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HILB ROGAL & HAMILTON CO /VA/
Form 10-Q
May 11, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 2001

Commission file number 0-15981

HILB, ROGAL AND HAMILTON COMPANY

(Exact name of registrant as specified in its charter)

Virginia

54-1194795

(State or other jurisdiction of
incorporation or organization)

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

P. O. Box 1220, Glen, Allen, VA

23060-1220

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (804) 747-6500

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 X No
----- -----

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

Class	Outstanding at May 1, 2001
-----	-----
Common stock, no par value	13,564,302

HILB, ROGAL AND HAMILTON COMPANY
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PART I -- FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

STATEMENT OF CONSOLIDATED INCOME

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

(UNAUDITED)

	THREE MONTHS ENDED MARCH 31, 2001	MARCH 31, 2000
	-----	-----
Revenues		
Commissions and fees	\$ 77,002,907	\$

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Investment income	627,783	
Other income	281,037	

	77,911,727	
Operating expenses		
Compensation and employee benefits	42,769,221	
Other operating expenses	15,861,071	
Amortization of intangibles	3,324,503	
Interest expense	2,306,009	

	64,260,804	

INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	13,650,923	
Income taxes	5,869,897	

INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	7,781,026	
Cumulative effect of accounting change, net of tax	-	

NET INCOME	\$ 7,781,026	\$
	=====	=====
Net Income Per Share - Basic:		
Income before cumulative effect of accounting change	\$ 0.58	\$
Cumulative effect of accounting change, net of tax	-	

Net income	\$ 0.58	\$
	=====	=====
Net Income Per Share - Assuming Dilution:		
Income before cumulative effect of accounting change	\$ 0.53	\$
Cumulative effect of accounting change, net of tax	-	

Net income	\$ 0.53	\$
	=====	=====

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

MARCH 31,
2001

(UNAUDITED)

ASSETS
CURRENT ASSETS

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Cash and cash equivalents	\$ 50,921,673	\$
Investments	2,036,297	
Receivables:		
Premiums, less allowance for doubtful accounts of \$1,872,000 and \$1,878,000, respectively	69,608,286	
Other	15,486,549	

Prepaid expenses and other current assets	85,094,835	
	6,007,829	

TOTAL CURRENT ASSETS	144,060,634	
INVESTMENTS	1,667,455	
PROPERTY AND EQUIPMENT, NET	17,997,409	
INTANGIBLE ASSETS	273,362,912	
Less accumulated amortization	49,691,443	

OTHER ASSETS	223,671,469	
	8,630,409	

	\$ 396,027,376	\$
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Premiums payable to insurance companies	\$ 114,466,978	\$
Accounts payable	5,956,165	
Accrued expenses	11,474,972	
Premium deposits and credits due customers	20,626,055	
Current portion of long-term debt	4,577,466	

TOTAL CURRENT LIABILITIES	157,101,636	
LONG-TERM DEBT	128,035,841	
OTHER LONG-TERM LIABILITIES	12,404,841	
SHAREHOLDERS' EQUITY		
Common Stock, no par value; authorized 50,000,000 shares; outstanding 13,475,639 and 13,280,468 shares, respectively	28,152,118	
Retained earnings	71,352,889	
Accumulated other comprehensive earnings (loss)	(1,019,949)	

	98,485,058	

	\$ 396,027,376	\$
	=====	=====

See notes to consolidated financial statements.

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HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

(UNAUDITED)

	COMMON STOCK	RETAINED EARNINGS	ACC COMP E
	-----	-----	-----
Balance at January 1, 2001	\$ 22,361,312	\$ 65,860,654	\$
Issuance of 195,171 shares of Common Stock	5,790,806		
Payment of dividends (\$.17 per share)		(2,288,791)	
Net income		7,781,026	
Cumulative effect of accounting change related to derivatives, net of tax			
Derivative loss arising during first quarter 2001, net of tax			
Balance at March 31, 2001	\$ 28,152,118	\$ 71,352,889	\$ (
	=====	=====	=====
Balance at January 1, 2000	\$ 18,248,712	\$ 52,927,064	\$
Issuance of 122,979 shares of Common Stock	508,524		
Purchase of 72,200 shares of Common Stock	(2,013,145)		
Payment of dividends (\$.165 per share)		(2,149,762)	
Net income		6,412,258	
Balance at March 31, 2000	\$ 16,744,091	\$ 57,189,560	\$
	=====	=====	=====

