

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-08-25** | Period of Report: **1994-03-31**
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HARTFORD STEAM BOILER INSPECTION & INSURANCE CO

CIK: **310823** | IRS No.: **060384680** | State of Incorporation: **CT** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-10527** | Film No.: **94546022**
SIC: **6331** Fire, marine & casualty insurance

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HARTFORD CT 06102*

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2037221866*

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 March 31, 1994

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 0-13300

THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY
(Exact name of registrant as specified in its charter)

CONNECTICUT

(State or other jurisdiction of
incorporation or organization)

06-0384680

(I.R.S. Employer
Identification No.)

ONE STATE STREET, HARTFORD, CONNECTICUT
(Address of principal executive offices)

06102
(Zip Code)

(203) 722-1866

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if
changed since the 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

The number of shares outstanding of the registrant's common stock
without par value, as of April 30, 1994: 20,474,570

THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

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PART I - FINANCIAL INFORMATION
 Item 1. Financial Statements

<TABLE>

THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY
 Consolidated Statements of Operations (Unaudited)
 (In millions, except per share data)

<CAPTION>

	Quarter Ended March 31	
	1994	1993
<S>	<C>	<C>
Revenues:		
Insurance premiums	\$ 84.3	\$ 87.7
Net engineering services	56.2	56.8
Net investment income	6.5	7.5
Realized investment gains	3.6	7.8
	-----	-----
Total revenues	150.6	159.8
	-----	-----
Expenses:		
Claims and adjustment	40.8	36.7
Policy acquisition	15.5	16.8
Underwriting and inspection	25.1	25.8
Engineering services	52.2	54.8
Interest	0.4	0.5
	-----	-----
Total expenses	134.0	134.6
	-----	-----
Equity in operations of insurance association	(0.4)	(1.2)
	-----	-----
Income before taxes and cumulative effect of changes in accounting principles	16.2	24.0
Income taxes:		
Current	4.3	5.5
Deferred	0.0	0.7
	-----	-----
Total income taxes	4.3	6.2
Income before cumulative effect of changes in accounting principles	11.9	17.8

Cumulative effect of change in accounting principle (net of income taxes of \$1.9)	-	(3.6) *
	-----	-----
Net income	\$ 11.9	\$ 14.2
	=====	=====
Net income per share:		
Income before accounting changes	\$ 0.58	\$ 0.86
Cumulative effect of accounting change	-	(0.17) *
	-----	-----
Net income	\$ 0.58	\$ 0.69
	=====	=====
Dividends declared per share	\$ 0.53	\$ 0.53
Average shares outstanding	20.5	20.7

<FN>
* Reflects adoption of FAS 112.
See Notes to Consolidated Financial Statements.

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<TABLE>

THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY
Consolidated Statements of Financial Position
(In millions, except per share data)

<CAPTION>

	March 31, 1994	December 31, 1993
	-----	-----
Assets:		
Cash	\$ 8.0	\$ 7.3
Short-term investments, at cost	50.0	53.8
Fixed maturities, at fair value (cost - \$167.4; \$146.7)	168.8	154.9
Equity securities, at fair value (cost - \$220.3; \$236.8)	260.3	290.0
	-----	-----
Total cash and invested assets	487.1	506.0
Insurance premiums receivable	55.8	68.5

Engineering services receivable	73.8	79.0
Fixed assets	62.2	64.3
Participation in pools and associations	8.1	8.4
Prepaid acquisition costs	29.2	30.0
Capital lease	18.1	18.3
Reinsurance recoverable	50.8	44.5
Other assets	65.6	58.9
	-----	-----
Total assets	\$ 850.7	\$ 877.9
	=====	=====

Liabilities:

Unearned insurance premiums	\$ 161.5	\$ 169.3
Claims and adjustment expenses	210.5	214.4
Short-term borrowings	42.7	42.7
Long-term borrowings	0.7	0.7
Capital lease	27.8	27.7
Deferred income taxes	(3.4)	6.9
Dividends payable	10.9	10.9
Employee stock ownership plan	3.2	3.7
Other liabilities	85.9	76.9
	-----	-----
Total liabilities	539.8	553.2
	=====	=====

Shareholders' equity:

Common Stock (stated value; shares authorized 50.0; shares issued 21.3; shares outstanding 20.5; 20.5)	10.0	10.0
Additional paid-in capital	34.0	33.9
Unrealized investment gains, net of tax	32.7	44.2
Retained earnings	281.4	280.4
Treasury stock, at cost; (shares .8; .8)	(39.5)	(35.7)
Benefit plans	(7.7)	(8.1)
	-----	-----
Total shareholders' equity	310.9	324.7
	-----	-----
Total liabilities and shareholders' equity	\$ 850.7	\$ 877.9
	=====	=====
Shareholders' equity per share	\$15.18	\$15.80

