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 incorporation or organization)	**(I.R.S. Employer 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 x 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 x	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 x

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

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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, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 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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HORACE MANN EDUCATORS CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

(Dollars in thousands, except per share data)

	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		
Beginning balance	355,542	353,841
Conversion of Director Stock Plan units and restricted stock units	1,268	369
Share-based compensation expense	586	666
Ending balance	357,396	354,876
Retained earnings		
Beginning balance	694,492	698,539
Cumulative effect of adoption of accounting principle, net of taxes	-	-
Net income	32,035	18,798
Cash dividends, 2009, $0.105 per share; 2008, $0.21 per share	(4,255)	(8,668)
Ending balance	722,272	708,669
Accumulated other comprehensive loss, net of taxes		
Beginning balance	(193,587)	(5,838)
Cumulative effect of adoption of accounting principle, net of taxes	-	-
Change in net unrealized gains and losses on fixed maturities and equity securities	83,360	(59,003)
Change in net funded status of pension and other postretirement benefit obligations	-	-
Ending balance	(110,227)	(64,841)

Treasury stock, at cost		
Beginning balance, 2009, 21,813,196 shares; 2008, 18,614,971 shares	(407,663)	(353,325)
Purchase of 0 shares in 2009; 3,198,225 shares in 2008	-	(54,338)
Ending balance, 2009 and 2008, 21,813,196 shares	(407,663)	(407,663)
Shareholders equity at end of period	$ 561,839	$ 591,102

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 CASH FLOWS (UNAUDITED)

(Dollars in thousands)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Cash flows - operating activities		
Premiums collected	$ 328,178	$ 330,681
Policyholder benefits paid	(235,247)	(235,538)
Policy acquisition and other operating expenses paid	(109,260)	(111,947)
Federal income taxes paid	(1,241)	(5,909)
Investment income collected	117,949	114,416
Interest expense paid	(7,236)	(6,628)
Other	16	(2,004)
Net cash provided by operating activities	93,159	83,071
Cash flows - investing activities		
Fixed maturities		
Purchases	(1,229,844)	(556,077)
Sales	1,069,581	341,897
Maturities, paydowns, calls and redemptions	176,400	207,839
Net cash used in short-term and other investments	(138,028)	(46,594)
Net cash used in investing activities	(121,891)	(52,935)
Cash flows - financing activities		
Dividends paid to shareholders	(4,255)	(8,668)
Purchase of treasury stock	-	(54,338)
Annuity contracts, variable and fixed		
Deposits	167,594	154,682
Benefits and withdrawals	(84,321)	(87,200)
Net transfer to Separate Account (variable annuity) assets	(34,250)	(40,129)
Life policy accounts		
Deposits	667	833
Withdrawals and surrenders	(2,562)	(2,878)
Change in bank overdrafts	850	5,381
Net cash provided by (used in) financing activities	43,723	(32,317)

Net increase (decrease) in cash	14,991	(2,181)
Cash at beginning of period	9,204	13,209
Cash at end of period	$ 24,195	$ 11,028

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

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HORACE MANN EDUCATORS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2009 and 2008

(Dollars in thousands, except per share data)

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements of Horace Mann Educators Corporation (HMEC ; and together with its subsidiaries, the Company or Horace Mann) have been prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) and with the rules and regulations of the Securities and Exchange Commission (SEC), specifically Regulation S-X and the instructions to Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The Company believes that these consolidated financial statements contain all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary to present fairly the Company s consolidated financial position as of June 30, 2009, the consolidated results of operations and comprehensive income (loss) for the three and six months ended June 30, 2009 and 2008, and the consolidated changes in shareholders equity and cash flows for the six months ended June 30, 2009 and 2008. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (1) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and (2) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The subsidiaries of HMEC market and underwrite tax-qualified retirement annuities and private passenger automobile, homeowners, and life insurance products, primarily to K-12 teachers, administrators and other employees of public schools and their families. The Company s principal operating subsidiaries are Horace Mann Life Insurance Company, Horace Mann Insurance Company, Teachers Insurance Company, Horace Mann Property & Casualty Insurance Company and Horace Mann Lloyds.

The Company has evaluated subsequent events through the date these consolidated financial statements were issued, which was August 7, 2009. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes to consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

The results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year.

Note 1 - Basis of Presentation-(Continued)

Adopted Accounting Standards

Adoption of SFAS No. 165

Effective June 30, 2009, the Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS or FAS) No. 165, Subsequent Events , which established genera standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. SFAS No. 165 provides guidance on the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of this SFAS did not have an effect on the results of operations or financial position of the Company.

Adoption of FSP FAS 157-4

Effective April 1, 2009, the Company prospectively adopted FASB Staff Position (FSP) FAS No. 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 . This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements , when the volume and level of activity for the asset or liability have significantly decreased and also includes guidance on identifying circumstances that indicate a transaction is not orderly. Under FSP FAS No. 157-4, if there has been a significant decrease in the volume and level of activity for the asset or the liability in relation to the normal market activity for the asset or liability (or similar assets or liabilities), then transactions or quoted prices may not accurately reflect fair value. In addition, if there is evidence that the transaction for the asset or liability is not orderly, little weight, if any, should be placed on that transaction price as an indicator of fair value. The adoption of this FSP did not have a material effect on the results of operations and financial position of the Company.

Adoption of FSP FAS 115-2 and FAS 124-2

Effective April 1, 2009, the Company adopted FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments . This FSP amends the other-than-temporary impairment guidance for debt securities. The FSP separates an other-than-temporary impairment of a debt security into two components when there are credit related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. The amount of the total other-than-temporary impairment related to non-credit factors is recognized in other comprehensive income, net of applicable taxes, while the credit related portion is recognized in net income. The Company s adoption of this FSP did not require a cumulative-effect adjustment to the opening balance of retained earnings or accumulated other comprehensive income in the period of adoption. Other-than-temporary impairments prior to April 1, 2009 were the result of the Company s intent to sell securities prior to the recovery of fair value or the result of credit losses. See Note 2 Investments for additional disclosures required by this FSP.

