

RLI CORP
Form 10-Q
July 25, 2016
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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 the quarterly period ended June 30, 2016

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: 001-09463

RLI Corp.

(Exact name of registrant as specified in its charter)

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| | |
|--|--|
| Illinois (State or other jurisdiction of incorporation or organization) | 37-0889946 (I.R.S. Employer Identification Number) |
| 9025 North Lindbergh Drive, Peoria, IL (Address of principal executive offices) | 61615 (Zip Code) |

(309) 692-1000

(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 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | |
|--|---------------------------|
| 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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of July 12, 2016, the number of shares outstanding of the registrant's Common Stock was 43,794,937.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

RLI Corp. and Subsidiaries

Condensed Consolidated Statements of Earnings and Comprehensive Earnings

(Unaudited)

| (in thousands, except per share data) | For the Three-Month Periods Ended June 30, | |
|---|---|------------|
| | 2016 | 2015 |
| Net premiums earned | \$ 180,226 | \$ 172,339 |
| Net investment income | 13,048 | 13,431 |
| Net realized gains | 2,710 | 4,802 |
| Consolidated revenue | \$ 195,984 | \$ 190,572 |
| Losses and settlement expenses | 80,277 | 64,549 |
| Policy acquisition costs | 60,521 | 59,487 |
| Insurance operating expenses | 13,412 | 13,467 |
| Interest expense on debt | 1,856 | 1,857 |
| General corporate expenses | 2,768 | 2,748 |
| Total expenses | \$ 158,834 | \$ 142,108 |
| Equity in earnings of unconsolidated investees | 5,191 | 6,186 |
| Earnings before income taxes | \$ 42,341 | \$ 54,650 |
| Income tax expense | 13,264 | 17,465 |
| Net earnings | \$ 29,077 | \$ 37,185 |
| Other comprehensive earnings (loss), net of tax | 19,066 | (24,932) |
| Comprehensive earnings | \$ 48,143 | \$ 12,253 |
| Earnings per share: | | |
| Basic: | | |
| Basic net earnings per share | \$ 0.67 | \$ 0.86 |
| Basic comprehensive earnings per share | \$ 1.10 | \$ 0.28 |
| Diluted: | | |
| Diluted net earnings per share | \$ 0.65 | \$ 0.84 |

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| | | |
|--|---------|---------|
| Diluted comprehensive earnings per share | \$ 1.08 | \$ 0.28 |
| Weighted average number of common shares outstanding | | |
| Basic | 43,721 | 43,210 |
| Diluted | 44,423 | 44,019 |
| Cash dividends paid per common share | \$ 0.20 | \$ 0.19 |

See accompanying notes to the unaudited condensed consolidated interim financial statements.

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RLI Corp. and Subsidiaries

Condensed Consolidated Statements of Earnings and Comprehensive Earnings

(Unaudited)

| (in thousands, except per share data) | For the Six-Month Periods Ended June 30, | |
|--|---|------------|
| | 2016 | 2015 |
| Net premiums earned | \$ 357,144 | \$ 341,342 |
| Net investment income | 26,418 | 26,926 |
| Net realized gains | 14,110 | 18,088 |
| Consolidated revenue | \$ 397,672 | \$ 386,356 |
| Losses and settlement expenses | 161,448 | 145,410 |
| Policy acquisition costs | 122,764 | 118,460 |
| Insurance operating expenses | 25,612 | 24,998 |
| Interest expense on debt | 3,713 | 3,713 |
| General corporate expenses | 5,143 | 4,992 |
| Total expenses | \$ 318,680 | \$ 297,573 |
| Equity in earnings of unconsolidated investees | 8,942 | 10,380 |
| Earnings before income taxes | \$ 87,934 | \$ 99,163 |
| Income tax expense | 27,464 | 31,380 |
| Net earnings | \$ 60,470 | \$ 67,783 |
| Other comprehensive earnings (loss), net of tax | 40,829 | (32,527) |
| Comprehensive earnings | \$ 101,299 | \$ 35,256 |
| Earnings per share: | | |
| Basic: | | |
| Basic net earnings per share | \$ 1.39 | \$ 1.57 |
| Basic comprehensive earnings per share | \$ 2.32 | \$ 0.82 |
| Diluted: | | |
| Diluted net earnings per share | \$ 1.36 | \$ 1.54 |
| Diluted comprehensive earnings per share | \$ 2.28 | \$ 0.80 |
| Weighted average number of common shares outstanding | | |
| Basic | 43,659 | 43,176 |
| Diluted | 44,381 | 44,008 |
| Cash dividends paid per common share | \$ 0.39 | \$ 0.37 |

See accompanying notes to the unaudited condensed consolidated interim financial statements.

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RLI Corp. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

| (in thousands, except share data) | June 30, 2016 | December 31, 2015 |
|--|---------------------|-------------------------|
| ASSETS | | |
| Investments | | |
| Fixed income | | |
| Available-for-sale, at fair value (amortized cost - \$1,564,819 at 6/30/16 and \$1,518,156 at 12/31/15) | \$ 1,631,953 | \$ 1,538,110 |
| Equity securities available-for-sale, at fair value (cost - \$210,622 at 6/30/16 and \$202,437 at 12/31/15) | 398,825 | 375,424 |
| Short-term investments, at cost which approximates fair value | 13,491 | 6,262 |
| Other invested assets | 24,891 | 20,666 |
| Cash | 29,639 | 11,081 |
| Total investments and cash | \$ 2,098,799 | \$ 1,951,543 |
| Accrued investment income | 14,303 | 14,878 |
| Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of \$15,609 at 6/30/16 and \$14,898 at 12/31/15 | 148,894 | 143,662 |
| Ceded unearned premium | 52,536 | 52,833 |
| Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of \$11,096 at 6/30/16 and \$11,885 at 12/31/15 | 289,856 | 297,844 |
| Deferred policy acquisition costs | 75,416 | 69,829 |
| Property and equipment, at cost, net of accumulated depreciation of \$41,054 at 6/30/16 and \$38,447 at 12/31/15 | 52,605 | 47,102 |
| Investment in unconsolidated investees | 80,144 | 70,784 |
| Goodwill and intangibles | 64,785 | 71,294 |
| Other assets | 14,875 | 15,696 |
| TOTAL ASSETS | \$ 2,892,213 | \$ 2,735,465 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities | | |
| Unpaid losses and settlement expenses | \$ 1,123,472 | \$ 1,103,785 |
| Unearned premiums | 445,620 | 422,094 |
| Reinsurance balances payable | 17,679 | 37,556 |
| Funds held | 72,558 | 54,254 |
| Income taxes-deferred | 86,930 | 63,993 |
| Bonds payable, long-term debt | 148,648 | 148,554 |
| Accrued expenses | 39,352 | 55,742 |
| Other liabilities | 44,420 | 26,018 |
| TOTAL LIABILITIES | \$ 1,978,679 | \$ 1,911,996 |

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Shareholders' Equity

Common stock (\$1 par value, 100,000,000 shares authorized)

(66,704,751 shares issued, 43,774,537 shares outstanding at 6/30/16)

(66,474,342 shares issued, 43,544,128 shares outstanding at 12/31/15)

\$ 66,705 \$ 66,474

Paid-in capital

226,913 221,345

Accumulated other comprehensive earnings

164,603 123,774

Retained earnings

848,312 804,875

Deferred compensation

10,467 10,647

Less: Treasury shares at cost

(22,930,214 shares at 6/30/16 and 12/31/15)

(403,466) (403,646)

TOTAL SHAREHOLDERS' EQUITY

\$ 913,534 \$ 823,469

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY