ALLSTATE CORP
Form 10-Q
August 01, 2017
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, 2017
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 1-11840
THE ALLSTATE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	36-3871531
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2775 Sanders Road, Northbrook, Illinois	60062
(Address of principal executive offices)	(Zip Code)

(847) 402-5000
(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 X 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 X No ___
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	X	Accelerated filer	____
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company	____
		Emerging growth company	____

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ____
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No X
As of July 17, 2017, the registrant had 361,359,566 common shares, $.01 par value, outstanding.

The Allstate Corporation
Index to Quarterly Report on Form 10-Q
June 30, 2017

Part I. Financial Information
Item 1. Financial Statements
The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Operations

($ in millions, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(unaudited)		(unaudited)	
Revenues				
Property-liability insurance premiums	$8,018	$7,814	$15,977	$15,537
Life and annuity premiums and contract charges	591	564	1,184	1,130
Net investment income	897	762	1,645	1,493
Realized capital gains and losses:				
Total other-than-temporary impairment ("OTTI") losses	(47)	(77)	(109)	(168)
OTTI losses reclassified to (from) other comprehensive income	(3)	(2)	—	8
Net OTTI losses recognized in earnings	(50)	(79)	(109)	(160)
Sales and other realized capital gains and losses	131	103	324	35
Total realized capital gains and losses	81	24	215	(125)
	9,587	9,164	19,021	18,035
Costs and expenses				
Property-liability insurance claims and claims expense	5,689	5,901	11,105	11,585
Life and annuity contract benefits	486	454	960	909
Interest credited to contractholder funds	175	185	348	375
Amortization of deferred policy acquisition costs	1,176	1,126	2,345	2,255
Operating costs and expenses	1,086	1,040	2,183	2,022
Restructuring and related charges	53	11	63	16
Interest expense	83	72	168	145
	8,748	8,789	17,172	17,307
Gain on disposition of operations	12	1	14	3
Income from operations before income tax expense	851	376	1,863	731
Income tax expense	272	105	589	214
Net income	579	271	1,274	517
Preferred stock dividends	29	29	58	58
Net income applicable to common shareholders	$550	$242	$1,216	$459
Earnings per common share:				
Net income applicable to common shareholders per common share - Basic	$1.51	$0.65	$3.34	$1.22
Weighted average common shares - Basic	363.6	373.6	364.6	375.8
Net income applicable to common shareholders per common share - Diluted	$1.49	$0.64	$3.29	$1.21
Weighted average common shares - Diluted	369.0	378.1	370.1	380.5
Cash dividends declared per common share	$0.37	$0.33	$0.74	$0.66

See notes to condensed consolidated financial statements.

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(unaudited)		(unaudited)	
Net income	$579	$271	$1,274	$517
Other comprehensive income, after-tax				
Changes in:				
Unrealized net capital gains and losses	270	424	473	1,004
Unrealized foreign currency translation adjustments	11	5	8	19
Unrecognized pension and other postretirement benefit cost	18	16	37	27
Other comprehensive income, after-tax	299	445	518	1,050
Comprehensive income	$878	$716	$1,792	$1,567

See notes to condensed consolidated financial statements.

