

HANOVER INSURANCE GROUP, INC.

Form 10-Q

November 07, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 September 30, 2008

or

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 **04-3263626**
(State or other jurisdiction of incorporation or organization) (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)

(Former name, former address and former fiscal year, if changed since last report)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 51,082,287 shares of common stock outstanding, as of November 1, 2008.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

THE HANOVER INSURANCE GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)	(Unaudited) Quarter Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2008	2007	2008	2007
REVENUES				
Premiums	\$ 621.1	\$ 595.2	\$ 1,858.1	\$ 1,770.3
Net investment income	65.5	62.8	193.9	183.7
Net realized investment losses	(52.8)	(0.8)	(60.7)	(0.3)
Fees and other income	8.3	14.6	25.7	41.7
Total revenues	642.1	671.8	2,017.0	1,995.4
BENEFITS, LOSSES AND EXPENSES				
Policy benefits, claims, losses and loss adjustment expenses	474.2	373.8	1,239.7	1,091.3
Policy acquisition expenses	139.7	132.5	416.1	389.5
Other operating expenses	77.2	88.0	247.1	260.5
Total benefits, losses and expenses	691.1	594.3	1,902.9	1,741.3
(Loss) income from continuing operations before federal income taxes	(49.0)	77.5	114.1	254.1
Federal income tax (benefit) expense:				
Current	(1.1)	25.3	40.6	81.5
Deferred	(4.4)	0.7	11.8	4.6
Total federal income tax (benefit) expense	(5.5)	26.0	52.4	86.1
(Loss) income from continuing operations	(43.5)	51.5	61.7	168.0
Discontinued operations (See Notes 3,4 and 13):				
(Loss) income from operations of discontinued FAFLIC business (net of income tax (expense) benefit of \$(1.7) and \$1.3 for the quarters ended September 30, 2008 and 2007 and \$(1.3) and \$3.3 for the nine months ended September 30, 2008 and 2007, including loss on assets held-for-sale of \$6.1 and \$72.2 for the quarter and nine months ended September 30, 2008)	(21.7)	1.5	(92.9)	8.3
Income from operations of AMGRO (net of income tax benefit of \$1.3 for the nine months ended September 30, 2008, including gain on disposal of \$11.1 in 2008)			10.1	
Gain on disposal of variable life insurance and annuity business (net of income tax benefit of \$2.6 for the quarter ended September 30, 2008 and \$3.0 and \$0.2 for the nine months ended September 30, 2008 and 2007)	2.7	0.1	8.1	0.2
Other	0.7	0.8	(0.5)	0.8
Net (loss) income	\$ (61.8)	\$ 53.9	\$ (13.5)	\$ 177.3
PER SHARE DATA				
<u>Basic</u>				
(Loss) income from continuing operations	\$ (0.85)	\$ 0.99	\$ 1.20	\$ 3.26

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Discontinued operations:

(Loss) income from operations of discontinued FAFLIC business (net of income tax (expense) benefit of \$(0.03) and \$0.02 for the quarters ended September 30, 2008 and 2007 and \$(0.03) and \$0.06 for the nine months ended September 30, 2008 and 2007, including loss on assets held-for-sale of \$0.12 and \$1.39 for the quarter and nine months ended September 30, 2008)	(0.42)	0.03	(1.81)	0.16
Income from operations of AMGRO (net of income tax benefit of \$0.03 for the quarter and nine months ended September 30, 2008, including gain on disposal of \$0.21 in 2008)			0.20	
Gain on disposal of variable life insurance and annuity business (net of income tax benefit of \$0.05 and \$0.06 for the quarter and nine months ended September 30, 2008)	0.05		0.16	
Other	0.01	0.02	(0.01)	0.02

Net (loss) income per share	\$ (1.21)	\$ 1.04	\$ (0.26)	\$ 3.44
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Weighted average shares outstanding	51.0	51.8	51.3	51.6
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Diluted

(Loss) income from continuing operations	\$ (0.85)	\$ 0.98	\$ 1.19	\$ 3.21
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Discontinued operations:

(Loss) income from operations of discontinued FAFLIC business (net of income tax (expense) benefit of \$(0.03) and \$0.02 for the quarters ended September 30, 2008 and 2007 and \$(0.03) and \$0.06 for the nine months ended September 30, 2008 and 2007, including loss on assets held-for-sale of \$0.12 and \$1.39 for the quarter and nine months ended September 30, 2008)	(0.42)	0.03	(1.80)	0.16
Income from operations of AMGRO (net of income tax benefit of \$0.03 for the nine months ended September 30, 2008, including gain on disposal of \$0.21 in 2008)			0.20	
Gain on disposal of variable life insurance and annuity business (net of income tax benefit of \$0.05 and \$0.06 for the quarter and nine months ended September 30, 2008)	0.05		0.16	
Other	0.01	0.02	(0.01)	0.02

Net (loss) income per share	\$ (1.21)	\$ 1.03	\$ (0.26)	\$ 3.39
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Weighted average shares outstanding	51.0	52.5	51.8	52.3
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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) September 30, 2008	December 31, 2007
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost of \$4,529.3 and \$4,585.7)	\$ 4,353.5	\$ 4,584.8
Equity securities, at fair value (cost of \$60.3 and \$37.6)	54.0	44.6
Mortgage loans	31.5	41.2
Other long-term investments	14.2	30.7
Total investments	4,453.2	4,701.3
Cash and cash equivalents	314.3	210.6
Accrued investment income	55.7	53.3
Premiums, accounts and notes receivable, net	571.1	626.7
Reinsurance receivable on paid and unpaid losses, benefits and unearned premiums	1,030.4	1,067.3
Deferred policy acquisition costs	264.4	246.8
Deferred federal income taxes	258.6	300.8
Goodwill	131.9	126.0
Other assets	302.8	309.6
Assets held-for-sale	1,872.4	2,173.2
Total assets	\$ 9,254.8	\$ 9,815.6
LIABILITIES		
Policy liabilities and accruals:		
Outstanding claims, losses and loss adjustment expenses	3,118.0	3,165.9
Unearned premiums	1,208.6	1,155.9
Contractholder deposit funds and other policy liabilities	1.8	1.9
Total policy liabilities and accruals	4,328.4	4,323.7
Expenses and taxes payable	553.4	633.6
Reinsurance premiums payable	48.3	44.9
Long-term debt	511.9	511.9
Liabilities held-for-sale	1,772.7	2,002.5
Total liabilities	7,214.7	7,516.6
Commitments and contingencies (Note 14)		
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	1,801.5	1,822.6
Accumulated other comprehensive loss	(217.9)	(20.4)
Retained earnings	938.7	946.9
Treasury stock at cost (9.6 million and 8.7 million shares)	(482.8)	(450.7)
Total shareholders equity	2,040.1	2,299.0

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Total liabilities and shareholders' equity	\$ 9,254.8	\$ 9,815.6
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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)	
	Nine Months Ended September 30, 2008	2007
PREFERRED STOCK		
Balance at beginning and end of period	\$	\$
COMMON STOCK		