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State Auto Financial CORP

Form 10-Q

May 09, 2018

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stfc:Segment

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

FORM 10-Q

ý 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 000-19289

STATE AUTO FINANCIAL CORPORATION

(Exact name of Registrant as specified in its charter)

Ohio	31-1324304
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

518 East Broad Street, Columbus, Ohio	43215-3976
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (614) 464-5000

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 submitted electronically and posted on its corporate Web site, 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, smaller reporting company, or an emerging growth company. See definition 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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
(Do not check if a smaller reporting company)	Emerging growth company <input type="checkbox"/>

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.

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Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

On May 4, 2018, the Registrant had 42,887,837 Common Shares outstanding.

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STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

PART I – FINANCIAL STATEMENTS**Item 1. Condensed Consolidated Balance Sheets**

(\$ and shares in millions, except per share amounts)

	March 31,	December
	2018	31, 2017
	(unaudited)	
Assets		
Fixed maturities, available-for-sale, at fair value (amortized cost \$2,199.0 and \$2,173.1, respectively)	\$ 2,181.6	\$2,192.8
Equity securities	350.2	365.3
Other invested assets	55.5	56.0
Other invested assets, at cost	5.6	5.6
Notes receivable from affiliate	70.0	70.0
<i>Total investments</i>	2,662.9	2,689.7
Cash and cash equivalents	60.9	91.5
Accrued investment income and other assets	40.4	36.5
Deferred policy acquisition costs (affiliated net assumed \$55.5 and \$57.2, respectively)	105.1	110.3
Reinsurance recoverable on losses and loss expenses payable	2.1	3.1
Prepaid reinsurance premiums	6.4	6.4
Current federal income taxes	5.7	4.8
Net deferred federal income taxes	66.6	58.8
Property and equipment, at cost	7.2	7.3
Total assets	\$ 2,957.3	\$3,008.4
Liabilities and Stockholders' Equity		
Losses and loss expenses payable (affiliated net assumed \$677.6 and \$711.4, respectively)	\$ 1,247.6	\$1,255.6
Unearned premiums (affiliated net assumed \$157.3 and \$187.9, respectively)	589.2	611.8
Notes payable (affiliates \$15.2 and \$15.2, respectively)	122.1	122.1
Pension and postretirement benefits (affiliated net ceded \$34.5 and \$34.8, respectively)	63.6	64.5
Due to affiliate	11.8	2.7
Other liabilities (affiliated net assumed \$17.6 and \$15.5, respectively)	73.9	76.7
Total liabilities	2,108.2	2,133.4
Stockholders' equity:		
Class A Preferred stock (nonvoting), without par value. Authorized 2.5 shares; none issued	—	—
Class B Preferred stock, without par value. Authorized 2.5 shares; none issued	—	—
Common stock, without par value. Authorized 100.0 shares; 49.5 and 49.2 shares issued, respectively, at stated value of \$2.50 per share	123.8	123.0
Treasury stock, 6.8 and 6.8 shares, respectively, at cost	(116.9)	(116.8)
Additional paid-in capital	180.3	171.8
Accumulated other comprehensive (loss) income (affiliated net ceded \$51.0 and \$50.7, respectively)	(48.8)	36.7
Retained earnings	710.7	660.3
Total stockholders' equity	849.1	875.0
Total liabilities and stockholders' equity	\$ 2,957.3	\$3,008.4

See accompanying notes to condensed consolidated financial statements.

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STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Condensed Consolidated Statements of Income

(\$ in millions, except per share amounts)

