S&P Capital IQ

CONTENTS



# W. R. Berkley Corporation NYSE:WRB

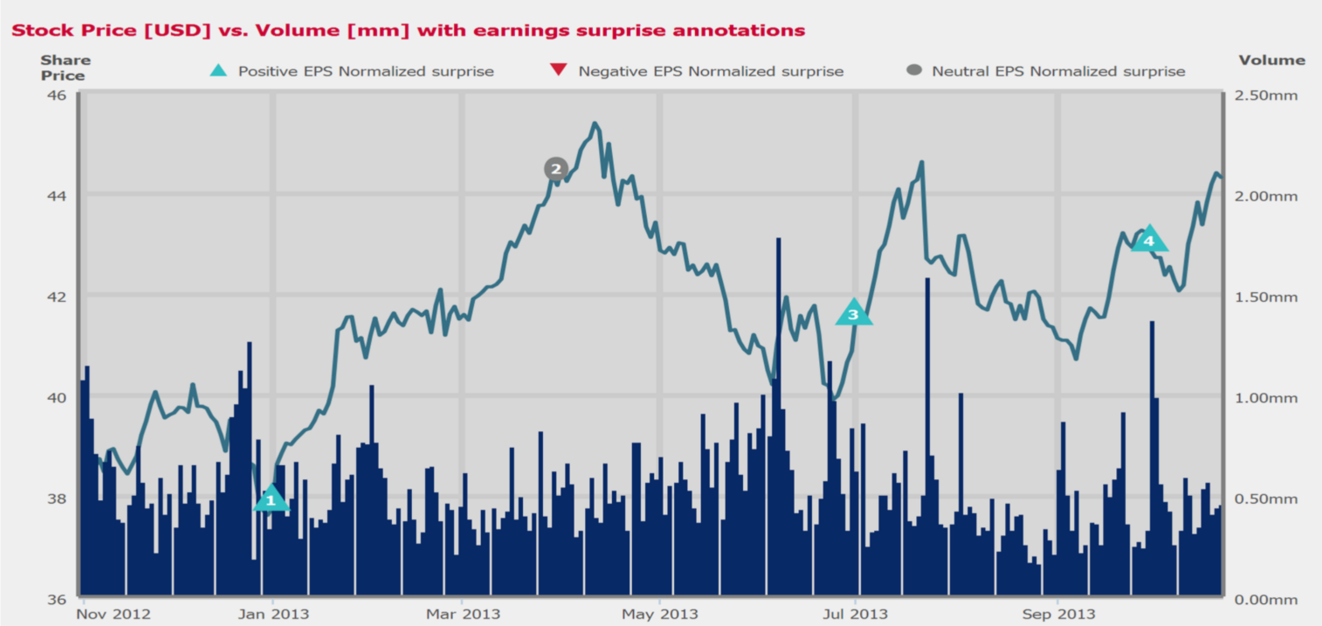
*FQ4 2013 Earnings Call Transcripts*

Wednesday, January 29, 2014 3:00 PM GMT

## S&P Capital IQ Estimates

| | -FQ4 2013- | | | -FQ1 2014- | -FY 2013- | |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | ACTUAL |
| **EPS Normalized** | 0.78 | 0.85 | ▲8.97 | 0.78 | 2.96 | 3.06 |
| **Revenue (mm)** | 1598.46 | 1696.68 | ▲6.14 | 1658.43 | 6147.77 | 6408.53 |

Currency: USD
Consensus as of Jan-29-2014 1:04 PM GMT




- EPS NORMALIZED -

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ4 2012** | 0.49 | 0.64 | ▲1 30.61 % |
| **FQ1 2013** | 0.74 | 0.74 | ●2 0.00 % |
| **FQ2 2013** | 0.68 | 0.70 | ▲3 2.94 % |
| **FQ3 2013** | 0.73 | 0.77 | ▲4 5.48 % |



COPYRIGHT © 2017, S&P CAPITAL IQ, A PART OF MCGRAW HILL FINANCIAL.

# Call Participants

## EXECUTIVES

**Eugene G. Ballard**
*Executive Vice President of Finance*

**William Robert Berkley**
*Founder and Executive Chairman*

**William Robert Berkley**
*Chief Executive Officer, President and Director*

## ANALYSTS

**Amit Kumar**
*Macquarie Research*

**Gregory Locraft**
*Morgan Stanley, Research Division*

**Heather Takahashi**

**Ian Gutterman**
*Balyasny Asset Management L.P.*

**Jay Adam Cohen**
*BofA Merrill Lynch, Research Division*

**Joshua David Shanker**
*Deutsche Bank AG, Research Division*

**Michael Steven Nannizzi**
*Goldman Sachs Group Inc., Research Division*

**Robert Edward Farnam**
*Keefe, Bruyette, & Woods, Inc., Research Division*

**Vinay Gerard Misquith**
*Evercore ISI, Research Division*


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

# Presentation

**Operator**

Good day, and welcome to the W.R. Berkley Corporation's Fourth Quarter 2013 Earnings Conference Call. Today's conference is being recorded.

The speakers' remarks may contain forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words, including, without limitation, believes, expects or estimates. We caution you that such forward-looking statements should not be regarded as representation by us that the future plans, estimates or expectations contemplated by us will be, in fact, achieved.

Please refer to our Annual Report on Form 10-K for the year ended December 31, 2012, and with our other filings made with the SEC for a description of the business environment in which we operate and the important factors that may materially affect our results.

W.R. Berkley Corporation is not under any obligation and expressly disclaims any such obligation to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise.

I would now like to turn the call over to Mr. William R. Berkley. Please go ahead, sir.

**William Robert Berkley**
*Founder and Executive Chairman*

Thanks, Kate. Good morning. We're really pleased with where things are going. We're pleased with the environment and the opportunities that we see. We're pleased not only because we see opportunities going forward, but we see -- pleased, because we see the issues that are problems, and we feel we have solutions that will allow us to move forward.

So we're going to start with Rob, talking about the business, then Gene talking about our numbers and follow up with me, talking more of an overview and then take questions. So Rob, you're up.

