UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2010

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 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 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, 2010, there were 53,418,161 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)		Unaudited June 30, 2010	December 31, 2009
ASSETS			
Investments:			
Fixed maturity securities, held-to-maturity – at carry value			
(fair value: $1,510,871 – 2010; $1,740,211 – 2009)	$	**1,461,882**	1,710,403
Fixed maturity securities, available-for-sale – at fair value			
(amortized cost: $1,798,996 – 2010; $1,616,456 – 2009)		**1,870,383**	1,635,869
Equity securities, available-for-sale – at fair value			
(cost of: $59,859– 2010; $64,390 – 2009)		**60,988**	80,264
Short-term investments (at cost which approximates fair value)		**343,900**	213,848
Other investments		**153,475**	140,667
Total investments		**3,890,628**	3,781,051
Cash		**591**	811
Interest and dividends due or accrued		**34,865**	34,651
Premiums receivable, net of allowance for uncollectible			
accounts of: $5,327 – 2010; $5,880 – 2009		**469,096**	446,577
Reinsurance recoverables, net		**287,191**	276,018
Prepaid reinsurance premiums		**104,383**	105,522
Current federal income tax		**21,826**	17,662
Deferred federal income tax		**101,085**	111,038
Property and equipment – at cost, net of accumulated			
depreciation and amortization of: $146,998 – 2010; $141,251 – 2009		**43,014**	46,287
Deferred policy acquisition costs		**218,200**	218,601
Goodwill		**7,849**	7,849
Other assets		**48,206**	68,760
Total assets	$	**5,226,934**	5,114,827
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Reserve for losses and loss expenses	$	**2,805,841**	2,745,799
Unearned premiums		**856,931**	844,847
Notes payable		**262,319**	274,606
Accrued salaries and benefits		**101,908**	103,802
Other liabilities		**150,431**	143,398
Total liabilities	$	**4,177,430**	4,112,452
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: 96,094,756 – 2010; 95,822,959 – 2009		**192,190**	191,646
Additional paid-in capital		**239,341**	231,933
Retained earnings		**1,149,387**	1,138,978
Accumulated other comprehensive income (loss)		**17,826**	(12,460)
Treasury stock – at cost (shares: 42,676,595 – 2010; 42,578,779 – 2009)		**(549,240)**	(547,722)
Total stockholders' equity		**1,049,504**	1,002,375
Commitments and contingencies			
Total liabilities and stockholders' equity	$	**5,226,934**	5,114,827

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

SELECTIVE INSURANCE GROUP, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

($ in thousands, except per share amounts)		Quarter ended June 30, 2010	Quarter ended June 30, 2009	Six Months ended June 30, 2010	Six Months ended June 30, 2009
Revenues:					
Net premiums earned	$	**352,190**	358,311	**708,392**	722,184
Net investment income earned		**36,545**	26,368	**71,251**	42,085
Net realized (losses) gains:					
Net realized investment gains		**2,920**	1,181	**11,096**	4,256
Other-than-temporary impairments		**(6,162)**	(12,534)	**(12,235)**	(39,634)
Other-than-temporary impairments on fixed maturity securities recognized in other comprehensive income		**(22)**	59	**(2,189)**	59
Total net realized losses		**(3,264)**	(11,294)	**(3,328)**	(35,319)
Other income		**2,247**	3,810	**4,515**	5,091
Total revenues		**387,718**	377,195	**780,830**	734,041
Expenses:					
Losses and loss expenses incurred		**239,980**	239,049	**494,123**	491,243
Policy acquisition costs		**116,099**	114,522	**232,101**	227,628
Interest expense		**4,655**	4,843	**9,497**	9,867
Other expenses		**4,136**	6,533	**14,614**	14,038
Total expenses		**364,870**	364,947	**750,335**	742,776
Income (loss) from continuing operations, before federal income tax		**22,848**	12,248	**30,495**	(8,735)
Federal income tax expense (benefit):					
Current		**1,322**	(1,631)	**10,166**	4,244
Deferred		**1,435**	(1,479)	**(6,355)**	(15,387)
Total federal income tax expense (benefit)		**2,757**	(3,110)	**3,811**	(11,143)
Net income from continuing operations		**20,091**	15,358	**26,684**	2,408
Income from discontinued operations, net of tax of $53 for Second Quarter 2009 and $41 for Six Months 2009		**-**	330	**-**	403
Loss on disposal of discontinued operations, net of tax of $(713) for Second Quarter 2010 and $(1,139) for Six Months 2010		**(1,325)**	-	**(2,115)**	-
Total discontinued operations, net of tax		**(1,325)**	330	**(2,115)**	403
Net income	$	**18,766**	15,688	**24,569**	2,811
Earnings per share:					
Basic net income from continuing operations		**0.37**	0.29	**0.50**	0.04
Basic net (loss) income from disposal of discontinued operations		**(0.02)**	0.01	**(0.04)**	0.01
Basic net income	$	**0.35**	0.30	**0.46**	0.05
Diluted net income from continuing operations		**0.37**	0.28	**0.49**	0.04
Diluted net (loss) income from disposal of discontinued operations		**(0.02)**	0.01	**(0.04)**	0.01
Diluted net income	$	**0.35**	0.29	**0.45**	0.05
Dividends to stockholders	$	**0.13**	0.13	**0.26**	0.26

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, except per share amounts)		Six Months ended June 30, 2010		2009	
Common stock:					
Beginning of year	$	**191,646**		190,527	
Dividend reinvestment plan (shares: 53,272 – 2010; 70,839 – 2009)		**107**		141	
Stock purchase and compensation plans (shares: 218,525 – 2010; 233,878 – 2009)		**437**		468	
End of period		**192,190**		191,136	
Additional paid-in capital:					
Beginning of year		**231,933**		217,195	
Dividend reinvestment plan		**733**		751	
Stock purchase and compensation plans		**6,675**		7,447	
End of period		**239,341**		225,393	
Retained earnings:					
Beginning of year		**1,138,978**		1,128,149	
Cumulative effect adjustment due to adoption of other-than-temporary impairment guidance under ASC 320, net of deferred income tax		**-**		2,380	
Net income		**24,569**	**24,569**	2,811	2,811
Cash dividends to stockholders ($0.26 per share – 2010; $0.26 per share – 2009)		**(14,160)**		(13,924)	
End of period		**1,149,387**		1,119,416	
Accumulated other comprehensive income (loss):					
Beginning of year		**(12,460)**		(100,666)	
Cumulative-effect adjustment due to adoption of other-than-temporary impairment guidance under ASC 320, net of deferred income tax		**-**		(2,380)	
Other comprehensive income (loss), increase (decrease) in:					
Unrealized gains on investment securities:					
Non-credit portion of other-than-temporary impairment losses recognized in other comprehensive income, net of deferred income tax		**3,830**		(18)	
Other net unrealized gains on investment securities, net of deferred income tax		**25,044**		60,306	
Total unrealized gains on investment securities		**28,874**	**28,874**	60,288	60,288
Defined benefit pension plans, net of deferred income tax		**1,412**	**1,412**	571	571
End of period		**17,826**		(42,187)	
Comprehensive income			**54,855**		63,670
Treasury stock:					
Beginning of year		**(547,722)**		(544,712)	
Acquisition of treasury stock (shares: 97,816 – 2010; 170,540 – 2009)		**(1,518)**		(2,671)	
End of period		**(549,240)**		(547,383)	
Total stockholders' equity	$	**1,049,504**		946,375	

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

($ in thousands)	Six Months ended June 30, 2010	2009
Operating Activities		
Net Income	**$ 24,569**	2,811
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**14,805**	13,910
Loss on disposal of discontinued operations	**2,115**	-
Stock-based compensation expense	**7,964**	5,599
Undistributed (income) losses of equity method investments	**(4,841)**	29,404
Net realized losses	**3,328**	35,319
Postretirement life curtailment benefit	**-**	(4,217)
Unrealized gain on trading securities	**-**	(262)
Deferred tax benefit	**(6,355)**	(15,093)
Changes in assets and liabilities:		
Increase in reserves for losses and loss expenses, net of reinsurance recoverables	**48,870**	21,742
Increase in unearned premiums, net of prepaid reinsurance and advance premiums	**13,252**	18,894
(Increase) decrease in net federal income tax recoverable	**(3,025)**	15,639
Increase in premiums receivable	**(22,519)**	(17,697)
Decrease (increase) in deferred policy acquisition costs	**401**	(5,697)
(Increase) decrease in interest and dividends due or accrued	**(206)**	1,086
Decrease in accrued salaries and benefits	**(2,282)**	(14,573)
Decrease in accrued insurance expenses	**(10,003)**	(7,703)
Sale of trading securities	**-**	2,831
Other-net	**(7,862)**	(8,002)
Net adjustments	**33,642**	71,180
Net cash provided by operating activities	**58,211**	73,991
Investing Activities		
Purchase of fixed maturity securities, held-to-maturity	**-**	(157,752)
Purchase of fixed maturity securities, available-for-sale	**(396,076)**	(512,726)
Purchase of equity securities, available-for-sale	**(30,974)**	(75,609)
Purchase of other investments	**(11,150)**	(10,595)
Purchase of short-term investments	**(956,904)**	(1,160,667)
Sale of subsidiary	**788**	-
Sale of fixed maturity securities, held-to-maturity	**-**	5,622
Sale of fixed maturity securities, available-for-sale	**128,110**	371,667
Sale of short-term investments	**826,853**	1,163,746
Redemption and maturities of fixed maturity securities, held-to-maturity	**171,900**	123,213
Redemption and maturities of fixed maturity securities, available-for-sale	**165,513**	63,897
Sale of equity securities, available-for-sale	**56,247**	123,269
Proceeds from other investments	**15,152**	15,498
Purchase of property and equipment	**(2,570)**	(2,986)
Net cash used in investment activities	**(33,111)**	(53,423)
Financing Activities		
Dividends to stockholders	**(12,999)**	(13,378)
Acquisition of treasury stock	**(1,518)**	(2,671)
Principal payment of notes payable	**(12,300)**	(12,300)
Net proceeds from stock purchase and compensation plans	**2,310**	2,402
Excess tax benefits from share-based payment arrangements	**(813)**	(1,158)
Net cash used in financing activities	**(25,320)**	(27,105)
Net decrease in cash and cash equivalents	**(220)**	(6,537)
Net decrease in cash and cash equivalents from discontinued operations	**-**	(3,654)
Net decrease in cash from continuing operations	**(220)**	(2,883)
Cash from continuing operations, beginning of year	**811**	3,606
Cash from continuing operations, end of period	**$ 591**	723

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

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Organization

Selective Insurance Group, Inc., through its subsidiaries, (collectively referred to as "we," "us," or "our") offers property and casualty insurance products. Selective Insurance Group, Inc. (referred to as the "Parent") was incorporated in New Jersey in 1977 and its main offices are located in Branchville, New Jersey. The Parent's common stock is publicly traded on the NASDAQ Global Select Market under the symbol "SIGI."

We classify our business into two operating segments:

- Insurance Operations, which sells property and casualty insurance products and services primarily in 22 states in the Eastern and Midwestern U.S.; and
- Investments.

NOTE 2. Basis of Presentation

These interim unaudited consolidated financial statements ("Financial Statements") include the accounts of the Parent and its subsidiaries, and have been prepared in conformity with: (i) U.S. generally accepted accounting principles ("GAAP"); and (ii) the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting. The preparation of Financial Statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported financial statement balances, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. All significant intercompany accounts and transactions between the Parent and its subsidiaries are eliminated in consolidation.

These Financial Statements reflect all adjustments that, in our opinion, are normal, recurring, and necessary for a fair presentation of our results of operations and financial condition. The Financial Statements cover the second quarters ended June 30, 2010 ("Second Quarter 2010") and June 30, 2009 ("Second Quarter 2009") and the six-month periods ended June 30, 2010 ("Six Months 2010") and June 30, 2009 ("Six Months 2009"). The Financial Statements do not include all of the information and disclosures required by GAAP and the SEC for audited financial statements. Results of operations for any interim period are not necessarily indicative of results for a full year. Consequently, the Financial Statements should be read in conjunction with the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2009 ("2009 Annual Report").

NOTE 3. Reclassification

Certain prior year amounts in these Financial Statements and related footnotes have been reclassified to conform to the current year presentation. Such reclassifications had no effect on our net income, stockholders' equity, or cash flows.

NOTE 4. Adoption of Accounting Pronouncements

In December 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") Update 2009-16, *Transfers and Servicing (Topic 860) – Accounting for Transfers of Financial Assets*. This guidance: (i) eliminates the concept of a qualifying "special-purpose entity"; (ii) alters the requirements for transferring assets off of the reporting company's balance sheet; (iii) requires additional disclosure about a transferor's involvement in transferred assets; and (iv) eliminates special treatment of guaranteed mortgage securitizations. The adoption of this guidance, which was effective for fiscal years beginning after November 15, 2009, did not impact our financial condition or results of operations.

In December 2009, the FASB issued ASC Update 2009-17, *Consolidations (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. This guidance requires the reporting entity to perform a qualitative analysis that results in a variable interest entity ("VIE") being consolidated if the reporting entity: (i) has the power to direct activities of the VIE that significantly impact the VIE's financial performance; and (ii) has an obligation to absorb losses or receive benefits that may be significant to the VIE. This guidance further requires enhanced disclosures, including disclosure of significant judgments and assumptions as to whether a VIE must be consolidated, and how involvement with a VIE affects the company's financial statements. The adoption of this guidance, which was effective for fiscal years beginning after November 15, 2009, did not impact our financial condition or results of operations.

In January 2010, the FASB issued ASC Update 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements.* This guidance requires: (i) separate disclosure of significant transfers between Level 1 and Level 2 and reasons for the transfers; (ii) disclosure, on a gross basis, of purchases, sales, issuances, and net settlements within Level 3; (iii) disclosures by class of assets and liabilities; and (iv) a description of the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This guidance is effective for reporting periods beginning after December 15, 2009, except for the Level 3 disclosure requirements, which will be effective for fiscal years beginning after December 15, 2010 and interim periods within those fiscal years. We have included the disclosures required by this guidance in our notes to the consolidated financial statements, where appropriate.

NOTE 5. Statements of Cash Flow

Our cash paid (received) during the period for interest and federal income tax was as follows:

($ in thousands)		Six Months ended June 30, **2010**	2009
Cash paid (received) during the period for:			
Interest	**$**	**9,649**	10,004
Federal income tax		**14,000**	(10,500)

NOTE 6. Investments

(a) The carrying value, unrecognized holding gains and losses, and fair values of held-to-maturity ("HTM") fixed maturity securities were as follows:

June 30, 2010 ($ in thousands)		**Amortized Cost**	**Net Unrealized Gains (Losses)**	**Carrying Value**	**Unrecognized Holding Gains**	**Unrecognized Holding Losses**	**Fair Value**
U.S. government and government agencies	$	**96,554**	**5,101**	**101,655**	**4,978**	**-**	**106,633**
Obligations of state and political subdivisions		**1,045,033**	**27,185**	**1,072,218**	**23,952**	**(896)**	**1,095,274**
Corporate securities		**94,400**	**(4,575)**	**89,825**	**10,063**	**(427)**	**99,461**
Asset-backed securities ("ABS")		**19,855**	**(2,976)**	**16,879**	**2,496**	**(16)**	**19,359**
Commercial mortgage-backed securities ("CMBS")[1]		**71,404**	**(9,362)**	**62,042**	**6,866**	**(1,175)**	**67,733**
Residential mortgage-backed securities ("RMBS")[2]		**117,593**	**1,670**	**119,263**	**3,252**	**(104)**	**122,411**
Total HTM fixed maturity securities	$	**1,444,839**	**17,043**	**1,461,882**	**51,607**	**(2,618)**	**1,510,871**

December 31, 2009 ($ in thousands)		Amortized Cost	Net Unrealized Gains (Losses)	Carrying Value	Unrecognized Holding Gains	Unrecognized Holding Losses	Fair Value
U.S. government and government agencies	$	139,278	5,555	144,833	1,694	(549)	145,978
Obligations of state and political subdivisions		1,167,461	33,951	1,201,412	14,833	(5,450)	1,210,795
Corporate securities		104,854	(6,028)	98,826	9,665	(913)	107,578
ABS		35,025	(6,042)	28,983	4,195	(82)	33,096
CMBS[1]		107,812	(18,836)	88,976	7,132	(3,658)	92,450
RMBS[2]		146,124	1,249	147,373	3,153	(212)	150,314
Total HTM fixed maturity securities	$	1,700,554	9,849	1,710,403	40,672	(10,864)	1,740,211

[1] CMBS includes government guaranteed agency securities with a carrying value of $10.3 million at June 30, 2010 and $10.8 million at December 31, 2009.
[2] RMBS includes government guaranteed agency securities with a carrying value of $4.0 million at June 30, 2010 and $3.9 million at December 31, 2009.

Unrecognized holding gains/losses of HTM securities are not reflected in the consolidated financial statements, as they represent market value fluctuations from the later of: (i) the date a security is designated as HTM; or (ii) the date that an other-than-temporary impairment ("OTTI") charge is recognized on an HTM security, through the date of the balance sheet. Our HTM securities had an average duration of 3.5 years as of June 30, 2010 and December 31, 2009.

(b) The cost/amortized cost, fair value, and unrealized gains (losses) of available-for-sale ("AFS") securities were as follows:

June 30, 2010					
($ in thousands)		**Cost/ Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. government and government agencies[1]	$	**383,161**	**9,454**	**-**	**392,615**
Obligations of states and political subdivisions		**441,307**	**24,285**	**(20)**	**465,572**
Corporate securities		**616,030**	**33,358**	**(1,666)**	**647,722**
ABS		**31,781**	**1,261**	**(331)**	**32,711**
CMBS[2]		**83,088**	**3,978**	**(4,161)**	**82,905**
RMBS[3]		**243,629**	**8,505**	**(3,276)**	**248,858**
AFS fixed maturity securities		**1,798,996**	**80,841**	**(9,454)**	**1,870,383**
AFS equity securities		**59,859**	**5,416**	**(4,287)**	**60,988**
Total AFS securities	$	**1,858,855**	**86,257**	**(13,741)**	**1,931,371**

December 31, 2009					
($ in thousands)		Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and government agencies[1]	$	473,750	2,994	(1,210)	475,534
Obligations of states and political subdivisions		359,517	20,419	(137)	379,799
Corporate securities		365,500	15,330	(1,246)	379,584
ABS		26,638	466	(57)	27,047
CMBS[2]		93,514	1,746	(637)	94,623
RMBS[3]		297,537	2,457	(20,712)	279,282
AFS fixed maturity securities		1,616,456	43,412	(23,999)	1,635,869
AFS equity securities		64,390	16,484	(610)	80,264
Total AFS securities	$	1,680,846	59,896	(24,609)	1,716,133

[1] U.S. government includes corporate securities fully guaranteed by the Federal Depositary Insurance Corporation ("FDIC") with a fair value of $121.7 million at June 30, 2010 and $136.2 million at December 31, 2009.
[2] CMBS includes government guaranteed agency securities with a fair value of $73.7 million at June 30, 2010 and $94.6 million at December 31, 2009.
[3] RMBS includes government guaranteed agency securities with a fair value of $95.6 million at June 30, 2010 and $105.2 million at December 31, 2009.

Unrealized gains/losses represent market value fluctuations from the later of: (i) the date of security is designated as AFS; or (ii) the date that an OTTI charge is recognized on an AFS security, through the date of the balance sheet. These unrealized gains and losses are recorded in accumulated other comprehensive income ("AOCI") on the Consolidated Balance Sheets.

During Second Quarter 2010, 23 securities with a carrying value of $66.0 million in a net unrecognized gain position of $3.4 million were reclassified from the HTM category to AFS due to recent credit rating downgrades by either Moody's Investors Service ("Moody's") or Standard and Poor's Financial Services ("S&P"). These rating downgrades raised significant concerns about the issuers' credit worthiness, which changed our intention to hold these securities to maturity.

(c) The following tables summarize, for all securities in a net unrealized/unrecognized loss position at June 30, 2010 and December 31, 2009, the fair value and gross pre-tax net unrealized/unrecognized loss by asset class, and by length of time those securities have been in a net loss position:

June 30, 2010		Less than 12 months		12 months or longer[1]	
($ in thousands)		Fair Value	Unrealized Losses[2]	Fair Value	Unrealized Losses[2]
AFS securities					
Obligations of states and political subdivisions	$	10,716	(20)	-	-
Corporate securities		16,925	(1,666)	-	-
ABS		1,069	(2)	925	(329)
CMBS		-	-	9,141	(4,161)
RMBS		6,324	(73)	35,397	(3,203)
Total fixed maturity securities		35,034	(1,761)	45,463	(7,693)
Equity securities		31,437	(3,684)	2,803	(603)
Subtotal	$	66,471	(5,445)	48,266	(8,296)

		Less than 12 months			12 months or longer[1]		
($ in thousands)		Fair Value	Unrealized Losses[2]	Unrecognized Gains (Losses)[3]	Fair Value	Unrealized Losses[2]	Unrecognized Gains (Losses)[3]
HTM securities							
Obligations of states and political subdivisions	$	14,944	(426)	318	62,715	(3,792)	1,843
Corporate securities		2,220	(595)	566	7,813	(1,514)	1,300
ABS		-	-	-	6,981	(2,136)	1,323
CMBS		-	-	-	10,447	(6,823)	1,526
RMBS		-	-	-	5,961	(160)	(94)
Subtotal	$	17,164	(1,021)	884	93,917	(14,425)	5,898
Total AFS and HTM	$	83,635	(6,466)	884	142,183	(22,721)	5,898

December 31, 2009	Less than 12 months[1]		12 months or longer[1]	
($ in thousands)	Fair Value	Unrealized Losses[2]	Fair Value	Unrealized Losses[2]
AFS securities				
U.S. government and government agencies[4]	$ 187,283	(1,210)	-	-
Obligations of states and political subdivisions	8,553	(120)	3,059	(17)
Corporate securities	74,895	(829)	10,550	(417)
ABS	2,983	(17)	3,960	(40)
CMBS	36,447	(637)	-	-
RMBS	78,328	(514)	53,607	(20,198)
Total fixed maturity securities	388,489	(3,327)	71,176	(20,672)
Equity securities	3,828	(214)	5,932	(396)
Subtotal	$ 392,317	(3,541)	77,108	(21,068)

	Less than 12 months[1]			12 months or longer[1]		
($ in thousands)	Fair Value	Unrealized Losses[2]	Unrecognized Gains (Losses)[3]	Fair Value	Unrealized Losses[2]	Unrecognized Gains (Losses)[3]
HTM securities						
U.S. government and government agencies[4]	$ 29,459	-	(317)	-	-	-
Obligations of states and political subdivisions	46,671	(598)	85	74,360	(4,315)	1,631
Corporate securities	6,124	(1,170)	1,068	19,233	(4,751)	3,441
ABS	-	-	-	13,343	(4,968)	2,472
CMBS	316	(538)	(190)	22,044	(15,315)	(879)
RMBS	5,068	-	(146)	5,892	(1,062)	127
Subtotal	$ 87,638	(2,306)	500	134,872	(30,411)	6,792
Total AFS and HTM	$ 479,955	(5,847)	500	211,980	(51,479)	6,792

[1] The month count for aging of unrealized losses was reset back to historical unrealized loss month counts for securities impacted by the adoption of OTTI guidance in Second Quarter 2009 and for securities that were transferred from an AFS to HTM category.
[2] Gross unrealized losses include non-OTTI unrealized amounts and OTTI losses recognized in AOCI. In addition, this column includes remaining unrealized gain or loss amounts on securities that were transferred to an HTM designation in the first quarter of 2009 for those securities that are in a net unrealized/unrecognized loss position.
[3] Unrecognized holding gains/(losses) represent market value fluctuations from the later of: (i) the date of a security is designated as HTM; or (ii) the date that an OTTI charge is recognized on a HTM security.
[4] U.S. government includes corporate securities fully guaranteed by the FDIC.

Unrealized/unrecognized losses decreased $27.6 million compared to December 31, 2009 due to the following: (i) the general improvement in the overall marketplace for our fixed maturity portfolio which is reflected in the reduction of the number of securities in an unrealized/unrecognized loss position; and (ii) the sale of certain fixed maturity securities that resulted in a decrease to unrealized/unrecognized losses of $14.1 million. For further discussion on realized gains and losses, see section (i) of this note below.

We have reviewed the securities in the tables above in accordance with our OTTI policy, which is discussed in Note 2. “Summary of Significant Accounting Policies” in Item 8. “Financial Statements and Supplementary Data.” of our 2009 Annual Report. The discussion that follows will focus on fixed maturity securities in an unrealized and unrecognized loss position for more than 12 months at June 30, 2010, which amounted to $16.2 million. Specifically, we will focus on the following categories:

- AFS CMBS with an unrealized loss balance of $4.2 million;
- AFS RMBS with an unrealized loss balance of $3.2 million;
- HTM CMBS with an unrealized/unrecognized loss balance of $5.3 million; and
- All other fixed maturity securities with an unrealized/unrecognized loss balance of $3.6 million.

AFS CMBS
Unrealized losses on our AFS CMBS that have been in an unrealized loss position for more than 12 months amounted to $4.2 million at June 30, 2010. These losses were comprised of 5 securities and can be categorized as follows:

- $3.1 million of non-credit OTTI charges that have been recognized in AOCI. These non-credit impairment charges were generated concurrently with credit-related charges. Prior to their initial impairment, these securities had a decline in fair value of 73%, or $11.1 million, as compared to their amortized cost.
- $1.1 million in unrealized losses not related to OTTI charges. These securities had a decline in fair value of 16%, or $1.1 million, as compared to their amortized cost at June 30, 2010.

All scheduled principal and interest payments on these securities have been received to date. The evaluations performed indicated that no additional principal losses are expected on these securities, and therefore, the impairments were determined to be temporary.

AFS RMBS
Unrealized losses on our AFS RMBS that have been in an unrealized loss position for more than 12 months amounted to $3.2 million at June 30, 2010. These losses were comprised of 17 securities and can be categorized as follows:

- $0.6 million of non-credit OTTI charges that have been recognized in AOCI. These non-credit impairment charges were generated concurrently with credit-related charges.
- $2.6 million in unrealized losses not related to OTTI charges. These securities had a decline in fair value of 9% as compared to their amortized cost at June 30, 2010.

All principal and interest payments on these securities have been received to date. Under all scenarios performed, the underlying cash flows on these securities did not indicate that these impairments were other than temporary.

HTM CMBS
Unrealized/unrecognized losses on our HTM CMBS that have been in a loss position for more than 12 months amounted to $5.3 million at June 30, 2010. These losses were comprised of four securities and can be categorized as follows:

- $1.5 million of non-credit OTTI charges that have been recognized in AOCI. These non-credit impairment charges were generated concurrently with credit-related charges. Prior to their initial impairment, these securities had a decline in fair value of 93%, or $2.6 million, as compared to their amortized cost.
- $3.8 million in unrealized/unrecognized losses not related to OTTI charges. These securities had a decline in fair value of 27%, as compared to their amortized cost as of June 30, 2010.

