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FEDERATED NATIONAL HOLDING Co
Form 10-Q
May 08, 2018

UNITED STATES
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 QUARTERLY PERIOD ENDED March 31, 2018

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 000-25001

Federated National Holding Company

(Exact name of registrant as specified in its charter)

Florida

(State or Other Jurisdiction of Incorporation or Organization)

65-0248866

(IRS Employer Identification Number)

14050 N.W. 14th Street, Suite 180, Sunrise, FL

(Address of principal executive offices)

33323

(Zip Code)

800-293-2532

(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 electronically submitted 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 (§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, 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. (Check one):

Large accelerated filer Accelerated filer Non accelerated filer Smaller reporting company

(Do not check if a 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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of May 4, 2018, the registrant had 12,719,777 shares of common stock outstanding.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

FEDERATED NATIONAL HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	March 31, 2018	December 31, 2017
ASSETS		
Investments:		
Debt securities, available-for-sale, at fair value (amortized cost of \$434,667 and \$422,300, respectively)	\$429,457	\$423,238
Debt securities, held-to-maturity, at amortized cost	5,298	5,349
Equity securities, at fair value	16,515	15,434
Total investments (including \$0 and \$26,284 related to the VIE, respectively)	451,270	444,021
Cash and cash equivalents (including \$0 and \$14,211 related to the VIE, respectively)	55,591	86,228
Prepaid reinsurance premiums	87,201	135,492
Premiums receivable, net of allowance of \$72 and \$70, respectively (including \$0 and \$1,184 related to the VIE, respectively)	45,667	46,393
Reinsurance recoverable, net	146,091	124,601
Deferred acquisition costs	39,401	40,893
Income taxes receivable, net	4,699	9,510
Deferred income taxes, net	4,368	307
Property and equipment, net	3,797	4,025
Other assets (including \$0 and \$2,322 related to the VIE, respectively)	10,130	13,403
TOTAL ASSETS	\$848,215	\$904,873
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Loss and loss adjustment expense reserves	\$236,214	\$230,515
Unearned premiums	282,397	294,423
Reinsurance payable	38,489	71,944
Long-term debt, net of deferred financing costs of \$672 and \$749, respectively	44,328	49,251
Deferred revenue	5,924	6,222
Other liabilities	32,783	25,059
Total liabilities	640,135	677,414
SHAREHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value: 1,000,000 shares authorized	—	—
Common stock, \$0.01 par value: 25,000,000 shares authorized; 12,718,953 and 12,988,247 shares issued and outstanding, respectively	127	130
Additional paid-in capital	139,388	139,728
Accumulated other comprehensive (loss) income	(3,861)	1,770
Retained earnings	72,426	70,009
Total shareholders' equity attributable to Federated National Holding Company shareholders	208,080	211,637
Non-controlling interest	—	15,822
Total shareholders' equity	208,080	227,459

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$848,215	\$904,873
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The accompanying notes are an integral part of the unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenue:		
Net premiums earned	\$82,109	\$81,660
Net investment income	2,943	2,318
Net realized and unrealized investment losses	(1,052)	(105)
Direct written policy fees	3,576	4,712
Other income	5,501	4,469
Total revenue	93,077	93,054
Costs and expenses:		
Losses and loss adjustment expenses	46,071	56,899
Commissions and other underwriting expenses	30,221	27,568
General and administrative expenses	6,085	4,619
Interest expense	1,084	84
Total costs and expenses	83,461	89,170
Income before income taxes	9,616	3,884
Income taxes	2,371	1,435
Net income	7,245	2,449
Net (loss) income attributable to noncontrolling interest	(218)	27
Net income attributable to Federated National Holding Company shareholders	\$7,463	\$2,422
Net income per share attributable to Federated National Holding Company shareholders		
Basic	\$0.58	\$0.18
Diluted	\$0.58	\$0.18
Weighted average number of shares of common stock outstanding:		
Basic	12,850	13,432
Diluted	12,945	13,559
Dividends declared per share of common stock	\$0.08	\$0.08

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2018 2017	
Net income	\$7,245	\$2,449
Change in net unrealized (losses) gains on investments, available-for-sale	(6,148)	3,710
Comprehensive income before income taxes	1,097	6,159
Income tax benefit (expense) related to items of other comprehensive income	1,587	(1,445)
Comprehensive income	2,684	4,714
Less: comprehensive (loss) income attributable to noncontrolling interest	(447)	7
Comprehensive income attributable to Federated National Holding Company shareholders	\$3,131	\$4,707

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands, except share data)

(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated		Total Shareholders' Equity Attributable to Federated National Holding Company	Noncontrolling Interest	Total Shareholders' Equity	
	Preferred Stock	Issued Shares		Other Comprehensive (Loss) Income	Retained Earnings				
Balance as of December 31, 2017	\$ —	12,988,247	\$ 130	\$ 139,728	\$ 1,770	\$ 70,009	\$ 211,637	\$ 15,822	\$ 227,459
Cumulative effect of new accounting standards	—	—	—	—	(994)	994	—	—	—
Net income (loss)	—	—	—	—	—	7,463	7,463	(218)	7,245
Other comprehensive loss	—	—	—	—	(4,332)	—	(4,332)	(229)	(4,561)
Dividends declared	—	—	—	—	—	(1,043)	(1,043)	—	(1,043)
Acquisition of non-controlling interest	—	—	—	(1,005)	(305)	—	(1,310)	(15,375)	(16,685)
Shares issued under share-based compensation plans	—	53,571	—	—	—	—	—	—	—
Repurchases of common stock	—	(322,865)	(3)	—	—	(4,997)	(5,000)	—	(5,000)
Share-based compensation	—	—	—	665	—	—	—	—	—