**William Robert Berkley**
*Chief Executive Officer, President and Director*

Okay. Thank you. Good morning, everyone. During the fourth quarter, market conditions were notably split between the world of insurance and the world of reinsurance. Insurance market, particularly, the domestic insurance market was, for the most part, consistent with what we have seen in the past quarter or 2.

Property pricing continues to erode gradually. Professional's a mixed bag, and it varies depending on the class, and it varies oftentimes between primary versus excess. For example, medical remains quite competitive. Lawyers, professionals offering opportunity for rate increase. D&O within itself is very mixed on the public side. Primary is offering opportunity for rate. Excess seems to be somewhat flat.

Not-for-profit and private D&O, there seems to be rate that continues to be available, as well as EDLI. Having said this, general casualty and workers' comp continue to be the bright points. We expect these trends to continue, barring any unforeseen events into the foreseeable future. The one exception maybe professional, which in our opinion, is likely to improve over the next several quarters.

On the other hand, the treaty reinsurance market experienced an increase in competition, like we haven't seen in sometime. It started with an oversupply as many are aware in the property cat market that created somewhat of a feeding frenzy, if you will, which surprisingly actually spilled over into the casualty treaty market to a certain extent and created a bit of a downward spiral from a pricing perspective.

Additionally, the environment for treaty reinsurers was somewhat compounded as far as the challenges, both as a result of an ongoing shift or change in the buying habits and patterns of many leading companies. It's unclear how this is going to fight out in the short run. However, it would seem reasonably


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

clear that it will be challenging for the reinsurance market to achieve their desired long-term returns, given where the current rating environment is.

With regards to the company, net written premium for the fourth quarter of '13 was $1.36 billion. This is an increase of 11% compared with the fourth quarter of '12. The domestic insurance operations led this growth with more modest growth coming from our international insurance and reinsurance segment.

Of the 11 points of growth, 5.7 were associated with rate increase and the balance coming from exposure. The slight decline in rate increase is primarily due to a bit of a shift that we're directing within the organization, with some of our operations that are achieving or exceeding our targeted returns on a policy-year basis. Consequently, we are refining the balance between rate that we are seeking versus growth as from an exposure perspective.

It's also worth mentioning, our renewal retention ratio remains at approximately 80%, which continues to give us comfort that the quality of the book is in no way being undermined and, quite frankly, it remains well in check. The loss ratios improved appreciably to a 61.4%. This includes 1.2 points of positive reserve development, and tax were a little bit less than 1 point. The paid-loss ratio was approximately a 52%, which as we suggested in the past, provides us a degree of comfort or an early indicator as to where the ultimate losses may come out.

The expense ratio remained essentially flat. Having said this, given the actions that we have taken in '13, combined with the further actions that we will be taking in '14, we expect you will see some degree of improvement with the expense ratio during the '14 year. Additionally, the expense ratio will benefit from continued growth in the earned premium. This gives us a combined ratio of a 95.1% or improvement of 3 points when compared with the fourth quarter of '12. Gene is going to be giving you a bit more color on the numbers, as he has in the past, but I would make a couple of other comments briefly.

Much of the improvement was due to our domestic or U.S. insurance operations, in particular. Some of the loss activity that we had in the reinsurance segment stems from property losses coming out of the property portfolio we have in Asia. Again, that's in the reinsurance segment. And on the insurance front, we had some property losses and surety losses again. Again, this will be in the international insurance segment, and this was specifically in Europe. We have our arms around these issues and have already taken the required actions to address them.

The balance sheet remains strong. The fourth quarter of '13 marks the 28th quarter in a row of positive reserve development. As we discussed in the past, our philosophy is to set our initial loss fix [ph] cautiously with the idea as more information becomes available and those reserve season were able to tighten our fix [ph].

Beyond that, as far as the balance sheet goes, our Chairman, certainly, will be discussing the investment portfolio amongst other things. But I would tuck in a comment that we continue to strategically manage the investment portfolio, trying to strike an appropriate balance between yield, duration and expected movement in interest rates.

We remain quite optimistic about the opportunities before our organization. As I suggested earlier, we think one of the bright points in the marketplace is the U.S. casualty market. And given how weighted we are towards U.S. casualty as a group overall, we believe that this will hold us in very good stead, both today and for the foreseeable future. Thank you.

**William Robert Berkley**
*Founder and Executive Chairman*

Okay, Gene, you want to pick up and go through some of the numbers, please?

**Eugene G. Ballard**
*Executive Vice President of Finance*

Okay. Thanks, Bill. Well, as Rob said, we finished the year with another solid quarter with strong premium growth, continued improvement in our combined ratio on both an accident year and a calendar year basis


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

and a significant increase in our operating income compared with the fourth quarter of 2012. Overall, our net premiums written were up 11% to almost $1.4 billion, and the combined ratio decreased 3 points to 95.1% in the fourth quarter.

Catastrophe losses were $13 million in the quarter, that's down significantly from last year's fourth quarter cat losses of $41 million, which were almost all related to Sandy. Favorable reserve development in the quarter was $12 million or 1.2 loss ratio points, and that compares with $20 million or 1.6 loss ratio points a year ago. The accident year loss ratio, before considering catastrophe losses, was approximately 95% in the fourth quarter. For the full year, our accident year loss ratio improved 2.5 points from 98% in 2012 to 95.5% in 2013. In addition, as Rob mentioned, our paid loss ratio, excluding the impact of a specific reinsurance commutation, continued to be very strong at 52% in the fourth quarter and 54% for the full year.

Looking at the individual segments. For our domestic segment, net premiums grew 14% to just under $1 billion. The growth was led by our workers' compensation and other liability lines, which grew 19% and 14%, respectively. The domestic segment combined ratio fell 3 points to 92.8% in the quarter, with strong underwriting results from excess and surplus lines, our regional business and our monoline workers' compensation company. Domestic cat losses were minimal in the quarter at just over $1 million. And for the full year, the domestic segment's accident year loss ratio, before cat, declined 2 points to 95%.