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Note 1 - Basis of Presentation-(Continued)

Adoption of FSP FAS 107-1 and APB 28-1

Effective April 1, 2009, the Company adopted FSP No. FAS 107-1 and Accounting Principle Board (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments . This FSP requires disclosures about the fair value of financial instruments whenever the Company issues summarized financial information for interim reporting periods. See Note 3 Fair Value Measurements for additional disclosures required by this FSP.

Adoption of SFAS No. 163

Effective January 1, 2009, the Company adopted SFAS No. 163, Accounting for Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60 . This statement applies to financial guarantee insurance and reinsurance contracts, including the recognition and measurement of premium revenue and claim liabilities. The adoption of this SFAS did not have an effect on the results of operations or financial position of the Company.

Adoption of FSP APB 14-1

Effective January 1, 2009, the Company adopted FSP No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) . FSP No. APB 14-1 requires issuers of convertible debt instruments that may be settled in cash upon conversion to separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The adoption of this FSP did not have a material effect on the results of operations or financial position of the Company.

Adoption of FSP FAS 142-3

Effective January 1, 2009, the Company adopted FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets . This FSP requires companies estimating the useful life of a recognized intangible asset to consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, to consider assumptions that market participants would use about renewal or extension as adjusted for FASB SFAS No. 142, Goodwill and Other Intangible Assets . The adoption of this FSP did not have an effect on the results of operations or financial position of the Company.

Adoption of FSP FAS 140-3

Effective January 1, 2009, the Company adopted FSP No. FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions . This FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement unless four conditions are all met. Transactions that meet all four criteria are accounted for separately from repurchase financings. The adoption of this FSP did not have an effect on the results of operations or financial position of the Company.

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Note 1 - Basis of Presentation-(Continued)

Recent Accounting Changes

SFAS No. 168

In June 2009, the FASB issued SFAS No. 168, The *FASB Accounting Standards Codification*™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 . SFAS No. 168 establishes *FASB Accounting Standards Codification*™ (Codification) as the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. All guidance contained in the Codification carries an equal level of authority. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Management believes the adoption of this pronouncement will have no effect on the results of operations or financial position of the Company.

FSP FAS 132(R)-1

In December 2008, the FASB amended SFAS No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits , through issuance of FSP FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets . For fiscal years ending after December 15, 2009, the FSP requires employers to disclose additional information about investment allocation decisions, major categories of plan assets and fair value techniques and inputs used to measure plan assets. Because the requirements of this FSP relate only to financial statement disclosures, its adoption will have no effect on the results of operations or financial position of the Company.

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Note 2 - Investments

Fixed Maturity Securities and Equity Securities

The following table presents the composition and value of the Company s fixed maturity securities and equity securities portfolios by rating category. At June 30, 2009, 94.7% of these securities were investment grade, with an overall average quality rating of A+. The Company has classified the entire fixed maturity securities and equity securities portfolios as available for sale, which are carried at fair value.

Rating (1)	Percent of Total Fair Value June 30, 2009	Percent of Total Fair Value December 31, 2008	June 30, 2009 Fair Value (2)	June 30, 2009 Amortized Cost or Cost
Fixed maturity securities				
AAA	34.4%	43.5%	$ 1,259,054	$ 1,268,059
AA	13.4	9.4	489,135	503,978
A	25.2	24.1	919,568	980,349
BBB	21.8	19.1	795,491	841,090
BB	3.2	2.3	116,346	129,550
B	1.8	1.5	65,010	79,982
CCC or lower	0.2	0.1	7,622	8,011
Not rated (3)	-	-	122	81
Total	100.0%	100.0%	$ 3,652,348	$ 3,811,100
Equity securities				
AAA	11.1%	9.8%	$ 5,988	$ 6,000
AA	-	1.0	-	-
A	29.7	54.5	15,948	21,174
BBB	43.0	27.9	23,081	30,524
BB	5.0	2.9	2,684	3,641
B	7.7	-	4,158	3,536
CCC or lower	0.8	0.2	408	443
Not rated (4)	2.7	3.7	1,460	1,003
Total	100.0%	100.0%	$ 53,727	$ 66,321

(1) Ratings are as assigned primarily by Standard & Poor s Corporation (S&P) when available, with remaining ratings as assigned on an equivalent basis by Moody s Investors Service, Inc. (Moody s). Ratings for publicly traded securities are determined when the securities are acquired and are updated monthly to reflect any changes in ratings.

(2) Fair values are based on quoted market prices, when available. Fair values for private placements and certain other securities that are infrequently traded are estimated by the Company with the

assistance of its investment advisors utilizing recognized valuation methodologies, including cash flow modeling. See also Note 3 Fair Value Measurements .

(3) This category includes $84 (fair value) of private placement securities not rated by either S&P or Moody s. The National Association of Insurance Commissioners (NAIC) has rated 61.5% of these private placement securities as investment grade. The remaining $38 (fair value) of securities in this category were obtained in partial settlement of a default that occurred in 2002 and are not rated by S&P, Moody s or the NAIC.

(4) This category represents common stocks that are not rated by either S&P or Moody s.

