S&P Global
Market Intelligence

American Financial Group, Inc. NYSE:AFG

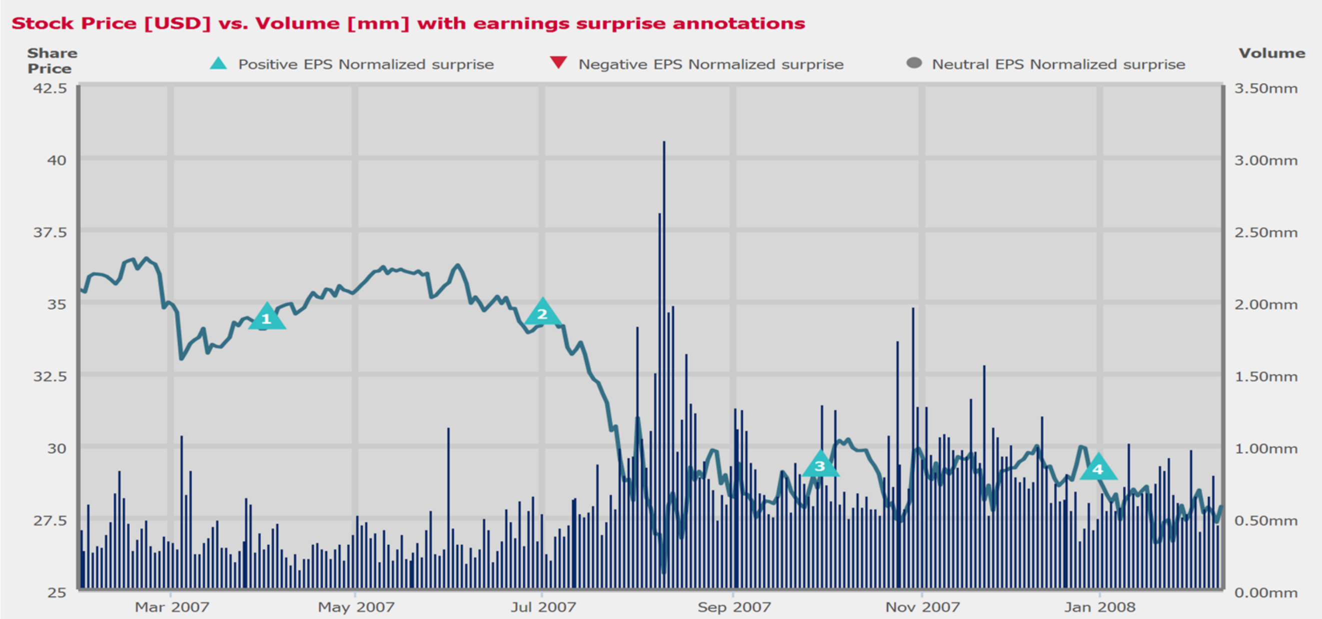
FQ1 2008 Earnings Call Transcripts

Friday, April 25, 2008 3:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2008-			-FQ2 2008-	-FY 2008-	-FY 2009-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.89	1.09	▲22.47	0.88	3.72	3.59
Revenue	-	-	▲(4.22 %)	-	-	-
Revenue (mm)	663.00	635.00	-	659.70	2660.50	2662.70

Currency: USD
Consensus as of Apr-25-2008 3:22 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2007	0.84	0.91	▲8.33 %
FQ2 2007	0.82	0.93	▲13.41 %
FQ3 2007	0.85	0.97	▲14.12 %
FQ4 2007	0.94	1.21	▲27.37 %

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Call Participants

EXECUTIVES

Carl H. Lindner, III

Keith Alan Jensen
Former Senior VP & CFO

ANALYSTS

Abe Schloss
Maxim Group

Adnan Alam
ADAR Investment Management

Amit Kumar
Fox-Pitt, Kelton

Charlie Gates
Credit Suisse

Jay Cohen
Merrill Lynch

John Gwynn
Morgan Keegan

Marvin Weinstock
Maxim Group

Presentation

Operator

Good day, ladies and gentlemen. And welcome to the American Financial Group first quarter earnings conference call. At this time all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of today's conference. [Operator Instructions].

I would now like to turn the presentation over to your host for today's conference, Mr. Keith Jensen, Senior Vice President of American Financial. Please proceed.

Keith Alan Jensen
Former Senior VP & CFO

Thank you. Good morning and welcome to American Financial Group's 2008 first quarter earnings results conference call. If you're viewing the webcast from our website, you can follow along with the slide presentation if you would like.

Certain statements made during this call are not historical facts and may be considered forward-looking statements. They are based on estimates, assumptions and projections which management believes are reasonable, but by their nature subject to risk and uncertainties. The factors which could cause actual results to differ materially from those suggested by such forward-looking statements include, but are not limited to those discussed or identified from time to time in AFG's filing with the Securities and Exchange Commission, including the Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q. We do not promise to update such forward-looking statements to reflect actual results or changes in assumptions or other factors that could affect these statements.

Core net operating earnings is a non-GAAP financial measures which sets aside items that are not considered to be part of ongoing operations such as net realized gains or losses on investments, effects of accounting changes, discontinued operations, significant asbestos and environmental charges and certain other non-recurring items. AFG believes it to be a useful tool for analysts and investors in analyzing ongoing operating trends and will be discussed through various periods during this call. A reconciliation of net earnings to core net operating earnings is included in our earnings release.

Now, I'm pleased to turn the call over to Carl Lindner III, Co-Chief Executive Officer of American Financial Group to discuss our results.

Carl H. Lindner, III

Good morning and thanks for joining us. We've released our 2008 first quarter results yesterday afternoon. I'd like to start by covering some of the first quarter highlights on slide three of the webcast.

Our first quarter record operating results were excellent, getting us off to a great start towards meeting our objectives for the year. Our outstanding results reflect continuing execution of our specialty niche strategy and our consistent focus on pricing and underwriting discipline.

Our record first quarter core net operating earnings of $128 million or $1.09 per share were up 15% over the same period a year earlier due to continuing strong underwriting profits and higher investment income and specialty, property and casualty operations. Our annualized core operating return on equity was at 17%.

Net earnings for the 2008 first quarter were impacted by impairment charges taken on some of the our investments, most of which were related to declines in the market value of our equity position and financial institutions, including National City. We're disappointed with the level of AFG stock price and believe in this environment that repurchasing our shares opportunistically is an effective use of our excess capital.

And along those lines during the first quarter, we repurchased 1 million shares and under our repurchase program bought an additional 800,000 shares in April. The average price of these common stock purchases was $26.30 per share.

Last week we also announced that we plan to redeem all of our Senior Convertible Notes due June 2, 2033. The aggregate redemption amount, including interest of all the notes redeemed would be around $193.5 million. We do plan to use a combination of cash on-hand and short-term borrowings to fund the redemption. Note holders also have an option of exercising their conversion rights.

In that instance, we'll pay that accreted value of the notes in cash, about $190 million in any premium in AFG common stock. Our financial condition and liquidity remained very strong. Our book value per share of $27.55 excluding unrealized gains and losses on fixed maturities was up 8% compared to the end of the 2007 first quarter.

Turning to slide four, I'd like to review the results of our specialty, property and casualty operations. Overall underwriting profit of $120 million was 16% higher than in the same period a year ago. Our combined ratio improved nearly 3 points to 81. The 2008 results benefited from the positive effects of favorable reserve development and rate adequacy. Favorable reserve development in the 2008 first quarter totaled $65 million or 10 points that compares to $54 million or 8 points in the same 2007 period.

Catastrophe losses continue to be an insignificant issue for us. Net written premiums from the 2008 first quarter were about the same levels last year. We are pleased to be able to maintain our premium levels in light of the challenging commercial insurance market. Apart from the rate decreases and the California Workers' Comp business, our average renewal rates and other specialty operations were down about 3% in the first quarter.

