

MARKEL CORP
Form 10-Q
November 07, 2011
[Table of Contents](#)

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 September 30, 2011**

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: 001-15811

MARKEL CORPORATION

(Exact name of registrant as specified in its charter)

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Virginia
(State or other jurisdiction of
incorporation or organization)
54-1959284
(I.R.S. Employer
Identification No.)
4521 Highwoods Parkway, Glen Allen, Virginia 23060-6148
(Address of principal executive offices)
(Zip Code)
(804) 747-0136
(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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 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

Number of shares of the registrant's common stock outstanding at October 28, 2011: 9,617,991

Table of Contents

Markel Corporation

Form 10-Q

Index

	Page Number
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets September 30, 2011 and December 31, 2010</u>	3
<u>Consolidated Statements of Income and Comprehensive Income (Loss) Quarters and Nine Months Ended September 30, 2011 and 2010</u>	4
<u>Consolidated Statements of Changes in Equity Nine Months Ended September 30, 2011 and 2010</u>	5
<u>Consolidated Statements of Cash Flows Nine Months Ended September 30, 2011 and 2010</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Critical Accounting Estimates</u>	24
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 4. <u>Controls and Procedures</u>	36
<u>Safe Harbor and Cautionary Statement</u>	37
<u>PART II. OTHER INFORMATION</u>	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
Item 6. <u>Exhibits</u>	39
<u>Signatures</u>	40
<u>Exhibit Index</u>	41

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30, 2011	December 31, 2010
	<i>(dollars in thousands)</i>	
ASSETS		
Investments, available-for-sale, at estimated fair value:		
Fixed maturities (amortized cost of \$5,223,979 in 2011 and \$5,256,980 in 2010)	\$ 5,576,584	\$ 5,431,226
Equity securities (cost of \$1,092,662 in 2011 and \$996,088 in 2010)	1,609,199	1,721,971
Short-term investments (estimated fair value approximates cost)	491,756	325,340
Total Investments	7,677,539	7,478,537
Cash and cash equivalents	920,193	745,259
Receivables	364,483	318,507
Reinsurance recoverable on unpaid losses	803,574	798,090
Reinsurance recoverable on paid losses	44,247	70,568
Deferred policy acquisition costs	206,534	188,783
Prepaid reinsurance premiums	102,138	80,293
Goodwill and intangible assets	769,685	641,733
Other assets	483,361	503,819
Total Assets	\$ 11,371,754	\$ 10,825,589
LIABILITIES AND EQUITY		
Unpaid losses and loss adjustment expenses	\$ 5,463,082	\$ 5,398,406
Unearned premiums	969,628	839,537
Payables to insurance companies	83,401	50,715
Senior long-term debt and other debt (estimated fair value of \$1,364,000 in 2011 and \$1,086,000 in 2010)	1,271,810	1,015,947
Other liabilities	305,741	333,292
Total Liabilities	8,093,662	7,637,897
Commitments and contingencies		
Shareholders' equity:		
Common stock	890,393	884,457
Retained earnings	1,794,387	1,735,973
Accumulated other comprehensive income	527,400	551,093
Total Shareholders' Equity	3,212,180	3,171,523
Noncontrolling interests	65,912	16,169
Total Equity	3,278,092	3,187,692
Total Liabilities and Equity	\$ 11,371,754	\$ 10,825,589

See accompanying notes to consolidated financial statements.

Table of Contents

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income (Loss)

