UNITRIN INC
Form 10-Q
May 04, 2009
Table of Contents

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 Quarterly Period Ended March 31, 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 0-18298

Unitrin, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**95-4255452**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One East Wacker Drive, Chicago, Illinois	**60601**
(Address of principal executive offices)	**(Zip Code)**

(312) 661-4600
(Registrant s telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 (§232.405 of this chapter) 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 whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or a smaller reporting company. See definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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 Exchange Act). Yes ¨ No x

62,439,528 shares of common stock, $0.10 par value, were outstanding as of April 30, 2009.

Table of Contents

UNITRIN, INC.

INDEX

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenues:		
Earned Premiums	$ 612.5	$ 575.9
Automobile Finance Revenues	52.9	63.4
Net Investment Income	47.0	45.9
Other Income	0.4	0.5
Net Realized Investment Gains (Losses)	(24.2)	6.2
Total Revenues	688.6	691.9
Expenses:		
Policyholders Benefits and Incurred		
Losses and Loss Adjustment Expenses	439.4	410.7
Insurance Expenses	182.9	172.3
Automobile Finance Expenses	46.4	53.9
Interest Expense on Certificates of Deposits	12.6	15.7
Interest and Other Expenses	15.2	16.7
Total Expenses	696.5	669.3
Income (Loss) from Continuing Operations before Income Taxes and Equity in Net Income of Investee	(7.9)	22.6
Income Tax Benefit (Expense)	0.4	(4.1)
Income (Loss) from Continuing Operations before Equity in Net Income of Investee	(7.5)	18.5
Equity in Net Income of Investee	1.2	2.2
Income (Loss) from Continuing Operations	(6.3)	20.7
Discontinued Operations:		
Income (Loss) from Discontinued Operations before Income Taxes	1.2	(10.2)
Income Tax Benefit (Expense)	(0.5)	4.7
Income (Loss) from Discontinued Operations	0.7	(5.5)
Net Income (Loss)	$ (5.6)	$ 15.2
Basic Income (Loss) Per Share from Continuing Operations:		
Restricted Common Stock	$	$ 0.41
Unrestricted Common Stock	$ (0.10)	$ 0.32
Basic Net Income (Loss) Per Share:		
Restricted Common Stock	$ 0.01	$ 0.32

Unrestricted Common Stock	$ (0.09)	$ 0.24
Diluted Income (Loss) Per Share from Continuing Operations:		
Restricted Common Stock	$	$ 0.41
Unrestricted Common Stock	$ (0.10)	$ 0.32
Diluted Net Income (Loss) Per Share:		
Restricted Common Stock	$ 0.01	$ 0.32
Unrestricted Common Stock	$ (0.09)	$ 0.24
Dividends Paid Per Share	$ 0.470	$ 0.470

The Notes to the Condensed Consolidated Financial Statements are an integral part of these financial statements.

1

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

	March 31, 2009 (Unaudited)	December 31, 2008
Assets:		
Investments:		
Fixed Maturities at Fair Value (Amortized Cost: 2009 - $4,392.6; 2008 - $4,174.4)	$ 4,310.1	$ 4,135.9
Equity Securities at Fair Value (Cost: 2009 - $254.9; 2008 - $255.4)	196.9	221.8
Investee (Intermec) at Cost Plus Cumulative Undistributed Earnings (Fair Value: 2009 - $131.6; 2008 - $168.1)	95.2	102.2
Short-term Investments at Cost which Approximates Fair Value	535.7	548.6
Other	703.8	714.9
Total Investments	5,841.7	5,723.4
Cash	66.2	184.2
Automobile Loan Receivables at Cost (Fair Value: 2009 - $1,025.1; 2008 - $1,099.6)	1,011.6	1,078.6
Other Receivables	688.8	686.5
Deferred Policy Acquisition Costs	520.0	489.2
Goodwill	334.5	334.6
Current and Deferred Income Taxes	281.3	201.4
Other Assets	138.0	120.9
Total Assets	$ 8,882.1	$ 8,818.8
Liabilities and Shareholders Equity:		
Insurance Reserves:		
Life and Health	$ 2,986.6	$ 2,972.6
Property and Casualty	1,314.0	1,268.7
Total Insurance Reserves	4,300.6	4,241.3
Certificates of Deposits at Cost (Fair Value: 2009 - $1,099.6; 2008 - $1,148.7)	1,054.4	1,110.8
Unearned Premiums	784.0	733.5
Liabilities for Income Taxes	25.5	68.2
Notes Payable at Amortized Cost (Fair Value: 2009 - $483.6; 2008 - $433.9)	665.9	560.8
Accrued Expenses and Other Liabilities	487.0	455.6
Total Liabilities	7,317.4	7,170.2
Shareholders Equity:		
Common Stock, $0.10 par value, 100 million Shares Authorized; 62,440,728 Shares Issued and Outstanding at March 31, 2009 and 62,314,503 Shares Issued and Outstanding at December 31, 2008	6.2	6.2
Paid-in Capital	766.0	764.7
Retained Earnings	950.8	985.8
Accumulated Other Comprehensive Loss	(158.3)	(108.1)
Total Shareholders Equity	1,564.7	1,648.6