All scheduled principal and interest payments on these securities have been received to date. The evaluations performed indicated that no additional principal losses are expected on these securities, and therefore, these impairments were determined to be temporary.

All Other Securities
The remaining $3.6 million of unrealized/unrecognized losses was comprised of 45 securities with fair values that were, on average, 96% of their amortized costs. Given the number of securities and the close proximity of amortized cost and fair value, we have concluded that these securities are only temporarily impaired under our OTTI policy.

Based on the above, coupled with the fact that we do not have the intent to sell any of the securities discussed above, nor do we believe we will be required to sell these securities, we have concluded that they are not other-than-temporarily impaired as of June 30, 2010. This conclusion reflects our current judgment as to the financial position and future prospects of the entity that issued the investment security and underlying collateral. If our judgment about an individual security changes in the future, we may ultimately record a credit loss after having originally concluded that one did not exist, which could have a material impact on our net income and financial position in future periods.

(d) Fixed maturity securities at June 30, 2010, by contractual maturity, are shown below. Mortgage-backed securities are included in the maturity tables using the estimated average life of each security. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Listed below are HTM fixed maturity securities at June 30, 2010:

($ in thousands)		Carrying Value	Fair Value
Due in one year or less	$	**211,156**	**211,901**
Due after one year through five years		**753,786**	**783,329**
Due after five years through 10 years		**467,768**	**484,255**
Due after 10 years		**29,172**	**31,386**
Total HTM fixed maturity securities	$	**1,461,882**	**1,510,871**

Listed below are AFS fixed maturity securities at June 30, 2010:

($ in thousands)		Fair Value
Due in one year or less	$	**138,565**
Due after one year through five years		**1,090,827**
Due after five years through 10 years		**611,762**
Due after 10 years		**29,229**
Total AFS fixed maturity securities	$	**1,870,383**

(e) The following table outlines a summary of our other investment portfolio by strategy and the remaining commitment amount associated with each strategy:

Other Investments		Carrying Value		June 30, 2010
($ in thousands)		**June 30, 2010**	December 31, 2009	**Remaining Commitment**
Alternative Investments				
Energy/Power Generation	$	**34,294**	32,996	**12,317**
Secondary Private Equity		**27,949**	20,936	**22,222**
Private Equity		**23,172**	21,525	**15,963**
Mezzanine Financing		**23,033**	20,323	**26,119**
Distressed Debt		**19,908**	19,201	**4,611**
Real Estate		**15,779**	16,856	**12,188**
Venture Capital		**6,422**	5,752	**1,400**
Total Alternative Investments		**150,557**	137,589	**94,820**
Other Securities		**2,918**	3,078	**-**
Total Other Investments	$	**153,475**	140,667	**94,820**

The increase in other investments of $12.8 million at June 30, 2010 compared to December 31, 2009 was primarily due to the $13.0 million increase in the value of our alternative investments, which included fundings under our existing commitments of $4.2 million, net of distributions received. Alternative investments are reported to us on a quarter lag, therefore the increase was driven primarily by improved equity and credit markets as well as increased stability in the financial markets during the first quarter of 2010.

For a description of our seven alternative investment strategies outlined above, as well as redemption, restrictions and fund liquidations, refer to Note 5. “Investments” in Item 8. “Financial Statements and Supplementary Data.” of our 2009 Annual Report.

(f) At June 30, 2010, we had one fixed maturity security, with a carrying value of $15.5 million, that was pledged as collateral for our outstanding borrowing with the Federal Home Loan Bank of Indianapolis (“FHLBI”). This borrowing, which is in the amount of $13.0 million, is included in “Notes payable” on our Consolidated Balance Sheets. In accordance with the terms of our agreement with the FHLBI, we retain all rights regarding this security, which is included in the “U.S. government and government agency” classification of our AFS fixed maturity portfolio.

(g) The components of net investment income earned were as follows:

($ in thousands)		Quarter ended June 30, 2010	Quarter ended June 30, 2009	Six Months ended June 30, 2010	Six Months ended June 30, 2009
Fixed maturity securities	$	**32,977**	35,972	**66,173**	72,233
Equity securities		**480**	496	**932**	1,011
Trading securities		**-**	-	**-**	262
Short-term investments		**133**	312	**233**	924
Other investments		**4,884**	(8,787)	**8,816**	(29,164)
Investment expenses		**(1,929)**	(1,625)	**(4,903)**	(3,181)
Net investment income earned	$	**36,545**	26,368	**71,251**	42,085

Net investment income, before tax, increased $10.2 million for Second Quarter 2010 compared to Second Quarter 2009, and $29.2 million for Six Months 2010 compared to Six Months 2009. For both Second Quarter and Six Months 2010 the improvement was driven by income on the alternative investment portion of our other investment portfolio compared to a loss on these investments in the comparable periods during 2009. Our alternative investments, which are accounted for under the equity method, primarily consist of investments in limited partnerships, the majority of which report results to us on a one quarter lag. The improvement in the returns on these investments is reflective of improved equity and credit markets, as well as increased stability in the financial markets. In addition, the 2009 adoption of fair value accounting guidance by the limited partnerships had led to increased volatility in the period-to-period changes in the fair values associated with the underlying assets of the partnerships which, under the new guidance, were based on current exit values. Partially offsetting this improvement were: (i) lower fixed maturity reinvestment yields; (ii) an increase in lower yielding short-term investments as we were transitioning to the new investment managers; and (iii) increased investment expense, which included one-time charges of approximately $0.5 million and $2.2 million in Second Quarter and Six Months 2010, respectively, related to our decision to outsource the management of our investment portfolio. This decision does not indicate a change to our overall investment strategy, but only a change in our execution model to provide broader specific sector knowledge, advanced risk management tools, and greater flexibility in trade execution.

(h) The following tables summarize OTTI by asset type for the periods indicated:

Second Quarter 2010 ($ in thousands)		**Gross**	**Included in Other Comprehensive Income ("OCI")**	**Recognized in Earnings**
Fixed maturity securities				
CMBS	**$**	**3,405**	**569**	**2,836**
RMBS		**2,085**	**(591)**	**2,676**
Total fixed maturity securities		**5,490**	**(22)**	**5,512**
Equity securities		**672**	**-**	**672**
OTTI losses	**$**	**6,162**	**(22)**	**6,184**

Second Quarter 2009 ($ in thousands)		Gross	Included in OCI	Recognized in Earnings
Fixed maturity securities				
Corporate securities	**$**	1,270	-	1,270
ABS		376	(826)	1,202
CMBS		1,417	706	711
RMBS		8,830	179	8,651
Total fixed maturity securities		11,893	59	11,834
Equity securities		641	-	641
OTTI losses	**$**	12,534	59	12,475

Six Months 2010 ($ in thousands)		**Gross**	**Included in OCI**	**Recognized in Earnings**
Fixed maturity securities				
ABS	$	**158**	**127**	**31**
CMBS		**3,445**	**(2,052)**	**5,497**
RMBS		**7,960**	**(264)**	**8,224**
Total fixed maturity securities		**11,563**	**(2,189)**	**13,752**
Equity securities		**672**	**-**	**672**
OTTI losses	$	**12,235**	**(2,189)**	**14,424**

Six Months 2009 ($ in thousands)		Gross	Included in OCI	Recognized in Earnings
Fixed maturity securities				
Corporate securities	$	1,270	-	1,270
ABS		1,527	(826)	2,353
CMBS		1,417	706	711
RMBS		33,975	179	33,796
Total fixed maturity securities		38,189	59	38,130
Equity securities		1,445	-	1,445
OTTI losses	$	39,634	59	39,575

The following tables set forth, for the periods indicated, credit loss impairments on fixed maturity securities for which a portion of the OTTI charge was recognized in OCI, and the corresponding changes in such amounts:

Second Quarter 2010 **($ in thousands)**		**Gross**
Balance, March 31, 2010	$	**24,737**
Addition for the amount related to credit loss for which an OTTI was not previously recognized		**2,004**
Reductions for securities sold during the period		**(2,990)**
Reductions for securities for which the amount previously recognized in OCI was recognized in earnings because of intention or potential requirement to sell before recovery of amortized cost		**-**
Reductions for securities for which the entire amount previously recognized in OCI was recognized in earnings due to a decrease in cash flows expected		**(4,358)**
Additional increases to the amount related to credit loss for which an OTTI was previously recognized		**950**
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected		**-**
Balance, June 30, 2010	$	**20,343**

Second Quarter 2009 ($ in thousands)		Gross
Balance, March 31, 2009	$	-
Addition for the amount related to credit loss for which an OTTI was not previously recognized		9,647
Reductions for securities sold during the period		-
Reductions for securities for which the amount previously recognized in OCI was recognized in earnings because of intention or potential requirement to sell before recovery of amortized cost		-
Reductions for securities for which the entire amount previously recognized in OCI was recognized in earnings due to a decrease in cash flows expected		-
Additional increases to the amount related to credit loss for which an OTTI was previously recognized		1,996
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected		-
Balance, June 30, 2009	$	11,643

Six Months 2010 **($ in thousands)**		**Gross**
Balance, December 31, 2009	$	**22,189**
Addition for the amount related to credit loss for which an OTTI was not previously recognized		**2,134**
Reductions for securities sold during the period		**(2,990)**
Reductions for securities for which the amount previously recognized in OCI was recognized in earnings because of intention or potential requirement to sell before recovery of amortized cost		**-**
Reductions for securities for which the entire amount previously recognized in OCI was recognized in earnings due to a decrease in cash flows expected		**(4,652)**
Additional increases to the amount related to credit loss for which an OTTI was previously recognized		**3,662**
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected		**-**
Balance, June 30, 2010	$	**20,343**

For discussion of our OTTI methodology, see Note 2. “Summary of Significant Accounting Policies” in Item 8. “Financial Statements and Supplementary Data.” of our 2009 Annual Report.

The following is a discussion surrounding the credit-related OTTI charges taken in Second Quarter and Six Months 2010 as outlined in the table above:

- $2.7 million and $8.2 million of RMBS credit OTTI charges in Second Quarter and Six Months 2010, respectively. The Second Quarter 2010 charges related to declines in the related cash flows of the collateral support. Based on our analysis, we do not believe it is probable that we will receive all contractual cash flows for these securities. In addition to the Second Quarter 2010 charges, losses in Six Months 2010 were largely driven by impairments on two securities in the first quarter of 2010 that we intended to sell. We sold these securities in Second Quarter 2010.
- $2.8 million and $5.5 million of CMBS credit OTTI charges in Second Quarter and Six Months 2010, respectively. These charges were related to reductions in the related cash flows of the underlying collateral of these securities. These charges were associated with securities that had been previously impaired but, over time, have shown little, if any, improvement in valuations, poor net operating income performance of the underlying properties, and, in some cases, an increase in over 60-day delinquency rates. For Second Quarter 2010, these securities had, on average, unrealized/unrecognized loss positions of approximately 87% of their amortized cost. Based on our analysis, we do not believe it is probable that we will receive all contractual cash flows for these securities.
- $0.7 million of equity OTTI charges in both Second Quarter and Six Months 2010. These charges were driven primarily by one health care company which, due to a recent recall of one of its products, has experienced a significant decline in its share price. This coupled with the length of time this security has been in an unrealized loss position makes a recovery to our cost basis unlikely in the near term.

The following is a discussion surrounding the credit-related OTTI charges taken in Second Quarter 2009 and Six Months 2009 as outlined in the table above:

- $8.7 million and $33.8 million of RMBS credit OTTI charges in Second Quarter and Six Months 2009, respectively. In Second Quarter 2009, credit charges of $8.4 million related to one security for which we had the intent to sell. For the remainder of the impairments, the charges related to declines in the related cash flows of the collateral. Generally these securities showed signs of loss at conditional default rates between 3.0 and 7.0 and had declines in their fair value of 61% as compared to their amortized cost. Based on our assumptions of the expected default rates and the value of the collateral, we did not believe it was probable that we would receive all contractual cash flows for these securities.
- $0.7 million for both Second Quarter and Six Months 2009 of CMBS credit OTTI charges. These charges related to declines in the related cash flows of the collateral. These securities showed signs of loss at a conditional default rate of 1.5 and had declines in fair value of 73% as compared to their amortized cost. Based on our assumptions of the expected default rates and the value of the collateral, we did not believe it was probable that we would receive all contractual cash flows for these securities.
- $1.2 million and $2.4 million of ABS credit OTTI charges in Second Quarter and Six Months 2009, respectively. These charges related primarily to two bonds from the same issuer that were previously written down, which experienced a technical default in the first quarter of 2009 by violating indenture covenants. There was no payment default on these securities, but we believed a payment default was imminent and had recorded impairment charges for the securities. These charges also included additional credit impairment losses on another security that was previously written down.
- $1.3 million for Second Quarter and Six Months 2009 of corporate debt credit OTTI charges. In assessing corporate debt securities for OTTI, we evaluate, among other things, the issuer's ability to meet its debt obligations, the value of the company, and, if applicable, the value of specific collateral securing the position. These charges were primarily related to a financial institution issuer that we believed to be on the verge of bankruptcy. This security was subsequently sold in the third quarter of 2009 at an additional loss of $1.1 million.
- $0.6 million and $1.4 million of equity OTTI charges in Second Quarter and Six Months 2009, respectively, related to two banks, one energy company, and a membership warehouse chain of stores. We believed the share price weakness of these securities was more reflective of general overall financial market conditions at that time, as we were not aware of any significant deterioration in the fundamentals of these four companies. However, the length of time these securities were in an unrealized loss position, and the overall distressed trading levels of many coal stocks in the energy sector, banking stocks in the financial services sector, and retail/wholesale store stocks during the first half of 2009, made a recovery to our cost basis unlikely in the near term.

(i) The components of net realized losses, excluding OTTI charges, were as follows:

($ in thousands)		Quarter ended June 30, 2010	Quarter ended June 30, 2009	Six Months ended June 30, 2010	Six Months ended June 30, 2009
HTM fixed maturity securities					
Gains	$	**368**	112	**412**	138
Losses		**(210)**	(125)	**(450)**	(294)
AFS fixed maturity securities					
Gains		**325**	9,090	**4,782**	13,598
Losses		**(7,558)**	(7,055)	**(7,589)**	(8,959)
AFS equity securities					
Gains		**9,995**	9,043	**14,174**	28,706
Losses		**-**	(8,695)	**(233)**	(27,744)
Other investments					
Gains		**-**	-	**-**	-
Losses		**-**	(1,189)	**-**	(1,189)
Total other net realized investment gains		**2,920**	1,181	**11,096**	4,256
Total OTTI charges recognized in earnings		**(6,184)**	(12,475)	**(14,424)**	(39,575)
Total net realized losses	$	**(3,264)**	(11,294)	**(3,328)**	(35,319)

Realized gains and losses on the sale of investments are determined on the basis of the cost of the specific investments sold. Proceeds from the sale of AFS securities were $128.3 million in Second Quarter 2010 and $184.4 million in Six Months 2010. In addition to calls and maturities, the net realized gain, excluding OTTI charges, in Second Quarter and Six Months 2010 was driven by the Second Quarter 2010 sale of energy-focused AFS equity securities to mitigate portfolio risk and sector exposure. In addition to the Second Quarter 2010 realized gains, Six Months 2010 realized gains on AFS securities included sales in the first quarter of 2010 that were predominantly associated with tax planning strategies. These gains were largely offset by realized losses on certain AFS fixed maturity securities in Second Quarter 2010 that our new investment managers, during their initial review of the portfolio, had recommended that we sell. This recommendation was due to ongoing credit concerns of the underlying investments coupled with strategically positioning the portfolio to generate maximum yield while balancing risk objectives.

During Second Quarter 2009, we sold one HTM security with a carrying value of $6.0 million for a loss of $0.2 million. The issuer of this security had experienced significant deterioration in its creditworthiness. Sales of AFS fixed maturity securities that resulted in realized losses during Second Quarter 2009 were driven by further declines in issuer creditworthiness and liquidity.

We sold equity securities in both the first and second quarters of 2009. During Second Quarter 2009, A.M. Best Company ("A.M. Best") changed our ratings outlook from "Stable" to "Negative" due, in part, to concerns over the risk in our investment portfolio. To reduce this risk, we sold $31.1 million of equity securities for a net loss of $0.6 million, which included gross gains of $7.7 million and gross losses of $8.3 million. In addition, certain equity securities were sold in the first quarter of 2009, resulting in a net realized gain of approximately $0.6 million, comprised of $19.7 million in realized gains and $19.1 million in realized losses. These securities were sold in an effort to reduce overall portfolio risk and was in response to an overall year-to-date market decline of approximately 24% by the end of the first week of March. In addition, the Parent's market capitalization at that time had decreased more than 50% since the latter part of January, which we believed to be due partially to investment community views of our equity and equity-like investments. Our equity-like investments include alternative investments, many of which report results to us on a one quarter lag. Consequently, we believed that the investment community would wait to evaluate our results based on the knowledge they had of the previous quarter's general market conditions. As a result, we determined it was prudent to mitigate a portion of our overall equity exposure. In determining which securities were to be sold, we contemplated, among other things, security-specific considerations with respect to downward earnings trends corroborated by recent analyst reports, primarily in the energy, commodity, and pharmaceutical sectors.

Note 7. Fair Values Measurements

The following table presents the carrying amounts and estimated fair values of our financial instruments as of June 30, 2010 and December 31, 2009:

		June 30, 2010		December 31, 2009	
($ in thousands)		**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial Assets					
Fixed maturity securities:					
HTM	$	**1,461,882**	**1,510,871**	1,710,403	1,740,211
AFS		**1,870,383**	**1,870,383**	1,635,869	1,635,869
Equity securities, AFS		**60,988**	**60,988**	80,264	80,264
Short-term investments		**343,900**	**343,900**	213,848	213,848
Receivable for proceeds related to sale of Selective HR Solutions ("Selective HR")		**8,067**	**8,067**	-	-
Financial Liabilities					
Notes payable:[1]					
8.87% Senior Notes Series B		**-**	**-**	12,300	12,300
7.25% Senior Notes		**49,902**	**50,965**	49,900	49,505
6.70% Senior Notes		**99,417**	**86,000**	99,406	90,525
7.50% Junior Notes		**100,000**	**92,040**	100,000	83,680
2.90% borrowings from FHLBI		**13,000**	**13,369**	13,000	13,000
Total notes payable	$	**262,319**	**242,374**	274,606	249,010

[1] Our notes payable are subject to certain debt covenants that were met in their entirety in 2009 and Six Months 2010. For further discussion regarding the debt covenants, refer to Note 10, "Indebtedness" in Item 8. "Financial Statements and Supplementary Data" in our 2009 Annual Report.

Assets

The fair values of our investment portfolio are generated using various valuation techniques and are placed into the fair value hierarchy considering the following: (i) the highest priority is given to quoted prices in active markets for identical assets (Level 1); (ii) the next highest priority is given to quoted prices in markets that are not active or inputs that are observable either directly or indirectly, including quoted prices for similar assets in markets that are not active and other inputs that can be derived principally from, or corroborated by, observable market data for substantially the full term of the assets (Level 2); and (iii) the lowest priority is given to unobservable inputs supported by little or no market activity and that reflect our assumptions about the exit price, including assumptions that market participants would use in pricing the asset (Level 3). An asset's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation.

For discussion regarding the techniques used to value our investment portfolio, refer to Note 2. "Summary of Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data" in our 2009 Annual Report. The fair value of the fixed maturity securities classified as Level 3 is estimated using non-binding broker quotes. The fair value of the receivable for proceeds related to the sale of Selective HR is estimated using a discounted cash flow analysis with updated worksite lives and retention assumptions. For discussion of the sale of Selective HR, refer to Note 15. "Discontinued Operations."

Liabilities

The techniques used to value our notes payable are as follows:

- The fair values of the 7.25% Senior Notes due November 15, 2034, the 6.70% Senior Notes due November 1, 2035, and the 7.5% Junior Subordinated Notes due September 27, 2066, are based on quoted market prices.
- The fair value of the 8.87% Senior Notes as of December 31, 2009 that matured on May 4, 2010 was estimated to be its carrying value due to the close proximity of this note's maturity date to the balance sheet date.
- The fair value of the 2.90% FHLBI borrowings is estimated using a discounted cash flow analysis based on a current borrowing rate provided by the FHLBI consistent with the remaining term of the borrowing.

The following tables provide quantitative disclosures of our financial assets that were measured at fair value at June 30, 2010 and December 31, 2009:

June 30, 2010		**Fair Value Measurements Using**		
($ in thousands)	**Assets Measured at Fair Value at 6/30/10**	**Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Description				
U.S. government and government agencies[1]	$ **392,615**	**105,781**	**286,834**	**-**
Obligations of states and political subdivisions	**465,572**	**-**	**465,572**	**-**
Corporate securities	**647,722**	**-**	**647,722**	**-**
ABS	**32,711**	**-**	**32,711**	**-**
CMBS	**82,905**	**-**	**79,652**	**3,253**
RMBS	**248,858**	**-**	**248,858**	**-**
Total AFS fixed maturity securities	**1,870,383**	**105,781**	**1,761,349**	**3,253**
Equity securities	**60,988**	**60,988**	**-**	**-**
Short-term investments	**343,900**	**343,900**	**-**	**-**
Measured on a non-recurring basis:				
CMBS, HTM	**470**	**-**	**-**	**470**
RMBS, HTM	**5,865**	**-**	**5,865**	**-**
Receivable for proceeds related to sale of Selective HR	**8,067**	**-**	**-**	**8,067**
Total assets	$ **2,289,673**	**510,669**	**1,767,214**	**11,790**

[1] U.S. government includes corporate securities fully guaranteed by the FDIC.

December 31, 2009		Fair Value Measurements Using		
($ in thousands)	Assets Measured at Fair Value at 12/31/09	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
U.S. government and government agencies[1]	$ 475,534	52,361	423,173	-
Obligations of states and political subdivisions	379,799	-	379,799	-
Corporate securities	379,584	-	379,584	-
ABS	27,047	-	27,047	-
CMBS	94,623	-	94,623	-
RMBS	279,282	-	279,282	-
Total AFS fixed maturity securities	1,635,869	52,361	1,583,508	-
Equity securities	80,264	80,264	-	-
Short-term investments	213,848	213,848	-	-
Measured on a non-recurring basis:				
ABS, HTM	2,412	-	2,412	-
CMBS, HTM	5,400	-	5,400	-
Total assets	$ 1,937,793	346,473	1,591,320	-

[1] U.S. government includes corporate securities fully guaranteed by the FDIC.

The following assets were measured at fair value on a nonrecurring basis as of June 30, 2010:

- As the result of our OTTI analysis, we impaired approximately $6.3 million of HTM securities down to fair value, which are typically not carried at fair value. These securities consisted of: (i) one RMBS security, fair valued at $5.9 million; and (ii) two CMBS, fair valued at $0.5 million.
- Due to changes in assumptions regarding worksite life generation and retention, we reduced the value of our receivable for the expected proceeds from the sale of Selective HR, which we will receive over the course of a 10-year period. This fair value was determined using Level 3 pricing. The reduction in this receivable is included in "Loss on disposal of discontinued operations" on the Consolidated Statement of Income.

The following table provides a summary of the changes in fair value of securities using Level 3 inputs for the Second Quarter and Six Months 2010. The transfer of the CMBS, AFS securities was driven primarily by the non-binding nature of the broker quotes used in the valuation:

($ in thousands)		CMBS, AFS
Beginning balance	$	-
Transfers in and/or out of Level 3[1]		**3,253**
Fair value, June 30, 2010	$	**3,253**

[1] Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

NOTE 8. Reinsurance

The following table contains a listing of direct, assumed, and ceded reinsurance amounts by income statement caption. For more information concerning reinsurance, refer to Note 8. "Reinsurance" in Item 8. "Financial Statements and Supplementary Data" in our 2009 Annual Report.

		Quarter ended June 30,			Six Months ended June 30,	
($ in thousands)		**2010**	2009		**2010**	2009
Premiums written:						
Direct	**$**	**414,913**	427,209		**842,749**	858,850
Assumed		**947**	2,560		**6,189**	7,361
Ceded		**(62,336)**	(64,506)		**(127,323)**	(125,165)
Net	**$**	**353,524**	365,263		**721,615**	741,046
Premiums earned:						
Direct	**$**	**411,595**	413,401		**825,153**	831,833
Assumed		**4,682**	5,213		**11,700**	10,733
Ceded		**(64,087)**	(60,303)		**(128,461)**	(120,382)
Net	**$**	**352,190**	358,311		**708,392**	722,184
Losses and loss expenses incurred:						
Direct	**$**	**256,959**	259,636		**557,320**	529,345
Assumed		**3,023**	3,348		**4,923**	7,073
Ceded		**(20,002)**	(23,935)		**(68,120)**	(45,175)
Net	**$**	**239,980**	239,049		**494,123**	491,243

The ceded premiums and losses related to our Flood operations are as follows:

National Flood Insurance Program		Quarter ended June 30,			Six Months ended June 30,	
($ in thousands)		**2010**	2009		**2010**	2009
Ceded premiums written	**$**	**(44,566)**	(46,413)	**$**	**(90,458)**	(88,830)
Ceded premiums earned		**(45,495)**	(42,708)		**(89,980)**	(84,426)
Ceded losses and loss expenses incurred		**(8,122)**	(9,222)		**(43,076)**	(11,100)

NOTE 9. Segment Information

We have classified our operations into two segments, the disaggregated results of which are reported to and used by senior management to manage our operations:

- Insurance Operations, which is evaluated based on statutory underwriting results (net premiums earned, incurred losses and loss expenses, policyholders dividends, policy acquisition costs, and other underwriting expenses), and statutory combined ratios; and
- Investments, which is evaluated based on net investment income and net realized gains and losses.

Our segments may, from time-to-time, provide services to each other in the normal course of business. These service transactions included transactions with our discontinued operations, Selective HR, and totaled $2.3 million in Second Quarter 2009, $4.5 million in Six Months 2009, and none in the first six months of 2010. These transactions were eliminated in all consolidated statements. For discussion of the sale of Selective HR, refer to Note 15. "Discontinued Operations." In computing the results of each segment, we do not make adjustments for interest expense, net general corporate expenses, or federal income taxes. We do not maintain separate investment portfolios for the segments and therefore, do not allocate assets to the segments. In addition, we do not aggregate any of our operating segments.