	Quarter Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	<i>(dollars in thousands, except per share data)</i>			
OPERATING REVENUES				
Earned premiums	\$ 509,203	\$ 435,355	\$ 1,462,515	\$ 1,264,178
Net investment income	62,199	68,652	196,551	201,438
Net realized investment gains:				
Other-than-temporary impairment losses	(9,846)	0	(11,553)	(5,701)
Other-than-temporary impairment losses recognized in other comprehensive income (loss)	(138)	0	(3,306)	(563)
Other-than-temporary impairment losses recognized in net income	(9,984)	0	(14,859)	(6,264)
Net realized investment gains, excluding other-than-temporary impairment losses	22,823	8,782	40,282	28,360
Net realized investment gains	12,839	8,782	25,423	22,096
Other revenues	91,847	48,565	260,361	125,775
Total Operating Revenues	676,088	561,354	1,944,850	1,613,487
OPERATING EXPENSES				
Losses and loss adjustment expenses	306,632	224,840	927,643	736,245
Underwriting, acquisition and insurance expenses	202,316	181,640	601,511	517,414
Amortization of intangible assets	6,023	3,903	17,586	11,717
Other expenses	70,302	41,074	218,270	109,440
Total Operating Expenses	585,273	451,457	1,765,010	1,374,816
Operating Income	90,815	109,897	179,840	238,671
Interest expense	23,656	18,598	64,516	54,891
Income Before Income Taxes	67,159	91,299	115,324	183,780
Income tax expense	12,490	28,142	19,145	56,500
Net Income	\$ 54,669	\$ 63,157	\$ 96,179	\$ 127,280
Net income (loss) attributable to noncontrolling interests	1,405	(93)	4,329	630
Net Income to Shareholders	\$ 53,264	\$ 63,250	\$ 91,850	\$ 126,650
OTHER COMPREHENSIVE INCOME (LOSS)				
Change in net unrealized gains on investments, net of taxes:				
Net holding gains (losses) arising during the period	\$ (90,330)	\$ 167,638	\$ (5,606)	\$ 215,152
Unrealized other-than-temporary impairment losses on fixed maturities arising during the period	189	(295)	1,657	606
Reclassification adjustments for net gains included in net income	(7,995)	(5,744)	(15,286)	(19,383)
Change in net unrealized gains on investments, net of taxes	(98,136)	161,599	(19,235)	196,375
Change in foreign currency translation adjustments, net of taxes	(8,133)	129	(5,538)	2,089

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Change in net actuarial pension loss, net of taxes	379	350	1,080	1,036
Total Other Comprehensive Income (Loss)	(105,890)	162,078	(23,693)	199,500
Comprehensive Income (Loss)	\$ (51,221)	\$ 225,235	\$ 72,486	\$ 326,780
Comprehensive income (loss) attributable to noncontrolling interests	1,405	(93)	4,329	816
Comprehensive Income (Loss) to Shareholders	\$ (52,626)	\$ 225,328	\$ 68,157	\$ 325,964
NET INCOME PER SHARE				
Basic	\$ 5.50	\$ 6.49	\$ 9.46	\$ 12.94
Diluted	\$ 5.48	\$ 6.48	\$ 9.42	\$ 12.93

See accompanying notes to consolidated financial statements.

Table of Contents

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income <i>(dollars in thousands)</i>	Total Shareholders Equity	Noncontrolling Interests	Total Equity
December 31, 2009	\$ 872,876	\$ 1,514,398	\$ 387,086	\$ 2,774,360	\$ 17,354	\$ 2,791,714
Net income	0	126,650	0	126,650	630	127,280
Change in net unrealized gains on investments, net of taxes	0	0	196,375	196,375	0	196,375
Change in foreign currency translation adjustments, net of taxes	0	0	1,903	1,903	186	2,089
Change in net actuarial pension loss, net of taxes	0	0	1,036	1,036	0	1,036
Comprehensive income				325,964	816	326,780
Issuance of common stock	6,664	0	0	6,664	0	6,664
Repurchase of common stock	0	(42,080)	0	(42,080)	0	(42,080)
Restricted stock units expensed	1,257	0	0	1,257	0	1,257
Purchase of noncontrolling interest	(8,345)	0	237	(8,108)	(1,557)	(9,665)
Other	0	0	0	0	(510)	(510)
September 30, 2010	\$ 872,452	\$ 1,598,968	\$ 586,637	\$ 3,058,057	\$ 16,103	\$ 3,074,160
December 31, 2010	\$ 884,457	\$ 1,735,973	\$ 551,093	\$ 3,171,523	\$ 16,169	\$ 3,187,692
Net Income	0	91,850	0	91,850	4,329	96,179
Change in net unrealized gains on investments, net of taxes	0	0	(19,235)	(19,235)	0	(19,235)
Change in foreign currency translation adjustments, net of taxes	0	0	(5,538)	(5,538)	0	(5,538)
Change in net actuarial pension loss, net of taxes	0	0	1,080	1,080	0	1,080
Comprehensive income				68,157	4,329	72,486
Issuance of common stock	1,182	0	0	1,182	0	1,182
Repurchase of common stock	0	(33,436)	0	(33,436)	0	(33,436)
Restricted stock units expensed	4,606	0	0	4,606	0	4,606
Acquisitions	0	0	0	0	47,287	47,287
Other	148	0	0	148	(1,873)	(1,725)
September 30, 2011	\$ 890,393	\$ 1,794,387	\$ 527,400	\$ 3,212,180	\$ 65,912	\$ 3,278,092