Total Liabilities and Shareholders Equity	$ 8,882.1	$ 8,818.8

The Notes to the Condensed Consolidated Financial Statements are an integral part of these financial statements.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Operating Activities:		
Net Income (Loss)	$ (5.6)	$ 15.2
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Increase in Deferred Policy Acquisition Costs	(3.4)	(5.4)
Equity in Net Income of Investee before Taxes	(1.9)	(3.4)
Equity in Losses of Limited Liability Investment Companies and Limited Partnerships	20.4	20.9
Distribution of Accumulated Earnings of Limited Liability Investment Companies and Limited Partnerships		0.8
Amortization of Investment Securities and Depreciation of Investment Real Estate	4.7	2.6
Provision for Loan Losses	20.0	27.2
Depreciation of Property and Equipment	4.6	5.3
Decrease (Increase) in Other Receivables	30.4	(19.7)
Increase (Decrease) in Insurance Reserves	(38.8)	10.9
Increase in Unearned Premiums	1.7	29.3
Change in Income Taxes	(46.3)	(25.5)
Increase (Decrease) in Accrued Expenses and Other Liabilities	4.2	(11.1)
Net Realized Investment (Gains) Losses	24.2	(6.2)
Other, Net	12.4	10.4
Net Cash Provided by Operating Activities	26.6	51.3
Investing Activities:		
Sales and Maturities of Fixed Maturities	104.4	382.8
Purchases of Fixed Maturities	(203.7)	(330.1)
Sales of Equity Securities	13.9	61.2
Purchases of Equity Securities	(1.0)	(94.1)
Acquisition and Improvements of Investment Real Estate	(2.4)	(7.4)
Acquisitions of Limited Liability Investment Companies and Limited Partnerships	(6.9)	(49.4)
Acquisition of Business, Net of Cash Acquired	(190.0)	
Change in Short-term Investments	84.2	51.0
Change in Automobile Loan Receivables	43.6	(14.6)
Change in Other Investments	(2.7)	(1.5)
Other, Net	(4.4)	(6.4)
Net Cash Used by Investing Activities	(165.0)	(8.5)
Financing Activities:		
Change in Certificates of Deposits	(56.5)	(12.2)
Cash Dividends Paid	(29.3)	(30.2)
Note Payable Proceeds	130.0	
Note Payable Payments	(25.0)	
Common Stock Repurchases		(52.2)
Cash Exercise of Stock Options		0.4

Excess Tax Benefits from Share-based Awards	0.1	0.1
Other, Net	1.1	0.9
Net Cash Provided (Used) by Financing Activities	20.4	(93.2)
Decrease in Cash	(118.0)	(50.4)
Cash, Beginning of Year Including Cash Reported in Discontinued Operations	184.2	104.5
Cash, End of Period, Including Cash Reported in Discontinued Operations	66.2	54.1
Cash, End of Period, Reported in Discontinued Operations		(0.1)
Cash, End of Period	$ 66.2	$ 54.0