</TABLE>

<TABLE>

The Hartford Steam Boiler Inspection and Insurance Company
Consolidated Statements of Cash Flows
(In Millions)

<CAPTION>

	Three Months Ended March 31,	
	1994	1993
Operating Activities:		
<S>	<C>	<C>
Net income	\$ 11.9	\$ 14.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4.3	5.4
Deferred income taxes	(0.0)	(1.1)
Realized investment gains, net of tax	(2.3)	(5.7)
Change in:		
Insurance premiums receivable	12.7	4.5
Engineering services receivable	5.2	(1.5)
Prepaid acquisition costs	0.8	0.7
Reinsurance recoverable	(6.3)	3.8
Unearned insurance premiums	(7.8)	(1.2)
Claims and adjustment expenses	(3.9)	(7.9)
Other	2.6	6.0
Cash provided by operating activities	17.2	17.2
Investing Activities:		
Fixed asset additions	(2.3)	(2.6)
Investments:		
Sale (purchase) of short-term investments, net	3.8	(13.0)
Purchase of fixed maturities	(27.2)	(6.0)
Proceeds from sale of fixed maturities	1.0	4.8
Redemption of fixed maturities	4.9	6.3
Purchase of equity securities	(55.9)	(113.1)
Proceeds from sale of equity securities	74.3	121.7
Cash used in investment activities	(1.4)	(1.9)
Financing Activities:		
Dividends paid to shareholders	(10.9)	(11.0)
Increase (decrease) in short-term borrowings, net	(0.0)	(0.6)
Repayment of employee stock ownership plan debt	(0.5)	(0.4)
Issuance (purchase) of treasury stock	(3.7)	0.3
Cash used in financing activities	(15.1)	(11.7)
Net increase in cash	0.7	3.6

Cash at beginning of period

7.3

8.7

Cash at end of period

\$

8.0

\$

12.3

=====

=====

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

The interim financial statements in this report include adjustments based on management's best estimates and judgements, including estimates of future loss payments, which are necessary to present a fair statement of the results for the interim periods reported. These adjustments are of a normal, recurring nature. These financial statements are prepared on the basis of generally accepted accounting principles and should be read in conjunction with the financial statements and related notes in the 1993 Annual Report. Certain prior year amounts have been reclassified to conform with the 1994 presentation.

2. Supplemental disclosure related to Statements of Cash Flows

Interest paid in the first quarter of 1994 was \$0.4 million compared to \$0.5 million for the same period in 1993.

Federal income tax paid in the first quarter of 1994 was \$0.3 million compared to \$0.0 million in the same period in 1993.

3. Participation in Pools and Associations

Participation in pools and associations includes the Company's equity in the Engineering Insurance Group ("EIG"). In the third quarter of 1993, the Company changed its method of presenting its participation in EIG from the proportional consolidation method to the equity method of accounting. All prior year amounts have been reclassified accordingly.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF CONSOLIDATED RESULTS OF OPERATIONS
AND FINANCIAL POSITION
MARCH 31, 1994

SUMMARY OF RESULTS OF OPERATIONS

Income after taxes and before accounting changes for the first quarter of 1994 was \$11.9 million or \$.58 per share compared to prior year first quarter earnings of \$17.8 million or \$.86 per share. The decline is primarily attributed to a decrease in insurance operating gains and lower realized investment gains recognized in the first quarter of 1994 compared to the same period in the prior year.

Total revenues decreased 5.8 percent to \$150.6 million in the first quarter of 1994 from \$159.8 million in the first quarter of 1993. The largest reductions in amounts were in realized investment gains and insurance premiums. Investment income and engineering services net revenues were also lower than in the first quarter of 1993.

Insurance Operations

Insurance premiums decreased 3.9 percent to \$84.3 million in the first quarter of 1994 compared to \$87.7 million in the first quarter of 1993. Premiums were lower primarily due to higher reinsurance costs. A 6.0 percent reduction in volume was substantially offset by a 5.8 percent increase in price and coverage. The net change in insurance premiums due to price, coverage and volume reflects the impact of a program the Company implemented in early 1993 to reunderwrite its book of business. The Company was prepared to lose customers and experience lower volume to accomplish improved profitability. In the first quarter of 1994, the Company has continued to experience lower retention levels with higher price increases for its large account, Special Risks business.

