

SELECTIVE INSURANCE GROUP INC  
Form 10-Q  
April 26, 2012

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: March 31, 2012

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)

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(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

40 Wantage Avenue

Branchville, New Jersey

(Address of Principal Executive Offices)

07890

(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 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 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  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 March 31, 2012, there were 54,805,134 shares of common stock, par value \$2.00 per share, outstanding.



**SELECTIVE INSURANCE GROUP, INC.**

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**PART I. FINANCIAL INFORMATION**

## ITEM 1. FINANCIAL STATEMENTS

## SELECTIVE INSURANCE GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

(\$ in thousands, except share amounts)

## ASSETS

## Investments:

Fixed maturity securities, held-to-maturity – at carrying value  
(fair value: \$711,731 – 2012; \$758,043 – 2011)

Unaudited	March 31,	December 31,
	2012	2011

	\$667,192	712,348
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Fixed maturity securities, available-for-sale – at fair value  
(amortized cost: \$2,897,522 – 2012; \$2,766,856 – 2011)

	3,034,511	2,897,373
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Equity securities, available-for-sale – at fair value  
(cost of: \$130,213 – 2012; \$143,826 – 2011)

	152,986	157,355
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Short-term investments (at cost which approximates fair value)

	174,472	217,044
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Other investments

	125,140	128,301
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Total investments

	4,154,301	4,112,421
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Cash

	261	762
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Interest and dividends due or accrued

	35,369	35,842
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Premiums receivable, net of allowance for uncollectible accounts of: \$3,730 – 2012;  
\$3,768 – 2011

	491,401	466,294
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Reinsurance recoverables, net

	446,393	561,855
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Prepaid reinsurance premiums

	137,262	147,686
--	---------	---------

Current federal income tax

	-	731
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Deferred federal income tax

	116,417	120,094
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Property and equipment – at cost, net of accumulated depreciation and amortization of:  
\$162,559 – 2012; \$160,294 – 2011

	43,918	43,947
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Deferred policy acquisition costs

	144,331	135,761
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Goodwill

	7,849	7,849
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Other assets

	52,095	52,227
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Total assets

	\$5,629,597	5,685,469
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## LIABILITIES AND STOCKHOLDERS' EQUITY

## Liabilities:

Reserve for losses and loss expenses

	<b>\$3,035,773</b>	3,144,924
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Unearned premiums

	937,909	906,991
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Notes payable

	307,366	307,360
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Current federal income tax

	5,576	-
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Accrued salaries and benefits

	113,941	119,297
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Other liabilities

	146,114	148,569
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Total liabilities

	\$4,546,679	4,627,141
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## Stockholders' Equity:

Preferred stock of \$0 par value per share:

Authorized shares 5,000,000; no shares issued or outstanding

	\$-	-
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Common stock of \$2 par value per share

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Authorized shares 360,000,000		
Issued: 97,809,949 – 2012; 97,246,711 – 2011	195,620	194,494
Additional paid-in capital	262,336	257,370
Retained earnings	1,127,142	1,116,319
Accumulated other comprehensive income	52,984	42,294
Treasury stock – at cost (shares: 43,004,815 – 2012; 42,836,201 – 2011)	(555,164 )	(552,149 )
Total stockholders' equity	1,082,918	1,058,328
Commitments and contingencies		
Total liabilities and stockholders' equity	\$5,629,597	5,685,469

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

## SELECTIVE INSURANCE GROUP, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Quarter ended	
	March 31,	
(\$ in thousands, except per share amounts)	2012	2011
Revenues:		
Net premiums earned	\$378,829	351,343
Net investment income earned	32,628	43,473
Net realized gains (losses):		
Net realized investment gains	4,779	6,390
Other-than-temporary impairments	(257 )	(532 )
Other-than-temporary impairments on fixed maturity securities recognized in other comprehensive income	(164 )	(98 )
Total net realized gains	4,358	5,760
Other income	3,533	2,880
Total revenues	419,348	403,456
Expenses:		
Losses and loss expenses incurred	252,906	249,206
Policy acquisition costs	127,958	115,044
Interest expense	4,700	4,557
Other expenses	10,593	8,491
Total expenses	396,157	377,298
Income before federal income tax	23,191	26,158
Federal income tax expense (benefit):		
Current	7,178	4,276
Deferred	(2,080 )	1,382
Total federal income tax expense	5,098	5,658
Net income	\$18,093	20,500
Earnings per share:		
Basic net income	\$0.33	0.38
Diluted net income	\$0.33	0.37
Dividends to stockholders	\$0.13	0.13

