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National Interstate CORP  
Form 10-Q  
November 04, 2015  
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, 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 Number: 000-51130

National Interstate Corporation  
(Exact name of registrant as specified in its charter)

Ohio	34-1607394
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3250 Interstate Drive, Richfield, OH	44286-9000
(Address of principal executives offices)	(Zip Code)

(330) 659-8900  
(Registrant's telephone number, including area code)

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 (§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 <input type="checkbox"/>	Accelerated Filer <input checked="" type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company <input type="checkbox"/>

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 October 30, 2015 was 19,901,904.

Table of Contents

National Interstate Corporation  
Table of Contents

	Page
<u>Part I – Financial Information</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Consolidated Balance Sheets</u>	<u>3</u>
<u>Consolidated Statements of Income</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>5</u>
<u>Consolidated Statements of Shareholders' Equity</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>24</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>38</u>
<u>Item 4. Controls and Procedures</u>	<u>38</u>
<u>Part II – Other Information</u>	<u>39</u>
<u>Item 1. Legal Proceedings</u>	<u>39</u>
<u>Item 1A. Risk Factors</u>	<u>39</u>
<u>Item 6. Exhibits</u>	<u>39</u>

Table of Contents

## PART I—FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## National Interstate Corporation and Subsidiaries

## Consolidated Balance Sheets

(Dollars in thousands, except per share data)

	September 30, 2015 (Unaudited)	December 31, 2014
<b>ASSETS</b>		
Investments:		
Fixed maturities available-for-sale, at fair value (amortized cost – \$1,019,843 and \$945,956, respectively)	\$1,043,555	\$974,746
Equity securities available-for-sale, at fair value (amortized cost – \$88,956 and \$76,352, respectively)	90,006	85,228
Other invested assets	48,018	46,786
Total investments	1,181,579	1,106,760
Cash and cash equivalents	81,704	53,583
Accrued investment income	8,744	8,724
Premiums receivable, net of allowance for doubtful accounts of \$2,180 and \$2,627, respectively	284,358	271,336
Reinsurance recoverable on paid and unpaid losses	207,991	180,332
Prepaid reinsurance premiums	51,091	47,013
Deferred policy acquisition costs	22,431	22,654
Deferred federal income taxes	28,382	23,150
Property and equipment, net	23,134	24,538
Funds held by reinsurer	4,776	4,335
Intangible assets, net	7,650	7,791
Prepaid expenses and other assets	2,139	4,517
Total assets	\$1,903,979	\$1,754,733
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$976,237	\$883,078
Unearned premiums and service fees	315,656	311,255
Long-term debt	12,000	12,000
Amounts withheld or retained for accounts of others	117,298	101,799
Reinsurance balances payable	45,197	31,069
Accounts payable and other liabilities	49,579	33,402
Commissions payable	16,089	15,392
Assessments and fees payable	4,800	4,649
Total liabilities	1,536,856	1,392,644
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 3,450 and 3,557 shares, respectively, in treasury	234	234
Additional paid-in capital	61,528	59,386
Retained earnings	294,161	283,031

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Accumulated other comprehensive income	16,096	24,483
Treasury shares	(4,896	) (5,045
Total shareholders' equity	367,123	362,089
Total liabilities and shareholders' equity	\$1,903,979	\$1,754,733
See notes to consolidated financial statements.		

3

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Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Premiums earned	\$ 151,483	\$ 140,009	\$ 433,198	\$ 412,651
Net investment income	9,927	9,130	29,411	26,615
Net realized (losses) gains on investments (*)	(3,836	) 2,622	(2,336	) 6,294
Other	1,046	941	2,762	2,487
Total revenues	158,620	152,702	463,035	448,047
Expenses:				
Losses and loss adjustment expenses	120,090	110,755	342,414	346,920
Commissions and other underwriting expenses	24,200	24,058	70,547	70,482
Other operating and general expenses	6,145	4,912	19,262	15,797
Transaction expenses	—	—	—	2,163
Expense on amounts withheld	1,602	1,971	4,755	4,952
Interest expense	50	59	146	191
Total expenses	152,087	141,755	437,124	440,505
Income before income taxes	6,533	10,947	25,911	7,542
Provision for income taxes	1,388	2,154	7,015	1,437
Net income	\$ 5,145	\$ 8,793	\$ 18,896	\$ 6,105
Net income per share – basic	\$ 0.26	\$ 0.44	\$ 0.95	\$ 0.31
Net income per share – diluted	\$ 0.26	\$ 0.44	\$ 0.95	\$ 0.31
Weighted average of common shares outstanding – basic	19,868	19,780	19,847	19,746
Weighted average of common shares outstanding – diluted	19,916	19,853	19,896	19,823
Cash dividends per common share	\$ 0.13	\$ 0.12	\$ 0.39	\$ 0.36

(\*) Consists of the following:

Net realized (losses) gains before impairment losses	\$ (706	) \$ 2,942	\$ 2,168	\$ 6,979
Total losses on securities with impairment charges	(3,133	) (320	) (4,492	) (455
Non-credit portion recognized in other comprehensive income	3	—	(12	) (230
Net impairment charges recognized in earnings	(3,130	) (320	) (4,504	) (685
Net realized (losses) gains on investments	\$ (3,836	) \$ 2,622	\$ (2,336	) \$ 6,294

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 September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
Net income	\$5,145	\$8,793	\$18,896	\$6,105	
Other comprehensive (loss) income, before tax:					
Net unrealized gains on available-for-sale securities:					
Net unrealized holding (losses) gains on securities arising during the period	(7,890	) (6,947	) (11,895	) 10,647	
Reclassification adjustment for net realized losses (gains) included in net income	702	(1,570	) (1,009	) (2,726	)
Total other comprehensive (loss) income, before tax	(7,188	) (8,517	) (12,904	) 7,921	
Deferred income tax (benefit) expense on other comprehensive (loss) income	(2,517	) (2,981	) (4,517	) 2,772	
Other comprehensive (loss) income, net of tax	(4,671	) (5,536	) (8,387	) 5,149	
Total comprehensive income	\$474	\$3,257	\$10,509	\$11,254	
See notes to consolidated financial statements.					

Table of Contents

National Interstate Corporation and Subsidiaries  
 Consolidated Statements of Shareholders' Equity  
 (Unaudited)  
 (Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at January 1, 2015	\$234	\$59,386	\$283,031	\$ 24,483	\$(5,045 )	\$362,089
Net income			18,896			18,896
Other comprehensive loss, net of tax				(8,387 )		(8,387 )
Dividends on common stock			(7,766 )			(7,766 )
Issuance of 107,006 treasury shares upon exercise of options and restricted stock issued, net of forfeitures		1,598			149	1,747
Net tax effect from exercise/vesting of stock-based compensation		(48 )				(48 )
Stock-based compensation expense		592				592
Balance at September 30, 2015	\$234	\$61,528	\$294,161	\$ 16,096	\$(4,896 )	\$367,123