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HILB ROGAL & HAMILTON CO /VA/
Form 10-Q
November 14, 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 September 30, 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.)

4951 Lake Brook Drive, Suite 500, Glen Allen, VA

23060

(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 November 1, 2001
-----	-----
Common stock, no par value	14,133,023

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		NINE MONTHS
	SEPT. 30, 2001	SEPT. 30, 2000	SEPT. 30, 2001
	-----	-----	-----

Revenues

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Commissions and fees	\$ 86,322,607	\$ 64,643,935	\$ 237,627,788
Investment income	682,198	744,130	1,978,585
Other	604,672	386,382	3,704,445
	-----	-----	-----
	87,609,477	65,774,447	243,310,818
Operating expenses			
Compensation and employee benefits	47,362,028	36,139,046	132,885,941
Other operating expenses	17,386,429	13,650,250	48,821,737
Amortization of intangibles	3,490,364	3,080,862	10,260,966
Interest expense	2,392,443	2,111,634	7,052,015
	-----	-----	-----
	70,631,264	54,981,792	199,020,659
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	16,978,213	10,792,655	44,290,159
Income taxes	7,300,745	4,640,639	19,044,881
	-----	-----	-----
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	9,677,468	6,152,016	25,245,278
Cumulative effect of accounting change, net of tax	-	-	-
	-----	-----	-----
NET INCOME	\$ 9,677,468	\$ 6,152,016	\$ 25,245,278
	=====	=====	=====
Net Income Per Share - Basic:			
Income before cumulative effect of accounting change	\$0.69	\$0.47	\$1.86
Cumulative effect of accounting change, net of tax	-	-	-
	-----	-----	-----
Net income	\$0.69	\$0.47	\$1.86
	=====	=====	=====
Net Income Per Share - Assuming Dilution:			
Income before cumulative effect of accounting change	\$0.63	\$0.43	\$1.69
Cumulative effect of accounting change, net of tax	-	-	-
	-----	-----	-----
Net income	\$0.63	\$0.43	\$1.69
	=====	=====	=====

See notes to consolidated financial statements.

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HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

	SEPTEMBER 30, 2001 ----- (UNAUDITED)	DECEMBER 31, 2000 -----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 52,632,540	\$ 28,880,784
Investments	2,564,064	2,127,404
Receivables:		
Premiums, less allowance for doubtful accounts of \$2,762,000 and \$1,878,000, respectively	95,062,476	81,117,359
Other	18,747,390	12,883,269
	113,809,866	94,000,628
Prepaid expenses and other current assets	7,618,937	6,469,289
	176,625,407	131,478,105
TOTAL CURRENT ASSETS		
INVESTMENTS	1,534,161	1,653,775
PROPERTY AND EQUIPMENT, NET	19,378,298	16,495,033
INTANGIBLE ASSETS	322,175,551	243,025,280
Less accumulated amortization	56,267,854	46,366,851
	265,907,697	196,658,429
OTHER ASSETS	8,204,254	7,085,521
	\$ 471,649,817	\$ 353,370,863
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Premiums payable to insurance companies	\$ 141,742,698	\$ 110,399,098
Accounts payable	6,204,722	5,458,152
Accrued expenses	19,266,295	13,606,919
Premium deposits and credits due customers	20,897,192	15,980,901
Current portion of long-term debt	5,301,347	5,555,940
	193,412,254	151,001,010
TOTAL CURRENT LIABILITIES		
LONG-TERM DEBT	130,015,240	103,113,474
OTHER LONG-TERM LIABILITIES	14,353,785	11,034,413
SHAREHOLDERS' EQUITY		
Common Stock, no par value; authorized 50,000,000 shares; outstanding 14,080,421 and 13,280,468 shares, respectively	51,548,598	22,361,312
Retained earnings	83,978,285	65,860,654
Accumulated other comprehensive earnings (loss)	(1,658,345)	-
	133,868,538	88,221,966

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\$ 471,649,817
=====

\$ 353,370,863
=====

See notes to consolidated financial statements.