The following summaries present revenues from continuing operations (net investment income and net realized losses on investments in the case of the Investments segment) and pre-tax income from continuing operations for the individual segments:

Revenue from continuing operations by segment		**Quarter ended June 30,**		**Six Months ended June 30,**	
($ in thousands)		**2010**	2009	**2010**	2009
Insurance Operations:					
Net premiums earned:					
Commercial automobile	**$**	**73,176**	75,339	**147,492**	151,185
Workers compensation		**62,069**	66,590	**126,710**	136,967
General liability		**83,967**	91,853	**169,188**	186,077
Commercial property		**50,294**	48,970	**100,630**	97,855
Business owners' policy		**16,152**	15,551	**32,438**	30,761
Bonds		**4,828**	4,560	**9,431**	9,183
Other		**2,515**	2,382	**5,020**	4,762
Total commercial lines		**293,001**	305,245	**590,909**	616,790
Personal automobile		**35,243**	33,034	**69,563**	65,886
Homeowners		**21,126**	17,618	**41,619**	34,724
Other		**2,820**	2,414	**6,301**	4,784
Total personal lines		**59,189**	53,066	**117,483**	105,394
Total net premiums earned		**352,190**	358,311	**708,392**	722,184
Miscellaneous income		**2,231**	3,797	**4,497**	5,063
Total Insurance Operations revenues		**354,421**	362,108	**712,889**	727,247
Investments:					
Net investment income		**36,545**	26,368	**71,251**	42,085
Net realized loss on investments		**(3,264)**	(11,294)	**(3,328)**	(35,319)
Total investment revenues		**33,281**	15,074	**67,923**	6,766
Total all segments		**387,702**	377,182	**780,812**	734,013
Other income		**16**	13	**18**	28
Total revenues from continuing operations	**$**	**387,718**	377,195	**780,830**	734,041

Income (loss) from continuing operations, before federal income tax		**Quarter ended June 30,**			**Six Months ended June 30,**		
($ in thousands)		**2010**		2009	**2010**		2009
Insurance Operations:							
Commercial lines underwriting	**$**	**3,305**		8,186	**(7,667)**		8,014
Personal lines underwriting		**(6,466)**		(2,154)	**(10,099)**		(4,945)
Underwriting (loss) income, before federal income tax		**(3,161)**		6,032	**(17,766)**		3,069
GAAP combined ratio		**100.9**	**%**	98.3	**102.5**	**%**	99.6
Statutory combined ratio		**101.0**	**%**	98.8	**101.9**	**%**	99.5
Investments:							
Net investment income		**36,545**		26,368	**71,251**		42,085
Net realized loss on investments		**(3,264)**		(11,294)	**(3,328)**		(35,319)
Total investment income, before federal income tax		**33,281**		15,074	**67,923**		6,766
Total all segments		**30,120**		21,106	**50,157**		9,835
Interest expense		**(4,655)**		(4,843)	**(9,497)**		(9,867)
General corporate and other expenses		**(2,617)**		(4,015)	**(10,165)**		(8,703)
Income (loss) from continuing operations, before federal income tax	**$**	**22,848**		12,248	**30,495**		(8,735)

NOTE 10. Federal Income Taxes

Federal income taxes from continuing operations increased by $5.9 million for Second Quarter 2010, to an expense of $2.8 million, compared to a benefit of $3.1 million for Second Quarter 2009 and $15.0 million for Six Months 2010, to an expense of $3.8 million compared to a benefit of $11.1 million Six Months 2009. These increases, which are attributable to an increase in net investment income earned coupled with a reduction in net realized losses, resulted in an effective tax rate of approximately 12% for both Second Quarter 2010 and Six Months 2010. The tax benefit in Second Quarter 2009 and Six Months 2009 resulted in an effective tax rate of approximately (25)% and 128%, respectively. Our effective tax rate for continuing operations differs from the federal corporate rate of 35% primarily as a result of tax-advantaged investment income.

NOTE 11. Retirement Plans

The following tables show the costs of the Retirement Income Plan for Selective Insurance Company of America ("Retirement Income Plan") and the retirement life insurance component ("Retirement Life Plan") of the Selective Insurance Company of America Welfare Benefits Plan. For more information concerning these plans, refer to Note 16. "Retirement Plans" in Item 8. "Financial Statements and Supplementary Data" of our 2009 Annual Report.

	Retirement Income Plan Quarter ended June 30,		Retirement Life Plan Quarter ended June 30,	
($ in thousands)	**2010**	2009	**2010**	2009
Components of Net Periodic Benefit Cost:				
Service cost	**$ 1,945**	2,003	**-**	-
Interest cost	**3,090**	2,771	**79**	74
Expected return on plan assets	**(2,810)**	(2,367)	**-**	-
Amortization of unrecognized prior service cost	**38**	38	**1**	-
Amortization of unrecognized net loss	**1,171**	1,117	**-**	-
Net periodic cost	**$ 3,434**	3,562	**80**	74

	Retirement Income Plan Six Months ended June 30,		Retirement Life Plan Six Months ended June 30,	
($ in thousands)	**2010**	2009	**2010**	2009
Components of Net Periodic Benefit Cost:				
Service cost	**$ 3,942**	4,007	**-**	32
Interest cost	**6,015**	5,542	**158**	191
Expected return on plan assets	**(5,626)**	(4,734)	**-**	-
Amortization of unrecognized prior service cost (credit)	**75**	75	**-**	(44)
Amortization of unrecognized net loss	**2,095**	2,235	**3**	-
Curtailment benefit	**-**	-	**-**	(4,217)
Net periodic cost (benefit)	**$ 6,501**	7,125	**161**	(4,038)
Weighted-Average Expense Assumptions for the years ended December 31:				
Discount rate	**5.93 %**	6.24	**5.93 %**	6.24
Expected return on plan assets	**8.00 %**	8.00	**- %**	-
Rate of compensation increase	**4.00 %**	4.00	**4.00 %**	4.00

In the first quarter of 2009, Selective Insurance Company of America eliminated the benefits under the Retirement Life Plan to active employees. This elimination resulted in a curtailment to the plan, the benefit of which was $4.2 million in Six Months 2009 and was comprised of: (i) a $2.8 million reversal of the Retirement Life Plan liability; and (ii) a $1.4 million reversal of prior service credits and net actuarial losses included in Accumulated Other Comprehensive Loss.

We presently anticipate contributing $8.0 million to the Retirement Income Plan in 2010, $4.4 million of which has been funded as of June 30, 2010.

NOTE 12. Comprehensive Income

The components of comprehensive income, both gross and net of tax, for Second Quarter 2010 and Second Quarter 2009 are as follows:

Second Quarter 2010 ($ in thousands)		**Gross**	**Tax**	**Net**
Net income	**$**	**20,810**	**2,044**	**18,766**
Components of other comprehensive income:				
Unrealized gains on securities:				
Unrealized holding gains during the period		**31,498**	**11,024**	**20,474**
Portion of OTTI recognized in OCI		**3,617**	**1,265**	**2,352**
Amortization of net unrealized losses on HTM securities		**(802)**	**(280)**	**(522)**
Reclassification adjustment for losses included in net income		**783**	**274**	**509**
Net unrealized gains		**35,096**	**12,283**	**22,813**
Defined benefit pension plans:				
Reversal of amortization items:				
Net actuarial loss		**1,172**	**411**	**761**
Prior service credit		**38**	**13**	**25**
Defined benefit pension plans		**1,210**	**424**	**786**
Comprehensive income	**$**	**57,116**	**14,751**	**42,365**

Second Quarter 2009 ($ in thousands)		**Gross**	**Tax**	**Net**
Net income	**$**	12,631	(3,057)	15,688
Components of other comprehensive income:				
Unrealized gains on securities:				
Unrealized holding gains during the period		24,422	8,547	15,875
Portion of OTTI recognized in OCI		(27)	(9)	(18)
Amortization of net unrealized gains on HTM securities		1,411	494	917
Reclassification adjustment for losses included in net income		9,368	3,279	6,089
Net unrealized gains		35,174	12,311	22,863
Defined benefit pension plans:				
Reversal of amortization items:				
Net actuarial loss		1,117	391	726
Prior service credit		38	14	24
Defined benefit pension plans		1,155	405	750
Comprehensive income	**$**	48,960	9,659	39,301

The components of comprehensive income, both gross and net of tax, for Six Months 2010 and Six Months 2009 are as follows:

Six Months 2010 ($ in thousands)		**Gross**	**Tax**	**Net**
Net income	**$**	**27,241**	**2,672**	**24,569**
Components of other comprehensive income:				
Unrealized gains on securities:				
Unrealized holding gains during the period		**46,698**	**16,344**	**30,354**
Portion of OTTI recognized in OCI		**5,892**	**2,062**	**3,830**
Amortization of net unrealized losses on HTM securities		**(6,555)**	**(2,294)**	**(4,261)**
Reclassification adjustment for gains included in net income		**(1,614)**	**(565)**	**(1,049)**
Net unrealized gains		**44,421**	**15,547**	**28,874**
Defined benefit pension plans:				
Reversal of amortization items:				
Net actuarial loss		**2,098**	**735**	**1,363**
Prior service credit		**75**	**26**	**49**
Defined benefit pension plans		**2,173**	**761**	**1,412**
Comprehensive income	**$**	**73,835**	**18,980**	**54,855**

Six Months 2009 ($ in thousands)		**Gross**	**Tax**	**Net**
Net income	**$**	(8,291)	(11,102)	2,811
Components of other comprehensive income:				
Unrealized gains on securities:				
Unrealized holding gains during the period		56,275	19,696	36,579
Portion of OTTI recognized in OCI		(27)	(9)	(18)
Amortization of net unrealized gains on HTM securities		4,403	1,541	2,862
Reclassification adjustment for losses included in net income		32,100	11,235	20,865
Net unrealized gains		92,751	32,463	60,288
Defined benefit pension plans:				
Reversal of amortization items:				
Net actuarial loss		2,235	782	1,453
Curtailment benefit		(1,387)	(485)	(902)
Prior service credit		31	11	20
Defined benefit pension plans		879	308	571
Comprehensive income	**$**	85,339	21,669	63,670

The balances of, and changes in, each component of AOCI (net of taxes) as of June 30, 2010 are as follows:

June 30, 2010		**Net Unrealized Gain (Loss)**			**Defined Benefit**	**Total**
($ in thousands)		**OTTI Related**	**HTM Related**	**All Other**	**Pension Plans**	**Accumulated OCI**
Balance, December 31, 2009	$	(8,009)	11,937	25,410	(41,798)	(12,460)
Changes in component during period		3,830	631	24,413	1,412	30,286
Balance, June 30, 2010	$	(4,179)	12,568	49,823	(40,386)	17,826

NOTE 13. Commitments and Contingencies

At June 30, 2010, we had contractual obligations to invest up to an additional $94.8 million in other investments that expire at various dates through 2023. There is no certainty that any such additional investment will be required.

NOTE 14. Litigation

In the ordinary course of conducting business, we are named as defendants in various legal proceedings. Most of these proceedings are claims litigation involving our seven insurance subsidiaries (the "Insurance Subsidiaries") as either: (i) liability insurers defending or providing indemnity for third-party claims brought against insureds; or (ii) insurers defending first-party coverage claims brought against them. We account for such activity through the establishment of unpaid loss and loss adjustment expense reserves. We expect that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and costs of defense, will not be material to our consolidated financial condition, results of operations, or cash flows.

Our Insurance Subsidiaries also are involved from time to time in other legal actions, some of which assert claims for substantial amounts. These actions include, among others, putative state class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, improper reimbursement of medical providers paid under workers compensation and personal and commercial automobile insurance policies. Our Insurance Subsidiaries also are involved from time to time in individual actions in which extra-contractual damages, punitive damages, or penalties are sought, such as claims alleging bad faith in the handling of insurance claims. We believe that we have valid defenses to these cases. We expect that the ultimate liability, if any, with respect to such lawsuits, after consideration of provisions made for estimated losses, will not be material to our consolidated financial condition. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, an adverse outcome in certain matters could, from time to time, have a material adverse effect on our consolidated results of operations or cash flows in particular quarterly or annual periods.

NOTE 15. Discontinued Operations

In December 2009, we sold 100% of our interest in Selective HR, which had historically comprised the HR Outsourcing segment of our operations. We sold our interest in Selective HR for proceeds to be received over a 10-year period based on the ability of the purchaser to retain and generate new worksite lives though our independent agency distribution channel. In Second Quarter 2010 and Six Months 2010, we recorded an after-tax charge of $1.3 million and $2.1 million, respectively, primarily due to our revaluation of the contingent proceeds, including assumptions regarding worksite life generation and retention, bringing our estimated sales price to approximately $9.3 million as of June 30, 2010 as compared to $12.3 million at December 31, 2009.

The following tables reflect the reclassification of the operating results of Selective HR as a discontinued operation as of June 30, 2009:

($ in thousands)		Second Quarter 2009	Six Months 2009
Net revenue	$	11,054	23,773
Pre-tax profit		383	444
After-tax profit		330	403

Intercompany transactions related to the discontinued operations are as follows as of June 30, 2009:

($ in thousands)		Second Quarter 2009	Six Months 2009
Net revenue	$	2,312	4,539

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

In this Quarterly Report on Form 10-Q, we discuss and make statements regarding our intentions, beliefs, current expectations, and projections regarding our company's future operations and performance. Such statements are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are often identified by words such as "anticipates," "believes," "expects," "will," "should," and "intends" and their negatives. We caution prospective investors that such forward-looking statements are not guarantees of future performance. Risks and uncertainties are inherent in our future performance. Factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, those discussed under Item 1A. "Risk Factors" below. These risk factors may not be exhaustive. We operate in a continually changing business environment and new risk factors may emerge from time to time. We can neither predict such new risk factors nor can we assess the impact, if any, of such new risk factors on our businesses or the extent to which any factor or combination of factors may cause actual results to differ materially from those expressed or implied in any forward-looking statements in this report. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed in this report might not occur. We make forward-looking statements based on currently available information and assume no obligation to update these statements due to changes in underlying factors, new information, future developments, or otherwise.

Introduction

We offer property and casualty insurance products through our various subsidiaries. We classify our businesses into two operating segments: (i) Insurance Operations, which consists of commercial lines ("Commercial Lines") and personal lines ("Personal Lines"); and (ii) Investments.

The purpose of the Management's Discussion and Analysis ("MD&A") is to provide an understanding of the consolidated results of operations and financial condition and known trends and uncertainties that may have a material impact in future periods. Consequently, investors should read the MD&A in conjunction with the consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2009 ("2009 Annual Report").

In the MD&A, we will discuss and analyze the following:

- Critical Accounting Policies and Estimates;
- Financial Highlights of Results for Second Quarter 2010 and Six Months 2010;
- Results of Operations and Related Information by Segment;
- Federal Income Taxes;
- Financial Condition, Liquidity, and Capital Resources;
- Ratings;
- Off-Balance Sheet Arrangements; and
- Contractual Obligations and Contingent Liabilities and Commitments.

Critical Accounting Policies and Estimates

These unaudited interim consolidated financial statements include amounts based on our informed estimates and judgments for those transactions that are not yet complete. Such estimates and judgments affect the reported amounts in the consolidated financial statements. Those estimates and judgments most critical to the preparation of the financial statements involved the following: (i) reserves for losses and loss expenses; (ii) deferred policy acquisition costs; (iii) pension and post-retirement benefit plan actuarial assumptions; (iv) other-than-temporary investment impairments; and (v) reinsurance. These estimates and judgments require the use of assumptions about matters that are highly uncertain and, therefore, are subject to change as facts and circumstances develop. If different estimates and judgments had been applied, materially different amounts might have been reported in the financial statements. For additional information regarding our critical accounting policies, refer to our 2009 Annual Report, pages 42 through 51.

Financial Highlights of Results for Second Quarter 2010 and Six Months 2010[1]

(Shares and $ in thousands, except per share amounts)	Quarter ended June 30, 2010	2009	Change % or Points		Six Months ended June 30, 2010	2009	Change % or Points	
GAAP measures:								
Revenues	**$ 387,718**	377,195	3	%	**$ 780,830**	734,041	6	%
Pre-tax net investment income	**36,545**	26,368	39		**71,251**	42,085	69	
Pre-tax net income (loss)	**20,810**	12,631	65		**27,241**	(8,291)	429	
Net income	**18,766**	15,688	20		**24,569**	2,811	774	
Diluted net income per share	**0.35**	0.29	21		**0.45**	0.05	800	
Diluted weighted-average outstanding shares[2]	**54,361**	53,234	2		**54,289**	53,181	2	
GAAP combined ratio	**100.9 %**	98.3	2.6	pts	**102.5 %**	99.6	2.9	pts
Statutory combined ratio	**101.0 %**	98.8	2.2		**101.9 %**	99.5	2.4	
Return on average equity	**7.3 %**	6.8	0.5		**4.8 %**	0.6	4.2	
Non-GAAP measures:								
Operating income[3]	**$ 22,212**	22,700	(2)	%	**$ 28,847**	25,366	14	%
Diluted operating income per share[3]	**0.41**	0.42	(2)		**0.53**	0.47	13	
Operating return on average equity[3]	**8.6**	9.8	(1.2)	pts	**5.6**	5.5	0.1	pts

[1] Refer to the Glossary of Terms attached to our 2009 Annual Report as Exhibit 99.1 for definitions of terms used in this financial review.
[2] Diluted weighted-average shares outstanding represents weighted-average common shares outstanding adjusted for the impact of dilutive common stock equivalents, if any.
[3] Operating income is used as an important financial measure by us, analysts, and investors, because the realization of investment gains and losses on sales in any given period is largely discretionary as to timing. In addition, these realized investment gains and losses, as well as other-than-temporary impairments ("OTTI") that are charged to earnings, and the results of discontinued operations, could distort the analysis of trends. See below for a reconciliation of operating income to net income in accordance with U.S. generally accepted accounting principles ("GAAP").

On a pre-tax basis, net income increased by $8.2 million in Second Quarter 2010 compared to Second Quarter 2009 due to:

- Pre-tax net investment income earned, which increased by $10.2 million, to $36.5 million, primarily driven by income of $4.9 million on the alternative investment portion of our investment portfolio in Second Quarter 2010, compared to a loss on these investments of $8.9 million in Second Quarter 2009. Our alternative investments, which are accounted for under the equity method, primarily consist of investments in limited partnerships, the majority of which report results to us on a one quarter lag. The improvement in returns on these investments is reflective of the stabilization in the capital and credit markets as compared to the same period last year. This increase was partially offset by lower fixed maturity security income of $3.0 million, resulting from lower reinvestment yields and an increase in lower yielding short-term investments. For additional information on our other investment portfolio and a discussion of the related strategies associated with this portfolio, see Note 5. "Investments" in Item 8. "Financial Statements and Supplementary Data" of our 2009 Annual Report.

- Net realized losses, pre-tax, which decreased by $8.0 million, to $3.3 million, driven by lower pre-tax non-cash OTTI charges of $6.2 million compared to OTTI charges of $12.5 million in Second Quarter 2009. See Note 6. "Investments" in Item 1. "Financial Statements" of this Form 10-Q for additional information on net realized gains and losses.

Partially offsetting these items are:

- Pre-tax underwriting losses of $3.2 million in Second Quarter 2010, compared to pre-tax underwriting income of $6.0 million in Second Quarter 2009, primarily attributable to an increase of $10.7 million of catastrophe losses and $5.8 million of non-catastrophe property losses. This increase was partially offset by favorable prior year casualty development of approximately $11 million compared to approximately $5 million in Second Quarter 2009.

Tax expense from continuing operations was $2.8 million in Second Quarter 2010 compared to a benefit of $3.1 million in Second Quarter 2009. This increase was primarily driven by the increase in pre-tax investment income and the decrease in net realized losses as discussed above.

On a pre-tax basis, net income increased by $35.5 million in Six Months 2010 compared to Six Months 2009 due to:

- Pre-tax net investment income earned, which increased by $29.2 million, to $71.3 million, primarily driven by income of $8.8 million on the alternative investment portion of our investment portfolio in Six Months 2010, compared to a loss on these investments of $29.4 million in Six Months 2009. This increase was also partially offset by lower fixed maturity security income of $6.1 million resulting from lower reinvestment yields and an increase in lower yielding short-term investments, coupled with increased investment expenses due to approximately $2.2 million of costs incurred related to our decision to outsource our investment portfolio management operations.

- Net realized losses, pre-tax, which decreased by $32.0 million, to $3.3 million, in Six Months 2010 driven by lower pre-tax non-cash OTTI charges of $14.4 million in Six Months 2010 compared to OTTI charges that were $39.6 million in Six Months 2009.

Partially offsetting these items are:

- Pre-tax underwriting losses of $17.8 million in Six Months 2010 compared to pre-tax underwriting income of $3.1 million in Six Months 2009, primarily attributable to an increase of $33.6 million in catastrophe losses. This increase was partially offset by a decrease in non-catastrophe property losses of $7.7 million and favorable prior year casualty development of $20 million compared to approximately $16 million in Six Months 2009.

Tax expense from continuing operations was $3.8 million in Six Months 2010 compared to a benefit of $11.1 million in Six Months 2009. This increase was primarily driven by the increase in pre-tax investment income and the decrease in net realized losses as discussed above.

The following table reconciles operating income and net income for the periods presented above:

		Quarter ended June 30,		**Six Months ended June 30,**	
($ in thousands, except per share amounts)		**2010**	2009	**2010**	2009
Operating income	$	**22,212**	22,700	**28,847**	25,366
Net realized losses, after tax		**(2,121)**	(7,342)	**(2,163)**	(22,958)
Income from discontinued operations, after tax		**-**	330	**-**	403
Loss on disposal of discontinued operations, after tax		**(1,325)**	-	**(2,115)**	-
Net income	$	**18,766**	15,688	**24,569**	2,811
Diluted operating income per share	$	**0.41**	0.42	**0.53**	0.47
Diluted net realized losses per share		**(0.04)**	(0.14)	**(0.04)**	(0.43)
Diluted (loss) income on disposal of discontinued operations per share		**(0.02)**	0.01	**(0.04)**	0.01
Diluted net income per share	$	**0.35**	0.29	**0.45**	0.05

On an after-tax basis, operating income was $22.2 million in Second Quarter 2010 compared to $22.7 million in Second Quarter 2009, and $28.8 million in Six Months 2010 compared to $25.4 million in Six Months 2009. For both periods, operating income reflects increases in net investment income, partially offset by the increases in underwriting losses as discussed above.

Results of Operations and Related Information by Segment

Insurance Operations

Our Insurance Operations segment writes property and casualty insurance business through seven insurance subsidiaries (the "Insurance Subsidiaries"). Our Insurance Operations segment sells property and casualty insurance products and services primarily in 22 states in the Eastern and Midwestern U.S. through approximately 980 independent insurance agencies. Our Insurance Operations segment consists of two components: (i) Commercial Lines, which markets primarily to businesses and represents approximately 83% of net premium written ("NPW"); and (ii) Personal Lines, which markets primarily to individuals and represents approximately 17% of NPW. The underwriting performance of these lines is generally measured by four different statutory ratios: (i) loss and loss expense ratio; (ii) underwriting expense ratio; (iii) dividend ratio; and (iv) combined ratio. For further details regarding these ratios, see the discussion in the "Insurance Operations" section of Item 1. "Business." of our 2009 Annual Report.

Summary of Insurance Operations

All Lines	Quarter ended June 30,		Change % or	Six Months ended June 30,		Change % or
($ in thousands)	**2010**	2009	**Points**	**2010**	2009	**Points**
GAAP Insurance Operations Results:						
NPW	**$ 353,524**	365,263	(3) %	**721,615**	741,046	(3) %
Net premiums earned ("NPE")	**352,190**	358,311	(2)	**708,392**	722,184	(2)
Less:						
Losses and loss expenses incurred	**239,980**	239,049	-	**494,123**	491,243	1
Net underwriting expenses incurred	**114,727**	112,418	2	**229,896**	226,595	1
Dividends to policyholders	**644**	812	(21)	**2,139**	1,277	68
Underwriting (loss) income	**$ (3,161)**	6,032	(152) %	**(17,766)**	3,069	(679) %
GAAP Ratios:						
Loss and loss expense ratio	**68.1 %**	66.7	1.4 pts	**69.8 %**	68.0	1.8 pts
Underwriting expense ratio	**32.6 %**	31.4	1.2	**32.4 %**	31.4	1.0
Dividends to policyholders ratio	**0.2 %**	0.2	-	**0.3 %**	0.2	0.1
Combined ratio	**100.9 %**	98.3	2.6	**102.5 %**	99.6	2.9
Statutory Ratios:						
Loss and loss expense ratio	**68.1 %**	66.7	1.4	**69.7 %**	68.0	1.7
Underwriting expense ratio	**32.7 %**	31.9	0.8	**31.9 %**	31.3	0.6
Dividends to policyholders ratio	**0.2 %**	0.2	-	**0.3 %**	0.2	0.1
Combined ratio	**101.0 %**	98.8	2.2 pts	**101.9 %**	99.5	2.4 pts

- NPW decreased in both Second Quarter and Six Months 2010 compared to Second Quarter and Six Months 2009 due to economic conditions despite Commercial Lines renewal pure price increases of 3.3% in both Second Quarter and Six Months 2010. Through Six Months 2010, we have experienced the most significant NPW decreases in our general liability and workers compensation lines of business, which have experienced reduced levels of exposure given the reductions in payroll and sales consistent with the high level of unemployment and the difficult economy. These factors are reflected in the following:
  - Reductions in new business premiums of $11.6 million, to $71.7 million, in Second Quarter 2010 and $16.9 million, to $148.2 million, in Six Months 2010;
  - Audit and endorsement return premium of $17.9 million and $36.2 million in Second Quarter and Six Months 2010, respectively, compared to $19.7 million and $37.2 million in the comparable periods in 2009; and
  - Commercial Lines retention decrease of one point in both Second Quarter and Six Months 2010, to 75% and 76%, respectively.

- NPE decreases in Second Quarter and Six Months 2010 compared to the same periods last year are consistent with the fluctuation in NPW for the 12-month period ended June 30, 2010 as compared to the 12-month period ended June 30, 2009.

- For Second Quarter 2010 compared to Second Quarter 2009, the GAAP loss and loss expense ratio increased 1.4 points, due to an increase in property losses of $16.5 million, which included increased catastrophe losses of $10.7 million, or 3.1 points, to $16.0 million, in Second Quarter 2010. The catastrophe losses in Second Quarter 2010 were driven primarily by several wind and thunderstorm events that encompassed the majority of our footprint. This was partially offset by favorable prior year casualty development of approximately $11 million, or 3.1 points, compared to approximately $5 million, or 1.5 points, in Second Quarter 2009. The development in Second Quarter 2010 was primarily due to favorable results in our 2008 and prior accident years for our general liability line of business and our 2007 through 2009 accident years on our commercial automobile line of business. This favorable development was partially offset by unfavorable development in our workers compensation line due to pressure in our 2008 and 2009 accident years resulting from higher claim severity. The favorable development in Second Quarter 2009 was driven by our workers compensation line of business.

  The 1.8-point increase in the GAAP loss and loss expense ratio for Six Months 2010 compared to Six Months 2009 was primarily attributable to an increase in catastrophe losses of $33.6 million, or 4.8 points, to $40.2 million in Six Months 2010. Partially offsetting this increase for Six Months 2010 was: (i) favorable casualty prior year development of approximately $20 million, or 2.9 points, in Six Months 2010 compared to approximately $16 million, or 2.1 points, in Six Months 2009; and (ii) a decrease in non-catastrophe losses of $7.7 million, or 0.8 points. The Six Months 2010 and 2009 development follows the same trends as the Second Quarter 2010 and Second Quarter 2009 development mentioned above.

