

HORACE MANN EDUCATORS CORP /DE/  
Form 10-Q  
May 09, 2011  
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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 **March 31, 2011**

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 April 30, 2011, 39,884,081 shares of Common Stock, par value \$0.001 per share, were outstanding, net of 21,873,322 shares of treasury stock.

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FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2011

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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 March 31, 2011, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the three-month periods ended March 31, 2011 and 2010. 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, 2010, 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 February 28, 2011, 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, 2010, 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, 2010, 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 February 28, 2011, includes an explanatory paragraph referring to the matters in Note 1 of those consolidated financial statements.

/s/ KPMG LLP

KPMG LLP

Chicago, Illinois

May 9, 2011

**Table of Contents****HORACE MANN EDUCATORS CORPORATION****CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except per share data)**

	<b>March 31, 2011 (Unaudited)</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
<b>Investments</b>		
Fixed maturities, available for sale, at fair value (amortized cost 2011, \$4,758,064; 2010, \$4,533,233)	\$ 4,934,241	\$ 4,715,537
Equity securities, available for sale, at fair value (cost 2011, \$20,765; 2010, \$20,765)	24,607	24,056
Short-term and other investments	211,627	334,030
<b>Total investments</b>	<b>5,170,475</b>	<b>5,073,623</b>
Cash	37,135	5,928
Accrued investment income and premiums receivable	126,285	117,441
Deferred policy acquisition costs	274,353	272,825
Goodwill	47,396	47,396
Other assets	98,905	112,672
Separate Account (variable annuity) assets	1,419,452	1,375,656
<b>Total assets</b>	<b>\$ 7,174,001</b>	<b>\$ 7,005,541</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Policy liabilities</b>		
Fixed annuity contract liabilities	\$ 2,676,214	\$ 2,614,380
Interest-sensitive life contract liabilities	730,623	725,286
Unpaid claims and claim expenses	319,062	315,436
Future policy benefits	203,507	202,341
Unearned premiums	202,510	211,290
<b>Total policy liabilities</b>	<b>4,131,916</b>	<b>4,068,733</b>
Other policyholder funds	110,019	112,739
Other liabilities	374,718	330,727
Short-term debt	38,000	38,000
Long-term debt	199,696	199,679
Separate Account (variable annuity) liabilities	1,419,452	1,375,656
<b>Total liabilities</b>	<b>6,273,801</b>	<b>6,125,534</b>
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, 2011, 61,597,625; 2010, 61,469,148	62	61
Additional paid-in capital	370,003	367,448
Retained earnings	844,966	823,579
<b>Accumulated other comprehensive income (loss) net of taxes:</b>		
Net unrealized gains and losses on fixed maturities and equity securities	105,987	109,737
Net funded status of pension and other postretirement benefit obligations	(13,155)	(13,155)
Treasury stock, at cost, 21,813,196 shares	(407,663)	(407,663)

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Total shareholders' equity	900,200	880,007
Total liabilities and shareholders' equity	\$ 7,174,001	\$ 7,005,541

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)

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Revenues</b>		
Insurance premiums and contract charges earned	\$ 166,686	\$ 166,353
Net investment income	70,469	65,918
Net realized investment gains	5,757	4,867
Other income	1,561	1,535
Total revenues	244,473	238,673
<b>Benefits, losses and expenses</b>		
Benefits, claims and settlement expenses	110,601	112,917
Interest credited	37,426	35,558
Policy acquisition expenses amortized	21,021	20,065
Operating expenses	34,931	34,796
Interest expense	3,477	3,472
Total benefits, losses and expenses	207,456	206,808
Income before income taxes	37,017	31,865
Income tax expense	11,076	9,262
Net income	\$ 25,941	\$ 22,603
<b>Net income per share</b>		
Basic	\$ 0.65	\$ 0.58
Diluted	\$ 0.62	\$ 0.55
<b>Weighted average number of shares and equivalent shares (in thousands)</b>		
Basic	39,749	39,206
Diluted	41,699	40,900
<b>Net realized investment gains (losses)</b>		
Total other-than-temporary impairment losses on securities	\$ -	\$ (745)
Portion of losses recognized in other comprehensive income	-	-
Net other-than-temporary impairment losses on securities recognized in earnings	-	(745)