See accompanying notes to consolidated financial statements.

Table of Contents

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2011	2010
	<i>(dollars in thousands)</i>	
OPERATING ACTIVITIES		
Net income	\$ 96,179	\$ 127,280
Adjustments to reconcile net income to net cash provided by operating activities	164,929	45,544
Net Cash Provided By Operating Activities	261,108	172,824
INVESTING ACTIVITIES		
Proceeds from sales of fixed maturities and equity securities	204,821	220,093
Proceeds from maturities, calls and prepayments of fixed maturities	255,951	266,290
Cost of fixed maturities and equity securities purchased	(526,058)	(767,331)
Net change in short-term investments	(168,057)	172,512
Additions to property and equipment	(43,511)	(28,748)
Acquisitions, net of cash acquired	(20,319)	(40,284)
Other	2,690	4,971
Net Cash Used By Investing Activities	(294,483)	(172,497)
FINANCING ACTIVITIES		
Additions to senior long-term debt and other debt	302,829	30,697
Repayments of senior long-term debt and other debt	(57,393)	(7,697)
Repurchases of common stock	(33,436)	(42,080)
Purchase of noncontrolling interests	0	(3,001)
Other	(1,184)	(11,548)
Net Cash Provided (Used) By Financing Activities	210,816	(33,629)
Effect of foreign currency rate changes on cash and cash equivalents	(2,507)	762
Increase (decrease) in cash and cash equivalents	174,934	(32,540)
Cash and cash equivalents at beginning of period	745,259	850,494
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 920,193	\$ 817,954

See accompanying notes to consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Markel Corporation is a diverse financial holding company serving a variety of niche markets. Markel Corporation's principal business markets and underwrites specialty insurance products and programs. Markel Corporation also owns interests in various businesses that operate outside of the specialty insurance marketplace.

The consolidated balance sheet as of September 30, 2011, the related consolidated statements of income and comprehensive income (loss) for the quarters and nine months ended September 30, 2011 and 2010, and the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2011 and 2010 are unaudited. In the opinion of management, all adjustments necessary for fair presentation of such consolidated financial statements have been included. Such adjustments consist only of normal, recurring items. Interim results are not necessarily indicative of results of operations for the entire year. The consolidated balance sheet as of December 31, 2010 was derived from Markel Corporation's audited annual consolidated financial statements.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and include the accounts of Markel Corporation and all subsidiaries (the Company). All significant intercompany balances and transactions have been eliminated in consolidation. The Company consolidates the results of its non-insurance subsidiaries on a one-month lag. Certain prior year amounts have been reclassified to conform to the current presentation.

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

The consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's annual consolidated financial statements and notes. Readers are urged to review the Company's 2010 Annual Report on Form 10-K for a more complete description of the Company's business and accounting policies.

ParkLand Ventures, Inc., a subsidiary of the Company, has formed subsidiaries for the purpose of acquiring and financing real estate (the real estate subsidiaries). The assets of the real estate subsidiaries, which are not material to the Company, are consolidated in accordance with U.S. GAAP but are not available to satisfy the debt and other obligations of the Company or any affiliates other than the real estate subsidiaries.