Now, I'd like to review the first quarter results for each of our specialty business groups on slide five. Property and transportation group generated strong underwriting profits in the 2008 first quarter, slightly above the level in the 2007 first quarter. Higher profit in the agricultural insurance operations, largely due to the favorable development of about $14 million in our crop insurance operations offset lower margins in Great American's trucking and property and inland marine divisions.

Gross and net written premiums were impacted by volume reductions in the property and inland marine and trucking operations resulting from softer market conditions which were partly offset by strong growth at national interstate.

Lower premium sessions in our crop business contributed to the slight increase into this groups net written premiums. We expect to see stronger growth in this group in the second half of the year when a greater proportion of our crop premiums are recorded. This groups average renewal rate levels were about 2% below the same period a year earlier.

Our specialty group reported outstanding underwriting profitability in the 2008 first quarter at $53 million. The modest increase in the combined ratio from the 2007 first quarter was due largely to a decrease of approximately $14 million of favorable reserve development within our general liability operations, partly offset by improved results in our executive liability operations and targeted insurance programs.

Our excess and surplus lines reported about the same level of underwriting profit as the year earlier on a lower level of premium. The declining gross written premiums resulted primarily from volume reductions in our excess and surplus lines reflecting significant competitive pressure on those commercial casualty markets, and lower general liability coverages resulting from the softening in the homebuilders market.

These decreases were partly offset by additional premium resulting from our Marketform acquisition. However, net written premiums increased primarily because the market performed premiums and the discontinuation of a reinsurance agreement resulting from the Strategic Comp acquisition more than offset the declines in the E&S lines, which are heavily reinsured. This groups overall average renewal rate was about 4% lower than in 2007's first quarter.

Specialty Financial group reported significantly improved underwriting profitability in the 2008 first quarter with an 11 point improvement in the combined ratio compared to the year earlier. The run-off automobile residual value insurance business generated an underwriting profit versus an underwriting loss in the 2007 first quarter.

This resulted in a $12 million improvement in first quarter earnings over the same prior year period. Surety and fidelity and crime operations also reported higher underwriting profits in the trade, credit and financial institutions operations continue to generate strong profitability.

The decline in gross written premiums is primarily attributable to the fidelity and crime and surety operations while higher premium cessions within certain of our lease and loan operations impacted this group's net written premiums also. Renewal rates in this group were about 2% lower than in the 2007 first quarter.

Moving to our California comp business, we again generated excellent profitability in the 2008 first quarter. The business continued to benefit from favorable prior year reserve development reflecting the improving claims environment over the last several years. And in the period it included $6 million or 11.5 points of favorable development compared to about $5 million or 8.4 points in the 2007 period.

Due to the long tail nature of this business, we'll continue to be conservative in our reserving until a higher percentage of claims have been paid and the full impact of the California reform legislation can be determined.

Net written premiums were 3% below the 2007 first quarter, reflecting the effect of lower rates which was offset quite a bit by the group's expansion of its excess workers' comp products. Renewal rate decrease in California comp averaged about 18% during the 2008 first quarter. We expect the rates to stabilize in this market, probably in the last half of 2008.

Now let's turn to our Annuity and Supplemental Insurance Group on slide 6. Higher earnings and a traditional fixed annuity and supplemental insurance businesses were more than offset by the impact on the indexed annuity business of declines and interest rates and the stock market.

The decline in statutory premiums in the 2008 first quarter resulted from lower sales of annuities in the single premium market. The market's continuing credit issues have depressed the pricing levels of many of our equity securities and financial institutions and some of our fixed maturity securities. As a result, we recorded pre-tax impairment charges of $109 million in the first quarter.

Equities accounted for about 60% of the charges, primarily financial institutions including National City. Our National City investments related to our sale of Provident Bank a number of years ago. Although over the past four years, even including this first quarter charge, we've realized a net pre-tax gain of about $140 million associated with the sale of Provident and a 60% reduction in our position in Nat City through our subsequent sales of its stock.

