PARTICIPANTS

Corporate Participants

Jennifer W. DiBerardino – Treasurer & SVP-Investor Relations
Dale Allen Thatcher – Chief Financial Officer & Executive Vice President
John J. Marchioni – EVP, Chief Underwriting & Field Operations Officer
Gregory Edward Murphy – Chairman, President & Chief Executive Officer

Other Participants

Doug R. Mewhirter – Research Associate, RBC Capital Markets Equity Research
Alison Jacobowitz – Analyst, Bank of America Merrill Lynch
Richard W. Mortell – Research Associate, Piper Jaffray, Inc.
Neil Cybart – Research Analyst, Keefe, Bruyette & Woods, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Selective Insurance Group's Second Quarter 2011 Earnings Release Conference Call.

At this time for opening remarks and introductions, I'd like to turn the call over to Senior Vice President, Investor Relations and Treasurer, Ms. Jennifer DiBerardino. You may begin.

Jennifer W. DiBerardino, Treasurer & SVP-Investor Relations

Thank you. Good morning and welcome to Selective Insurance Group's second quarter 2011 conference call. This call is being simulcast on our website and a replay will be available through August 26, 2011. A supplemental investor package, which includes GAAP reconciliations of non-GAAP financial measures referred to on this call, is available on the Investors page of our website, www.selective.com.

Selective uses operating income, a non-GAAP measure to analyze trends and operations. Operating income is net income excluding the after-tax impact of net realized investment gains or losses, as well as the after-tax results of discontinued operations. We believe that providing this non-GAAP measure makes it easier for investors to evaluate our insurance business.

As a reminder, some of the statements and projections that will be made during this call are forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. We refer you to Selective's Annual Report on Form 10-K, and any subsequent Form 10-Qs filed with the U.S. Securities and Exchange Commission for a detailed discussion of these risks and uncertainties. Please note that Selective undertakes no obligation to update or revise any forward-looking statements.

Joining me today on the call are the following members of Selective's executive management team, Greg Murphy, CEO; Dale Thatcher, CFO; John Marchioni, EVP of Insurance Operations; and Ron Zaleski, Chief Actuary.

Now, I'll turn the call over to Dale to review the quarter results.

Dale Allen Thatcher, Chief Financial Officer & Executive Vice President

Thanks, Jen. Good morning. The industry has faced unprecedented catastrophe losses from tornados, earthquakes, and other weather events through the first six months of 2011 and Selective was not immune. But despite our second quarter catastrophe losses of $38 million, our underlying results reflect some very positive trends in the marketplace.

Commercial Lines premium grew 6% in the quarter, the first positive growth in 13 quarters. New business in the quarter stabilized and is showing signs of becoming positive as well. While it is still too early to call a hard market, we're seeing some early indications.

For the quarter, we reported operating income per diluted share of $0.01, compared to $0.41 a year ago. While earnings were reduced by catastrophe losses, positive offsets included higher than anticipated net investment income from alternative investments and ongoing favorable prior-year casualty development.

The second quarter statutory combined ratio was 109.5%, an increase of 8.5 points from a year ago. Catastrophe losses added 10.7 points, but were partially offset by favorable prior-year casualty reserve development of $5 million or 1.4 points.

Total statutory net premiums written were up 6% in the quarter with Commercial Lines net premium written up 5.7%. Much of the improvement in Commercial Lines was the result of a reversal and a negative audit and endorsement trends we have experienced since the beginning of the financial crisis. This is most visible in the workers' compensation and general liability lines.

Audit and endorsement premium was a positive $3.2 million in the second quarter, compared to over $15 million in return premium in the second quarter of 2010, and $4 million in return premium in the first quarter of this year.

Commercial Lines renewal pure price was up 2.6% for the quarter and year-on-year retention improved 1 point to 80.3%. As we've seen in the past, retention remains strongest for small business. As the economy has stabilized, we have also seen an improvement in the retention in our contractors book of business.

The Commercial Lines statutory combined ratio was 108.2% in the second quarter, including 8.9 points of catastrophe losses and a $4.7 million or 1.7 point increase in non-catastrophe property losses.

