

MARKEL CORP
Form 10-Q
May 02, 2006
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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, 2006

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)

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)

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(804) 747-0136

(Registrant's telephone number, including area code)

NONE

(Former name, former address and former fiscal year, if changed since last report)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 April 27, 2006: 9,661,598

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	March 31, 2006	December 31, 2005
	<i>(dollars in thousands)</i>	
ASSETS		
Investments, available-for-sale, at estimated fair value:		
Fixed maturities (amortized cost of \$4,683,436 in 2006 and \$4,586,164 in 2005)	\$ 4,646,449	\$ 4,613,296
Equity securities (cost of \$1,004,445 in 2006 and \$940,290 in 2005)	1,455,837	1,378,556
Short-term investments (estimated fair value approximates cost)	45,923	248,541
Investments in affiliates	69,958	14,072
Total Investments	6,218,167	6,254,465
Cash and cash equivalents	288,418	333,757
Receivables	354,259	334,513
Reinsurance recoverable on unpaid losses	1,718,704	1,824,300
Reinsurance recoverable on paid losses	141,246	91,311
Deferred policy acquisition costs	219,272	212,329
Prepaid reinsurance premiums	129,963	130,513
Goodwill	339,717	339,717
Other assets	315,540	293,193
Total Assets	\$ 9,725,286	\$ 9,814,098
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unpaid losses and loss adjustment expenses	\$ 5,775,510	\$ 5,863,677
Unearned premiums	1,038,283	993,737
Payables to insurance companies	124,051	115,613
Convertible notes payable (estimated fair value of \$113,000 in 2006 and \$108,000 in 2005)	99,263	98,891
Senior long-term debt (estimated fair value of \$630,000 in 2006 and \$647,000 in 2005)	607,044	608,945
Junior Subordinated Deferrable Interest Debentures (estimated fair value of \$146,000 in 2006 and \$150,000 in 2005)	138,621	141,045
Other liabilities	236,773	286,757
Total Liabilities	8,019,545	8,108,665
Shareholders' equity:		
Common stock	744,596	743,503
Retained earnings	699,768	669,057
Accumulated other comprehensive income:		
Net unrealized holding gains on fixed maturities and equity securities, net of taxes of \$145,042 in 2006 and \$162,889 in 2005	269,363	302,509
Cumulative translation adjustments, net of tax benefit of \$4,300 in 2006 and \$5,189 in 2005	(7,986)	(9,636)
Total Shareholders' Equity	1,705,741	1,705,433
Commitments and contingencies		

Total Liabilities and Shareholders Equity	\$ 9,725,286	\$ 9,814,098
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See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income (Loss)

	Three Months Ended March 31,	
	2006	2005
	<i>(dollars in thousands,</i>	
	<i>except per share data)</i>	
OPERATING REVENUES		
Earned premiums	\$ 522,208	\$ 494,637
Net investment income	66,724	58,792
Net realized investment gains	30,698	16,750
Total Operating Revenues	619,630	570,179
OPERATING EXPENSES		
Losses and loss adjustment expenses	315,635	286,555
Underwriting, acquisition and insurance expenses	177,257	159,506
Total Operating Expenses	492,892	446,061
Operating Income	126,738	124,118
Interest expense	15,738	15,950
Income Before Income Taxes	111,000	108,168
Income tax expense	34,410	32,450
Net Income	\$ 76,590	\$ 75,718
OTHER COMPREHENSIVE LOSS		
Net unrealized losses on securities, net of taxes:		
Net holding losses arising during the period	\$ (13,192)	\$ (79,537)
Less reclassification adjustments for net gains included in net income	(19,954)	(10,888)
Net unrealized losses	(33,146)	(90,425)
Currency translation adjustments, net of taxes	1,650	(11,416)
Total Other Comprehensive Loss	(31,496)	(101,841)
Comprehensive Income (Loss)	\$ 45,094	\$ (26,123)
NET INCOME PER SHARE		
Basic	\$ 7.87	\$ 7.69
Diluted	\$ 7.67	\$ 7.47