At the end of the first quarter, our carrying value and the remaining common equivalent shares of Nat City was $37 million. About 20% of the impairment was in mortgage-backed securities which resulted primarily from the recent downgrade of Financial Guaranty Insurance Company, which provided credit guarantees for those securities. The remainder was related to corporate bonds and other investments.

Our investment philosophy with respect to the securities that make up our mortgage-backed securities portfolio has been over many years. It has been focused on the senior tranches of these securities which has really cushioned us against the significant market declines. Our mortgage-backed securities represent 29% of our portfolio. 98% of these securities have AAA ratings.

We recognize the market's interest in issues related to mortgage-backed with subprime and Alt-A collateral. Accordingly, we have provided detailed information about our position in these securities and our supplemental financial package on our website. Surprising to say, we'd not experienced significant losses in this market and given current circumstances, we don't believe that our risk of loss would have a material adverse effect on our financial position.

Related to other property and casualty related exposures to subprime, we continue to carefully monitor our property and casualty insurance operating exposures related to subprime. In our D&O book we have five reported claims and one notice related to subprime's issues. Our average policy limits on these is about $5 million net of reinsurance. So if all of these reached the policy limits, our exposure would aggregate $32 million. However, we have no reason to believe that all of our losses would reach the limit.

We have no significant direct exposure to subprime lenders in our surety business and based on our review and what we currently know, we have no significant individual losses and don't believe that our aggregate operating losses related to subprime issues or material to our financial condition. We've also considered the impact that this issue may have on our business going forward. A few of our businesses, most notably, our homebuilders business, mortgage collateral protection, inland marine may have some decreases in volume as the housing market softens. We don't expect the financial impact of the softening to be material.

Let me talk about strategic focus for a minute. On slide 8, we've outlined important aspects of our strategy that we believe to be drivers to our continuing success. We are focused on specialty niche markets within the property and casualty insurance, annuity and supplemental insurance industries, where we have significant expertise. We'll continue to pursue appropriate uses of our excess capital, including internal growth opportunities, acquisitions and start-up opportunities that meet our specialty strategy and financial objectives, opportunistic share repurchase and changes in dividend levels.

We do believe we are well positioned to take advantage of the capital market disruptions. As a result of that, we really want to keep some of our powder dry. We remain committed to our strong underwriting culture, pricing discipline and risk management philosophy, and continually monitor the adequacy of our rates in all markets.

We have and will continue to reduce business volume in lines as needed to achieve appropriate underwriting results. Our investment group will focus on achieving returns over the long-term that outperformed various market and this while, effectively managing our portfolio risk. Our long-term objective is to achieve returns on equity between 12% and 15% along with consistent growth and book value.

Bottom-line, we remain very enthusiastic about this year. Our expectations for 2008 are outlined on slide 9. We now expect growth in the net written premiums of 2% to 5% in our specialty, property and casualty operations with a combined ratio range of 85% to 87%. Because of our strong underwriting culture, we expect to maintain adequate rates.

With that said, we do anticipate a modest decline in overall average renewal rates in 2008 due to the competitive conditions in quite a few of our markets. We expect net written premiums in our property and transportation group to increase 2% to 5% fueled primarily by higher crop premiums and improved geographic penetration in our property and inland marine operations, as well as some new initiatives in our transportation businesses.

This group should also maintain its excellent underwriting track record with a combined ratio in the range of 86% to 90%. We remain optimistic about growth opportunities in the specialty casualty group resulting from our recent investment Marketform and the international expansion opportunities.

We also expect the acquisition of strategic comp holdings, a provider of workers' comp programs, will further expand our penetration and increase our geographic coverage into the worker's comp market. Therefore, we project growth between 3% and 6% in net written premiums. We also expect this group to generate strong underwriting profit with a combined ratio in the range of 81% to 85%.

We are pleased with the performance of our specialty financial group in the first quarter. Its underwriting margins have improved significantly. We look for this groups combined ratio to be in the range of 88% to 92%. However, due to the pressures within many of these markets resulting from the ongoing credit term while we now project net written premiums to be flat to slightly down for 2008.