- The increase in the GAAP underwriting expense ratio in Second Quarter and Six Months 2010, compared to the same periods in the prior year, were primarily due to premium shortfalls.

Insurance Operations Outlook

The commercial lines insurance sector remains very competitive and is not achieving pure price increases overall. We continue to work to maintain a balance between rate and retention. Recent reports from: (i) Commercial Lines Insurance Pricing Survey ("CLIPS") showed that industry pricing was relatively flat during 2009; and (ii) Advisen showed industry pricing continued its decline last year. Despite the competitive environment, our Commercial Lines renewal pure price increased 3.3% in both Second Quarter and Six Months 2010, while retention decreased one point in both periods to 75% and 76%, respectively, as compared to the same periods in the prior year. During Second Quarter 2010, we modified our pricing strategy to focus our pricing efforts on our worst performing business most aggressively to achieve profitability while focusing strongly on retention for our best performing business. As a result, overall pricing will be determined by this strategy.

Our Personal Lines operations continues to experience NPW growth driven by: (i) ongoing rate increases that went into effect during 2009 and 2010, which are expected to generate an additional $16.8 million in annual premium; (ii) higher levels of new business premium of $6.5 million, to $30.4 million through Six Months 2010; and (iii) maintaining strong retention at 83%.

The overall outlook on the industry for 2010 from key rating agencies is as follows:

- *A.M. Best Company ("A.M. Best")* – A.M. Best is maintaining a stable outlook on the industry looking forward, as they project that balance sheet strength and liquidity will remain adequate in 2010. The industry benefited from the recovery in the financial markets to post a net profit in the first quarter of 2010. However, NPW continues to deteriorate, falling 1.2% in the first quarter of 2010 amid sustained competitive market conditions in the commercial lines market, weak exposure growth, and excess capacity. The industry posted a combined ratio of 101.0% during the period, which is a result of higher than expected catastrophe losses primarily driven by the winter storms in the northeast, offset by favorable prior year development. A.M. Best believes that in 2010, the industry will continue to push personal line rate increases; however, rates in commercial lines will experience a slight decline. They continue to expect industry returns will be strained through 2010 given an anticipated sluggish economic recovery, low yields in the credit market, and the likelihood of higher catastrophe losses that are anticipated to be roughly 4.0 points on the overall 2010 statutory combined ratio.

- *Fitch Ratings ("Fitch")* – Fitch projected that they would be maintaining their negative outlook over the next year, reflecting lingering economic and financial uncertainty. In addition, Fitch projects an industry-wide statutory combined ratio of 104.0% for 2010, reflecting their belief that underwriting results will not improve significantly as they project premiums will have insignificant growth. They anticipate that underwriting results will be impacted by higher expense ratios and less favorable reserve development, partially offset by a return to historical average catastrophe loss experience.

- *Standard & Poor's Financial Services ("S&P")* – Earlier this year S&P reiterated their negative outlook on the commercial lines industry citing that although the industry has reaped some benefit from the economic recovery, commercial lines carriers are still dealing with low premium rates and weak investment returns, problems that they faced before the economic crisis began. They believe that rates will remain flat to down slightly until the economic recovery gains momentum or a large loss event serves as a catalyst for significant rate increases. Absent a large loss event, they project that a material improvement in pricing will not occur in 2010.

Our Commercial Lines business reported a statutory combined ratio of 99.9% and 100.8% for Second Quarter and Six Months 2010, respectively and our Personal Lines business reported a statutory combined ratio of 107.6% and 107.3% for the same periods. The Personal Lines statutory combined ratio included 8.5 points and 9.8 points of catastrophe losses in Second Quarter and Six Months 2010, respectively, which reflects much higher levels of catastrophe losses than we have historically experienced. In an effort to write profitable business in the current commercial and personal lines market conditions, we continue to implement a defined plan of improving risk selection and mitigating higher frequency trends to complement our strong agency relationships and unique field-based model.

Our focus for 2010 includes the following:

- Continuing to concentrate on our long-term strategy to improve profitability by diversifying our mix of business and writing more non-contractor classes of business, which typically experience lower volatility during economic cycles. Through Six Months 2010, non-contractor new business comprised 66% of Commercial Lines new business, up from 60% in Six Months 2009.
- Deploying second generation Commercial Lines predictive modeling tools that give our underwriters additional information, enabling them to make better decisions regarding individual account underwriting. These tools also provide us with increased pricing granularity, allowing our agents the ability to compete for the most attractive accounts.
- Continuing to manage our book of business by balancing anticipated Commercial Lines pure price increases with retention in a very competitive marketplace.
- Personal Lines rate increases for 2010 which we believe could generate $14.8 million in additional premium annually. Despite increases to our rates over the past several years, Personal Lines policy retention increased by four points to 83% and new policy counts increased nearly 30% from a year ago.
- Implementing our Claims Strategic Program, which focuses on enhancing areas of: (i) workers compensation best practices and targeted case management; (ii) litigation management; (iii) fraud detection and recovery recognition through use of advanced systems analytics; (iv) claims automation; and (v) vendor management. We believe that these initiatives will allow us to maintain our reputation for superior claims service while enabling us to leverage our current resources to increase the effectiveness and efficiency of the claims area.
- Sales management efforts, including our market planning tools and leads program. Our market planning tools allow us to identify and strategically appoint additional independent agencies and hire or redeploy agency management specialists ("AMS") in under-penetrated territories. We have continued to expand our independent agency count, which now stands at approximately 980 agencies across our footprint. These independent insurance agencies are serviced by approximately 100 field-based AMSs who make hands-on underwriting decisions on a daily basis. In addition, we use our predictive modeling and business analytics to build tools that help our agents identify potential new customers.
- Technology that allows agents and our field teams to input business seamlessly into our systems, including our One & Done® small business system and our *xSELerate*® straight-through processing system. Average premiums of approximately $328,000 per workday were processed through our One & Done® small business system during Second Quarter 2010, up 3% from Second Quarter 2009. These technology-based systems complement our existing underwriting group, giving them more time to focus on underwriting the more technical accounts.

Review of Underwriting Results by Line of Business

Commercial Lines Results

Commercial Lines ($ in thousands)	Quarter ended June 30, 2010	Quarter ended June 30, 2009	Change % or Points	Six Months ended June 30, 2010	Six Months ended June 30, 2009	Change % or Points
GAAP Insurance Operations Results:						
NPW	**$ 286,882**	306,630	(6) %	**598,791**	632,071	(5) %
NPE	**293,001**	305,245	(4)	**590,909**	616,790	(4)
Less:						
Losses and loss expenses incurred	**192,856**	199,821	(3)	**401,077**	411,566	(3)
Net underwriting expenses incurred	**96,196**	96,426	-	**195,360**	195,933	-
Dividends to policyholders	**644**	812	(21)	**2,139**	1,277	68
Underwriting income (loss)	**$ 3,305**	8,186	(60) %	**(7,667)**	8,014	(196) %
GAAP Ratios:						
Loss and loss expense ratio	**65.8 %**	65.5	0.3 pts	**67.9 %**	66.7	1.2 pts
Underwriting expense ratio	**32.9 %**	31.5	1.4	**33.0 %**	31.8	1.2
Dividends to policyholders ratio	**0.2 %**	0.3	(0.1)	**0.4 %**	0.2	0.2
Combined ratio	**98.9 %**	97.3	1.6	**101.3 %**	98.7	2.6
Statutory Ratios:						
Loss and loss expense ratio	**65.8 %**	65.5	0.3	**67.8 %**	66.7	1.1
Underwriting expense ratio	**33.9 %**	32.5	1.4	**32.6 %**	31.8	0.8
Dividends to policyholders ratio	**0.2 %**	0.3	(0.1)	**0.4 %**	0.2	0.2
Combined ratio	**99.9 %**	98.3	1.6 pts	**100.8 %**	98.7	2.1 pts

- NPW decreased in Second Quarter and Six Months 2010 compared to the same periods last year due to the continued economic weakness and an ongoing very competitive insurance marketplace. We have experienced the most significant decreases in our general liability and workers compensation lines of businesses due to reduced levels of exposure. This decrease is evidenced by the following:
  - Reductions in direct new business of $14.7 million, or 21%, to $55.2 million in the Second Quarter 2010 and $23.5 million, or 17%, to $117.8 million in Six Months 2010;
  - Reductions in net renewals of $5.9 million, or 2%, to $264.2 million, including a 1-point decrease in policy retention that was 75% in Second Quarter 2010 compared to 76% in Second Quarter 2009. Net renewals decreased $9.5 million, or 2%, to $543.7 million in Six Months 2010, including a 1-point decrease in retention, to 76%. These decreases were partially offset by renewal pure price increases of 3.3% in both Second Quarter and Six Months 2010 compared to a renewal pure price increase of 0.6% in Second Quarter 2009 and a decrease of 0.1% in Six Months 2009; and
  - Audit and endorsement return premium during Second Quarter and Six Months 2010 was relatively flat compared to the same periods in 2009 at $18.1 million and $36.6 million, respectively.

- NPE decreased in Second Quarter and Six Months 2010, consistent with the fluctuation in NPW for the 12-month period ended June 30, 2010 as compared to the 12-month period ended June 30, 2009.

- The 0.3-point increase in the GAAP loss and loss expense ratio in Second Quarter 2010 compared to Second Quarter 2009 was primarily attributable to catastrophe losses of $11.0 million, or 3.7 points, in Second Quarter 2010 compared to catastrophe losses of $3.8 million, or 1.2 points, in Second Quarter 2009. Second Quarter 2010 catastrophe losses were driven by 10 wind and thunderstorm events. Partially offsetting the increases in losses was approximately $12 million, or 4.1 points, of favorable casualty prior year development in Second Quarter 2010 compared to approximately $6 million, or 2.1 points, in Second Quarter 2009. The development in Second Quarter 2010 was primarily due to favorable results in our general liability and commercial automobile lines, partially offset by adverse development in our workers compensation line. The development in Second Quarter 2009 was primarily due to favorable prior year development in our workers compensation line.

The 1.2-point increase in the GAAP loss and loss expense ratio in Six Months 2010 compared to Six Months 2009 was primarily attributable to catastrophe losses of $28.7 million, or 4.9 points, in Six Months 2010 compared to catastrophe losses of $4.7 million, or 0.8 points, in Six Months 2009. Partially offsetting catastrophe losses was favorable casualty prior year development of $21 million, or 3.6 points, in Six Months 2010, compared to favorable casualty prior year development of approximately $14 million, or 2.2 points, in Six Months 2009. The development in Six Months 2010 was primarily due to favorable results in our general liability and commercial automobile lines, partially offset by adverse development in our workers compensation line. The development in Six Months 2009 was primarily due to favorable prior year development in our workers compensation line.

- The GAAP underwriting expense ratio increases in Second Quarter and Six Months 2010 compared to the same periods last year were primarily attributable to declines in premiums earned.

The following is a discussion of our most significant commercial lines of business:

General Liability

($ in thousands)	Quarter ended June 30, 2010	2009	Change % or Points	Six Months ended June 30, 2010	2009	Change % or Points
Statutory NPW	**$ 83,513**	92,429	(10) %	**173,047**	192,233	(10) %
Statutory NPE	**83,967**	91,853	(9)	**169,188**	186,077	(9)
Statutory combined ratio	**93.5 %**	103.7	(10.2) pts	**93.2 %**	104.0	(10.8) pts
% of total statutory commercial NPW	**29 %**	30		**29 %**	30	

NPW for this line of business decreased in Second Quarter and Six Months 2010 compared to the same periods last year, primarily driven by: (i) net renewal decreases of $3.8 million, or 5%, to $80.6 million in Second Quarter 2010, and $8.7 million, or 5%, to $164.4 million in Six Months 2010; (ii) new business decreases of $3.1 million, or 17%, to $15.2 million in Second Quarter 2010, and $6.1 million, or 16%, to $31.5 million in Six Months 2010; and (iii) endorsement and audit return premium of $7.7 million and $16.0 million in Second Quarter and Six Months 2010, respectively, compared to a return premium of $6.6 million and $13.0 million in the same periods a year ago. These decreases are primarily driven by the current economic weakness and competitive nature of the insurance marketplace. As of June 30, 2010, approximately 50% of this line of business's premium is subject to audit, whereby actual exposure units (usually sales or payroll) are compared to estimates and a return premium, or additional premium, transaction occurs. These decreases were partially offset by: (i) renewal pure price increases of 4.6% in Second Quarter 2010 compared to increases of 1.6% in Second Quarter 2009 and increases of 4.5% in Six Months 2010 compared to increases of 0.6% in Six Months 2009; and (ii) policy retention, which increased two points in Second Quarter and Six Months 2010, to 76% and 75%, respectively, compared to the same periods last year.

The decrease in the statutory combined ratio for Second Quarter and Six Months 2010 compared to the same period in the prior year was driven by favorable prior year development in accident years 2008 and prior of approximately $10 million, or 11.9 points, in Second Quarter 2010 and $19 million, or 11.2 points, in Six Months 2010, compared to favorable prior year development of approximately $1 million, or 1.5 points, in Second Quarter 2009 and unfavorable development of approximately $2 million, or 0.9 points, in Six Months 2009.

Workers Compensation

($ in thousands)	Quarter ended June 30, 2010	2009	Change % or Points	Six Months ended June 30, 2010	2009	Change % or Points
Statutory NPW	**$ 57,360**	64,696	(11) %	**129,543**	136,872	(5) %
Statutory NPE	**62,069**	66,590	(7)	**126,710**	136,967	(7)
Statutory combined ratio	**127.4 %**	100.9	26.5 pts	**121.7 %**	96.6	25.1 pts
% of total statutory commercial NPW	**20 %**	21		**22 %**	22	

In Second Quarter and Six Months 2010, NPW on this line decreased compared to the same periods last year, primarily driven by a reduction in exposure due to the elevated levels of unemployment. This is reflected in: (i) new business decreases of $6.5 million, or 36%, to $11.7 million in Second Quarter 2010, and $10.3 million, or 28%, to $26.6 million in Six Months 2010; and (ii) net renewal decreases of $3.2 million, or 5%, to $57.7 million in Second Quarter 2010. Net renewals were relatively flat for Six Months 2010 compared to Six Months 2009 at $126.1 million. In addition, endorsement and audit return premium was $10.1 million in Second Quarter 2010 and $18.5 million in Six Months 2010, compared to return premium of $12.0 million and $20.6 in Second Quarter and Six Months 2009, respectively. These decreases were partially offset by renewal pure price increases of 2.0% in Second Quarter 2010 compared to increases of 0.2% in Second Quarter 2009, and increases of 2.2% in Six Months 2010 compared to decreases of 0.4% in Six Months 2009.

The increase in the statutory combined ratio of this line in Second Quarter and Six Months 2010 compared to the same periods last year reflects unfavorable prior year statutory development of approximately $8 million, or 12.9 points, in Second Quarter 2010 and unfavorable prior year development of approximately $14 million, or 11.0 points, in Six Months 2010 primarily associated with increased severity in the 2008 and 2009 accident years, compared to favorable development of approximately $4 million, or 6.0 points, in Second Quarter 2009 and favorable development of approximately $11 million, or 8.0 points, in Six Months 2009 driven by favorable emergence in the 2007 and prior accident years.

Commercial Automobile

($ in thousands)	Quarter ended June 30, 2010	2009	Change % or Points	Six Months ended June 30, 2010	2009	Change % or Points
Statutory NPW	**$ 72,770**	76,187	(4) %	**148,255**	156,046	(5) %
Statutory NPE	**73,176**	75,339	(3)	**147,492**	151,185	(2)
Statutory combined ratio	**87.9 %**	99.0	(11.1) pts	**89.4 %**	97.6	(8.2) pts
% of total statutory commercial NPW	**25 %**	25		**25 %**	25	

The decrease in NPW in Second Quarter and Six Months 2010 compared to the same period last year was primarily driven by: (i) net renewals that decreased $1.9 million, or 3%, to $60.9 million in Second Quarter 2010 and $6.1 million, or 5%, to $123.4 million in Six Months 2010, reflecting a decrease in policy retention of one point to 77% in both periods; and (ii) new business decreases of $2.0 million, or 14%, to $12.1 million in Second Quarter 2010 and a decrease of $3.0 million, or 11%, to $25.5 million in Six Months 2010 compared to the same periods last year. These decreases were partially offset by renewal pure price increases of 3.2% and 3.4% in Second Quarter and Six Months 2010, respectively, compared to increases of 0.8% and 0.2% in Second Quarter and Six Months 2009, respectively.

The decrease in the statutory combined ratio for Second Quarter and Six Months 2010 compared to the same periods last year, was primarily driven by favorable casualty prior year development of approximately $10 million, or 13.7 points, in Second Quarter 2010, due to lower than anticipated severity primarily in the 2007 through 2009 accident years, and favorable casualty prior year development of approximately $17 million, or 11.2 points, in Six Months 2010, due to lower than anticipated severity primarily in the 2005 through 2009 accident years, compared to favorable casualty prior year development in Second Quarter 2009 of approximately $2 million, or 2.0 points, and favorable casualty prior year development of approximately $5 million, or 3.0 points, in Six Months 2009, due to favorable emergence in accident years 2005 through 2007.

Commercial Property

($ in thousands)	Quarter ended June 30, 2010	2009	Change % or Points	Six Months ended June 30, 2010	2009	Change % or Points
Statutory NPW	**$ 49,502**	50,217	(1) %	**99,641**	100,451	(1) %
Statutory NPE	**50,295**	48,970	3	**100,630**	97,855	3
Statutory combined ratio	**90.3 %**	78.6	11.7 pts	**99.3 %**	89.8	9.5 pts
% of total statutory commercial NPW	**17 %**	16		**17 %**	16	

NPW for this line of business decreased slightly in Second Quarter 2010 and Six Months 2010 compared to Second Quarter 2009 and Six Months 2009 due to new business premium decreases of $2.5 million, or 22%, to $8.9 million in Second Quarter 2010, and $3.8 million, or 16%, to $19.5 million in Six Months 2010. This was partially offset by net renewal increases of $1.1 million, or 3%, to $44.5 million in Second Quarter 2010, and $2.6 million, or 3%, to $88.5 million in Six Months 2010. These net renewal increases were driven by renewal pure price increases of 2.5% in Second Quarter 2010 compared to decreases of 0.2% in Second Quarter 2009, and increases of 2.4% in Six Months 2010 compared to decreases of 0.8% in Six Months 2009.

NPE increases in Second Quarter and Six Month 2010 compared to the same periods last year, are driven by the increase in NPW for the 12-month period ended June 30, 2010 as compared to the 12-month period ended June 30, 2009.

The increase in the statutory combined ratio for Second Quarter 2010 and Six Months 2010 compared to same periods last year was driven by an increase in catastrophe losses of $6.9 million, or 13.5 points, in Second Quarter 2010, and an increase in catastrophe losses of $20.5 million, or 20.3 points, in Six Months 2010. This increased level of catastrophe losses is due largely to a high frequency of catastrophic events in our footprint area, including three major snow, ice, and wind storms in February 2010 and two major rain, hail, and wind storms in March 2010 in the northeast and mid-Atlantic states coupled with several wind and thunderstorm events during Second Quarter 2010. This was partially offset by decreases in non-catastrophe property losses of $0.5 million, or 1.8 points, in Second Quarter 2010, and $9.4 million, or 10.5 points, in Six Months 2010.

Personal Lines Results

Personal Lines ($ in thousands)	Quarter ended June 30, 2010	Quarter ended June 30, 2009	Change % or Points	Six Months ended June 30, 2010	Six Months ended June 30, 2009	Change % or Points
GAAP Insurance Operations Results:						
NPW	**$ 66,642**	58,633	14 %	**122,824**	108,975	13 %
NPE	**59,189**	53,066	12	**117,483**	105,394	11
Less:						
Losses and loss expenses incurred	**47,124**	39,228	20	**93,046**	79,677	17
Net underwriting expenses incurred	**18,531**	15,992	16	**34,536**	30,662	13
Underwriting loss	**$ (6,466)**	(2,154)	(200) %	**(10,099)**	(4,945)	(104) %
GAAP Ratios:						
Loss and loss expense ratio	**79.6 %**	73.9	5.7 pts	**79.2 %**	75.6	3.6 pts
Underwriting expense ratio	**31.3 %**	30.2	1.1	**29.4 %**	29.1	0.3
Combined ratio	**110.9 %**	104.1	6.8	**108.6 %**	104.7	3.9
Statutory Ratios:						
Loss and loss expense ratio	**79.6 %**	74.0	5.6	**79.2 %**	75.6	3.6
Underwriting expense ratio	**28.0 %**	28.1	(0.1)	**28.1 %**	28.9	(0.8)
Combined ratio	**107.6 %**	102.1	5.5 pts	**107.3 %**	104.5	2.8 pts

- NPW increased in Second Quarter and Six Months 2010 compared to Second Quarter and Six Months 2009 primarily due to:
  - 21 rate increases, 16 of which are 5% or more, that went into effect across our Personal Lines footprint during Six Months 2010 and are expected to generate an additional $10.1 million in annual premium;
  - New business direct premium written increases of $3.1 million, or 23%, to $16.5 million for Second Quarter 2010 and $6.5 million, or 27%, to $30.4 million for Six Months 2010;
  - Net renewal direct premium written increases of $4.7 million, or 10%, to $51.6 million for Second Quarter 2010 and $6.5 million, or 7%, to $95.3 million for Six Months 2010; and
  - Policy retention increase of four points to 83%.

- NPE increases in Second Quarter and Six Months 2010, compared to the same periods last year, are consistent with the fluctuation in NPW for the 12-month period ended June 30, 2010 as compared to the 12-month period ended June 30, 2009.

- The 5.7-point increase in the GAAP loss and loss expense ratio in Second Quarter 2010 compared to Second Quarter 2009 was primarily attributable to increased property losses of $8.4 million, or 11.5 points, which included an increase in catastrophe losses of $3.6 million driven by several wind and thunderstorm events. This was partially offset by premium earned outpacing loss costs.

  The 3.6-point increase in the GAAP loss and loss expense ratio for the Six Months 2010 compared to Six Months 2009 was attributable to an increase in catastrophe losses of $9.6 million, or 8.0 points, driven by the above mentioned Second Quarter 2010 catastrophe losses and three major snow, ice, and wind storms in February 2010 and two major rain, hail, and wind storms in March 2010. This increase was partially offset by premium earned outpacing loss costs.

- The increase in the GAAP underwriting expense ratio in Second Quarter and Six Months 2010 compared to Second Quarter and Six Months 2009 was primarily attributable to a South Carolina municipal tax levied on our flood premiums related to our 2008 and 2009 tax years.

We continue to work to achieve the necessary rate increases across our footprint states to improve profitability. In addition, our strategy on this line includes: (i) writing new policies in our expansion states; (ii) continued diversification in our territory structure; and (iii) providing the excellent service that our policyholders and agents demand. The rate increases that we anticipate obtaining in 2010 are expected to generate an additional $14.8 million in annual premium. Policy retention continues to be positive, despite increases to our rates over the past several years. We believe that this increase in policy retention reflects the hardening of the personal lines market as well as: (i) the ability of our pricing tools to comprehensively analyze where rate increases are appropriate; and (ii) our strategy to obtain high retention, low frequency accounts in our core book of business.

Reinsurance

We have successfully completed negotiations of our July 1, 2010 excess of loss treaties with highlights as follows:

Property Excess of Loss

The Property Excess of Loss treaty ("Property Treaty") was renewed with the same terms as the expiring treaty providing for per risk coverage of $28.0 million in excess of a $2.0 million retention.

- The per occurrence cap on the total program is $64.0 million.
- The first layer continues to have unlimited reinstatements. The annual aggregate limit for the second, $20.0 million in excess of $10.0 million, layer remains at $80.0 million.
- Consistent with the prior year treaty, the Property Treaty excludes nuclear, biological, chemical, and radiological terrorism losses.
- The renewal treaty rate decreased by 2%.

Casualty Excess of Loss

The Casualty Excess of Loss treaty ("Casualty Treaty") was renewed with the same terms as the expiring treaty providing the following per occurrence coverage:

- The first layer provides coverage for 85% of up to $3.0 million in excess of a $2.0 million retention.
- The next five layers provide coverage for 100% of up to $85.0 million in excess of $5.0 million.
- Consistent with the prior year, the Casualty Treaty excludes nuclear, biological, chemical, and radiological terrorism losses. Annual aggregate terrorism limits, net of co-participation, remained the same at $198.8 million.
- The renewal treaty rate increased by 9%.

Investments

As mid-year 2010 approached, global markets had turned more pessimistic with regard to the economic recovery. Concerns over slowing global growth, particularly in China, the European sovereign debt crisis, and the failure to contain the Gulf of Mexico oil spill tempered the optimism that rallied financial markets in the first quarter of 2010. U.S. growth, albeit modest for 2010, is expected to be slow but positive over the remainder of the year. Federal funds rates remained low, which contributed to the continued recovery in valuations of fixed maturity securities. We saw improvement in our overall investment portfolio and had an increase in pre-tax unrealized/unrecognized gains of $44.4 million during Six Months 2010.

Credit quality of our fixed maturity portfolio continues to remain high, with an average S&P rating of "AA+." This is primarily due to the large allocation of the fixed income portfolio to high-quality municipal bonds, agency residential mortgage-backed securities ("RMBS"), and government and agency obligations. Although we maintain a high-quality municipal bond portfolio at an average S&P rating of "AA+", we continue to closely monitor this portfolio given the general uncertainty about states and municipalities and the ability of such issuers to fulfill their obligations in light of ongoing budget constraints. Exposure to non-investment grade bonds represents only 1% of the total fixed maturity portfolio. We have 19 non-investment grade rated securities in the investment portfolio with a total fair value of $29.0 million and an unrealized/unrecognized loss balance of $6.7 million as of June 30, 2010.

During the first half of 2010 we decided to outsource our investment management operations to two third party managers, which does not indicate a change to our overall investment strategy, only a change in the execution model. We expect to benefit from broader specific sector knowledge, advanced risk management tools, and greater flexibility in trade execution.

Our investment philosophy includes certain return and risk objectives for the fixed maturity and equity portfolios. The primary fixed maturity portfolio return objective is to maximize after-tax investment yield and income while balancing risk. A secondary objective is to meet or exceed a weighted-average benchmark of public fixed income indices. The equity portfolio return objective is to meet or exceed a weighted-average benchmark of public equity indices. Although yield and income generation remain the key drivers to our investment strategy, our overall philosophy is to invest with a long-term horizon along with a "buy-and-hold" principle.

