

HANOVER INSURANCE GROUP, INC.

Form 10-Q

May 08, 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 March 31, 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 51,130,527 as of May 1, 2009.

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS****THE HANOVER INSURANCE GROUP, INC.****CONSOLIDATED STATEMENTS OF INCOME**

(In millions, except per share data)	(Unaudited)	
	Three Months Ended March 31,	
	2009	2008
REVENUES		
Premiums	\$ 632.0	\$ 617.7
Net investment income	64.9	64.6
Net realized investment losses	(6.1)	(0.3)
Fees and other income	8.1	13.3
Total revenues	698.9	695.3
LOSSES AND EXPENSES		
Losses and loss adjustment expenses	428.3	380.1
Policy acquisition expenses	143.1	137.4
Other operating expenses	94.2	91.7
Total losses and expenses	665.6	609.2
Income before federal income taxes	33.3	86.1
Federal income tax expense:		
Current	12.6	12.9
Deferred	0.5	16.2
Total federal income tax expense	13.1	29.1
Income from continuing operations	20.2	57.0
Discontinued operations (See Note 3):		
Gain (loss) from discontinued FAFLIC business (net of income tax benefit of \$2.1 in 2008)	5.0	(3.5)
Loss from operations of discontinued accident and health business (net of income tax benefit of \$0.1 in 2009)	(3.3)	
Gain on disposal of variable life and annuity business (net of income tax expense of \$0.1 in 2008)	3.9	6.2
Other discontinued operations		(1.2)
Net income	\$ 25.8	\$ 58.5
PER SHARE DATA		
Basic		
Income from continuing operations	\$ 0.40	\$ 1.10
Discontinued operations:		
Gain (loss) from discontinued FAFLIC business (net of income tax benefit of \$0.04 in 2008)	0.10	(0.07)
Loss from operations of discontinued accident and health business	(0.07)	
Gain on disposal of variable life and annuity business	0.08	0.12
Other discontinued operations		(0.02)

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Net income per share	\$ 0.51	\$ 1.13
Weighted average shares outstanding	51.1	51.7
<u>Diluted</u>		
Income from continuing operations	\$ 0.39	\$ 1.09
Discontinued operations:		
Gain (loss) from discontinued FAFLIC business (net of income tax benefit of \$0.04 in 2008)	0.10	(0.07)
Loss from operations of discontinued accident and health business	(0.06)	
Gain on disposal of variable life and annuity business	0.07	0.12
Other discontinued operations		(0.02)
Net income per share	\$ 0.50	\$ 1.12
Weighted average shares outstanding	51.4	52.3

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) March 31, 2009	December 31, 2008
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost of \$4,517.1 and \$4,382.0)	\$ 4,317.8	\$ 4,140.9
Equity securities, at fair value (cost of \$97.6 and \$97.6)	77.2	76.2
Mortgage loans	30.7	31.1
Other long-term investments	18.1	18.4
Total investments	4,443.8	4,266.6
Cash and cash equivalents	345.8	397.7
Accrued investment income	53.8	52.3
Premiums, accounts and notes receivable, net	584.9	578.5
Reinsurance receivable on paid and unpaid losses and unearned premiums	1,114.8	1,129.6
Deferred policy acquisition costs	264.2	264.8
Deferred federal income taxes	269.3	285.6
Goodwill	169.6	169.9
Other assets	320.6	315.7
Assets of discontinued operations	131.3	1,769.5
Total assets	\$ 7,698.1	\$ 9,230.2
LIABILITIES		
Policy liabilities and accruals:		
Losses and loss adjustment expenses	\$ 3,156.5	\$ 3,201.3
Unearned premiums	1,237.5	1,246.3
Other policy liabilities	1.8	1.8
Total policy liabilities and accruals	4,395.8	4,449.4
Expenses and taxes payable	614.9	622.3
Reinsurance premiums payable	54.2	61.3
Long-term debt	530.5	531.4
Liabilities of discontinued operations	135.1	1,678.6
Total liabilities	5,730.5	7,343.0
Commitments and contingencies (Note 11)		
SHAREHOLDERS EQUITY		
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	0.6	0.6
Additional paid-in capital	1,802.8	1,803.8
Accumulated other comprehensive loss	(333.1)	(384.8)
Retained earnings	976.3	949.8
Treasury stock at cost (9.6 million shares)	(479.0)	(482.2)

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Total shareholders' equity	1,967.6	1,887.2
Total liabilities and shareholders' equity	\$ 7,698.1	\$ 9,230.2

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

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THE HANOVER INSURANCE GROUP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(In millions)	(Unaudited)	
	Three Months Ended March 31,	
	2009	2008
PREFERRED STOCK		
Balance at beginning and end of period	\$	\$
COMMON STOCK		
Balance at beginning and end of period	0.6	0.6
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of period	1,803.8	1,822.6
Tax (provision) benefit from stock options	(0.1)	0.2
Employee and director stock-based awards	(0.9)	(24.4)
Balance at end of period	1,802.8	1,798.4
ACCUMULATED OTHER COMPREHENSIVE LOSS		
NET UNREALIZED (DEPRECIATION) APPRECIATION ON INVESTMENTS AND DERIVATIVE INSTRUMENTS:		
Balance at beginning of period	(276.1)	5.5
Net appreciation (depreciation) during the period:		
Net appreciation (depreciation) on available-for-sale securities and derivative instruments	48.6	(3.6)
Benefit for deferred federal income taxes	0.2	1.2
	48.8	(2.4)
Balance at end of period	(227.3)	3.1
DEFINED BENEFIT PENSION AND POSTRETIREMENT PLANS:		
Balance at beginning of period	(108.7)	(25.9)
Amounts arising in the period	(0.6)	(0.1)
Amortization during the period:		
Amount recognized as net periodic benefit cost	5.0	(1.2)
(Provision) benefit for deferred federal income taxes	(1.5)	0.4
	2.9	(0.9)
Balance at end of period	(105.8)	(26.8)
Total accumulated other comprehensive loss	(333.1)	(23.7)
RETAINED EARNINGS		
Balance at beginning of period	949.8	946.9
Net income	25.8	58.5
Treasury stock issued for less than cost	(1.4)	(5.6)
Recognition of share-based compensation	2.1	12.8

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Balance at end of period	976.3	1,012.6
TREASURY STOCK		
Balance at beginning of period	(482.2)	(450.7)
Shares purchased at cost		(32.9)
Net shares reissued at cost under employee stock-based compensation plans	3.2	16.4