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STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

(UNAUDITED)

	COMMON STOCK	RETAINED EARNINGS	E
	-----	-----	-----
Balance at January 1, 2001	\$ 22,361,312	\$ 65,860,654	\$
Issuance of 804,953 shares Common Stock	29,398,366		
Purchase of 5,000 shares of Common Stock	(211,080)		
Payment of dividends (\$.52 per share)		(7,127,647)	
Net income		25,245,278	
Cumulative effect of accounting change related to derivatives, net of tax			
Derivative loss arising during 2001, net of tax			
Balance at September 30, 2001	\$ 51,548,598	\$ 83,978,285	\$
	=====	=====	=====
Balance at January 1, 2000	\$ 18,248,712	\$ 52,927,064	\$
Issuance of 213,869 shares of Common Stock	2,256,863		
Purchase of 116,700 shares of Common Stock	(3,084,911)		
Payment of dividends (\$.505 per share)		(6,610,258)	
Net income		17,505,402	
Balance at September 30, 2000	\$ 17,420,664	\$ 63,822,208	\$
	=====	=====	=====

See notes to consolidated financial statements.

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STATEMENT OF CONSOLIDATED CASH FLOWS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

(UNAUDITED)

	NINE MONTHS ENDED	
	SEPT. 30, 2001	SEPT. 30, 2000
	-----	-----
OPERATING ACTIVITIES		
Net income	\$ 25,245,278	\$ 17,505,400
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of accounting change, net of tax	-	325,000
Depreciation and amortization	4,706,904	3,903,400
Amortization of intangible assets	10,260,966	9,063,400
	-----	-----
Net income plus amortization, depreciation and cumulative effect of accounting change, net of tax	40,213,148	30,797,200
Provision for losses on accounts receivable	817,815	631,700
Gain on sale of assets	(2,602,422)	(921,600)
Changes in operating assets and liabilities net of effects from insurance agency acquisitions and dispositions:		
Increase in accounts receivable	(8,693,132)	(14,876,500)
Decrease (increase) in prepaid expenses	(164,355)	5,041,000
Increase in premiums payable to insurance companies	5,882,996	23,435,400
Increase (decrease) in premium deposits and credits due customers	4,912,293	(934,900)
Decrease in accounts payable	(1,315,156)	(1,461,600)
Increase (decrease) in accrued expense	5,945,392	(1,849,600)
Other operating activities	4,359,960	761,000
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	49,356,539	40,621,900
INVESTING ACTIVITIES		
Proceeds from maturities of held-to-maturity investments	857,867	2,911,300
Purchase of investments	(692,034)	(1,961,000)
Purchase of property and equipment	(3,684,278)	(4,920,500)
Purchase of insurance agencies, net of cash acquired	(38,808,587)	(11,770,100)
Proceeds from sale of assets	4,400,627	4,660,000
Other investing activities	912,518	(1,327,600)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(37,013,887)	(12,408,100)
FINANCING ACTIVITIES		
Proceeds from long-term debt	37,074,109	3,000,000
Principal payments on long-term debt	(20,810,603)	(10,424,800)
Proceeds from issuance of Common Stock	2,484,325	2,535,600
Repurchase of Common Stock	(211,080)	(3,084,900)
Dividends	(7,127,647)	(6,610,200)
	-----	-----

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NET CASH PROVIDED BY (USED IN)		
FINANCING ACTIVITIES	11,409,104	(14,584,3
INCREASE IN CASH AND CASH EQUIVALENTS	23,751,756	13,629,4
Cash and cash equivalents at beginning of period	28,880,784	22,336,7
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 52,632,540	\$ 35,966,1
	=====	=====

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

September 30, 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 nine month period ended September 30, 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 at fair value. Gains and losses resulting from changes in fair value must be recognized currently in earnings unless specific hedge criteria are met. 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 and are structured so that there would be no ineffectiveness. In connection with the adoption of Statement 133, the interest rate swaps were marked to market resulting in a \$517,000 adjustment, net of tax, to record the cumulative effect of the accounting change. The adjustment reduced accumulated other comprehensive earnings. The adoption of Statement 133 did not have an effect on net income for the nine month period ended September 30, 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

