

SELECTIVE INSURANCE GROUP INC

Form 10-Q

August 01, 2008

Table of Contents

**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, 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: 001-33067

SELECTIVE INSURANCE GROUP, INC.

(Exact name of registrant as specified in its charter)

New Jersey

22-2168890

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

40 Wantage Avenue
Branchville, New Jersey

07890

(Address of Principal Executive Offices)

(Zip Code)

(973) 948-3000

(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 report), 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, 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a 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

As of June 30, 2008, there were 52,679,813 shares of common stock, par value \$2.00 per share, outstanding.

SELECTIVE INSURANCE GROUP, INC.
Table of Contents

	Page No
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets as of June 30, 2008 (Unaudited) and December 31, 2007</u>	1
<u>Unaudited Consolidated Statements of Income for the Quarter and Six Months Ended June 30, 2008 and 2007</u>	2
<u>Unaudited Consolidated Statements of Stockholders' Equity for the Six Months Ended June 30, 2008 and 2007</u>	3
<u>Unaudited Consolidated Statements of Cash Flow for the Six Months Ended June 30, 2008 and 2007</u>	4
<u>Notes to Unaudited Interim Consolidated Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Forward-Looking Statements</u>	13
<u>Introduction</u>	13
<u>Critical Accounting Policies and Estimates</u>	13
<u>Financial Highlights of Results for Second Quarter 2008 and Six Months 2008</u>	14
<u>Results of Operations and Related Information by Segment</u>	15
<u>Financial Condition, Liquidity, and Capital Resources</u>	29
<u>Off-Balance Sheet Arrangements</u>	31
<u>Contractual Obligations and Contingent Liabilities and Commitments</u>	31
<u>Federal Income Taxes</u>	31
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 4. Controls and Procedures</u>	32
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	32

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 33

Item 4. Submission of Matters to a Vote of Security Holders 33

Item 6. Exhibits 33

Exhibit 11

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
SELECTIVE INSURANCE GROUP, INC.
CONSOLIDATED BALANCE SHEETS

(\$ in thousands, except share amounts)	Unaudited June 30, 2008	December 31, 2007
ASSETS		
Investments:		
Fixed maturity securities, held-to-maturity at amortized cost (fair value of: \$4,071 2008; \$5,927 2007)	\$ 3,979	5,783
Fixed maturity securities, available-for-sale at fair value (amortized cost of: \$3,081,830 2008; \$3,049,913 2007)	3,044,378	3,073,547
Equity securities, available-for-sale at fair value (cost of: \$143,084 2008; \$160,390 2007)	212,838	274,705
Short-term investments at cost which approximates fair value	218,074	190,167
Equity securities, trading at fair value (cost of: \$17,982 2008)	23,196	
Other investments	206,410	188,827
Total investments	3,708,875	3,733,029
Cash and cash equivalents	16,402	8,383
Interest and dividends due or accrued	34,992	36,141
Premiums receivable, net of allowance for uncollectible accounts of: \$4,157 2008; \$3,905 2007	524,680	496,363
Other trade receivables, net of allowance for uncollectible accounts of: \$226 2008; \$244 2007	23,602	21,875
Reinsurance recoverable on paid losses and loss expenses	5,729	7,429
Reinsurance recoverable on unpaid losses and loss expenses	248,011	227,801
Prepaid reinsurance premiums	88,978	82,182
Current federal income tax	1,140	4,235
Deferred federal income tax	68,193	22,375
Property and equipment at cost, net of accumulated depreciation and amortization of: \$125,465 2008; \$117,832 2007	54,668	58,561
Deferred policy acquisition costs	225,645	226,434
Goodwill	33,637	33,637
Other assets	44,623	43,547
Total assets	\$ 5,079,175	5,001,992
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Reserve for losses	\$ 2,262,310	2,182,572
Reserve for loss expenses	375,451	359,975
Unearned premiums	868,851	841,348
Senior convertible notes		8,740
Notes payable	273,865	286,151
Commissions payable	44,987	60,178