Our growth was more modest in the other 2 segments, reinsurance and international, whereas Rob mentioned, the market conditions are lagging the primary insurance market in the U.S. For the international segment, our net premiums were up 1% to $184 million, as growth in our Lloyd's business was partially offset by a decline in our direct European business and by the impact of foreign exchange rates.

The reported combined ratio decreased 1 point to 102.4% due primarily to lower catastrophe losses. And for the full year, the international segment's accident year combined ratio declined 2 points to 96%. The fourth quarter accident year combined ratio was slightly higher at 100% due to an increase in losses from short-tail lines, as well as a higher expense ratio.

For the reinsurance segment, net premiums increased 4% to $188 million, and the combined ratio decreased 5 points to 100.2%, primarily due to lower cat activity. For the full year, the reinsurance segment's accident year combined ratio also declined by 4 points to 99%.

Our overall expense ratio for the company was 33.7% in the quarter, up 2/10 from a year ago. The domestic segment expense ratio declined 2/10 to 32.3%. And although the international and reinsurance expense ratios increased slightly in the fourth quarter due to -- in part, to the modest -- our growth in our premium, the longer-term trends for those segments are still much better. Since 2010, the insurance -- the international segment is down 4.5 points to 39% in full year '13, and the reinsurance expense ratio is also down 4 points to 34.8% in full year 2013, and we expect those trends to continue.

Our investment income was $139 million in the quarter. That's 8% below last year's fourth quarter, but it's also an 11% increase over the preceding quarter of this year due to increased earnings from investment funds. For the full year of '13, our overall investment yield was 3.7% compared with 4.0% in 2012. We also reported realized gains of $25 million in the fourth quarter and $121 million for all of '13. Our effective tax rate declined in the quarter to 25.5%. That's due to the impact of both tax exempt investments, as well as higher foreign tax credits in the quarter.

You'll notice we reported a reduction in income of $5 million for non-controlling interest. We control and consolidate an investment company that has minority shareholders. That company reported a realized investment gain in the quarter, and approximately $4 million of that gain was attributable to the minority shareholders. So the way we show that is we show the gross gain in our realized gains, and we show the minority shareholders' portion of that gain as a non-controlling interest. So in total, that gives us net income of $130 million for the quarter or $0.93 per share and an annualized return on equity of 12.1%.

One other comment. If you take a look at Page 8 of the release, you'll see that the breakdown of our investment portfolio is presented there, and that's mostly unchanged from September 30. I did want



Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

to point out that we made a change in the presentation in this -- of this information. And previously, in previous releases, we had separately reported foreign corporate bonds. And we recently decided that it made more sense not to separate the foreign corporate bonds from the U.S. corporates. The main reason we made this change is that many of these what we were calling foreign corporate bonds are actually backed by multinational companies, and we felt the designation of foreign and non-foreign was somewhat subjective and not meaningful.

At year end, the average portfolio duration was 3.3 years, the average credit rating was unchanged at AA-, and the aggregate unrealized investment gains for the portfolio were $257 million.

Our operating cash flow, excluding the impact of the computation I mentioned, was up. It was $255 million in the quarter and $881 million for the full year. And finally, we repurchased 3 million shares of our own common stock in the fourth quarter and almost 4 million shares or 3% of our beginning outstanding shares in full year 2013.

**William Robert Berkley**
*Founder and Executive Chairman*

Thank you, Gene. So we were pleased with the results. Briefly, our investment portfolio changed only slightly. We effectively changed part of our common stock investment strategy to a hedged portfolio, where we hedged with options and had less exposure. It reduced our net exposure to the market. It's proved to be a good decision. At the same time, we slightly increased our municipal exposure, and we slightly increased, effectively, our cash.

Our general view is the biggest question we face as an enterprise is the tension between the risks of inflation and the threat of deflation. It's costing us a lot of money to maintain the liquidity we have and to keep the duration of our portfolio at 3.3 years, which is sort of 10% below the duration of our liability. Our liability duration is 3.6 years, roughly, and we're at 3.3. It's sort of leaning, not being too definitive, towards the fear of inflation.

Inflation is how we set our reserves, assuming a certain level of inflation. The redundancies come out, because, in fact, that inflation that we feel is just around the corner has not materialized. And as long as that continues, we'll continue to have significant redundancies coming out or being built up in our reserves. That cushion is really nice. It happened for an extended period of time, and it protects us from the uncertainty of inflation. We're doing the same thing in our investment portfolio. We're keeping that shorter duration.

And in fact, as a cornerstone issue of minimizing our exposure to that unforeseen loss, we look at the $4 trillion balance sheet of the Federal Reserve, and we're worried. There's no sign, we're not being foolish, we're not selling all our long-term bonds, we're still investing in that -- maintaining that 3.3-year duration. We're still establishing reserves with an expected level of inflation that's reasonable and not crazy, but it is the guidepost that says you need to worry. It's out there, and it could happen, and it'll happen when you can least afford it. Some of our competitors are taking a different stance. In the short run, it is costing us. We think in the long run, we'll be rewarded.

I think generally speaking, we're pretty pleased with our results. We haven't gotten our expenses where they need to go. It's at the top of our priority list, along with what's always been our first item, which is underwriting profitability, price increases, which especially on the domestic front, we had an excellent year. And we expect that same discipline is going to be applied throughout the world and most places it is. So with that, I would -- Kate, I'm happy to turn this over for questions.


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

# Question and Answer

**Operator**

[Operator Instructions] Our first question comes from the line of Amit Kumar with Macquarie.

**Amit Kumar**
*Macquarie Research*

Just going back to your opening remarks. Can you just talk a bit more about that shift in the direction regarding balancing rates versus growth? If pricing is at 5% to 6%, and loss costs are running at 4% or so, how should we think about the shift and its impact on margins going forward?

**William Robert Berkley**
*Founder and Executive Chairman*

First, I don't think we said loss costs are running at 4%. Somebody else may have, but that isn't what we said, so I'll -- Rob, you can...