As I mentioned earlier, we expect to see rates in the California Workers' comp market to stabilize. With that and the expansion of our excess workers comp program, we would anticipate that net written premiums would be down about 3% to 5% this year. Combined ratio is expected to increase somewhat, but should be between 82% and 86%, still providing excellent returns on this business.

As previously announced, we will perform a comprehensive internal review of our asbestos environmental exposures later this year. Based on recent market conditions and trends and assuming 6% stock market growth in the last three quarters of this year, we expect the core pre-tax operating earnings of our annuity and supplemental insurance group to be 5% to 10% higher than last year.

Anticipated earnings growth in the fixed annuity lines and life and supplemental insurance lines is expected to be partially offset by lower earnings in the variable annuity lines. New annuity initiatives are being launched in 2008 in our variable operations and in the bank market. Overall, annuity sales are expected to be up slightly in 2008.

Growth from new initiatives are expected to more than offset in anticipated declines and sales of indexed annuities and other annuities. Increased competition from the government subsidized Medicare advantage product will likely continue to impact our supplemental insurance operations. But we expect these premiums to be flat to slightly down in 2008.

Earnings from these operations in 2008 are expected to be flat to slightly up. As a result of improved investment earnings and greater than expected favorable reserve development, we have increased our 2008 core net operating earnings to between $3.90 and $4.10 per share. These expected earnings exclude the potential for significant catastrophe in crop losses, unforeseen major adjustments to our asbestos and environmental reserves and large gains or losses from asset sales.

Thank you. And now we'd like to open the lines for any questions.
Question and Answer

Question and Answer

Operator

[Operator Instructions]. Your first question comes from the line of Charlie Gates of Credit Suisse.

Charlie Gates
Credit Suisse

High, good morning.

Carl H. Lindner, III

Hi, Charlie.

Charlie Gates
Credit Suisse

I guess first question, can you put a box around the homebuilder program? Approximately, how large is that in terms of sales?

Keith Alan Jensen
Former Senior VP & CFO

We really haven't disclosed that publicly. It's primarily in our mid-continent subsidiary, and it would be probably in... I don't know, 50 to 80 range.

Charlie Gates
Credit Suisse

Okay. That was my first question. I guess the second question, approximately what portion of sales would you term excess in surplus lines?

Carl H. Lindner, III

Give us a second here.

Keith Alan Jensen
Former Senior VP & CFO

Alright. On the quarter it would be about $50 million net.

Charlie Gates
Credit Suisse

To what extent do you see standard market companies coming in there?

Keith Alan Jensen
Former Senior VP & CFO

A lot, that's why... probably the... our access and surplus lines business is probably the most competitive part of our business besides the large casualty counts that are written in some of the various business units and that. Our premiums would be downed heavier in that line and the homebuilders for the obvious reasons in that. But in the E&S business, primary companies are coming back hard into that.

Charlie Gates
Credit Suisse

Just because essentially there is requested any cost for growth for some of these companies I guess? Those are the only two questions I had at this time. Hey, the other question, when logically would you announce the results of the E&A review?

Keith Alan Jensen
Former Senior VP & CFO

We haven't specifically timed that. I suspect we'll do the review through the mid part of the year. So I would expect sometime during the summer.

Charlie Gates
Credit Suisse

Thank you.

Operator

Your next question comes from the line of Jay Cohen of Merrill Lynch.

Jay Cohen
Merrill Lynch

Yes, thank you. A couple of questions. First is, when you look at your mortgage-backed portfolio, how many downgrades of securities have you seen in that portfolio?

Keith Alan Jensen
Former Senior VP & CFO

Maybe the easiest way to deal with that Jay, the AAA portion of that portfolio, the mortgage-backed is 98% at year-end. It was 98.3% now, at year-end it was about 99%. So it's been pretty modest and it was really, I think the major ones have been as a result of the downgrade of FGIC.

Jay Cohen
Merrill Lynch

Okay, as opposed to some... is that emerged?

Keith Alan Jensen
Former Senior VP & CFO

Correct.