Commercial property excluding catastrophe losses continued to perform well with an 86.6% combined ratio. Commercial auto also had a good quarter reporting a statutory combined ratio of 92.5%. These results were positively impacted by 5.1 points of favorable development due to lower than anticipated severity primarily in accident years 2006 through 2009.

Workers compensation results showed some improvement in the quarter reporting a statutory combined ratio of 116.3% versus 127.4% in 2010. Results benefited from positive audit and endorsement premium of $2.5 million, partially offset by $1 million of adverse prior-year reserve development from the 2010 accident year.

In Personal Lines, net premium written grew 7% in the quarter to $71 million, and the statutory combined ratio was 115.3%, including 18.9 points of catastrophe losses. Using a more normal cat load for Personal Lines of approximately 4 points, the combined ratio would have been closer to break even reflecting our ongoing efforts to drive rate in Personal Lines for both auto and homeowners.

We successfully completed placement of our July 1, 2011 Excess of Loss treaties. The Property Excess of Loss treaty and the Casualty Excess of Loss treaty were both renewed with substantially the same terms as expiring. The first layer of the Casualty treaty now provides coverage for 100% of up to $3 million in excess of our $2 million retention compared to the 85% coverage in the expiring treaty.

Turning to investments, second quarter after-tax net investment income increased 5% to $29 million from a year ago. Pre-tax alternative investment income of $8 million drove the increase. First quarter market conditions allowed our general partners to harvest some investments that positively contributed to the results.

As market conditions softened in the second quarter, we would not expect the same magnitude of alternative investment income in the second half of 2011. Reflecting the continued low interest rate environment, the after-tax yield on fixed maturity securities was 2.7% for the quarter, down slightly from last quarter and the year ago period.

Invested assets increased 3% from a year ago to $4 billion. Our overall fixed income portfolio has a very high credit quality of AA and duration of 3.3 years including short-term investments.

We continue to invest in high quality corporate bonds maintaining a laddered maturity schedule. Our exposure to municipal securities has decreased 3 percentage points to 33% from the end of 2010 due to bonds maturing and our decision not to reinvest in this sector currently.

Equity exposure at June 30, 2011 was 3% of invested assets, up 1% from a year ago as we deployed our high dividend yield equity strategy. While equity market returns were muted in the second quarter, this strategy outperformed the broad market.

Our realized gain position improved to $102 million pre-tax at June30, 2011, from $90 million a year ago. Also of note is the unrecognized gain position in the fixed income held to maturity portfolio, which was $50 million pre-tax or $0.60 per share after-tax.

Surplus remained strong at $1.1 billion at June 30, and stockholders' equity increased 5% to $1.1 billion from June 30, 2010. Book value per share increased 3% to $20.33 from $19.65 at June 30, 2010.

I'd like to spend a minute on an upcoming accounting change that will impact deferred acquisition costs or DAC. This change, which becomes effective in January of 2012, requires that only costs that are incremental or directly related to the successful acquisition of insurance contracts be capitalized as DAC. Although we continue to evaluate the literature, our initial expectations are that the accounting change will have an after-tax impact on our stockholders' equity of approximately $55 million or about $1 of book value per share.

Every P&C insurer will have this one-time impact to varying degrees and we do not expect that they have a material effect on our earnings. We continue to be well capitalized as our premium-to-surplus ratio decreased slightly to 1.3 to 1 from 1.4 to 1 a year ago and flat with the last few quarters. The dividend yield is currently 3.2%, while the stock trades at 81% of book value.

We continue to monitor our capital levels and review options to maximize shareholder value. While relatively small, our recently announced renewal rights transaction to enter the excess and surplus lines or E&S market is one example of how we may opportunistically deploy capital.

According to A.M. Best, since 1997, the E&S market has performed on average 6 points better than the standard commercial lines business. We anticipate benefiting from that outperformance in our E&S book.

Now, I'll turn the call over to John Marchioni to review insurance operations.

John J. Marchioni, EVP, Chief Underwriting & Field Operations Officer

Thanks, Dale. Good morning. As the economy has shown some signs of stabilization, pressure on the top line has started to ease. Commercial Lines net premium written grew 6% in the quarter, driven by positive audit and endorsement activity and strong renewal retention.