**William Robert Berkley**
*Chief Executive Officer, President and Director*

Yes, I think you're referring to a comment I made. And, really, the point that we were trying to articulate is that it's a balance that all of our operating units are constantly trying to strike between rates versus adding to exposure, or in many cases, policy count. And for us, we have a growing number of our operations that, on a policy-year basis, are meeting or exceeding our targeted returns. So, again, we find ourselves, when we get into that position, saying, "Do we want to push rate harder and possibly write less business? Or do we want to temper how we are pushing for rate and get what we think the market will bear, but also grow count to a certain extent?" I think one of the pieces to your earlier point that one needs to keep in mind as it relates to the 5.7%, which incidentally for our domestic insurance was north of 6%, is that we remain very comfortable that we are outpacing trends by a notable margin to the extent that our -- quite frankly, our margins continue to improve.

**Amit Kumar**
*Macquarie Research*

And then are loss costs running at 3% or so?

**William Robert Berkley**
*Chief Executive Officer, President and Director*

It really depends on the line of business, to be perfectly honest. I think that our view has been that 3-ish is -- has been the pick that we've been using for some time now. I think, quite frankly, there are some out there that in the past have been more optimistic than us. And now, as a result, or perhaps timing, to catch up a bit or maybe choosing to pick a higher number. But we feel, based on everything that we know about our book and what we see going on around us, that 3% will continue to be an adequate number. And, quite frankly, again, as a reserve development has played out, referenced earlier in the discussion, it's proven to be more than adequate.

**Amit Kumar**
*Macquarie Research*

That's helpful. I...

**William Robert Berkley**
*Founder and Executive Chairman*

Let me just add that, that 3% number, which we sort of have used in our reserving, in fact, is the number that has proved to be, in reality, a little more conservative than what reality has been. So I think that, at least that's where it's been to date.


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

**Amit Kumar**
*Macquarie Research*

Got it. And then, I guess, in conjunction to that, in terms of the buyback, was that a function of growth opportunities in Q4, or was it a function of the stock price? Maybe just talk about the relative attractiveness. Because if I recall your comments, I don't think a lot of us on the Street had that level of buybacks in our model.

**William Robert Berkley**
*Founder and Executive Chairman*

Well, the goal is always to keep everyone uncertain. And I think that part of it is you buy back stock when the stock is available, when people come to you and offer you pieces of stock, when you can do things, and you think the stock is attractive relative to where you think the intrinsic value of the enterprise is, what you think the growth opportunities are and what the returns are. So just as in the third quarter, we had a substantial capital gain, which generated unforeseen excess capital, which gave us the capacity to buy back a lot of stock outside of our modeled capital needs. So we plan on our capital use. And any time we generate substantial capital above our capital plan, we step back and say, "Okay, are we going to be able to grow faster this year or do we want to buy the stock back? What availability do we have for buying back stock and what price?" So it's a constant measure of where do we go, what do we do. And honestly, we felt the stock's value was good from the point of view of our shareholders versus the alternatives of how do we create value and maximize the returns for our shareholders. Tomorrow, we might decide it'd be better to pay a special dividend or find a company to acquire. I can't tell you. It's -- we make decisions, we talk to the board as to what the right opportunity is at the time. But the issue is we were generating, and in this case, mainly, because we had an especially large gain based upon what's opportune at the moment.

**Amit Kumar**
*Macquarie Research*

That's helpful. And then just, finally, on the expense ratio comment then, you mentioning that it's one of your top priorities for 2014. We've talked about it for some quarters, and we have seen some improvement. When we look forward, are we talking about a few points of improvement, or is it going to be sort of a slow trend line improvement? And then what would be the biggest driver at this juncture?

**William Robert Berkley**
*Chief Executive Officer, President and Director*

This is -- I'm sorry, this is Rob. The answer is that we -- in all likelihood, you will see a gradual improvement over '14 and, certainly, into '15, as I suggested. Part of the improvement will come from higher earned premium. And, quite frankly, some of the smaller businesses in their infancy, their earned premium getting to a more substantial level or catching up with their written as they grow a bit. I think the other thing that we're constantly looking at is whether we, as an organization, are as lean and mean as we need to. Are the things that we're doing -- are we fully embracing efficiency where we can? At the same time, that should not be misinterpreted. We are not going to depart from our decentralized structure. So I think a lot of the benefit will come from higher earned premium, at the same time, as we have in the past. And we will continue to be vigilant about how we spend dollars and pennies as well. I think the other comment that I would make is it's a slippery slope to line up all P&C insurance companies and start comparing their expense ratios. I think one needs to take into account the mix of business and the nature of a higher expense model that often goes along with some of the specialty line. Now one needs to be able to compensate for that and then some with the loss ratio and, ultimately, delivering an attractive combined which we were acutely aware of. But I think that one needs to understand that there are parts of our Specialty business, quite frankly, that are running its combined in the 80s, and they have an expense ratio that starts with a 4. And ultimately, our view is that, that make sense because we're delivering a good return. So again, as was suggested earlier, we are acutely aware of the expense ratio, and we would like to see that improve by, certainly, a couple of points over some period of time. At the same time, I would caution people and not leaping to any conclusion based on comparing our expense ratio to others that have a very different mix of business.


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

**Operator**

Our next question comes from line of Michael Nannizzi with Goldman Sachs.

**Michael Steven Nannizzi**
*Goldman Sachs Group Inc., Research Division*

Say, one question, Rob. I guess somebody asked the expense question. But I think it was either you or Gene that mentioned the underlying or accident year combined annually in the segments. And we're trying to figure out what that implied about the international segment in the fourth quarter. Is there -- can we get a little color on that?

**William Robert Berkley**
*Chief Executive Officer, President and Director*

Gene's comment, and let's see -- well, Gene, are you able to connect those dots?

**Eugene G. Ballard**
*Executive Vice President of Finance*

Well, I say, was -- the fourth quarter combined ratio was around 100%. So that's a point below where it was a year ago. It's been slightly elevated just because of the expense ratio.

**William Robert Berkley**
*Chief Executive Officer, President and Director*

But it's improving.

**Eugene G. Ballard**
*Executive Vice President of Finance*

Nine for the full year.

