

Unum Group  
Form 10-Q  
May 02, 2008  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D. C. 20549**  
**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 2008**

**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 1-11294

**Unum Group**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or organization)

**62-1598430**  
(I.R.S. Employer Identification No.)

**1 Fountain Square**

**Chattanooga, Tennessee 37402**

(Address of principal executive offices)

**423.294.1011**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one): 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 Exchange Act). Yes  No

**346,350,504 shares of the registrant's common stock were outstanding as of April 30, 2008.**

**Table of Contents**

**TABLE OF CONTENTS**

|  |             |
|--|-------------|
|  | <b>Page</b> |
| <u>Cautionary Statement Regarding Forward-Looking Statements</u>   | 1           |
| <b><u>PART I</u></b>   |             |
| 1. <u>Financial Statements (Unaudited):</u>  |             |
| <u>Consolidated Balance Sheets at March 31, 2008 and December 31, 2007</u>                                       | 3           |
| <u>Consolidated Statements of Income for the three months ended March 31, 2008 and 2007</u>                      | 5           |
| <u>Consolidated Statements of Stockholders' Equity for the three months ended March 31, 2008 and 2007</u>        | 6           |
| <u>Consolidated Statements of Cash Flows for the three months ended March 31, 2008 and 2007</u>                  | 7           |
| <u>Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2008 and 2007</u> | 8           |
| <u>Notes to Consolidated Financial Statements</u>  | 9           |
| <u>Report of Ernst &amp; Young LLP, Independent Registered Public Accounting Firm</u>                            | 26          |
| 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                  | 27          |
| 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>   | 66          |
| 4. <u>Controls and Procedures</u>  | 66          |
| <b><u>PART II</u></b>  |             |
| 1. <u>Legal Proceedings</u>  | 67          |
| 1A. <u>Risk Factors</u>  | 67          |
| 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 67          |
| 6. <u>Exhibits</u>   | 68          |
| <u>Signatures</u>  | 69          |

**Table of Contents**

**Cautionary Statement Regarding Forward-Looking Statements**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor to encourage companies to provide prospective information, as long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those included in the forward-looking statements. Certain information contained in this discussion, or in any other written or oral statements made by us in communications with the financial community or contained in documents filed with the Securities and Exchange Commission (SEC), may be considered forward-looking. Forward-looking statements are those not based on historical information, but rather relate to future operations, strategies, financial results, or other developments and speak only as of the date made. These statements may be made directly in this document or may be made part of this document by reference to other documents filed by us with the SEC, which is known as incorporation by reference. You can find many of these statements by looking for words such as will, may, should, could, believes, expects, anticipates, estimates, intends, projects, goals, objectives, or similar expressions in this document incorporated herein.

These forward-looking statements are subject to numerous assumptions, risks, and uncertainties, many of which are beyond our control. We caution readers that the following factors, in addition to other factors mentioned from time to time, may cause actual results to differ materially from those contemplated by the forward-looking statements:

General economic or business conditions, both domestic and foreign, may be less favorable than expected, which may affect premium levels, claims experience, the level of pension benefit costs and funding, the availability of capital, and investment results, including credit deterioration of investments.

Competitive pressures in the insurance industry may increase significantly through industry consolidation or otherwise.

Events or consequences relating to terrorism and acts of war, both domestic and foreign, may adversely affect our business and the Company's results of operations in a period and may also affect the availability and cost of reinsurance.

Legislative, regulatory, or tax changes, both domestic and foreign, may adversely affect the businesses in which we are engaged.

Rating agency actions, state insurance department market conduct examinations and other inquiries, other governmental investigations and actions, and negative media attention may adversely affect our business and the Company's results of operations in a period.

The level and results of litigation may not be favorable to the Company and may adversely affect our business and the Company's results of operations in a period.

Investment results, including, but not limited to, realized investment losses resulting from impairments, may differ from our assumptions and prior experience and may adversely affect our business and the Company's results of operations in a period.

Changes in the interest rate environment may adversely affect our reserve and policy assumptions and ultimately profit margins and reserve levels.

Sales growth may be less than planned, which could affect adversely revenue and profitability.

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Effectiveness in supporting new product offerings and providing customer service may not meet expectations.

Actual experience in pricing, underwriting, and reserving may deviate from our assumptions.

Actual persistency may be lower than projected persistency, resulting in lower than expected revenue and higher than expected amortization of deferred acquisition costs.

Claim incidence and recovery rates may be influenced by, among other factors, the rate of unemployment and consumer confidence, the emergence of new diseases, epidemics, or pandemics, new trends and developments in medical treatments, the effectiveness of risk management programs, and the effects of the changes required by the regulatory settlement agreements.

Insurance reserve liabilities may fluctuate as a result of changes in numerous factors, and such fluctuations can have material positive or negative effects on net income.

**Table of Contents**

Retained risks in our reinsurance operations are influenced primarily by the credit risk of the reinsurers and potential contract disputes. Any material changes in the reinsurers' credit risk or willingness to pay according to the terms of the contract may adversely affect our business and the results of operations in a period.

For further discussion of risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see Part I, Item 1A of our annual report on Form 10-K for the year ended December 31, 2007.

All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

**Table of Contents****PART I****ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED BALANCE SHEETS****Unum Group and Subsidiaries**

|  | <b>March 31<br/>2008</b>        | <b>December 31<br/>2007</b> |
|--|---------------------------------|-----------------------------|
|  | <b>(in millions of dollars)</b> |                             |
|  | <b>(Unaudited)</b>              |                             |
| <b>Assets</b>  |                                 |                             |
| <b>Investments</b>   |                                 |                             |
| Fixed Maturity Securities - at fair value (amortized cost: \$34,760.6; \$34,628.1) | \$ 35,327.2                     | \$ 35,814.7                 |
| Mortgage Loans   | 1,087.9                         | 1,068.9                     |
| Real Estate  | 18.7                            | 18.2                        |
| Policy Loans   | 2,622.1                         | 2,617.7                     |
| Other Long-term Investments  | 196.9                           | 213.9                       |
| Short-term Investments   | 1,395.3                         | 1,486.8                     |
| <b>Total Investments</b>   | <b>40,648.1</b>                 | <b>41,220.2</b>             |
| <b>Other Assets</b>  |                                 |                             |
| Cash and Bank Deposits   | 84.8                            | 199.1                       |
| Accounts and Premiums Receivable   | 1,953.7                         | 1,914.7                     |
| Reinsurance Recoverable  | 5,143.8                         | 5,160.0                     |
| Accrued Investment Income  | 606.9                           | 592.3                       |
| Deferred Acquisition Costs   | 2,397.5                         | 2,381.9                     |
| Goodwill   | 204.3                           | 204.3                       |
| Property and Equipment   | 396.9                           | 393.7                       |
| Other Assets   | 614.5                           | 615.5                       |
| Separate Account Assets  | 18.7                            | 20.2                        |
| <b>Total Assets</b>  | <b>\$ 52,069.2</b>              | <b>\$ 52,701.9</b>          |

See notes to consolidated financial statements.