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity

	Three Months Ended March 31,	
	2006	2005
	<i>(dollars in thousands)</i>	
COMMON STOCK		
Balance at beginning of period	\$ 743,503	\$ 742,288
Restricted stock units expensed and other equity transactions	1,093	314
Balance at end of period	\$ 744,596	\$ 742,602
RETAINED EARNINGS		
Balance at beginning of period	\$ 669,057	\$ 537,068
Net income	76,590	75,718
Repurchase of common stock	(45,879)	(2,422)
Balance at end of period	\$ 699,768	\$ 610,364
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Unrealized gains:		
Balance at beginning of period	\$ 302,509	\$ 377,074
Net unrealized losses on securities, net of taxes	(33,146)	(90,425)
Balance at end of period	269,363	286,649
Cumulative translation adjustments:		
Balance at beginning of period	(9,636)	73
Currency translation adjustments, net of taxes	1,650	(11,416)
Balance at end of period	(7,986)	(11,343)
Balance at end of period	\$ 261,377	\$ 275,306
SHAREHOLDERS' EQUITY AT END OF PERIOD	\$ 1,705,741	\$ 1,628,272

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2006	2005
<i>(dollars in thousands)</i>		
OPERATING ACTIVITIES		
Net income	\$ 76,590	\$ 75,718
Adjustments to reconcile net income to net cash provided (used) by operating activities	(81,772)	33,221
Net Cash Provided (Used) By Operating Activities	(5,182)	108,939
INVESTING ACTIVITIES		
Proceeds from sales of fixed maturities and equity securities	318,996	532,994
Proceeds from maturities, calls and prepayments of fixed maturities	35,406	26,594
Cost of fixed maturities and equity securities purchased	(486,157)	(754,355)
Net change in short-term investments	202,618	57,551
Cost of investments in affiliates	(55,000)	
Sale of subsidiary, net of cash sold		(13,957)
Other	(5,065)	(1,878)
Net Cash Provided (Used) By Investing Activities	10,798	(153,051)
FINANCING ACTIVITIES		
Retirement of senior long-term debt	(2,512)	
Retirement of Junior Subordinated Deferrable Interest Debentures	(2,564)	
Repurchases of common stock	(45,879)	(2,422)
Net Cash Used By Financing Activities	(50,955)	(2,422)
Decrease in cash and cash equivalents	(45,339)	(46,534)
Cash and cash equivalents at beginning of period	333,757	378,939
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 288,418	\$ 332,405

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation

Markel Corporation (the Company) markets and underwrites specialty insurance products and programs to a variety of niche markets.

The consolidated balance sheet as of March 31, 2006 and the related consolidated statements of income and comprehensive income (loss), changes in shareholders' equity and cash flows for the three months ended March 31, 2006 and 2005 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, 2005 was derived from the Company's audited annual consolidated financial statements.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles (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 2005 Annual Report and Form 10-K for a more complete description of the Company's business and accounting policies.

Certain prior year amounts have been reclassified to conform to the current presentation.

2. Net Income per Share

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

<i>(in thousands, except per share amounts)</i>	Three Months Ended	
	2006	2005
Net income as reported	\$ 76,590	\$ 75,718
Interest expense, net of tax, on convertible notes payable	678	419
Adjusted net income	\$ 77,268	\$ 76,137
Basic common shares outstanding	9,731	9,844
Dilutive effect of convertible notes payable	333	335
Other dilutive potential common shares	11	8
Diluted shares outstanding	10,075	10,187
Basic net income per share	\$ 7.87	\$ 7.69
Diluted net income per share	\$ 7.67	\$ 7.47

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3. Stock-Based Compensation

Effective in the first quarter of 2006, the Company adopted Statement of Financial Accounting Standards (Statement) No. 123 (revised 2004), *Share-Based Payment*. The adoption of Statement No. 123 (revised 2004) did not have a material impact on the Company's financial position, results of operations or cash flows.