**Michael Steven Nannizzi**
*Goldman Sachs Group Inc., Research Division*

Got it. And then -- so the growth -- how much of the growth coming off in the fourth quarter was just due to FX?

**Eugene G. Ballard**
*Executive Vice President of Finance*

Actually, the FX for the international segment, on a gross basis, was down 1 percentage point. And on a local currency basis, it would have been up 3 or 4 percentage points.

**William Robert Berkley**
*Founder and Executive Chairman*

But on a consolidated basis, it was down. It was nothing of consequence.

**Michael Steven Nannizzi**
*Goldman Sachs Group Inc., Research Division*

I understand, I understand. I was just trying to -- so you had some growth there during the last few quarters, and that seems to have pulled back in the fourth quarter. Was it something specific, or was it just kind of you reached scale in the businesses you were trying to grow? Or just trying to understand kind of what might have changed in the fourth quarter?

**Eugene G. Ballard**
*Executive Vice President of Finance*

Yes, I think it's a combination of both, Michael. There are, certainly, some parts of our international insurance, where they reached a critical mass, and you're not going to see the same level of growth


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

that is seen in the past, unless you see an improving market that they operate in. And, quite frankly, as we suggested earlier, there are many markets outside of the United States that remains remarkably competitive and I would suggest, to a certain extent, in some situations, irrational. So, again, it's a combination of reaching some degree of critical mass in some places and other places, where we've just concluded that we don't like the opportunity, and we are willing to shrink the business. No different than what we have done in the past domestically, when we don't like the opportunity, or we're in it to make an underwriting profit. And if we don't think we can do that, we'll just not do it, or certainly, do less of it.

**William Robert Berkley**
*Founder and Executive Chairman*

I think withdrawing, in particular, pieces of the business on an international basis appears to be more significant, because it's a much smaller business, so we withdraw from one particular thing or another. And in a quarter, it particularly may seem more consequential that it would elsewhere.

**Michael Steven Nannizzi**
*Goldman Sachs Group Inc., Research Division*

Got it. And was that pullback related, or was that in any of the lines or areas where you were growing? Or was -- so did you grow in something and then decide you maybe didn't like it as much, and then you cut it off? Or was it something where you had a presence for some time and, for whatever reason, it just no longer met your hurdles?

**William Robert Berkley**
*Chief Executive Officer, President and Director*

It's probably a combination of both, to a certain extent. But it's more driven by places that we have been for an extended period of time. And we remain astonished by the level of competition. And to our colleagues' credit, they know where the line needs to be in the sand, and they stay on the right side of that. So I would use as an example for you, U.K. professional liability. Our book of U.K. professional liability is 1/3 the size it was at its peak, or maybe even a little bit less. And we just don't get it. I mean, we have lots of theories why some of these folks continue to chase it down the drain. But that would be an example, Michael, of something that is moving the needle from a top line perspective, where we have the people, we have the expertise, we're focused on doing the right things, and we're taking a long-term view. That market will come back. We are convinced, at some point, and we will be there when others will have to permanently retreat.

**Michael Steven Nannizzi**
*Goldman Sachs Group Inc., Research Division*

Got it. That's really helpful. And then just last one. Not an underwriting question, but the income -- the net income from your wholly-owned subs was higher this quarter and is actually higher in '13. It's actually pretty positive in '13 versus, really, effectively flat in '12. How should we think about that? I mean, I don't have a lot of insight into the hanger leasing business, or I think that's what part of it is. But if you could give us some color on that, that would be great.

**William Robert Berkley**
*Founder and Executive Chairman*

It's an aviation service, maintenance business as well. We service parts in international military and airports around the world. It's a business where we made an acquisition last year that helps us expand the business. The business is growing. It's just more profitable. The fourth quarter was especially profitable. I think the fourth quarter run rate was probably better than we'll have for the balance of the year, but the rest of the year will be -- 2014, rather, will be a good year, but not as good as if you annualize the fourth quarter.

**Operator**

Our next question comes from the line of Josh Shanker with Deutsche Bank.


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

**Joshua David Shanker**
*Deutsche Bank AG, Research Division*

I don't want to talk about a specific case, but, of course, you'll know where I'm getting. When you guys have a large judgment that affects you, what is the policy about case reserving for significant losses?

**William Robert Berkley**
*Founder and Executive Chairman*

The policy is we always examine cases and reserve as we think appropriate.

**Joshua David Shanker**
*Deutsche Bank AG, Research Division*

And is there a pooling of general reserves for such losses? Or if you had one specific outside loss, would that be a risk that you'd actually take a case reserve at a later time?

**William Robert Berkley**
*Founder and Executive Chairman*

We always reserve as we think appropriate, Josh.

**Operator**

Our next question comes from the line of Gregory Locraft with Morgan Stanley.

**Gregory Locraft**
*Morgan Stanley, Research Division*

You guys have -- I think it's been 20-something -- 28 quarters or so in a row of reserve releases. But this past quarter, if my math is right, it was the lowest of the entire track record. And just in terms of absolute dollars...

**William Robert Berkley**
*Founder and Executive Chairman*

I don't think, actually, it was lowest, but it was amongst the lowest.

**Eugene G. Ballard**
*Executive Vice President of Finance*

Yes, we -- fourth quarter last year was $20 million, the second quarter this year was $18 million, this is $17 million, so we've been bouncing around...

**William Robert Berkley**
*Founder and Executive Chairman*

It's bouncing around. It's -- I wouldn't say it's the lowest, but it's -- the answer is...

**Gregory Locraft**
*Morgan Stanley, Research Division*

$16 million is lower than -- okay, go ahead.

**William Robert Berkley**
*Founder and Executive Chairman*

I think we've had several that have been -- you also have to understand that these are netted numbers, so there's a lot of stuff moving around. But I would say there's been 3 quarters that have been all around the same thing. Now what's the question?

**Gregory Locraft**
*Morgan Stanley, Research Division*


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Right. Actually, it was the stuff you mentioned. Can you talk a bit about the accident year movements underneath, the -- or any kind of segment detail? Can you help us think about the moving parts?

