

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

November 05, 2015

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, 2015

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

incorporation or organization)

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)

03-0483872

(I.R.S. Employer

Identification No.)

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 October 30, 2015, there were 11,255,768 shares of the registrant's common stock outstanding.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

INDEX

		Page
	<u>PART I – FINANCIAL INFORMATION</u>	
Item 1	<u>Financial Statements</u>	
	<u>Consolidated Statements of Earnings</u>	<u>3</u>
	<u>Consolidated Statements of Comprehensive Income</u>	<u>4</u>
	<u>Consolidated Balance Sheets</u>	<u>5</u>
	<u>Consolidated Statements of Changes in Shareholders’ Equity</u>	<u>6</u>
	<u>Consolidated Statements of Cash Flows</u>	<u>7</u>
	<u>Condensed Notes to Consolidated Financial Statements</u>	<u>9</u>
Item 2	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>39</u>
Item 4	<u>Controls and Procedures</u>	<u>39</u>
	<u>PART II – OTHER INFORMATION</u>	
Item 1	<u>Legal Proceedings</u>	<u>40</u>
Item 1A	<u>Risk Factors</u>	<u>40</u>
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>40</u>
Item 6	<u>Exhibits</u>	<u>41</u>
	<u>Signature</u>	<u>42</u>
	<u>EXHIBIT INDEX</u>	
Exhibit 31.1	Certification of the Principal Executive Officer under Exchange Act Rule 13a-14(a)	
Exhibit 31.2	Certification of the Principal Financial Officer under Exchange Act Rule 13a-14(a)	
Exhibit 32	Certification of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350	

101.INS XBRL Instance Document  
101.SCH XBRL Taxonomy Extension Schema  
101.CAL XBRL Taxonomy Extension Calculation Linkbase  
101.DEF XBRL Taxonomy Extension Definition Linkbase  
101.LAB XBRL Taxonomy Extension Label Linkbase  
101.PRE XBRL Taxonomy Extension Presentation Linkbase

2

---

Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## 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 September 30,			Nine months ended September 30,				
	2015	2014	% Change	2015	2014	% Change		
Revenues:								
Earned premium	\$338,586	\$332,977	1.7	%	\$1,011,197	\$993,680	1.8	%
Installment and other fee income	24,005	23,254	3.2	%	73,122	71,439	2.4	%
Net investment income	9,970	8,754	13.9	%	27,908	26,663	4.7	%
Net realized (losses) gains on investments <sup>1</sup>	(410	) 1,013	(140.5	)%	974	3,503	(72.2	)%
Other income	232	162	42.8	%	913	442	106.7	%
Total revenues	372,383	366,160	1.7	%	1,114,113	1,095,727	1.7	%
Costs and Expenses:								
Losses and loss adjustment expenses	256,063	248,483	3.1	%	774,489	759,120	2.0	%
Commissions and other underwriting expenses	86,779	90,560	(4.2	)%	261,880	268,258	(2.4	)%
Interest expense	3,457	3,450	0.2	%	10,375	10,354	0.2	%
Corporate general and administrative expenses	1,726	1,790	(3.6	)%	5,752	6,012	(4.3	)%
Other expenses	1,545	151	924.7	%	2,900	467	520.4	%
Total costs and expenses	349,569	344,433	1.5	%	1,055,396	1,044,211	1.1	%
Earnings before income taxes	22,814	21,727	5.0	%	58,717	51,516	14.0	%
Provision for income taxes	7,077	6,872	3.0	%	18,333	15,667	17.0	%
Net Earnings	\$15,737	\$14,855	5.9	%	\$40,384	\$35,849	12.7	%
Net Earnings per Common Share:								
Basic	\$1.39	\$1.30	6.9	%	\$3.55	\$3.13	13.4	%
Diluted	1.38	1.29	7.0	%	3.52	3.10	13.5	%
Average Number of Common Shares:								
Basic	11,321	11,451	(1.1	)%	11,385	11,438	(0.5	)%
Diluted	11,383	11,554	(1.5	)%	11,474	11,572	(0.9	)%
Cash Dividends per Common Share	\$0.43	\$0.36	19.4	%	\$1.29	\$1.08	19.4	%
<sup>1</sup> Net realized (losses) gains before impairment losses								
	\$ (287	) \$1,034	(127.8	)%	\$1,686	\$3,558	(52.6	)%
Total other-than-temporary impairment (OTTI) losses								
	(123	) (24	) 419.2	%	(713	) (917	) (22.3	)%
Non-credit portion in other comprehensive income								
	0	2	NM		0	888	NM	

Edgar Filing: INFINITY PROPERTY & CASUALTY CORP - Form 10-Q

OTTI losses reclassified from other comprehensive income	0	0	NM	0	(25	)	NM				
Net impairment losses recognized in earnings	(123	)	(21	)	475.9	%	(713	)	(55	)	NM
Total net realized (losses) gains on investments	\$(410	)	\$1,013	(140.5	)%	\$974	\$3,503	(72.2	)%		

NM = Not Meaningful

See Condensed Notes to Consolidated Financial Statements.

