Balance at January 1, 2006 (restated)	\$ 233,292	\$ 280,187	\$ 925
Issuance of 800 shares of Common Stock	23,699		
Repurchase of 633 shares of Common Stock	(24,967)		
Stock-based compensation	7,090		
Income tax benefit from exercise of stock options	2,261		
Payment of dividends (\$0.355 per share)		(12,777)	
Derivative gain, net of tax			203
Foreign currency translation adjustments			1,053
Net income		65,621	
Balance at September 30, 2006 (restated)	\$ 241,375	\$ 333,031	\$ 2,181

See notes to consolidated financial statements.

**Table of Contents****STATEMENT OF CONSOLIDATED CASH FLOWS****HILB ROGAL & HOBBS COMPANY AND SUBSIDIARIES****(UNAUDITED)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>
<i>(in thousands)</i>		
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 67,060	\$ 65,621
Adjustments to reconcile net income to net cash provided by operating activities:		
Regulatory charge and related costs	(5,725)	
Loss on extinguishment of debt	72	897
Integration costs		(243)
Depreciation	6,447	6,217
Amortization of intangibles	22,252	15,376
Stock-based compensation	5,312	7,090
Provision for losses on receivables	1,353	1,028
Provision for deferred income taxes	4,886	2,537
Gain on sale of assets	(2,475)	(3,741)
Changes in operating assets and liabilities net of effects from insurance agency acquisitions and dispositions:		
Decrease in receivables	78,327	33,192
Increase in prepaid expenses	(7,664)	(190)
Decrease in premiums payable to insurance companies	(50,594)	(56,255)
Increase in premium deposits and credits due customers	4,989	7,438
Increase (decrease) in accounts payable	8,249	(1,911)
Increase (decrease) in accrued expenses	(15,081)	4,886
Decrease in regulatory charge accrual due to payments	(10,393)	(2,434)
Other operating activities	3,764	(2,168)
<b>Net Cash Provided by Operating Activities</b>	<b>110,779</b>	<b>77,340</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(6,339)	(4,375)
Purchase of insurance agencies, net of cash acquired	(97,194)	(50,846)
Proceeds from sale of assets	14,976	7,680
Sale of investments		13,800
Other investing activities	(1,794)	1,664
<b>Net Cash Used in Investing Activities</b>		