**Table of Contents****CONSOLIDATED BALANCE SHEETS - Continued****Unum Group and Subsidiaries**

|   | March 31<br>2008         | December 31<br>2007 |
|---|--------------------------|---------------------|
|   | (in millions of dollars) |                     |
|   | (Unaudited)              |                     |
| <b>Liabilities and Stockholders Equity</b>                |                          |                     |
| <b>Liabilities</b>  |                          |                     |
| Policy and Contract Benefits                              | \$ 1,940.2               | \$ 1,979.7          |
| Reserves for Future Policy and Contract Benefits          | 35,793.0                 | 35,828.0            |
| Unearned Premiums   | 543.7                    | 523.1               |
| Other Policyholders Funds                                 | 1,799.9                  | 1,821.2             |
| Income Tax Payable  | 172.8                    | 148.6               |
| Deferred Income Tax                                       | 169.7                    | 251.7               |
| Short-term Debt   | 175.0                    | 175.0               |
| Long-term Debt  | 2,497.7                  | 2,515.2             |
| Other Liabilities   | 1,320.1                  | 1,399.3             |
| Separate Account Liabilities                              | 18.7                     | 20.2                |
| <b>Total Liabilities</b>                                  | 44,430.8                 | 44,662.0            |
| <b>Commitments and Contingent Liabilities - Note 8</b>    |                          |                     |
| <b>Stockholders Equity</b>                                |                          |                     |
| Common Stock, \$0.10 par                                  |                          |                     |
| Authorized: 725,000,000 shares                            |                          |                     |
| Issued: 362,726,764 and 362,844,570 shares                | 36.3                     | 36.3                |
| Additional Paid-in Capital                                | 2,522.8                  | 2,516.9             |
| Accumulated Other Comprehensive Income (Loss)             |                          |                     |
| Net Unrealized Gain on Securities                         | 128.3                    | 356.1               |
| Net Gain on Cash Flow Hedges                              | 215.5                    | 182.5               |
| Foreign Currency Translation Adjustment                   | 122.5                    | 123.4               |
| Unrecognized Pension and Postretirement Benefit Costs     | (196.6)                  | (198.5)             |
| Retained Earnings   | 5,213.8                  | 5,077.4             |
| Treasury Stock - at cost: 16,433,578 and 1,951,095 shares | (404.2)                  | (54.2)              |
| <b>Total Stockholders Equity</b>                          | 7,638.4                  | 8,039.9             |
| <b>Total Liabilities and Stockholders Equity</b>          | \$ 52,069.2              | \$ 52,701.9         |

See notes to consolidated financial statements.



**Table of Contents****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)****Unum Group and Subsidiaries**

|  | Three Months Ended March 31                 |                 |
|--|---|-----------------|
|  | 2008  | 2007            |
|  | (in millions of dollars, except share data) |                 |
| <b>Revenue</b>   |   |                 |
| Premium Income   | \$ 1,950.5                                  | \$ 1,944.0      |
| Net Investment Income                                      | 591.4                                       | 589.5           |
| Net Realized Investment Loss                               | (68.5)                                      | (3.7)           |
| Other Income   | 67.2  | 70.8            |
| <b>Total Revenue</b>                                       | <b>2,540.6</b>                              | <b>2,600.6</b>  |
| <b>Benefits and Expenses</b>                               |   |                 |
| Benefits and Change in Reserves for Future Benefits        | 1,656.9                                     | 1,729.3         |
| Commissions  | 218.9                                       | 213.0           |
| Interest and Debt Expense                                  | 43.9  | 45.9            |
| Cost Related to Early Retirement of Debt                   |   | 2.4             |
| Deferral of Acquisition Costs                              | (145.6)                                     | (138.1)         |
| Amortization of Deferred Acquisition Costs                 | 130.0                                       | 116.6           |
| Compensation Expense                                       | 185.9                                       | 173.3           |
| Other Expenses   | 205.9                                       | 198.3           |
| <b>Total Benefits and Expenses</b>                         | <b>2,295.9</b>                              | <b>2,340.7</b>  |
| <b>Income from Continuing Operations Before Income Tax</b> | <b>244.7</b>                                | <b>259.9</b>    |
| <b>Income Tax</b>  |   |                 |
| Current  | 57.0  | 39.2            |
| Deferred   | 24.6  | 49.3            |
| <b>Total Income Tax</b>                                    | <b>81.6</b>                                 | <b>88.5</b>     |
| <b>Income from Continuing Operations</b>                   | <b>163.1</b>                                | <b>171.4</b>    |
| <b>Discontinued Operations - Note 3</b>                    |   |                 |
| Income Before Income Tax                                   |   | 17.8            |
| Income Tax   |   | 10.9            |
| <b>Income from Discontinued Operations</b>                 |   | <b>6.9</b>      |
| <b>Net Income</b>  | <b>\$ 163.1</b>                             | <b>\$ 178.3</b> |
| <b>Earnings Per Common Share</b>                           |   |                 |
| <b>Basic</b>   |   |                 |
| Income from Continuing Operations                          | \$ 0.47                                     | \$ 0.50         |
| Net Income   | \$ 0.47                                     | \$ 0.52         |
| <b>Assuming Dilution</b>                                   |   |                 |
| Income from Continuing Operations                          | \$ 0.46                                     | \$ 0.49         |
| Net Income   | \$ 0.46                                     | \$ 0.51         |

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See notes to consolidated financial statements.

**Table of Contents****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)****Unum Group and Subsidiaries**

|  | <b>Three Months Ended March 31</b> |                   |
|--|------------------------------------|-------------------|
|  | <b>2008</b>                        | <b>2007</b>       |
|  | <b>(in millions of dollars)</b>    |                   |
| <b>Common Stock</b>  |                                    |                   |
| Balance at Beginning of Year                               | \$ 36.3                            | \$ 34.4           |
| Common Stock Activity                                      |                                    | 0.1               |
| Balance at End of Period                                   | 36.3                               | 34.5              |
| <b>Additional Paid-in Capital</b>                          |                                    |                   |
| Balance at Beginning of Year                               | 2,516.9                            | 2,200.0           |
| Common Stock Activity                                      | 5.9                                | (3.4)             |
| Balance at End of Period                                   | 2,522.8                            | 2,196.6           |
| <b>Accumulated Other Comprehensive Income</b>              |                                    |                   |
| Balance at Beginning of Year                               | 463.5                              | 612.8             |
| Change During Period                                       | (193.8)                            | (69.1)            |
| Balance at End of Period                                   | 269.7                              | 543.7             |
| <b>Retained Earnings</b>                                   |                                    |                   |
| Balance at Beginning of Year                               | 5,077.4                            | 4,925.8           |
| Net Income   | 163.1                              | 178.3             |
| Dividends to Stockholders (\$0.075 per common share)       | (26.7)                             | (25.6)            |
| Cumulative Effect of Accounting Principle Changes - Note 2 |                                    | (422.5)           |
| Balance at End of Period                                   | 5,213.8                            | 4,656.0           |
| <b>Treasury Stock</b>                                      |                                    |                   |
| Balance at Beginning of Year                               | (54.2)                             | (54.2)            |
| Purchases of Treasury Stock                                | (350.0)                            |                   |
| Balance at End of Period                                   | (404.2)                            | (54.2)            |
| <b>Total Stockholders' Equity at End of Period</b>         | <b>\$ 7,638.4</b>                  | <b>\$ 7,376.6</b> |

See notes to consolidated financial statements.