Accrued salaries and benefits	84,166	88,079
Other liabilities	151,833	98,906
Total liabilities	4,061,463	3,925,949
Stockholders Equity:		
Preferred stock of \$0 par value per share:		
Authorized shares: 5,000,000; no shares issued or outstanding		
Common stock of \$2 par value per share:		
Authorized shares: 360,000,000		
Issued: 94,986,691 2008; 94,652,930 2007	189,973	189,306
Additional paid-in capital	208,067	192,627
Retained earnings	1,147,287	1,105,946
Accumulated other comprehensive income	15,270	86,043
Treasury stock at cost (shares: 42,306,878 2008; 40,347,894 2007)	(542,885)	(497,879)
Total stockholders equity	1,017,712	1,076,043
Commitments and contingencies		
Total liabilities and stockholders equity	\$ 5,079,175	5,001,992

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

Table of Contents**SELECTIVE INSURANCE GROUP, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share amounts)	Quarter ended June 30,		Six Months ended June 30,	
	2008	2007	2008	2007
Revenues:				
Net premiums written	\$ 387,229	404,923	\$ 777,069	822,108
Net increase in unearned premiums and prepaid reinsurance premiums	(12,140)	(28,572)	(20,707)	(65,744)
Net premiums earned	375,089	376,351	756,362	756,364
Net investment income earned	38,515	40,642	76,381	80,505
Net realized gains	1,923	13,148	3,438	24,391
Diversified Insurance Services revenue	30,064	30,677	59,863	59,855
Other income	1,761	1,220	2,421	3,032
Total revenues	447,352	462,038	898,465	924,147
Expenses:				
Losses incurred	209,915	208,621	420,045	411,931
Loss expenses incurred	43,736	42,615	86,785	85,598
Policy acquisition costs	124,124	124,701	252,804	247,619
Dividends to policyholders	1,579	1,022	2,114	2,509
Interest expense	5,127	5,992	10,436	12,323
Diversified Insurance Services expenses	25,125	24,608	50,639	49,419
Other expenses	1,661	6,693	12,955	17,763
Total expenses	411,267	414,252	835,778	827,162
Income before federal income tax	36,085	47,786	62,687	96,985
Federal income tax expense (benefit):				
Current	12,883	14,726	24,018	30,337
Deferred	(5,449)	(2,826)	(10,485)	(6,490)
Total federal income tax expense	7,434	11,900	13,533	23,847
Net income	\$ 28,651	35,886	49,154	73,138
Earnings per share:				
Basic net income	\$ 0.55	0.69	0.94	1.38

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Diluted net income	\$	0.54	0.64	0.92	1.26
Dividends to stockholders	\$	0.13	0.12	0.26	0.24

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

Table of Contents**SELECTIVE INSURANCE GROUP, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(\$ in thousands, except per share amounts)	Six Months Ended June 30,			
	2008		2007	
Common stock:				
Beginning of year	\$	189,306		183,124
Dividend reinvestment plan (shares: 40,645 2008; 36,097 2007)		81		72
Convertible debentures (shares: 45,759 2008; 848,604 2007)		92		1,697
Stock purchase and compensation plans (shares: 247,357 2008; 702,919 2007)		494		1,407
End of period		189,973		186,300
Additional paid-in capital:				
Beginning of year		192,627		153,246
Dividend reinvestment plan		847		859
Convertible debentures		645		9,831
Stock purchase and compensation plans		13,948		16,857
End of period		208,067		180,793
Retained earnings:				
Beginning of year		1,105,946		986,017
Cumulative-effect adjustment due to adoption of FAS 159 net of deferred income tax effect of \$3,344		6,210		
Net income		49,154	49,154	73,138
Cash dividends to stockholders (\$0.26 share 2008; \$0.24 per share 2007)		(14,023)		(13,216)
End of period		1,147,287		1,045,939
Accumulated other comprehensive income:				
Beginning of year		86,043		100,601
Cumulative-effect adjustment due to adoption of FAS 159, net of deferred income tax effect of \$(3,344)		(6,210)		
Other comprehensive (loss) income, (decrease) increase in:				
Net unrealized gains on investment securities, net of deferred income tax effect of: \$(34,803) 2008; \$(14,592) 2007		(64,633)	(64,633)	(27,099)
Defined benefit pension plans, net of deferred income tax effect of: \$38 2008; \$101 2007		70	70	186