The following table presents information regarding our investment portfolio:

($ in thousands)	Quarter ended June 30, 2010	Quarter ended June 30, 2009	Change % or Points	Six Months ended June 30, 2010	Six Months ended June 30, 2009	Change % or Points
Total invested assets				$ **3,890,628**	3,618,987	8 %
Net investment income – before tax	$ **36,545**	26,368	39 %	**71,251**	42,085	69
Net investment income – after tax	**27,928**	21,869	28	**54,753**	37,010	48
Unrealized gain during the period – before tax	**35,097**	35,174	(0)	**44,422**	92,751	(52)
Unrealized gain during the period – after tax	**22,813**	22,863	(0)	**28,874**	60,288	(52)
Net realized losses – before tax	**(3,264)**	(11,294)	71	**(3,328)**	(35,319)	91
Net realized losses – after tax	**(2,121)**	(7,342)	71	**(2,163)**	(22,958)	91
Effective tax rate	**23.6 %**	17.1	6.5 pts	**23.2 %**	12.1	11.1 pts
Annual after-tax yield on fixed maturity securities				**2.9 %**	3.4	(0.5)
Annual after-tax yield on investment portfolio				**2.9 %**	2.1	0.8

Total Invested Assets

Our investment portfolio totaled $3.9 billion at June 30, 2010, an increase of 8% compared to June 30, 2009. This was driven primarily by valuation improvements within the fixed income portfolio, which resulted in an $87.0 million improvement in unrealized gains, bringing the portfolio from a $1.4 million unrealized gain position at June 30, 2009 to an $88.4 million unrealized gain position at June 30, 2010. Available cash flows from calls and maturities, equity sales, and other operating cash flows were invested in short-term investments to help mitigate market risk and to increase the amount of liquid assets available for the new investment managers to deploy after the transition of the portfolio in June 2010.

Our investment portfolio consists primarily of fixed maturity investments (85%), but also contains short-term investments (9%), other investments (4%), and equity securities (2%). We structure our portfolio conservatively with a focus on: (i) asset diversification; (ii) investment quality; (iii) liquidity, particularly to meet the cash obligations of our Insurance Operations segment; (iv) consideration of taxes; and (v) preservation of capital. We believe that we have a high quality and liquid investment portfolio. The duration of the fixed maturity portfolio as of June 30, 2010, including short-term investments, was an average 3.3 years compared to the Insurance Subsidiaries' liability duration of approximately 3.6 years, which was relatively consistent with the prior year. The current duration of the fixed maturity portfolio is within our historical range, and is monitored and managed to maximize yield and limit interest rate risk. We manage liquidity with a laddered maturity structure and an appropriate level of short-term investments to avoid liquidation of available-for-sale ("AFS") fixed maturities in the ordinary course of business. We typically have a long investment time horizon and every purchase or sale is made with the intent of improving future investment returns while balancing capital preservation.

As of June 30, 2010, alternative investments represented 4% of our total invested assets. In addition to the capital that we have already invested to date, we are contractually obligated to invest up to an additional $94.8 million in these alternative investments through commitments that currently expire at various dates through 2023. See Note 6. "Investments" in Item 1. "Financial Statements" of this Form 10-Q for quantitative data on our alternative investments portfolio by strategy.

Our portfolio continues to have a weighted average credit rating of "AA+" despite ratings migration due to general economic conditions. The following table presents the credit ratings of our fixed maturity portfolios:

Fixed Maturity Rating	**June 30, 2010**	December 31, 2009
Aaa/AAA	**51%**	57%
Aa/AA	**26%**	25%
A/A	**18%**	14%
Baa/BBB	**4%**	3%
Ba/BB or below	**1%**	1%
Total	**100%**	100%

To manage and mitigate exposure to losses, we analyze our mortgage-backed securities ("MBS") both at the time of purchase and as part of the ongoing portfolio evaluation. This analysis may include loan level reviews of average FICO® scores, loan-to-value ratios, geographic spread of the assets securing the bond, delinquencies in payments for the underlying mortgages, gains/losses on sales, evaluations of projected cash flows under various economic and default scenarios, as well as other information that aids in determining the health of the underlying assets. We also consider the overall credit environment, economic conditions, total projected return on the investment, and overall asset allocation of the portfolio in our decisions to purchase or sell structured securities. For additional information regarding credit risk associated with our portfolio, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk." in our 2009 Annual Report.

The following table summarizes the fair value, unrealized gain (loss) balances, and the weighted average credit qualities of our AFS fixed maturity securities at June 30, 2010 and December 31, 2009:

	June 30, 2010			December 31, 2009		
($ in millions)	**Fair Value**	**Unrealized Gain (Loss)**	**Average Credit Quality**	Fair Value	Unrealized Gain (Loss)	Average Credit Quality
AFS Fixed Maturity Portfolio:						
U.S. government obligations[1]	**$ 392.6**	**9.5**	**AAA**	$ 475.6	1.8	AAA
State and municipal obligations	**465.6**	**24.3**	**AA+**	379.8	20.3	AA+
Corporate securities	**647.7**	**31.7**	**A+**	379.6	14.1	A+
MBS	**331.8**	**5.0**	**AA+**	373.9	(17.2)	AA+
Asset-backed securities ("ABS")	**32.7**	**0.9**	**AA+**	27.0	0.4	AA
Total AFS portfolio	**$ 1,870.4**	**71.4**	**AA+**	$ 1,635.9	19.4	AA+
State and Municipal Obligations:						
General obligations	**$ 271.0**	**12.9**	**AAA**	$ 222.6	11.0	AA+
Special revenue obligations	**194.6**	**11.4**	**AA+**	157.2	9.3	AA+
Total state and municipal obligations	**$ 465.6**	**24.3**	**AA+**	$ 379.8	20.3	AA+
Corporate Securities:						
Financial	**$ 177.7**	**5.6**	**A+**	$ 67.4	3.0	AA-
Industrials	**70.8**	**5.2**	**A**	46.6	2.2	A
Utilities	**22.6**	**1.5**	**BBB+**	18.9	0.9	A-
Consumer discretion	**46.2**	**2.6**	**A**	26.3	1.3	A-
Consumer staples	**66.7**	**3.9**	**A-**	51.6	1.4	A
Healthcare	**110.3**	**6.4**	**AA-**	52.8	1.7	AA-
Materials	**21.7**	**1.8**	**A-**	20.7	0.8	A-
Energy	**55.0**	**0.5**	**AA-**	42.4	1.3	AA-
Information technology	**24.7**	**1.1**	**A+**	10.8	0.1	AA
Telecommunications services	**20.4**	**1.0**	**A**	14.6	0.5	A
Other	**31.6**	**2.1**	**A**	27.5	0.9	A
Total corporate securities	**$ 647.7**	**31.7**	**A+**	$ 379.6	14.1	A+
MBS:						
Government guaranteed agency commercial mortgage-backed securities ("CMBS")	**$ 73.7**	**4.0**	**AAA**	$ 94.6	1.1	AAA
Non-agency CMBS	**9.3**	**(4.2)**	**B+**	-	-	-
Government guaranteed agency RMBS	**95.6**	**3.6**	**AAA**	105.2	0.1	AAA
Other agency RMBS	**116.7**	**4.8**	**AAA**	119.8	1.9	AAA
Non-agency RMBS	**25.6**	**(2.5)**	**BBB-**	30.2	(12.8)	A-
Alternative-A ("Alt-A") RMBS	**10.9**	**(0.7)**	**AAA**	24.1	(7.5)	A-
Total MBS	**$ 331.8**	**5.0**	**AA+**	$ 373.9	(17.2)	AA+
ABS:						
ABS	**$ 31.8**	**1.2**	**AA+**	$ 27.0	0.4	AA
Sub prime ABS[2, 3]	**0.9**	**(0.3)**	**D**	-	-	-
Total ABS	**$ 32.7**	**0.9**	**AA+**	$ 27.0	0.4	AA

[1] U.S. government includes corporate securities fully guaranteed by the Federal Depositary Insurance Corporation ("FDIC").
[2] We define sub-prime exposure as exposure to direct and indirect investments in non-agency residential mortgages with average FICO® scores below 650.
[3] Subprime ABS includes one security which is currently expected to default on its obligations according to the rating agencies.

The following tables provide information regarding our held-to-maturity ("HTM") fixed maturity securities and their credit qualities at June 30, 2010 and December 31, 2009:

June 30, 2010 ($ in millions)		**Fair Value**	**Carry Value**	**Unrecognized Holding Gain (Loss)**	**Unrealized Gain (Loss) in Accumulated OCI**	**Total Unrealized/ Unrecognized Gain (Loss)**	**Average Credit Quality**
HTM Fixed Maturity Portfolio:							
U.S. government obligations[1]	**$**	**106.6**	**101.7**	**4.9**	**5.1**	**10.0**	**AAA**
State and municipal obligations		**1,095.3**	**1,072.2**	**23.1**	**27.2**	**50.3**	**AA+**
Corporate securities		**99.5**	**89.8**	**9.7**	**(4.6)**	**5.1**	**A**
MBS		**190.1**	**181.3**	**8.8**	**(7.7)**	**1.1**	**AAA**
ABS		**19.4**	**16.9**	**2.5**	**(3.0)**	**(0.5)**	**A**
Total HTM portfolio	**$**	**1,510.9**	**1,461.9**	**49.0**	**17.0**	**66.0**	**AA+**
State and Municipal Obligations:							
General obligations	$	**295.1**	**289.9**	**5.2**	**12.6**	**17.8**	**AA+**
Special revenue obligations		**800.2**	**782.3**	**17.9**	**14.6**	**32.5**	**AA**
Total state and municipal obligations	$	**1,095.3**	**1,072.2**	**23.1**	**27.2**	**50.3**	**AA+**
Corporate Securities:							
Financial	**$**	**34.0**	**30.2**	**3.8**	**(2.6)**	**1.2**	**A**
Industrials		**24.5**	**20.6**	**3.9**	**(1.8)**	**2.1**	**A**
Utilities		**17.2**	**16.3**	**0.9**	**(0.1)**	**0.8**	**A-**
Consumer discretion		**12.6**	**12.7**	**(0.1)**	**0.3**	**0.2**	**A+**
Consumer staples		**5.4**	**4.9**	**0.5**	**(0.1)**	**0.4**	**A**
Materials		**2.2**	**1.9**	**0.3**	**(0.1)**	**0.2**	**BBB-**
Energy		**3.6**	**3.2**	**0.4**	**(0.2)**	**0.2**	**BB+**
Total corporate securities	**$**	**99.5**	**89.8**	**9.7**	**(4.6)**	**5.1**	**A**
MBS:							
Government guaranteed agency CMBS	**$**	**10.6**	**10.3**	**0.3**	**-**	**0.3**	**AAA**
Other agency CMBS		**3.7**	**3.7**	**-**	**-**	**-**	**AAA**
Non-agency CMBS		**53.3**	**48.0**	**5.3**	**(9.3)**	**(4.0)**	**AA+**
Government guaranteed agency RMBS		**4.4**	**4.0**	**0.4**	**-**	**0.4**	**AAA**
Other agency RMBS		**112.1**	**109.2**	**2.9**	**1.8**	**4.7**	**AAA**
Non-agency RMBS		**6.0**	**6.1**	**(0.1)**	**(0.2)**	**(0.3)**	**AAA**
Total MBS	**$**	**190.1**	**181.3**	**8.8**	**(7.7)**	**1.1**	**AAA**
ABS:							
ABS	**$**	**17.8**	**16.0**	**1.8**	**(2.4)**	**(0.6)**	**AA-**
Alt-A ABS		**1.6**	**0.9**	**0.7**	**(0.6)**	**0.1**	**CC**
Total ABS	**$**	**19.4**	**16.9**	**2.5**	**(3.0)**	**(0.5)**	**A**

December 31, 2009 ($ in millions)		Fair Value	Carry Value	Unrecognized Holding Gain (Loss)	Unrealized Gain (Loss) in Accumulated OCI	Total Unrealized/ Unrecognized Gain (Loss)	Average Credit Quality
HTM Fixed Maturity Portfolio:							
U.S. government obligations[1]	**$**	146.0	144.8	1.2	5.6	6.8	AAA
State and municipal obligations		1,210.8	1,201.4	9.4	33.9	43.3	AA
Corporate securities		107.5	98.8	8.7	(6.0)	2.7	A-
MBS		242.8	236.4	6.4	(17.6)	(11.2)	AA+
ABS		33.1	29.0	4.1	(6.0)	(1.9)	AA-
Total HTM portfolio	**$**	1,740.2	1,710.4	29.8	9.9	39.7	AA+
State and Municipal Obligations:							
General obligations	$	301.5	300.8	0.7	14.7	15.4	AA+
Special revenue obligations		909.3	900.6	8.7	19.2	27.9	AA
Total state and municipal obligations	$	1,210.8	1,201.4	9.4	33.9	43.3	AA
Corporate Securities:							
Financial	**$**	35.4	31.8	3.6	(4.0)	(0.4)	A
Industrials		29.1	25.7	3.4	(2.0)	1.4	A-
Utilities		16.5	16.3	0.2	(0.1)	0.1	A-
Consumer discretion		6.3	6.0	0.3	-	0.3	BBB+
Consumer staples		14.6	13.9	0.7	0.5	1.2	AA-
Materials		2.1	1.9	0.2	(0.1)	0.1	BBB-
Energy		3.5	3.2	0.3	(0.3)	-	BB+
Total corporate securities	**$**	107.5	98.8	8.7	(6.0)	2.7	A-
MBS							
Government guaranteed agency CMBS	**$**	11.1	10.8	0.3	-	0.3	AAA
Other agency CMBS		3.8	3.8	-	0.1	0.1	AAA
Non-agency CMBS		77.6	74.4	3.2	(18.9)	(15.7)	AA+
Government guaranteed agency RMBS		4.2	3.9	0.3	(0.2)	0.1	AAA
Other agency RMBS		140.2	137.7	2.5	2.5	5.0	AAA
Non-agency RMBS		5.9	5.8	0.1	(1.1)	(1.0)	AAA
Total MBS	**$**	242.8	236.4	6.4	(17.6)	(11.2)	AA+
ABS:							
ABS	**$**	30.2	27.0	3.2	(5.1)	(1.9)	AA
Alt-A ABS		1.8	1.0	0.8	(0.5)	0.3	CC
Sub-prime ABS[2]		1.1	1.0	0.1	(0.4)	(0.3)	A
Total ABS	**$**	33.1	29.0	4.1	(6.0)	(1.9)	AA-

[1]U.S. government includes corporate securities fully guaranteed by the FDIC.

[2] We define sub-prime exposure as exposure to direct and indirect investments in non-agency residential mortgages with average FICO® scores below 650.

A portion of our AFS and HTM municipal bonds contain insurance enhancements. The following table provides information regarding these insurance-enhanced securities as of June 30, 2010:

Insurers of Municipal Bond Securities ($ in thousands)		**Fair Value**	**Ratings with Insurance**	**Ratings without Insurance**
MBIA Inc.	$	**251,174**	**AA-**	**A+**
Assured Guaranty		**207,002**	**AA+**	**AA**
Financial Guaranty Insurance Company		**132,051**	**AA-**	**AA-**
Ambac Financial Group, Inc.		**113,081**	**AA-**	**AA-**
Other		**8,235**	**AA**	**A**
Total	$	**711,543**	**AA**	**AA-**

The following table details the top 10 state exposures of the municipal bond portion of our fixed maturity portfolio at June 30, 2010:

State Exposures of Municipal Bonds ($ in thousands)		**General Obligation**	**Special Revenue**		**Fair Value**	**Average Credit Quality**
Texas	$	**113,381**	**76,390**		**189,771**	**AA+**
Washington		**47,994**	**47,100**		**95,094**	**AA+**
Florida		**521**	**89,228**		**89,749**	**AA-**
Arizona		**6,911**	**73,734**		**80,645**	**AA+**
North Carolina		**41,290**	**30,325**		**71,615**	**AA+**
New York		**-**	**69,066**		**69,066**	**AA+**
Illinois		**20,667**	**43,651**		**64,318**	**AA**
Ohio		**21,475**	**34,960**		**56,435**	**AA+**
Colorado		**35,300**	**22,999**		**58,299**	**AA**
Other		**259,243**	**466,419**		**725,662**	**AA+**
	$	**546,782**	**953,872**		**1,500,654**	**AA+**
Advanced refunded/escrowed to maturity bonds		**19,295**	**40,896**		**60,191**	**AA+**
Total	$	**566,077**	**994,768**	**$**	**1,560,845**	**AA+**

Special revenue fixed income securities of municipalities (referred to as "special revenue bonds") generally do not have the "full faith and credit" backing of the municipal or state governments, as do general obligation bonds, but special revenue bonds have a dedicated revenue stream for repayment which can, in many instances, provide a higher quality credit profile than general obligation bonds. As such, we believe our special revenue bond portfolio is appropriate for the current environment. The following table provides further quantitative details on our special revenue bonds:

June 30, 2010 ($ in thousands)		**Market Value**	**% of Special Revenue Bonds**	**Average Rating**
Essential Services:				
Transportation	**$**	**197,672**	**21%**	**AA**
Water and Sewer		**177,253**	**19%**	**AA+**
Electric		**114,309**	**12%**	**AA**
Total Essential Services		**489,234**	**52%**	**AA+**
Education		**149,852**	**16%**	**AA+**
Special Tax		**116,009**	**12%**	**AA**
Housing		**92,628**	**10%**	**AA+**
Other:				
Leasing		**43,426**	**4%**	**AA**
Hospital		**20,349**	**2%**	**AA-**
Other		**42,374**	**4%**	**AA-**
Total Other		**106,149**	**10%**	**AA**
Total Special Revenue Bonds	**$**	**953,872**	**100%**	**AA+**

For details regarding our special revenue bond sectors, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk." of our 2009 Annual Report.

Net Investment Income

Net investment income, before tax, increased $10.2 million and $29.2 million, for Second Quarter 2010 and Six Months 2010, respectively, compared to the same periods last year. For both Second Quarter and Six Months 2010 the improvement was driven by income on the alternative investment portion of our other investment portfolio compared to a loss on these investments in the comparable periods during 2009. The improvement in returns on this portfolio is also the primary driver in both the increase in our investment portfolio's effective tax rate, to 23.6% from 17.1% for Second Quarter 2010 and to 23.2% from 12.1% for Six Months 2010, as well as the increase in the annualized after-tax yield on the overall portfolio, to 2.9% from 2.1%.

Our alternative investments, which are accounted for under the equity method, primarily consist of investments in limited partnerships, the majority of which report results to us on a one quarter lag. The improvement in the returns on these investments is reflective of improved equity and credit markets, as well as increased stability in the financial markets. In addition, the 2009 adoption of fair value accounting guidance had led to increased volatility in the period-to-period changes in the fair values associated with the underlying assets of the partnerships which, under the revised guidance, are based on current exit values. Partially offsetting the improved alternative investment returns was: (i) decreases in fixed maturity security income of $3.0 million for Second Quarter 2010 and $6.1 million for Six Months 2010 resulting primarily from lower fixed maturity reinvestment yields; (ii) an increase in lower yielding short-term investments as part of our transition to the new investment managers; and (iii) an increase in investment expense which included one-time charges of approximately $0.5 million and $2.2 million in Second Quarter and Six Months 2010, respectively, related to our decision to outsource the management of our investment portfolio. These reduced yields drove our year-to-date after-tax yield on our fixed maturity securities portfolio to 2.9% from 3.4% at this point in 2009.

Realized Gains and Losses:

Realized Gains and Losses (excluding OTTI)

Realized gains and losses, by type of security excluding OTTI charges, are determined on the basis of the cost of specific investments sold and are credited or charged to income. The components of net realized losses at June 30 were as follows:

		Quarter ended June 30,		Six Months ended June 30,	
($ in thousands)		**2010**	2009	**2010**	2009
HTM fixed maturity securities					
Gains	$	**368**	112	**412**	138
Losses		**(210)**	(125)	**(450)**	(294)
AFS fixed maturity securities					
Gains		**325**	9,090	**4,782**	13,598
Losses		**(7,558)**	(7,055)	**(7,589)**	(8,959)
AFS equity securities					
Gains		**9,995**	9,043	**14,174**	28,706
Losses		**-**	(8,695)	**(233)**	(27,744)
Other Investments					
Gains		**-**	-	**-**	-
Losses		**-**	(1,189)	**-**	(1,189)
Total other net realized investment gains		**2,920**	1,181	**11,096**	4,256
Total OTTI charges recognized in earnings		**(6,184)**	(12,475)	**(14,424)**	(39,575)
Total net realized losses	$	**(3,264)**	(11,294)	**(3,328)**	(35,319)

The following table presents the period of time that securities sold at a loss were continuously in an unrealized loss position prior to sale:

Period of Time in an Unrealized Loss Position	**Quarter ended June 30, 2010**		Quarter ended June 30, 2009	
($ in thousands)	**Fair Value on Sale Date**	**Realized Loss**	Fair Value on Sale Date	Realized Loss
Fixed maturities:				
0 – 6 months	**$ 6,403**	**432**	13,574	2,132
7 – 12 months	**-**	**-**	14,215	2,486
Greater than 12 months	**10,257**	**7,098**	27,042	2,609
Total fixed maturities	**16,660**	**7,530**	54,831	7,227
Equities:				
0 – 6 months	**-**	**-**	10,934	8,695
7 – 12 months	**-**	**-**	-	-
Total equity securities	**-**	**-**	10,934	8,695
Other investments				
7 – 12 months	**-**	**-**	4,816	1,189
Total other investments	**-**	**-**	4,816	1,189
Total	**$ 16,660**	**7,530**	70,581	17,111

Period of Time in an Unrealized Loss Position	**Six Months ended June 30, 2010**		Six Months ended June 30, 2009	
($ in thousands)	**Fair Value on Sale Date**	**Realized Loss**	Fair Value on Sale Date	Realized Loss
Fixed maturities:				
0 – 6 months	**$ 11,462**	**463**	44,165	2,460
7 – 12 months	**-**	**-**	38,292	3,424
Greater than 12 months	**10,257**	**7,098**	36,418	3,247
Total fixed maturities	**21,719**	**7,561**	118,875	9,131
Equities:				
0 – 6 months	**4,128**	**233**	27,313	20,308
7 – 12 months	**-**	**-**	8,230	7,436
Total equity securities	**4,128**	**233**	35,543	27,744
Other investments				
7 – 12 months	**-**	**-**	4,816	1,189
Total other investments	**-**	**-**	4,816	1,189
Total	**$ 25,847**	**7,794**	159,234	38,064

For a discussion of realized gains and losses, see Note 6. “Investments” in Item 1. “Financial Statements” of this Form 10-Q.

Other-than-Temporary Impairments

The following table provides information regarding our OTTI charges recognized in earnings:

($ in thousands)		Quarter ended June 30, 2010	Quarter ended June 30, 2009	Six Months ended June 30, 2010	Six Months ended June 30, 2009
HTM securities					
ABS	$	**-**	1,202	**31**	2,353
CMBS		**1,464**	711	**4,125**	711
RMBS		**317**	-	**317**	-
Total HTM securities		**1,781**	1,913	**4,473**	3,064
AFS securities					
Corporate securities		**-**	1,271	**-**	1,271
CMBS		**1,372**	-	**1,372**	-
RMBS		**2,359**	8,650	**7,907**	33,795
Total fixed maturity AFS securities		**3,731**	9,921	**9,279**	35,066
Equity securities		**672**	641	**672**	1,445
Total AFS securities		**4,403**	10,562	**9,951**	36,511
Total OTTI charges recognized in earnings	$	**6,184**	12,475	**14,424**	39,575

We regularly review our entire investment portfolio for declines in fair value. If we believe that a decline in the value of a particular investment is other than temporary, we record it as an OTTI through realized losses in earnings for the credit-related portion and through unrealized losses in other comprehensive income ("OCI") for the non-credit related portion. Under previously existing accounting guidance, a decline in fair value on a fixed maturity security was deemed to be other than temporary if we did not have the intent and ability to hold the security to its anticipated recovery.

For discussion of our OTTI methodology, see Note 2. "Summary of Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data." of our 2009 Annual Report. In addition, for significant inputs used to measure OTTI and qualitative information regarding these charges, see Note 6. "Investments," included in Item 1. "Financial Statements" of this Form 10-Q.

Unrealized/Unrecognized Losses

The following table summarizes the aggregate fair value and gross pre-tax unrealized/unrecognized losses recorded, by asset class and by length of time, for all securities that have continuously been in an unrealized/unrecognized loss position at June 30, 2010 and December 31, 2009:

June 30, 2010		**0 – 6 months**		**7 – 11 months**		**12 months or longer [1]**	
($ in thousands)		**Fair Value**	**Net Unrecognized Unrealized Losses**	**Fair Value**	**Net Unrecognized Unrealized Losses**	**Fair Value**	**Net Unrecognized Unrealized Losses**
AFS securities							
Obligations of states and political subdivisions	$	**10,716**	**(20)**	**-**	**-**	**-**	**-**
Corporate securities		**16,925**	**(1,666)**	**-**	**-**	**-**	**-**
ABS		**1,069**	**(2)**	**-**	**-**	**925**	**(329)**
CMBS		**-**	**-**	**-**	**-**	**9,141**	**(4,161)**
RMBS		**6,324**	**(73)**	**-**	**-**	**35,397**	**(3,203)**
Total fixed maturity securities		**35,034**	**(1,761)**	**-**	**-**	**45,463**	**(7,693)**
Equity securities		**30,295**	**(3,361)**	**1,142**	**(323)**	**2,803**	**(603)**
Subtotal	$	**65,329**	**(5,122)**	**1,142**	**(323)**	**48,266**	**(8,296)**
HTM securities							
Obligations of states and political subdivisions	$	**5,545**	**(33)**	**9,399**	**(75)**	**62,715**	**(1,949)**
Corporate securities		**2,220**	**(29)**	**-**	**-**	**7,813**	**(214)**
ABS		**-**	**-**	**-**	**-**	**6,981**	**(813)**
CMBS		**-**	**-**	**-**	**-**	**10,447**	**(5,297)**
RMBS		**-**	**-**	**-**	**-**	**5,961**	**(254)**
Subtotal	$	**7,765**	**(62)**	**9,399**	**(75)**	**93,917**	**(8,527)**
Total AFS and HTM	$	**73,094**	**(5,184)**	**10,541**	**(398)**	**142,183**	**(16,823)**

December 31, 2009	0 – 6 months		7 – 11 months[1]		12 months or longer [1]	
($ in thousands)	Fair Value	Net Unrecognized Unrealized Losses	Fair Value	Net Unrecognized Unrealized Losses	Fair Value	Net Unrecognized Unrealized Losses
AFS securities						
U.S. government and government agencies	$ 187,283	(1,210)	-	-	-	-
Obligations of states and political subdivisions	8,553	(120)	-	-	3,059	(17)
Corporate securities	74,895	(829)	-	-	10,550	(417)
ABS	2,983	(17)	-	-	3,960	(40)
CMBS	36,447	(637)	-	-	-	-
RMBS	77,674	(493)	654	(21)	53,607	(20,198)
Total fixed maturity securities	387,835	(3,306)	654	(21)	71,176	(20,672)
Equity securities	3,828	(214)	-	-	5,932	(396)
Sub-total	$ 391,663	(3,520)	654	(21)	77,108	(21,068)
HTM securities						
U.S. government and government agencies	$ 19,746	(29)	9,713	(288)	-	-
Obligations of states and political subdivisions	40,904	(332)	5,767	(181)	74,360	(2,684)
Corporate securities	6,124	(102)	-	-	19,233	(1,310)
ABS	-	-	-	-	13,343	(2,496)
CMBS	-	-	316	(728)	22,044	(16,194)
RMBS	5,068	(146)	-	-	5,892	(935)
Sub-total	$ 71,842	(609)	15,796	(1,197)	134,872	(23,619)
Total AFS and HTM	$ 463,505	(4,129)	16,450	(1,218)	211,980	(44,687)

[1] The month count for aging of unrealized losses was reset back to historical unrealized loss month counts for securities impacted by the adoption of OTTI accounting guidance issued in 2009.