Jay Cohen
Merrill Lynch

Secondly, you mentioned on the D&O side, at least five reported claims. For these kind of claims are you playing at the excess layers I'm assuming?

Carl H. Lindner, III

Yeah. Well, some of both, but some would be excess, some would be primary but primarily excess.

Jay Cohen
Merrill Lynch

Okay. I noticed in the quarter, you bought some Alt-A, a decent amount of Alt-A backed RMBS. What was behind that thinking? Just it spreads widening out and it was too attractive to pass out?

Keith Alan Jensen
Former Senior VP & CFO

Jay, when we saw great value in that area, we just about doubled the size of our Alt-A investments in the quarter. I'm very being very careful as to the part of the structure that we're in and the collateral backing of our investment. But we think in the senior most part of the structure and collateral, i.e., principally fixed rate collateral and we think that holds up very, very well, even in a downside scenario and that it offer tremendous value.

Jay Cohen
Merrill Lynch

Okay. As far as insider buying, I've noticed that Carl junior had been buying stock, any other insiders buying stock at what seems to be an attractive price?

Carl H. Lindner, III

We're not aware of anybody at this point.

Keith Alan Jensen
Former Senior VP & CFO

Not individually, obviously as a company we've taken the position of this attractive prices and so we've been in the market actively purchasing.

Jay Cohen
Merrill Lynch

Okay. Last question, on the A&E side, I know you guys have to do the study obviously. But can you talk about the general trends you've seen from a claim standpoint because you certainly listen to some other companies whether its travelers' or CNAs or A's and they talk about fairly benign claims trends. Is this something you've witnessed as well?

Keith Alan Jensen
Former Senior VP & CFO

I think that's probably fair. We're seeing certainly a decrease in trend in terms of number of claims. On the A side we're seeing a bit of escalation in terms of the severity of mesothelioma claims. But on balance, when you take everything in concerted it is pretty benign at the moment.

Jay Cohen
Merrill Lynch

Great. Thanks a lot.

Operator

Your next question comes from the line of John Gwynn of Morgan Keegan.

John Gwynn
Morgan Keegan

Thanks. Carl, we're all seeing these broker surveys on rate activity, the CIAB and others, that would indicate that we're looking at low but double digit renewal rate declines in the industry. And yet most companies seem to be reporting low to very low mid single digit declines on the renewal. Can you... do you have any thoughts on that dichotomy?

Carl H. Lindner, III

I'm not an expert between the various services that are out there but I do know some of them. We try to include some new business; some of them are maybe slanted more towards the large account side of things. Our business, our specialty business is probably more in the small to mid-sized type of premium market. So I think that might account for some. Also quite a bit of our business as in crop relates to pricing, relates to a little different. In this case this year crop prices are up pretty much and that's how we set our premiums. And so, maybe some of our businesses though very competitive may not attract quite as much competitive pricing activity as those that are skewed into the large account side. Probably in our case, I think probably less... probably no more than 10% of our business would come from the top three or four big national producers which is a little... quite a bit different than quite a few of the public companies.

John Gwynn

Morgan Keegan

Alright, well done. Thanks for that. Carl or Keith, do you... are you hearing anything new on the agricultural bill that apparently is being tossed around in Congress?

Keith Alan Jensen
Former Senior VP & CFO

Yes, there was an extension of a period of time that they had to pass the bill. It got a one-week extension last week that expires today. There was movement in Congress yesterday to extend it for another week. In terms of impact on us, it looks like the major impact is going to be that they'll change the administrative and overhead allowance by a couple of points in the grand scheme of things that is not a significant event with respect to our operation now.

John Gwynn
Morgan Keegan

Alright. Particularly the crop prices are up so much.

Keith Alan Jensen
Former Senior VP & CFO

Right.

Jay Cohen
Merrill Lynch

Keith, when you do a budget for your company and I don't know whether you do it... I assume to get granular down to your 22 or 23 operating units. Do you have a problem getting expense levels correct?