We also achieved our ninth consecutive quarter of positive Commercial Lines pricing. The result is a significant compounding effect on our top line as we began our third renewal cycle of positive price. Retention improved this quarter as our underwriters and agents continued working together to deploy our granular pricing strategy to retain our best accounts.

One benefit of our field model is frequent and open communication with our agency partners. We built strong relationships and gained a deeper understanding of their businesses through these interactions. We currently see that most agents have much greater optimism about an improving commercial lines market and we believe this sentiment is evidenced in our premium growth this quarter.

New business in the quarter was flat compared to the second quarter of 2010, but Middle Market & Large Account new business grew 12% from a year ago, triggered by more rational middle market pricing and new product deployment.

Our improving hit ratios in the middle market demonstrate increased discipline among our competitors, who use to make it much more difficult for us to write policies at reasonable prices. For the first six months, however, new business was down 13% compared to 2010 and by segment was as follows: One & Done automated new business was down 20% to $33 million, and Middle Market & Large Account new business was down 9% to $70 million.

While we are struggling like the rest of the industry with workers' compensation profitability, our workers' compensation results improved slightly in the quarter. To facilitate better results, we've been deploying numerous workers' comps claims and underwriting initiatives. While pricing still needs to move higher, we achieved a half point greater pure rate increase on this line at our overall book.

As the industry combined ratio for workers' comp is expected to approach 120% in 2011, we believe the regulators and the market are beginning to be more receptive to price increases. In fact, our agents tell us that carriers are generally exercising the greatest amount of discipline in this line.

Personal Lines net premiums grew 7% in the quarter, while new business was down 21%. We believe these results reflect our focus on profitably growing the Personal Lines book. While we're achieving positive rate, we are also refining our underwriting approach to improve profitability. As a result, we have been walking away from some new business opportunities.

We've implemented 21 rate increases this year and are on track for the implementation of another 25 rate increases in 2011. In total, these rate increases could generate an additional $17 million on our in-force book.

In the quarter, our renewal pure rate increased 7.3% for personal auto and 5.9% for homeowners. Our Personal Lines book continues to show strong retention at 86.4%, up 1.7 points from the second quarter of 2010.

In the second quarter, there were 10 separate catastrophe events that added almost 19 points to the Personal Lines combined ratio. In spite of this, we are encouraged by underlying results that are moving in the right direction. We are committed to Personal Lines and will continue to take the appropriate measures to improve the long-term profitability of the book.

We remain focused on our strategy to introduce new and expanded products to our agents and customers. In the recently announced renewal rights transaction with Alterra for their commercial lines contract binding authority or CBA E&S business is another product offering that fits quite well with our Commercial Lines small business book, particularly with its $2,500 average account size. This business is written in accordance with well defined underwriting guidelines that clearly delineate risk eligibility, rates, and coverages.

The book is approximately 75% casualty lines, mainly general liability with no workers' comp and 25% property. Our 990 independent agency partners access the E&S market through wholesale general agents and we believe this transaction is an excellent opportunity to further deepen relationships with bulk groups of key partners.

The $77 million renewal book provides an excellent head start for the growth opportunity that lies in the approximately $300 million to $400 million of contract binding authority E&S coverage that our agents are currently placing through this channel. This transaction provides us not only a targeted entrance into the E&S market, but also expands our geographic footprint as the book is produced in 48 states.

I am pleased to welcome Joe Mossbrook and his team in Horsham, Pennsylvania, and our new wholesale general agency partners to Selective. The expertise they bring in the excess and surplus market will provide us with a competitive advantage as we expand our product offering in this new space.

Now, I'll turn the call over to Greg.

Gregory Edward Murphy, Chairman, President & Chief Executive Officer

Thank you, John, and good morning. The story for the first half of 2011 has been catastrophe losses and they've been severe. Industry estimates put year-to-date U.S catastrophe losses at around $19 billion. We had our share, but they were manageable, and below levels others in the industry have experienced.

Our excellent field claims operation has been very busy helping families and businesses recover from the devastating tornadoes and storms across our footprint. Industry results are deteriorating largely due to elevated catastrophe losses, but also due to reserve releases slowing and several years of soft commercial lines pricing. However, the commercial lines marketplace is showing some very positive signs of firming.