**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****Unum Group and Subsidiaries**

|  | <b>Three Months Ended March 31</b> |                |
|--|------------------------------------|----------------|
|  | <b>2008</b>                        | <b>2007</b>    |
|  | <b>(in millions of dollars)</b>    |                |
| <b>Cash Flows from Operating Activities</b>                |                                    |                |
| Net Income   | \$ 163.1                           | \$ 178.3       |
| Adjustments to Reconcile Net Income to                     |                                    |                |
| Net Cash Provided by Operating Activities                  |                                    |                |
| Change in Receivables                                      | (3.9)                              | (0.6)          |
| Change in Deferred Acquisition Costs                       | (15.6)                             | (21.5)         |
| Change in Insurance Reserves and Liabilities               | 190.6                              | 199.8          |
| Change in Income Tax Liabilities                           | 49.5                               | 49.2           |
| Change in Other Accrued Liabilities                        | (116.8)                            | (47.6)         |
| Non-cash Adjustments to Net Investment Income              | (81.2)                             | (105.4)        |
| Net Realized Investment Loss                               | 68.5                               | 3.7            |
| Depreciation   | 16.2                               | 16.9           |
| Other, Net   | 4.0                                | 7.4            |
| <b>Net Cash Provided by Operating Activities</b>           | <b>274.4</b>                       | <b>280.2</b>   |
| <b>Cash Flows from Investing Activities</b>                |                                    |                |
| Proceeds from Sales of Available-for-Sale Securities       | 478.8                              | 738.8          |
| Proceeds from Maturities of Available-for-Sale Securities  | 161.5                              | 244.9          |
| Proceeds from Sales and Maturities of Other Investments    | 99.6                               | 61.9           |
| Purchase of Available-for-Sale Securities                  | (748.2)                            | (1,126.0)      |
| Purchase of Other Investments                              | (52.9)                             | (99.7)         |
| Net Sales of Short-term Investments                        | 91.5                               | 28.0           |
| Disposition of Business                                    |                                    | 98.8           |
| Other, Net   | (18.5)                             | (23.9)         |
| <b>Net Cash Provided (Used) by Investing Activities</b>    | <b>11.8</b>                        | <b>(77.2)</b>  |
| <b>Cash Flows from Financing Activities</b>                |                                    |                |
| Maturities and Benefit Payments from Policyholder Accounts | (7.4)                              | (4.0)          |
| Long-term Debt Repayments                                  | (17.5)                             | (160.0)        |
| Issuance of Common Stock                                   | 0.9                                | 2.4            |
| Dividends Paid to Stockholders                             | (26.7)                             | (25.6)         |
| Purchases of Treasury Stock                                | (350.0)                            |                |
| Other, Net   | 0.2                                | (1.7)          |
| <b>Net Cash Used by Financing Activities</b>               | <b>(400.5)</b>                     | <b>(188.9)</b> |
| <b>Effect of Foreign Exchange Rate Changes on Cash</b>     |                                    | <b>0.1</b>     |
| <b>Net Increase (Decrease) in Cash and Bank Deposits</b>   | <b>(114.3)</b>                     | <b>14.2</b>    |
| <b>Cash and Bank Deposits at Beginning of Year</b>         | <b>199.1</b>                       | <b>121.3</b>   |

|  |    |      |    |       |
|--|----|------|----|-------|
| <b>Cash and Bank Deposits at End of Period</b> | \$ | 84.8 | \$ | 135.5 |
|--|----|------|----|-------|

See notes to consolidated financial statements.

**Table of Contents****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)****Unum Group and Subsidiaries**

|   | <b>Three Months Ended March 31</b> |                 |
|---|------------------------------------|-----------------|
|   | <b>2008</b>                        | <b>2007</b>     |
|   | <b>(in millions of dollars)</b>    |                 |
| <b>Net Income</b>   | \$ 163.1                           | \$ 178.3        |
| <b>Other Comprehensive Loss</b>   |                                    |                 |
| Change in Net Unrealized Gain on Securities Before<br>Reclassification Adjustment               |                                    |                 |
| (net of tax benefit of \$209.7; \$23.4)   | (403.8)                            | (49.0)          |
| Reclassification Adjustment for Net Realized<br>Investment Gain                                 |                                    |                 |
| (net of tax expense (benefit) of \$0.9; \$(0.7))  | 1.6                                | (1.3)           |
| Change in Net Gain on Cash Flow Hedges<br>(net of tax expense (benefit) of \$16.8; \$(7.5))     | 33.0                               | (13.7)          |
| Change in Adjustment to Reserves for Future Policy<br>and Contract Benefits, Net of Reinsurance |                                    |                 |
| (net of tax expense of \$84.7; \$0.9)   | 174.4                              | 5.8             |
| Change in Foreign Currency Translation Adjustment<br>(net of tax benefit of \$0.2; \$0.2)       | (0.9)                              | 5.7             |
| Change in Unrecognized Pension and Postretirement<br>Benefit Costs                              |                                    |                 |
| (net of tax expense (benefit) of \$0.9; \$(9.0))  | 1.9                                | (16.6)          |
| <b>Total Other Comprehensive Loss</b>   | <b>(193.8)</b>                     | <b>(69.1)</b>   |
| <b>Comprehensive Income (Loss)</b>  | <b>\$ (30.7)</b>                   | <b>\$ 109.2</b> |

See notes to consolidated financial statements.

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**Table of Contents**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)***

***Unum Group and Subsidiaries***

**March 31, 2008**

**Note 1 - Basis of Presentation**

The accompanying consolidated financial statements of Unum Group and its subsidiaries (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, refer to the consolidated financial statements and footnotes included in our annual report on Form 10-K for the year ended December 31, 2007.

In March 2007, we closed the sale of our wholly-owned subsidiary GENEX Services, Inc. (GENEX). The financial results of GENEX are reported as discontinued operations in the consolidated financial statements. Except where noted, the information presented in the notes to the consolidated financial statements excludes GENEX. See Note 3 for further discussion.

Freestanding derivatives with positive fair values are reported on our consolidated balance sheets at fair value as assets within other long-term investments, and those with negative fair values are carried as liabilities within other liabilities. Embedded derivatives, excluding those associated with modified coinsurance arrangements, are reported on the consolidated balance sheets at fair value with the host contract. The embedded derivatives associated with modified coinsurance contracts are reported at fair value as either other long-term investments or other liabilities in the consolidated balance sheets. We previously reported our freestanding derivatives and our embedded derivatives related to reinsurance contracts on a net basis within fixed maturity securities. We have increased fixed maturity securities, other long-term investments, and other liabilities \$160.0 million, \$109.2 million, and \$269.2 million, respectively, at December 31, 2007 to conform to the current year presentation.

In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2008, are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

**Note 2 - Accounting Pronouncements**

**Accounting Pronouncements Adopted:**

Effective January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The adoption of SFAS 157 did not have a material effect on our financial position or results of operations.

Effective January 1, 2007, we adopted the provisions of Statement of Position 05-1 (SOP 05-1), *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts*. SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in Statement of Financial Accounting Standards No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*. An internal replacement is defined as a modification in product benefits, features, or coverages that occurs by the exchange or replacement of an existing insurance policy for a new policy. The cumulative effect of applying the provisions of SOP 05-1 decreased our 2007 opening balance of retained earnings \$445.2 million.