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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 periodically reviews the adequacy of the allowance and adjusts it as necessary. Based on the analysis, the allowance as of December 31, 2000 and September 30, 2001 was \$580,000 and \$750,000, respectively. For the nine months ended September 30, 2001, the net increase in the cancellation reserve was

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

September 30, 2001

(UNAUDITED)

NOTE B--CHANGES IN ACCOUNTING METHOD--Continued

comprised of \$127,000 in new reserves related to acquisitions and \$43,000 from higher revenue levels.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets" (the "Statements"), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002 including the required impairment tests of goodwill. Based on the Company's current analysis, the implementation of the Statement will result in an increase in after tax net income of approximately \$8.0 million related to acquisitions consummated prior to July 1, 2001. This impact includes a reduction of approximately \$11.0 million in amortization expense offset by the elimination of the related tax benefits.

NOTE C--INTEREST RATE SWAPS

The Company enters into interest rate swap agreements to modify the interest characteristics of its outstanding debt. Each interest rate swap agreement is designated with all or a portion of the principal balance and term of a specific debt obligation. These agreements involve the exchange of amounts based on variable interest rates for amounts based on fixed interest rates over the life of the agreement without an exchange of the notional amount upon which the payments are based.

The Company entered into two interest rate swap agreements effective June 17, 1999 to manage interest rate exposure on its long-term debt. The swap agreements are contracts to exchange floating rate for fixed rate interest payments periodically over the lives of the agreements without the exchange of the underlying combined notional amount of \$45,000,000, which amortizes quarterly by \$937,500 beginning September 30, 2000 through their maturity on June 30, 2004. The notional amounts of interest rate agreements are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. The credit risk to the Company would be the counterparties' inability to pay the differential in the fixed rate and variable rate in a rising interest rate

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environment. The Company is exposed to market risk from changes in interest rates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

September 30, 2001

(UNAUDITED)

NOTE C--INTEREST RATE SWAPS--Continued

The differential paid or received on the interest rate per the agreements is recognized as an adjustment to interest expense (the accrual accounting method). The related amount payable to or receivable from counterparties is included in other liabilities or assets. Under the Company's interest rate swap agreements, the Company contracted with the counterparties to exchange the difference between the Company's fixed pay rates of 6.43% and 6.46% and the counterparties' variable LIBOR pay rate. The contracts expire June 30, 2004. The fair market value of the interest rate swaps at September 30, 2001 resulted in a liability of \$2,764,000 which is included in other long-term liabilities.

NOTE D--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 E--ACQUISITIONS

During the first nine months of 2001, the Company acquired certain assets and liabilities of nine insurance agencies for approximately \$77,400,000 (\$43,300,000 in cash, \$8,100,000 in guaranteed future payments and approximately 665,000 shares of Common Stock) in purchase accounting transactions. The purchase price may be increased based on agency profitability per the contracts. These acquisitions are not material to the consolidated financial statements individually or in aggregate.

NOTE F--SALE OF ASSETS AND OTHER GAINS

During the nine months ended September 30, 2001 and 2000, the Company sold certain insurance accounts and other assets resulting in gains of approximately \$2,600,000 and \$922,000, respectively, including a \$20,000 loss and a \$36,000 gain during the third quarters of 2001 and 2000, 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

September 30, 2001

(UNAUDITED)