Gross pre-tax unrealized/unrecognized losses decreased for our fixed maturity portfolio as compared to December 31, 2009, primarily driven by general improvement in the overall marketplace. In addition, $14.1 million of the decrease was due to the Second Quarter 2010 sale of certain fixed maturity securities. For further details regarding these sales, see Note 6. "Investments" in Item 1. "Financial Statements" of this Form 10-Q. As of June 30, 2010, 89 fixed maturity securities and 27 equity securities were in an unrealized loss position. At December 31, 2009, 173 fixed maturity securities and six equity securities were in an unrealized loss position.

We have reviewed the securities in the tables above in accordance with our OTTI policy, which is discussed in Note 2. "Summary of Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data" of our 2009 Annual Report. For qualitative information regarding this conclusion, see Note 6. "Investments," in Item 1. "Financial Statements" of this Form 10-Q.

In addition, the following table presents information regarding securities in our portfolio with the five largest unrealized/unrecognized balances as of June 30, 2010:

($ in thousands)	**Cost/ Amortized Cost**	**Fair Value**	**Unrealized/ Unrecognized Losses**
GS Mortgage Securities Corp II	$ **5,730**	**3,133**	**(2,597)**
Mach One Trust	**4,017**	**1,828**	**(2,189)**
BP Capital Markets PLC	**10,127**	**8,521**	**(1,606)**
ACT Depositor Corp	**1,712**	**208**	**(1,504)**
Morgan Stanley Capital I	**5,000**	**3,525**	**(1,475)**

GS Mortgage Securities Corp II (unrealized/unrecognized loss of $2.6 million)
This security is a senior tranche of a Re-REMIC (a re-securitization) that represents an undivided interest in a static pool of seasoned subordinated CMBS. Based on our OTTI evaluation at March 31, 2010, this security was deemed to be other-than-temporarily impaired. Based on our re-evaluation of this position as of June 30, 2010, there has been no further credit deterioration, and therefore, the remaining $2.6 million unrealized/unrecognized loss balance represents the non-credit portion of this impairment.

Mach One Trust (unrealized/unrecognized loss of $2.2 million)
Despite the unrealized loss being 54% of its amortized cost, the unrealized loss was only 14% of its amortized cost last quarter and there have been no actual losses on this security to date. The security has low exposure to specialty service entities and its loan-to-value ratio is under 70%. In addition, this security is a CMBS with very low delinquencies over 60 days. Based on these factors, among others, we have determined the impairment to be only temporary.

BP Capital Markets PLC (unrealized/unrecognized loss of $1.6 million)
This security's unrealized/unrecognized loss position is approximately 16% of its amortized cost and is predominantly related to the market reaction associated with BP's unknown exposure from the oil spill in the Gulf of Mexico. The market perception is that this decline is a temporary market reaction to these events and that it does not pose any significant concern about BP's ability to fulfill its financial obligations. We believe this security is only temporarily impaired; however, we will continue to closely monitor events regarding the cleanup efforts and BP's financial stability moving forward.

ACT Depositor Corp (unrealized/unrecognized loss of $1.5 million)
This security is a senior tranche of a Re-REMIC (a re-securitization) that represents an undivided interest in a static pool of seasoned subordinated CMBS. Although the tranche is senior with 62% credit support, the underling deals have an average subordination of 2.75%. Based on our analysis at June 30, 2010, we have determined that this security is other-than-temporarily impaired. The $1.5 million unrealized/unrecognized loss balance represents the non-credit portion of this impairment.

Morgan Stanley Capital I (unrealized/unrecognized loss of $1.5 million)
This security is a CMBS with credit support of approximately 30%. The unrealized loss position of this security is marginally elevated at approximately 30% of its amortized cost. In accordance with our OTTI policy, we stress tested this security and performed a discounted cash flow analysis of the underlying cash flows, which did not indicate that the impairment was other than temporary, despite the fact that the life is expected to extend slightly beyond the initial projected maturity.

Contractual Maturities
The following table presents amortized cost and fair value regarding our AFS fixed maturities that were in an unrealized loss position at June 30, 2010 by contractual maturity:

Contractual Maturities ($ in thousands)		**Amortized Cost**	**Fair Value**
One year or less	$	**7,856**	**6,669**
Due after one year through five years		**57,922**	**51,569**
Due after five years through ten years		**24,173**	**22,259**
Due after ten years		**-**	**-**
Total	$	**89,951**	**80,497**

The following table presents information regarding our HTM fixed maturities that were in an unrealized/unrecognized loss position at June 30, 2010 by contractual maturity:

Contractual Maturities ($ in thousands)		**Amortized Cost**	**Fair Value**
One year or less	$	**13,450**	**11,678**
Due after one year through five years		**62,607**	**57,088**
Due after five years through ten years		**37,719**	**36,470**
Due after ten years		**5,970**	**5,845**
Total	$	**119,746**	**111,081**

Investments Outlook

After excessive optimism in April and May, global markets turned more pessimistic on the economy during June. Most signs still point to a slow but positive growth trajectory for the U.S. economic expansion that began in July of 2009, but languishing housing and unemployment statistics will likely continue to restrain growth. The Federal Reserve continues its low interest rate policy in response to these conditions. Although the investment community expects 2010 to have moderate economic growth, the economy still faces significant challenges. U.S. unemployment rates will likely not see a meaningful reduction and consumer spending will remain modest, which will continue to have a dampening effect on the growth potential of the Gross Domestic Product. The flight to quality into the U.S. Treasury markets has depressed yields. The fixed income sector performed well as investors continued to favor quality and spreads tightened in response. Globally, equity markets declined as investors sought safer havens.

The outsourcing of our fixed income and equity investment management to third party managers was successfully completed, and is now fully operational. Our overall investment strategy has not changed, only the execution model. We are benefiting from broader specific sector knowledge, advanced risk management tools, and greater flexibility in trade execution.

Our fixed income strategy remains focused on maintaining sufficient liquidity while maximizing yield within acceptable risk tolerances. We will invest in high quality instruments, while striving to reduce risk, including additions to high-grade corporate bonds with targeted maturities of approximately five years to lessen incremental interest rate risk.

We have lowered our exposure to equities and will be pursuing a more index-neutral position for this asset class, in the near term, providing greater sector and sponsor diversification.

Our current outlook for the alternative investment strategy is positive despite the volatility in investment income over the past two years. Performance of the alternatives portfolio has rebounded as the merger and acquisitions environment has improved and financing has become available. In the near term we will remain cautious and limit our exposure in the alternative investment class.

Federal Income Taxes
Federal income taxes from continuing operations increased by $5.9 million for Second Quarter 2010 and $15.0 million in Six Months 2010, to an expense of $2.8 million and $3.8 million, respectively, compared to a benefit of $3.1 million for Second Quarter 2009 and $11.1 million in Six Months 2009. These increases, which were attributable to an increase in net investment income earned coupled with a reduction in net realized losses, resulted in an effective tax rate of approximately 12% for both Second Quarter 2010 and Six Months 2010. The tax benefit in Second Quarter 2009 and Six Months 2009 resulted in an effective tax rate of approximately (25)% and 128%, respectively. Our effective tax rate for continuing operations differs from the federal corporate rate of 35% primarily as a result of tax-advantaged investment income.

Financial Condition, Liquidity, and Capital Resources
Capital resources and liquidity reflect our ability to generate cash flows from business operations, borrow funds at competitive rates, and raise new capital to meet operating and growth needs.

Liquidity
We manage liquidity with a focus on generating sufficient cash flows to meet the short-term and long-term cash requirements of our business operations. Our cash and short-term investment position was $344 million at June 30, 2010, primarily comprised of $46 million at the Parent and $298 million at the Insurance Subsidiaries.

We continually evaluate our liquidity levels in light of market conditions and, given the financial market volatility over the past two years, we have continued to maintain higher than historical cash and short-term investment balances as of June 30, 2010. In addition, during Second Quarter 2010 we intentionally increased our cash and short-term position as the Company transitioned the portfolio to its new outside managers. Short-term investments are maintained in AAA rated money market funds approved by the National Association of Insurance Commissioners ("NAIC") and high-quality, investment grade commercial paper.

Sources of cash for the Parent have consisted of dividends from the Insurance Subsidiaries, borrowings under its line of credit and loan agreements with our Indiana-domiciled Insurance Subsidiaries ("Indiana Subsidiaries"), and the issuance of stock and debt securities. We continue to monitor these sources, giving consideration to our long-term liquidity and capital preservation strategies. The Parent had no private or public issuances of stock or debt during Second Quarter 2010. In addition, there were no borrowings under its line of credit or any additional borrowings from its Indiana Subsidiaries.

We currently anticipate the Insurance Subsidiaries paying approximately $48 million of dividends to the Parent in 2010, of which $24.0 million was paid through Second Quarter 2010, compared to our allowable ordinary maximum dividend amount of approximately $101 million. Any dividends to the Parent continue to be subject to the approval and/or review of the insurance regulators in the respective domiciliary states under insurance holding company acts, and are generally payable only from earned surplus as reported in the statutory annual statements of those subsidiaries as of the preceding December 31. Although past dividends have historically been met with regulatory approval, there is no assurance that future dividends that may be declared will be approved given current conditions. For additional information regarding dividend restrictions, refer to Note 10. "Indebtedness" and Note 11. "Stockholders' Equity" in Item 8. "Financial Statements and Supplementary Data." of our 2009 Annual Report.

Our $30 million line of credit ("Line of Credit") is syndicated between Wachovia Bank N.A., a subsidiary of Wells Fargo & Company, as administrative agent, and Branch Banking and Trust Company and allows us to increase our borrowings to $50 million with the approval of both lending parties. We continue to monitor current news regarding the banking industry, in general, and our lending partners, in particular, as, according to the syndicated line of credit agreement, the obligations of the lenders to make loans and to make payments are several and not joint. There were no balances outstanding under this credit facility as of June 30, 2010.

The Line of Credit agreement contains representations, warranties, and covenants that are customary for credit facilities of this type, including, without limitation, financial covenants under which we are obligated to maintain a minimum consolidated net worth, minimum combined statutory surplus, and maximum ratio of consolidated debt to total capitalization, as well as covenants limiting our ability to: (i) merge or liquidate; (ii) incur debt or liens; (iii) dispose of assets; (iv) make investments and acquisitions; (v) repurchase common stock; and (vi) engage in transactions with affiliates.

The table below outlines information regarding certain of the covenants in the Line of Credit:

	Required as of June 30, 2010	Actual as of June 30, 2010
Consolidated net worth	$790.0 million	$1.0 billion
Statutory surplus	Not less than $750 million	$1.0 billion
Debt-to-capitalization ratio	Not to exceed 30%	20.0%
A.M. Best financial strength rating	Minimum of A-	A+

The Indiana Subsidiaries are members in the Federal Home Loan Bank of Indianapolis ("FHLBI"), which provides these companies with access to additional liquidity. The Indiana Subsidiaries' aggregate investment of $0.8 million provides them with the ability to borrow up to 20 times the total amount of the FHLBI common stock purchased, at comparatively low borrowing rates. The Line of Credit permits collateralized borrowings by the Indiana Subsidiaries from the FHLBI so long as the aggregate amount borrowed does not exceed 10% of the respective Indiana Subsidiary's admitted assets from the preceding calendar year. The Indiana Department of Insurance has approved lending agreements from the Indiana Subsidiaries to the Parent. At June 30, 2010, the outstanding borrowings of the Indiana Subsidiaries from the FHLBI were $13 million in fixed rate borrowings after pledging the required collateral. These funds have been loaned to the Parent under the approved lending agreements. For additional information regarding the required collateral, refer to Note 10. "Indebtedness" in Item 8. "Financial Statements and Supplementary Data." of our 2009 Annual Report.

The Insurance Subsidiaries also generate liquidity through insurance float, which is created by collecting premiums and earning investment income before losses are paid. The period of the float can extend over many years. While current market conditions have limited the liquidity in our fixed maturity investments regarding sales, our laddered portfolio, in which some issues are always maturing, continues to provide a source of cash flows for claim payments in the ordinary course of business. The duration of the fixed maturity portfolio, including short-term investments, was 3.3 years as of June 30, 2010, while the liabilities of the Insurance Subsidiaries have a duration of 3.6 years. In addition, the Insurance Subsidiaries purchase reinsurance coverage for protection against any significantly large claims or catastrophes that may occur during the year.

The liquidity generated from the sources discussed above is used, among other things, to pay dividends to our shareholders. Dividends on shares of the Parent's common stock are declared and paid at the discretion of the Board of Directors (the "Board") based on our operating results, financial condition, capital requirements, and other relevant factors. Our ability to declare dividends was restricted by covenants contained in our 8.87% Senior Notes that matured on May 4, 2010. All such covenants were met during 2010. For further information regarding our notes payable and the related covenants, see Note 10. "Indebtedness," included in Item 8. "Financial Statements and Supplementary Data." of our 2009 Annual Report.

Our ability to meet our interest and principal repayment obligations on our debt, as well as our ability to continue to pay dividends to our stockholders is dependent on liquidity at the Parent coupled with the ability of the Insurance Subsidiaries to pay dividends, if necessary, and/or the availability of other sources of liquidity to the Parent. Our next principal repayment of $13 million is due in 2014, with the next principal repayment occurring beyond that in 2034. Restrictions on the ability of the Insurance Subsidiaries to declare and pay dividends, without alternative liquidity options, could materially affect our ability to service our debt and pay dividends on common stock.

Capital Resources

Capital resources provide protection for policyholders, furnish the financial strength to support the business of underwriting insurance risks, and facilitate continued business growth. At June 30, 2010, we had statutory surplus and GAAP stockholders' equity of $1.0 billion. We had total debt of $262.3 million at June 30, 2010, which equates to a debt-to-capital ratio of approximately 20.0%.

Our cash requirements include, but are not limited to, principal and interest payments on various notes payable and dividends to stockholders, payment of claims, payment of commitments under limited partnership agreements and capital expenditures, as well as other operating expenses, which include agents' commissions, labor costs, premium taxes, general and administrative expenses, and income taxes. For further details regarding our cash requirements, refer to the section below entitled "Contractual Obligations and Contingent Liabilities and Commitments."

We continually monitor our cash requirements and the amount of capital resources that we maintain at the holding company and operating subsidiary levels. As part of our long-term capital strategy, we strive to maintain an approximate 25% debt-to-capital ratio and a premiums-to-surplus ratio sufficient to maintain an "A+" (Superior) financial strength A.M. Best rating for the Insurance Subsidiaries. Based on our analysis and market conditions, we may take a variety of actions, including, but not limited to, contributing capital to our subsidiaries in our Insurance Operations, issuing additional debt and/or equity securities, repurchasing shares of the Parent's common stock, and increasing stockholders' dividends.

We continue to maintain liquidity at the Insurance Subsidiary levels. Our capital management strategy is intended to protect the interests of the policyholders of the Insurance Subsidiaries and the Parent's stockholders, while enhancing our financial strength and underwriting capacity.

Book value per share increased to $19.65 as of June 30, 2010 from $18.83 as of December 31, 2009, primarily driven by: (i) unrealized gains on our investment portfolio, which led to an increase in book value per share of $0.54; and (ii) net income which led to an increase in book value per share of $0.46. Partially offsetting these increases was the impact of dividends paid to our shareholders, which resulted in decreases in book value per share of $0.27.

Ratings

We are rated by major rating agencies, which issue opinions on our financial strength, operating performance, strategic position, and ability to meet policyholder obligations. We believe that our ability to write insurance business is most influenced by our rating from A.M. Best, which was reaffirmed in the second quarter of 2010 as "A+ (Superior)," their second highest of 15 ratings, with a "negative" outlook. They cited our strong capitalization, solid level of operating profitability and established presence within our targeted regional markets. We have been rated "A" or higher by A.M. Best for the past 80 years, with our current rating of "A+ (Superior)" being in place for the last 49 consecutive years. The financial strength reflected by our A.M. Best rating is a competitive advantage in the marketplace and influences where independent insurance agents place their business. A downgrade from A.M. Best, could: (i) affect our ability to write new business with customers and/or agents, some of whom are required (under various third party agreements) to maintain insurance with a carrier that maintains a specified A.M. Best minimum rating; or (ii) be an event of default under our line of credit.

Our ratings by other major rating agencies are as follows:

- S&P Insurance Rating Services — Our financial strength rating was revised to "A" from "A+" in the third quarter of 2009. S&P cited our strong competitive position in Mid-Atlantic markets, well-developed predictive modeling capabilities, strong financial flexibility and consistent recognition by third-party agent satisfaction surveys as a superior regional carrier. Mitigating the strengths and precipitating the rating change was a decline in capital adequacy and operating results, relative to historically strong levels. S&P noted the decline in statutory surplus was largely attributed to realized and unrealized losses from the investment portfolio at the end of 2008 and the first quarter of 2009. S&P's outlook of "negative" reflects continued commercial lines pricing competition and reduced investment income.

- Moody's — Our "A2" financial strength rating was reaffirmed in the third quarter of 2008, citing our strong regional franchise with good independent agency support, along with our conservative balance sheet, moderate financial leverage, and consistent profitability. At the same time, Moody's revised our outlook from "positive" to "stable" reflecting an increasingly competitive commercial lines market and continued weakness in our personal lines book of business.

- Fitch Ratings — Our "A+" rating was reaffirmed in the first quarter of 2009, citing our disciplined underwriting culture, conservative balance sheet, strong independent agency relationships, and improved diversification through our continued efforts to reduce our concentration in New Jersey. Fitch revised our outlook to "negative" from "stable" citing a deterioration of recent underwriting performance on an absolute basis and relative to our rating category. To a lesser extent, the negative outlook also reflected Fitch's concern about further declines in our capitalization tied to investment losses.

Our S&P and Moody's financial strength ratings affect our ability to access capital markets. In addition, our interest rate under our Line of Credit varies based on the Parent's debt ratings from S&P and Moody's. There can be no assurance that our ratings will continue for any given period of time or that they will not be changed. It is possible that positive or negative ratings actions by one or more of the rating agencies may occur in the future. We review our financial debt agreements for any potential rating triggers that could dictate a material change in terms if our credit ratings were to change.

Off-Balance Sheet Arrangements

At June 30, 2010 and December 31, 2009, we did not have any relationships with unconsolidated entities or financial partnerships, such entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market, or credit risk that could arise if we had engaged in such relationships.

Contractual Obligations and Contingent Liabilities and Commitments

Our future cash payments associated with loss and loss expense reserves, and contractual obligations pursuant to operating leases for office space and equipment, and notes payable have not materially changed since December 31, 2009. We expect to have the capacity to repay and/or refinance these obligations as they come due.

At June 30, 2010, we had contractual obligations that expire at various dates through 2023 that may require us to invest up to an additional $94.8 million in other investments. There is no certainty that any such additional investment will be required. We have issued no material guarantees on behalf of others and have no trading activities involving non-exchange traded contracts accounted for at fair value. We have no material transactions with related parties other than those disclosed in Note 18. "Related Party Transactions" included in Item 8. "Financial Statements and Supplementary Data" of our 2009 Annual Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
There have been no material changes in the information about market risk set forth in our 2009 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES
Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")), as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are: (i) effective in recording, processing, summarizing, and reporting information on a timely basis that we are required to disclose in the reports that we file or submit under the Exchange Act; and (ii) effective in ensuring that information that we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. No changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) of the Exchange Act) occurred during Second Quarter or Six Months 2010 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
In the ordinary course of conducting business, we are named as defendants in various legal proceedings. Most of these proceedings are claims litigation involving our Insurance Subsidiaries as either: (i) liability insurers defending or providing indemnity for third-party claims brought against insureds; or (ii) insurers defending first-party coverage claims brought against them. We account for such activity through the establishment of unpaid loss and loss adjustment expense reserves. We expect that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and costs of defense, will not be material to our consolidated financial condition, results of operations, or cash flows.

Our Insurance Subsidiaries also are involved from time to time in other legal actions, some of which assert claims for substantial amounts. These actions include, among others, putative state class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, improper reimbursement of medical providers paid under workers compensation and personal and commercial automobile insurance policies. Our Insurance Subsidiaries also are involved from time to time in individual actions in which extra-contractual damages, punitive damages, or penalties are sought, such as claims alleging bad faith in the handling of insurance claims. We believe that we have valid defenses to these cases. We expect that the ultimate liability, if any, with respect to such lawsuits, after consideration of provisions made for estimated losses, will not be material to our consolidated financial condition. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, an adverse outcome in certain matters could, from time to time, have a material adverse effect on our consolidated results of operations or cash flows in particular quarterly or annual periods.

ITEM 1A. RISK FACTORS

Certain risk factors exist that can have a significant impact on our business, liquidity, capital resources, results of operations, and financial condition. The impact of these risk factors could also impact certain actions that we take as part of our long-term capital strategy including, but not limited to, contributing capital to our subsidiaries in our Insurance Operations, issuing additional debt and/or equity securities, repurchasing shares of the Parent's common stock, or changing stockholders' dividends. We operate in a continually changing business environment and new risk factors emerge from time to time. Consequently, we can neither predict such new risk factors nor assess the impact, if any, they might have on our business in the future.

There have been no material changes from the risk factors disclosed in Item 1A. "Risk Factors" in our 2009 Annual Report except for the modification of the following risk factors:

We are heavily regulated and changes in regulation may reduce our profitability and limit our growth.

Our Insurance Operations are heavily regulated and subject to extensive laws and regulations that are subject to change. By virtue of the McCarran-Ferguson Act, Congress has traditionally ceded insurance regulation to the various states. We, however, are subject to federal regulators, such as the SEC, for securities issues, and the Federal Trade Commission, for privacy issues. We also are subject to non-governmental regulators, such as the NASDAQ Stock Market and the New York Stock Exchange, where we list our securities. Many of these regulators, to some degree, have overlap with each other on various matters. They also have different regulations on the same legal issues that are subject to their individual interpretative discretion. Consequently, we have the risk that one regulator's position may conflict with another regulator's position on the same issue. As compliance is generally reviewed in hindsight, we also are subject to the risk that interpretations will change over time.

The primary public policy behind state insurance regulation is the protection of policyholders and claimants over all other constituencies, including shareholders. By virtue of the McCarran-Ferguson Act, Congress has traditionally delegated insurance regulation to the various states. For Insurance Subsidiaries, the primary regulators of their business and financial condition are the departments of insurance in the states in which they are organized and are licensed. The broad regulatory, administrative, and supervisory powers of the various state departments of insurance include:

- Related to our financial condition, review and approval of such matters as minimum capital and surplus requirements, standards of solvency, security deposits, methods of accounting, form and content of statutory financial statements, reserves for unpaid loss and loss expenses, reinsurance, payment of dividends and other distributions to shareholders, periodic financial examinations and annual and other report filings.
- Related to our general business, review and approval of such matters as certificates of authority and other insurance company licenses, licensing and compensation of agents, premium rates (which may not be excessive, inadequate, or unfairly discriminatory), policy forms, policy terminations, reporting of statistical information regarding our premiums and losses, periodic market conduct examinations, unfair trade practices, participation in mandatory shared market mechanisms, such as assigned risk pools and reinsurance pools, participation in mandatory state guaranty funds, and mandated continuing workers compensation coverage post-termination of employment.
- Related to our ownership of the Insurance Subsidiaries, we are required to register as an insurance holding company system and report information concerning all of our operations that may materially affect the operations, management, or financial condition of the insurers. As an insurance holding company, the appropriate state regulatory authority may: (i) examine us or our insurance subsidiaries at any time; (ii) require disclosure or prior approval of material transactions of any of the insurance subsidiaries with us or each other; and (iii) require prior approval or notice of certain transactions, such as payment of dividends or distributions to us.

Although the federal government traditionally has not regulated insurance, federal legislation and administrative policies do affect us, including the Terrorism Risk Insurance Act of 2002 and the Terrorism Risk Insurance Program Reauthorization Act of 2007, Office of Foreign Assets Control, and various privacy laws, including the Gramm-Leach-Bliley Act, the Fair Credit Reporting Act, the Drivers Privacy Protection Act, and the Health Insurance Portability and Accountability Act. As a result of issuing workers compensation policies, we also are subject to Mandatory Medicare Secondary Payer Reporting under the Medicare, Medicaid and SCHIP Extension Act of 2007.

In July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). Among other things, the Dodd-Frank Act, created a Financial Stability and Oversight Council that may designate certain insurance companies and insurance holding companies as nonbank financial companies subject to prudential regulation by the Board of Governors of the U.S. Federal Reserve (the "Federal Reserve Board of Governors") on a variety of issues, including capital requirements, leverage limits, liquidity requirements, and examinations. If the Federal Reserve Board of Governors deems any nonbank financial company under its supervision to pose a grave threat to the financial stability of the United States, it may limit the company's ability to enter into merger transactions, restrict its ability to offer financial products, require it to terminate one or more activities, or impose conditions on the manner in which it conducts activities.

The Dodd-Frank Act also established a Federal Insurance Office in the U.S. Treasury Department to monitor all aspects of the insurance industry and lines of business other than certain health insurance, certain long-term care insurance, and crop insurance. The director of the Federal Insurance Office will have the ability to recommend that an insurance company or an insurance holding company be subject to heightened prudential standards. The Dodd-Frank Act also provides in certain instances for the pre-emption of state laws regulating reinsurance and other limited insurance matters. At this time, it is not possible to predict with any degree of certainty whether any other proposed legislation or regulatory changes will be adopted or what impact, if any, the Dodd-Frank Act or any other such legislation or changes could have on our business, financial condition or results of operations.

