

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

August 04, 2011

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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 June 30, 2011

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, Suite 600, 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 July 29, 2011 there were 12,223,561 shares of the registrant's common stock outstanding.

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Exhibit 32	<u>Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.</u>
Exhibit 101	<u>XBRL Instance Document</u>

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(in thousands, except per share data)

(unaudited)

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	% Change	2011	2010	% Change
Revenues:						
Earned premium	\$ 251,584	\$ 225,590	11.5%	\$ 490,565	\$ 437,656	12.1%
Net investment income	10,619	11,583	(8.3)%	20,951	22,878	(8.4)%
Net realized gains (losses) on investments*	1,959	44	NM	4,882	(411)	NM
Other income	48	98	(51.0)%	100	121	(17.4)%
Total revenues	264,209	237,315	11.3%	516,498	460,244	12.2%
Costs and Expenses:						
Losses and loss adjustment expenses	192,453	153,281	25.6%	371,410	299,923	23.8%
Commissions and other underwriting expenses	57,454	53,864	6.7%	112,566	102,018	10.3%
Interest expense	2,702	2,700	0.1%	5,403	5,401	0.0%
Corporate general and administrative expenses	2,186	2,225	(1.8)%	3,924	4,097	(4.2)%
Other expenses	379	1,815	(79.1)%	399	2,547	(84.3)%
Total costs and expenses	255,175	213,885	19.3%	493,702	413,986	19.3%
Earnings before income taxes	9,035	23,430	(61.4)%	22,795	46,258	(50.7)%
Provision for income taxes	1,423	7,152	(80.1)%	4,204	14,358	(70.7)%
Net Earnings	\$ 7,611	\$ 16,278	(53.2)%	\$ 18,592	\$ 31,900	(41.7)%
Earnings per Common Share:						
Basic	\$ 0.62	\$ 1.25	(50.4)%	\$ 1.51	\$ 2.42	(37.6)%
Diluted	0.61	1.22	(50.0)%	1.48	2.37	(37.6)%
Average Number of Common Shares:						
Basic	12,280	13,054	(5.9)%	12,312	13,186	(6.6)%
Diluted	12,541	13,347	(6.0)%	12,596	13,484	(6.6)%
Cash Dividends per Common Share	\$ 0.18	\$ 0.14	28.6%	\$ 0.36	\$ 0.28	28.6%

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* Net realized gains before impairment losses	\$ 2,181	\$ 311	601.3%	\$ 5,728	\$ 1,389	312.4%
Total other-than-temporary impairment (OTTI) losses	(71)	(43)	65.1%	(1,679)	(142)	NM
Non-credit portion in other comprehensive income	0	0	0.0%	1,017	0	0.0%
OTTI losses reclassified from other comprehensive income	(151)	(224)	(32.6)%	(184)	(1,659)	(88.9)%
Net impairment losses recognized in earnings	(222)	(267)	(16.9)%	(846)	(1,800)	(53.0)%
Total net realized gains (losses) on investments	\$ 1,959	\$ 44	NM	\$ 4,882	\$ (411)	NM

NM = Not meaningful

See Condensed 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)

	June 30, 2011 (unaudited)	December 31, 2010
Assets		
Investments:		
Fixed maturities at fair value (amortized cost \$1,157,232 and \$1,153,802)	\$ 1,190,486	\$ 1,177,718
Equity securities at fair value (cost \$24,299 and \$29,333)	36,807	42,301
Total investments	\$ 1,227,293	\$ 1,220,019
Cash and cash equivalents	36,455	63,605
Accrued investment income	11,218	12,033
Agents' balances and premium receivable, net of allowances for doubtful accounts of \$12,242 and \$12,323	374,772	336,676
Property and equipment, net of accumulated depreciation of \$42,006 and \$43,731	38,280	25,132
Prepaid reinsurance premium	2,249	1,890
Recoverables from reinsurers (includes \$160 and \$289 on paid losses and LAE)	15,040	16,809
Deferred policy acquisition costs	90,514	79,398
Current and deferred income taxes	17,515	14,867
Receivable for securities sold	923	0
Other assets	10,060	6,653
Goodwill	75,275	75,275
Total assets	\$ 1,899,594	\$ 1,852,357
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 483,108	\$ 477,833
Unearned premium	466,332	417,371
Payable to reinsurers	0	42
Long-term debt (fair value \$210,280 and \$199,132)	194,769	194,729
Commissions payable	21,292	18,960
Payable for securities purchased	1,901	419
Other liabilities	65,116	81,819
Total liabilities	\$ 1,232,518	\$ 1,191,173
Commitments and contingencies (See Note 10)		
Shareholders' equity:		
Common stock, no par value (50,000,000 shares authorized; 21,255,089 and 21,167,947 shares issued)	\$ 21,299	\$ 21,228
Additional paid-in capital	352,816	349,742
Retained earnings	639,636	625,492
Accumulated other comprehensive income, net of tax	30,238	24,488
Treasury stock, at cost (9,002,019 and 8,698,962 shares)	(376,913)	(359,766)
Total shareholders' equity	\$ 667,076	\$ 661,184