Realized gains	5,757	5,612
Total	\$ 5,757	\$ 4,867

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)**

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Comprehensive income		
Net income	\$ 25,941	\$ 22,603
Other comprehensive income (loss), net of taxes:		
Change in net unrealized gains and losses on fixed maturities and equity securities	(3,750)	38,569
Change in net funded status of pension and other postretirement benefit obligations	-	-
Other comprehensive income (loss)	(3,750)	38,569
<b>Total</b>	<b>\$ 22,191</b>	<b>\$ 61,172</b>

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

**Table of Contents****HORACE MANN EDUCATORS CORPORATION****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**

(Dollars in thousands, except per share data)

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Common stock, \$0.001 par value</b>		
Beginning balance	\$ 61	\$ 61
Options exercised, 2011, 105,944 shares; 2010, 0 shares	1	-
Conversion of common stock units, 2011, 15,715 shares; 2010, 27,774 shares	-	-
Conversion of restricted stock units, 2011, 6,818 shares; 2010, 7,432 shares	-	-
Ending balance	62	61
<b>Additional paid-in capital</b>		
Beginning balance	367,448	358,081
Options exercised and conversion of common stock units and restricted stock units	2,145	448
Share-based compensation expense	410	328
Ending balance	370,003	358,857
<b>Retained earnings</b>		
Beginning balance	823,579	758,343
Net income	25,941	22,603
Cash dividends, 2011, \$0.11 per share; 2010, \$0.08 per share	(4,554)	(3,257)
Ending balance	844,966	777,689
<b>Accumulated other comprehensive income (loss), net of taxes</b>		
Beginning balance	96,582	10,723
Change in net unrealized gains and losses on fixed maturities and equity securities	(3,750)	38,569
Change in net funded status of pension and other postretirement benefit obligations	-	-
Ending balance	92,832	49,292
<b>Treasury stock, at cost</b>		
Beginning and ending balance, 2011 and 2010, 21,813,196 shares	(407,663)	(407,663)
Shareholders' equity at end of period	\$ 900,200	\$ 778,236

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.



**Table of Contents****HORACE MANN EDUCATORS CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(Dollars in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows - operating activities</b>		
Premiums collected	\$ 156,641	\$ 160,788
Policyholder benefits paid	(114,157)	(107,488)
Policy acquisition and other operating expenses paid	(62,929)	(66,711)
Federal income taxes paid	-	(960)
Investment income collected	62,577	58,067
Interest expense paid	(116)	(110)
Other	660	(62)
<b>Net cash provided by operating activities</b>	<b>42,676</b>	<b>43,524</b>
<b>Cash flows - investing activities</b>		
<b>Fixed maturities</b>		
Purchases	(389,308)	(353,807)
Sales	131,266	89,802
Maturities, paydowns, calls and redemptions	90,447	82,215
<b>Net cash provided by short-term and other investments</b>	<b>122,359</b>	<b>127,961</b>
<b>Net cash used in investing activities</b>	<b>(45,236)</b>	<b>(53,829)</b>
<b>Cash flows - financing activities</b>		
Dividends paid to shareholders	(4,554)	(3,257)
Exercise of stock options	1,739	-
Annuity contracts, variable and fixed		
Deposits	92,499	84,186
Benefits, withdrawals and net transfers to		
Separate Account (variable annuity) assets	(57,058)	(62,964)
Life policy accounts		
Deposits	356	477
Withdrawals and surrenders	(1,113)	(1,185)
Change in bank overdrafts	1,898	3,570
<b>Net cash provided by financing activities</b>	<b>33,767</b>	<b>20,827</b>
<b>Net increase in cash</b>	<b>31,207</b>	<b>10,522</b>
Cash at beginning of period	5,928	7,848

Cash at end of period	\$ 37,135	\$ 18,370
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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)**

**March 31, 2011 and 2010**

**(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 which are normally included in annual financial statements prepared in accordance with GAAP but are not required for interim reporting purposes have been 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 March 31, 2011 and the consolidated results of operations, comprehensive income, changes in shareholders equity and cash flows for the three months ended March 31, 2011 and 2010. 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, (2) disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and (3) 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. HMEC 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.

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, 2010.

The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the full year.