New business remains very competitive and unpredictable. But in the second quarter, we saw more underwriting and pricing integrity as well as a flow of some larger accounts. It appears that national companies are starting to take a tougher stance on new business compared to what we see from other regional companies.

For renewal business, in the last 90 days, our agents are starting to see competitors increase pure price rates on challenging segments and non-renewing if necessary. We expect this trend to continue to develop into a market of better matching of risk and exposure to indicated pricing levels.

Our granular pricing capabilities allow us to execute our underwriting strategy more effectively. I believe that companies that try to socialize rate will not be successful and will lose market share. Therefore, any company that takes an across-the-board pricing strategy will create the best opportunities for us. We see our pricing granularity as a competitive advantage; this capability was a major monetary investment as well as a major change management projects.

Over the past nine quarters, we have refined our renewal process in order to accommodate different agency structures and we've modified our developed new underwriting practices and capabilities. We currently have the capability to build action plans by region, state, agent, segment, and most importantly by account. We flag accounts by many factors. To name a few, diamond score, frequency, loss ratio, high grade or higher grader segment and pricing discounts. We will continue to test market conditions as we push rates higher on more of our policy inventory.

For the second quarter, accounts less than $20,000 in premiums had a point of renewal retention of 88 and a pure price increase of 3.1%. Accounts greater than $20,000 in premium had a point of renewable retention of 85 and a pure price increase of 2.2%.

Selective is a growth organization. However, for the commercial lines industry, the past three years have been extremely undisciplined and created a high-risk situation for growth. For the quarter, Commercial Lines net premium written was up 6% for several factors.

First, audit premium, there was a significant headwind turned to a return premium – due to return premium is now turned positive and may provide some tailwind. Second, new business is still below expectations, but improving particularly on larger accounts that have been the most competitive throughout the soft cycle. And three, better than expected retention at point of renewal.

We continue to look for growth opportunities. Over the past 18 months, we have rolled out 13 new Commercial Lines product and are beginning to see traction. We have the greatest success in the specialized products for technology, paratransit and religious institutions. Our announcement to enter the E&S contract binding authority business is another avenue to grow profitably not only in our 22-state footprint, but also throughout the 48 states covered by our new wholesale agency partners.

Our claims initiatives are on track to generate $8 million in savings in 2011. The targeted areas are specialized handling of complex liability in workers' compensation claim, proactive medical management, staff council expansion, subrogation process redesign, fraud analytics, and the streamline of the management of the claim files. We're well on our way to achieving our overall goal of 3 points in loss cost savings over three years.

Given the elevated catastrophe losses we have experienced to date, we've revised our overall 2011 guidance to achieve a statutory and GAAP combined ratio between 104% and 105%. Our guidance includes 4 points of catastrophe loss assumption for the year, but does not include any expectations for additional favorable or unfavorable reserve development. Weighted average shares at the end of the year are expected to be approximately 55 million.

Now, I will turn the call back to the operator for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Mr. Doug Mewhirter, RBC Capital Markets, your line is open.

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: Good morning, Doug.

<A – Dale Thatcher – Chief Financial Officer & Executive Vice President>: Hey Doug.

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: Hi, good morning everybody. I had two questions. First regarding workers' comp, there was quite a bit of growth in the quarter and even if you back out the positive audit premiums, I mean, it's still double-digit growth. Looking at the combined ratio that you are earning, it just seems kind of a – it seems kind of conflicted that you're growing so much with such a high combined ratio. And I realize that, that a lot of that is – businesses that's earned out, that you wrote a year ago or nine months ago, so I was kind of wondering what you're looking at in the business that you're writing, three months ago or two months ago, and how much of an improvement do you think it is versus what you're earning out that's showing up in the financial statements now?

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: Yeah, I would say, Doug, first of all, when you look at the growth don't be fooled by the return audit and premium that has had an impact on that segment. So I know you're probably just backing out the $1.3 million – the $1.5 million that we talked about in total for the second quarter of this year. However, in that line, if you separate it by line, that had $6 million of return premium in the second quarter that lowered the base in that year.