We are subject to the risk that legislation will be passed significantly changing insurance regulation and adversely impacting our business, our financial condition, and our results of operations.
As a result of the financial markets crises in 2008 and 2009, the issues regarding the AIG scandal, and public concerns over health insurance, there have been a number of legislative proposals discussed and introduced in Congress that could result in the federal government becoming directly involved in the regulation of insurance:

- Repeal of the McCarran-Ferguson Act. While proposals for McCarran-Ferguson Act repeal recently have been primarily directed at health insurers, if enacted and applicable to property and casualty insurers, such repeal would significantly reduce our ability to compete and materially affect our results of operations because we rely on the anti-trust exemptions the law provides to obtain loss data from third party aggregators such as ISO to predict future losses.
- National Catastrophe Funds. Various legislative proposals have been introduced that would establish a federal reinsurance catastrophic fund as a federal backstop for future natural disasters. These bills generally encourage states to create catastrophe funds by creating a federal backstop for states that create the funds. While homeowners' insurance is primarily handled at the state level, there are important roles for the federal government to play, including the establishment of a national catastrophic fund.
- Reform of the National Flood Insurance Program (“NFIP”). There have been legislative proposals to reform the NFIP by: (i) expanding coverage to include coverage for losses from wind damage; and (ii) forgiving the nearly $20 billion in debt amassed by the NFIP from the catastrophic storms of 2004 and 2005. We believe that the expansion of coverage to include wind losses would significantly increase the cost and availability of NFIP insurance.

We cannot predict whether any of these or any related proposal will be adopted, or what impact, if any, such proposals, could have on our business, financial condition or results of operations if enacted.

There can be no assurance that the Dodd-Frank Act or any other actions of the U.S. Government, Federal Reserve, and other governmental and regulatory bodies to reform the financial markets and provide future financial stability, will achieve their intended effect.

A primary objective of the Dodd-Frank Act, which was signed into law on July 21, 2010, is to reform the financial markets and provide future financial stability. Among other things, the Dodd-Frank Act heightens supervision and regulation of financial institutions, requires strengthened capital levels, tightens oversight of credit rating agencies, requires an overhaul of the regulation of the derivatives market, and reforms and requires more transparency in governance and executive compensation. The Dodd-Frank Act covers almost every aspect of financial regulation and analysis of its practical implications is in its early stages. Implementation of the Dodd-Frank Act will require an extraordinary amount of rulemaking and regulators are given significant discretion. Consequently, its final shape and practical impact are, in many respects, still to be determined. As a result, it is presently unclear the full impact this legislation will have on our operations.

However, if, even in the short-term, the Dodd-Frank Act is not perceived by the investing public as a means to effectively reform and provide stability to the financial markets, it could result in a further deterioration of investor confidence in the U.S. economy and financial markets, which could further increase constraints on the liquidity available in the banking system and financial markets and increase pressure on the price of our fixed income and equity portfolios. These results could materially and adversely affect our results of operations, financial condition, liquidity, and the trading price of the Parent's Common Stock. In the event of future material deterioration in business conditions, we may need to raise additional capital or consider other transactions to manage its capital position and liquidity.

In addition, we are subject to extensive laws and regulations that are administered and enforced by a number of different governmental authorities and non-governmental self-regulatory agencies. In light of the current economic conditions, some of these authorities have implemented, or may in the future implement, new or enhanced regulatory requirements intended to restore confidence in financial institutions and reduce the future economic events like those of the recent past. These authorities may also seek to exercise their supervisory and enforcement authority in new or more robust ways. Such events could affect the way we conduct our business and manage our capital, and may require us to satisfy increased capital requirements. These developments, if they occurred could materially affect our results of operations, financial conditions, and liquidity.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information regarding our purchases of the Parent's common stock in Second Quarter 2010:

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Announced Programs
April 1 – 30, 2010	-	$ -	-	-
May 1 – 31, 2010	323	16.77	-	-
June 1 – 30, 2010	-	-	-	-
Total	323	16.77	-	-

[1] During Second Quarter 2010, 323 shares were purchased from employees in connection with the vesting of restricted stock units. These repurchases were made in connection with satisfying tax withholding obligations with respect to those employees and were purchased at the closing price on the dates of purchase. These shares were not purchased as part of any publicly announced program.

ITEM 6. EXHIBITS

(a) Exhibits:

Exhibit No.	
* 3.1	Amended and Restated Certificate of Incorporation of Selective Insurance Group, Inc., dated May 3, 2010.
* 10.1	Amended and Restated Selective Insurance Group, Inc. Stock Purchase Plan for Independent Insurance Agencies (2010)
* 11	Statement Re: Computation of Per Share Earnings.
* 31.1	Rule 13a-14(a) Certification of the Chief Executive Officer of Selective Insurance Group, Inc. (Section 302 of the Sarbanes-Oxley Act of 2002).
* 31.2	Rule 13a-14(a) Certification of the Chief Financial Officer of Selective Insurance Group, Inc. (Section 302 of the Sarbanes-Oxley Act of 2002).
* 32.1	Certification of Chief Executive Officer of Selective Insurance Group, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
* 32.2	Certification of Chief Financial Officer of Selective Insurance Group, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
** 101.INS	XBRL Instance Document.
** 101.SCH	XBRL Taxonomy Extension Schema Document.
** 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
** 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
** 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
** 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

* Filed herewith
** Furnished and not filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

SELECTIVE INSURANCE GROUP, INC.
Registrant

By: /s/ Gregory E. Murphy July 29, 2010
Gregory E. Murphy
Chairman of the Board, President and Chief Executive Officer

By: /s/ Dale A. Thatcher July 29, 2010
Dale A. Thatcher
Executive Vice President and Chief Financial Officer
(principal accounting officer and principal financial officer)

Exhibit 3.1

FILED
MAY 04 2010
STATE TREASURER

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF SELECTIVE INSURANCE GROUP, INC.

To: Treasurer
State of New Jersey

Pursuant to the provisions of Title 14A:9-5, Corporations, General, of the New Jersey Statutes, the undersigned corporation organized under the laws of the State of New Jersey does hereby execute the following Amended and Restated Certificate of Incorporation:

FIRST: The name of the corporation is: Selective Insurance Group, Inc.

SECOND: The purpose of the corporation is to engage in any activity within the purposes for which corporations may be organized under the provisions of Title 14A, Corporations, General, of the New Jersey Statutes.

THIRD: The address of the corporation's current registered office is 830 Bear Tavern Road, West Trenton, New Jersey 08628 and the name of the corporation's current registered agent at such address is Corporation Service Company.

FOURTH:

(a) Authorized Stock. The corporation is authorized to issue 360,000,000 shares of common stock, having a par value of $2.00 per share (the "Common Stock") and 5,000,000 shares of preferred stock, without par value.

(b) Series A Junior Preferred Stock.

(1) Designation and Amount. The shares of such series shall be designated as "Series A Junior Preferred Stock" (the "Series A Preferred Stock") and the number of shares constituting the Series A Preferred Stock shall be 300,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series A Preferred Stock to a number less than the number of such shares then outstanding plus the number of such shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the corporation convertible into Series A Preferred Stock.

(2) Dividends and Distributions.

(A) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock, in preference to the holders Common Stock, and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first business day of March, June, September and December in

each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $1 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a sub-division or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in subparagraph (A) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $1 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

(3) Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(A) Each share of Series A Preferred Stock shall entitle the holder thereof to one vote on all matters submitted to a vote of the stockholders of the corporation, and each fractional share of Series A Preferred Stock shall have an equivalent fractional vote on all matters submitted to a vote of the stockholders of the corporation.

(B) Except as otherwise provided herein, in any other certificate of amendment creating a series of Preferred Stock or any similar stock, or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock and any other capital stock of the corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the corporation.

(C) Except as set forth in this Amended and Restated Certificate of Incorporation, or as otherwise provided by law, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

(4) Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in paragraph (2) are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the corporation shall not:

(i) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock, provided that the corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as

determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The corporation shall not permit any subsidiary of the corporation to purchase or otherwise acquire for consideration any shares of stock of the corporation unless the corporation could, under subparagraph (A) of this Paragraph (4), purchase or otherwise acquire such shares at such time and in such manner.

(5) Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of preferred stock and may be reissued as part of a new series of preferred stock subject to the conditions and restrictions on issuance set forth herein, in the Certificate of Incorporation, or in any other Certificate of Amendment creating a series of preferred stock or any similar stock or as otherwise required by law.

(6) Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the corporation, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received $100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series A Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of shares of Common Stock, or (2) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(7) Consolidation, Merger, etc. In case the corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A Preferred Stock shall at the same time be similarly

exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(8) No Redemption. The shares of Series A Preferred Stock shall not be redeemable.

(9) Rank. The Series A Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets, junior to all series of any other class of the corporation's Preferred Stock.

(10) Amendment. This Amended and Restated Certificate of Incorporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two thirds of the outstanding shares of Series A Preferred Stock, voting together as a single class.

FIFTH: The number of directors constituting the current Board of Directors is 12 and the names of said directors are as listed below. Each of such directors has an address as follows: c/o Selective Insurance Group, Inc., 40 Wantage Avenue, Branchville, New Jersey 07890.

Name:

Paul D. Bauer
W. Marston Becker
A. David Brown
John C. Burville
Joan M. Lamm-Tennant
S. Griffin McClellan III
Michael J. Morrissey
Gregory E. Murphy
Cynthia S. Nicholson
Ronald L. O'Kelley
William M. Rue
J. Brian Thebault

SIXTH:

(a) Vote Required for Business Combinations.

(1) Higher Vote for Business Combinations. In addition to any affirmative vote required by law or this Amended and Restated Certificate of Incorporation, and except as otherwise expressly provided in Section (b) of this Article SIXTH, any Business Combination (as hereinafter defined) shall require the affirmative vote of the holders of at least 66 2/3% of the voting power of all of the then outstanding shares of capital stock of the corporation entitled to vote generally for the election of directors (the "Voting Stock"), voting together as a single class (it being understood that for purposes of this Article SIXTH, each share of the Voting Stock shall have the number of votes granted to it pursuant to Article FOURTH of this Amended and Restated Certificate of Incorporation). Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or in any agreement with any national securities exchange or otherwise.

(2) Definition of "Business Combination". The term "Business Combination" as used in this Article SIXTH shall mean any transaction which is referred to in any one or more of the following clauses (A) through (E):

(A) any merger or consolidation of the corporation or any Subsidiary (as hereinafter defined) with (1) any Interested Stockholder (as hereinafter defined) or (2) any other corporation or person (whether or not itself an Interested Stockholder) which is, or after such merger or consolidation would be, an Affiliate (as hereinafter defined) of any Interested Stockholder; or

(B) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with, or proposed by or on behalf of, any Interested Stockholder or any Affiliate of any Interested Stockholder of any assets of the corporation or any Subsidiary having an aggregate Fair Market Value (as hereinafter defined) constituting not less than 10% of the total assets of the corporation as reported in the consolidated balance sheet of the corporation as of the end of the most recent quarter with respect to which such balance sheet has been prepared; or

(C) the issuance or transfer by the corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the corporation or any Subsidiary in exchange for cash, securities or other property (or a combination thereof) having an aggregate Fair Market Value constituting not less than 10% of the total assets of the corporation as reported in the consolidated balance sheet of the corporation as of the end of the most recent quarter with respect to which such balance sheet has been prepared, to, or proposed by or on behalf of, any Interested Stockholder or any Affiliate of any Interested Stockholder; or

(D) the adoption of any plan or proposal for the liquidation or dissolution of the corporation proposed by or on behalf of an Interested Stockholder or any Affiliate of any Interested Stockholder; or

(E) any reclassification of securities (including any reverse stock split), or recapitalization of the corporation, or any merger or consolidation of the corporation with any of its Subsidiaries or any other transaction (whether or not with or into or otherwise involving an Interested Stockholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of the corporation or any Subsidiary which is directly or indirectly owned by any Interested Stockholder or any Affiliate of any Interested Stockholder.

(b) When Higher Vote is Not Required. The provisions of Section (a) of this Article SIXTH shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote, if any, as is required by law and any other provision of this Amended and Restated Certificate of Incorporation, if all of the conditions specified in either of the following paragraphs (l) or (2) are met:

(1) Approval by Continuing Directors. The Business Combination shall have been approved by a majority of the total number of the Continuing Directors (as hereinafter defined), it being understood that this condition shall not be capable of satisfaction unless there is at least one Continuing Director.

(2) Price, Form of Consideration and Procedural Requirements. All of the following conditions shall have been met:

(A) The aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination (the "Consummation Date") of consideration other than cash to be received per share by holders of shares of Common Stock of the corporation in such Business Combination shall be at least equal to the sum of:

(i) The greater of (l) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Stockholder for any shares of Common Stock acquired or beneficially owned by it that were acquired within the two year period immediately prior to the first public announcement of the proposal of the Business Combination (the "Announcement Date") or in the transaction in which it became an Interested Stockholder, whichever is higher, or (2) the Fair Market Value per share of the Common Stock on the day after the Announcement Date or on the date on which the Interested Stockholder became an Interested Stockholder (such latter date is referred to in this Article SIXTH as the "Determination Date"), whichever is higher; and

(ii) Interest on the per share price calculated at the rate for 90 day United States Treasury obligations in effect on the Determination Date, compounded annually from that date until the Consummation Date, less the per share amount of cash dividends payable to holders of record on record dates occurring in the interim, up to the amount of such interest.

(B) The aggregate amount of the cash and the Fair Market Value as of the Consummation Date of consideration other than cash to be received per share by holders of shares of any class of outstanding Voting Stock, other than Common Stock, in such Business Combination shall be at least equal to the sum of the following, unless such Business

Combination is one in which the corporation is to become the surviving entity and such class of outstanding Voting Stock is to remain outstanding without any change in its rights, preferences and limitations, in which case such aggregate amount shall be at least equal to the sum of (x) the higher of the amounts set forth in subparagraphs (i)(1) and (i)(3) below and (y) the amount set forth in subparagraph (ii) below (it being intended that the requirements of this subparagraph (2)(B) shall be required to be met with respect to every such class of outstanding Voting Stock whether or not the Interested Stockholder has previously acquired any shares of a particular class of Voting stock):

(i) The greatest of (1) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Stockholder for any shares of such class of Voting Stock acquired or beneficially owned by it that were acquired within the two year period immediately prior to the Announcement Date or in the transaction in which it became an Interested Stockholder, whichever is higher, (2) (if applicable) the highest preferential amount per share to which the holders of shares of such class of Voting Stock are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the corporation, or (3) the Fair Market Value per share of such class of Voting Stock on the day after the Announcement Date or on the Determination Date, whichever is higher; and

(ii) Interest on the per share price calculated at the rate of 90 day United States Treasury obligations in effect on the Determination Date, compounded annually from that date until the Consummation Date, less the per share amount of cash dividends payable on such class to holders of record on record dates occurring in the interim, up to the amount of such interest.

(C) The consideration to be received by holders of a particular class of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as the Interested Stockholder has previously paid for shares of such class of Voting Stock. If the Interested Stockholder has paid for shares of any class of Voting Stock with varying forms of consideration, the form of consideration for such class of Voting Stock shall be either cash or the form used to acquire the largest number of shares of such class of Voting Stock previously acquired by it.

(D) The holders of all outstanding shares of Voting Stock not beneficially owned by the Interested Stockholder immediately prior to the consummation of any Business Combination shall be entitled to receive in such Business Combination cash or other consideration for their shares meeting all of the terms and conditions of this paragraph (2) (provided, however, that the failure of any stockholders who are exercising their statutory rights to dissent from such Business Combination and receive payment of the fair value of their shares to exchange their shares in such Business Combination shall not be deemed to have prevented the condition set forth in this subparagraph (2)(D) from being satisfied).

(E) After such Interested Stockholder has become an Interested Stockholder and prior to the consummation of such Business Combination: (a) except as approved by a majority of the total number of Continuing Directors, there shall have been no

failure to declare and pay at the regular date therefor any full quarterly dividends (whether or not cumulative) on the outstanding Preferred Stock of the corporation, if any; (b) there shall have been (l) no reduction in the annual rate of dividends paid on the shares of Common Stock (except as necessary to reflect any subdivision of the shares of Common Stock) except as approved by a majority of the total number of Continuing Directors, and (2) an increase in such annual rate of dividends as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of Common Stock, unless the failure so to increase such annual rate is approved by a majority of the total number of Continuing Directors; and (c) such Interested Stockholder shall not have become the beneficial owner of any additional shares of Voting Stock except as part of the transaction which results in such Interested Stockholder becoming an Interested Stockholder.

(F) After such Interested Stockholder has become an Interested Stockholder, such Interested Stockholder shall not have received the benefit, directly or indirectly (except proportionately as a stockholder), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the corporation, whether in anticipation of or in connection with such Business Combination or otherwise.

(G) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to public stockholders of the corporation at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions). Such proxy or information statement shall contain, if a majority of the total number of Continuing Directors so requests, an opinion of a reputable investment banking firm (which firm shall be selected by a majority of the total number of Continuing Directors, furnished with all information it reasonably requests, and paid a reasonable fee for its services by the corporation upon the corporation's receipt of such opinion) as to the fairness (or lack of fairness) of the terms of the proposed Business Combination from the point of view of the holders of shares of Voting Stock (other than the Interested Stockholder).

(c) Certain Definitions. For the purposes of this Article SIXTH:

(1) A "person" shall mean any individual, firm, corporation, partnership or other entity, including, without limitation, any syndicate or group deemed to be a person pursuant to Section 14(d)(2) of the Securities Exchange Act of 1934, as amended.

(2) "Interested Stockholder" shall mean any person (other than the corporation or any Subsidiary, any employee benefit plan maintained by the corporation or any Subsidiary or any trustee or fiduciary with respect to any such plan when acting in such capacity) who or which:

(A) is the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding Voting Stock; or

(B) is an Affiliate of the corporation and at any time within the two year period immediately prior to the date in question was the beneficial owner, directly or indirectly of 10% or more of the voting power of the then outstanding Voting Stock; or

(C) is an assignee of or has otherwise succeeded to any shares of Voting Stock which were at any time within the two year period immediately prior to the date in question beneficially owned by an Interested Stockholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933; as amended.

In determining whether a person is an Interested Stockholder pursuant to paragraph (2) of this Section (c), the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of paragraph (3) of this Section (c) but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(3) A person shall be a "beneficial owner" of any shares of Voting Stock:

(A) which such person or any of its Affiliates or Associates (as hereinafter defined) beneficially owns, directly or indirectly; or

(B) which such person or any of its Affiliates or Associates has (a) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (b) the right to vote pursuant to any agreement, arrangement or understanding; or

(C) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

(4) "Affiliate" or "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended.

(5) "Subsidiary" shall mean any corporation of which a majority of any class of equity security is owned, directly or indirectly, by the corporation; provided, however, that for the purposes of the definition of Interested Stockholder set forth in paragraph (2) of this Section (c), the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the corporation.

(6) "Continuing Director" shall mean any member of the Board of Directors of the corporation who is not the Interested Stockholder or an Affiliate, Associate, representative, nominee or relative of the Interested Stockholder and who was a member of the Board of Directors prior to the time that the Interested Stockholder became an Interested Stockholder, and any successor of a Continuing Director who is not the Interested Stockholder or an Affiliate, Associate, representative, nominee or relative of the Interested Stockholder and who is recommended to succeed a Continuing Director by a majority of the total number of Continuing Directors then on the Board of Directors.

(7) "Fair Market Value" shall mean: (i) in the case of stock, the highest closing sale price during the 30 day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the; New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934, as amended, on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing sale price or bid quotation with respect to a share of such stock during the 30 day period preceding the date in question on the National Association of Securities Dealers, Inc., Automated Quotations System or any system then in use, or, if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the total number of Continuing Directors in good faith, in each case with respect to any class of such stock, appropriately adjusted for any dividend or distribution in shares of such stock or any stock split or reclassification of outstanding shares of such stock into a greater number of share of such stock or any combination or reclassification of outstanding shares of such stock into a smaller number of shares of such stock; and (ii) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the total number of Continuing Directors in good faith.

(8) In the event of any Business Combination in which the corporation survives, the phrase "consideration other than cash to be received" as used in paragraphs (2)(A) and (2)(B) of Section (b) of this Article SIXTH shall include the shares of Common Stock and/or the shares of any other class of outstanding Voting Stock retained by the holders of such shares.

(9) References to "highest per share price" shall in each case with respect to any class of stock reflect an appropriate adjustment for any dividend or distribution in shares of such stock or any stock split or reclassification of outstanding shares of such stock into a greater number of shares of such stock or any combination or reclassification of outstanding shares of such stock into a smaller number of shares of such stock.

(d) Powers of the Board and the Continuing Directors. A majority of the entire Board of Directors of the corporation shall have the power and duty to determine for the purposes of this Article SIXTH, on the basis of information known to them after reasonable inquiry, whether a person is an Interested Stockholder. Once the Board of Directors has made a determination, pursuant to the preceding sentence, that a person is an Interested Stockholder, a majority of the total number of directors of the corporation who would qualify as Continuing Directors shall have the power and duty to interpret all of the terms and provisions of this Article SIXTH, and to determine on the basis of information known to them after reasonable inquiry all facts necessary

to ascertain compliance with this Article SIXTH, including, without limitation, (A) the number of shares of Voting Stock beneficially owned by any person, (B) whether a person is an Affiliate or Associate of another, (C) whether the assets which are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the corporation or any Subsidiary in any Business Combination has, an aggregate Fair Market Value constituting not less than 10% of the total assets of the corporation as reported in the consolidated balance sheet of the corporation as of the end of the most recent quarter with respect to which such balance sheet has been prepared and (D) whether all of the applicable conditions set forth in paragraph (2) of Section (b) of this Article SIXTH have been met with respect to any Business Combination. Any determination pursuant to this Section (d) made in good faith shall be binding and conclusive on all parties.

(e) No Effect on Fiduciary Obligations of Interested Stockholders. Nothing contained in this Article SIXTH shall be construed to relieve any Interested Stockholder from any fiduciary obligation imposed by law.

(f) Amendment, Repeal, etc. Notwithstanding any other provisions of this Amended and Restated Certificate of Incorporation or the By-Laws of the corporation (and notwithstanding the fact that a lesser percentage may be specified by law, this Amended and Restated Certificate of Incorporation or the By-Laws of the corporation), and in addition to any affirmative vote of the holders of Preferred Stock or any other class of capital stock of the corporation or any series of any of the foregoing then outstanding which is required by law or pursuant to this Amended and Restated Certificate of Incorporation, the affirmative vote of the holders of 66 2/3% or more of the voting power of all the shares of then outstanding Voting Stock, voting together as a single class, shall be required to amend or repeal, or adopt any provision inconsistent with, this Article SIXTH of this Amended and Restated Certificate of Incorporation.

SEVENTH:

(a) Number, Election and Terms. The business and affairs of the corporation shall be managed by a Board of Directors which shall have and may exercise all of the powers of the corporation, except such as are expressly conferred upon the stockholders by law, by this Amended and Restated Certificate of Incorporation or by the By-Laws. Subject to the rights of the holders of shares of any series of preferred stock then outstanding, the Board of Directors shall consist of not less than seven nor more than 20 persons. The exact number of directors within the minimum and maximum limitations specified in the preceding sentence shall be fixed from time to time by the Board of Directors pursuant to a resolution adopted by a majority of the whole Board of Directors, and if such number is not so fixed, the number shall be 12. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director. Commencing at the annual meeting of stockholders that is held in calendar year 2010 (the "2010 Annual Meeting"), directors shall be elected annually for terms of one year, except that any director in office at the 2010 Annual Meeting whose term does not expire until the annual meeting of stockholders held in calendar year 2011 or calendar year 2012 (a "Continuing Classified Director") shall continue to hold office until the end of the term for which such Continuing Classified Director was previously elected and until such Continuing Classified Director's successor shall have been elected and qualified. Except as otherwise

required by law, until the term of a Continuing Classified Director or any other director expires or otherwise terminates as aforesaid, such directors may be removed from office by the stockholders of the Corporation or the Board of Directors only for cause pursuant to the applicable provisions of the New Jersey Business Corporation Act.

(b) Amendment, Repeal, etc. Notwithstanding anything contained in this Amended and Restated Certificate of Incorporation to the contrary, the affirmative vote of the holders of at least 66 2/3% of the voting power of all of the shares of the corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend, adopt any provision inconsistent with, or repeal this Article SEVENTH or to alter, amend, adopt any provision inconsistent with, or repeal Sections 7A, 7B or 20 of the By-Laws of the corporation.

EIGHTH:

(a) Elimination of Certain Liability.

(1) A director of the corporation shall not be personally liable to the corporation or its stockholders for damages for breach of any duty owed to the corporation or its stockholders, except to the extent such personal liability may not be eliminated or limited under the New Jersey Business Corporation Act as the same exists or may hereafter be amended.

(2) An officer of the corporation shall not be personally liable to the corporation or its stockholders for damages for breach of any duty owed to the corporation or its stockholders, except to the extent and for the duration of any period of time such personal liability may not be eliminated or limited under the New Jersey Business Corporation Act as the same exists or may hereafter be amended.

(b) Indemnification and Insurance.

(1) Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is involved in any pending, threatened or completed civil, criminal, administrative or arbitrative action, suit or proceeding, or any appeal therein or any inquiry or investigation which could lead to such action, suit or proceeding (a "proceeding"), by reason of his or her being or having been a director or officer of the corporation or of any constituent corporation absorbed by the corporation in a consolidation or merger, or by reason of his or her being or having been a director, officer, trustee, employee or agent of any other corporation (domestic or foreign) or of any partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise (whether or not for profit), serving as such at the request of the corporation, or the legal representative of any such director, officer, trustee, employee or agent, shall be indemnified and held harmless by the corporation to the fullest extent permitted by the New Jersey Business Corporation Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said Act permitted prior to such amendment), from and against any and all reasonable costs, disbursements and attorneys' fees, and any and all amounts paid or incurred in satisfaction of

settlements, judgments, fines and penalties, incurred or suffered in connection with any such proceeding, and such indemnification shall continue as to a person who has ceased to be a director, officer, trustee, employee or agent and shall inure to the benefit of his or her heirs, executors, administrators and assigns; provided, however, that, except as provided in paragraph (2) hereof, the corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was specifically authorized by the Board of Directors of the corporation. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the corporation the expenses incurred in connection with any proceeding in advance of the final disposition of such proceeding as authorized by the Board of Directors; provided, however, that if the New Jersey Business Corporation Act so requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer in advance of the final disposition of a proceeding shall be made only upon receipt by the corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced unless it shall ultimately be determined that such director or officer is entitled to be indemnified under this Section or otherwise. The corporation may, by action of its Board of Directors, provide for indemnification and advancement of expenses to employees and agents of the corporation with the same scope and effect as the foregoing indemnification of directors and officers.

(2) Right of Claimant to Bring Suit. If a claim under paragraph (1) of this Section is not paid in full by the corporation within 30 days after a written request has been received by the corporation, the claimant may at any time thereafter apply to a court for an award of indemnification by the corporation for the unpaid amount of the claim and, if successful on the merits or otherwise in connection with any proceeding, or in the defense of any claim, issue or matter therein, the claimant shall be entitled also to be paid by the corporation any and all expenses incurred or suffered in connection with such proceeding. It shall be a defense to any such action (other than an action brought to enforce a claim for the advancement of expenses incurred in connection with any proceeding where the required undertaking, if any, has been tendered to the corporation), that the claimant has not met the standard of conduct which makes it permissible under the New Jersey Business Corporation Act for the corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including its Board of Directors, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such proceeding that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the New Jersey Business Corporation Act, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel or its stockholders) that the claimant has not met such applicable standard of conduct, nor the termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(3) Non-Exclusivity of Rights. The right to indemnification and advancement of expenses provided by or granted pursuant to this Section (b) shall not exclude or be exclusive of any other rights to which any person may be entitled under a certificate of incorporation, by-law, agreement, vote of stockholders or otherwise, provided that no indemnification shall be made to

or on behalf of such person if a judgment or other final adjudication adverse to such person establishes that such person has not met the applicable standard of conduct required to be met under the New Jersey Business Corporation Act.