Table of Contents

2. Net Income per Share

Net income per share was determined by dividing net income to shareholders by the applicable weighted average shares outstanding.

<i>(in thousands, except per share amounts)</i>	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income to shareholders	\$ 53,264	\$ 63,250	\$ 91,850	\$ 126,650
Basic common shares outstanding	9,680	9,748	9,706	9,785
Dilutive potential common shares	38	12	40	10
Diluted shares outstanding	9,718	9,760	9,746	9,795
Basic net income per share	\$ 5.50	\$ 6.49	\$ 9.46	\$ 12.94
Diluted net income per share	\$ 5.48	\$ 6.48	\$ 9.42	\$ 12.93

3. Reinsurance

The following tables summarize the effect of reinsurance on premiums written and earned.

<i>(dollars in thousands)</i>	Quarter Ended September 30,			
	2011		2010	
	Written	Earned	Written	Earned
Direct	\$ 501,687	\$ 475,578	\$ 444,099	\$ 418,888
Assumed	82,948	86,134	77,492	63,890
Ceded	(59,957)	(52,509)	(54,436)	(47,423)
Net premiums	\$ 524,678	\$ 509,203	\$ 467,155	\$ 435,355

<i>(dollars in thousands)</i>	Nine Months Ended September 30,			
	2011		2010	
	Written	Earned	Written	Earned
Direct	\$ 1,482,903	\$ 1,383,678	\$ 1,301,792	\$ 1,238,911
Assumed	289,708	254,907	226,337	173,287
Ceded	(198,233)	(176,070)	(160,243)	(148,020)
Net premiums	\$ 1,574,378	\$ 1,462,515	\$ 1,367,886	\$ 1,264,178

Incurred losses and loss adjustment expenses were net of reinsurance recoverables (ceded incurred losses and loss adjustment expenses) of \$42.9 million and \$24.1 million, respectively, for the quarters ended September 30, 2011 and 2010 and \$136.7 million and \$87.9 million, respectively, for the nine months ended September 30, 2011 and 2010. The nine months ended September 30, 2011 included \$38.4 million of estimated reinsurance recoverables related to losses on natural catastrophes and \$26.4 million of estimated reinsurance recoverables related to two large losses in the Marine and Energy division of the London Insurance Market segment. The nine months ended September 30, 2010 included \$43.2 million of estimated reinsurance recoverables related to the Deepwater Horizon drilling rig explosion.

Table of Contents

4. Investments

a) The following tables summarize the Company's available-for-sale investments.

	September 30, 2011				
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Unrealized Other-Than- Temporary Impairment Losses	Estimated Fair Value
<i>(dollars in thousands)</i>					
Fixed maturities:					
U.S. Treasury securities and obligations of U.S. government agencies	\$ 284,438	\$ 23,733	\$ (12)	\$ 0	\$ 308,159
Obligations of states, municipalities and political subdivisions	2,743,359	176,163	(1,359)	0	2,918,163
Foreign governments	683,747	56,616	0	0	740,363
Residential mortgage-backed securities	392,534	31,355	(13)	(5,922)	417,954
Asset-backed securities	16,723	837	(8)	0	17,552
Public utilities	70,482	5,625	0	0	76,107
All other corporate bonds	1,032,696	74,636	(2,328)	(6,718)	1,098,286
Total fixed maturities	5,223,979	368,965	(3,720)	(12,640)	5,576,584
Equity securities:					
Insurance companies, banks and trusts	371,004	250,441	(9,050)	0	612,395
Industrial, consumer and all other	721,658	284,859	(9,713)	0	996,804
Total equity securities	1,092,662	535,300	(18,763)	0	1,609,199
Short-term investments	491,730	27	(1)	0	491,756
Investments, available-for-sale	\$ 6,808,371	\$ 904,292	\$ (22,484)	\$ (12,640)	\$ 7,677,539