	Three months ended March 31	
(unaudited)	2018	2017
Earned premiums (affiliated net assumed \$98.0 and \$114.8, respectively)	\$314.9	\$318.1
Net investment income (affiliates \$1.2 and \$1.2, respectively)	19.9	18.7
Net investment (loss) gain	(11.7)	7.8
Other income from affiliates	0.6	0.5
Total revenues	323.7	345.1
Losses and loss expenses (affiliated net assumed \$46.2 and \$86.2, respectively)	212.3	234.3
Acquisition and operating expenses (affiliated net assumed \$43.6 and \$80.3, respectively)	110.8	111.5
Interest expense (affiliates \$0.2 and \$0.2, respectively)	1.6	1.4
Other expenses	2.3	1.9
Total expenses	327.0	349.1
Loss before federal income taxes	(3.3)	(4.0)
Federal income tax benefit:		
Current	(1.0)	(0.1)
Deferred	(0.2)	(0.6)
Total federal income tax benefit	(1.2)	(0.7)
Net loss	\$(2.1)	\$(3.3)
Loss per common share:		
Basic	\$(0.05)	\$(0.08)
Diluted	\$(0.05)	\$(0.08)
Dividends paid per common share	\$0.10	\$0.10

See accompanying notes to condensed consolidated financial statements.

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STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Consolidated Statements of Comprehensive Income

	Three months ended March 31 2018
<i>(\$ in millions, except per share amounts)</i>	
(unaudited)	
Net loss	\$(2.1)
Other comprehensive income, net of tax:	
Net unrealized holding losses on fixed maturities:	
Unrealized holding losses	(36.7)
Reclassification adjustments for gains realized in net income	(0.4)
Income tax benefit	7.8
<i>Total net unrealized holding losses on fixed maturities</i>	(29.3)
Net unrecognized benefit plan obligations:	
Reclassification adjustments for amortization to statements of income:	
Negative prior service cost	(1.4)
Net actuarial loss	2.2
Income tax expense	(0.2)
<i>Total net unrecognized benefit plan obligations</i>	0.6
<i>Other comprehensive loss</i>	(28.7)
Comprehensive loss	\$(30.8)

	Three months ended March 31 2017
<i>(\$ in millions, except per share amounts)</i>	
(unaudited)	
Net loss	\$(3.3)
Other comprehensive income, net of tax:	
Net unrealized holding gains on investments:	
Unrealized holding gains	30.8
Reclassification adjustments for gains realized in net income	(7.8)
Income tax expense	(8.0)
<i>Total net unrealized holding gains on investments</i>	15.0
Net unrecognized benefit plan obligations:	
Reclassification adjustments for amortization to statements of income:	
Negative prior service cost	(1.4)
Net actuarial loss	2.1
Income tax expense	(0.3)
<i>Total net unrecognized benefit plan obligations</i>	0.4
<i>Other comprehensive income</i>	15.4
Comprehensive income	\$ 12.1

See accompanying notes to condensed consolidated financial statements.

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STATE AUTO FINANCIAL CORPORATION AND SUBSIDIARIES

(a majority-owned subsidiary of State Automobile Mutual Insurance Company)

Condensed Consolidated Statements of Cash Flows

(\$ in millions)

Three months ended March 31

(unaudited)

2018

2017

Cash flows from operating activities:

Net loss \$ (2.1) \$ (3.3)

Adjustments to reconcile net loss to net cash (used in) provided by operating activities:

Depreciation and amortization, net 2.9 3.1

Share-based compensation — 1.7

Net investment (loss) gain 11.7 (7.8)

Changes in operating assets and liabilities:

Deferred policy acquisition costs 5.2 5.8

Accrued investment income and other assets (3.8) (0.5)

Postretirement and pension benefits (0.3) (2.9)

Other liabilities and due to/from affiliates, net 6.3 (14.0)

Reinsurance recoverable on losses and loss expenses payable and prepaid reinsurance premiums 1.0 (1.1)

Losses and loss expenses payable (8.0) 35.7

Unearned premiums (22.6) (11.3)

Federal income taxes (1.0) (0.9)

Net cash (used in) provided by operating activities (10.7) 4.5**Cash flows from investing activities:**

Purchases of fixed maturities available-for-sale (99.0) (120.5)

Purchases of equity securities (61.5) (39.0)

Purchases of other invested assets (0.5) (0.2)

Maturities, calls and pay downs of fixed maturities available-for-sale 55.5 54.1

15.3 50.7

Sales of fixed maturities
available-for-sale
Sales of equity securities **65.1**