**Table of Contents*****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued******Unum Group and Subsidiaries*****March 31, 2008****Note 2 - Accounting Pronouncements - Continued**

Effective January 1, 2007, we adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (SFAS 109)*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. Unlike SFAS 109, FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The cumulative effect of applying the provisions of FIN 48 increased our 2007 opening balance of retained earnings \$22.7 million.

Effective January 1, 2007, we adopted the provisions of Statement of Financial Accounting Standards No. 155 (SFAS 155), *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 (SFAS 133) and 140*. SFAS 155: (a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; (b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133; (c) establishes a requirement to evaluate beneficial interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; (d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and, (e) eliminates restrictions on a qualifying special-purpose entity's ability to hold passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. The adoption of SFAS 155 did not have a material effect on our financial position or results of operations.

**Accounting Pronouncement Outstanding:**

Statement of Financial Accounting Standards No. 161 (SFAS 161), *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*, was issued in March 2008. SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. We will adopt the provisions of SFAS 161 effective January 1, 2009. The adoption of SFAS 161 will not have a material effect on our financial position or results of operations.

**Note 3 - Discontinued Operations**

As discussed in Note 1, the sale of GENEX closed effective March 1, 2007, and we recognized an after-tax gain of \$6.2 million on the sale, which is included in income from discontinued operations in our statements of income.

Selected results for GENEX for the three months ended March 31, 2007 are as follows (in millions of dollars, except share data):

|                         |         |
|-------------------------|---------|
| Total Revenue           | \$ 47.2 |
| Income Per Common Share |         |
| Basic                   | \$ 0.02 |
| Assuming Dilution       | \$ 0.02 |





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**Table of Contents**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued***

***Unum Group and Subsidiaries***

**March 31, 2008**

**Note 4 - Fair Value Measurements**

Effective January 1, 2008, we adopted the provisions of SFAS 157, which are intended to increase consistency and comparability among fair value estimates used in financial reporting. SFAS 157 does not require any new fair value measurements. SFAS 157 clarifies a number of considerations with respect to fair value measurement objectives for financial reporting and expands disclosure about the use of fair value measurements, with particular emphasis on the inputs used to measure fair value. The disclosures required by SFAS 157 are intended to provide users of the financial statements the ability to assess the reliability of an entity's fair value measurements. The adoption of SFAS 157 did not materially change the approach or methods we utilize for determining fair value measurements or the fair values derived under those methods.

***Definition of Fair Value***

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and, therefore, represents an exit price, not an entry price. The exit price objective applies regardless of a reporting entity's intent and/or ability to sell the asset or transfer the liability at the measurement date.

The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted have less observability and are measured at fair value using valuation techniques that require more judgment. Pricing observability is generally impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, and overall market conditions.

***Valuation Techniques***

Valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types:

1. The *market approach* uses prices and other relevant information from market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach often use market multiples derived from a set of comparables or matrix pricing. Market multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering both quantitative and qualitative factors specific to the measurement. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities but comparing the securities to benchmark or comparable securities.
2. The *income approach* converts future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. Income approach techniques rely on current market expectations of future amounts. Examples of income approach valuation techniques include present value techniques, option-pricing models that incorporate present value techniques, and the multi-period excess earnings method.

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**Table of Contents**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued***

***Unum Group and Subsidiaries***

**March 31, 2008**

**Note 4 - Fair Value Measurements - Continued**

3. The *cost approach* is based upon the amount that currently would be required to replace the service capacity of an asset, or the current replacement cost. That is, from the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available. In some cases, a single valuation technique will be appropriate (for example, when valuing an asset or liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate. If we use multiple valuation techniques to measure fair value, we evaluate and weigh the results, as appropriate, considering the reasonableness of the range indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

The selection of the valuation method(s) to apply considers the definition of an exit price and considers the nature of the asset or liability being valued. For assets and liabilities accounted for at fair value, we generally use the market approach, and to a lesser extent, the income approach. During the quarter ended March 31, 2008, we have applied valuation techniques on a consistent basis to similar assets and liabilities and consistent with those techniques used at year end 2007.

***Inputs to Valuation Techniques***

Inputs refer broadly to the assumptions that market participants use in pricing assets or liabilities, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable.

*Observable inputs* are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources.

*Unobservable inputs* are inputs that reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Observable inputs which we utilize to determine the fair values of our investments and derivative financial instruments include indicative broker prices and prices obtained from external pricing services. We review these prices to ensure they include references to a variety of observable inputs and to verify the validity of a security's price. These inputs, along with our knowledge of the financial conditions and industry in which the issuer operates, will be considered in determining whether the quoted or indicated price, as well as the change in price from quarter to quarter, are valid. On selected securities where there is not an indicated price, some of these inputs may be used to determine a price using a pricing matrix, or we may use a comparable security. The parameters and inputs used to validate a price on a security may be adjusted for assumptions about risk and current market conditions on a quarter to quarter basis, as certain features may be more significant drivers of valuation at the time of pricing. Changes to inputs in valuations are not changes to valuation methodologies; rather, the inputs are modified to reflect direct or indirect impacts on asset classes from changes in market conditions.

**Table of Contents**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued***

***Unum Group and Subsidiaries***

**March 31, 2008**

**Note 4 - Fair Value Measurements - Continued**

Inputs that may be used include the following:

Benchmark yields (Treasury and swap curves)

Transactional data for new issuance and secondary trades

Broker/dealer quotes and pricing

Security cash flows and structures

Recent issuance/supply

Sector and issuer level spreads

Credit ratings/maturity/weighted average life/seasoning/capital structure

Security optionality

Corporate actions

Underlying collateral

Prepayment speeds/loan performance/delinquencies

Public covenants

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Comparative bond analysis

Derivative spreads

Third-party pricing sources

The overall valuation process for determining fair values may include adjustments to valuations obtained from our pricing sources. These adjustments may be made when, in our judgment, certain features of the financial instrument, such as its complexity or the market in which the financial instrument is traded (such as counterparty, credit, concentration, or liquidity), require that an adjustment be made to the value originally obtained from our pricing sources. Additionally, an adjustment from the price derived from a model typically reflects our judgment that other participants in the market for the financial instrument being measured at fair value would also consider such an adjustment in pricing that same financial instrument.

Certain of our investments do not have readily determinable market prices and/or observable inputs. For these securities, we use internally prepared valuations combining matrix pricing with vendor purchased software programs, including valuations based on estimates of future profitability, to estimate the fair value. Additionally, we may obtain prices from independent third-party brokers to aid in establishing valuations for certain of these securities. Key assumptions used by us to determine fair value for these securities include risk-free interest rates, risk premiums, performance of underlying collateral (if any), and other factors involving significant assumptions which may or may not reflect those of an active market.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued****Unum Group and Subsidiaries****March 31, 2008****Note 4 - Fair Value Measurements - Continued**

The categorization of fair value measurements, by input level, for our fixed maturity securities, equity securities, and derivative financial instruments is as follows:

|                                  | March 31, 2008<br>(in millions of dollars)   |  |  | Total       |
|----------------------------------|--|--|--|-------------|
|                                  | Quoted Prices<br>in Active Markets<br>for Identical Assets<br>or<br>Liabilities<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |             |
| <b>Assets</b>                    |  |  |  |             |
| Fixed Maturity Securities        | \$ 4,144.6   | \$ 30,775.0  | \$ 407.6   | \$ 35,327.2 |
| Other Long-term Investments      |  |  |  |             |
| Equity Securities                |  | 0.4  | 1.6  | 2.0         |
| Derivative Financial Instruments |  | 100.2  |  | 100.2       |