So you are seeing some of the impact of that audit premium that has, so that actually is coming out from the prior year, so you kind of got to go through that kind of double adjustment to truly get the size of the growth in the line.

The other thing, as you heard in the compared remarks, we're also getting a little bit higher rate in that segment than we were previously and understand that we're not a monoline comp writer. We write comp as part of the account, and it is difficult to write business as a result of not writing comp, we're not doing anything different fundamentally on our business and Dale I'll let you weigh in anything else on that.

<A – John Marchioni – EVP, Chief Underwriting & Field Operations Officer>: Right, I think you hit all the key points. I mean, new business is actually flat year-to-year from a comp perspective, and we've actually become a lot more disciplined in our new business underwriting to improve mix towards more four-wall exposure away from contractors exposure. So, I would say that's a line that we've really clamped down on over the last couple of years and that's – you are seeing that in the quarter, like Greg said that growth in premium is driven in many cases – in most part by the audit premium return.

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: Thanks for that. That's a good point about favorable comparisons with last year.

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: That $57 million base you are looking at, just for the quarter, that's been.

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: It could have been $63 million.

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: Yeah. So I mean that's what kind of I think is throwing you up a little bit on that analysis.

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: Thanks. My second question is about your new E&S business, you said it's about $2500 average account size. How did that compare with your core Commercial Line account size? Is it more like your small business segment or is it more in the middle market?

<A – John Marchioni – EVP, Chief Underwriting & Field Operations Officer>: This is John. It's very comparable to our small business segment both in the manner in which it's underwrited, which is through templates and agents have the ability to bind the business where there is certainly set of guidelines and pricing restrictions and an average policy size of $2500, it is also comparable to that area. Our overall account size if you include middle market on the standard market side is higher than that; it's in the $8000 to $10,000 range, but it's very comparable to our small business.

<A – Dale Thatcher – Chief Financial Officer & Executive Vice President>: One difference that I would throw in there is that different than our small business on the primary side is this doesn't include any workers' comp coverage.

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: And on the distribution of that I was just kind of curious how you plan to deal with the distribution. I realize that they go through a core set of wholesalers and MGAs, do you plan on having any direct distribution or are you going to stick with – in other words, are you going to offer it as a service to your – directly to your agents to promote, I guess, your relationship or are you going to offer your – those existing wholesalers as a service to your agents knowing they will end up going through you?

<A – John Marchioni – EVP, Chief Underwriting & Field Operations Officer>: It's a great question; this is John again. So the business model of the operation of renewal rates that we acquired is very much like ours in terms of a franchise value approach. They've got a limited number of wholesalers that they've developed deeper relationships with and we tend to honor that and build on that.

Now, that being said, as you heard in the prepared comments, our 990 retail partners have a significant amount of this business that we might want to make sure we take advantage of. So we're in the process of working through the best way to do that, but also respecting the relationship of the wholesalers.

So, we would certainly look to the extent they don't already exist to build stronger relationships between our retailers and those wholesalers to make sure that we capitalize on that opportunity. But as we move down the path here, in the near-term, our expectation is that we're going to continue to build those wholesale relationships and look to drive as much of our retailers business through those wholesalers as possible.

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: Okay. And just a last quick question about the E&S business. Dale, I don't know you figured this out yet, but are you going to – I assume it's going to be considered Commercial Lines, but in your reporting, are you going to break it out as a separate segment or you're going to put the GL part of that business into your regular GL in your property – as part of your commercial property?

<A – Dale Thatcher – Chief Financial Officer & Executive Vice President>: One of the things

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: Just wondering how you report it.

<A – Dale Thatcher – Chief Financial Officer & Executive Vice President>: Yeah, obviously this will be pretty small since it's a renewal rights deal, so it'll take some time for it to ramp up.

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: Yeah.

<A – Dale Thatcher – Chief Financial Officer & Executive Vice President>: Once it gets to – after a full year, where we got a full level of premium, my expectation is that we'd put it on a level with – we break out Personal Lines, Commercial Lines and then we'd break out E&S because I think it is relevant for people want to follow that and understand how it's performing. So that's how we currently contemplate showing that.

<Q – Doug Mewhirter – RBC Capital Markets Equity Research>: Okay, thanks. That's all my questions.