NOTE G--NET INCOME PER SHARE

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

	THREE MONTHS ENDED		N Sept. 30,
	Sept. 30, 2001	Sept. 30, 2000	
Numerator for basic net income			
per share - net income	\$ 9,677,468	\$ 6,152,016	\$ 25,24
Effect of dilutive securities:			
5.25% convertible debenture	271,626	270,162	81
	-----	-----	-----
Numerator for dilutive net income per			
share - net income available after	\$ 9,949,094	\$ 6,422,178	\$ 26,05
assumed conversions	=====	=====	=====
Denominator			
Weighted average shares	13,949,971	13,035,624	13,55
Effect of guaranteed future shares to be			
issued in connection with an agency			
acquisition	44,604	37,429	3
	-----	-----	-----
Denominator for basic net income per			
share	13,994,575	13,073,053	13,58
Effect of dilutive securities			
Employee stock options	407,024	401,966	37
Employee restricted stock	59,419	28,674	4
Contingent stock - acquisitions	28,063	16,326	1
5.25% convertible debenture	1,406,593	1,406,593	1,40
	-----	-----	-----
Dilutive potential common shares	1,901,099	1,853,559	1,84
	-----	-----	-----
Denominator for diluted net income per			
share - adjusted weighted average	15,895,674	14,926,612	15,43
shares and assumed conversions	=====	=====	=====
Net Income per Common Share:			
Basic	\$0.69	\$0.47	
	=====	=====	
Diluted	\$0.63	\$0.43	
	=====	=====	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HILB, ROGAL AND HAMILTON COMPANY AND SUBSIDIARIES

September 30, 2001

(UNAUDITED)

NOTE H--LONG-TERM DEBT

On April 6, 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.

NOTE I--SUBSEQUENT EVENT

On November 8, 2001, the Board of Directors of the Company approved a 2-for-1 Common Stock split effected in the form of a 100% share dividend. The distribution of the additional shares will be made on December 31, 2001, to shareholders of record as of December 14, 2001.

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

Results of Operations:

Three Months Ended September 30, 2001

Net income for the three months ended September 30, 2001 was \$9.7 million, or \$0.63 per share, compared with \$6.2 million, or \$0.43 per share last year. Excluding non-recurring gains in both periods, net income was \$9.7 million, a 58.0% increase from \$6.1 million last year. Net income per share on the same basis was \$0.63, compared with \$0.43, an increase of 46.5%.

Commissions and fees were \$86.3 million, an increase of 33.5% from commissions and fees of \$64.6 million during the comparable period of the prior year.

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Approximately \$19.2 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 increased 6.3%. This reflects new business production and modest premium increases, partly offset by the continued culling of low-margin business.

Investment and other income did not vary materially with the prior year.

Expenses for the quarter increased \$15.6 million or 28.5%. Compensation and benefits and other operating expenses increased \$11.2 million and \$3.7 million, respectively, primarily due to purchase acquisitions of insurance agencies and increased revenue production. Amortization of intangibles increased approximately \$0.4 million due primarily to the aforementioned purchase acquisitions. Interest expense increased by \$0.3 million due to increased bank borrowings related to 2001 acquisitions partially offset by decreased interest rates.

The Company's overall tax rate for the three months ended September 30, 2001 was 43.0% and was also 43.0% for the same period of the prior year.

Nine Months Ended September 30, 2001

For the nine months ended September 30, 2001, net income was \$25.2 million, or \$1.69 per share, compared to \$17.5 million, or \$1.24 per share last year. Excluding the effect of gains and the 2000 cumulative effect of an accounting change, net income was \$23.7 million, or \$1.59 per share, up from \$17.3 million or \$1.22 per share a year ago. The cumulative effect of the accounting change was a non-cash charge to first quarter 2000 net income to record a reserve for the cancellation of policies in accordance with SEC Staff Accounting Bulletin 101.

Commissions and fees were \$237.6 million, an increase of 24.2% from commissions and fees of \$191.4 million during the comparable period of the prior year. Approximately \$41.9 million of commissions were derived from purchase acquisitions of new insurance agencies. This increase was offset by decreases of approximately \$4.6 million from the sale of certain offices and

accounts in 2001 and 2000. Commissions and fees, excluding the effect of acquisitions and dispositions, increased 4.7% which was tempered by declines in contingent and non-standard commissions, an industry-wide trend this past year, and the Company's focus on writing and renewing profitable accounts.

