

HANOVER INSURANCE GROUP, INC.

Form 10-Q

May 09, 2011

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2011

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from            to

Commission File Number 1-13754

**THE HANOVER INSURANCE GROUP, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**04-3263626**  
(I.R.S. Employer  
Identification No.)

**440 Lincoln Street, Worcester, Massachusetts 01653**  
(Address of principal executive offices) (Zip Code)

**(508) 855-1000**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the registrant's common stock was 45,439,472 as of May 2, 2011.

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	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
(In millions, except per share data)		
<b>REVENUES</b>		
Premiums	<b>\$ 761.7</b>	\$ 666.5
Net investment income	<b>60.4</b>	61.1
Net realized investment gains (losses):		
Net realized gains from sales and other	<b>4.7</b>	13.6
Net other than temporary impairment losses recognized in income	<b>(1.4)</b>	(2.7)
Total net realized investment gains	<b>3.3</b>	10.9
Fees and other income	<b>8.4</b>	8.1
Total revenues	<b>833.8</b>	746.6
<b>LOSSES AND EXPENSES</b>		
Losses and loss adjustment expenses	<b>511.0</b>	431.6
Policy acquisition expenses	<b>180.8</b>	154.4
Loss from retirement of debt	<b>2.5</b>	
Interest expense	<b>10.4</b>	9.3
Other operating expenses	<b>91.6</b>	92.0
Total losses and expenses	<b>796.3</b>	687.3
Income before federal income taxes	<b>37.5</b>	59.3
Federal income tax expense (benefit):		
Current	<b>4.1</b>	(28.3)
Deferred	<b>5.5</b>	45.4
Total federal income tax expense	<b>9.6</b>	17.1
Income from continuing operations	<b>27.9</b>	42.2
Gain (loss) from discontinued operations (net of income tax benefit (expense) of \$0.3 and \$(0.1))	<b>1.4</b>	(0.4)
Net income	<b>\$ 29.3</b>	\$ 41.8
<b>PER SHARE DATA</b>		
<b>Basic</b>		
Income from continuing operations	<b>\$ 0.62</b>	\$ 0.89
Gain (loss) from discontinued operations	<b>0.03</b>	(0.01)

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Net income per share	<b>\$ 0.65</b>	\$ 0.88
Weighted average shares outstanding	<b>45.3</b>	47.5
<b><u>Diluted</u></b>		
Income from continuing operations	<b>\$ 0.61</b>	\$ 0.88
Gain (loss) from discontinued operations	<b>0.03</b>	(0.01)
Net income per share	<b>\$ 0.64</b>	\$ 0.87
Weighted average shares outstanding	<b>46.0</b>	48.2

The accompanying notes are an integral part of these interim consolidated financial statements.

**Table of Contents****THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(In millions, except per share data)	March 31, 2011	December 31, 2010
<b>ASSETS</b>		
Investments:		
Fixed maturities, at fair value (amortized cost of \$4,632.1 and \$4,598.8)	<b>\$ 4,826.6</b>	\$ 4,797.9
Equity securities, at fair value (cost of \$132.9 and \$120.7)	<b>147.3</b>	128.6
Other investments	<b>40.7</b>	39.4
Total investments	<b>5,014.6</b>	4,965.9
Cash and cash equivalents	<b>218.8</b>	290.4
Accrued investment income	<b>53.3</b>	53.8
Premiums and accounts receivable, net	<b>752.5</b>	772.0
Reinsurance recoverable on paid and unpaid losses	<b>1,268.8</b>	1,254.2
Deferred policy acquisition costs	<b>339.9</b>	345.3
Deferred federal income taxes	<b>174.7</b>	177.4
Goodwill	<b>178.8</b>	179.2
Other assets	<b>383.2</b>	398.1
Assets of discontinued operations	<b>130.3</b>	133.6
Total assets	<b>\$ 8,514.9</b>	\$ 8,569.9
<b>LIABILITIES</b>		
Loss and loss adjustment expense reserves	<b>\$ 3,315.4</b>	\$ 3,277.7
Unearned premiums	<b>1,510.5</b>	1,520.3
Expenses and taxes payable	<b>479.6</b>	541.7
Reinsurance premiums payable	<b>30.3</b>	34.4
Debt	<b>561.0</b>	605.9
Liabilities of discontinued operations	<b>129.4</b>	129.4
Total liabilities	<b>6,026.2</b>	6,109.4
<b>Commitments and contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, \$0.01 par value, 20.0 million shares authorized, none issued		
Common stock, \$0.01 par value, 300.0 million shares authorized, 60.5 million shares issued	<b>0.6</b>	0.6
Additional paid-in capital	<b>1,780.0</b>	1,796.5
Accumulated other comprehensive income	<b>145.0</b>	136.7
Retained earnings	<b>1,267.4</b>	1,246.8
Treasury stock, at cost (15.3 and 15.6 million shares)	<b>(704.3)</b>	(720.1)
Total shareholders' equity	<b>2,488.7</b>	2,460.5
Total liabilities and shareholders' equity	<b>\$ 8,514.9</b>	\$ 8,569.9

The accompanying notes are an integral part of these interim consolidated financial statements.



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**THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**

(In millions)	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>PREFERRED STOCK</b>		
Balance at beginning and end of period	\$	\$
<b>COMMON STOCK</b>		
Balance at beginning and end of period	<b>0.6</b>	0.6
<b>ADDITIONAL PAID-IN CAPITAL</b>		
Balance at beginning of period	<b>1,796.5</b>	1,808.5
Employee and director stock-based awards and other	<b>(16.5)</b>	(9.4)
Balance at end of period	<b>1,780.0</b>	1,799.1
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<b>NET UNREALIZED APPRECIATION ON INVESTMENTS:</b>		
Balance at beginning of period	<b>218.3</b>	107.7
Net appreciation during the period:		
Net appreciation on available-for-sale securities	<b>3.5</b>	57.7
Benefit (provision) for deferred federal income taxes	<b>3.1</b>	(20.3)
	<b>6.6</b>	37.4
Balance at end of period	<b>224.9</b>	145.1
<b>DEFINED BENEFIT PENSION AND POSTRETIREMENT PLANS:</b>		
Balance at beginning of period	<b>(81.6)</b>	(78.9)
Amount recognized as net periodic benefit cost during the period	<b>2.6</b>	2.5
Provision for deferred federal income taxes	<b>(0.9)</b>	(0.9)
	<b>1.7</b>	1.6
Balance at end of period	<b>(79.9)</b>	(77.3)
Total accumulated other comprehensive income	<b>145.0</b>	67.8
<b>RETAINED EARNINGS</b>		
Balance at beginning of period	<b>1,246.8</b>	1,141.1
Net income	<b>29.3</b>	41.8
Dividends to shareholders	<b>(12.5)</b>	(12.3)
Treasury stock issued for less than cost	<b>(5.6)</b>	(3.0)
Recognition of share-based compensation	<b>9.4</b>	6.2
Balance at end of period	<b>1,267.4</b>	