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Total liabilities and shareholders' equity	\$ 1,899,594	\$ 1,852,357
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See Condensed 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	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Treasury Stock	Total
Balance at December 31, 2009	\$ 21,064	\$ 344,031	\$ 541,167	\$ 19,500	\$ (307,602)	\$ 618,160
Net earnings	\$	\$	\$ 31,900	\$	\$	\$ 31,900
Net change in postretirement benefit liability				(35)		(35)
Change in unrealized gain on investments				8,020		8,020
Change in non-credit component of impairment losses on fixed maturities				2,827		2,827
Comprehensive income						\$ 42,713
Dividends paid to common shareholders			(3,687)			(3,687)
Shares issued and share-based compensation expense	79	2,658				2,736
Acquisition of treasury stock					(30,730)	(30,730)
Balance at June 30, 2010	\$ 21,143	\$ 346,689	\$ 569,380	\$ 30,313	\$ (338,332)	\$ 629,192
Net earnings	\$	\$	\$ 59,623	\$	\$	\$ 59,623
Net change in postretirement benefit liability				(85)		(85)
Change in unrealized gain on investments				(7,149)		(7,149)
Change in non-credit component of impairment losses on fixed maturities				1,410		1,410
Comprehensive income						\$ 53,799
Dividends paid to common shareholders			(3,511)			(3,511)
Shares issued and share-based compensation expense	85	3,054				3,139
Acquisition of treasury stock					(21,434)	(21,434)
Balance at December 31, 2010	\$ 21,228	\$ 349,742	\$ 625,492	\$ 24,488	\$ (359,766)	\$ 661,184
Net earnings	\$	\$	\$ 18,592	\$	\$	\$ 18,592
Net change in postretirement benefit liability				(21)		(21)
Change in unrealized gain on investments				5,256		5,256
Change in non-credit component of impairment losses on fixed maturities				515		515
Comprehensive income						\$ 24,342
Dividends paid to common shareholders			(4,448)			(4,448)

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Shares issued and share-based compensation expense	71	3,073				3,145
Acquisition of treasury stock					(17,146)	(17,146)
Balance at June 30, 2011	\$ 21,299	\$ 352,816	\$ 639,636	\$ 30,238	\$ (376,913)	\$ 667,076

See Condensed Notes to Consolidated Financial Statements.

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	Three months ended June 30,	
	2011	2010
Operating Activities:		
Net earnings	\$ 7,611	\$ 16,278
Adjustments:		
Depreciation	2,281	2,595
Amortization	1,757	1,430
Net realized gains on investments	(1,959)	(44)
Loss on disposal of property and equipment	1	3
Share-based compensation expense	776	1,371
Non-cash activity related to rabbi trust	3	0
Decrease in accrued investment income	177	366
Increase in agents' balances and premium receivable	(5,428)	(6,294)
Decrease in reinsurance receivables	1,713	468
Increase in deferred policy acquisition costs	(2,251)	(2,386)
Increase in other assets	(10,071)	(12,419)
Increase (decrease) in unpaid losses and loss adjustment expenses	9,581	(2,958)
Increase in unearned premium	6,245	8,764
(Decrease) increase in other liabilities	(22,077)	20,429
Net cash (used in) provided by operating activities	(11,638)	27,603
Investing Activities:		
Purchases of and additional investments in:		
Fixed maturities	(53,251)	(97,534)
Property and equipment	(16,262)	(3,585)
Maturities and redemptions of fixed maturities	23,312	31,384
Sales of:		
Fixed maturities	48,016	68,467
Equity securities	2,994	0
Net cash provided by (used in) investing activities	4,809	(1,268)
Financing Activities:		
Proceeds from stock options exercised and employee stock purchases, including tax benefit	278	56
Acquisition of treasury stock	(10,298)	(19,010)
Dividends paid to shareholders	(2,216)	(1,823)
Net cash used in financing activities	(12,236)	(20,777)
Net (decrease) increase in cash and cash equivalents	(19,066)	5,558
Cash and cash equivalents at beginning of period	55,521	57,589
Cash and cash equivalents at end of period	\$ 36,455	\$ 63,147

See Condensed 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 CASH FLOWS

(in thousands)

(unaudited)

	Six months ended	
	June 30,	
	2011	2010
Operating Activities:		
Net earnings	\$ 18,592	\$ 31,900
Adjustments:		
Depreciation	4,826	5,274
Amortization	3,831	3,005
Net realized (gains) losses on investments	(4,882)	411
Loss on disposal of property and equipment	202	3