<A – Dale Thatcher – Chief Financial Officer & Executive Vice President>: Thanks, Doug.

Operator: Our next question is from Ms. Alison Jacobowitz, Bank of America Merrill Lynch. Your line is open.

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: Hi, Alison.

<Q – Alison Jacobowitz – Bank of America Merrill Lynch>: Thanks. Actually, a couple of questions. First, I was wondering if you could just let us know what happened to the price of your reinsurance contract with the change. And then the second was if you could talk a little bit more about the frequency of claims in workers' comp, we've been hearing a little bit about frequency rising with the economy?

<A – Dale Thatcher – Chief Financial Officer & Executive Vice President>: On the reinsurance front, basically we renewed our July 1st property and casualty Excess of Loss treaties at substantially similar terms as we had expiring, little bit of price movement but substantially similar.

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: And on the comp side, frequency actually is still down for us on the comp side, so we've been – we've always talked to you about how we do our PIKs and we've always – we don't really change any frequency expectations year-on-year. What really changes in our Loss PIKs year-on-year is more or less the medical and other inflation impact that we put on severity. So there has been still an ongoing slight decrease in the frequency numbers.

<Q – Alison Jacobowitz – Bank of America Merrill Lynch>: Thanks. And if I could just get one follow-up, I don't know if you have it easily or get it from you offline if you don't have it now, but what the audit premium effect was in the second half of last year just for our modeling we know what we're looking at for the next couple of quarters?

<A – Dale Thatcher – Chief Financial Officer & Executive Vice President>: In the second – in the second quarter?

<Q – Alison Jacobowitz – Bank of America Merrill Lynch>: Yeah, like the third quarter and the fourth quarter of '10, if you have happen to have it there.

<A – Dale Thatcher – Chief Financial Officer & Executive Vice President>: Third quarter and fourth quarter of '10, we had – is that all lines or do you want just workers' comp or?

<Q – Alison Jacobowitz – Bank of America Merrill Lynch>: If you have both, I'll take both.

<A – Dale Thatcher – Chief Financial Officer & Executive Vice President>: Okay. So the all lines was $9.2 million return premium in the third quarter and a $6.2 million return premium in the fourth quarter. The workers' comp component within that was $3.9 million in the third quarter and $2.7 million in the fourth quarter.

<Q – Alison Jacobowitz – Bank of America Merrill Lynch>: Thanks a lot.

Operator: Our next question is from Richard Mortell, Piper Jaffray.

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: Hi, Rich.

<Q – Richard Mortell – Piper Jaffray, Inc.>: Hi, good morning.

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: Good morning.

<Q – Richard Mortell – Piper Jaffray, Inc.>: Can you talk a little bit about your appetite for M&A? And then my second question would be on capital management.

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: Sure. I'll talk about the M&A and I'll let Dale talk about the capital management aspect. I mean, we look for opportunities that we feel can add into our – for us the best opportunity is a new product segment that we can push through our existing agency plan, that's where we already feel we've done a lot of foundational work for the past 80 plus years. And so obviously that's the easiest one to kind of look through and assimilate. So I would say that that's probably the highest priority.

And then for us maybe another opportunity might be some Geo expansion. But I would say that higher margin opportunities that we can sell through our agency plant are probably at the top of the list. We did this acquisition I think because I think it meets that criterion.

<Q – Richard Mortell – Piper Jaffray, Inc.>: Right.

<A – Dale Thatcher – Chief Financial Officer & Executive Vice President>: As far as capital management, I mean basically we're in a, I think, a good spot. We've got appropriate capital. One of the things, if you look back at the company from 1998 to 2006, we doubled in size, so we took full advantage of a hardening marketplace.

We want to make sure that we have the capital available to take advantage of the next hardening market, in addition to whatever other opportunities present themselves. At the end of the day, we weigh everything with the prism of how do we best generate shareholder value and that's how we make our decisions.

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: Hey Rich, I would kind of add to that. We've worked for many years now to build our capability for granular pricing and that – this will be the first hard cycle that we're seeing in Commercial Lines that you haven't seen granular capability. So I think you're going to see some big shifts in market share. I think you'll companies that don't have capability are going to really lose share as I said before in my prepared remarks. But this is our opportunity to be actually more aggressive in finding good opportunities to grow as carriers are trying to struggle with how they socialize rate and how do they increase price on their inventory.

