

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**
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ARGONAUT GROUP INC

CIK: **800082** | IRS No.: **954057601** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-14950** | Film No.: **95535924**
SIC: **6411** INSURANCE AGENTS, BROKERS & SERVICE

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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15 (d) of the Securities
Exchange Act of 1934

For the Period Ended March 31, 1995 Commission file number 0-14950

Argonaut Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-4057601
(I.R.S. employer identification number)

1800 Avenue of the Stars, Suite 1175, Los Angeles, California 90067-6045
(Address of principal executive offices) (Zip Code)

310.553.0561
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports 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 X No
 --- ---

As of April 28, 1995 there were outstanding 24,215,424 shares of common stock, par value \$.10 per share, of the registrant.

ARGONAUT GROUP, INC.

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PART I. FINANCIAL INFORMATION

Item 1.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 - Basis of Presentation

The consolidated balance sheet as of March 31, 1995, and the related consolidated statements of income for the three-month periods ended March 31, 1995 and 1994 and the statements of cash flows for the three-month periods ended March 31, 1995 and 1994 are unaudited, and, in the opinion of management, include all adjustments which are necessary for a fair presentation of such

statements. Such adjustments consist of only normal recurring items. Interim results are not necessarily indicative of results for other interim periods or for a full year.

For a description of accounting policies, see notes to financial statements in the Annual Report or the Form 10-K. Certain prior year amounts have been reclassified to conform with the current year's presentation.

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ARGONAUT GROUP, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (In million except per share amounts)

	March 31, 1995 (unaudited)	December 31, 1994 (audited)
ASSETS		
Investments:		
Fixed maturities, available for sale, at market (cost: 1995 - \$1,253.7; 1994 - \$1,289.5)	\$1,259.1	\$1,270.7
Equity securities, available for sale, at market (cost: 1995 - \$136.0; 1994 - \$101.5)	224.5	183.9
Short-term investments	0.2	35.2
Securities in transit	0.2	(5.0)
	-----	-----
	1,484.0	1,484.8
Cash and cash equivalents	7.9	29.2
Accrued investment income	31.0	29.6
Receivables:		
Reinsurance	233.8	235.4
Agents' balances	68.4	75.1
Accrued retrospective premiums	111.6	110.0
Cost in excess of net assets purchased	45.9	46.6
Unearned premiums on ceded reinsurance	5.2	3.4
Deferred Federal income taxes receivable	53.8	66.0
Other assets	13.0	13.5
	-----	-----
	\$2,054.6	\$2,093.6
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Reserves for losses and loss adjustment expenses	\$1,174.4	\$1,196.3
Unearned premiums	56.5	73.5

Accrued policyholder dividends	2.5	0.3
Income taxes payable (receivable)	0.5	(2.1)
Other liabilities	72.1	80.0
	-----	-----
	1,306.0	1,348.0
	-----	-----

Shareholders' equity:

Common stock - \$.10 par, 35,000,000 shares authorized, 24,215,429 and 24,928,246 shares issued and outstanding at March 31, 1995 and December 31, 1994, respectively	2.4	2.5
Additional paid-in capital	97.9	100.6
Retained earnings	583.0	595.5
Net unrealized appreciation on securities	65.3	47.0
	-----	-----
	748.6	745.6
	-----	-----
	\$2,054.6	\$2,093.6
	=====	=====

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ARGONAUT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In millions except per share amounts)
(unaudited)

	For the Quarter Ended	
	March 31,	
	1995	1994
	-----	-----
Premiums and other revenue:		
Premiums, net	\$55.2	\$67.2
Net investment income	25.9	27.4
Gains (losses) on sales of investments	(0.1)	1.5
	-----	-----
Total Revenue	81.0	96.1
	-----	-----
Expenses:		
Losses and loss adjustment expenses	48.5	52.0
Underwriting, acquisition, and insurance expenses	15.9	17.9
Amortization of cost in excess of net assets purchased	0.7	0.7
Policyholder dividends	(0.9)	1.6
	-----	-----

Total Expenses	64.2	72.2
	-----	-----
Income before income taxes	16.8	23.9
Income tax provision	3.0	6.5
	-----	-----
Net Income	\$13.8	\$17.4
	=====	=====
Income Per Common Share	\$0.56	\$0.68
	=====	=====
Weighted Average Common Shares	24,665,572	25,676,295
	=====	=====

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ARGONAUT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
(In millions)
(unaudited)