3

---

Table of Contents

## 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,	
	2015	2014	2015	2014
Net earnings	\$15,737	\$14,855	\$40,384	\$35,849
Other comprehensive income before tax:				
Net change in postretirement benefit liability	16	(3	) 49	652
Unrealized (losses) gains on investments:				
Unrealized holding (losses) gains arising during the period	(11,301	) (10,232	) (16,357	) 13,138
Less: Reclassification adjustments for losses (gains) included in net earnings	410	(1,013	) (974	) (3,503
Unrealized (losses) gains on investments, net	(10,891	) (11,245	) (17,331	) 9,634
Other comprehensive (loss) income, before tax	(10,875	) (11,247	) (17,281	) 10,287
Income tax benefit (expense) related to components of other comprehensive income	3,806	3,937	6,049	(3,600
Other comprehensive (loss) income, net of tax	(7,069	) (7,311	) (11,233	) 6,686
Comprehensive income	\$8,669	\$7,544	\$29,151	\$42,535

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

## 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, 2015 (unaudited)	December 31, 2014
Assets		
Investments:		
Fixed maturities – at fair value (amortized cost \$1,404,698 and \$1,412,417)	\$1,415,130	\$1,431,843
Equity securities – at fair value (cost \$81,797 and \$77,862)	90,006	94,408
Short-term investments - at fair value (amortized cost \$5,214 and \$803)	5,214	803
Total investments	1,510,350	1,527,054
Cash and cash equivalents	70,605	84,541
Accrued investment income	12,387	12,976
Agents' balances and premium receivable, net of allowances for doubtful accounts of \$15,554 and \$15,510	537,746	483,638
Property and equipment, net of accumulated depreciation of \$71,445 and \$63,929	79,562	55,880
Prepaid reinsurance premium	6,179	4,809
Recoverables from reinsurers (includes \$775 and \$161 on paid losses and LAE)	15,965	14,530
Deferred policy acquisition costs	98,573	90,428
Current and deferred income taxes	27,297	20,022
Receivable for securities sold	2,659	4,549
Other assets	16,436	11,108
Goodwill	75,275	75,275
Total assets	\$2,453,035	\$2,384,812
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$679,018	\$668,177
Unearned premium	645,047	589,260
Long-term debt (fair value \$286,223 and \$291,044)	275,000	275,000
Commissions payable	18,957	18,673
Payable for securities purchased	13,016	17,173
Other liabilities	124,898	118,870
Total liabilities	1,755,937	1,687,153
Commitments and contingencies (See Note 9)		
Shareholders' equity:		
Common stock, no par value (50,000,000 shares authorized; 21,766,073 and 21,728,032 shares issued)	21,776	21,745
Additional paid-in capital	374,689	372,368
Retained earnings	751,323	725,651
Accumulated other comprehensive income, net of tax	12,261	23,494
Treasury stock, at cost (10,468,867 and 10,244,672 shares)	(462,951)	(445,599)
Total shareholders' equity	697,098	697,659
Total liabilities and shareholders' equity	\$2,453,035	\$2,384,812

See Condensed Notes to Consolidated Financial Statements.





Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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, 2013	\$21,684	\$368,902	\$685,011	\$ 16,624	\$(435,463)	\$656,758
Net earnings	—	—	35,849	—	—	35,849
Net change in postretirement benefit liability	—	—	—	424	—	424
Change in unrealized gain on investments	—	—	—	6,430	—	6,430
Change in non-credit component of impairment losses on fixed maturities	—	—	—	(168 )	—	(168 )
Comprehensive income	—	—	—	—	—	42,535
Dividends paid to common shareholders	—	—	(12,425 )	—	—	(12,425 )
Shares issued and share-based compensation expense, including tax benefit	58	3,293	—	—	—	3,350
Acquisition of treasury stock	—	—	—	—	(8,750 )	(8,750 )
Balance at September 30, 2014	\$21,742	\$372,195	\$708,435	\$ 23,311	\$(444,213)	\$681,469
Net earnings	—	—	21,352	—	—	21,352
Net change in postretirement benefit liability	—	—	—	(271 )	—	(271 )
Change in unrealized gain on investments	—	—	—	380	—	380
Change in non-credit component of impairment losses on fixed maturities	—	—	—	74	—	74
Comprehensive income	—	—	—	—	—	21,536
Dividends paid to common shareholders	—	—	(4,136 )	—	—	(4,136 )
Shares issued and share-based compensation expense, including tax benefit	4	173	—	—	—	177
Acquisition of treasury stock	—	—	—	—	(1,386 )	(1,386 )
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 postretirement 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 )
	31	2,321	—	—	—	2,352

Shares issued and share-based  
 compensation expense, including tax  
 benefit

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

See Condensed Notes to Consolidated Financial Statements.

6

---

Table of Contents

## 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,	
	2015	2014
Operating Activities:		
Net earnings	\$15,737	\$14,855
Adjustments:		
Depreciation	3,193	2,769
Amortization	5,215	5,519
Net realized losses (gains) on investments	410	(1,013)
Loss on disposal of property and equipment	916	10
Share-based compensation expense	135	732
Excess tax benefits from share-based payment arrangements	0	(62)
Activity related to rabbi trust	(88)	(22)
Change in accrued investment income	1,133	1,278
Change in agents' balances and premium receivable	3,795	(13,222)
Change in reinsurance receivables	(1,284)	206
Change in deferred policy acquisition costs	771	(1,348)
Change in other assets	(2,898)	(34)
Change in unpaid losses and loss adjustment expenses	(2,009)	7,976
Change in unearned premium	(7,900)	11,530
Change in other liabilities	1,336	3,801
Net cash provided by operating activities	18,461	32,976
Investing Activities:		
Purchases of fixed maturities	(97,646)	(97,660)
Purchases of equity securities	(5,000)	0
Purchases of short-term investments	(4,752)	(7,720)
Purchases of property and equipment	(5,748)	(3,092)
Maturities and redemptions of fixed maturities	42,600	50,767
Maturities and redemptions of short-term investments	500	200
Proceeds from sale of fixed maturities	72,846	60,915
Proceeds from sale of short-term investments	3,086	6,864
Proceeds from sale of property and equipment	0	4
Net cash provided by investing activities	5,886	10,277
Financing Activities:		
Proceeds from stock options exercised and employee stock purchases	58	73
Excess tax benefits from share-based payment arrangements	0	62
Principal payments under capital lease obligation	(125)	(123)
Acquisition of treasury stock	(9,297)	(3,589)
Dividends paid to shareholders	(4,858)	(4,142)
Net cash used in financing activities	(14,222)	(7,719)
Net increase in cash and cash equivalents	10,124	35,534
Cash and cash equivalents at beginning of period	60,481	59,139

Cash and cash equivalents at end of period	\$70,605	\$94,672
--	----------	----------

7

---

Table of Contents

## 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)

	Nine months ended September	
	30,	
	2015	2014
Operating Activities:		
Net earnings	\$40,384	\$35,849
Adjustments:		
Depreciation	9,116	7,967
Amortization	16,314	16,786
Net realized gains on investments	(974	) (3,503
Loss (gain) on disposal of property and equipment	1,155	(17
Share-based compensation expense	1,863	2,441
Excess tax benefits from share-based payment arrangements	(298	) (213
Activity related to rabbi trust	(77	) 39
Change in accrued investment income	590	572
Change in agents' balances and premium receivable	(54,108	) (56,416
Change in reinsurance receivables	(2,805	) (1,532
Change in deferred policy acquisition costs	(8,145	) (7,107
Change in other assets	(6,238	) 1,811
Change in unpaid losses and loss adjustment expenses	10,841	26,621
Change in unearned premium	55,787	56,272
Change in other liabilities	6,435	8,112
Net cash provided by operating activities	69,839	87,681
Investing Activities:		
Purchases of fixed maturities	(385,319	) (396,904
Purchases of equity securities	(7,000	) (2,600
Purchases of short-term investments	(8,413	) (7,920
Purchases of property and equipment	(33,953	) (16,043
Maturities and redemptions of fixed maturities	149,102	123,958
Maturities and redemptions of short-term investments	785	2,800
Proceeds from sale of fixed maturities	224,982	178,254
Proceeds from sale of equity securities	4,489	4,999
Proceeds from sale of short-term investments	3,086	6,864
Proceeds from sale of property and equipment	0	34
Net cash used in investing activities	(52,240	) (106,558
Financing Activities:		
Proceeds from stock options exercised and employee stock purchases	191	697
Excess tax benefits from share-based payment arrangements	298	213
Principal payments under capital lease obligation	(371	) (398
Acquisition of treasury stock	(16,942	) (8,749
Dividends paid to shareholders	(14,711	) (12,425
Net cash used in financing activities	(31,535	) (20,662
Net decrease in cash and cash equivalents	(13,936	) (39,539

Edgar Filing: INFINITY PROPERTY & CASUALTY CORP - Form 10-Q

Cash and cash equivalents at beginning of period	84,541	134,211
Cash and cash equivalents at end of period	\$70,605	\$94,672
See <u>Condensed Notes to Consolidated Financial Statements</u> .		

8

---

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015

INDEX TO NOTES

1. Reporting and Accounting Policies
2. Computation of Net Earnings Per Share
6. Income Taxes