**Liabilities**

|                                  |    |          |          |          |
|----------------------------------|----|----------|----------|----------|
| <b>Other Liabilities</b>         |    |          |          |          |
| Derivative Financial Instruments | \$ | \$ 163.1 | \$ 132.9 | \$ 296.0 |

Changes in assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period are as follows:

|  | Fixed<br>Maturity<br>Securities | Equity<br>Securities | Net<br>Derivative<br>Financial<br>Instruments | Total    |
|--|---------------------------------|----------------------|---|----------|
|  | (in millions of dollars)        |                      |   |          |
| <b>Balance at January 1, 2008</b>            | \$ 421.0                        | \$ 1.5               | \$ (68.8)                                     | \$ 353.7 |
| Total Realized and Unrealized Gains (Losses) |                                 |                      |   |          |
| Included in Earnings                         |                                 |                      | (64.1)  | (64.1)   |
| Included in Other Comprehensive Income       | (3.3)                           | 0.1                  |   | (3.2)    |
| Net Purchases and Sales                      | (10.1)                          |                      |   | (10.1)   |
| Net Transfer In (Out) of Level 3             |                                 |                      |   |          |
| <b>Balance at March 31, 2008</b>             | \$ 407.6                        | \$ 1.6               | \$ (132.9)                                    | \$ 276.3 |



**Table of Contents**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued***

***Unum Group and Subsidiaries***

**March 31, 2008**

**Note 4 - Fair Value Measurements - Continued**

Realized and unrealized investment gains and losses presented in the preceding table represent gains and losses only for the time during which the applicable financial instruments were classified as Level 3. The amount of loss for the three months ended March 31, 2008 which is included in earnings and is attributable to the change in unrealized gains or losses relating to assets or liabilities valued using significant unobservable inputs and still held at March 31, 2008 was \$64.1 million and relates entirely to the change in fair value of embedded derivatives associated with modified coinsurance arrangements. Changes in the fair values of certain embedded derivatives are reported as realized investment gains and losses, as required under the provisions of Statement of Financial Accounting Standards No. 133 Implementation Issue B36 (DIG Issue B36), *Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposure That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor Under Those Instruments*.

Realized investment gains and losses are reported as a component of revenue in the consolidated statements of income. Unrealized investment gains and losses are reported in other comprehensive income.



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued****Unum Group and Subsidiaries****March 31, 2008****Note 5 - Segment Information**

Premium income by major line of business within each of our segments is presented as follows:

|   | <b>Three Months Ended March 31</b> |             |
|---|------------------------------------|-------------|
|   | <b>2008</b>                        | <b>2007</b> |
|   | <b>(in millions of dollars)</b>    |             |
| Unum US   |                                    |             |
| Group Disability                                |                                    |             |
| Group Long-term Disability                      | \$ 459.4                           | \$ 471.4    |
| Group Short-term Disability                     | 109.0                              | 118.7       |
| Group Life and Accidental Death & Dismemberment |                                    |             |
| Group Life                                      | 261.4                              | 280.8       |
| Accidental Death & Dismemberment                | 31.0                               | 32.4        |
| Supplemental and Voluntary                      |                                    |             |
| Individual Disability - Recently Issued         | 118.2                              | 113.7       |
| Long-term Care                                  | 141.3                              | 128.7       |
| Voluntary Benefits                              | 110.1                              | 99.2        |
|   | 1,230.4                            | 1,244.9     |
| Unum UK   |                                    |             |
| Group Long-term Disability                      | 185.0                              | 174.6       |
| Group Life                                      | 45.5                               | 38.7        |
| Individual Disability                           | 10.1                               | 9.0         |
|   | 240.6                              | 222.3       |
| Colonial Life                                   |                                    |             |
| Accident, Sickness, and Disability              | 149.5                              | 139.7       |
| Life  | 38.5                               | 35.6        |
| Cancer and Critical Illness                     | 52.4                               | 48.1        |
|   | 240.4                              | 223.4       |
| Individual Disability - Closed Block            | 238.4                              | 252.3       |
| Other   | 0.7                                | 1.1         |
| Total   | \$ 1,950.5                         | \$ 1,944.0  |



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued****Unum Group and Subsidiaries****March 31, 2008****Note 5 - Segment Information - Continued**

Selected operating statement data by segment is presented as follows:

|  | Unum<br>US | Unum UK  | Colonial<br>Life<br>(in millions of dollars) | Individual<br>Disability -<br>Closed<br>Block | Other   | Corporate | Total      |
|--|------------|----------|--|---|---------|-----------|------------|
| <b>Three Months Ended March 31, 2008</b> |            |          |  |   |         |           |            |
| Total Premium Income                     | \$ 1,230.4 | \$ 240.6 | \$ 240.4                                     | \$ 238.4                                      | \$ 0.7  | \$        | \$ 1,950.5 |
| Net Investment Income                    | 279.1      | 45.3     | 25.9   | 190.7   | 25.9    | 24.5      | 591.4      |
| Other Income                             | 32.6       | 0.2      | 0.1  | 24.1  | 8.0     | 2.2       | 67.2       |
| Operating Revenue                        | \$ 1,542.1 | \$ 286.1 | \$ 266.4                                     | \$ 453.2                                      | \$ 34.6 | \$ 26.7   | \$ 2,609.1 |
| Operating Income (Loss)                  | \$ 162.7   | \$ 87.1  | \$ 67.4                                      | \$ 13.7                                       | \$ 3.9  | \$ (21.6) | \$ 313.2   |
| <b>Three Months Ended March 31, 2007</b> |            |          |  |   |         |           |            |
| Total Premium Income                     | \$ 1,244.9 | \$ 222.3 | \$ 223.4                                     | \$ 252.3                                      | \$ 1.1  | \$        | \$ 1,944.0 |
| Net Investment Income                    | 276.9      | 45.8     | 24.4   | 204.6   | 28.1    | 9.7       | 589.5      |
| Other Income                             | 34.7       | 1.7      | 0.3  | 25.3  | 8.2     | 0.6       | 70.8       |
| Operating Revenue                        | \$ 1,556.5 | \$ 269.8 | \$ 248.1                                     | \$ 482.2                                      | \$ 37.4 | \$ 10.3   | \$ 2,604.3 |
| Operating Income (Loss)                  | \$ 142.4   | \$ 75.1  | \$ 59.6                                      | \$ 22.5                                       | \$ 3.6  | \$ (39.6) | \$ 263.6   |

A reconciliation of total operating revenue and operating income by segment to revenue and net income as reported in the consolidated statements of income follows:

|                              | <b>Three Months Ended March 31</b> |             |
|------------------------------|------------------------------------|-------------|
|                              | <b>2008</b>                        | <b>2007</b> |
|                              | <b>(in millions of dollars)</b>    |             |
| Operating Revenue by Segment | \$ 2,609.1                         | \$ 2,604.3  |
| Net Realized Investment Loss | (68.5)                             | (3.7)       |
| Revenue                      | \$ 2,540.6                         | \$ 2,600.6  |
| Operating Income by Segment  | \$ 313.2                           | \$ 263.6    |
| Net Realized Investment Loss | (68.5)                             | (3.7)       |
| Income Tax                   | 81.6                               | 88.5        |