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Note 2 - Investments-(Continued)

The following table presents the distribution of the Company s fixed maturity securities portfolio by estimated expected maturity. Estimated expected maturities differ from contractual maturities, reflecting assumptions regarding borrowers utilization of the right to call or prepay obligations with or without call or prepayment penalties. For structured securities, including mortgage-backed securities and other asset-backed securities, estimated expected maturities consider broker dealer survey prepayment assumptions and are verified for consistency with the interest rate and economic environments.

	Percent of Total Fair Value		June 30, 2009	
	June 30, 2009	December 31, 2008	Fair Value	Amortized Cost
Due in 1 year or less	4.0%	7.1%	$ 146,896	$ 153,281
Due after 1 year through 5 years	22.9	30.0	837,415	873,814
Due after 5 years through 10 years	31.4	30.7	1,146,120	1,195,937
Due after 10 years through 20 years	15.0	10.6	546,240	569,982
Due after 20 years	26.7	21.6	975,677	1,018,086
Total	100.0%	100.0%	$ 3,652,348	$ 3,811,100

The average option adjusted duration for the Company s fixed maturity securities was 6.8 years at June 30, 2009 and 5.9 years at December 31, 2008. The increase in duration was primarily driven by a reduction in mortgage-backed securities, which have a shorter duration, as the Company completed an opportunistic capital gains program during the first six months of 2009.

Proceeds from sales of fixed maturities, determined using the specific identification method, and gross gains and gross losses realized as a result of those sales for each period were:

	Periods ended June 30, 2009	
	Three Months	Six Months
Proceeds	$ 416,259	$ 1,069,581
Gross gains realized	18,908	35,758
Gross losses realized	(4,065)	(5,837)

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Note 2 - Investments-(Continued)

Other-Than-Temporary Impairments

The Company s methodology of assessing other-than-temporary impairments is based on security-specific facts and circumstances as of the date of the reporting period. Based on these facts, if the Company has the intent to sell the debt security, or if it is more likely than not the Company will be required to sell the debt security before the anticipated recovery in fair value or if management does not expect to recover the entire cost basis of the debt security, an other-than temporary impairment is considered to have occurred. For equity securities, if the Company does not have the ability and intent to hold the security for a period of time that allows for the recovery of cost, an other-than temporary impairment is considered to have occurred. As a general rule, if the fair value of a debt security has fallen below 80% of book value, this security will be reviewed for an other-than-temporary impairment. Also as a general rule, if the fair value of an equity security has declined below cost, this security will be reviewed for an other-than-temporary impairment including an assessment of whether recovery in fair value is likely to occur within a reasonable period of time. Additionally, if events become known that call into question whether the security issuer has the ability to honor its contractual commitments, whether or not such security has been trading above an 80% fair value to cost relationship, such security holding will be evaluated to determine whether or not such security has suffered an other-than-temporary decline in value.

The Company reviews the fair value of all investments in its portfolio on a monthly basis to assess whether an other-than-temporary decline in value has occurred. These reviews, in conjunction with the Company s investment managers monthly credit reports and relevant factors such as (1) the financial condition and near-term prospects of the issuer, (2) the length of time and extent to which the fair value has been less than amortized cost for fixed maturity securities or cost for equity securities, (3) for debt securities, the Company s intent to sell a security or whether it is more likely than not the Company will be required to sell the security before the anticipated recovery in fair value or maturity; and for equity securities, the Company s ability and intent to hold the security for a period of time that allows for the recovery of cost, (4) the stock price trend of the issuer, (5) the market leadership position of the issuer, (6) the debt ratings of the issuer, (7) the cash flows of the issuer or the underlying cash flows for asset-backed securities and (8) a near-term recovery period for equity securities, are all considered in the impairment assessment. A write-down of an investment is recorded when a decline in the fair value of that investment is deemed to be other-than-temporary, with a realized investment loss charged to income for the period for credit related loss associated with the impaired debt security. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income, net of applicable taxes. For securities that are other-than-temporarily impaired, a discussion of the valuation of the credit loss portion of the other-than-temporarily impaired security recognized in earnings is provided, as applicable, in the respective section of this footnote.

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Note 2 - Investments-(Continued)

Additional considerations for certain types of securities include the following:

Corporate Debt Securities

Judgments regarding whether a corporate debt security is other-than-temporarily impaired include analyzing the issuer s financial condition and whether there has been a decline in the issuer s ability to service the specific security. The analysis of the security issuer is based on asset coverage, cash flow multiples or other industry standards. Several factors assessed include, but are not limited to, credit quality ratings, cash flow sustainability, liquidity, financial strength, industry and market position. Sources of information include, but are not limited to, management projections, independent consultants, external analysts research, peer analysis and the Company s internal analysis.

If the Company has concerns regarding the viability of the issuer or its ability to service the specific security after this analysis, a cash flow analysis is prepared to determine if the recovery value has declined below the amortized cost of the debt security. This analysis to determine an estimate of ultimate recovery value is combined with the estimated timing to recovery and any other applicable cash flows that are expected. If a cash flow analysis estimate is not feasible, then the market s view of cash flows implied by the period end fair value, market discount rates and effective yield are the primary factors used to estimate recovery.

Mortgage-Backed Securities Not Issued By the U.S. Government and Federally Sponsored Agencies

The Company evaluates its mortgage-backed securities for other-than-temporary impairment using multiple inputs. Factors which influence the probability of default are debt-servicing, missed refinancing opportunities and geography. Loan level characteristics such as issuer, FICO score, payment terms, level of documentation, property or residency type, and economic outlook are also utilized in financial models, along with historical performance, to estimate or measure the loan s propensity to default. Additionally, financial models take into account loan age, lease rollovers, rent volatilities, vacancy rates and exposure to refinancing as additional drivers of default. For transactions where loan level data is not available, financial models use a proxy based on the collateral characteristics. Loss severity is a function of multiple factors including but not limited to the unpaid balance, interest rate, mortgage insurance ratios, assessed property value at origination, change in property valuation and loan-to-value ratio at origination. Prepayment speeds, both actual and estimated, cost of capital rates, and debt service ratios are also considered. The cash flows generated by the collateral securing these securities are then estimated with these default, loss severity and prepayment assumptions. These collateral cash flows are then utilized, along with consideration for the issue s position in the overall structure, to estimate the cash flows associated with the residential or commercial mortgage-backed security held by the Company.