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Financial Position

($ in millions, except par value data)	June 30, 2017	December 31, 2016
Assets	(unaudited)	
Investments		
Fixed income securities, at fair value (amortized cost $56,901 and $56,576)	$ 58,656	$ 57,839
Equity securities, at fair value (cost $5,321 and $5,157)	6,117	5,666
Mortgage loans	4,336	4,486
Limited partnership interests	6,206	5,814
Short-term, at fair value (amortized cost $2,175 and $4,288)	2,175	4,288
Other	3,815	3,706
Total investments	81,305	81,799
Cash	482	436
Premium installment receivables, net	5,693	5,597
Deferred policy acquisition costs	4,037	3,954
Reinsurance recoverables, net	8,722	8,745
Accrued investment income	573	567
Property and equipment, net	1,072	1,065
Goodwill	2,309	1,219
Other assets	3,256	1,835
Separate Accounts	3,416	3,393
Total assets	$ 110,865	$ 108,610
Liabilities		
Reserve for property-liability insurance claims and claims expense	$ 25,884	$ 25,250
Reserve for life-contingent contract benefits	12,234	12,239
Contractholder funds	19,832	20,260
Unearned premiums	13,024	12,583
Claim payments outstanding	939	879
Deferred income taxes	1,104	487
Other liabilities and accrued expenses	6,583	6,599
Long-term debt	6,348	6,347
Separate Accounts	3,416	3,393
Total liabilities	89,364	88,037
Commitments and Contingent Liabilities (Note 11)		
Shareholders' equity		
Preferred stock and additional capital paid-in, $1 par value, 25 million shares authorized, 72.2 thousand shares issued and outstanding, and $1,805 aggregate liquidation preference	1,746	1,746
Common stock, $.01 par value, 2.0 billion shares authorized and 900 million issued, 361 million and 366 million shares outstanding	9	9
Additional capital paid-in	3,269	3,303
Retained income	41,622	40,678
Deferred ESOP expense	(6)	(6)
Treasury stock, at cost (539 million and 534 million shares)	(25,241)	(24,741)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital gains and losses on fixed income securities with OTTI	65	57
Other unrealized net capital gains and losses	1,590	1,091
Unrealized adjustment to DAC, DSI and insurance reserves	(129)	(95)
Total unrealized net capital gains and losses	1,526	1,053

Unrealized foreign currency translation adjustments	(42)	(50)
Unrecognized pension and other postretirement benefit cost	(1,382)	(1,419)
Total accumulated other comprehensive income (loss)	102	(416)
Total shareholders’ equity	21,501	20,573
Total liabilities and shareholders’ equity	$ 110,865	$ 108,610

See notes to condensed consolidated financial statements.

The Allstate Corporate and Subsidiaries
Condensed Consolidated Statements of Shareholders' Equity

($ in millions)	Six months ended June 30,	
	2017	2016
	(unaudited)	
Preferred stock par value	$—	$—
Preferred stock additional capital paid-in	1,746	1,746
Common stock	9	9
Additional capital paid-in		
Balance, beginning of period	3,303	3,245
Forward contract on accelerated share repurchase agreement	(38)	(52)
Equity incentive plans activity	4	10
Balance, end of period	3,269	3,203
Retained income		
Balance, beginning of period	40,678	39,413
Net income	1,274	517
Dividends on common stock	(272)	(249)
Dividends on preferred stock	(58)	(58)
Balance, end of period	41,622	39,623
Deferred ESOP expense	(6)	(13)
Treasury stock		
Balance, beginning of period	(24,741)	(23,620)
Shares acquired	(646)	(829)
Shares reissued under equity incentive plans, net	146	139
Balance, end of period	(25,241)	(24,310)
Accumulated other comprehensive income		
Balance, beginning of period	(416)	(755)
Change in unrealized net capital gains and losses	473	1,004
Change in unrealized foreign currency translation adjustments	8	19
Change in unrecognized pension and other postretirement benefit cost	37	27
Balance, end of period	102	295
Total shareholders' equity	$21,501	$20,553

See notes to condensed consolidated financial statements.

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows

($ in millions)	Six months ended June 30,	
	2017	2016
Cash flows from operating activities	(unaudited)	
Net income	$1,274	$ 517
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	238	188
Realized capital gains and losses	(215)	125
Gain on disposition of operations	(14)	(3)
Interest credited to contractholder funds	348	375
Changes in:		
Policy benefits and other insurance reserves	228	577
Unearned premiums	34	62
Deferred policy acquisition costs	(65)	(72)
Premium installment receivables, net	(51)	(27)
Reinsurance recoverables, net	6	(120)
Income taxes	(42)	(176)
Other operating assets and liabilities	(393)	(88)
Net cash provided by operating activities	1,348	1,358
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	14,521	12,589
Equity securities	3,430	2,487
Limited partnership interests	481	363
Other investments	118	144
Investment collections		
Fixed income securities	2,063	2,138
Mortgage loans	305	150
Other investments	337	168
Investment purchases		
Fixed income securities	(17,214)	(12,947)
Equity securities	(3,473)	(2,672)
Limited partnership interests	(578)	(703)
Mortgage loans	(148)	(264)
Other investments	(532)	(449)
Change in short-term investments, net	2,142	(669)
Change in other investments, net	107	(39)
Purchases of property and equipment, net	(146)	(120)
Acquisition of operations	(1,356)	—
Net cash provided by investing activities	57	176
Cash flows from financing activities		
Repayments of long-term debt	—	(16)
Contractholder fund deposits	515	522
Contractholder fund withdrawals	(957)	(1,013)
Dividends paid on common stock	(257)	(240)
Dividends paid on preferred stock	(58)	(58)
Treasury stock purchases	(657)	(904)
Shares reissued under equity incentive plans, net	108	72