(4) Insurance. The corporation may purchase and maintain insurance on behalf of any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any expenses incurred in any proceeding and any liabilities asserted against him or her by reason of such person being or having been such a director, officer, employee or agent, whether or not the corporation would have the power to indemnify such person against such expenses and liabilities under the provisions of this Section (b) or otherwise.

NINTH: The By-Laws of the corporation may be altered, amended or repealed by the stockholders or the Board of Directors as provided for in the corporation's By-Laws. Any By-Law adopted, amended or repealed by the stockholders as provided for in the By-Laws of the corporation may be amended or repealed by the Board of Directors, unless the resolution of the stockholders adopting such By-Law expressly reserves the right to amend or repeal it to the stockholders.

[remainder of page intentionally left blank – signature page to follow]

IN WITNESS WHEREOF, the corporation has caused this Amended and Restated Certificate of Incorporation to be executed by its President on the 3rd day of May, 2010.

/s/ Gregory E. Murphy
Gregory E. Murphy
Chairman, President and
Chief Executive Officer

CERTIFICATE
TO
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
SELECTIVE INSURANCE GROUP, INC.

To: Treasurer
State of New Jersey

Pursuant to the provisions of Section 14A:9-5(5), Corporations, General, of the New Jersey Statutes, the undersigned corporation organized under the laws of the State of New Jersey does hereby execute the following Certificate:

FIRST: The name of the corporation is Selective Insurance Group, Inc. (the "Corporation").

SECOND: The Amended and Restated Certificate of Incorporation was adopted on the 28th day of April, 2010.

THIRD: At the time of the adoption of the Amended and Restated Certificate of Incorporation, the number of outstanding shares and the class or series entitled to vote thereon as a class and the vote of such shares, was:

Class or Series	Total Number of Shares Entitled to Vote	Number of Shares Voted For	Number of Shares Voted Against
Common Stock	53,250,772	44,526,151	779,073

FOURTH: The Amended and Restated Certificate of Incorporation restates and integrates and further amends the Certificate of Incorporation of this Corporation by amending Article SEVENTH to read as follows:

(a) Number, Election and Terms. The business and affairs of the corporation shall be managed by a Board of Directors which shall have and may exercise all of the powers of the corporation, except such as are expressly conferred upon the stockholders by law, by this Amended and Restated Certificate of Incorporation or by the By-Laws. Subject to the rights of the holders of shares of any series of preferred stock then outstanding, the Board of Directors shall consist of not less than seven nor more than 20 persons. The exact number of directors within the minimum and maximum limitations specified in the preceding sentence shall be fixed from time to time by the Board of Directors pursuant to a resolution adopted by a majority of the whole Board of Directors, and if such number is not so fixed, the number shall be 12. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director. Commencing at the annual meeting of stockholders that is held in calendar year 2010 (the "2010 Annual Meeting"), directors shall be elected annually for terms of one year, except that any director in office at the 2010 Annual Meeting whose term does not expire until the annual meeting of stockholders held in calendar year 2011 or calendar year 2012

(a "Continuing Classified Director") shall continue to hold office until the end of the term for which such Continuing Classified Director was previously elected and until such Continuing Classified Director's successor shall have been elected and qualified. Except as otherwise required by law, until the term of a Continuing Classified Director or any other director expires or otherwise terminates as aforesaid, such directors may be removed from office by the stockholders of the Corporation or the Board of Directors only for cause pursuant to the applicable provisions of the New Jersey Business Corporation Act.

(b) Amendment, Repeal, etc. Notwithstanding anything contained in this Amended and Restated Certificate of Incorporation to the contrary, the affirmative vote of the holders of at least 66-2/3% of the voting power of all of the shares of the corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend, adopt any provision inconsistent with, or repeal this Article SEVENTH or to alter, amend, adopt any provision inconsistent with, or repeal Sections 7A, 7B or 20 of the By-Laws of the corporation.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be executed by its President on the 3rd day of May, 2010.

SELECTIVE INSURANCE GROUP, INC.

By: /s/ Gregory E. Murphy
Gregory E. Murphy
Chairman, President and
Chief Executive Officer

Exhibit 10.1

AMENDED AND RESTATED SELECTIVE INSURANCE GROUP, INC.
STOCK PURCHASE PLAN FOR INDEPENDENT INSURANCE AGENCIES (2010)

1. PURPOSE; GENERAL

The purpose of the Amended and Restated Selective Insurance Group, Inc. Stock Purchase Plan for Independent Insurance Agencies (the "Plan") is to motivate independent insurance agencies that sell products and services for the insurance company subsidiaries of Selective Insurance Group, Inc., a New Jersey corporation (the "Company"), by enabling them to participate in the Company's long-term growth and success and to help align their success with those interests of the Company's stockholders.

The Plan allows each Eligible Agency (as defined in Section 2(a) below) and those eligible Principals, Key Employees, and Benefit Plans (each as defined in Section 2(a) below, and collectively referred to as the "Eligible Persons") designated by the Eligible Agency to purchase shares of the common stock of the Company, par value $2.00 per share ("Common Stock"), at a discount as described below. An Eligible Agency or Eligible Person may elect to apply all or a portion of its Earned Cash Commissions (as defined in Section 2(c) below) and its distributions from the Company's insurance subsidiaries' Supplemental Commission program (the "Supplemental Commission Program") to the purchase of shares of Common Stock under the Plan.

Each Eligible Agency, together with its designated Eligible Persons (each such Eligible Agency and its designated Eligible Persons a "Participant"), may invest up to the applicable Maximum Contribution Amount (as described in the chart below) per calendar quarter under the Plan on certain Purchase Dates (as defined in Section 2(c) below), based upon the amount of total Written Premiums (as defined below) by such Eligible Agency during the previous calendar year with one or more of Selective's insurance subsidiaries, as follows:

Written Premiums	**Maximum Contribution Amounts**
Less than $2,000,000	$30,000
$2,000,000 or more but less than $5,000,000	$50,000
$5,000,000 or more	$75,000

"Written Premiums" include all written premiums, less cancellations and returns, recorded by the Company and its insurance subsidiaries, but do not include:

1. Premiums for policies written through pools, associations, or syndicates;

2. Premiums for insurance written in any reinsurance facility, joint underwriting association, or other insurance program required by law;

3. Policyholder dividends, expense fees, surcharges, and other like charges;

4. Premiums from any accident and health, systems breakdown, and flood policies;

5. Premiums for alternative market business, including, but not limited to, retrospectively rated policies and assumed business; and

6. Premiums for policies, coverages, or plans that the Committee (as defined in Section 6 hereof) may exclude from this Plan.

There is a $100 (one hundred dollar) minimum for purchases under the Plan by a Participant per calendar quarter. If a Participant does not purchase $100 (one hundred dollars) per a calendar quarter, any amounts below such minimum will be refunded, without interest, to such Participant by check as soon as practicable after the end of the quarter. The Company offers shares of Common Stock under the Plan at a 10% discount from Fair Market Value (as defined below) on the Purchase Date and Participants pay no brokerage commissions or other charges on purchases of such shares under the Plan. "Fair Market Value" means the closing selling price for the Common

Stock reported on the NASDAQ Stock Market, or such other exchange on which the Common Stock may be traded, on the applicable Purchase Date.

2. PARTICIPATION IN THE PLAN

(a) Eligibility

Each eligible independent insurance agency that is under contract with any of the insurance subsidiaries of the Company to promote and sell the Company's subsidiaries' insurance products, other than such agencies that promote and sell only the Company's subsidiaries' flood insurance products (each, an "Eligible Agency") is eligible to participate in the Plan and to purchase shares of Common Stock under the Plan. Also eligible to purchase shares of Common Stock under the Plan in conjunction with an Eligible Agency are the following Eligible Persons:

- principals, general partners, officers, and stockholders of, and designated by, an Eligible Agency (collectively, "Principals");
- key employees of an Eligible Agency designated by such Eligible Agency ("Key Employees"); and
- individual retirement plans of Principals and Key Employees, Keogh plans of Principals and Key Employees, and employee benefit plans of, and designated by, an Eligible Agency (collectively, the "Benefit Plans").

The Committee or its designee shall, in its sole discretion, determine whether any Eligible Agency, or Eligible Person designated by an Eligible Agency, is ineligible to be a Participant in the Plan.

Eligible Agencies and Eligible Persons are under no obligation to participate in the Plan or to purchase shares of Common Stock under the Plan. If an Eligible Agency and/or its Eligible Persons choose not to participate in the Plan, the Eligible Agency and/or its Eligible Persons, as applicable, shall receive the Earned Cash Commissions (as defined in Section 2(c) below) and the distributions from the Supplemental Commission Program to which they are entitled. The Plan is for the benefit only of the Participants. No other persons shall be direct or indirect beneficiaries or participants in the Plan. The Company shall not be obligated with respect to the Plan under any other arrangements between an Eligible Agency and any other person, including, but not limited to, the Eligible Agency's Principals, Key Employees, and Benefit Plans.

(b) Enrollment in the Plan

The Company shall send to each Eligible Agency:

- a copy of the Plan;
- an enrollment/purchase form;
- a copy of a prospectus and any prospectus supplements; and
- a copy of the most recent Annual Report of the Company.

If an Eligible Person wishes to participate in the Plan, the Eligible Agency and each participating Eligible Person must complete and sign the enrollment/purchase form and return the form to the Company at the address contained in Section 2(c) hereof. Eligible Agencies may obtain additional forms by written or telephonic request to the Company, attention: "Billing Services" at the address contained in Section 2(c) hereof or by calling (973) 948-1990. In addition, forms are available online in eSelect®, within the "My Agency" tab.

An Eligible Person shall become a Participant in the Plan only (i) after the Eligible Agency affiliated with such Eligible Person has received a copy of the Plan, a prospectus, any applicable prospectus supplement or supplements, and the most recent Annual Report of the Company, (ii) after the Company has received a properly completed enrollment/purchase form signed by such Eligible Agency and such Eligible Person, and (iii) if such

Eligible Person has not been determined to be ineligible to become a Participant in the Plan by the Committee or its designee pursuant to Section 2(a) hereof. By returning a properly completed and signed form to the Company, the Eligible Agency and participating Eligible Person each acknowledge the receipt of the documents described in subsection (i) of the previous sentence.

(c) Purchasing Shares of Common Stock

Shares may generally be purchased by Participants under the Plan on the first day of March, June, September, and December of each year or the next succeeding business day (each a "Purchase Date" and collectively, the "Purchase Dates"), however, the Company does not guarantee that such days will be Purchase Dates and may designate other dates as Purchase Dates. The Company does not pay any interest on cash payments received under the Plan.

Once each calendar quarter, and prior to a Contribution Date (as defined below), the Company shall provide enrollment/purchase forms to each Eligible Agency. Purchases shall be made under the Plan on the next applicable Purchase Date.

Each Participant shall designate the dollar amount to be invested on the next Purchase Date (the "Contribution Amount") in the appropriate sections of the enrollment/purchase form. Each Participant shall designate (i) the amount, if any, of the Contribution Amount that is to be paid in cash by check, (ii) the percentage, if any, that is to be deducted from monthly payments of Earned Cash Commissions (as defined below) and applied to the Contribution Amount, and (iii) the percentage, if any, that is to be deducted from the Participant's distributions under the Supplemental Commission Program and applied to the Contribution Amount.

Changes to, or revocation of, the percentage that is to be deducted from a Participant's monthly payments of Earned Cash Commissions and applied to the Contribution Amount must be received in writing by the Company by the 25th day of a month, or the previous business day if the 25th is not a business day, to be effective for that month. Such changes to Earned Cash Commission deductions will be applied to the Contribution Amount for the next practicable quarterly Purchase Date, as set forth below:

Changes relating to the Percentage of Deductions from Monthly Payments of Earned Cash Commissions made by the 25th of:	Will be Applied to the Contribution Amount for the Purchase Date for:
November, December, January	March
February, March, April	June
May, June, July	September
August, September, October	December

A Participant's designation regarding the percentage to be deducted from monthly payments of Earned Cash Commissions shall remain in effect until revoked or modified in accordance with the provisions set forth above.

Changes to, or revocation of, the percentage that is to be deducted from a Participant's distributions under the Supplemental Commission Program and applied to the Contribution Amount must be received in writing by the Company by the 7th day of February, or the previous business day if the 7th is not a business day, to be effective as of the next March Purchase Date. A Participant's designation regarding the percentage to be deducted from distributions under the Supplemental Commission Program shall remain in effect until revoked or modified in writing. The Contribution Amount designation regarding cash shall only remain in effect for the next Purchase Date.

"Earned Cash Commissions" means those commissions that are fully earned and are due and payable to a participating Eligible Agency for personal and commercial direct bill policies after all offsetting debits and credits are applied, as determined by and solely from the records of the Company and its subsidiaries.

For each Participant, the enrollment/purchase form must include:

- such Participant's full name and address;
- such Participant's social security or taxpayer identification number; and
- the amount of cash, if any, and percentages of Earned Cash Commissions and/or Supplemental Commission Program payments, if any, to be invested in shares of Common Stock for each Eligible Person for whom purchase instructions are submitted.

In addition, each Participant must sign their enrollment/purchase form certifying to the Company receipt of a copy of the Plan, any prospectus or supplements thereto, and a copy of the most recent Annual Report of the Company. Notwithstanding anything to the contrary herein, enrollment in the Plan for a particular Purchase Date is irrevocable after the applicable Contribution Date (as defined below). The form must be signed by the applicable Eligible Agency and each affiliated Eligible Person listed on the form.

Completed and signed enrollment/purchase forms must be sent to the Company at:

Selective Insurance Group, Inc.
40 Wantage Avenue
Branchville, New Jersey 07890
Attention: Billing Services ASPP

Properly completed forms and necessary payments must be received by the Company at least ten (10) business days prior to the applicable Purchase Date (the "Contribution Date"). The Company will perform such necessary ministerial and clerical work regarding the forms as to effect the transaction and promptly forward enrollment/purchase information to the Plan Agent (as defined in Section 2(d) hereof). If necessary payments are not received by the applicable Contribution Date, the purchase will not be effected and any payments received after the Contribution Date will be returned.

(d) Purchased Shares and Participants' Accounts

The Company shall record the ownership of the shares of Common Stock purchased through the Plan in book-entry form. When a Participant makes his or her first purchase of shares of Common Stock under the Plan, the Company shall establish an account for each such Participant with Wells Fargo Shareowner Services, the Company's transfer agent and registrar (the "Plan Agent"). Each time a Participant purchases shares of Common Stock, the shares shall be credited to the Participant's account and the Company shall record the shares on its Common Stock records. The Participant shall receive a written account statement from the Plan Agent following each purchase of shares. A Participant may vote all shares of Common Stock held in his or her account.

(e) Restrictions on Shares Purchased under the Plan

Shares of Common Stock purchased under the Plan shall be restricted for a period of one year beginning on the Purchase Date and expiring upon the first anniversary of the Purchase Date (the "Restricted Period"). During the Restricted Period, the Participant may not sell, transfer, pledge, assign, or dispose of his or her shares of Common Stock in any way. During this period, the Plan Agent shall hold the Participant's shares of Common Stock in the Participant's account, but no share certificates shall be issued. However, a Participant may vote his or her shares of Common Stock during the Restricted Period and shall receive any dividends declared by the Board of Directors of the Company (the "Board"). The Participant shall own all of the shares in his or her account and none of the Participant's shares of Common Stock shall be subject to forfeiture.

Following the expiration of the Restricted Period, the Participant's shares of Common Stock shall remain in his or her account until the Participant requests, in writing to the Plan Agent, that the shares be transferred, that the shares be sold, that certificates be issued to the Participant, or that the Participant's account be closed.

If an Eligible Agency closes its account, it may re-enroll in the Plan at any time it is eligible to participate by completing a new enrollment/purchase form. An Eligible Person may similarly re-enroll in the Plan, provided the Eligible Person complied with the enrollment procedures set forth in the Plan.

3. SHARES AVAILABLE UNDER THE PLAN

The maximum number of shares of Common Stock reserved for issuance under the Plan shall be 1,500,000 (one million five hundred thousand), subject to adjustment as provided herein. The Company may make the shares available from authorized but unissued shares of Common Stock or authorized and issued shares of Common Stock held in the Company's treasury, including shares purchased by the Company in the open market.

In the event that the Board determines that any stock dividend or other distribution, extraordinary cash dividend, stock split or reverse stock split, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, exchange of shares, warrants, rights offering to purchase shares of Common Stock at a price substantially below fair market value, or other similar corporate transaction or event affects the Common Stock so that an adjustment is required in order to preserve the benefits or potential benefits intended to be made available under the Plan, then the Board may, in its sole and absolute discretion, adjust any or all of the number and type of shares which may be available under the Plan.

4. DIVIDENDS; DIVIDEND REINVESTMENT

The Company pays dividends, as and when declared by the Board, to the record holders of shares of Common Stock. As the record holder of shares of Common Stock purchased under the Plan, a Participant shall receive dividends, if any, in cash for all shares registered in the Participant's name on the record date. Such payment shall be made on the date that such dividend would be paid to the Company's stockholders generally.

Any dividend payable in Common Stock or any split shares distributed by the Company on shares purchased under the Plan shall be deposited in the Participant's account with the Plan Agent. Any shares received as the result of a stock split shall be subject to the same restrictions on transfer as the shares purchased under the Plan. Shares received as dividends shall not be subjected to any transfer restrictions.

Participants in the Plan are also eligible to participate in the Company's dividend reinvestment plan pursuant to the terms and conditions of that plan. If a Participant elects to participate in the Company's dividend reinvestment plan, the Participant shall be entitled to reinvest his or her dividends to purchase additional shares of Common Stock. There is no discount on the purchase price of shares under the Company's dividend reinvestment plan. The transfer restrictions applicable to shares purchased under the Plan shall not apply to any shares purchased under the Company's dividend reinvestment plan. Wells Fargo Shareowner Services is the plan administrator of the Company's dividend reinvestment plan. Information about the Company's dividend reinvestment plan may be obtained from the Company or from Wells Fargo Shareowner Services.

5. OTHER STOCKHOLDER RIGHTS; INFORMATION REPORTING

If the Company has a rights offering, Participants in the Plan shall be entitled to participate based upon their total share holdings. Rights on shares of Common Stock purchased under the Plan and registered in the name of a Participant shall be mailed directly to that Participant in the same manner as to stockholders not participating in the Plan.

Each Participant in the Plan shall receive the Company's annual and other periodic or quarterly reports issued to stockholders, notices of stockholder meetings, proxy statements, and Internal Revenue Service information for reporting dividends paid and income resulting from the discount on the purchase of Common Stock under the Plan.

Each Participant shall be entitled to vote the shares purchased under the Plan and registered in that Participant's name on a record date for a meeting of stockholders. A Participant may vote in person or by proxy at any meeting of stockholders.

6. ADMINISTRATION OF THE PLAN, INQUIRIES, AND CORRESPONDENCE

The Plan shall be administered by the Salary and Employee Benefits Committee of the Board (the "Committee") or its designee. The Committee shall have the authority, in its sole discretion, subject to and not inconsistent with the express provisions of the Plan, to administer the Plan and to exercise all the powers and authorities either specifically granted to it under the Plan or necessary or advisable in the administration of the Plan, including, without limitation, the authority to:

- construe and interpret the Plan;
- make adjustments in response to changes in applicable laws, regulations, or accounting principles, or for any other reason;
- prescribe, amend, and rescind rules and regulations relating to the Plan and appoint such agents as it shall deem appropriate for the proper administration of the Plan, in accordance with Section 7 hereof; and
- make all other determinations deemed necessary or advisable for the administration of the Plan.

Determinations of the Committee shall be final, conclusive, and binding on all persons, and the Committee will not be liable for any action or determination made in good faith with respect to the Plan.

The Committee shall engage the Plan Agent to perform custodial and record-keeping functions for the Plan, such as holding record title to the Participants' shares, maintaining an individual investment account for each Participant, and providing periodic account status reports to each Participant.

All enrollment/purchase forms should be sent to the Company at the following address:

Selective Insurance Group, Inc.
40 Wantage Avenue
Branchville, New Jersey 07890
Attention: Billing Services ASPP

Telephone inquiries may be directed to the Company at (973) 948-1990 or via e-mail at AgentStockPlan@selective.com.

All share account inquiries and correspondence should be sent to:

Wells Fargo Shareowner Services
P.O. Box 64854
St. Paul, Minnesota 55164-0854

Telephone inquiries may be directed to Wells Fargo Shareowner Services at (866) 877-6351.

The Company pays all of its administrative expenses related to the Plan. Plan Participants pay no brokers commissions or administrative or other charges for purchases of Common Stock under the Plan.

7. AMENDMENT OR TERMINATION OF THE PLAN

Either the Board or the Committee may amend, revise, suspend, or terminate the Plan at any time and in any respect whatsoever; *provided*, *however*, that stockholder approval shall be required for any such amendment if and to the extent such approval is required in order to comply with applicable law or any stock exchange listing requirement.

8. RIGHTS NOT TRANSFERABLE

Rights under the Plan are not transferable by a Participant other than by will or the laws of descent and distribution and are exercisable during the Participant's lifetime only by the Participant.

9. RIGHT TO CONTINUED EMPLOYMENT OR AGENCY STATUS

Nothing in the Plan or any enrollment/purchase form shall confer an obligation on the Company or any Eligible Agency to employ or continue the employment or service of any Participant for any specified period of time and shall not lessen, affect, or interfere with the Company's or any Eligible Agency's right to terminate the employment or service of any such Participant at any time or for any reason not prohibited by law.

10. APPLICABLE OR GOVERNING LAW; SEVERABILITY

Except to the extent preempted by any applicable federal law, the Plan shall be construed and administered in accordance with the laws of the State of New Jersey without reference to its principles of conflicts of law.

If any provision of the Plan is held to be invalid or unenforceable, the other provisions of the Plan shall not be affected but shall be applied as if the invalid or unenforceable provision had not been included in the Plan.

EXHIBIT 11

SELECTIVE INSURANCE GROUP, INC. AND CONSOLIDATED SUBSIDIARIES
COMPUTATION OF EARNINGS PER SHARE

Second Quarter 2010 (in thousands, except per share amounts)		Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS:				
Net income from continuing operations	$	**20,091**	**53,289**	**0.37**
Net loss from discontinued operations		**(1,325)**	**53,289**	**(0.02)**
Net income available to common stockholders	$	**18,766**	**53,289**	**0.35**
Effect of dilutive securities:				
Restricted stock		**-**	**7**	
Restricted stock units		**-**	**768**	
Stock options		**-**	**115**	
Deferred shares		**-**	**182**	
Diluted EPS:				
Net income from continuing operations	$	**20,091**	**54,361**	**0.37**
Net loss from discontinued operations		**(1,325)**	**54,361**	**(0.02)**
Net income available to common stockholders		**18,766**	**54,361**	**0.35**

Second Quarter 2009 (in thousands, except per share amounts)		Income (Numerator)	Shares (Denominator)		Per Share Amount
Basic EPS:					
Net income from continuing operations	$	15,358	52,571	$	0.29
Net income from discontinued operations		330	52,571		0.01
Net income available to common stockholders	$	15,688	52,571	$	0.30
Effect of dilutive securities:					
Restricted stock		-	260		
Restricted stock units		-	145		
Stock options		-	82		
Deferred shares		-	176		
Diluted EPS:					
Net income from continuing operations	$	15,358	53,234	$	0.28
Net income from discontinued operations		330	53,234		0.01
Net income available to common stockholders		15,688	53,234		0.29

Six Months 2010 (in thousands, except per share amounts)		Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS:				
Net income from continuing operations	$	**26,684**	**53,217**	**0.50**
Net loss from discontinued operations		**(2,115)**	**53,217**	**(0.04)**
Net income available to common stockholders	$	**24,569**	**53,217**	**0.46**
Effect of dilutive securities:				
Restricted stock		-	**44**	
Restricted stock units		-	**726**	
Stock options		-	**121**	
Deferred shares		-	**181**	
Diluted EPS:				
Net income from continuing operations	$	**26,684**	**54,289**	**0.49**
Net loss from discontinued operations		**(2,115)**	**54,289**	**(0.04)**
Net income available to common stockholders		**24,569**	**54,289**	**0.45**

Six Months 2009 (in thousands, except per share amounts)		Income (Numerator)	Shares (Denominator)		Per Share Amount
Basic EPS:					
Net income from continuing operations	$	2,408	52,462	$	0.04
Net income from discontinued operations		403	52,462		0.01
Net income available to common stockholders	$	2,811	52,462		0.05
Effect of dilutive securities:					
Restricted stock		-	311		
Restricted stock units		-	126		
Stock options		-	98		
Deferred shares		-	184		
Diluted EPS:					
Net income from continuing operations	$	2,408	53,181	$	0.04
Net income from discontinued operations		403	53,181		0.01
Net income available to common stockholders		2,811	53,181		0.05

Exhibit 31.1

Certification pursuant to Rule 13a – 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, GREGORY E. MURPHY, Chairman of the Board, President and Chief Executive Officer of Selective Insurance Group, Inc. (the "Company"), hereby certify, that:

1. I have reviewed this quarterly report on Form 10-Q of the Company;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2010

By: /s/ Gregory E. Murphy
Gregory E. Murphy
Chairman of the Board, President and Chief Executive Officer

Exhibit 31.2

Certification pursuant to Rule 13a – 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, DALE A. THATCHER, Executive Vice President and Chief Financial Officer of Selective Insurance Group, Inc. (the "Company"), hereby certify, that:

1. I have reviewed this quarterly report on Form 10-Q of the Company;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2010

By: /s/ Dale A. Thatcher
Dale A. Thatcher
Executive Vice President and Chief Financial Officer

Exhibit 32.1

Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, GREGORY E. MURPHY, the Chairman of the Board, President and Chief Executive Officer of Selective Insurance Group, Inc. (the "Company"), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2010 (the "Form 10-Q"), which this certification accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 29, 2010

By: /s/ Gregory E. Murphy
Gregory E. Murphy
Chairman of the Board, President and Chief Executive Officer

Exhibit 32.2

Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, DALE A. THATCHER, the Executive Vice President and Chief Financial Officer of Selective Insurance Group, Inc. (the "Company"), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2010 (the "Form 10-Q"), which this certification accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 29, 2010

By: /s/ Dale A. Thatcher
Dale A. Thatcher
Executive Vice President and Chief Financial Officer