

HORACE MANN EDUCATORS CORP /DE/  
Form 10-Q  
May 08, 2008  
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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, 2008

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from            to

**Commission file number 1-10890**

**HORACE MANN EDUCATORS CORPORATION**

(Exact name of registrant as specified in its charter)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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

As of April 30, 2008, 40,623,637 shares of Common Stock, par value \$0.001 per share, were outstanding, net of 20,251,347 shares of treasury stock.

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FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2008

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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 March 31, 2008, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the three-month periods ended March 31, 2008 and 2007. 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, 2007, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 28, 2008, 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, 2007, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it was derived.

/s/ KPMG LLP

KPMG LLP  
Chicago, Illinois

May 8, 2008

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

(Dollars in thousands)

	March 31, 2008 (Unaudited)	December 31, 2007
<b>ASSETS</b>		
Investments		
Fixed maturities, available for sale, at fair value		
Fixed maturities (amortized cost 2008, \$3,746,493; 2007, \$3,795,665)	\$ 3,697,435	\$ 3,798,343
Fixed maturity securities on loan (amortized cost 2008, \$67,389; 2007, \$74,599)	68,685	74,658
Total fixed maturities	3,766,120	3,873,001
Equity securities, available for sale, at fair value (amortized cost 2008, \$94,278; 2007, \$94,083)	84,231	86,548
Short-term and other investments	235,339	143,990
Short-term investments, loaned securities collateral	70,479	76,711
Total investments	4,156,169	4,180,250
Cash	8,856	13,209
Accrued investment income and premiums receivable	103,481	101,427
Deferred policy acquisition costs	266,290	261,789
Goodwill	47,396	47,396
Value of acquired insurance in force	4,059	5,380
Other assets	101,277	87,652
Separate Account (variable annuity) assets	1,392,762	1,562,210
Total assets	\$ 6,080,290	\$ 6,259,313
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Policy liabilities		
Fixed annuity contract liabilities	\$ 2,042,899	\$ 2,014,211
Interest-sensitive life contract liabilities	667,819	663,087
Unpaid claims and claim expenses	314,366	315,382
Future policy benefits	189,967	188,117
Unearned premiums	196,122	202,527
Total policy liabilities	3,411,173	3,383,324
Other policyholder funds	136,402	138,470
Liability for securities lending agreements	71,376	76,850
Other liabilities	226,366	205,696
Short-term debt		
Long-term debt	199,501	199,485
Separate Account (variable annuity) liabilities	1,392,762	1,562,210
Total liabilities	5,437,580	5,566,035
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, 2008, 60,874,984; 2007, 60,855,455	61	61
Additional paid-in capital	354,543	353,841
Retained earnings	708,404	698,539
Accumulated other comprehensive loss net of taxes:		

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Net unrealized gains and losses on fixed maturities and equity securities	(34,291)	(2,621)
Net funded status of pension and other postretirement benefit obligations	(3,217)	(3,217)
Treasury stock, at cost, 2008, 20,251,347 shares; 2007, 18,614,971 shares	(382,790)	(353,325)
Total shareholders' equity	642,710	693,278
Total liabilities and shareholders' equity	\$ 6,080,290	\$ 6,259,313

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**  
**AND COMPREHENSIVE INCOME (UNAUDITED)**

(Dollars in thousands, except per share data)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenues</b>		
Insurance premiums and contract charges earned	\$ 162,549	\$ 161,153
Net investment income	56,613	54,854
Net realized investment gains (losses)	(2,451)	3,468
Other income	2,557	2,580
<b>Total revenues</b>	<b>219,268</b>	<b>222,055</b>
<b>Benefits, losses and expenses</b>		
Benefits, claims and settlement expenses	106,914	98,377
Interest credited	32,055	31,155
Policy acquisition expenses amortized	21,028	19,110
Operating expenses	34,780	34,978
Amortization of intangible assets	1,245	1,538
Interest expense	3,401	3,689
<b>Total benefits, losses and expenses</b>	<b>199,423</b>	<b>188,847</b>
<b>Income before income taxes</b>	<b>19,845</b>	<b>33,208</b>
Income tax expense	5,589	9,940
<b>Net income</b>	<b>\$ 14,256</b>	<b>\$ 23,268</b>
<b>Net income per share</b>		
Basic	\$ 0.35	\$ 0.54
Diluted	\$ 0.34	\$ 0.52
<b>Weighted average number of shares and equivalent shares (in thousands)</b>		
Basic	41,055	43,118
Diluted	42,146	45,396
<b>Comprehensive income (loss)</b>		
Net income	\$ 14,256	\$ 23,268
Other comprehensive income (loss), net of taxes:		
Change in net unrealized gains and losses on fixed maturities and equity securities	(31,670)	524
Change in net funded status of pension and other postretirement benefit obligations		
<b>Other comprehensive income (loss)</b>	<b>(31,670)</b>	<b>524</b>
<b>Total</b>	<b>\$ (17,414)</b>	<b>\$ 23,792</b>

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.



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(Dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2008	2007
<b>Common stock</b>		
Beginning balance	\$ 61	\$ 61
Options exercised, 2008, 0 shares; 2007, 51,340 shares		
Conversion of Director Stock Plan units, 2008, 16,355 shares; 2007, 761 shares		
Conversion of restricted stock units, 2008, 3,174 shares; 2007, 0 shares		
Ending balance	61	61
<b>Additional paid-in capital</b>		
Beginning balance	353,841	347,873
Options exercised and conversion of Director Stock Plan units and restricted stock units	369	914
Share-based compensation expense	333	236
Ending balance	354,543	349,023
<b>Retained earnings</b>		
Beginning balance	698,539	634,110
Net income	14,256	23,268
Cash dividends, \$0.105 per share	(4,391)	(4,600)
Ending balance	708,404	652,778
<b>Accumulated other comprehensive income (loss), net of taxes:</b>		
Beginning balance	(5,838)	7,614
Change in net unrealized gains and losses on fixed maturities and equity securities	(31,670)	524
Change in net funded status of pension and other postretirement benefit obligations		
Ending balance	(37,508)	8,138
<b>Treasury stock, at cost</b>		
Beginning balance, 2008, 18,614,971 shares; 2007, 17,503,371 shares	(353,325)	(332,577)
Purchase of 1,636,376 shares in 2008; 0 shares in 2007	(29,465)	
Ending balance, 2008, 20,251,347 shares; 2007, 17,503,371 shares	(382,790)	(332,577)
Shareholders' equity at end of period	\$ 642,710	\$ 677,423

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)

	Three Months Ended	
	March 31,	
	2008	2007
Cash flows - operating activities		
Premiums collected	\$ 154,197	\$ 162,021
Policyholder benefits paid	(114,048)	(102,975)
Policy acquisition and other operating expenses paid	(58,189)	(63,148)
Federal income taxes recovered		11,035
Investment income collected	54,999	56,695
Interest expense paid	(40)	(40)
Other	3,129	3,007
Net cash provided by operating activities	40,048	66,595
Cash flows - investing activities		
Fixed maturities		
Purchases	(244,990)	(451,059)
Sales	188,573	