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED CASH FLOWS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

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(UNAUDITED)

	THREE MONTHS ENDED MARCH 31, 2001	MARCH 31, 2000
	-----	-----
OPERATING ACTIVITIES		
Net income	\$ 7,781,026	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of accounting change, net of tax	-	
Depreciation and amortization	1,481,825	
Amortization of intangible assets	3,324,503	

Net income plus amortization and depreciation and cumulative effect of accounting change, net of tax	12,587,354	
Provision for losses on accounts receivable	194,149	
Gain on sale of assets	(38,591)	
Changes in operating assets and liabilities net of effects from insurance agency acquisitions and dispositions:		
Decrease in accounts receivable	16,367,519	
Decrease in prepaid expenses	957,392	
(Decrease) increase in premiums payable to insurance companies	(7,062,917)	
Increase in premium deposits and credits due customers	4,645,154	
Decrease in accounts payable	(710,005)	
Decrease in accrued expenses	(3,025,476)	
Other operating activities	1,369,952	

NET CASH PROVIDED BY OPERATING ACTIVITIES	25,284,531	
INVESTING ACTIVITIES		
Purchase of investments	(745,153)	
Purchase of property and equipment	(960,305)	
Purchase of insurance agencies, net of cash acquired	(17,512,291)	
Proceeds from sale of assets	18,647	
Other investing activities	191,112	

NET CASH USED IN INVESTING ACTIVITIES	(19,007,990)	
FINANCING ACTIVITIES		
Proceeds from long-term debt	25,000,000	
Principal payments on long-term debt	(7,999,266)	
Proceeds from issuance of Common Stock	1,052,405	
Repurchase of Common Stock	-	
Dividends	(2,288,791)	

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	15,764,348	

INCREASE IN CASH AND CASH EQUIVALENTS	22,040,889	
Cash and cash equivalents at beginning of period	28,880,784	

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 50,921,673	\$
	=====	=====

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See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

March 31, 2001

(UNAUDITED)

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the year ended December 31, 2000.

NOTE B--CHANGES IN ACCOUNTING METHOD

As of January 1, 2001, the Company adopted Financial Accounting Standards Board Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (Statement 133). It requires the Company to recognize all derivatives as either assets or liabilities in the balance sheet and measure these instruments at fair value recognizing offsetting gains and losses as adjustments to be reported in net income or other comprehensive income, as appropriate. The Company's use of derivative instruments is limited to interest rate swap agreements used to modify the interest characteristics for a portion of its outstanding debt. These interest rate swaps are designated as cash flow hedges. The adoption of Statement 133 resulted in a \$517,000 cumulative effect of accounting change, net of tax and was recognized as a decrease to accumulated other comprehensive income. The adoption of Statement 133 did not have a material effect on net income for the period ended March 31, 2001.

In accordance with Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," effective January 1, 2000, the Company changed its method of accounting for cancellation of customer insurance policies. Previously, the Company did not record a reserve for such cancellations. Under the new method of accounting adopted retroactive to January 1, 2000, the Company now records a reserve for such cancellations. The cumulative effect of the change on prior years resulted in a charge to income of \$325,000 (net of income taxes of \$225,000), for the year ended December 31, 2000. The Company will periodically review the adequacy of the allowance and adjust it as necessary.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

March 31, 2001

(UNAUDITED)

NOTE C--INCOME TAXES

The Company files a consolidated federal income tax return. Deferred taxes result from temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. The Company's effective rate varies from the statutory rate primarily due to state income taxes and non-deductible amortization.

NOTE D--ACQUISITIONS

During the first three months of 2001, the Company acquired certain assets and liabilities of four insurance agencies for approximately \$29,200,000 (\$21,700,000 in cash, \$3,400,000 in guaranteed future payments and approximately 106,000 shares of Common Stock) in purchase accounting transactions. These acquisitions are not material to the consolidated financial statements individually or in aggregate.

NOTE E--SALE OF ASSETS AND OTHER GAINS

During the three months ended March 31, 2001 and 2000, the Company sold certain insurance accounts and other assets resulting in gains of approximately \$39,000 and \$583,000, respectively. Revenues, expenses and assets related to these dispositions were not material to the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

March 31, 2001

(UNAUDITED)

NOTE F--NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share.