	For the Three Months Ended March 31,	
	1995	1994
	-----	-----
Cash flows from operating activities:		
Net income	\$13.8	\$17.4
Adjustments to reconcile net income to net cash provided by operations:		
Amortization and depreciation	2.5	1.2
Increase in accrued investment income	(1.4)	(1.1)
Decrease (increase) in reinsurance receivables	1.6	(5.5)
Decrease in agents' balances	6.7	13.2
Increase in accrued retrospective premiums	(1.6)	(11.7)
Increase in unearned premiums on ceded reinsurance	(1.8)	(1.6)
Decrease in deferred Federal income taxes receivable	0.2	5.6
Decrease in reserves for losses and loss adjustment expense	(21.9)	(35.7)
Increase (decrease) in unearned premiums	(17.0)	12.2
Increase (decrease) in accrued policyholder dividends	2.2	(3.5)
Increase in income taxes payable (receivable)	2.6	0.7
Other, net	(7.7)	8.9
	-----	-----
	(21.8)	0.1

Cash flows from investing activities:		
Sales of fixed maturity investments	30.7	6.1
Maturities and mandatory calls of fixed maturities	3.6	41.9
Purchases of fixed maturity investments	-	(38.0)
Purchases of equity securities	(34.5)	-
Decrease (increase) in short-term investments	35.0	(6.8)
Other, net	(5.2)	5.4
	-----	-----
	29.6	8.6
	-----	-----
Cash flows from financing activities:		
Repurchase of common stock	(21.9)	-
Payment of cash dividend	(7.2)	(6.4)
Exercise of stock options	-	0.1
	-----	-----
	(29.1)	(6.3)
	-----	-----
Increase (decrease) in cash and cash equivalent	(21.3)	2.4
Cash and cash equivalents, beginning of period	29.2	41.4
	-----	-----
Cash and cash equivalents, end of period	\$7.9	\$43.8
	=====	=====

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Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CONSOLIDATED OPERATING RESULTS

The Company's operating income after tax was \$13.8 million for the quarter ended March 31, 1995, compared with \$16.4 million for the same period last year. Operating income excludes gains on the sale of investments. The combined ratio increased to 119% for the current quarter versus 107% for the similar period in 1994.

Both written and earned premiums are down significantly from the first quarter of 1994. Net written premiums were \$44.8 million for the first quarter of 1995, compared with \$66.4 million last year. Earned premiums were \$55.2 million in the current quarter, compared with \$67.2 million for the first quarter of 1994. This decline is due in part to the following factors:

- * Loss experience on recent policy years for Workers Compensation continues to develop more favorably than anticipated, increasing the amount of premium

returned to policyholders under retrospectively rated policies.

- * Workers Compensation premiums in California were subject to rate decreases of 29% during 1994.
- * An increasing number of Workers Compensation policies are being written with large deductible provisions, reducing premium, but also reducing exposure to losses.

Net income before tax for the current quarter includes a charge of \$6.0 million for adverse development of losses from general liability policies written in prior years, compared with \$3.5 million of similar development for general liability in the first quarter of 1994. The first quarter of 1994 included \$3 million of favorable loss development from lines of business which are being run off and are no longer being written. There was no similar favorable loss development for the runoff lines in the first quarter of 1995. The amount of future additional favorable or unfavorable development in these runoff lines, if any, cannot be anticipated.

Loss and loss adjustment expenses decreased to \$48.5 million for the first quarter of 1995 from \$52.0 million for the same period in 1994. The Company's loss ratio increased to 86% for the current quarter compared with 79% for the first quarter of 1994.

Net investment income decreased slightly to \$25.9 million for the first quarter of 1995 from \$27.4 million for the first quarter in 1994.

Underwriting expenses totalled \$15.9 million for the first quarter of 1995, compared with \$17.9 million for the similar period in 1994.

Policyholder dividend expense (recapture) was \$(0.9) million in the first quarter of 1995 versus \$1.6 million for the first quarter of 1994.

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Losses on sales of investments were \$100,000 for the current quarter, compared with a gain of \$1.5 million for the same period in 1994. We cannot anticipate when or if similar gains or losses may occur in the future.

LIQUIDITY AND CAPITAL RESOURCES

The liquidity requirements of the Company have been met by funds provided from premiums and investment income as well as maturities of invested assets. The primary use of funds was to pay claims, policy benefits, operating expenses, and commissions and to purchase new investments.

Management believes that the Company maintains sufficient liquidity to pay claims and expenses. Management also believes that the Company possesses

adequate capital resources to cover unforeseen events such as reinsurer insolvencies, inadequate premium rates, or reserve deficiencies.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

- (a) See Exhibit Index
- (b) During the quarter covered by this report, the Registrant did not file any reports on Form 8-K.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Argonaut Group, Inc.
(Registrant)

/s/ Charles E. Rinsch

Charles E. Rinsch
President (principal executive officer)

/s/ James B Halliday

James B Halliday
Vice President and Treasurer
(principal financial and accounting officer)

May 9, 1995

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EXHIBIT INDEX

Exhibits are numbered in accordance with Item 601 of Regulation S-K.

Exhibit	Description
No.	
-----	-----
27	Financial Data Schedule for March 31, 1995 Form 10-Q.

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