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Note 2 - Investments-(Continued)

Municipal Bonds

The Company s municipal bond portfolio consists primarily of special revenue bonds, which present unique considerations in evaluating other-than-temporary impairments, but also includes general obligation bonds. The Company evaluates special revenue bonds for other-than-temporary impairment based on guarantees associated with the repayment from revenues generated by the specified revenue-generating activity associated with the purpose of the bonds. Judgments regarding whether a municipal debt security is other-than-temporarily impaired include analyzing the issuer s financial condition and whether there has been a decline in the overall value of the issuer or its ability to service the specific security. Security credit ratings are reviewed with emphasis on the economy, finances, debt and management of the municipal issuer. Municipalities possess unique powers, along with a special legal standing and protections, that enable them to act quickly to restore budgetary balance and fiscal integrity. These powers include the sovereign power to tax, access one-time revenue sources, capacity to issue or restructure debt and ability to shift spending to other authorities. State governments often provide secondary support to local governments in times of financial stress and the federal government has provided assistance to state governments during recessions.

If the Company has concerns regarding the viability of the municipal issuer or its ability to service the specific security after this analysis, a recovery value analysis is prepared to determine if the recovery value has declined below the amortized cost of the security. This analysis to determine an estimate of ultimate recovery value is combined with the estimated timing to recovery and any other applicable cash flows that are expected. If a recovery estimate is not feasible, then the market s view of cash flows implied by the period end fair value, market discount rates and effective yield are the primary factors used to estimate recovery.

Credit Losses

The Company estimates the amount of the credit loss component of a debt security impairment as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The methodology and assumptions for establishing the best estimate cash flows vary depending on the type of security. Corporate debt security and municipal bond cash flow estimates are derived from scenario-based outcomes of expected restructurings or the disposition of assets using specific facts and other circumstances, including timing, security interests and loss severity. The cash flow estimates for mortgage-backed and other structured securities are based on bond specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity and prepayment speeds, and structural support, including subordination and guarantees.

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Note 2 - Investments-(Continued)

The following table summarizes the cumulative amounts related to the Company s credit loss portion of the other-than-temporarily impaired losses on debt securities held as of June 30, 2009 that the Company does not intend to sell, and it is not more likely than not that the Company will be required to sell the security prior to recovery of the amortized cost basis:

	Cumulative Credit Loss	
Cumulative credit loss as of April 1, 2009 (1)	$	-
New credit losses		3,355
Cumulative credit loss as of June 30, 2009	$	3,355

(1) The cumulative credit loss amount excludes other-than-temporary impairment losses on securities held as of the periods indicated that the Company intends to sell or it is more likely than not that the Company will be required to sell the security before the recovery of the amortized cost.

For the six months ended June 30, 2009, the Company s net realized investment gains of $10,248 included $36,086 of realized gains on security sales and calls partially offset by net other-than-temporary impairment losses on securities recognized in earnings of $25,838. These impairment losses were comprised of $19,809 of impairment write-downs and $6,029 of realized impairment losses on securities that were disposed of during the first and second quarters of 2009.

In the second quarter of 2009, pretax net realized investment gains were $11,095, which included (1) $3,355 of credit related impairment write-downs, primarily related to a collateralized debt obligation security, (2) $597 of impairment write-downs on equity securities and securities the Company intends to sell, and (3) $4,134 of realized losses on securities that were disposed of during the quarter, primarily financial institution and telecommunications sector securities. The impairment amounts were largely offset by $6,099 of realized gains on previously impaired securities that were disposed of during the quarter, primarily financial sector securities. In addition, the second quarter reflected $13,082 of realized gains on other security sales.

In the first quarter of 2009, pretax net realized investment losses were $847, including $15,857 of impairment charges. These charges were comprised of $13,450 of impairment write-downs, primarily below investment grade perpetual preferred stocks, and $2,407 of impairments on securities that the Company no longer intended to hold until the value fully recovers, primarily high-yield bonds. In addition, the Company recorded $1,895 of realized losses on securities that were disposed of during the quarter, primarily high-yield investments. These losses were largely offset by $16,905 of realized gains on security sales.

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Note 2 - Investments-(Continued)

Gross Unrealized Gains and Losses for Fixed Maturities and Equity Securities

The amortized cost, unrealized investment gains and losses, fair values and other-than-temporary impairment (OTTI) included in accumulated other comprehensive income (loss) (AOCI) of all fixed maturities and equity securities in the portfolio as of June 30, 2009 and December 31, 2008 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI in AOCI (2)
As of June 30, 2009					
Fixed maturity securities					
U.S. government and federally sponsored agency obligations (1)					
Mortgage-backed securities	$ 471,612	$ 18,636	$ 177	$ 490,071	
Other	219,120	1,654	4,164	216,610	
Municipal bonds	737,489	20,372	14,092	743,769	
Foreign government bonds	23,987	1,179	418	24,748	
Corporate bonds	1,851,364	47,337	111,805	1,786,896	
Other mortgage-backed securities	507,528	6,265	123,539	390,254	$ (1,430)
Totals	$ 3,811,100	$ 95,443	$ 254,195	$ 3,652,348	$ (1,430)
Equity securities	$ 66,321	$ 1,250	$ 13,844	$ 53,727	$ -
As of December 31, 2008					
Fixed maturity securities					
U.S. government and federally sponsored agency obligations (1)					
Mortgage-backed securities	$ 828,907	$ 20,886	$ 347	$ 849,446	
Other	134,161	4,933	83	139,011	
Municipal bonds	507,466	8,591	22,717	493,340	
Foreign government bonds	14,380	716	188	14,908	
Corporate bonds	1,830,684	22,890	218,616	1,634,958	
Other mortgage-backed securities	472,259	9,794	128,455	353,598	
Totals	$ 3,787,857	$ 67,810	$ 370,406	$ 3,485,261	
Equity securities	$ 86,184	$ 595	$ 25,210	$ 61,569	