The Notes to the Condensed Consolidated Financial Statements are an integral part of these financial statements.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation

The Condensed Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the SEC) and include the accounts of Unitrin, Inc. (Unitrin) and its subsidiaries (individually and collectively referred to herein as the Company) and are unaudited. All significant intercompany accounts and transactions have been eliminated. Certain financial information that is normally included in annual financial statements, including certain financial statement footnote disclosures, prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) is not required by the rules and regulations of the SEC and has been condensed or omitted. In the opinion of the Company s management, the Condensed Consolidated Financial Statements include all adjustments necessary for a fair presentation. The preparation of interim financial statements relies heavily on estimates. This factor and certain other factors, such as the seasonal nature of some portions of the insurance business, as well as market conditions, call for caution in drawing specific conclusions from interim results. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes included in the Company s Annual Report on Form 10-K, filed with the SEC for the year ended December 31, 2008 (the 2008 Annual Report).

Discontinued Operations

The Company accounts for its former Unitrin Business Insurance operations as discontinued operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (see Note 3, Discontinued Operations, to the Condensed Consolidated Financial Statements).

Accounting Changes

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141(R), *Business Combinations*. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree and recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase. SFAS No. 141(R) also sets forth the disclosures required to be made in the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. On January 1, 2009, the Company adopted SFAS No. 141(R). Accordingly, SFAS No. 141(R) was applied by the Company to the acquisition of Direct Response Corporation and its subsidiaries (Direct Response) (see Note 2, Acquisition of Businesses, to the Condensed Consolidated Financial Statements). In April 2009, the FASB issued FASB Staff Position (FSP) SFAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*. FSP SFAS 141(R)-1 amends and clarifies SFAS No. 141(R) with respect to the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The Company applied FSP SFAS 141(R)-1 to its acquisition of Direct Response.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation (continued)

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. SFAS No. 160 establishes accounting and reporting standards that require: that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent s equity; the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of operations; and changes in a parent s ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. SFAS No. 160 also requires that any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value when a subsidiary is deconsolidated. SFAS No. 160 also sets forth the disclosure requirements to identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS No. 160 must be applied prospectively as of the beginning of the fiscal year in which SFAS No. 160 is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements are applied retrospectively for all periods presented. On January 1, 2009, the Company adopted SFAS No. 160. The Company does not have a noncontrolling interest in one or more subsidiaries. Accordingly, the initial application of SFAS No. 160 had no impact on the Company.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*. SFAS No. 161 establishes, among other things, the disclosure requirements for derivative instruments and for hedging activities. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, with the intent to provide users of financial statements with enhanced understanding of: how and why an entity uses derivative securities; how derivatives and hedges are being accounted for under SFAS No. 133; and how derivatives and hedges affect an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. On January 1, 2009, the Company adopted SFAS No. 161. The initial application of SFAS No. 161 had no impact on the Company.

In April 2008, the FASB issued FSP SFAS 142-3, *Determination of the Useful Life of Intangible Assets*. FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. Previously, under the provisions of SFAS No. 142, an entity was precluded from using its own assumptions about renewal or extension of an arrangement where there was likely to be substantial cost or material modifications. FSP SFAS 142-3 removes the requirement of SFAS No. 142 for an entity to consider whether an intangible asset can be renewed without substantial cost or material modification to the existing terms and conditions and requires an entity to consider its own experience in renewing similar arrangements. FSP SFAS 142-3 also increases the disclosure requirements for a recognized intangible asset to enable a user of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity s intent or ability to renew or extend the arrangement. FSP SFAS 142-3 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. On January 1, 2009, the Company adopted FSP SFAS 142-3. The guidance for determining the useful life of a recognized intangible asset is applied prospectively to intangible assets acquired after the effective date. Accordingly, the Company initially applied FSP SFAS 142-3 to intangible assets acquired on or after January 1, 2009. The disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date.