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|                                     |  |    |       |          |
|-------------------------------------|--|----|-------|----------|
| Income from Discontinued Operations |  |    |       | 6.9      |
| Net Income                          |  | \$ | 163.1 | \$ 178.3 |

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued****Unum Group and Subsidiaries****March 31, 2008****Note 5 - Segment Information - Continued**

Assets by segment are as follows:

|                                      | <b>March 31<br/>2008</b>        | <b>December 31<br/>2007</b> |
|--------------------------------------|---------------------------------|-----------------------------|
|                                      | <b>(in millions of dollars)</b> |                             |
| Unum US                              | \$ 21,142.0                     | \$ 21,134.1                 |
| Unum UK                              | 4,039.4                         | 4,016.5                     |
| Colonial Life                        | 2,553.2                         | 2,518.5                     |
| Individual Disability - Closed Block | 14,906.8                        | 15,244.4                    |
| Other                                | 7,851.9                         | 7,900.0                     |
| Corporate                            | 1,575.9                         | 1,888.4                     |
| <b>Total</b>                         | <b>\$ 52,069.2</b>              | <b>\$ 52,701.9</b>          |

**Note 6 - Pensions and Other Postretirement Benefits**

The components of net periodic benefit cost related to the Company sponsored defined benefit pension and postretirement plans for our employees for the three months ended March 31 are as follows:

|                                  | <b>Pension Benefits</b>         |                |                       |               |                                |               |
|----------------------------------|---------------------------------|----------------|-----------------------|---------------|--------------------------------|---------------|
|                                  | <b>U.S. Plans</b>               |                | <b>Non U.S. Plans</b> |               | <b>Postretirement Benefits</b> |               |
|                                  | <b>2008</b>                     | <b>2007</b>    | <b>2008</b>           | <b>2007</b>   | <b>2008</b>                    | <b>2007</b>   |
|                                  | <b>(in millions of dollars)</b> |                |                       |               |                                |               |
| Service Cost                     | \$ 7.2                          | \$ 8.3         | \$ 2.1                | \$ 2.3        | \$ 0.8                         | \$ 0.9        |
| Interest Cost                    | 14.5                            | 13.5           | 2.9                   | 2.5           | 2.9                            | 2.7           |
| Expected Return on Plan Assets   | (14.9)                          | (14.6)         | (3.2)                 | (3.1)         | (0.2)                          | (0.2)         |
| Amortization of:                 |                                 |                |                       |               |                                |               |
| Net Actuarial Loss               | 3.5                             | 4.6            | 0.7                   | 0.7           |                                |               |
| Prior Service Credit             | (0.6)                           | (0.8)          |                       |               | (0.8)                          | (0.9)         |
| Curtailment                      |                                 | 0.2            |                       |               |                                |               |
| <b>Net Periodic Benefit Cost</b> | <b>\$ 9.7</b>                   | <b>\$ 11.2</b> | <b>\$ 2.5</b>         | <b>\$ 2.4</b> | <b>\$ 2.7</b>                  | <b>\$ 2.5</b> |

As a result of the sale of GENEX, we froze the pension plan benefits for the employees of GENEX during the first quarter of 2007, which resulted in the recognition of a curtailment loss of \$0.2 million. The curtailment loss was comprised of a \$0.6 million increase in our pension liability related to a termination benefit and a \$0.4 million recognition of unamortized prior service credits. As of the date of the curtailment, we remeasured our U.S. pension plan obligation. As a result of the remeasurement, our pension plan liability increased \$35.6 million. The net effect of the curtailment and remeasurement was an increase in our pension plan liability of \$29.0 million, a decrease in deferred income tax of \$10.1 million, a decrease in income from discontinued operations of \$0.2 million, and a decrease in accumulated other comprehensive income of \$18.7 million.

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We have no regulatory contribution requirements for our U.S. qualified defined benefit plan in 2008; however, we elected to make voluntary contributions of \$55.0 million during the first quarter of 2008. For our U.K. operation, which maintains a separate defined benefit plan, we made required contributions totaling \$2.6 million for the first quarter of 2008.

**Table of Contents*****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued******Unum Group and Subsidiaries*****March 31, 2008****Note 7 - Stockholders Equity and Earnings Per Common Share**

Net income per common share is determined as follows:

|  | <b>Three Months Ended March 31</b>                 |                  |
|--|--|------------------|
|  | <b>2008</b>  | <b>2007</b>      |
|  | <b>(in millions of dollars, except share data)</b> |                  |
| <b>Numerator</b>   |  |                  |
| Net Income   | \$ 163.1   | \$ 178.3         |
| <b>Denominator (000s)</b>  |  |                  |
| Weighted Average Common Shares - Basic   | 350,719.6  | 341,208.0        |
| Dilution for the Purchase Contract Element of the Adjustable Conversion-Rate Equity Security Units |  | 3,787.1          |
| Dilution for Assumed Exercises of Stock Options and Nonvested Stock Awards                         | 746.2  | 1,385.2          |
| <b>Weighted Average Common Shares - Assuming Dilution</b>  | <b>351,465.8</b>                                   | <b>346,380.3</b> |
| <b>Net Income Per Common Share</b>   |  |                  |
| Basic  | \$ 0.47  | \$ 0.52          |
| Assuming Dilution  | \$ 0.46  | \$ 0.51          |

We use the treasury stock method to account for the effect of the purchase contract element of the adjustable conversion-rate equity security units (units), outstanding stock options, and nonvested stock awards on the computation of dilutive earnings per share. Under this method, these potential common shares will each have a dilutive effect, as individually measured, when the average market price of Unum Group's common stock during the period exceeds the threshold appreciation price of the purchase contract element of the units, the exercise price of the stock options, or the grant price of the nonvested stock awards.

The purchase contract element of the units had a threshold appreciation price of \$16.95 per share, the outstanding stock options have exercise prices ranging from \$12.23 to \$58.56, and the nonvested stock awards have grant prices ranging from \$19.18 to \$27.18.

In computing earnings per share assuming dilution, only potential common shares that are dilutive (those that reduce earnings per share) are included. Potential common shares not included in the computation of dilutive earnings per share because their impact would be antidilutive, based on current market prices, approximated 8.1 million and 6.7 million shares of common stock for the three month periods ended March 31, 2008 and 2007, respectively.

Unum Group has 25,000,000 shares of preferred stock authorized with a par value of \$0.10 per share. No preferred stock has been issued to date.

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**Table of Contents**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued***

***Unum Group and Subsidiaries***

**March 31, 2008**

**Note 7 - Stockholders Equity and Earnings Per Common Share - Continued**

During 2007 our board of directors authorized the repurchase of up to \$700.0 million of Unum Group's common stock. During January 2008, we repurchased approximately 14.0 million shares for \$350.0 million, using an accelerated share repurchase agreement. These shares are reflected as treasury stock in our consolidated balance sheet. As part of this transaction, we simultaneously entered into a forward contract indexed to the price of our common stock, which subjects the transaction to a future price adjustment. Upon settlement of the contract, the price adjustment will be calculated based on the volume weighted average price of our common stock during the term of the agreement, less a discount. Any price adjustment payable to us will be settled in shares of our common stock. Any price adjustment we are required to pay will be settled, at our option, in either cash or common stock. A 30 percent partial acceleration of the agreement, 4.2 million shares, occurred on March 26, 2008 and settled on March 28, 2008, with the price adjustment resulting in the delivery to us of approximately 0.5 million additional shares of our common stock. We expect the price adjustment on the remaining 9.8 million shares to settle on or before the completion of the agreement in May 2008.