Excess tax benefits on share-based payment arrangements	—	20
Other	(53)	34
Net cash used in financing activities	(1,359)	(1,583)
Net increase (decrease) in cash	46	(49)
Cash at beginning of period	436	495
Cash at end of period	$482	$ 446

See notes to condensed consolidated financial statements.

The Allstate Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. General

Basis of presentation

The accompanying condensed consolidated financial statements include the accounts of The Allstate Corporation (the "Corporation") and its wholly owned subsidiaries, primarily Allstate Insurance Company ("AIC"), a property-liability insurance company with various property-liability and life and investment subsidiaries, including Allstate Life Insurance Company ("ALIC") (collectively referred to as the "Company" or "Allstate"). These condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

The condensed consolidated financial statements and notes as of June 30, 2017 and for the three-month and six-month periods ended June 30, 2017 and 2016 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year. All significant intercompany accounts and transactions have been eliminated.

Adopted accounting standards

Employee Share-Based Payment Accounting

Effective January 1, 2017, the Company adopted new Financial Accounting Standards Board ("FASB") guidance that amends the accounting for share-based payments on a prospective basis. Under the new guidance, reporting entities are required to recognize all tax effects related to share-based payments at settlement or expiration through the income statement and the requirement to delay recognition of certain tax benefits until they reduce current taxes payable is eliminated. The new guidance also permits employers to withhold shares issued in connection with an employee's exercise of options or the settlement of stock awards, up to the employee's maximum individual statutory tax rate, to meet tax withholding requirements without causing liability classification of the award. In addition, all tax-related cash flows resulting from share-based payments are reported as operating activities on the statement of cash flows whereas cash payments made to taxing authorities on an employee's behalf for withheld shares are presented as financing activities. The adoption of this guidance had no impact on the Company's results of operations or financial position on the date of adoption.

Transition to Equity Method Accounting

Effective January 1, 2017, the Company adopted new FASB guidance amending the accounting requirements for transitioning to the equity method of accounting ("EMA"), including a transition from the cost method. The guidance requires the cost of acquiring an additional interest in an investee to be added to the existing carrying value to establish the initial basis of the EMA investment. Under the new guidance, no retroactive adjustment is required when an investment initially qualifies for EMA treatment. The guidance is applied prospectively to investments that qualify for EMA after application of the cost method of accounting. Accordingly, the adoption of this guidance had no impact on the Company's results of operations or financial position.

Pending accounting standards

Revenue from Contracts with Customers

In May 2014, the FASB issued guidance which revises the criteria for revenue recognition. Insurance contracts are excluded from the scope of the new guidance. Under the guidance, the transaction price is attributed to underlying performance obligations in the contract and revenue is recognized as the entity satisfies the performance obligations and transfers control of a good or service to the customer. Incremental costs of obtaining a contract may be capitalized to the extent the entity expects to recover those costs. The guidance is effective for reporting periods beginning after December 15, 2017 and is to be applied retrospectively. The Company is in the process of evaluating the impact of adoption, which is not expected to be material to the Company's results of operations or financial position.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued guidance requiring equity investments, including equity securities and limited partnership interests, that are not accounted for under the equity method of accounting or result in consolidation to be measured at fair value with changes in fair value recognized in net income. Equity investments without readily determinable fair values may be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. When a qualitative assessment of equity investments without readily determinable fair values indicates that impairment exists, the carrying value is required to be adjusted to fair value, if lower. The guidance clarifies that an entity should evaluate the realizability of a deferred tax asset related to available-for-sale fixed income securities in combination with the entity's other deferred tax assets. The guidance also changes certain disclosure requirements. The guidance is effective for interim and annual periods beginning after December 15, 2017, and is to be applied through a cumulative-effect adjustment to beginning retained income as of the date of adoption. The new guidance related to equity investments without readily determinable fair values is applied prospectively as of the date of adoption. The most significant anticipated impacts, using values as of June 30, 2017, relate to the change in accounting for equity securities, where $796 million of pre-tax unrealized net capital gains would be reclassified from accumulated other comprehensive income to retained income, and cost method limited partnership interests (excluding limited partnership interests accounted for on a cost recovery basis), where the carrying value would increase by approximately $202 million, pre-tax, with the offsetting adjustment recognized in retained income.