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	THREE MONTHS ENDED MARCH 31, 2001	MARCH 31, 2000
	-----	-----
Numerator for basic and dilutive net income per share - net income	\$ 7,781,026	\$
Effect of dilutive securities:		
5.25% convertible debenture	270,882	
	-----	-----
Numerator for dilutive net income per share - net income available after assumed conversions	\$ 8,051,908	\$
	=====	=====
Denominator		
Weighted average shares	13,280,558	
Effect of guaranteed future shares to be issued in connection with agency acquisitions	27,429	
	-----	-----
Denominator for basic net income per share	13,307,987	
Effect of dilutive securities:		
Employee stock options	342,081	
Employee restricted stock	38,260	
Contingent stock - acquisitions	5,882	
5.25% convertible debenture	1,406,593	
	-----	-----
Dilutive potential common shares	1,792,816	
	-----	-----
Denominator for diluted net income per share - adjusted weighted average shares and assumed conversions	15,100,803	
	=====	=====
Net Income per Common Share:		
Basic	\$0.58	
	=====	
Diluted	\$0.53	
	=====	

NOTE G--SUBSEQUENT EVENT

Subsequent to March 31, 2001, the Company signed the Amended and Restated Credit Agreement with seven banks that allows for borrowings of up to \$160 million consisting of a \$100 million revolving credit facility and a \$60 million term loan facility, both of which bear interest at variable rates. The term portion of the facility is payable quarterly beginning June 30, 2001 with the final payment due June 30, 2004.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations:

Three Months Ended March 31, 2001

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Net income for the three months ended March 31, 2001 was \$7.8 million, or \$0.53 per share, compared with \$6.4 million, or \$0.45 per share after an accounting change for the same period last year. Excluding net non-recurring gains in both periods and the accounting change in 2000, net income was \$7.8 million, a 21.4% increase from \$6.4 million last year. Net income per share on the same basis was \$0.53, compared with \$0.45, an increase of 17.8%.

Commissions and fees were \$77.0 million, an increase of 17.4% from commissions and fees of \$65.6 million during the comparable period of the prior year. Approximately \$10.1 million of commissions were derived from purchase acquisitions of new insurance agencies. This increase was offset by decreases of approximately \$1.6 million from the sale of certain offices and accounts in 2001 and 2000. Excluding the effect of acquisitions and dispositions, commissions and fees from operations owned during both periods increased 4.5%. This increase relates primarily to new business production and modest firming of premium levels partially offset by continued pruning of low margin business. Non-standard commissions (contingent, bonus and override commissions), net of acquisitions, were higher than anticipated but level with last year which tempered the "organic" revenue growth rate slightly for the quarter.

Investment income increased \$0.1 million or 19.4% due primarily to increased invested assets. Other income decreased \$0.6 million or 67.8% primarily due to the decrease in gains from the sale of insurance accounts and other assets from \$583,000 in 2000 to \$39,000 in 2001.

Expenses for the quarter increased \$9.1 million or 16.4%. Compensation and benefits and other operating expenses increased \$6.4 million and \$2.0 million, respectively, primarily due to purchase acquisitions of new insurance agencies and increased revenue production. Amortization of intangibles increased approximately \$0.3 million due primarily to the aforementioned purchase acquisitions. Interest expense increased \$0.3 million due to increased borrowings.

The Company's overall tax rate for the three months ended March 31, 2001 was 43.0% comparable to 43.0% for the same period of the prior year.

The timing of contingent commissions, policy renewals and acquisitions may cause revenues, expenses and net income to vary significantly from quarter to quarter. As a result of the factors described above, operating results for the three months ended March 31, 2001 should not be considered indicative of the results that may be expected for the entire year ending December 31, 2001.

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Liquidity and Capital Resources:

Net cash provided by operations totaled \$25.3 million and \$15.3 million for the three months ended March 31, 2001 and 2000, respectively, and is primarily dependent upon the timing of the collection of insurance premiums from clients and payment of those premiums to the appropriate insurance underwriters.

The Company has historically generated sufficient funds internally to finance capital expenditures for property and equipment. Cash expenditures for the acquisition of property and equipment were \$1.0 million and \$1.0 million for the three months ended March 31, 2001 and 2000, respectively. The timing and extent of the purchase and sale of investments is dependent upon cash needs and yields on alternate investments and cash equivalents. The purchase of insurance agencies accounted for under the purchase method of accounting utilized cash of

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\$17.5 million and \$2.4 million in the three months ended March 31, 2001 and 2000, respectively. Cash expenditures for such insurance agency acquisitions have been primarily funded through operations and long-term borrowings. In addition, a portion of the purchase price in such acquisitions may be paid through Common Stock and deferred cash payments. Cash proceeds from the sale of accounts and other assets amounted to \$18,000 and \$2.2 million during the three months ended March 31, 2001 and 2000, respectively. The Company did not have any material capital expenditure commitments as of March 31, 2001.