Keith Alan Jensen
Former Senior VP & CFO

Well, I think what happens and we do go down to each of our operating units and it's certain a bottom-up kind of a budgeting process. And each one of them obviously, look at their expense levels, individually largest expense as you know is the commission expense and so that's going to vary from product to product and unit to unit. So they build that up and they have a good feel of what their next largest is which is the salaries in the unit. So I think it's more like the challenge, it's not particularly problematic. It's pretty accurate, I think, John. It's really allocation of home office overhead and some of those issues, you know, who should get what of that.

John Gwynn
Morgan Keegan

Right. Of course, you have an advantage over my data but the quarter share ceding commission is sort of... is it volatile or seasonal rather?

Keith Alan Jensen
Former Senior VP & CFO

Well, there is probably several ceding commissions and several quarter shares among our various businesses.

John Gwynn
Morgan Keegan

I'm looking at crops.

Keith Alan Jensen
Former Senior VP & CFO

You're looking in the crops. Alright, not really seasonal, it's a agreement that we have with Munich where the net premiums that have been retained after we cede to the federal programs are 50/50 quarter share and then there is a profit sharing agreement that's embedded in that.

John Gwynn
Morgan Keegan

Okay.

Carl H. Lindner, III

There can be swings in that, they obviously based off the final profitability of the business.

John Gwynn
Morgan Keegan

Right, okay. And Keith, could you update us on holding company liquidity and whether that includes any subsidiary dividends year-to-date in your bank line?

Keith Alan Jensen
Former Senior VP & CFO

Sure. As of the end of the quarter we had about $40 million of holding company cash. We had $330 million available under our bank lines. So between those two from a liquidity perspective, we had access with very, very short notice to almost $460 million.

John Gwynn
Morgan Keegan

Okay. And the 330 is off of 500 total?

Keith Alan Jensen
Former Senior VP & CFO

That's correct. We went into our bank line a bit in the first quarter and in connection with the acquisitions that we did. We anticipate much of that to be repaid by later in the year.

John Gwynn
Morgan Keegan

Right. Craig, one last question. The performance of fixed-rate collateral, forget about the price of the securities but they're actual losses in that (inaudible) that's still performing pretty well, isn't it?

Carl H. Lindner, III

Yes, it is John. It has performed very well.

John Gwynn
Morgan Keegan

Okay. Alright, thanks a lot.

Operator

[Operator Instructions]. Your next question comes from the line of Adnan Alam of ADAR Investment Management [ph].

Adnan Alam
ADAR Investment Management

Hi, I was wondering if you could give us a little bit of color on the processes you use to mark-to-market your investment portfolio? And if the methodology has changed any this quarter?

Keith Alan Jensen

Former Senior VP & CFO

Okay. The process that we go through specifically with the mortgage-backed since that we go to the brokers and get indicative quotes from them. Obviously, those securities that are publicly traded, we go to the public markets and know our process in terms of seeking those values has not changed this quarter.

Adnan Alam
ADAR Investment Management

And do you by chance know what the split is between those that are publicly traded versus ones you have to get from brokers?

Keith Alan Jensen
Former Senior VP & CFO

I don't have the top of my hand.

Adnan Alam
ADAR Investment Management

Okay, thanks.

Keith Alan Jensen
Former Senior VP & CFO

Substantially all of it is data from brokers.

Adnan Alam
ADAR Investment Management

Okay, thank you.

Keith Alan Jensen
Former Senior VP & CFO

Welcome.

Operator

Your next question comes from the line of Amit Kumar of Fox-Pitt, Kelton.

Amit Kumar
Fox-Pitt, Kelton

Thanks. I guess just going back to the crop book and you're talking about the second half and how it's going to improve. Can you just talk about all this chatter about rising crop prices and I guess the offset is receptionary force is... what exactly would happen even the crop prices would keep on increasing? Would we see like the retentions rising in terms of the customers or does it remain the same?