(1) Fair value includes securities issued by Federal National Mortgage Association (FNMA) of $264,736 and $494,604; Federal Home Loan Mortgage Association (FHLMA) of $331,801 and $390,217; and Government National Mortgage Association (GNMA) of $38,226 and $35,778 as of June 30, 2009 and December 31, 2008, respectively.

(2) Represents the amount of other-than-temporary impairment losses in AOCI which, beginning April 1, 2009, were not included in earnings under FSP No. FAS 115-2 and FAS 124-2.

The following table reconciles the net unrealized investment losses, net of tax, included in accumulated other comprehensive income (loss), before the valuation impact on deferred policy acquisition costs:

	Periods ended June 30, 2009	
	Three Months	**Six Months**
Net unrealized investment losses, net of tax		
Beginning of period	$ (233,718)	$ (212,687)
Effect of change in accounting principles	-	-
Change in unrealized investment gains (losses)	129,555	107,973
Reclassification of realized investment (gains) losses to net income	(7,212)	(6,661)
End of period	$ (111,375)	$ (111,375)

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Note 2 - Investments-(Continued)

At June 30, 2009, the gross unrealized loss position in the fixed maturity and equity securities portfolio was $268,039 (7.2% of fair value and 747 positions). The following table presents the fair value and gross unrealized losses of fixed maturity securities and equity securities in an unrealized loss position at June 30, 2009 and December 31, 2008, respectively. The Company views the decrease in value of all of the securities with unrealized losses at June 30, 2009 which was driven largely by spread widening, market illiquidity and changes in interest rates as temporary, expects recovery in fair value in a reasonable timeframe and anticipates continued payments under the contractual terms of the securities. For debt securities, management does not have the intent to sell the securities and it is not more likely than not the Company will be required to sell the securities before the anticipated recovery in fair value or maturity. In addition, management expects to recover the entire cost basis of the debt securities. For equity securities, the Company has the ability and intent to hold the securities for a period of time that allows for the recovery of cost. Therefore, no other-than-temporary impairment of these securities was recorded at June 30, 2009.

	12 months or less		More than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
As of June 30, 2009						
Fixed maturity securities						
U.S. government and federally sponsored agency obligations						
Mortgage-backed securities	$ 28,597	$ 118	$ 2,623	$ 59	$ 31,220	$ 177
Other	158,588	4,164	-	-	158,588	4,164
Municipal bonds	82,295	3,160	156,472	10,932	238,767	14,092
Foreign government bonds	5,702	418	-	-	5,702	418
Corporate bonds	248,209	15,776	694,981	96,029	943,190	111,805
Other mortgage-backed securities	151,079	25,833	156,410	97,706	307,489	123,539
Totals	$ 674,470	$ 49,469	$ 1,010,486	$ 204,726	$ 1,684,956	$ 254,195
Equity securities	$ 17,016	$ 4,199	$ 31,367	$ 9,645	$ 48,383	$ 13,844
As of December 31, 2008						
Fixed maturity securities						
U.S. government and federally sponsored agency obligations						
Mortgage-backed securities	$ 37,982	$ 212	$ 6,780	$ 135	$ 44,762	$ 347
Other	2,317	83	-	-	2,317	83
Municipal bonds	165,004	9,140	101,890	13,577	266,894	22,717
Foreign government bonds	3,996	188	-	-	3,996	188
Corporate bonds	739,703	115,299	456,149	103,317	1,195,852	218,616
Other mortgage-backed securities	167,567	58,340	70,776	70,115	238,343	128,455
Totals	$ 1,116,569	$ 183,262	$ 635,595	$ 187,144	$ 1,752,164	$ 370,406

Equity securities	$	22,880	$	9,263	$	23,250	$	15,947	$	46,130	$	25,210

The Company s investment portfolio includes no derivative financial instruments (futures, forwards, swaps, option contracts or other financial instruments with similar characteristics).

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Note 3 - Fair Value Measurements

The Company is required under GAAP to disclose estimated fair values for certain financial and non-financial assets and liabilities. Fair values of the Company s insurance contracts other than annuity contracts are not required to be disclosed. However, the fair values of liabilities under all insurance contracts are taken into consideration in the Company s overall management of interest rate risk through the matching of investment maturities with amounts due under insurance contracts. Effective January 1, 2008, the Company adopted SFAS No. 157, which provides a framework for measuring fair value in accordance with GAAP. FSP No. FAS 157-2 deferred the effective date of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are not disclosed at fair value in the consolidated financial statements on a recurring basis. Effective January 1, 2009, the Company adopted the fair value disclosure requirements for these nonfinancial assets and nonfinancial liabilities.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities (both common stock and preferred stock) that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2 Unadjusted observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, non-agency structured securities, corporate debt securities and preferred stocks.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity investments.

As required by SFAS No. 157, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. As a result, a Level 3 fair value measurement may include inputs that are observable (Level 1 or Level 2) and unobservable (Level 3). Net transfers into or out of Level 3 are reported as having occurred at the end of the reporting period in which the transfers were determined.