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60*. SFAS No. 163 clarifies how SFAS No. 60, *Accounting and Reporting by Insurance Enterprises*, applies to financial guarantee insurance contracts (GIC s), including the recognition and measurement of premium revenue and claim liabilities and requires expanded disclosures about GIC s. SFAS No. 163 does not apply to a GIC that is accounted for as a derivative instrument within the scope of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Except for certain disclosure requirements regarding insurance

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation (continued)

enterprise risk-management activities, SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and all interim periods within those fiscal years. On January 1, 2009, the Company adopted SFAS No. 163. The Company does not issue GIC s. Accordingly, the initial application of SFAS No. 163 had no impact on the Company.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FSP EITF 03-6-1 concluded that all outstanding share-based payment awards that contain a right to receive non-forfeitable dividends participate in the undistributed earnings with common shareholders, and therefore, the issuing entity is required to apply the two-class method of computing basic and diluted earnings per share, pursuant to SFAS No. 128, *Earnings per Share*. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Upon adoption, all prior-period earnings per share data presented must be adjusted retrospectively to conform to FSP EITF 03-6-1. On January 1, 2009, the Company adopted FSP EITF 03-6-1. Basic Net Income per Share from Continuing Operations decreased by less than $0.01 per common share on an annual basis on the initial and retrospective application of FSP EITF 03-6-1 to prior periods.

In January 2009, the FASB issued FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*. FSP EITF 99-20-1 amends the impairment guidance in EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*, to achieve more consistent determination of whether an other-than-temporary impairment has occurred. FSP EITF 99-20-1 is effective for interim and annual reporting periods ending after December 15, 2008, and must be applied prospectively. The Company adopted FSP EITF 99-20-1 on January 1, 2009. The initial application of FSP EITF 99-20-1 had no impact on the Company.

In April 2009, the FASB issued FSP SFAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. FSP SFAS 107-1 and APB 28-1 amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP SFAS 107-1 and APB 28-1 also amends Accounting Principles Board (APB) Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP SFAS 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted, as discussed below, for periods ending after March 15, 2009.

In April 2009, FASB issued FSP SFAS 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. FSP SFAS 115-2 and SFAS 124-2 amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP SFAS 115-2 and SFAS 124-2 does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP SFAS 115-2 and SFAS 124-2 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted, as discussed below, for periods ending after March 15, 2009.

In April 2009, the FASB issued FSP SFAS 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*. FSP SFAS 157-4 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. FSP SFAS 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP SFAS 157-4 must be applied prospectively and is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted, as discussed below.

A Company may elect to adopt FSP SFAS 107-1 and APB 28-1, FSP SFAS 115-2 and SFAS 124-2, and FSP SFAS 157-4 early only if it elects to adopt all three pronouncements early. The Company elected not to adopt FSP SFAS 107-1 and APB 28-1, FSP SFAS 115-2 and SFAS 124-2, and FSP SFAS 157-4 early and has not yet determined the impact that the initial application of these pronouncements will have on the Company.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2 Acquisition of Businesses

On February 13, 2009, Unitrin s subsidiary, Trinity Universal Insurance Company (Trinity) completed its acquisition of Direct Response in a cash transaction for a total purchase price of $201.6 million. The results of Direct Response are included in the Company s financial statements from the date of acquisition and are reported in the Company s Unitrin Direct segment.

The Company has not yet completed the process of estimating the fair value of assets acquired and liabilities assumed. Accordingly, the Company s preliminary estimates and the allocation of the purchase price to the assets acquired and liabilities assumed may change as the Company completes the process. In particular, the Company is in the process of completing a review of all open claim files and the acquired federal net operating loss carry forward. Such review could impact the Company s preliminary estimates of the fair value of Insurance Reserves and Deferred Income Taxes. Changes in the Company s preliminary estimates of fair values of assets and liabilities acquired, if any, would also likely impact the Company s allocation of the purchase price to Goodwill. The Company expects to finalize the allocation of the purchase price to the fair value of the assets acquired and the liabilities assumed in the second quarter of 2009. In accordance with SFAS 141(R), changes, if any, to the preliminary estimates and allocation will be reported in the Company s financial statements retroactively. Based on the Company s preliminary allocation of the purchase price, the fair values of the assets acquired and liabilities assumed were:

