

PROFESSIONALS DIRECT INC  
Form 10QSB  
May 14, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-QSB**

(MARK ONE)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2007

TRANSITION REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **000-49786**

**PROFESSIONALS DIRECT, INC.**

(Exact Name of Small Business Issuer as Specified in its Charter)

**Michigan**

(State or Other Jurisdiction of  
Incorporation or Organization)

**38-3324634**

(I.R.S. Employer Identification No.)

**5211 Cascade Road, S.E.**

**Grand Rapids, Michigan 49546**

(Address of Principal Executive Offices)

**(616) 456-8899**

(Issuer's Telephone Number,  
Including Area Code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 X No     

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes      No X

There were 333,300 shares of Common Stock outstanding as of April 30, 2007.

Transitional Small Business Disclosure Format (check one): Yes      No X



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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

PROFESSIONALS DIRECT, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET  
(Unaudited)

<i>March 31,</i>	<b>2007 (000)</b>
<b>Assets</b>	
Fixed maturities held to maturity, at amortized cost	\$ 7,030
Fixed maturities available for sale, at fair value	31,102
Other invested asset, at cost which approximates fair value	277
<b>Total investments</b>	<b>38,409</b>
Cash and cash equivalents	4,425
Receivables:	
Amounts due from reinsurers	17,034
Other	1,902
Prepaid reinsurance premiums	3,683
Deferred acquisition costs	1,509
Net deferred federal income taxes	1,225
Other assets	1,278
<b>Total Assets</b>	<b>\$ 69,465</b>
<b>Liabilities and Shareholders' Equity</b>	
<b>Liabilities</b>	
Loss and loss adjustment expense reserves	\$ 32,746
Unearned premiums	12,218
Amounts due to reinsurers	1,827
Other liabilities	2,510
Accrued interest	986
Surplus certificates	1,343
Trust preferred securities	5,000
<b>Total Liabilities</b>	<b>56,630</b>
<b>Shareholders' Equity</b>	
Preferred stock, no par (500,000 shares authorized, no shares issued)	-
Common stock, no par (5,000,000 shares authorized, 333,300 shares issued and outstanding)	3,204
Retained earnings	9,871
Accumulated other comprehensive loss	(240)
<b>Total Shareholders' Equity</b>	<b>12,835</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 69,465</b>

See accompanying notes to condensed consolidated financial statements.

PROFESSIONALS DIRECT, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
AND COMPREHENSIVE INCOME  
(Unaudited)

	Three Months Ended March 31,	
	2007 (000)	2006 (000)
<b>Revenues</b>		
Net premiums earned	\$ 3,958	\$ 4,004
Fees and commissions	256	212
Net investment income	403	359
Finance and other income - including unusual gain of \$82 and \$113, respectively (Note 3)	124	160
<b>Total revenues</b>	<b>4,741</b>	4,735
<b>Expenses</b>		
Losses and loss adjustment expenses	2,787	2,835
Operating and administrative	1,223	948
Interest	128	139
<b>Total expenses</b>	<b>4,138</b>	3,922
<b>Income before federal income taxes</b>	<b>603</b>	813
<b>Federal income taxes</b>	<b>158</b>	250
<b>Net income</b>	<b>445</b>	563
Other comprehensive income (loss) (net of tax (benefit) of \$34 and \$(62), respectively)	66	(121)
<b>Comprehensive income</b>	<b>\$ 511</b>	\$ 442
Per share of common stock (not in thousands):		
Basic and diluted net income per share	\$ 1.33	\$ 1.69
Basic and diluted comprehensive income per share	1.53	1.33

See accompanying notes to condensed consolidated financial statements.

PROFESSIONALS DIRECT, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Three Months Ended March 31,	
	2007 (000)	2006 (000)
<b>Operating activities</b>		
Net income	\$ 445	\$ 563
Adjustments to reconcile net income to net cash from operating activities:		
Deferred federal income taxes	(21)	29
Gain from redemption of surplus certificates	(82)	(113)
Depreciation and amortization	160	168
Changes in operating assets and liabilities:		
Amounts due from reinsurers	(653)	(76)
Other receivables	146	(62)
Prepaid reinsurance premiums	436	194
Deferred acquisition costs	(93)	26
Other assets	68	(126)
Loss and loss adjustment expense reserves	(131)	929
Amounts due to reinsurers	97	74
Unearned premiums	433	(369)
Other liabilities	(305)	(190)
Accrued interest	(159)	(132)
Net cash from operating activities	341	915
<b>Investing activities</b>		
Cost of fixed maturities acquired	(2,486)	(5,703)
Proceeds from sales or maturities of fixed maturities	1,256	1,670
Cost of property and equipment acquired	(50)	(105)
Net cash for investing activities	(1,280)	(4,138)
<b>Financing activities</b>		
Repayments of surplus certificates	(178)	(141)
Net repayments under lines of credit	-	(170)
Net cash for financing activities	(178)	(311)
<b>Net decrease in cash and cash equivalents</b>	<b>(1,117)</b>	<b>(3,534)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>5,542</b>	<b>9,309</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 4,425</b>	<b>\$ 5,775</b>

**Supplemental disclosures of cash flow  
information**

Federal income tax payments	\$	-	\$	220
Interest payments		<b>287</b>		<b>271</b>

See accompanying notes to condensed consolidated financial statements.



