

HORACE MANN EDUCATORS CORP /DE/
Form 10-Q
November 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **September 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 1-10890

HORACE MANN EDUCATORS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization) 37-0911756
(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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.

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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 October 31, 2010, 39,495,931 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 SEPTEMBER 30, 2010

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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 consolidated balance sheet of Horace Mann Educators Corporation and subsidiaries (the Company) as of September 30, 2010, the related consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2010 and 2009, and the related consolidated statements of changes in shareholders' equity and cash flows for the nine-month periods ended September 30, 2010 and 2009. 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, 2009, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 1, 2010, 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, 2009, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it was derived.

Note 1 of the Company's audited consolidated financial statements as of December 31, 2009, and for the year then ended, discloses that the Company changed its method of accounting for other-than-temporary impairments of debt securities due to the adoption of FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (included in FASB ASC Topic 320, *Investments-Debt and Equity Securities*), as of April 1, 2009. Our auditors' report on those consolidated financial statements dated March 1, 2010, includes an explanatory paragraph referring to the matters in Note 1 of those consolidated financial statements.

/s/ KPMG LLP

KPMG LLP

Chicago, Illinois

November 5, 2010

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(Dollars in thousands, except per share data)

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost 2010, \$4,410,217; 2009, \$4,062,020)	\$4,766,567	\$4,099,865
Equity securities, available for sale, at fair value (cost 2010, \$47,823; 2009, \$61,507)	51,956	59,678
Short-term and other investments	<u>298,111</u>	<u>415,081</u>
Total investments	5,116,634	4,574,624
Cash	41,074	7,848
Accrued investment income and premiums receivable	119,148	113,058
Deferred policy acquisition costs	258,377	276,124
Goodwill	47,396	47,396
Other assets	134,237	97,633
Separate Account (variable annuity) assets	<u>1,267,610</u>	<u>1,226,430</u>
Total assets	<u>\$6,984,476</u>	<u>\$6,343,113</u>
LIABILITIES AND SHAREHOLDERS EQUITY		
Policy liabilities		
Fixed annuity contract liabilities	\$2,548,932	\$2,367,170
Interest-sensitive life contract liabilities	720,491	706,067
Unpaid claims and claim expenses	321,729	312,738
Future policy benefits	201,433	197,870
Unearned premiums	<u>216,432</u>	<u>210,765</u>
Total policy liabilities	4,009,017	3,794,610
Other policyholder funds	114,677	117,349
Other liabilities	381,614	247,565
Short-term debt	38,000	38,000
Long-term debt	199,663	199,614
Separate Account (variable annuity) liabilities	<u>1,267,610</u>	<u>1,226,430</u>
Total liabilities	<u>6,010,581</u>	<u>5,623,568</u>
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, 2010, 61,257,227; 2009, 60,997,917	61	61
Additional paid-in capital	363,128	358,081
Retained earnings	812,970	758,343
Accumulated other comprehensive income (loss) net of taxes:		
Net unrealized gains and losses on fixed maturities and equity securities	216,942	22,266
Net funded status of pension and other postretirement benefit obligations	(11,543)	(11,543)
Treasury stock, at cost, 21,813,196 shares	<u>(407,663)</u>	<u>(407,663)</u>
Total shareholders equity	<u>973,895</u>	<u>719,545</u>
Total liabilities and shareholders equity	<u>\$6,984,476</u>	<u>\$6,343,113</u>

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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues				
Insurance premiums and contract charges earned	\$168,062	\$165,845	\$502,845	\$491,850
Net investment income	68,290	62,458	203,273	181,399
Net realized investment gains	12,062	11,410	25,305	21,658
Other income	<u>1,616</u>	<u>1,817</u>	<u>5,294</u>	<u>6,634</u>
Total revenues	<u>250,030</u>	<u>241,530</u>	<u>736,717</u>	<u>701,541</u>
Benefits, losses and expenses				
Benefits, claims and settlement expenses	124,864	122,607	356,162	348,588
Interest credited	37,076	35,326	108,854	103,539
Policy acquisition expenses amortized	20,189	18,164	66,080	60,222
Operating expenses	36,075	34,740	104,265	105,569
Amortization of intangible assets	-	-	-	223
Interest expense	<u>3,496</u>	<u>3,479</u>	<u>10,449</u>	<u>10,465</u>
Total benefits, losses and expenses	<u>221,700</u>	<u>214,316</u>	<u>645,810</u>	<u>628,606</u>
Income before income taxes	28,330	27,214	90,907	72,935
Income tax expense	<u>8,164</u>	<u>7,933</u>	<u>25,157</u>	<u>21,619</u>
Net income	<u>\$ 20,166</u>	<u>\$ 19,281</u>	<u>\$ 65,750</u>	<u>\$ 51,316</u>
Net income per share				
Basic	<u>\$ 0.51</u>	<u>\$ 0.49</u>	<u>\$ 1.67</u>	<u>\$ 1.31</u>
Diluted	<u>\$ 0.49</u>	<u>\$ 0.48</u>	<u>\$ 1.61</u>	<u>\$ 1.27</u>
Weighted average number of shares and equivalent shares (in thousands)				
Basic	39,411	39,180	39,294	39,172
Diluted	41,115	40,640	40,947	40,554
Net realized investment gains (losses)				
Total other-than-temporary impairment losses on securities	\$ (4,764)	\$ (1,808)	\$ (11,699)	\$ (29,076)
Portion of losses recognized in other comprehensive income	<u>-</u>	<u>-</u>	<u>459</u>	<u>1,430</u>
Net other-than-temporary impairment losses on securities recognized in earnings	(4,764)	(1,808)	(11,240)	(27,646)
Realized gains	<u>16,826</u>	<u>13,218</u>	<u>36,545</u>	<u>49,304</u>
Total	<u>\$ 12,062</u>	<u>\$ 11,410</u>	<u>\$ 25,305</u>	<u>\$ 21,658</u>

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 (UNAUDITED)

(Dollars in thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Comprehensive income				
Net income	\$ 20,166	\$ 19,281	\$ 65,750	\$ 51,316
Other comprehensive income, net of taxes:				
Change in net unrealized gains and losses on fixed maturities and equity securities	82,325	149,184	193,338	232,544
Change in net funded status of pension and other postretirement benefit obligations	-	-	-	-
Other comprehensive income	<u>82,325</u>	<u>149,184</u>	<u>193,338</u>	<u>232,544</u>
Total	<u>\$102,491</u>	<u>\$168,465</u>	<u>\$259,088</u>	<u>\$283,860</u>

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

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