(Dollars in Millions)	
Investments	$ 211.3
Cash	11.6
Other Receivables	33.7
Value of Insurance In Force (Reported in Deferred Policy Acquisition Costs)	26.2
Value of Licenses Acquired	20.1
Goodwill	2.7
Current and Deferred Income Taxes	49.9
Other Assets	2.5
Insurance Reserves	(100.4)
Unearned Premiums	(48.8)
Accrued Expenses and Other Liabilities	(7.2)
Total Purchase Price	$ 201.6

On April 1, 2008, the Company completed its acquisition of Primesco, Inc. and its wholly-owned subsidiaries, Mutual Savings Life Insurance Company (Mutual Savings Life) and Mutual Savings Fire Insurance Company (Mutual Savings Fire), (together Primesco). At December 31, 2008, the Company had not yet completed the process of estimating the fair value of Insurance In Force acquired and Insurance Reserves Assumed. The Company completed this process and finalized the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed in the first quarter of 2009. Goodwill decreased by $2.8 million due to the finalization of the allocation of the purchase price.

Note 3 Discontinued Operations

On June 3, 2008, the Company completed the sale of its Unitrin Business Insurance operations to AmTrust Financial Services, Inc. The Company retained Property and Casualty Insurance Reserves for unpaid insured losses that occurred prior to June 1, 2008, the effective date of the sale. Pursuant to the provisions of SFAS No. 144, changes in the Company s estimate of such retained liabilities after the sale are reported as a separate component of the results of discontinued operations.

7

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 3 Discontinued Operations (continued)

Summary financial information included in Income (Loss) from Discontinued Operations before Income Taxes for the three months ended March 31, 2009 and 2008 is presented below:

(Dollars in Millions, Except Per Share Amounts)	Three Months Ended March 31, 2009	March 31, 2008
Total Earned Premiums	$	$ 43.2
Net Investment Income		2.4
Total Revenues	$	$ 45.6
Income (Loss) from Discontinued Operations before Income Taxes:		
Results of Operations	$	$ (10.2)
Change in Estimate of Retained Liabilities Arising from Discontinued Operations	1.2	
Income (Loss) from Discontinued Operations before Income Taxes	$ 1.2	$ (10.2)
Basic Income (Loss) Per Share from Discontinued Operations:		
Restricted Common Stock	$ 0.01	$ (0.09)
Unrestricted Common Stock	$ 0.01	$ (0.09)
Diluted Income (Loss) Per Share from Discontinued Operations:		
Restricted Common Stock	$ 0.01	$ (0.09)
Unrestricted Common Stock	$ 0.01	$ (0.09)

Note 4 Investments

The amortized cost and estimated fair values of the Company s Investments in Fixed Maturities at March 31, 2009 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and Government Agencies and Authorities	$ 918.3	$ 43.6	$ (0.9)	$ 961.0
States, Municipalities and Political Subdivisions	1,412.6	51.1	(14.2)	1,449.5
Corporate Securities:				

Bonds and Notes	1,882.2	31.6	(156.3)	1,757.5
Redemptive Preferred Stocks	179.5		(37.4)	142.1
Investments in Fixed Maturities	$ 4,392.6	$ 126.3	$ (208.8)	$ 4,310.1

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 4 Investments (continued)

The amortized cost and estimated fair values of the Company s Investments in Fixed Maturities at December 31, 2008 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and Government Agencies and Authorities	$ 934.6	$ 44.9	$ (0.4)	$ 979.1
States, Municipalities and Political Subdivisions	1,295.6	34.2	(21.3)	1,308.5
Corporate Securities:				
Bonds and Notes	1,765.0	47.0	(129.5)	1,682.5
Redemptive Preferred Stocks	179.2	0.3	(13.7)	165.8
Investments in Fixed Maturities	$ 4,174.4	$ 126.4	$ (164.9)	$ 4,135.9

