

MERCURY GENERAL CORP  
Form 10-Q  
August 05, 2009

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended June 30, 2009

Commission File No. 001-12257

# MERCURY GENERAL CORPORATION

(Exact name of registrant as specified in its charter)

California  
(State or other jurisdiction of  
incorporation or organization)

95-2211612  
(I.R.S. Employer  
Identification No.)

4484 Wilshire Boulevard, Los Angeles, California

90010

Edgar Filing: MERCURY GENERAL CORP - Form 10-Q

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (323) 937-1060

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 (§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  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer, and smaller reporting company 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 the Rule 12b-2 of the Exchange Act). Yes  No

At July 31, 2009, the Registrant had issued and outstanding an aggregate of 54,769,713 shares of its Common Stock.

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## MERCURY GENERAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(unaudited)

	June 30, 2009	December 31, 2008
<b><u>ASSETS</u></b>		
Investments:		
Fixed maturities trading, at fair value (amortized cost \$2,724,175; \$2,728,471)	\$ 2,624,812	\$ 2,481,673
Equity securities trading, at fair value (cost \$348,285; \$403,773)	258,813	247,391
Short-term investments, at fair value (cost \$94,574; \$208,278)	94,557	204,756
Total investments	2,978,182	2,933,820
Cash	194,710	35,396
Receivables:		
Premiums receivable	256,004	268,227
Premium notes	27,410	25,699
Accrued investment income	36,634	36,540
Other	8,343	9,526
Total receivables	328,391	339,992
Deferred policy acquisition costs	181,132	200,005
Fixed assets, net	201,987	191,777
Current income taxes		43,378
Deferred income taxes	119,988	171,025
Goodwill	42,850	5,206
Other intangible assets	70,229	
Other assets	24,402	29,596
Total assets	\$ 4,141,871	\$ 3,950,195
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Losses and loss adjustment expenses	\$ 1,070,003	\$ 1,133,508
Unearned premiums	862,706	879,651
Notes payable	273,426	158,625
Accounts payable and accrued expenses	118,766	93,864
Current income taxes	9,576	
Other liabilities	164,848	190,496
Total liabilities	2,499,325	2,456,144
Commitments and contingencies		
Shareholders' equity:		
Common stock without par value or stated value:		
Authorized 70,000,000 shares; issued and outstanding 54,769,713 in 2009 and 54,763,713 shares in 2008	72,030	71,428
Accumulated other comprehensive loss	(550)	(876)

Edgar Filing: MERCURY GENERAL CORP - Form 10-Q

Retained earnings	1,571,066	1,423,499
Total shareholders' equity	1,642,546	1,494,051
Total liabilities and shareholders' equity	\$ 4,141,871	\$ 3,950,195

See accompanying Notes to Consolidated Financial Statements.

**MERCURY GENERAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except share and per share data)

(unaudited)

	<b>Three Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenues:</b>		
Net premiums earned	\$ 659,211	\$ 711,204
Net investment income	36,212	38,995
Net realized investment gains	99,862	36,496
Other	694	1,202
<b>Total revenues</b>	<b>795,979</b>	<b>787,897</b>
<b>Expenses:</b>		
Losses and loss adjustment expenses	445,463	489,545
Policy acquisition costs	136,359	157,441
Other operating expenses	51,364	43,169
Interest	1,879	1,486
<b>Total expenses</b>	<b>635,065</b>	<b>691,641</b>
<b>Income before income taxes</b>	<b>160,914</b>	<b>96,256</b>
Income tax expense	46,467	25,530
<b>Net income</b>	<b>\$ 114,447</b>	<b>\$ 70,726</b>
Basic earnings per share (weighted average shares outstanding 54,769,713 in 2009 and 54,733,880 in 2008)	\$ 2.09	\$ 1.29
Diluted earnings per share (weighted average shares 55,319,836 as adjusted by 550,123 for the dilutive effect of options in 2009 and 54,997,272 as adjusted by 263,392 for the dilutive effect of options in 2008)	\$ 2.07	\$ 1.29
Dividends declared per share	\$ 0.58	\$ 0.58

See accompanying Notes to Consolidated Financial Statements.