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Note 3 - Fair Value Measurements-(Continued)

The following discussion describes the valuation methodologies used for financial assets and financial liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. The use of different methodologies, assumptions and inputs may have a material effect on the estimated fair values of the Company s securities holdings. Care should be exercised in deriving conclusions about the Company s business, its value or financial position based on the fair value information of financial and nonfinancial assets and liabilities presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset or financial liability, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset or financial liability. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset or financial liability. In periods of market disruption, the ability to observe prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

Note 3 - Fair Value Measurements-(Continued)

Investments

Fair values for the Company s fixed maturity securities are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of independent, nationally recognized pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider s expertise. Typical inputs used by these pricing sources include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, and/or estimated cash flows and prepayment speeds. When the pricing sources cannot provide fair value determinations, the Company obtains non-binding price quotes from broker-dealers. The broker-dealers valuation methodology is sometimes matrix-based, using indicative evaluation measures and adjustments for specific security characteristics and market sentiment. The Company analyzes price and market valuations received to verify reasonableness, to understand the key assumptions used and their sources, to conclude the prices obtained are appropriate, and to determine an appropriate SFAS No. 157 fair value hierarchy level based upon trading activity and the observability of market inputs. Based on this evaluation and investment class analysis, each price is classified into Level 1, 2, or 3. The Company has in place certain control processes to determine the reasonableness of the financial asset fair values. These processes are designed to ensure the values received are accurately recorded and that the data inputs and valuation techniques utilized are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. For example, on a continuing basis, the Company assesses the reasonableness of individual security values received from pricing sources that vary from certain thresholds. Historically, the control processes have not resulted in adjustments to the valuations provided by pricing sources. The Company s fixed maturity securities portfolio is primarily publicly traded, which allows for a high percentage of the portfolio to be priced through pricing services. Approximately 93% of the portfolio was priced through pricing services or index priced as of June 30, 2009. The remainder of the portfolio was priced by broker-dealers, and these inputs were generally Level 2. There were no significant changes to the valuation process during the first six months of 2009.

Fair values of equity securities have been determined by the Company from observable market quotations, when available. Private placement securities and equity securities where a public quotation is not available are valued by using non-binding broker quotes or through the use of internal models or analysis. These inputs are based on assumptions deemed appropriate given the circumstances and are believed to be consistent with what other market participants would use when pricing such securities.

Short-term and other investments are comprised of policy loans, short-term fixed income securities and mortgage loans. The fair value of policy loans is based on estimates using discounted cash flow analysis and current interest rates being offered for new loans. For short-term fixed income securities, because of the nature of these assets, carrying amounts approximate fair values, which have been determined from public quotations, when available. The fair value of mortgage loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and the same remaining maturities.

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Note 3 - Fair Value Measurements-(Continued)

Separate Account Assets

Separate Account assets are carried at fair value and represent variable annuity contractholder funds invested in various mutual funds. Fair values of these assets are based on public quotations. Investment performance related to Separate Account assets is fully offset by corresponding amounts credited to contractholders whose liability is reflected within Separate Account liabilities. Separate Account liabilities are equal to the estimated fair value of Separate Account assets, as prescribed by American Institute of Certified Public Accountants (AICPA) Statement of Position 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts .

Annuity Contract Liabilities and Policyholder Account Balances on Interest-sensitive Life Contracts

The fair values of annuity contract liabilities and policyholder account balances on interest-sensitive life contracts are equal to the discounted estimated future cash flows (using the Company s current interest rates for similar products including consideration of minimum guaranteed interest rates). The Company carries these financial liabilities at cost.

Other Policyholder Funds

Other policyholder funds are liabilities related to supplementary contracts without life contingencies and dividend accumulations, which represent deposits that do not have defined maturities. Other policyholder funds are carried at cost, which management believes is a reasonable estimate of fair value due to the short duration of these deposits.

Short-term Debt

Short-term debt is carried at amortized cost, which management believes is a reasonable estimate of fair value due to the liquidity and short duration of these instruments.

Long-term Debt

The Company carries long-term debt at amortized cost. The fair value of long-term debt is estimated based on unadjusted quoted market prices of identical publicly traded issues.

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Note 3 - Fair Value Measurements-(Continued)

The following table presents the Company s fair value hierarchy for those assets and liabilities measured at fair value on a recurring and nonrecurring basis as of June 30, 2009. At June 30, 2009, Level 3 invested assets comprised approximately 0.5% of the Company s total investment portfolio fair value.

	Carrying Amount	Fair Value	Fair Value Measurements at Reporting Date Using (1) Level 1	Level 2	Level 3
June 30, 2009					
Financial Assets					
Investments					
Fixed maturities					
U.S. government and federally sponsored agency obligations					
Mortgage-backed securities	$ 490,071	$ 490,071	$ -	$ 490,071	$ -
Other	216,610	216,610	12,594	204,016	-
Municipal bonds	743,769	743,769	-	743,769	-
Foreign government bonds	24,748	24,748	-	24,748	-
Corporate bonds	1,786,896	1,786,896	30,198	1,756,698	-
Other mortgage-backed securities	390,254	390,254	-	369,527	20,727
Totals	3,652,348	3,652,348	42,792	3,588,829	20,727
Equity securities	53,727	53,727	27,087	26,185	455
Short-term and other investments (2)	500,863	492,017	389,197	-	-
Total investments	4,206,938	4,198,092	459,076	3,615,014	21,182
Separate Account (variable annuity) assets	1,012,476	1,012,476	1,012,476	-	-
Financial Liabilities					
Policyholder account balances on interest-sensitive life contracts	79,938	70,306			
Annuity contract liabilities	2,264,057	1,961,923			
Other policyholder funds	122,791	122,791			
Short-term debt	38,000	38,000			
Long-term debt	199,582	189,773			
December 31, 2008					
Financial Assets					
Investments					
Fixed maturities (3)	$ 3,485,261	$ 3,485,261	$ 49,101	$ 3,405,721	$ 30,439
Equity securities	61,569	61,569	31,675	29,439	455
Short-term and other investments (2)	354,925	358,510	244,579	1,097	-
Total investments	3,901,755	3,905,340	325,355	3,436,257	30,894
Separate Account (variable annuity) assets	965,217	965,217	965,217	-	-
Financial Liabilities					
Policyholder account balances on interest-sensitive life contracts	80,250	70,580			
Annuity contract liabilities	2,166,518	1,877,400			
Other policyholder funds	128,359	128,359			
Short-term debt	38,000	38,000			
Long-term debt	199,549	189,480			