The amortized cost and estimated fair values of the Company s Investments in Fixed Maturities at March 31, 2009, by contractual maturity, were:

(Dollars in Millions)	Amortized Cost	Fair Value
Due in One Year or Less	$ 135.7	$ 136.8
Due after One Year to Five Years	563.7	552.9
Due after Five Years to Fifteen Years	1,873.2	1,872.9
Due after Fifteen Years	1,358.7	1,269.7
Asset-backed Securities Not Due at a Single Maturity Date	461.3	477.8
Investments in Fixed Maturities	$ 4,392.6	$ 4,310.1

The expected maturities of the Company s Investments in Fixed Maturities may differ from the contractual maturities because debtors may have the right to call or prepay obligations with or without call or prepayment penalties. Investments in Asset-backed Securities Not Due at a Single Maturity Date at March 31, 2009 consisted of securities issued by the Government National Mortgage Association (Ginnie Mae) with a fair value of $403.9 million, securities issued by the Federal National Mortgage Association (Fannie Mae) with a fair value of $53.4 million, securities issued by the Federal Home Loan Mortgage Corporation (Freddie Mac) with a fair value of $3.3 million and securities of other issuers with a fair value of $17.2 million.

Gross unrealized gains and gross unrealized losses on the Company s Investments in Equity Securities at March 31, 2009 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred Stocks	$ 149.2	$ 1.5	$ (55.5)	$ 95.2
Common Stocks	63.4	3.0	(2.0)	64.4

Other Equity Interests	42.3	0.9	(5.9)	37.3
Investments in Equity Securities	$ 254.9	$ 5.4	$ (63.4)	$ 196.9

9

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 4 Investments (continued)

Gross unrealized gains and gross unrealized losses on the Company s Investments in Equity Securities at December 31, 2008 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred Stocks	$ 150.1	$ 2.1	$ (32.3)	$ 119.9
Common Stocks	54.4	4.3	(0.9)	57.8
Other Equity Interests	50.9	0.4	(7.2)	44.1
Investments in Equity Securities	$ 255.4	$ 6.8	$ (40.4)	$ 221.8

An aging, based on the length of time securities have been in an unrealized loss position, of unrealized losses on the Company s Investments in Fixed Maturities and Equity Securities at March 31, 2009 is presented below:

(Dollars in Millions)	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or Longer Fair Value	12 Months or Longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
Fixed Maturities:						
U.S. Government and Government Agencies and Authorities	$ 108.6	$ (0.9)	$ 4.0	$	$ 112.6	$ (0.9)
States, Municipalities and Political Subdivisions	105.7	(4.2)	144.1	(10.0)	249.8	(14.2)
Corporate Securities:						
Bonds and Notes	841.2	(97.6)	277.3	(58.7)	1,118.5	(156.3)
Redemptive Preferred Stocks	56.6	(27.1)	82.4	(10.3)	139.0	(37.4)
Total Fixed Maturities	1,112.1	(129.8)	507.8	(79.0)	1,619.9	(208.8)
Equity Securities:						
Preferred Stocks	69.0	(43.0)	16.7	(12.5)	85.7	(55.5)
Common Stocks	12.0	(2.0)			12.0	(2.0)
Other Equity Interests	15.0	(2.5)	3.9	(3.4)	18.9	(5.9)
Total Equity Securities	96.0	(47.5)	20.6	(15.9)	116.6	(63.4)
Total	$ 1,208.1	$ (177.3)	$ 528.4	$ (94.9)	$ 1,736.5	$ (272.2)

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 4 Investments (continued)

An aging, based on the length of time securities have been in an unrealized loss position, of unrealized losses on the Company s Investments in Fixed Maturities and Equity Securities at December 31, 2008 is presented below:

	Less Than 12 Months		12 Months or Longer		Total	
(Dollars in Millions)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Fixed Maturities:						
U.S. Government and Government Agencies and Authorities	$ 57.2	$ (0.4)	$ 4.0	$	$ 61.2	$ (0.4)
States, Municipalities and Political Subdivisions	314.9	(10.1)				