

ALLEGHANY CORP /DE
Form 10-Q
November 07, 2011

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 QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

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 1-9371

ALLEGHANY CORPORATION

EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER

DELAWARE
STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION

51-0283071

I.R.S. EMPLOYER IDENTIFICATION NO.

7 TIMES SQUARE TOWER, 17TH FLOOR, NY, NY 10036
ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE
212-752-1356

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 (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 (SECTION 232.405 OF THIS CHAPTER) DURING THE PRECEDING 12 MONTHS (OR 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, OR A NON-ACCELERATED FILER. SEE DEFINITION OF ACCELERATED FILER

AND LARGE ACCELERATED FILER IN RULE 12b-2 OF THE EXCHANGE ACT.

(CHECK ONE):

LARGE ACCELERATED FILER ACCELERATED FILER

NON-ACCELERATED FILER SMALLER REPORTING COMPANY

(DO NOT CHECK IF A SMALLER REPORTING COMPANY)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT). 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 LAST PRACTICABLE DATE.

8,566,272 SHARES AS OF NOVEMBER 2, 2011

Part I. FINANCIAL INFORMATION**Item 1. Financial Statements.****ALLEGHANY CORPORATION AND SUBSIDIARIES****Consolidated Balance Sheets**

	September 30, 2011 (unaudited)	December 31, 2010
	(in thousands, except share amounts)	
Assets		
Investments		
Available-for-sale securities at fair value:		
Equity securities (cost: 2011 \$1,428,239; 2010 \$1,310,009)	\$ 1,405,351	\$ 1,500,686
Debt securities (amortized cost: 2011 \$2,822,548; 2010 \$2,778,117)	2,942,191	2,832,411
Short-term investments	176,631	264,811
	4,524,173	4,597,908
Other invested assets	189,222	207,294
Total investments	4,713,395	4,805,202
Cash	90,479	76,741
Premium balances receivable	134,139	128,075
Reinsurance recoverables	858,502	873,295
Ceded unearned premium reserves	151,894	144,065
Deferred acquisition costs	72,351	67,692
Property and equipment at cost, net of accumulated depreciation and amortization	18,827	19,504
Goodwill and other intangibles, net of amortization	139,796	142,312
Current taxes receivable	9,467	
Net deferred tax assets	120,445	77,147
Other assets	103,029	97,666
	\$ 6,412,324	\$ 6,431,699
Liabilities and Stockholders Equity		
Loss and loss adjustment expenses	\$ 2,328,167	\$ 2,328,742
Unearned premiums	577,643	523,927
Senior Notes	299,007	298,923
Reinsurance payable	45,821	41,500
Current taxes payable		3,220
Other liabilities	314,031	326,519
Total liabilities	3,564,669	3,522,831
Common stock		
(shares authorized: 2011 and 2010 22,000,000; issued and outstanding 2011 9,117,787; 2010 9,300,448)	9,118	9,118
Contributed capital	937,547	928,816
Accumulated other comprehensive income	71,757	170,262
Treasury stock, at cost (2011 418,470 shares; 2010 351,532 shares)	(123,404)	(99,686)
Retained earnings	1,952,637	1,900,358

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Total stockholders' equity	2,847,655	2,908,868
	\$ 6,412,324	\$ 6,431,699

See accompanying Notes to Unaudited Consolidated Financial Statements.

ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings and Comprehensive Income

(unaudited)

	Three Months Ended September 30,	
	2011	2010
	(in thousands, except per share amounts)	
Revenues		
Net premiums earned	\$ 190,209	\$ 190,632
Net investment income	22,050	29,424
Net realized capital gains	22,706	27,248
Other than temporary impairment losses	(2,756)	(2,453)
Other income	321	5,312
Total revenues	232,530	250,163
Costs and expenses		
Loss and loss adjustment expenses	121,777	106,416
Commissions, brokerage and other underwriting expenses	68,239	64,202
Other operating expenses	2,595	9,928
Corporate administration	2,649	8,553
Interest expense	4,329	696
Total costs and expenses	199,589	189,795
Earnings before income taxes	32,941	60,368
Income taxes	13,783	23,736
Net earnings	\$ 19,158	\$ 36,632
Other comprehensive income		
Change in unrealized gains (losses), net of deferred taxes	\$ (133,375)	\$ 80,598
Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes	(12,968)	(16,117)
Other	(50)	49
Comprehensive income	\$ (127,235)	\$ 101,162
Basic earnings per share*	\$ 2.17	\$ 4.07
Diluted earnings per share*	\$ 2.03	\$ 4.07

* Amounts reflect subsequent common stock dividends.

See accompanying Notes to Unaudited Consolidated Financial Statements.

ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings and Comprehensive Income

(unaudited)

	Nine Months Ended September 30,	
	2011	2010
	(in thousands, except per share amounts)	
Revenues		
Net premiums earned	\$ 555,067	\$ 574,141
Net investment income	82,174	93,547
Net realized capital gains	63,888	87,023
Other than temporary impairment losses	(2,756)	(9,233)
Other income	1,454	6,946
Total revenues	699,827	752,424
Costs and expenses		
Loss and loss adjustment expenses	315,418	286,070
Commissions, brokerage and other underwriting expenses	198,899	195,331
Other operating expenses	21,514	26,861
Corporate administration	14,030	20,111
Interest expense	13,049	1,131
Total costs and expenses	562,910	529,504
Earnings before income taxes	136,917	222,920
Income taxes	31,337	61,848
Net earnings	\$ 105,580	\$ 161,072
Other comprehensive income		
Change in unrealized gains (losses), net of deferred taxes	\$ (58,540)	\$ 53,015
Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes	(39,736)	(50,564)
Other	(229)	148
Comprehensive income	\$ 7,075	\$ 163,671
Basic earnings per share*	\$ 11.89	\$ 17.67
Diluted earnings per share*	\$ 11.76	\$ 17.64

* Amounts reflect subsequent common stock dividends.

See accompanying Notes to Unaudited Consolidated Financial Statements.

ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited)

	Nine Months Ended September 30,	
	2011	2010
	(in thousands)	
Cash flows from operating activities		
Net earnings	\$ 105,580	\$ 161,072
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	19,899	25,433
Net realized capital (gains) losses	(63,888)	(87,023)
Other than temporary impairment losses	2,756	9,233
(Increase) decrease in other assets	15,427	12,280
(Increase) decrease in reinsurance receivable, net of reinsurance payable	19,114	53,221
(Increase) decrease in premium balances receivable	(6,064)	24,568
(Increase) decrease in ceded unearned premium reserves	(7,829)	3,724
(Increase) decrease in deferred acquisition costs	(4,659)	(293)
Increase (decrease) in other liabilities and current taxes	(26,315)	770
Increase (decrease) in unearned premiums	53,716	(5,398)
Increase (decrease) in loss and loss adjustment expenses	(575)	(132,153)
Net adjustments	1,582	(95,638)
Net cash (used in) provided by operating activities	107,162	65,434
Cash flows from investing activities		
Purchases of investments	(1,161,233)	(1,746,763)
Sales of investments	797,298	1,332,233
Maturities of investments	263,932	304,787
Purchases of property and equipment	(5,274)	(4,807)
Net change in short-term investments	88,202	(150,844)
Acquisition of equity method investments		(20,000)
Other, net	(827)	60,751