PROFESSIONALS DIRECT, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

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## 1. Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries (Professionals Direct Insurance Company (PDIC), a property and casualty insurance company providing professional liability insurance to attorneys; Professionals Direct Employer Organization, Inc., an inactive Michigan professional employer organization; Professionals Direct Finance, Inc. (Finance), a premium finance company; and Professionals Direct Insurance Services, Inc. (Services), a company providing underwriting, claims, accounting, information technology services and selling professionals liability and other insurance), plus Lawyers Direct Risk Purchasing Group, Inc. which the Company controls. Professionals Direct Statutory Trust I and Professionals Direct Statutory Trust II are accounted for under the equity method in the accompanying financial statements and are not consolidated because the Company is not the primary beneficiary.

The condensed consolidated financial statements and notes as of and for the three months ended March 31, 2007 and 2006 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) that are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

## 2. Income per Share

Basic income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding for the period (333,300 for the three months ended March 31, 2007, and 333,500 for the three months ended March 31, 2006). Diluted income per share is equal to basic income per share as there are no stock options or other dilutive instruments outstanding.

## 3. Unusual Gain

Other income includes an unusual gain of \$82,000 and \$113,000 in 2007 and 2006, respectively, the portion of principal surplus certificate holders forgave in return for early redemption.

## 4. Recent Accounting Pronouncements

On January 1, 2007 the Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 requires an entity to recognize the benefit of tax positions only when it is more likely than not, based on the position's technical merits, that the position would be sustained upon examination by the respective taxing authorities. The tax benefit is measured as the largest benefit that is more than fifty-percent likely of being realized upon final settlement with the respective taxing authorities. The adoption of FIN 48 did not have an impact on our financial position or results of operations and we have taken no tax positions which would require disclosure under the new guidance. Although the IRS is not currently examining any of our income tax returns, tax years 2004-2006 remain open and are subject to examination.



In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP, and enhances disclosures about fair value measurements. SFAS No. 157 applies when other accounting pronouncements require fair value measurements; it does not require new fair value measurements. The Company does not believe the adoption will have a material impact on its financial condition or results of operations, if any, of adopting SFAS No. 157 which becomes effective in 2008.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159") which provides reporting entities an option to report selected financial assets, including investment securities designated as available for sale, and liabilities, including most insurance contracts, at fair value. SFAS No. 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The standard also requires additional information to aid financial statement users' understanding of a reporting entity's choice to use fair value on its earnings and also requires entities to display on the face of the balance sheet the fair value of those assets and liabilities for which the reporting entity has chosen to measure at fair value. SFAS No. 159 is effective as of the beginning of a reporting entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS No. 157. Because application of the standard is optional, any impacts are limited to those financial assets and liabilities to which SFAS No. 159 would be applied, which has yet to be determined. The Company will adopt the standard in fiscal 2008.

**Item 2. Management's Discussion and Analysis**

The following discussion and analysis for the three months ended March 31, 2007 should be read in conjunction with the condensed consolidated financial statements and the notes thereto included elsewhere in this report. The following discussion of our financial condition and results of operations contains certain forward-looking statements. A discussion of the limitations of forward-looking statements appears at the end of this section.

**Introduction**

Revenues decreased nominally in 2007 from 2006. The decrease in losses and loss adjustment expenses approximated the slight decrease in net premiums earned. Operating and administrative expenses increased. As a result, net income this year is down when compared to last year. The following table and discussion compares the year-to-date financial results for 2007 and 2006:

	<b>Three Months Ended March 31,</b>			
	<b>2007</b>	<b>2006</b>	<b>Change</b>	<b>Percent Change</b>
	<b>(in thousands of dollars, except for per share data)</b>			
<b>Revenues:</b>				
Net premiums earned	\$ 3,958	\$ 4,004	\$ (46)	(1.1%)
Fees and commissions	256	212	44	20.8%
Net investment income	403	359	44	12.3%
Finance and other income	124	160	(36)	(22.5%)
<b>Total revenues</b>	<b>4,741</b>	<b>4,735</b>	<b>6</b>	<b>0.1%</b>
<b>Expenses:</b>				
Losses and loss adjustment expenses	2,787	2,835	(48)	(1.7%)
Operating and administrative	1,223	948	275	29.0%
Interest	128	139	(11)	(7.9%)
<b>Total expenses</b>	<b>4,138</b>	<b>3,922</b>	<b>216</b>	<b>5.5%</b>
Income before federal income taxes	603	813	(210)	(25.8%)
Federal income taxes	158	250	(92)	(36.8%)
<b>Net income</b>	<b>\$ 445</b>	<b>\$ 563</b>	<b>\$ (118)</b>	<b>(21.0%)</b>
<b>Selected Balance Sheet Data:</b>				
(at end of period)				
Total investments and cash	\$ 42,834	\$ 43,611	\$ (777)	(1.8%)
Total assets	69,465	71,859	(2,394)	(3.3%)
Total liabilities				