

HORACE MANN EDUCATORS CORP /DE/
Form 10-Q
November 09, 2005
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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 September 30, 2005

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

As of October 31, 2005, 42,962,778 shares of Common Stock, par value \$0.001 per share, were outstanding, net of 17,503,371 shares of treasury stock.

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HORACE MANN EDUCATORS CORPORATION

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FOR THE QUARTER ENDED SEPTEMBER 30, 2005

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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 September 30, 2005, and the related consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2005 and 2004, and the related consolidated statements of changes in shareholders' equity and cash flows for the nine-month periods ended September 30, 2005 and 2004. 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 standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2004, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income, and cash flows for the year then ended (not presented herein); and in our report dated March 31, 2005, 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, 2004, 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

November 9, 2005

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

(Dollars in thousands)

	September 30,	December 31,
	2005	2004
	(Unaudited)	
ASSETS		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost, 2005, \$3,626,284; 2004, \$3,399,254)	\$ 3,700,676	\$ 3,541,255
Short-term and other investments	134,429	115,835
Short-term investments, loaned securities collateral	370,356	142
	<u>4,205,461</u>	<u>3,657,232</u>
Total investments	4,205,461	3,657,232
Accrued investment income and premiums receivable	106,954	104,530
Deferred policy acquisition costs	226,116	209,576
Goodwill	47,396	47,396
Value of acquired insurance in force	17,638	21,522
Other assets	131,223	76,883
Separate Account (variable annuity) assets	1,292,354	1,254,763
	<u>6,027,142</u>	<u>5,371,902</u>
Total assets	\$ 6,027,142	\$ 5,371,902
LIABILITIES AND SHAREHOLDERS' EQUITY		
Policy liabilities		
Fixed annuity contract liabilities	\$ 1,793,082	\$ 1,688,075
Interest-sensitive life contract liabilities	612,639	593,694
Unpaid claims and claim expenses	415,261	342,445
Future policy benefits	180,401	181,648
Unearned premiums	207,609	204,706
	<u>3,208,992</u>	<u>3,010,568</u>
Total policy liabilities	3,208,992	3,010,568
Other policyholder funds	147,587	142,634
Liability for securities lending agreements	370,686	
Other liabilities	231,857	218,011
Short-term debt		25,000
Long-term debt	190,879	144,720
Separate Account (variable annuity) liabilities	1,292,354	1,254,763
	<u>5,442,355</u>	<u>4,795,696</u>
Total liabilities	5,442,355	4,795,696
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, 2005, 60,464,999; 2004, 60,350,014	60	60
Additional paid-in capital	345,077	343,178
Retained earnings	542,182	494,665
Accumulated other comprehensive income (loss), net of taxes:		

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Net unrealized gains on fixed maturities and equity securities	45,037	85,872
Minimum pension liability adjustment	(14,992)	(14,992)
Treasury stock, at cost, 17,503,371 shares	(332,577)	(332,577)
	<u> </u>	<u> </u>
Total shareholders' equity	584,787	576,206
	<u> </u>	<u> </u>
Total liabilities and shareholders' equity	\$ 6,027,142	\$ 5,371,902
	<u> </u>	<u> </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
AND COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Revenues				
Insurance premiums and contract charges earned	\$ 158,387	\$ 165,111	\$ 494,907	\$ 501,771
Net investment income	48,912	47,988	144,921	143,461
Net realized investment gains	87	4,791	9,137	9,262
Total revenues	207,386	217,890	648,965	654,494
Benefits, losses and expenses				
Benefits, claims and settlement expenses	130,615	159,424	328,588	377,852
Interest credited	29,360	27,316	86,054	80,599
Policy acquisition expenses amortized	17,275	18,058	54,443	51,841
Operating expenses	34,898	30,166	95,841	98,297
Amortization of intangible assets	1,219	1,350	4,307	3,804
Interest expense	2,275	1,710	6,603	5,085
Total benefits, losses and expenses	215,642	238,024	575,836	617,478
Income (loss) before income taxes	(8,256)	(20,134)	73,129	37,016
Income tax expense (benefit)	(9,277)	(7,490)	11,953	9,032
Net income (loss)	\$ 1,021	\$ (12,644)	\$ 61,176	\$ 27,984
Net income (loss) per share				
Basic	\$ 0.02	\$ (0.30)	\$ 1.43	\$ 0.65
Diluted	\$ 0.02	\$ (0.30)	\$ 1.32	\$ 0.63
Weighted average number of shares and equivalent shares (in thousands)				
Basic	42,933	42,773	42,895	42,743
Diluted	43,686	42,773	47,829	47,317
Comprehensive income (loss)				
Net income (loss)	\$ 1,021	\$ (12,644)	\$ 61,176	\$ 27,984
Other comprehensive income (loss), net of taxes:				
Change in net unrealized gains on fixed maturities and equity securities	(47,157)	59,139	(40,835)	872
Change in minimum pension liability adjustment				

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Other comprehensive income (loss)	(47,157)	59,139	(40,835)	872
Total	\$ (46,136)	\$ 46,495	\$ 20,341	\$ 28,856

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)

	Nine Months Ended	
	September 30,	
	2005	2004
Common stock		
Beginning balance	\$ 60	\$ 60
Options exercised, 2005, 114,224 shares; 2004, 52,302 shares		
Conversion of Director Stock Plan units, 2005, 761 shares; 2004, 20,511 shares		
	60	60
Additional paid-in capital		
Beginning balance	343,178	342,306
Options exercised and conversion of Director Stock Plan units	1,899	1,168
Catastrophe-linked equity put option premium		(1,125)
		(1,125)