Accounting for Leases

In February 2016, the FASB issued guidance that revises the accounting for leases. Under the new guidance, lessees will be required to recognize a right-of-use asset and lease liability for all leases other than those that meet the definition of a short-term lease. The lease liability will be equal to the present value of lease payments. A right-of-use asset will be based on the lease liability adjusted for qualifying initial direct costs. The expense of operating leases under the new guidance will be recognized in the income statement on a straight-line basis after combining the lease expense components (interest expense on the lease liability and amortization of the right-of-use asset) over the term of the lease. For finance leases, the expense components are computed separately and produce greater up-front expense compared to operating leases as interest expense on the lease liability is higher in early years and the right-of-use asset is amortized on a straight-line basis consistent with operating leases. Lease classification will be based on criteria similar to those currently applied. The accounting model for lessors will be similar to the current model with modifications to reflect definition changes for components such as initial direct costs. Lessors will continue to classify leases as operating, direct financing, or sales-type. The guidance is effective for reporting periods beginning after December 15, 2018 using a modified retrospective approach applied at the beginning of the earliest period presented. The Company is in the process of evaluating the impact of adoption, which is not expected to be material to the Company's results of operations or financial position.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued guidance which revises the credit loss recognition criteria for certain financial assets measured at amortized cost, including reinsurance recoverables. The new guidance replaces the existing incurred loss recognition model with an expected loss recognition model. The objective of the expected credit loss model is for the reporting entity to recognize its estimate of expected credit losses for affected financial assets in a valuation allowance deducted from the amortized cost basis of the related financial assets that results in presenting the net carrying value of the financial assets at the amount expected to be collected. The reporting entity must consider all available relevant information when estimating expected credit losses, including details about past events, current conditions, and reasonable and supportable forecasts over the life of an asset. Financial assets may be evaluated individually or on a pooled basis when they share similar risk characteristics. The measurement of credit losses for available-for-sale debt securities measured at fair value is not affected except that credit losses recognized are limited to the amount by which fair value is below amortized cost and the carrying value adjustment is recognized through a valuation allowance and not as a direct write-down. The guidance is effective for interim and annual periods beginning after December 15, 2019, and for most affected instruments must be adopted using a modified retrospective approach, with a cumulative effect adjustment recorded to beginning retained income. The Company is in the process of evaluating the impact of adoption.

Goodwill Impairment

In January 2017, the FASB issued guidance to simplify the accounting for goodwill impairment which removes the second step of the goodwill impairment test that requires a hypothetical purchase price allocation. Under the new guidance, goodwill impairment will be measured and recognized as the amount by which a reporting unit's carrying value, including goodwill, exceeds its fair value, not to exceed the carrying amount of goodwill allocated to the reporting unit. The revised guidance does not affect a reporting entity's ability to first assess qualitative factors by reporting unit to determine whether to perform the quantitative goodwill impairment test. The guidance is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. The guidance is to be applied on a prospective basis, with the effects, if any, recognized in net income in the period of adoption. The impact to the Company upon adoption is dependent upon the excess, if any, of carrying value of the Company's reporting units, including goodwill, over their respective fair values, a measure that is not currently determinable.

Presentation of Net Periodic Pension and Postretirement Benefits Costs

In March 2017, the FASB issued guidance to improve the presentation of net periodic pension and postretirement benefits costs that requires the service cost component to be reported in operating expenses together with other employee compensation costs and all other components of net periodic pension and postretirement benefits costs reported in non-operating expenses. If the reporting entity does not separately report operating and non-operating expenses on the statement of operations it is required to identify, on the statement of operations or in disclosures, the line items in which the components of net periodic pension and postretirement benefits costs are presented. The new guidance permits only the service cost component to be eligible for capitalization where applicable. The guidance is effective for annual periods beginning after December 15, 2017 and for interim periods within those annual periods. The guidance is to be applied on a prospective basis for capitalization of service costs where applicable and on a retrospective basis for the presentation of the service cost and other components of net periodic pension benefit costs in the statements of operations or in disclosures. The impact of adoption is not expected to be material to the Company's results of operations or financial position.