**Note 8 - Commitments and Contingent Liabilities**

We are a defendant in a number of litigation matters. In some of these matters, no specified amount is sought. In others, very large or indeterminate amounts, including punitive and treble damages, are asserted. There is a wide variation of pleading practice permitted in the United States courts with respect to requests for monetary damages, including some courts in which no specified amount is required and others which allow the plaintiff to state only that the amount sought is sufficient to invoke the jurisdiction of that court. Further, some jurisdictions permit plaintiffs to allege damages well in excess of reasonably possible verdicts. Based on our extensive experience and that of others in the industry with respect to litigating or resolving claims through settlement over an extended period of time, we believe that the monetary damages asserted in a lawsuit or claim bear little relation to the merits of the case, or the likely disposition value. Therefore, the specific monetary relief sought is not stated.

The lawsuits described below are for the most part in very preliminary stages, and the outcome of the matters is uncertain. An estimated loss is accrued when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Unless indicated otherwise, reserves have not been established for these matters.

**Claims Handling Matters**

***Multidistrict Litigation***

On September 2, 2003, the Judicial Panel on the Multidistrict Litigation entered an order transferring more than twenty putative class actions and derivative suits, described below, filed in various courts against the Company, several of its subsidiaries, and some of our officers, to the U.S. District Court for the Eastern District of Tennessee for coordinated or consolidated pretrial proceedings. The defendants strongly deny the allegations in each of these actions and will vigorously defend the substantive and procedural aspects of the litigations, except as noted below with respect to settlement discussions.

**Shareholder Derivative Actions**

On November 22, 2002, the first of five purported shareholder derivative actions was filed in the Tennessee Chancery Court. Between December 27, 2002 and March 11, 2003, four additional purported derivative actions were filed in state and federal courts in Tennessee. The defendants removed each of the actions that were filed in Tennessee state court to the U.S. District Court for the Eastern District of Tennessee.





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**Table of Contents**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued***

***Unum Group and Subsidiaries***

**March 31, 2008**

**Note 8 - Commitments and Contingent Liabilities - Continued**

Each of these actions purports to be brought on behalf of the Company against certain current and past members of our Board of Directors and certain executive officers alleging breaches of fiduciary duties and other violations of claims paying law by defendants. Plaintiffs allege, among other things, that the individual defendants breached their duties of good faith and loyalty by establishing or permitting to be established an unlawful policy of denying legitimate disability claims and improper financial reporting, and that certain defendants engaged in insider trading.

The district court consolidated these actions under the caption In re UnumProvident Corporation Derivative Actions. The plaintiffs then filed a single consolidated amended complaint. We deny the allegations of the complaint and will vigorously contest them.

**Federal Securities Law Class Actions**

On February 12, 2003, the first of six virtually identical putative securities class actions was filed in the U.S. District Court for the Eastern District of Tennessee, later consolidated under the caption In re UnumProvident Corp. Securities Litigation.

The Lead Plaintiff filed a consolidated amended complaint alleging claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 on behalf of a putative class of purchasers of Unum Group stock between March 30, 2000 and April 24, 2003. The amended complaint alleges, among other things, that we issued misleading financial statements, improperly accounted for certain impaired investments, failed to properly estimate our disability claim reserves, and pursued certain improper claims handling practices.

On July 30, 2007, we entered into a Stipulation of Settlement with the plaintiffs to resolve the litigation. Under the terms of the settlement, which is subject to, among other things, approval by the court, we have agreed to pay \$40.0 million to settle all claims that were or could have been asserted by the class in the action. After the receipt of insurance proceeds, the net cost to us was \$11.6 million before tax and was included in our second quarter of 2007 operating results.

**Policyholder Class Actions**

On July 15, 2002, Rombeiro v. Unum Life Insurance Company of America, et al., was filed in the Superior Court of California and subsequently was removed to federal court, alleging that the plaintiff was wrongfully denied disability benefits under a group long-term disability plan. On January 21, 2003, an Amended Complaint was filed on behalf of a putative class of individuals that were denied or terminated from benefits under group long-term disability plans, seeking injunctive and declaratory relief and payment of benefits. On April 30, 2003, the court granted in part and denied in part the defendants' motion to dismiss the complaint. On May 14, 2003, the plaintiff filed a Second Amended Complaint seeking similar relief.

Between November 2002 and November 2003, six additional similar putative class actions were filed in (or later removed to) federal district courts in Illinois, Massachusetts, New York, Pennsylvania, and Tennessee. The complaints alleged that the putative class members' claims were evaluated improperly and allege that the Company and its insurance subsidiaries breached certain fiduciary duties owed to the class members under the Employee Retirement Income Security Act (ERISA), Racketeer Influenced Corrupt Organizations Act (RICO), and/or various state laws. The complaints sought various forms of equitable relief and money damages, including punitive damages.

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**Table of Contents**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued***

***Unum Group and Subsidiaries***

**March 31, 2008**

**Note 8 - Commitments and Contingent Liabilities - Continued**

These actions all were transferred to the Eastern District of Tennessee multidistrict litigation. On December 22, 2003, the Tennessee Federal District Court entered an order consolidating all of the above actions for all pretrial purposes under the caption In re UnumProvident Corp. ERISA Benefit Denial Actions and appointed a lead plaintiff. A consolidated amended complaint was filed on February 20, 2004.

Court ordered mediation has concluded with the settlement of all individual claims brought by seven of the fifteen named plaintiffs. An eighth plaintiff has subsequently resolved her claims through the process established under the regulatory settlement agreements.

On September 4, 2007, the District Court certified a (b)(2) class consisting of all plan participants and beneficiaries insured under ERISA governed long-term disability insurance policies/plans issued by Unum Group and the insuring subsidiaries of Unum Group throughout the United States who have had a long-term disability claim denied, terminated, or suspended on or after June 30, 1999 by Unum Group or one or more of its insuring subsidiaries after being subjected to any of the practices alleged in the complaint. The class as certified seeks, among other forms of relief, an opportunity to have denied or terminated claims re-assessed by so-called independent reviewers. The District Court has yet to rule on pending motions by the Company for judgment on the pleading, or for summary judgment. The Sixth Circuit Court of Appeals has since granted the Company's petition for leave to appeal the class certification order on an interlocutory basis.

On April 30, 2003, a separate putative class action, Taylor v. UnumProvident Corporation, et al., was filed in the Tennessee Circuit Court and subsequently removed to federal court. The complaint alleges claims against Unum Group and certain subsidiaries on behalf of a putative class of long-term disability insurance policyholders who did not obtain their coverage through employer sponsored plans and who had a claim denied, terminated, or suspended by a Unum Group subsidiary after January 1, 1995, seeking equitable and monetary relief. Plaintiff alleges that the defendants violated various state laws by engaging in unfair claim practices and improperly denying claims.