Financing activities provided cash of \$15.8 million and utilized cash of \$4.9 million in the three months ended March 31, 2001 and 2000, respectively. The Company has consistently made debt payments and annually increased its dividend rate. In addition, during the three months ended March 31, 2000, the Company repurchased 72,200 shares of its Common Stock under a stock repurchase program. The Company is currently authorized to purchase an additional 379,100 shares. The Company anticipates the continuance of its dividend policy. As of March 31, 2001, the Company had an available bank credit facility of \$101.3 million under which loans are due in various amounts through 2004 and \$32.0 million face value of 5.25% Convertible Subordinated Debentures due 2014. At March 31, 2001, there were loans of \$91.3 million outstanding under the bank agreement.

Subsequent to the end of the quarter, the Company signed the Amended and Restated Credit Agreement providing for a credit facility of up to \$160 million under which all borrowings are due in various amounts through 2004. The new agreement consists of a \$100 million revolving credit facility and a \$60 million term loan facility.

The Company had a current ratio (current assets to current liabilities) of 0.92 to 1.00 as of March 31, 2001. Shareholders' equity of \$98.5 million at March 31, 2001, is improved from \$88.2 million at December 31, 2000. The debt to equity ratio of 1.30 to 1.00 is increased from the ratio at December 31, 2000 of 1.17 to 1.00 due to increased borrowings and by the unrealized loss on interest rate swaps offset by net income.

The Company believes that cash generated from operations, together with proceeds from borrowings, will provide sufficient funds to meet the Company's short and long-term funding needs.

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Market Risk

The Company has certain investments and utilizes (on a limited basis) derivative financial instruments which are subject to market risk; however, the Company believes that exposure to market risk associated with these instruments is not material.

Forward-Looking Statements

The Company cautions readers that the foregoing discussion and analysis includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by that Act. These forward-looking statements are believed by the Company to be reasonable based upon management's current knowledge and assumptions about future events, but are subject to the uncertainties generally inherent in any such forward-looking statement, including factors discussed above as well as other factors that may generally affect the Company's business, financial

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condition or operating results. Reference is made to the discussion of "Forward-Looking Statements" contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, regarding important risk factors and uncertainties that could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied in any forward-looking statement made by or on behalf of the Company.

Item 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is set forth under the caption "Market Risk" in Item 2 -- Management's Discussion and Analysis of Financial Condition and Results of Operations.

PART II - OTHER INFORMATION

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- a) The Annual Meeting of Shareholders (the "Meeting") of the Company was held on Tuesday, May 1, 2001.
- c) The Shareholders voted for the election of four (4) directors to serve for terms of three (3) years expiring on the date of the Annual Meeting in 2004 and until their successors are elected. The results of the voting in these elections are set forth below.

	Votes For	Votes Withheld	Non-Votes
J. S. M. French	10,925,970	78,073	2,469,247
Anthony F. Markel	10,925,970	78,073	2,469,247
David W. Searfoss	10,925,370	78,673	2,469,247
Robert S. Ukrop	10,922,570	81,473	2,469,247

No other matters were voted upon at the Meeting or during the quarter for which this report is filed.

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Item 6. EXHIBITS AND REPORTS ON FORM 8-K

- a) Exhibits

Exhibit No. -----	Document -----
10.1	Amended and Restated Credit Agreement dated April 6, 2001 among the Registrant and First Union National Bank, PNC Bank, National Association Bank of America Securities, LLC, Fleet National Bank, SunTrust Bank, Branch Banking and Trust Company and Comerica Bank*

- b) Reports on Form 8-K

None.

* Filed Herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Hilb, Rogal and Hamilton Company

(Registrant)

Date May 11, 2001

By: /s/ Andrew L. Rogal

Chairman and Chief Executive
Officer
(Principal Executive Officer)

Date May 11, 2001

By: /s/ Carolyn Jones

Senior Vice President and Chief
Financial Officer
(Principal Financial Officer)

Date May 11, 2001

By: /s/ Robert W. Blanton, Jr.

Vice President and Controller
(Chief Accounting Officer)