Keith Alan Jensen
Former Senior VP & CFO

Well, this is really a protection to the farmers against catastrophes and the multiple pearls that can affect them. And so for them to not be in the program would be fairly risky. It would be living like having a car and not insuring your car. So we really don't see in terms of the volume of people that are involved in the acreage covered, we don't look for substantial changes as to the value because of crop prices. The program is one that by and large looks at revenue per acre kind of an approach and sets prices based on what the prices are in March for the summer crops and in September for the fall crops. So with the prices rising, that really does not have an adverse effected by what the commodity prices are at specified dates in the program.

Amit Kumar
Fox-Pitt, Kelton

Okay, that's helpful. And I guess, perhaps just going to back to your D&O exposure... I think you talked about 5 policies. But what's the actual financial institution book as a percent of your overall top line?

Keith Alan Jensen
Former Senior VP & CFO

Within the D&O we really have not disclosed the proportion of the book that's in various industries.

Amit Kumar
Fox-Pitt, Kelton

Okay. That's all for now, thank you so much.

Operator

Your next question comes from the line of Abe Schloss [ph] of Maxim Group.

Abe Schloss
Maxim Group

Good morning.

Carl H. Lindner, III

Good morning.

Abe Schloss
Maxim Group

Just a quick question on our buybacks. Are we still in the market buying back stock? And how much do we have authorized? Where do we stand, really?

Keith Alan Jensen
Former Senior VP & CFO

We have 1.3 million shares that are authorized during the month of April under our program. Purchasing, we bought an additional 800,000 shares but we're not in the market at this point.

Abe Schloss
Maxim Group

Thank you.

Operator

And your next question is a follow-up from the line of Amit Kumar of Fox-Pitt, Kelton.

Amit Kumar
Fox-Pitt, Kelton

Thanks again. I guess just going back to the market scenario and recently we saw the SAFECO deal and they are happy now there are deals in the past. But what are your thoughts on M&A? And I know previously, we've talked about more so being focused on trying to do smaller new things and grow top line, but as you look forward, like you know, has any of that thought process changed or recently we've had some carriers talk about even in a moving overseas and expanding, where do you stand on that front? Thanks.

Carl H. Lindner, III

I think we really think about things pretty much the same way as far as using excess capital. You know, organic growth opportunities and starting businesses. And, makes sense, small to medium size acquisitions. You know, it's kind of really what we have been doing. Our market form transaction which between two-thirds of Marketform, a Lloyd's insurer where we have invested in purchase pricing capital, roughly $120 million. It allows us to meet the pen-up demand that we have and a lot of our specialty businesses here in the US to grow in Europe. Market form writes a substantial amount of non-US med-mail and some other specialty coverages. They have an underwriting culture that fits, matches ours very well. And we are moving forward and trying to leverage off that platform to write businesses like equine mortality, ocean marine, D&O and quite a few businesses that we have expertise in here that our guys have really wanted to have a vehicle to expand. So we're excited about the ability to leverage market form into a more significant entity there. That would be our primary expansion outside the United States.

Amit Kumar
Fox-Pitt, Kelton

Very helpful. Thanks so much.

Operator

Your next question comes from the line of Marvin Weinstock of Maxim Group.

Marvin Weinstock
Maxim Group

Hi.

Carl H. Lindner, III

Hi, Marvin.

Marvin Weinstock
Maxim Group

Pertaining to the reorganization of the buying in of the notes. Assuming all the notes and the stock are tempted or redeemed. How will that affect our book value and... and the overall situation?

Keith Alan Jensen
Former Senior VP & CFO

If all the notes are redeemed, it would not affect our book value because we would use a draw down on our line of credit to pay the cash portion of the redemption. So that would be just exchanging debt for debt and then the issuance of the new shares would be equal to and over-setting the expense of an early redemption. So it has no effect on book value.

Marvin Weinstock
Maxim Group

Thank you.

Operator

And you have no further questions. I would now like to turn the call back over to management for closing remarks.

Keith Alan Jensen
Former Senior VP & CFO

Thank you very much and thank you for joining us today. We are pleased with this quarter and we look forward to reporting to you on the second quarter. Thank you and have a good day.

Operator
Thank you for your participation in today's conference. This concludes the presentation. And you may now disconnect.