**William Robert Berkley**
*Founder and Executive Chairman*

I don't think we can give you moving parts except to say that, as we said, with a paid loss ratio of 52%, which is, again, towards the very low end of the paid loss ratio. And paid loss ratio continues going down. It still has a greater spread over our reported loss ratio -- would indicate that the likelihood of continued redundancies is good, assuming we don't have an acceleration of inflation, which I think answers your question, at least in a general way. It doesn't give you the specifics you'd like.

**Gregory Locraft**
*Morgan Stanley, Research Division*

Yes, I mean, we'll see the Schedule P when it comes out. But you can't help us with any kind of like which years moved around or anything, whether...

**William Robert Berkley**
*Founder and Executive Chairman*

You'll see -- one of the problems is you're going to see a new Schedule P. It's going to be a consolidated Schedule P, because we've moved everything under Berkley Insurance. So for the first time, we won't have to have 100 people explaining it. So the Schedule P will be much more self-explanatory. So I don't want to get ahead of myself, but everyone will be able to examine Schedule P with much more precision and a much clearer understanding. So I don't want to get ahead of myself. I want to let everybody look at it. And if you have questions then, I think you'll see them. And I think it will verify what we have been saying for a while that our reserves will prove to be more comfortable than some people have implied.

**Gregory Locraft**
*Morgan Stanley, Research Division*

Okay, okay, that -- yes, I look forward to that. But the one thing is I understand the paid loss ratio -- I mean, that -- and it's good that it's not dollars out the door. My concern is, is there a trend somewhere in the accident years that's causing you to put up more case, and, obviously, that -- just causing you to put up more, whether it's the large loss that Josh Shanker just mentioned, or the large potential loss that Josh mentioned or others that is -- is there a tick up somewhere that's causing you to put up more non-paid loss estimates that is driving overall reserve releases to be at the lowest level in many years?

**William Robert Berkley**
*Chief Executive Officer, President and Director*

Yes, I'm sorry. Greg, it's Rob. I think if you go back over some period of time, I think you will find that over many quarters, the paid loss ratio has continued to be very attractive. I think what you will see also is that we've consistently had positive developments. And a lot of that stems from where we had our initial loss pick, proving to be perhaps a bit cautious relative to where reality is. I don't think that you should -- I think in my opinion, at least, it would be a mistake to read into that a little bit -- it would be a mistake to read into the situation more than that. I think as far as the reserve development, we go through a reasonably extensive reserve analysis by operating unit, by product line every 90 days. And what you see is very much a byproduct, if you will, of that exercise. And we're constantly reviewing and rereviewing that. Ultimately, we feel as though that, that process allows us to make sure that we end up in a good spot. And there will be fluctuations from time to time, just like if you look at '13, it moved back and forth and a lot of that has to do with because we're looking at it every quarter.

**Operator**

Our next question comes from the line of Vinay Misquith with Evercore.

**Vinay Gerard Misquith**
*Evercore ISI, Research Division*


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

The first question is on growth in the domestic insurance operation. Just looking at gross written premiums of 13% this quarter, sequential uptick from the last quarter, could you help us understand why that happened? And are you turning on the spigot in certain lines that you had closed earlier?

**William Robert Berkley**
*Chief Executive Officer, President and Director*

I think the answer is we are opening the spigot selectively where we think the policy or returns will hit or exceed our target. And, consequently, we are willing to be a little bit less aggressive in some cases with rate and more interested in growing policy count.

**Vinay Gerard Misquith**
*Evercore ISI, Research Division*

How do you see that moving forward in '14? I mean, I understand that you're more comfortable with the trends now, but we ought to see some competitors also reduce the pace of rate increases. Do you think that you can actually gain market share despite the market being more competitive?

**William Robert Berkley**
*Chief Executive Officer, President and Director*

Well, again, I'm not intimately familiar with what some of the other companies say, and certainly, I'm not intimately familiar with what they truly think. But from our perspective, we see -- we are seeing on a policy-year basis, a growing percentage of our operating units or the business that we write, being able to achieve our targeted returns or better. And to the extent that, that's the case, we will continue to pursue that business. There is certainly nothing that leads us to believe that '14 is going to be a year where we are not -- the environment will not provide an opportunity to grow the business in all likelihood. And we remain somewhat optimistic. I think the other thing that one needs to keep in mind is that we had several years at this stage of rate increase, which then, of course, you get a compounding effect. So at this stage, we have many parts of the organization that have been getting rate on rate for multiple quarters, and it shouldn't be a surprise that we're getting to the point where some of the operations have very much a green light to try and increase their exposure.

**William Robert Berkley**
*Founder and Executive Chairman*

And some of us aren't somewhat optimistic. Some of us are very optimistic. But those who are very optimistic are always somewhat optimistic.

**Vinay Gerard Misquith**
*Evercore ISI, Research Division*

Okay. All right. Then the second question is on the expense ratio. You mentioned that you're taking certain actions. Curious, further depths just in back-office stuff, or are you looking sort of more of the underwriting stuff?

**William Robert Berkley**
*Chief Executive Officer, President and Director*

Yes, I don't -- I think that you're leaping to a conclusion that it's a staff issue. And I think that, that would be a mistake, from my perspective. We're just constantly looking at the organization to try and find ways that we can become more efficient. We're looking at places where we can work more efficiently with our partners, ways that we can work more efficiently with distribution and customers. And we're looking at systems and things of that nature as well.

**Vinay Gerard Misquith**
*Evercore ISI, Research Division*

Okay, that's helpful. And so the question for Gene. Gene, what do you think is the normalized tax rate? Is it around the 27% mark?


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

**Eugene G. Ballard**
*Executive Vice President of Finance*

Obviously, it depends a lot. Gains can influence that if we have more realized gains in the quarter. Those are all the taxed at 35%. So that could cause some variability in the number. But 27%, 28%, right now, is about the right place to be.