(1) This information is not required for financial and nonfinancial assets and liabilities not recognized at fair value in the consolidated balance sheets.

(2) Fair value of Short-term and other investments includes investments, primarily policy loans, for which inputs to fair value measurements are not required. Inputs to fair value measurements are provided only for those investments carried at fair value.

(3) At December 31, 2008, disclosure by major classification for investments was not required.

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Note 3 - Fair Value Measurements-(Continued)

The following table presents a reconciliation for all Level 3 assets measured at fair value on a recurring basis for the three and six month periods ended June 30, 2009.

	Fixed Maturities	Equity Securities	Total
Financial Assets			
Beginning balance, April 1, 2009	$ 25,156	$ 455	$ 25,611
Total net gains (losses) (realized and unrealized)	(3,452)	-	(3,452)
Paydowns and maturities	(877)	-	(877)
Purchases, sales, issuances and settlements	(3,899)	-	(3,899)
Transfers in (out) of Level 3 (1)	3,799	-	3,799
Ending balance, June 30, 2009	$ 20,727	$ 455	$ 21,182
Beginning balance, January 1, 2009	$ 30,439	$ 455	$ 30,894
Total net gains (losses) (realized and unrealized)	(8,132)	-	(8,132)
Paydowns and maturities	(1,480)	-	(1,480)
Purchases, sales, issuances and settlements	(3,899)	-	(3,899)
Transfers in (out) of Level 3 (1)	3,799	-	3,799
Ending balance, June 30, 2009	$ 20,727	$ 455	$ 21,182

(1) Transfers into Level 3 during the periods ended June 30, 2009 were attributable to a change in the availability of observable market information for individual fixed maturity securities.

For the period January 1, 2009 to June 30, 2009, there were no realized gains or losses included in earnings that were attributable to Level 3 assets still held at June 30, 2009.

Note 4 - Debt

Indebtedness outstanding was as follows:

Short-term debt:	June 30, 2009	December 31, 2008
Bank Credit Facility	$ 38,000	$ 38,000
Long-term debt:		
6.05% Senior Notes, due June 15, 2015. Aggregate principal amount of $75,000 less unaccrued discount of $158 and $172 (6.1% imputed rate)	74,842	74,828
	124,740	124,721

6.85% Senior Notes, due April 15, 2016. Aggregate principal amount of $125,000 less unaccrued discount of $260 and $279 (6.9% imputed rate)				
Total	$	237,582	$	237,549

The Bank Credit Facility, 6.05% Senior Notes due 2015 (Senior Notes due 2015) and 6.85% Senior Notes due 2016 (Senior Notes due 2016) are described in Notes to Consolidated Financial Statements Note 5 Debt of the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

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Note 5 - Pension Plans and Other Postretirement Benefits

The Company has the following retirement plans: a defined contribution plan; a 401(k) plan; a defined benefit plan for employees hired on or before December 31, 1998; and certain employees participate in a supplemental defined contribution plan or a supplemental defined benefit plan or both. Additional information regarding the Company s retirement plans is contained in Notes to Consolidated Financial Statements Note 9 Pension Plans and Other Postretirement Benefits of the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

The following table summarizes the components of net periodic pension cost recognized for the defined benefit plan and the supplemental defined benefit plans for the three and six months ended June 30, 2009 and 2008.

	Defined Benefit Plan			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Components of net periodic pension expense:				
Service cost	$ -	$ -	$ -	$ -
Interest cost	1,971	349	3,944	598
Expected return on plan assets	(2,298)	(404)	(4,599)	(693)
Recognized net actuarial loss	401	190	802	326
Settlement loss	782	79	1,566	136
Net periodic pension expense	$ 856	$ 214	$ 1,713	$ 367

	Supplemental Defined Benefit Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Components of net periodic pension expense:				
Service cost	$ (12)	$ (9)	$ (25)	$ (20)
Interest cost	255	191	509	426
Expected return on plan assets	-	-	-	-
Recognized net actuarial loss	65	119	131	265
Settlement loss	-	-	-	-
Net periodic pension expense	$ 308	$ 301	$ 615	$ 671

There is no minimum funding requirement for the Company s defined benefit pension plan in 2009, and no contributions were made during the six months ended June 30, 2009. Consistent with disclosure in Notes to Consolidated Financial Statements Note 9 Pension Plans and Other Postretirement Benefits of the Company s Annual Report on Form 10-K for the year ended December 31, 2008, the Company expects to contribute approximately $1,100 to the supplemental defined benefit plans in 2009, of which $726 was contributed during the six months ended June 30, 2009. In July 2009, the Company contributed $2,700 to the defined benefit plan, the total amount which it expects to contribute in 2009. At the time of the

Company s Annual Report on Form 10-K for the year ended December 31, 2008, the Company expected to contribute approximately $5,400 to the defined benefit plan in 2009.