Investment income increased \$0.2 million, or 9.8%, primarily due to increased invested assets related to purchase acquisitions partially offset by declining interest rates. Other income increased \$1.9 million or 103.4% from the prior year primarily due to the net impact of nonrecurring gains from the sale of an agency, certain insurance accounts and other assets.

Expenses increased by \$35.3 million or 21.6%. Increases include \$24.8 million in compensation and benefits and \$8.4 million in other operating expenses, due primarily to purchase acquisitions of new insurance agencies and increased revenue production. Amortization of intangibles increased approximately \$1.2 million due primarily to purchase acquisitions. Interest expense increased by \$0.9 million due to increased bank borrowings related to 2001 acquisitions, partially offset by declines in interest rates.

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The Company's overall tax rate of 43.0% for the nine months ended September 30, 2001 was also 43.0% for the nine months ended September 30, 2000.

Other

For the three months ended September 30, 2001, net income as a percentage of revenues did not vary significantly from the three months ended June 30, 2001. Commission income was higher during the third quarter due to acquisitions and increased revenue growth. The operating profit margin (before non-recurring items, taxes and interest) also increased from 22.4% in the second quarter to 26.1% in the third quarter.

The timing of contingent commissions, policy renewals, acquisitions and dispositions 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 nine months ended September 30, 2001 should not be considered indicative of the results that may be expected for the entire year ending December 31, 2001.

Liquidity and Capital Resources:

Net cash provided by operations totaled \$49.4 million and \$40.6 million for the nine months ended September 30, 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 \$3.7 million and \$4.9 million for the nine months ended September 30, 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

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cash of \$38.8 million and \$11.8 million in the nine months ended September 30, 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 \$4.4 million and \$4.7 million in the nine months ended September 30, 2001 and 2000, respectively. The Company did not have any material capital expenditure commitments as of September 30, 2001.

Financing activities provided cash of \$11.4 million and utilized cash of \$14.6 million in the nine months ended September 30, 2001 and 2000, respectively. The Company has consistently made scheduled debt payments and annually increased its dividend rate. In addition, during the nine months ended September 30, 2001, the Company repurchased 5,000 shares of its Common Stock under a stock repurchase program. The Company is currently authorized to purchase an additional 374,100 shares. The Company anticipates the continuance of its dividend policy. The Company has a bank credit agreement for \$152.5 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 September 30, 2001, there were loans of \$89.5 million outstanding under the bank agreement.

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The Company had a current ratio (current assets to current liabilities) of 0.91 to 1.00 as of September 30, 2001. Shareholders' equity of \$133.9 million at September 30, 2001, is improved from \$88.2 million at December 31, 2000. The debt to equity ratio of .97 to 1.00 is decreased from the ratio at December 31, 2000 of 1.17 to 1.00 due to issuance of Common Stock, partially offset by an increase in debt related to acquisitions and 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.

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.

New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets" (the Statements), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

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The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002, including the required impairment tests of goodwill. Based on the Company's current analysis, the implementation of the Statement will result in an increase in after tax net income of approximately \$8.0 million related to acquisitions consummated prior to July 1, 2001. This impact includes a reduction of approximately \$11.0 million in amortization expense offset by the elimination of the related tax benefits.

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 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.

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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.

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PART II - OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

Exhibit No. -----	Document -----
10.1	Amendment Number One to Employment Agreement with Andrew L. Rogal dated August 2, 2001 by and between Hilb, Rogal and Hamilton Company and Andrew L. Rogal.
10.2	Amendment Number One to Employment Agreement with Martin L. Vaughan, III dated August 2, 2001 by and between Hilb, Rogal and Hamilton Company and Martin L. Vaughan, III.

b) Reports on Form 8-K

None.

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 November 14, 2001

By: /s/ Andrew L. Rogal

Chairman and Chief Executive
Officer
(Principal Executive Officer)

Date November 14, 2001

By: /s/ Carolyn Jones

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

Date November 14, 2001

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

Vice President and Controller
(Chief Accounting Officer)

HILB, ROGAL AND HAMILTON COMPANY

EXHIBIT INDEX

Exhibit No.

Document

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