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End of period	15,270	73,688	
Comprehensive (loss) income		(15,409)	46,225
Treasury stock:			
Beginning of year	(497,879)	(345,761)	
Acquisition of treasury stock (shares: 1,958,984 2008; 5,386,005 2007)	(45,006)	(137,592)	
End of period	(542,885)	(483,353)	
Total stockholders' equity	\$ 1,017,712	1,003,367	

Selective Insurance Group, Inc. also has authorized, but not issued, 5,000,000 shares of preferred stock, without par value, of which 300,000 shares have been designated Series A junior preferred stock, without par value. The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Table of Contents**SELECTIVE INSURANCE GROUP, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOW**

<i>(in thousands)</i>	Six Months ended	
	June 30,	
	2008	2007
Operating Activities		
Net income	\$ 49,154	73,138
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation and amortization	14,197	14,302
Share-based compensation expense	9,137	13,703
Net realized gains	(3,438)	(24,391)
Deferred tax	(10,485)	(6,490)
Unrealized loss on trading securities	1,631	
<i>Changes in assets and liabilities:</i>		
Increase in reserves for losses and loss expenses, net of reinsurance recoverable on unpaid losses and loss expenses	75,033	109,858
Increase in unearned premiums, net of prepaid reinsurance and advance premiums	20,350	66,234
Decrease (increase) in net federal income tax recoverable	3,095	(3,840)
Increase in premiums receivable	(28,317)	(89,014)
(Increase) decrease in other trade receivables	(1,727)	608
Decrease (increase) in deferred policy acquisition costs	789	(12,229)
Decrease in interest and dividends due or accrued	1,212	696
Decrease in reinsurance recoverable on paid losses and loss expenses	1,700	59
Decrease in accrued salaries and benefits	(4,301)	(14,967)
Decrease in accrued insurance expenses	(20,756)	(8,588)
Purchase of trading securities	(5,813)	
Sale of trading securities	6,100	
Other-net	8,526	5,063
Net adjustments	66,933	51,004
Net cash provided by operating activities	116,087	124,142
Investing Activities		
Purchase of fixed maturity securities, available-for-sale	(239,887)	(231,392)
Purchase of equity securities, available-for-sale	(16,095)	(54,214)
Purchase of other investments	(25,976)	(33,580)
Purchase of short-term investments	(1,061,242)	(861,197)
Sale of fixed maturity securities, available-for-sale	80,056	51,717
Sale of short-term investments	1,033,334	922,902
Redemption and maturities of fixed maturity securities, held-to-maturity	1,818	628
Redemption and maturities of fixed maturity securities, available-for-sale	158,685	176,295

Sale of equity securities, available-for-sale	34,585	60,321
Proceeds from other investments	3,798	8,558
Purchase of property and equipment	(3,851)	(6,365)
Net cash (used in) provided by investing activities	(34,775)	33,673
Financing Activities		
Dividends to stockholders	(13,009)	(12,023)
Acquisition of treasury stock	(45,006)	(137,592)
Principal payment of notes payable	(12,300)	(18,300)
Net proceeds from stock purchase and compensation plans	4,457	4,560
Excess tax benefits from share-based payment arrangements	1,319	2,656
Principal payments of convertible bonds	(8,754)	
Net cash used in financing activities	(73,293)	(160,699)
Net increase (decrease) in cash and cash equivalents	8,019	(2,884)
Cash and cash equivalents, beginning of year	8,383	6,443
Cash and cash equivalents, end of period	\$ 16,402	3,559

Supplemental Disclosures of Cash Flows Information

Cash paid during the period for:

Interest	\$ 10,643	12,573
Federal income tax	19,600	32,000
Supplemental schedule of non-cash financing activity:		
Conversion of convertible debentures	169	11,055

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

Table of Contents

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Organization

Selective Insurance Group, Inc., through its subsidiaries, (collectively referred to as we or our) offers property and casualty insurance products and diversified insurance services and products. Selective Insurance Group, Inc. was incorporated in New Jersey in 1977 and its main offices are located in Branchville, New Jersey.