The insurance operating gain decreased 65.5 percent to \$2.9 million in the first quarter of 1994 compared to \$8.4 million in the first quarter of 1993. This decrease was largely attributable to unfavorable claims experience in the first quarter of 1994 compared to the first quarter of 1993. First quarter 1994 results include \$4.8 million of losses related to the January 1994 California earthquake. Underwriting and inspection expenses of \$25.1 million improved slightly from \$25.8

million reported in the first quarter of 1993 and substantially from \$30.2 million reported in the fourth quarter of 1993. The improvements are largely a result of cost reductions implemented in late 1993 and early 1994 related to the realignment of the Company's operations. Policy acquisition costs decreased 7.7 percent from the first quarter of 1993.

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The loss ratio increased to 48.4 percent for the first quarter of 1994 compared to 41.8 percent for the first quarter of 1993. The increase in the loss ratio was primarily due to the earthquake losses previously mentioned and the impact of higher reinsurance costs on net premiums. The first quarter of 1994 was not impacted by adverse development of estimated 1993 year-end loss reserves while first quarter 1993 results included increases in claims and adjustment expenses of approximately \$7.7 million due to the development of estimated 1992 year-end loss reserves.

The expense ratio of 48.2 percent is slightly improved from the first quarter 1993 ratio of 48.6 percent and is substantially improved from the fourth quarter 1993 ratio of 52.8 percent.

Engineering Services Operations

Net engineering services revenues decreased 1.1 percent to \$56.2 million for the first quarter of 1994 compared to \$56.8 million for the first quarter of 1993. The reduction in net revenues was primarily due to lower volume, with no significant change in prices. Although net revenues declined slightly, engineering services operating gain increased 100 percent to \$4.0 million from \$2.0 million in the first quarter of 1993. Net engineering services revenues declined and profit margins improved as the Company continues to focus on higher margin business and to reduce expenses.

Investment Operations

The Company's investment strategy continues to be to maximize the total return on the investment portfolio over the long-term -- through investment income and capital appreciation. Income from investment operations, combining net investment income and realized gains, decreased 34.0 percent to \$10.1 million for the first quarter of 1994 compared to \$15.3 million for the first quarter of 1993. Net investment income was \$6.5 million for the first quarter of 1994 compared to \$7.5 million for the same period in the prior year, a decrease of \$1.0 million or 13.3 percent. Realized investment gains of \$3.6 million in the first quarter of 1994 were 53.8 percent lower than the \$7.8 million in the first quarter of 1993.

The decrease in net investment income resulted primarily from declines in rates of return and a decrease in average invested assets. The decline in average invested assets is largely attributed to repurchases of the Company's stock during the later part of 1993 and the first quarter of 1994. The market value of invested assets at March 31, 1994 decreased \$18.9 million to \$487.1 million from \$506.0 million at December 31, 1993.

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The Company's investment portfolio continues to consist of high grade investments. Equity securities, including non-redeemable preferreds, and fixed maturities, including redeemable preferreds, are carried at fair value and are classified as available for sale under the accounting provisions of Statement of Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

FINANCIAL CONDITION

Liquidity and Capital Resources

Cash provided from operating activities for the first three months of 1994 and 1993 remained unchanged at \$17.2 million.

Cash used in investment activities of \$1.4 million for the first three months of 1994 did not vary significantly from the \$1.9 million reported for the same period in 1993.

Cash used in financing activities was \$15.1 million for the first three months of 1994 compared to \$11.7 million for the same period in 1993. The increase in the use of cash in 1994 compared to 1993 was primarily attributable to a \$4.0 million net increase in the purchase of treasury stock. The Company is currently authorized to issue up to \$75 million of commercial paper. At the both March 31, 1994 and December 31, 1993, \$42.7 million of commercial paper was outstanding.

Book value per share was \$15.18 as of March 31, 1994 compared to \$15.80 at December 31, 1993. The decrease in book value per share relates primarily to the decrease in net unrealized gains and the repurchase of shares of Company stock during the first three months of 1993.

During 1994, approximately \$43.0 million of debt of Engineering Insurance Group will mature. The Company is working with General Reinsurance Company, its 50 percent joint venture partner in EIG, to determine a recapitalization strategy for EIG.

PART TWO - OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

- (a) Exhibits - None.
- (b) Reports on Form 8-K - Report on Form 8-K dated April 19, 1994 reporting the promotion of Gordon W. Kreh to Chief Executive Officer of the registrant.

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.

THE HARTFORD STEAM BOILER
INSPECTION AND INSURANCE COMPANY

Date: May 13, 1994 By /s/ Robert W. Trainer
Robert W. Trainer
Senior Vice President, Treasurer
and Chief Financial Officer

Date: May 13, 1994 By /s/ R. Kevin Price
R. Kevin Price
Senior Vice President and
Corporate Secretary

