

ALLEGHANY CORP /DE
Form 10-Q
August 04, 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 JUNE 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

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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 (DO NOT CHECK IF A SMALLER REPORTING COMPANY)

SMALLER REPORTING COMPANY)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 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.

8,862,012 SHARES AS OF AUGUST 2, 2011

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

	June 30, 2011	December 31, 2010
	(in thousands, except share amounts)	
	(unaudited)	
Assets		
Investments		
Available-for-sale securities at fair value:		
Equity securities (cost: 2011 \$1,406,542; 2010 \$1,310,009)	\$ 1,642,108	\$ 1,500,686
Debt securities (amortized cost: 2011 \$2,706,761; 2010 \$2,778,117)	2,795,231	2,832,411
Short-term investments	262,445	264,811
	4,699,784	4,597,908
Other invested assets	198,878	207,294
Total investments	4,898,662	4,805,202
Cash	85,484	76,741
Premium balances receivable	195,985	128,075
Reinsurance recoverables	872,589	873,295
Ceded unearned premium reserves	162,773	144,065
Deferred acquisition costs	72,125	67,692
Property and equipment at cost, net of accumulated depreciation and amortization	20,269	19,504
Goodwill and other intangibles, net of amortization	140,635	142,312
Current taxes receivable	12,529	
Net deferred tax assets	37,196	77,147
Other assets	117,620	97,666
	\$ 6,615,867	\$ 6,431,699
Liabilities and Stockholders Equity		
Loss and loss adjustment expenses	\$ 2,324,386	\$ 2,328,742
Unearned premiums	588,848	523,927
Senior Notes	298,979	298,923
Reinsurance payable	67,241	41,500
Current taxes payable		3,220
Other liabilities	306,964	326,519
Total liabilities	3,586,418	3,522,831
Common stock (shares authorized: 2011 and 2010 22,000,000; issued and outstanding 2011 9,117,787; 2010 9,300,448)	9,117	9,118
Contributed capital	937,057	928,816
Accumulated other comprehensive income	218,149	170,262
Treasury stock, at cost (2011 232,914 shares; 2010 351,532 shares)	(68,271)	(99,686)
Retained earnings	1,933,397	1,900,358

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Total stockholders' equity	3,029,449	2,908,868
	\$ 6,615,867	\$ 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 June 30,	
	2011	2010
	(in thousands, except	
	per share amounts)	
Revenues		
Net premiums earned	\$ 183,878	\$ 188,809
Net investment income	28,545	32,694
Net realized capital gains	6,490	33,308
Other than temporary impairment losses		(5,703)
Other income	248	1,501
Total revenues	219,161	250,609
Costs and expenses		
Loss and loss adjustment expenses	122,619	83,027
Commissions, brokerage and other underwriting expenses	64,132	64,773
Other operating expenses	8,673	8,082
Corporate administration	5,002	6,324
Interest expense	4,268	216
Total costs and expenses	204,694	162,422
Earnings before income taxes	14,467	88,187
Income taxes	(615)	21,916
Net earnings	\$ 15,082	\$ 66,271
Other comprehensive income		
Change in unrealized gains (losses), net of deferred taxes	\$ (24,428)	\$ (57,401)
Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes	(4,218)	(17,943)
Other	(50)	50
Comprehensive income	\$ (13,614)	\$ (9,023)
Basic earnings per share*	\$ 1.69	\$ 7.26
Diluted earnings per share*	\$ 1.68	\$ 7.24

* 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)

	Six Months Ended June 30,	
	2011	2010
	(in thousands, except per share amounts)	
Revenues		
Net premiums earned	\$ 364,858	\$ 383,509
Net investment income	60,124	64,123
Net realized capital gains	41,182	59,775
Other than temporary impairment losses		(6,780)
Other income	1,133	1,634
Total revenues	467,297	502,261
Costs and expenses		
Loss and loss adjustment expenses	193,641	179,654
Commissions, brokerage and other underwriting expenses	130,660	131,129
Other operating expenses	18,919	16,933
Corporate administration	11,381	11,558
Interest expense	8,720	435
Total costs and expenses	363,321	339,709
Earnings before income taxes	103,976	162,552
Income taxes	17,554	38,112
Net earnings	\$ 86,422	\$ 124,440
Other comprehensive income		
Change in unrealized gains (losses), net of deferred taxes	\$ 74,834	\$ (27,583)
Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes	(26,768)	(34,447)
Other	(179)	99
Comprehensive income	\$ 134,309	\$ 62,509
Basic earnings per share*	\$ 9.69	\$ 13.58
Diluted earnings per share*	\$ 9.66	\$ 13.50

* Amounts reflect subsequent common stock dividends.

See accompanying Notes to Unaudited Consolidated Financial Statements.

ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited)

	Six Months Ended June 30,	
	2011	2010
	(in thousands)	
Cash flows from operating activities		
Net earnings	\$ 86,422	\$ 124,440
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	13,445	18,045
Net realized capital (gains) losses	(41,182)	(59,775)
Other than temporary impairment losses		6,780
(Increase) decrease in other assets	9,227	6,496
(Increase) decrease in reinsurance receivable, net of reinsurance payable	26,447	46,870
(Increase) decrease in premium balances receivable	(67,910)	(37,109)
(Increase) decrease in ceded unearned premium reserves	(18,708)	(7,319)
(Increase) decrease in deferred acquisition costs	(4,433)	(1,382)
Increase (decrease) in other liabilities and current taxes	(33,928)	(28,996)
Increase (decrease) in unearned premiums	64,921	22,703
Increase (decrease) in loss and loss adjustment expenses	(4,356)	(102,047)
Net adjustments	(56,477)	(135,734)
Net cash (used in) provided by operating activities	29,945	(11,294)
Cash flows from investing activities		
Purchase of investments	(694,810)	(1,050,830)
Sales of investments	541,941	1,078,492
Maturities of investments	154,709	184,185
Purchases of property and equipment	(4,582)	(3,550)
Net change in short-term investments	2,386	(90,934)
Acquisition of equity method investments		(5,000)
Other, net	(457)	9,759
Net cash (used in) provided by investing activities	(813)	122,122
Cash flows from financing activities		
Treasury stock acquisitions		