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Note 5 - Pension Plans and Other Postretirement Benefits-(Continued)

In addition to providing pension benefits, the Company also provides certain health care and life insurance benefits to retired employees, who meet the plan s eligibility requirements, and their eligible dependents. As described in Notes to Consolidated Financial Statements Note 9 Pension Plans and Other Postretirement Benefits of the Company s Annual Report on Form 10-K for the year ended December 31, 2008, effective January 1, 2007, the Company eliminated the previous health care benefits for retirees 65 years of age and over and established a defined contribution plan with a Health Reimbursement Account (HRA) for each eligible retired participant. Funding of HRA accounts was $374 and $550 for the six months ended June 30, 2009 and 2008, respectively.

The following table summarizes the components of the net periodic benefit gain for postretirement benefits other than pension for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Components of net periodic gain:				
Service cost	$ -	$ 1	$ -	$ 2
Interest cost	10	35	20	73
Amortization of prior service cost	(72)	(488)	(144)	(1,015)
Recognized net actuarial gain	(26)	(102)	(51)	(212)
Net periodic benefit gain	$ (88)	$ (554)	$ (175)	$ (1,152)

Consistent with disclosure in Notes to Consolidated Financial Statements Note 9 Pension Plans and Other Postretirement Benefits of the Company s Annual Report on Form 10-K for the year ended December 31, 2008, the Company expects to contribute approximately $700 to the defined benefit postretirement benefit plans other than pensions in 2009, of which $450 was contributed during the six months ended June 30, 2009.

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Note 6 - Reinsurance

The Company recognizes the cost of reinsurance premiums over the contract periods for such premiums in proportion to the insurance protection provided. Amounts recoverable from reinsurers for unpaid claims and claim settlement expenses, including estimated amounts for unsettled claims, claims incurred but not reported and policy benefits, are estimated in a manner consistent with the insurance liability associated with the policy. The effects of reinsurance on premiums written and contract deposits; premiums and contract charges earned; and benefits, claims and settlement expenses were as follows:

	Gross Amount	Ceded	Assumed	Net
Three months ended June 30, 2009				
Premiums written and contract deposits	$ 272,275	$ 8,674	$ 1,078	$ 264,679
Premiums and contract charges earned	171,641	9,082	983	163,542
Benefits, claims and settlement expenses	120,184	2,837	894	118,241
Three months ended June 30, 2008				
Premiums written and contract deposits	$ 251,655	$ 7,641	$ 988	$ 245,002
Premiums and contract charges earned	170,952	8,172	923	163,703
Benefits, claims and settlement expenses	126,320	4,565	355	122,110
Six months ended June 30, 2009				
Premiums written and contract deposits	$ 501,125	$ 17,125	$ 1,996	$ 485,996
Premiums and contract charges earned	342,065	18,104	2,044	326,005
Benefits, claims and settlement expenses	229,146	5,042	1,877	225,981
Six months ended June 30, 2008				
Premiums written and contract deposits	$ 483,938	$ 15,518	$ 1,169	$ 469,589
Premiums and contract charges earned	341,793	16,790	1,249	326,252
Benefits, claims and settlement expenses	235,485	7,147	686	229,024

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Note 7 - Segment Information

The Company conducts and manages its business through four segments. The three operating segments, representing the major lines of insurance business, are: property and casualty insurance, principally personal lines automobile and homeowners products; annuity products, principally individual, tax-qualified fixed and variable deposits; and life insurance. The Company does not allocate the impact of corporate level transactions to the insurance segments, consistent with the basis for management s evaluation of the results of those segments, but classifies those items in the fourth segment, corporate and other. In addition to ongoing transactions such as debt service, realized investment gains and losses and certain public company expenses, within the past five years such items also have included debt retirement costs/gains. Summarized financial information for these segments is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Insurance premiums and contract charges earned				
Property and casualty	$ 135,825	$ 134,472	$ 270,847	$ 267,459
Annuity	3,373	4,828	6,553	9,603
Life	24,344	24,403	48,605	49,190
Total	$ 163,542	$ 163,703	$ 326,005	$ 326,252
Net investment income				
Property and casualty	$ 8,509	$ 9,104	$ 16,810	$ 18,284
Annuity	36,971	34,058	71,799	67,113
Life	15,858	14,907	30,854	29,534
Corporate and other	5	13	10	36
Intersegment eliminations	(265)	(270)	(532)	(542)
Total	$ 61,078	$ 57,812	$ 118,941	$ 114,425
Net income (loss)				
Property and casualty	$ 3,531	$ 1,851	$ 15,977	$ 14,886
Annuity	6,377	5,208	7,561	8,146
Life	4,958	5,116	8,405	7,751
Corporate and other	3,738	(7,633)	92	(11,985)
Total	$ 18,604	$ 4,542	$ 32,035	$ 18,798
Amortization of intangible assets, pretax (included in segment net income)				
Value of acquired insurance in force				
Annuity	$ -	$ 1,246	$ -	$ 2,164
Life	-	327	223	654

Total	$ -	$ 1,573	$ 223	$ 2,818

	June 30, 2009	December 31, 2008
Assets		
Property and casualty	$ 900,286	$ 867,590
Annuity	3,704,765	3,509,119
Life	1,121,835	1,035,739
Corporate and other	132,000	133,172
Intersegment eliminations	(30,715)	(37,902)
Total	$ 5,828,171	$ 5,507,718

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in millions, except per share data)

Forward-looking Information

Statements made in the following discussion that state the Company s or management s intentions, hopes, beliefs, expectations or predictions of future events or the Company s future financial performance are forward-looking statements and involve known and unknown risks, uncertainties and other factors. Horace Mann is not under any obligation to (and expressly disclaims any such obligation to) update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. It is important to no