

HANOVER INSURANCE GROUP, INC.

Form 10-Q

November 09, 2006

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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, 2006

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)

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)

(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 ☐

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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 ☒ x

Accelerated filer ☐ "

Non-accelerated filer ☐ "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ " No ☒ x

### 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: 51,005,156 shares of common stock outstanding, as of November 1, 2006.

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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)		(Unaudited)	
	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
<b>REVENUES</b>				
Premiums	\$ 568.2	\$ 525.7	\$ 1,682.4	\$ 1,650.3
Fees and other income	22.6	22.2	58.8	60.8
Net investment income	78.3	79.4	237.8	238.0
Net realized investment gains	2.1	1.9	10.6	18.1
Total revenues	671.2	629.2	1,989.6	1,967.2
<b>BENEFITS, LOSSES AND EXPENSES</b>				
Policy benefits, claims, losses and loss adjustment expenses	399.5	566.9	1,114.8	1,340.9
Policy acquisition expenses	121.7	116.5	352.8	347.9
Other operating expenses	106.7	86.6	315.0	290.5
Total benefits, losses and expenses	627.9	770.0	1,782.6	1,979.3
Income (loss) from continuing operations before federal income taxes	43.3	(140.8)	207.0	(12.1)
Federal income tax expense (benefit):				
Current	(4.5)	(0.8)	18.3	5.2
Deferred	19.3	(34.6)	46.5	(9.4)
Total federal income tax expense (benefit)	14.8	(35.4)	64.8	(4.2)
Income (loss) from continuing operations	28.5	(105.4)	142.2	(7.9)
Discontinued operations (See Note 3):				
Income from operations of discontinued variable life insurance and annuity business (net of income tax benefit of \$3.5 and \$14.1 for the quarter and nine months ended September 30, 2005)	-	17.6	-	38.6
Loss on disposal of variable life insurance and annuity business (net of income tax (expense) benefit of \$(2.5) and \$7.0 for the quarters ended September 30, 2006 and 2005, respectively, and \$5.3 and \$7.0 for the nine months ended September 30, 2006 and 2005, respectively)	(2.9)	(474.6)	(25.8)	(474.6)
Gain on sale of Financial Profiles, Inc. (net of income tax expense of \$1.2 for the quarter and nine months ended September 30, 2006)	7.8	-	7.8	-
Income before cumulative effect of change in accounting principle	33.4	(562.4)	124.2	(443.9)
Cumulative effect of change in accounting principle (net of income tax expense of \$0.3)	-	-	0.6	-
Net income (loss)	\$ 33.4	\$ (562.4)	\$ 124.8	\$ (443.9)
<b>PER SHARE DATA</b>				
Basic				
Income (loss) from continuing operations	\$ 0.56	\$ (1.97)	\$ 2.75	\$ (0.15)
Discontinued operations:				

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Income from operations of discontinued variable life insurance and annuity business (net of income tax benefit of \$0.07 and \$0.26 for the quarter and nine months ended September 30, 2005)	-	0.33	-	0.72
Loss on disposal of variable life insurance and annuity business (net of income tax (expense) benefit of \$(0.05) and \$0.13 for the quarters ended September 30, 2006 and 2005, respectively, and \$0.10 and \$0.13 for the nine months ended September 30, 2006 and 2005, respectively)	(0.05)	(8.87)	(0.49)	(8.88)
Gain on sale of Financial Profiles, Inc. (net of income tax expense of \$0.02 for the quarter and nine months ended September 30, 2006)	0.15	-	0.15	-
Income (loss) before cumulative effect of change in accounting principle	0.66	(10.51)	2.41	(8.31)
Cumulative effect of change in accounting principle	-	-	0.01	-
Net income (loss) per share	\$ 0.66	\$ (10.51)	\$ 2.42	\$ (8.31)
Weighted average shares outstanding	50.9	53.5	51.7	53.4

## Diluted

Income (loss) from continuing operations	\$ 0.56	\$ (1.97)	\$ 2.73	\$ (0.15)
Discontinued operations:				
Income from operations of discontinued variable life insurance and annuity business (net of income tax benefit of \$0.07 and \$0.26 for the quarter and nine months ended September 30, 2005)	-	0.33	-	0.72
Loss on disposal of variable life insurance and annuity business (net of income tax (expense) benefit of \$(0.05) and \$0.13 for the quarters ended September 30, 2006 and 2005, respectively, and \$0.10 and \$0.13 for the nine months ended September 30, 2006 and 2005, respectively)	(0.06)	(8.87)	(0.49)	(8.88)
Gain on sale of Financial Profiles, Inc. (net of income tax expense of \$0.02 for the quarter and nine months ended September 30, 2006)	0.15	-	0.14	-
Income (loss) before cumulative effect of change in accounting principle	0.65	(10.51)	2.38	(8.31)
Cumulative effect of change in accounting principle	-	-	0.01	-
Net income (loss) per share	\$ 0.65	\$ (10.51)	\$ 2.39	\$ (8.31)
Weighted average shares outstanding	51.3	53.5	52.2	53.4

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, 2006	December 31, 2005
<b>ASSETS</b>		
Investments:		
Fixed maturities at fair value (amortized cost of \$5,498.4 and \$5,685.9)	\$ 5,474.9	\$ 5,708.2
Equity securities at fair value (cost of \$12.1 and \$13.0)	17.3	18.0
Mortgage loans	59.4	99.6
Policy loans	127.2	139.9
Other long-term investments	40.5	42.6
Total investments	5,719.3	6,008.3
Cash and cash equivalents	391.9	701.5
Accrued investment income	72.6	76.5
Premiums, accounts and notes receivable, net	606.9	493.2
Reinsurance receivable on paid and unpaid losses, benefits and unearned premiums	1,391.7	1,617.3
Deferred policy acquisition costs	237.9	209.0
Deferred federal income taxes	432.5	465.3
Goodwill		