The Company has reclassified the presentation of certain prior period information to conform with the 2011 presentation.

**Table of Contents****Note 1 - Basis of Presentation-(Continued)***Adopted Accounting Standards*

## Investments Held Through Separate Accounts

Effective January 1, 2011, the Company adopted accounting guidance to address how investments held through the separate accounts of an insurance entity affect the consolidation analysis. The guidance clarifies that an insurance entity should not consider any separate account interests in an investment held for the benefit of policyholders to be the insurer's interest and those interests should not be combined with an insurer's general account interests when making a consolidation assessment. The adoption of this accounting guidance did not have an effect on the results of operations or financial position of the Company.

**Note 2 - Investments***Maturities/Sales of Fixed Maturity Securities*

The following table presents the distribution of the Company's fixed maturity securities (fixed maturities) 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		March 31, 2011	
	March 31, 2011	December 31, 2010	Fair Value	Amortized Cost
Due in 1 year or less	3.4%	3.3%	\$ 166,463	\$ 160,520
Due after 1 year through 5 years	19.6	20.5	965,120	930,660
Due after 5 years through 10 years	31.3	29.5	1,547,972	1,492,702
Due after 10 years through 20 years	23.5	22.7	1,157,977	1,116,631
Due after 20 years	22.2	24.0	1,096,709	1,057,551
Total	100.0%	100.0%	\$ 4,934,241	\$ 4,758,064

The average option-adjusted duration for the Company's fixed maturity securities was 6.8 years at March 31, 2011 and 6.9 years at December 31, 2010.

**Table of Contents****Note 2 - Investments-(Continued)**

Proceeds received 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:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Proceeds received	\$ 131,266	\$ 89,802
Gross gains realized	4,543	3,563
Gross losses realized	(83)	(6)

*Unrealized Gains and Losses on Fixed Maturities and Equity Securities*

The amortized cost or 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 March 31, 2011 and December 31, 2010 were as follows:

	<b>Amortized Cost/Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>OTTI in AOCI (2)</b>
<b>March 31, 2011</b>					
Fixed maturity securities					
U.S. government and federally sponsored agency obligations (1)					
Mortgage-backed securities	\$ 426,225	\$ 26,920	\$ 1,184	\$ 451,961	\$ -
Other	583,869	5,569	25,776	563,662	-
Municipal bonds	1,134,466	26,905	21,364	1,140,007	-
Foreign government bonds	42,972	2,675	-	45,647	-
Corporate bonds	1,888,148	148,339	9,063	2,027,424	-
Other mortgage-backed securities	682,384	34,793	11,637	705,540	1,410
Totals	\$ 4,758,064	\$ 245,201	\$ 69,024	\$ 4,934,241	\$ 1,410
Equity securities	\$ 20,765	\$ 4,173	\$ 331	\$ 24,607	\$ -
<b>December 31, 2010</b>					
Fixed maturity securities					
U.S. government and federally sponsored agency obligations (1)					
Mortgage-backed securities	\$ 442,969	\$ 26,255	\$ 1,180	\$ 468,044	\$ -
Other	512,692	6,227	21,465	497,454	-
Municipal bonds	1,080,324	27,782	19,399	1,088,707	-
Foreign government bonds	42,982	2,554	-	45,536	-
Corporate bonds	1,790,159	152,866	10,437	1,932,588	-
Other mortgage-backed securities	664,107	34,746	15,645	683,208	1,401



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Totals	\$ 4,533,233	\$ 250,430	\$ 68,126	\$ 4,715,537	\$ 1,401
Equity securities	\$ 20,765	\$ 3,747	\$ 456	\$ 24,056	\$ -

- (1) Fair value includes securities issued by Federal National Mortgage Association ( FNMA ) of \$486,967 and \$431,635; Federal Home Loan Mortgage Association ( FHLMA ) of \$317,621 and \$310,751; and Government National Mortgage Association ( GNMA ) of \$39,004 and \$45,454 as of March 31, 2011 and December 31, 2010, respectively.
- (2) Represents the amount of other-than-temporary impairment losses in AOCI which, beginning April 1, 2009, was not included in earnings under current accounting guidance. Amounts also include unrealized gains and losses on impaired securities relating to changes in the fair value of such securities subsequent to the impairment measurement date.

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