

HORACE MANN EDUCATORS CORP /DE/

Form 10-Q

August 07, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2009

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-10890

HORACE MANN EDUCATORS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware **37-0911756**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
1 Horace Mann Plaza, Springfield, Illinois 62715-0001
(Address of principal executive offices, including Zip Code)
Registrant's Telephone Number, Including Area Code: 217-789-2500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark the registrant's filer status, as such terms are defined in Rule 12b-2 of the Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

As of July 31, 2009, 39,176,856 shares of Common Stock, par value \$0.001 per share, were outstanding, net of 21,813,196 shares of treasury stock.

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HORACE MANN EDUCATORS CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Horace Mann Educators Corporation:

We have reviewed the accompanying consolidated balance sheet of Horace Mann Educators Corporation and subsidiaries (the Company) as of June 30, 2009, the related consolidated statements of operations and comprehensive income (loss) for the three-month and six-month periods ended June 30, 2009 and 2008, and the related consolidated statements of changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2009 and 2008. These consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2008, and the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 2, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it was derived.

As discussed in Note 1 to the June 30, 2009 consolidated financial statements, the Company adopted FASB Staff Position (FSP) FAS 107-1 and Accounting Principles Board (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments* , FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, and FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* , effective April 1, 2009.

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As discussed in Note 1 to the December 31, 2008 consolidated financial statements, the Company adopted American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts*, effective January 1, 2007. As discussed in Note 7 to the consolidated financial statements, the Company adopted FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*, effective January 1, 2007. As discussed in Note 9 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of December 31, 2006.

/s/ KPMG LLP

KPMG LLP

Chicago, Illinois

August 7, 2009

Table of Contents**HORACE MANN EDUCATORS CORPORATION****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands)

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost 2009, \$3,811,100; 2008, \$3,787,857)	\$ 3,652,348	\$ 3,485,261
Equity securities, available for sale, at fair value (cost 2009, \$66,321; 2008, \$86,184)	53,727	61,569
Short-term and other investments	500,863	354,925
Total investments	4,206,938	3,901,755
Cash	24,195	9,204
Accrued investment income and premiums receivable	105,811	103,534
Deferred policy acquisition costs	288,207	312,046
Goodwill	47,396	47,396
Other assets	143,148	168,566
Separate Account (variable annuity) assets	1,012,476	965,217
Total assets	\$ 5,828,171	\$ 5,507,718
LIABILITIES AND SHAREHOLDERS EQUITY		
Policy liabilities		
Fixed annuity contract liabilities	\$ 2,264,057	\$ 2,166,518
Interest-sensitive life contract liabilities	697,168	685,854
Unpaid claims and claim expenses	311,954	311,243
Future policy benefits	194,774	193,000
Unearned premiums	205,181	206,578
Total policy liabilities	3,673,134	3,563,193
Other policyholder funds	122,791	128,359
Other liabilities	220,349	164,555
Short-term debt	38,000	38,000
Long-term debt	199,582	199,549
Separate Account (variable annuity) liabilities	1,012,476	965,217
Total liabilities	5,266,332	5,058,873
	-	-

Preferred stock, \$0.001 par value, authorized 1,000,000 shares; none issued		
Common stock, \$0.001 par value, authorized 75,000,000 shares; issued, 2009, 60,990,052; 2008, 60,874,984	61	61
Additional paid-in capital	357,396	355,542
Retained earnings	722,272	694,492
Accumulated other comprehensive loss net of taxes:		
Net unrealized gains and losses on fixed maturities and equity securities	(98,705)	(182,065)
Net funded status of pension and other postretirement benefit obligations	(11,522)	(11,522)
Treasury stock, at cost, 21,813,196 shares	(407,663)	(407,663)
Total shareholders' equity	561,839	448,845
Total liabilities and shareholders' equity	\$ 5,828,171	\$ 5,507,718

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

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HORACE MANN EDUCATORS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues				
Insurance premiums and contract charges earned	\$ 163,542	\$ 163,703	\$ 326,005	\$ 326,252
Net investment income	61,078	57,812	118,941	114,425
Net realized investment gains (losses)	11,095	(8,021)	10,248	(10,472)
Other income	1,927	2,751	4,817	5,308
Total revenues	237,642	216,245	460,011	435,513
Benefits, losses and expenses				
Benefits, claims and settlement expenses	118,241	122,110	225,981	229,024
Interest credited	34,484	32,600	68,213	64,655
Policy acquisition expenses amortized	19,049	18,747	42,058	39,775
Operating expenses	35,286	33,348	70,829	68,128
Amortization of intangible assets	-	1,573	223	2,818
Interest expense	3,489	3,376	6,986	6,777
Total benefits, losses and expenses	210,549	211,754	414,290	411,177
Income before income taxes	27,093	4,491	45,721	24,336
Income tax expense (benefit)	8,489	(51)	13,686	5,538
Net income	\$ 18,604	\$ 4,542	\$ 32,035	\$ 18,798
Net income per share				
Basic	\$ 0.48	\$ 0.11	\$ 0.82	\$ 0.46
Diluted	\$ 0.46	\$ 0.11	\$ 0.79	\$ 0.45
Weighted average number of shares and equivalent shares (in thousands)				
Basic	39,172	40,116	39,168	40,586
Diluted	40,532	41,225	40,495	41,706
Net realized investment gains (losses)				

Total other-than-temporary impairment losses on securities	\$ (9,516)	\$ (11,522)	\$ (27,268)	\$ (18,112)
Portion of losses recognized in other comprehensive income	1,430	-	1,430	-
Net other-than-temporary impairment losses on securities recognized in earnings	(8,086)	(11,522)	(25,838)	(18,112)
Realized gains	19,181	3,501	36,086	7,640
Total	\$ 11,095	\$ (8,021)	\$ 10,248	\$ (10,472)

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

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HORACE MANN EDUCATORS CORPORATION
CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Comprehensive income (loss)				
Net income	\$ 18,604	\$ 4,542	\$ 32,035	\$ 18,798
Other comprehensive income (loss), net of taxes:				
Change in net unrealized gains and losses on fixed maturities and equity securities	100,260	(27,333)	83,360	(59,003)
Change in net funded status of pension and other postretirement benefit obligations	-	-	-	-
Other comprehensive income (loss)	100,260	(27,333)	83,360	(59,003)
Total	\$ 118,864	\$(22,791)	\$ 115,395	\$(40,205)

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

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	Six Months Ended June 30,	
	2009	2008
Common stock		
Beginning balance	\$ 61	\$ 61
Conversion of Director Stock Plan units, 2009, 84,562 shares; 2008, 16,355 shares	-	-
Conversion of restricted stock units, 2009, 30,506 shares; 2008, 3,174 shares	-	-
Ending balance	61	61

Additional paid-in capital