**Vinay Gerard Misquith**
*Evercore ISI, Research Division*

Okay, that's helpful. And the last question, on the net investment income. So you guys are pulling back, or still keeping your duration low. Should we see some sort of continued drag on the net investment income in the future?

**William Robert Berkley**
*Founder and Executive Chairman*

I don't really think it's going to change much. I think duration is going to stay around 3.3 years. I don't think there'll be a drag, because we are generating lots of cash, so the duration will stay roughly the same. So no, I would not think -- I wouldn't think that will happen. But we will -- I don't think we'll get a benefit from a steepening yield curve. Some people are out investing and pushing that duration to 5 years. You see a 5-year duration, that's a really substantial benefit they're getting from that steeper yield curve. On the other hand, it's a lot more risk to take if inflation comes back. So I think that's the biggest change. But no, I don't think it'll have an adverse effect. And look, at some point in time, you make a decision that you think the risk of inflation are less. I don't think that's the case. Ultimately, right now, we don't have inflation, because other investors from outside the U.S. are funding our deficits and are funding the borrowing of the Federal Reserve. So as long as that happens, we're not going to have inflation.

**Operator**

Our next question comes from the line of Heather Takahashi with Three Bridges Capital.

**Heather Takahashi**

I have some questions specifically related to the workers' comp line. I was wondering if you could talk more specifically about what trends you've seen from recent accident years in workers' comp. How the development's going? And then also, what you're seeing in terms of pricing versus loss cost trends for recent years now? I mean, we all know that pricing has been up quite a bit in workers' comp, but how are the loss costs trending more recently? And if you could also talk a bit about California?

**William Robert Berkley**
*Founder and Executive Chairman*

We really don't talk about particular lines of business. If you have questions about that, you can -- you could talk offline to Gene Ballard and Karen Horvath. But we don't talk about specific lines of business. We certainly wouldn't talk about a particular state and lines of business. It's competitive information. And it's not something we generally share.

**Heather Takahashi**

Okay. Maybe I could ask another question then. Perhaps the answer will be similar. What do you think now in terms of your excess capital position? I mean, you talked earlier on the call about all the things you can do with excess capital, but what are you now thinking in terms of how much you have in excess capital?

**William Robert Berkley**
*Founder and Executive Chairman*

Well, it depends, obviously, on our capacity to grow. So that's an issue that changes every quarter based on our earnings and our ability to grow. I think we have modest levels of excess capital. We'll continue to evaluate, as we do each quarter, either special dividends, buying our own stock back and the alternative of profitability of growth. And I think that's a continuously evaluated situation. And I think as we made it in


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

the fourth quarter to buy back stock more aggressively, it's a decision we make on a continuous basis. We have guidelines from our board as to what we can do. And it's -- we basically make that as a continuous thing based on opportunities we see at any moment in time.

**Operator**

Our next question comes from Bob Farnam with KBW.

**Robert Edward Farnam**
*Keefe, Bruyette, & Woods, Inc., Research Division*

A couple of questions. Just one touching -- going back to the reserves. Just you talked about the inflation impact on reserves. What kind of inflation assumptions are you making when you're setting reserves at this point?

**William Robert Berkley**
*Founder and Executive Chairman*

It would be 3% to 3-plus, depending on the line of business. And, in fact, inflation is really proved to be between 1% and 2%.

**Robert Edward Farnam**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. And in your press release, you mentioned your kind of new competitors -- more rational competitors, it seems like. Are those competitors basically companies that used to write large-ticket E&S that are looking to move into smaller E&S because of the [indiscernible] moving into the market?

**William Robert Berkley**
*Founder and Executive Chairman*

We're among friends. The answer is people like Berkshire and other people who are trying to expand their footprint, who are rational people and want to write business and other people who are, in fact, leaving the business. Now there are also other people who are not so rational, whose names I won't mention. But the point I was trying to make is everyone is making much to do about Berkshire, and there probably are some others who are entering the business, but those are rational, long-term people who want to make money. Long-term, rational people, who want to get in the business aren't of great concerns to us. Ajit is a good friend of mine, and he's as greedy as anybody, and he wants to make money. That's not a problem. And anybody who worries about that is making a mistake. The people you need to worry about are the dummies, who don't know about making money, and who do dumb things. And those are the people you worry about. And a lot of those people are going out of business. And those people, we're happy to see go. And there are a few other dummies who are in the business, and we'd like to see them go, too, but they're not all gone yet.

**Robert Edward Farnam**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Just give them some more time, huh?

**William Robert Berkley**
*Founder and Executive Chairman*

Absolutely.

**Operator**

Our next question comes from the line of Ian Gutterman with Balyasny Asset Management.

**Ian Gutterman**
*Balyasny Asset Management L.P.*


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

First Gene, can you clarify, I might have misheard. I thought at one point you said there was $12 million of reserve releases, and I thought you also said 1.2% was your -- be more like $17 million. So I just wanted to clarify which is what.

**William Robert Berkley**
*Founder and Executive Chairman*

Definitely, it was $17 million, he said.

**Ian Gutterman**
*Balyasny Asset Management L.P.*

$17 million. On the paid loss ratio, I guess one thing I was looking at is obviously, you've shown good growth. It looks like the last 3 years have been double-digit top line, and paids this year are going to be up, call it, low-single digit. And obviously, part of that is good work on your part and part of that is just paid's lagged growth, right? So does that imply that we're sort of marketing the bottom on paid loss ratio in just a natural -- the way losses pay out over time, should suggest that, that pace will start to grow faster to reflect the growth of the past few years?

**William Robert Berkley**
*Founder and Executive Chairman*

Paid always, in fact, has a lag with risk, okay? And yes, absolutely, your statement is a correct statement and the trend is correct. So paid -- let's just say that you have to balance that paid with what the earned premium was, and the written, and you have a format that does that. And even after taking that into consideration, paid losses are down significantly. But, for example, last year, I think the paid-loss ratio was like 57% or 58%. And again, it's trending down. If it had trended as our growth was, it would've been 53% or 54%, depending -- because you've got to look at it as a percentage of premium volume of net premium. So it's -- they're trending down slightly faster than premiums are trending up. So it's getting better and continues to get slightly better. That's the long and the short of it. So if you said 52%, what 52% means is it's probably a point or 2 better than last year. And last year, probably was a point or 2 better than the year before and so on.