	December 31, 2010				
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Unrealized Other-Than- Temporary Impairment Losses	Estimated Fair Value
<i>(dollars in thousands)</i>					
Fixed maturities:					
U.S. Treasury securities and obligations of U.S. government agencies	\$ 300,555	\$ 20,832	\$ (49)	\$ 0	\$ 321,338
Obligations of states, municipalities and political subdivisions	2,767,169	61,620	(29,450)	0	2,799,339
Foreign governments	550,755	24,662	(2,599)	0	572,818
Residential mortgage-backed securities	409,415	29,664	(1,738)	(11,778)	425,563
Asset-backed securities	21,704	1,052	0	0	22,756
Public utilities	95,770	6,674	0	0	102,444
Convertible bonds	16,725	0	0	0	16,725
All other corporate bonds	1,094,887	83,752	(603)	(7,793)	1,170,243
Total fixed maturities	5,256,980	228,256	(34,439)	(19,571)	5,431,226
Equity securities:					
Insurance companies, banks and trusts	388,848	323,634	(1,496)	0	710,986
Industrial, consumer and all other	607,240	404,444	(699)	0	1,010,985
Total equity securities	996,088	728,078	(2,195)	0	1,721,971
Short-term investments	325,336	4	0	0	325,340

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Investments, available-for-sale	\$ 6,578,404	\$ 956,338	\$ (36,634)	\$ (19,571)	\$ 7,478,537
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Table of Contents

- b) The following tables summarize gross unrealized investment losses by the length of time that securities have continuously been in an unrealized loss position.

	Less than 12 months		September 30, 2011 12 months or longer		Total	
	Estimated Fair Value	Gross Unrealized Holding and Other-Than- Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than- Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than- Temporary Impairment Losses
<i>(dollars in thousands)</i>						
Fixed maturities:						
U.S. Treasury securities and obligations of U.S. government agencies	\$ 6,747	\$ (12)	\$ 0	\$ 0	\$ 6,747	\$ (12)
Obligations of states, municipalities and political subdivisions	2,736	(1)	43,021	(1,358)	45,757	(1,359)
Residential mortgage-backed securities	3,893	(5,925)	2,241	(10)	6,134	(5,935)
Asset-backed securities	121	(1)	35	(7)	156	(8)
All other corporate bonds	47,893	(7,554)	8,141	(1,492)	56,034	(9,046)
Total fixed maturities	61,390	(13,493)	53,438	(2,867)	114,828	(16,360)
Equity securities:						
Insurance companies, banks and trusts	56,755	(9,050)	0	0	56,755	(9,050)
Industrial, consumer and all other	117,382	(8,591)	12,283	(1,122)	129,665	(9,713)
Total equity securities	174,137	(17,641)	12,283	(1,122)	186,420	(18,763)
Short-term investments	89,999	(1)	0	0	89,999	(1)
Total	\$ 325,526	\$ (31,135)	\$ 65,721	\$ (3,989)	\$ 391,247	\$ (35,124)

At September 30, 2011, the Company held 105 securities with a total estimated fair value of \$391.2 million and gross unrealized losses of \$35.1 million. Of these 105 securities, 31 securities had been in a continuous unrealized loss position for greater than one year and had a total estimated fair value of \$65.7 million and gross unrealized losses of \$4.0 million. Of these securities, 30 were fixed maturities and one was an equity security. The Company does not intend to sell or believe it will be required to sell these fixed maturities before recovery of their amortized cost.

Table of Contents

	Less than 12 months		December 31, 2010 12 months or longer		Total	
	Estimated Fair Value	Gross Unrealized Holding and Other-Than- Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than- Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than- Temporary Impairment Losses
<i>(dollars in thousands)</i>						
Fixed maturities:						
U.S. Treasury securities and obligations of U.S. government agencies	\$ 23,574	\$ (49)	\$ 0	\$ 0	\$ 23,574	\$ (49)
Obligations of states, municipalities and political subdivisions	942,935	(27,463)	22,468	(1,987)	965,403	(29,450)
Foreign governments	119,211	(2,440)	4,955	(159)	124,166	(2,599)
Residential mortgage-backed securities	20,972	(10,822)	10,534	&		