

National Interstate CORP
Form 10-Q
August 03, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2012

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 Number 000-51130

National Interstate Corporation

(Exact name of registrant as specified in its charter)

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Ohio
(State or other jurisdiction of
incorporation or organization)

34-1607394
(I.R.S. Employer
Identification No.)

3250 Interstate Drive
Richfield, Ohio 44286-9000
(330) 659-8900

(Address and telephone number of principal executive offices)

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 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. (Check One):

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's sole class of common shares as of August 1, 2012 was 19,476,370.

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Table of Contents**PART I - FINANCIAL INFORMATION****ITEM 1. Financial Statements****National Interstate Corporation and Subsidiaries****Consolidated Balance Sheets****(In thousands, except per share data)**

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Investments:		
Fixed maturities available-for-sale, at fair value (amortized cost - \$926,119 and \$911,363, respectively)	\$ 960,121	\$ 937,619
Equity securities available-for-sale, at fair value (amortized cost - \$22,710 and \$30,987, respectively)	25,341	31,750
Other invested assets	34,822	28,061
Total investments	1,020,284	997,430
Cash and cash equivalents	40,365	23,674
Accrued investment income	9,366	9,160
Premiums receivable, net of allowance for doubtful accounts of \$2,177 and \$2,662, respectively	207,074	171,518
Reinsurance recoverable on paid and unpaid losses	191,756	199,081
Prepaid reinsurance premiums	39,427	33,225
Deferred policy acquisition costs	27,158	24,603
Deferred federal income taxes	22,165	26,241
Property and equipment, net	24,798	24,419
Funds held by reinsurer	2,328	3,427
Intangible assets, net	8,504	8,660
Prepaid expenses and other assets	1,986	1,940
Total assets	\$ 1,595,211	\$ 1,523,378
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 786,888	\$ 776,576
Unearned premiums and service fees	260,237	232,548
Debt	22,000	22,000
Amounts withheld or retained for accounts of others	64,687	62,531
Reinsurance balances payable	28,527	23,593
Accounts payable and other liabilities	46,822	41,640
Commissions payable	12,208	10,785
Assessments and fees payable	5,256	4,806
Total liabilities	1,226,625	1,174,479
Shareholders' equity:		
Preferred shares - no par value		
Authorized - 10,000 shares		
Issued - 0 shares		
Common shares - \$0.01 par value		
Authorized - 50,000 shares		
Issued - 23,350 shares, including 3,934 and 3,952 shares, respectively, in treasury	234	234

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Additional paid-in capital	51,592	51,295
Retained earnings	298,518	285,403
Accumulated other comprehensive income	23,812	17,561
Treasury shares	(5,570)	(5,594)
Total shareholders' equity	368,586	348,899
Total liabilities and shareholders' equity	\$ 1,595,211	\$ 1,523,378

See notes to consolidated financial statements.

Table of Contents**National Interstate Corporation and Subsidiaries****Consolidated Statements of Income****(Unaudited)****(In thousands, except per share data)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Premiums earned	\$ 110,866	\$ 106,464	\$ 220,991	\$ 211,603
Net investment income	8,953	7,796	18,136	14,698
Net realized gains on investments (*)	421	1,316	2,163	2,516
Other	814	854	1,643	1,970
Total revenues	121,054	116,430	242,933	230,787
Expenses:				
Losses and loss adjustment expenses	82,860	78,570	163,413	153,229
Commissions and other underwriting expenses	22,636	21,417	44,170	41,912
Other operating and general expenses	4,569	4,095	9,499	8,636
Expense on amounts withheld	971	979	2,011	1,819
Interest expense	63	55	125	109
Total expenses	111,099	105,116	219,218	205,705
Income before income taxes	9,955	11,314	23,715	25,082
Provision for income taxes	2,690	3,255	6,704	7,605
Net income	\$ 7,265	\$ 8,059	\$ 17,011	\$ 17,477
Net income per share - basic	\$ 0.37	\$ 0.42	\$ 0.88	\$ 0.90
Net income per share - diluted	\$ 0.37	\$ 0.41	\$ 0.87	\$ 0.90
Weighted average of common shares outstanding - basic	19,415	19,368	19,412	19,367
Weighted average of common shares outstanding - diluted	19,535	19,482	19,540	19,479
Cash dividends per common share	\$ 0.10	\$ 0.09	\$ 0.20	\$ 0.18

(*) Consists of the following:

Net realized gains before impairment losses	\$ 485	\$ 1,316	\$ 2,307	\$ 2,516
Total losses on securities with impairment charges	(64)		(144)	
Non-credit portion recognized in other comprehensive income				
Net impairment charges recognized in earnings	(64)		(144)	

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Net realized gains on investments	\$	421	\$	1,316	\$	2,163	\$	2,516
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See notes to consolidated financial statements.

Table of Contents**National Interstate Corporation and Subsidiaries****Consolidated Statements of Comprehensive Income****(Unaudited)****(Dollars in thousands)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net Income	\$ 7,265	\$ 8,059	\$ 17,011	\$ 17,477
Other comprehensive income, before tax:				
Net unrealized gains on available-for-sale securities:				
Net unrealized holding gains on securities arising during the period	2,149	10,953	12,050	11,477
Reclassification adjustment for net realized gains included in net income	(2,102)	(817)	(2,434)	(1,805)
Total other comprehensive income, before tax	47	10,136	9,616	9,672
Deferred income taxes on other comprehensive income	16			