

HANOVER INSURANCE GROUP, INC.

Form 10-Q

August 07, 2009

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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 June 30, 2009

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 50,860,359 as of August 1, 2009.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

THE HANOVER INSURANCE GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In millions)	(Unaudited) Quarter Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2009	2008	2009	2008
REVENUES				
Premiums	\$ 630.0	\$ 619.3	\$ 1,262.0	\$ 1,237.0
Net investment income	61.3	63.8	126.2	128.4
Net realized investment losses:				
Total other-than temporary impairment losses on securities	(18.1)	(8.3)	(34.6)	(13.6)
Portion of loss recognized in other comprehensive income	11.4		11.4	
Net other than temporary impairment losses on securities recognized in earnings	(6.7)	(8.3)	(23.2)	(13.6)
Realized gains from sales and other	3.1	0.7	13.5	5.7
Total net realized investment losses	(3.6)	(7.6)	(9.7)	(7.9)
Fees and other income	8.7	9.5	16.8	17.4
Total revenues	696.4	685.0	1,395.3	1,374.9
LOSSES AND EXPENSES				
Losses and loss adjustment expenses	393.8	385.4	822.1	765.5
Policy acquisition expenses	144.8	139.0	287.9	276.4
Gain on tender offer	(34.3)		(34.3)	
Other operating expenses	95.5	83.9	189.7	169.9
Total losses and expenses	599.8	608.3	1,265.4	1,211.8
Income before federal income taxes	96.6	76.7	129.9	163.1
Federal income tax expense:				
Current	12.4	19.4	25.0	41.7
Deferred	21.1	9.4	21.6	16.2
Total federal income tax expense	33.5	28.8	46.6	57.9
Income from continuing operations	63.1	47.9	83.3	105.2
Discontinued operations (See Notes 3 and 4):				
Gain (loss) from discontinued FAFLIC business (net of income tax (expense) benefit of \$(1.7) for the quarter ended June 30, 2008 and \$0.4 for the six months ended June 30, 2008), including loss on assets held-for-sale of \$66.1 in 2008	0.9	(67.7)	5.9	(71.2)
Gain (loss) from operations of discontinued accident and health business (net of income tax expense of \$0.1 for the quarter ended June 30, 2009)	0.2		(3.1)	
Income from operations of AMGRO (net of income tax benefit of \$1.3 for the quarter and six months ended June 30, 2008), including gain on disposal of \$11.1 in 2008		10.4		10.1

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Gain (loss) on disposal of variable life and annuity business (net of income tax benefit of \$0.5 for the quarter ended June 30, 2008 and \$0.4 for the six months ended June 30, 2008)	0.2	(0.8)	4.1	5.4
Other discontinued operations				(1.2)
Net income (loss)	\$ 64.4	\$ (10.2)	\$ 90.2	\$ 48.3

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THE HANOVER INSURANCE GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

	(Unaudited) Quarter Ended June 30, 2009		(Unaudited) Six Months Ended June 30, 2008	
PER SHARE DATA				
<u>Basic</u>				
Income from continuing operations	\$ 1.23	\$ 0.93	\$ 1.63	\$ 2.04
Discontinued operations:				
Gain (loss) from discontinued FAFLIC business (net of income tax (expense) benefit of \$(0.03) for the quarter ended June 30, 2008 and \$0.01 for the six months ended June 30, 2008), including loss on assets held-for-sale of \$1.27 in 2008	0.02	(1.31)	0.12	(1.38)
Gain (loss) from operations of discontinued accident and health business	0.01		(0.06)	
Income from operations of AMGRO (net of income tax benefit of \$0.03 for the quarter and six months ended June 30, 2008), including gain on disposal of \$0.21 in 2008		0.20		0.20
(Loss) gain on disposal of variable life insurance and annuity business (net of income tax benefit of \$0.01 for the quarter and six months ended June 30, 2008)		(0.02)	0.08	0.10
Other discontinued operations				(0.02)
Net income (loss) per share	\$ 1.26	\$ (0.20)	\$ 1.77	\$ 0.94
Weighted average shares outstanding	51.1	51.3	51.1	51.5
<u>Diluted</u>				
Income from continuing operations	\$ 1.23	\$ 0.92	\$ 1.62	\$ 2.02
Discontinued operations:				
Gain (loss) from discontinued FAFLIC business (net of income tax (expense) benefit of \$(0.03) for the quarter ended June 30, 2008 and \$0.01 for the six months ended June 30, 2008), including loss on assets held-for-sale of \$1.27 in 2008	0.02	(1.30)	0.11	(1.37)
Loss from operations of discontinued accident and health business			(0.06)	
Income from operations of AMGRO (net of income tax benefit of \$0.03 for the quarter and six months ended June 30, 2008), including gain on disposal of \$0.21 in 2008		0.20		0.20
(Loss) gain on disposal of variable life insurance and annuity business (net of income tax benefit of \$0.01 for the quarter and six months ended June 30, 2008)		(0.02)	0.08	0.10
Other discontinued operations				(0.02)
Net income (loss) per share	\$ 1.25	\$ (0.20)	\$ 1.75	\$ 0.93
Weighted average shares outstanding	51.4	51.8	51.4	52.0

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

Table of Contents**THE HANOVER INSURANCE GROUP, INC.****CONSOLIDATED BALANCE SHEETS**

(In millions, except per share data)	(Unaudited) June 30, 2009	December 31, 2008
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost of \$4,463.7 and \$4,382.0)	\$ 4,403.6	\$ 4,140.9
Equity securities, at fair value (cost of \$94.6 and \$97.6)	92.1	76.2
Mortgage loans	26.2	31.1
Other long-term investments	16.9	18.4
Total investments	4,538.8	4,266.6
Cash and cash equivalents	281.0	397.7
Accrued investment income	50.9	52.3
Premiums, accounts and notes receivable, net	605.7	578.5
Reinsurance receivable on paid and unpaid losses, benefits and unearned premiums	1,126.6	1,129.6
Deferred policy acquisition costs	272.3	264.8
Deferred federal income taxes	247.7	285.6
Goodwill	170.0	169.9
Other assets	323.4	315.7
Assets of discontinued operations	131.3	1,769.5
Total assets	\$ 7,747.7	\$ 9,230.2
LIABILITIES		
Policy liabilities and accruals:		
Losses and loss adjustment expenses	\$ 3,127.7	\$ 3,201.3
Unearned premiums	1,267.1	1,246.3
Contractholder deposit funds and other policy liabilities	1.6	1.8
Total policy liabilities and accruals	4,396.4	4,449.4