**Ian Gutterman**
*Balyasny Asset Management L.P.*

Okay. But at some point, I assume we're getting close to that inflection where it starts to go the other way, even if you're doing a good job on managing the product [ph].

**William Robert Berkley**
*Founder and Executive Chairman*

I would envision that you will be at the inflation point about 6 to 12 months after prices stop going up.

**Ian Gutterman**
*Balyasny Asset Management L.P.*

That's very helpful, actually.

**William Robert Berkley**
*Founder and Executive Chairman*

That will be a fair guess. Probably take you about a year after price increases stop going up, because a year after is when earned premium stop having those price increases. So I'm giving you what would be the rule of thumb in my mind, not a mathematical calculation. But if I looked at it, I would say paid losses, a year after price increases stop, should bottom out.

**Ian Gutterman**
*Balyasny Asset Management L.P.*


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

That makes sense. And then my last topic, on reinsurance. First, can you remind me just a general mix of, say, casualty versus property and maybe professional in that business?

**William Robert Berkley**
*Chief Executive Officer, President and Director*

More than 2/3 of it is casualty and professional, and the balance being shorter-tail long.

**Ian Gutterman**
*Balyasny Asset Management L.P.*

Okay, and but that's kind of what I was guessing. So as we go forward, given the comments, I think it was Rob made, on pressure in cat spreading into casualty, should we maybe expect some, at least, expense ratio pressure there from higher seating [ph] commissions and possibly even loss ratio as well?

**William Robert Berkley**
*Chief Executive Officer, President and Director*

I think it's certainly possible. But I think that perhaps, the thing to look at a little bit more closely will be the top line, which, obviously, we expect there's a possibility, because that could shrink, depending on market conditions. And yes, of course, over time, as that reality earns through, that we'll expect the expense ratio to an extent as well.

**Operator**

[Operator Instructions] Our next question is a follow-up question from the line of Josh Shanker with Deutsche Bank.

**Joshua David Shanker**
*Deutsche Bank AG, Research Division*

Yes, just one more question. You guys were kind enough to give us new disclosure on the last couple of quarters on development by segment. Is that not going to happen going forward? Or do you have it in front of you?

**Eugene G. Ballard**
*Executive Vice President of Finance*

Yes, we will have that laid out in the 10-K. But with $17 million in total and it's predominantly the domestic segment and also the international segment.

**Joshua David Shanker**
*Deutsche Bank AG, Research Division*

Okay. I guess, so those were both favorable and negligible on the reinsurance?

**Eugene G. Ballard**
*Executive Vice President of Finance*

Yes. Well, there's some in all 3. So I mean, it's not a -- that big a number to begin with, but we'll have it in the K.

**Operator**

Our next question comes from the line of Jay Cohen with Bank of America.

**Jay Adam Cohen**
*BofA Merrill Lynch, Research Division*

I got somehow kicked off the call before, so if this has been asked, I apologize. But on the investment income and the fixed income side, that's bounced around the last couple of quarters. There's -- fourth quarter was a little bit above where it was in the third quarter. Is that just cash flow and normal variability in earnings?


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

**Eugene G. Ballard**
*Executive Vice President of Finance*

Yes, there's nothing -- been no change, fundamental change in the investment fixed income portfolio.

**Jay Adam Cohen**
*BofA Merrill Lynch, Research Division*

So it's a pretty good run rate fourth quarter for that...

**William Robert Berkley**
*Founder and Executive Chairman*

And I would not think that would -- I think part of it may well be, Jay, that we have chosen opportunistically when to invest our cash, but -- so we may have invested a couple of hundred -- $200 million, $300 million at the end of the third quarter that we invest, in fact, earned some money at -- in the fourth quarter. But in principle, there's no real change.

**Eugene G. Ballard**
*Executive Vice President of Finance*

So the yield on the fixed income is -- for the full year, is about 3.6 and 3.5 in the fourth quarter, so it's not like -- it's pretty close.

**Jay Adam Cohen**
*BofA Merrill Lynch, Research Division*

And if you looked at, for the fixed income, what the new money yields are, if you were to duplicate what you're doing today, what's the spread at this point?

**William Robert Berkley**
*Founder and Executive Chairman*

I don't think that we believe our investment income would go down. Probably, it would go down about 12 basis points over the year. But we think we more than make it up in the aggregate because of cash flow.

**Operator**

And I'm not showing any further questions at this time. I'd like to turn the call back over to management for closing remarks.

**William Robert Berkley**
*Founder and Executive Chairman*

Okay. Well, one of the frustrations are we spend a lot of time on these calls talking about a lot of detail, and what we really are trying to do is express the general view about how we feel about the business and where it is. And that sometimes is hard to do because we get immersed in a lot of detailed questions that help people make models work and figure out the little of issues. I think I'd like to try and spend just a couple of seconds on big picture items.

Number one, our domestic business is strong. We're very pleased with how it's going. We expect we'll continue to grow at comfortably between 12% and 15%. We would expect our price increases will stay above the 5% area for the year, but it will be spotty. And we're expecting no dramatic increase in inflation, certainly, in the first 6 months of the year. It is hard to tell primarily that's a result of nondomestic investors wanting to put their money in the U.S., which is allowing us to have deficits without creating deficit-funded inflation. We believe that will continue for a while, and therefore, inflation is not likely to change.

We think we'll be able to improve our expense ratio modestly with more efficiencies on our part. We believe that we understand a couple of issues that arose in our International business that we've taken care of and addressed. So we're quite optimistic. Our greatest threat, we feel, is, in fact, our investment


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

area. The threat of inflation, the fear of deflation, our sitting there and we're searching for ways to protect ourselves.

Overall, we would expect our returns will increase modestly next year, and we're expecting a really good year. So thank you all very much. Have a great day.

**Operator**
Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a good day.


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.
The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.
THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.
© 2017 Capital IQ, Inc.


Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.