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



SELECTIVE INSURANCE GROUP, INC.  
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ in thousands)	Quarter ended March 31,	
	2012	2011
Net income	\$ 18,093	20,500
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on investment securities:		
Unrealized holding gains (losses) arising during period	12,873	(606 )
Non-credit portion of other-than-temporary impairments recognized in other comprehensive income	238	117
Amortization of net unrealized gains on held-to-maturity securities	(516 )	(764 )
Less: reclassification adjustment for gains included in net income	(2,833 )	(3,737 )
Total unrealized gains (losses) on investment securities	9,762	(4,990 )
Defined benefit pension plans:		
Amortization of net actuarial loss included in net income	903	718
Amortization of prior service cost included in net income	25	24
Total defined benefit pension plans	928	742
Other comprehensive income (loss)	10,690	(4,248 )
Comprehensive income	\$ 28,783	16,252

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

SELECTIVE INSURANCE GROUP, INC.  
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(\$ in thousands)	Quarter ended March	
	2012	2011
Common stock:		
Beginning of year	\$ 194,494	192,725
Dividend reinvestment plan (shares: 22,916 – 2012; 22,697 – 2011)	46	46
Stock purchase and compensation plans (shares: 540,322 – 2012; 453,409 – 2011)	1,080	907
End of period	195,620	193,678
Additional paid-in capital:		
Beginning of year	257,370	244,613
Dividend reinvestment plan	358	360
Stock purchase and compensation plans	4,608	3,602
End of period	262,336	248,575
Retained earnings:		
Beginning of year, as previously reported		1,176,155
Add: Adjustment for the cumulative effect on prior years of applying retroactively the new method of accounting for deferred policy acquisition costs (Note 4)		(53,068 )
Balance at beginning of year, as adjusted	1,116,319	1,123,087
Net income	18,093	20,500
Dividends to stockholders (\$0.13 per share – 2012 and 2011)	(7,270 )	(7,176 )
End of period	1,127,142	1,136,411
Accumulated other comprehensive income:		
Beginning of year	42,294	7,024
Other comprehensive income (loss)	10,690	(4,248 )
End of period	52,984	2,776
Treasury stock:		
Beginning of year	(552,149 )	(549,408 )
Acquisition of treasury stock (shares: 168,614 – 2012; 135,095 – 2011)	(3,015 )	(2,496 )
End of period	(555,164 )	(551,904 )
Total stockholders' equity	\$ 1,082,918	1,029,536

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.



SELECTIVE INSURANCE GROUP, INC. UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOW	Quarter ended March 31,	
(\$ in thousands)	2012	2011
Operating Activities		
Net income	\$ 18,093	20,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,748	8,001
Stock-based compensation expense	3,329	3,135
Undistributed losses (income) of equity method investments	764	(2,482 )
Net realized gains	(4,358 )	(5,760 )
Changes in assets and liabilities:		
Increase in reserves for losses and loss expenses, net of reinsurance recoverables	6,311	22,196
Increase in unearned premiums, net of prepaid reinsurance and advance premiums	41,769	11,297
Decrease in net federal income taxes	4,227	5,663
Increase in premiums receivable	(25,107)	(15,958)
(Increase) decrease in deferred policy acquisition costs	(8,570 )	996
Decrease in interest and dividends due or accrued	1,108	355
Decrease in accrued salaries and benefits	(5,356 )	(4,976 )
Decrease in accrued insurance expenses	(13,476)	(17,082)
Other-net	7,373	2,105
Net adjustments	17,762	7,490
Net cash provided by operating activities	35,855	27,990