2. Earnings per Common Share

Basic earnings per common share is computed using the weighted average number of common shares outstanding, including vested unissued participating restricted stock units. Diluted earnings per common share is computed using the weighted average number of common and dilutive potential common shares outstanding. For the Company, dilutive potential common shares consist of outstanding stock options and unvested non-participating restricted stock units and contingently issuable performance stock awards.

The computation of basic and diluted earnings per common share is presented in the following table.

($ in millions, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income	$579	$271	$1,274	$517
Less: Preferred stock dividends	29	29	58	58
Net income applicable to common shareholders [(1)]	$550	$242	$1,216	$459
Denominator:				
Weighted average common shares outstanding	363.6	373.6	364.6	375.8
Effect of dilutive potential common shares:				
Stock options	4.3	3.4	4.2	3.4
Restricted stock units (non-participating) and performance stock awards	1.1	1.1	1.3	1.3
Weighted average common and dilutive potential common shares outstanding	369.0	378.1	370.1	380.5
Earnings per common share - Basic	$1.51	$0.65	$3.34	$1.22
Earnings per common share - Diluted	$1.49	$0.64	$3.29	$1.21

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(1) Net income applicable to common shareholders is net income less preferred stock dividends.

The effect of dilutive potential common shares does not include the effect of options with an anti-dilutive effect on earnings per common share because their exercise prices exceed the average market price of Allstate common shares during the period or for which the unrecognized compensation cost would have an anti-dilutive effect. Options to purchase 2.5 million and 4.8 million Allstate common shares, with exercise prices ranging from $74.03 to $86.61 and $57.29 to $71.29, were outstanding for the three-month periods ended June 30, 2017 and 2016, respectively, but were not included in the computation of diluted earnings per common share in those periods. Options to purchase 2.6 million and 4.8 million Allstate common shares, with exercise prices ranging from $69.95 to $86.61 and $57.29 to $71.29, were outstanding for the six-month periods ended June 30, 2017 and 2016, respectively, but were not included in the computation of diluted earnings per common share in those periods.

3. Acquisition

On January 3, 2017, the Company acquired SquareTrade Holding Company, Inc. ("SquareTrade"), a consumer product protection plan provider that distributes through many of America's major retailers and Europe's mobile operators, for

$1.4 billion in cash. SquareTrade provides protection plans primarily covering consumer appliances and electronics, such as TVs, smartphones and computers. This acquisition broadens Allstate’s unique product offerings to better meet consumers’ needs.

In connection with the acquisition, the Company recorded goodwill of $1.08 billion, commissions paid to retailers (reported in deferred policy acquisition costs) of $70 million, other intangible assets (reported in other assets) of $555 million, contractual liability insurance policy premium expenses (reported in other assets) of $201 million, unearned premiums of $373 million and net deferred income tax liability of $140 million. The Company increased goodwill in the second quarter of 2017 by $14 million related to an adjustment to the fair value of the opening balance sheet liabilities.

As of June 30, 2017, the Company has $30 million of restricted cash related to an escrow account in connection with the acquisition that is recorded in other assets.

4. Reporting Segments

Summarized revenue data for each of the Company's reportable segments are as follows:

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Property-Liability				
Property-liability insurance premiums				
Auto	$5,437	$5,306	$10,825	$10,526
Homeowners	1,815	1,815	3,630	3,625
Other personal lines	436	424	867	845
Commercial lines	118	127	243	256
Other business lines	142	142	283	285
SquareTrade	70	—	129	—
Allstate Protection	8,018	7,814	15,977	15,537
Discontinued Lines and Coverages	—	—	—	—
Total property-liability insurance premiums	8,018	7,814	15,977	15,537
Net investment income	391	316	702	618
Realized capital gains and losses	85	26	220	(73)
Total Property-Liability	8,494	8,156	16,899	16,082
Allstate Financial				
Life and annuity premiums and contract charges				
Premiums				