As the old saying goes; if they only have a hammer, everything is a nail. So if they don't have the tools to do that – and our tools are pretty sophisticated and we've spent on lot – nine quarters struggling with rate increases and we're the only company out there that can sit there and say that, so I see some of the comments about where our rate level is, our rate level is reflective of the market conditions we're in today, as that market conditions changes which it is month-to-month, our opportunity to execute our strategy at a very refined level is there. So we feel that we've got the greatest opportunity to do that on our renewal book, but more importantly this is an opportunity for growth and we feel that we will have opportunities in front of us to grow and take share and we plan on taking advantage of that.

<Q – Richard Mortell – Piper Jaffray, Inc.>: Okay thanks, that's helpful. And my last question is on commercial auto. Can you just give some color on what you're seeing, maybe any up-tick in frequency, and just in general what you're seeing in all that?

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: Sure. I mean, nothing – I'll just pull on the numbers out, so frequency was up a little bit in the liability area and up a little bit more in terms of the physical damage. I think some of that is kind of weather related in terms of all the storm activity and the vehicles on the roads with all the snow and ice that occurred, our auto book is very solid. We feel good about it.

I mean, are we trying to raise rates on the physical damage side of the commercial business? Yes. Are there issues around snow removal? Yes. There are things that we're doing to improve the performance of our book constantly, but I would say that that's the area that we feel really strong about that on our book.

<Q – Richard Mortell – Piper Jaffray, Inc.>: Okay, thanks. I'll jump back in the queue.

Operator: Our next question is from Mr. Neil Cybart of KBW. Your line is open.

<Q – Neil Cybart – Keefe, Bruyette & Woods, Inc.>: Thank you. Good morning.

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: Good morning, Neil

<Q – Neil Cybart – Keefe, Bruyette & Woods, Inc.>: Did you report any reserve development in the Personal Lines segment?

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: Yeah, it was modest. All right, I mean, what was it, $1 million?

<A – Dale Thatcher – Chief Financial Officer & Executive Vice President>: Personal Lines is over $0.5 million.

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: $0.5 million, immaterial.

<Q – Neil Cybart – Keefe, Bruyette & Woods, Inc.>: Okay. Did you have any more details on the Commercial Lines [indiscernible] (34:38) development, maybe by line of business or accident year?

<A – Dale Thatcher – Chief Financial Officer & Executive Vice President>: Sure. For the Commercial Lines of business, as we indicated earlier, the overall favorable development is $5 million. Where that came from, in the quarter you had general liability was $1 million favorable, BOP was $2 million favorable, you have the commercial auto was $3.5 million favorable and then as indicated, the Personal Lines was a net $0.5 million unfavorable. And then you also had workers' comp at a $1 million unfavorable.

<Q – Neil Cybart – Keefe, Bruyette & Woods, Inc.>: Okay, thank you.

<A – Dale Thatcher – Chief Financial Officer & Executive Vice President>: One thing related to Rich's question, maybe one of the things that he was looking at, if you look at the commercial auto, favorable development this year was $3.5 million. In the second quarter of 2010, favorable development was $10 million and that might relate to some of the stuff that he was looking at as he analyzed that line.

<Q – Neil Cybart – Keefe, Bruyette & Woods, Inc.>: Okay, thank you. Another question I had, you continue to be slightly ahead of the curve with the pricing. Did you see any negative pricing still in any Commercial Lines of business?

<A – Gregory Murphy – Chairman, President & Chief Executive Officer>: I want to say no.

<A – John Marchioni – EVP, Chief Underwriting & Field Operations Officer>: We were positive across all lines.

<Q – Neil Cybart – Keefe, Bruyette & Woods, Inc.>: All right, that's it from me. Thanks.

Operator: [Operator Instructions] Currently no questions are queuing up.

Gregory Edward Murphy, Chairman, President & Chief Executive Officer

Okay, great. Well, if you have any follow-up items, please contact Jennifer or Dale. Thank you very much for you participation this morning. Thank you.