**MERCURY GENERAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except share and per share data)

(unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenues:</b>		
Net premiums earned	\$ 1,325,274	\$ 1,432,120
Net investment income	74,126	78,294
Net realized investment gains (losses)	181,176	(55,641)
Other	2,361	2,496
<b>Total revenues</b>	<b>1,582,937</b>	<b>1,457,269</b>
<b>Expenses:</b>		
Losses and loss adjustment expenses	889,755	973,018
Policy acquisition costs	283,890	317,582
Other operating expenses	104,850	87,484
Interest	3,425	1,996
<b>Total expenses</b>	<b>1,281,920</b>	<b>1,380,080</b>
<b>Income before income taxes</b>	<b>301,017</b>	<b>77,189</b>
Income tax expense	89,917	10,424
<b>Net income</b>	<b>\$ 211,100</b>	<b>\$ 66,765</b>
Basic earnings per share (weighted average shares outstanding 54,768,520 in 2009 and 54,731,897 in 2008)	\$ 3.85	\$ 1.22
Diluted earnings per share (weighted average shares 55,166,115 as adjusted by 397,595 for the dilutive effect of options in 2009 and 54,894,590 as adjusted by 162,693 for the dilutive effect of options in 2008)	\$ 3.83	\$ 1.22
Dividends declared per share	\$ 1.16	\$ 1.16

See accompanying Notes to Consolidated Financial Statements.

---

**MERCURY GENERAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

(unaudited)

	<b>Three Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Net income	\$ 114,447	\$ 70,726
Other comprehensive income, before tax:		
Gains on hedging instrument	490	713
Other comprehensive income, before tax	490	713
Income tax expense related to gains on hedging instrument	172	249
Comprehensive income, net of tax	\$ 114,765	\$ 71,190

See accompanying Notes to Consolidated Financial Statements.

---

**MERCURY GENERAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

(unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Net income	\$ 211,100	\$ 66,765
Other comprehensive income, before tax:		
Gains on hedging instrument	502	269
Other comprehensive income, before tax	502	269
Income tax expense related to gains on hedging instrument	176	94
Comprehensive income, net of tax	\$ 211,426	\$ 66,940

See accompanying Notes to Consolidated Financial Statements.



## MERCURY GENERAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 211,100	\$ 66,765
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,418	13,075
Net realized investment (gains) losses	(181,176)	55,641
Bond amortization, net	2,218	3,643
Excess tax benefit from exercise of stock options	(3)	(59)
Decrease in premiums receivable	12,223	15,185
Increase in premiums notes receivable	(1,711)	(2,088)
Decrease in deferred policy acquisition costs	18,873	3,851
Decrease in unpaid losses and loss adjustment expenses	(63,505)	(82,983)
Decrease in unearned premiums	(16,945)	(18,748)
Decrease (increase) in income taxes	103,818	(26,832)
Increase (decrease) in accounts payable and accrued expenses	19,119	(6,353)
Decrease in trading securities in nature, net of realized gains and losses	3,209	1,792
Share-based compensation	367	327
Decrease in other payables	(12,840)	(9,265)
Other, net	(5,802)	(1,018)
Net cash provided by operating activities	106,363	12,933
Cash flows from investing activities:		
Fixed maturities available for sale in nature:		
Purchases	(232,116)	(412,022)
Sales	123,275	329,915
Calls or maturities	111,710	124,949
Equity securities available for sale in nature:		
Purchases	(143,665)	(238,349)
Sales	155,652	176,757
Net increase in payable for securities	4,127	14,335
Net decrease in short-term investments	110,268	53,481
Purchase of fixed assets	(20,656)	(29,757)
Sale of fixed assets	357	776
Business acquisition, net of cash acquired	(115,488)	
Other, net	2,784	6,913
Net cash (used in) provided by investing activities	(3,752)	26,998
Cash flows from financing activities:		
Dividends paid to shareholders	(63,533)	(63,491)
Excess tax benefit from exercise of stock options	3	59
Proceeds from stock options exercised	233	495
Proceeds from bank loan	120,000	18,000
Net cash provided by (used in) financing activities	56,703	(44,937)
Net increase (decrease) in cash	159,314	(5,006)
Cash:		

Edgar Filing: MERCURY GENERAL CORP - Form 10-Q

Beginning of the period	35,396	48,245
End of the period	\$ 194,710	\$ 43,239