The court subsequently granted in part our motion for summary judgment in Taylor, dismissing plaintiff's request for equitable relief on her breach of contract claim and dismissing any claim plaintiff may make for punitive damages under the Tennessee Consumer Protection Act. The former claim is the principal claim upon which class certification is sought. The court reserved ruling on the remainder of the pending motion for summary judgment. The court also has under advisement the plaintiff's motion for class certification.

**Plan Beneficiary Class Actions**

During the first quarter of 2007, we executed a settlement agreement resolving the plan beneficiary class action, or 401(k) Retirement Plan case, entitled Gee v. UnumProvident Corporation, et al. The settlement agreement, the net cost of which is immaterial, was approved by the court in December 2007, and the court's judgment approving the settlement has now become final. The order and final judgment dismissing this case with prejudice was entered on January 25, 2008.

***Examinations and Investigations***

During 2004 and 2005, certain of our insurance subsidiaries entered into settlement agreements with various regulators related to disability claims handling practices. The agreements provided for changes in certain of our claims handling procedures and a claim reassessment process available to certain claimants whose claims were denied or closed during specified periods. The agreements were to remain in place until the later of January 1, 2007,

**Table of Contents**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued***

***Unum Group and Subsidiaries***

**March 31, 2008**

**Note 8 - Commitments and Contingent Liabilities - Continued**

or the completion of an examination of claims handling practices and an examination of the reassessment process, both of which were to be conducted by the lead state regulators. The settlement agreements also provided for a contingent fine of up to \$145.0 million on our U.S. insurance subsidiaries, in the aggregate, in the event that we failed to satisfactorily meet the performance standards in the settlement agreements relating to the examinations referred to above. The parties to the agreements subsequently agreed to extend the reassessment process until December 31, 2007.

We have now completed the claims reassessment process, as required by the regulatory settlement agreements. The lead regulators conducted a final examination and presented their findings to our board of directors and management on April 14, 2008. The report of the multistate market conduct examination for the Maine Bureau of Insurance, Massachusetts Division of Insurance, New York State Insurance Department, Tennessee Department of Commerce and Insurance, and other participating jurisdictions as well as the report of the California Department of Insurance market conduct examination both provided that we satisfactorily complied with each of the agreements' mandates and that no fines will be assessed.

***Other Claim Litigation***

We and our insurance company subsidiaries, as part of our normal operations in managing disability claims, are engaged in claim litigation where disputes arise as a result of a denial or termination of benefits. Most typically these lawsuits are filed on behalf of a single claimant or policyholder, and in some of these individual actions punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims. For our general claim litigation, we maintain reserves based on experience to satisfy judgments and settlements in the normal course. We expect that the ultimate liability, if any, with respect to general claim litigation, after consideration of the reserves maintained, will not be material to our consolidated financial condition. Nevertheless, given the inherent unpredictability of litigation, it is possible that an adverse outcome in certain claim litigation involving punitive damages could, from time to time, have a material adverse effect on our consolidated results of operations in a period, depending on the results of operations for the particular period. We are unable to estimate a range of reasonably possible punitive losses.

From time to time class action allegations are pursued where the claimant or policyholder purports to represent a larger number of individuals who are similarly situated. Since each insurance claim is evaluated based on its own merits, there is rarely a single act or series of actions, which can properly be addressed by a class action. Nevertheless, we monitor these cases closely and defend ourselves appropriately where these allegations are made.

**Broker Compensation, Quoting Process, and Related Matters**

***Examinations and Investigations***

Since October 2004, we and/or our insurance subsidiaries have received subpoenas or information requests from a Federal Grand Jury in San Diego, the District Attorney for the County of San Diego, and the U.S. Department of Labor, as well as insurance departments and/or other state regulatory or investigatory agencies of at least seven additional states including Connecticut, Florida, Maine, Massachusetts, North Carolina, South Carolina, and Tennessee. The subpoenas and/or information requests relate to, among other things, compliance with ERISA relating to our interactions with insurance brokers and to regulations concerning insurance information provided by us to plan administrators of ERISA plans, as well as compliance with state and federal laws with respect to quoting processes, producer compensation, solicitation activities, policies sold to state or municipal entities, and information regarding compensation arrangements with brokers.



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**Table of Contents**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued***

***Unum Group and Subsidiaries***

**March 31, 2008**

**Note 8 - Commitments and Contingent Liabilities - Continued**

On April 25, 2008, we agreed to pay \$250,000 to settle the San Diego District Attorney's investigation of our broker compensation practices. The settlement does not require any changes to our current business practices in this area which were improved during 2006, when we implemented a simpler compensation program and expanded our disclosure of broker compensation programs. We have cooperated fully with all investigations and will continue to do so. However, due to a prolonged period of inactivity, we consider the remaining state investigations dormant.

***Broker-Related Litigation***

We and certain of our subsidiaries, along with many other insurance brokers and insurers, have been named as defendants in a series of putative class actions that have been transferred to the U.S. District Court for the District of New Jersey for coordinated or consolidated pretrial proceedings as part of multidistrict litigation (MDL) No. 1663, In re Insurance Brokerage Antitrust Litigation. The plaintiffs in MDL No. 1663 filed a consolidated amended complaint in August 2005, which alleges, among other things, that the defendants violated federal and state antitrust laws, RICO, ERISA, and various state common law requirements by engaging in alleged bid rigging and customer allocation and by paying undisclosed compensation to insurance brokers to steer business to defendant insurers. Defendants filed a motion to dismiss the complaint on November 29, 2005. On April 5, 2007, defendants' motion to dismiss was granted without prejudice as to all counts except the ERISA counts. Plaintiffs were granted a last opportunity to file an amended complaint, and they did so on May 22, 2007. On June 21, 2007, defendants filed a motion to dismiss and for summary judgment on all counts. On August 31, 2007 and September 28, 2007, plaintiffs' federal antitrust and RICO claims were dismissed with prejudice. Defendants' motion for summary judgment on the ERISA counts was granted on January 14, 2008. All pending state law claims were dismissed without prejudice. Plaintiffs have filed a notice of appeal.

We are a defendant in an action styled, Palm Tree Computers Systems, Inc. v. ACE USA, et al., which was filed in the Florida state Circuit Court on February 16, 2005. The complaint contains allegations similar to those made in the multidistrict litigation referred to above. The case was removed to federal court and, on October 20, 2005, the case was transferred to the District of New Jersey multidistrict litigation. Plaintiffs' motion to remand the case to the state court in Florida was dismissed without prejudice along with other pending motions in the MDL.

**Miscellaneous Matters**

In September 2003, United States of America ex. rel. Patrick J. Loughren v. UnumProvident Corporation and GENEX Services, Inc. was filed in the United States District Court for the District of Massachusetts. This is a qui tam action to recover damages and civil penalties on behalf of the United States of America alleging violations of the False Claims Act by us and our former GENEX subsidiary. In accordance with the False Claims Act, the action was originally filed under seal to provide the government the opportunity to investigate the allegations and prosecute the action if they believed that the case had merit and warranted their attention. The government declined to prosecute the case and the case became a matter of public record on December 23, 2004. The complaint alleges that we defrauded the government by inducing and or assisting disability claimants to apply for disability benefits from the Social Security Administration (SSA) when we allegedly knew that the claimants were not disabled under SSA criteria. A motion to dismiss the complaint was unsuccessful. We intend to vigorously defend the action.

**Table of Contents**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued***

***Unum Group and Subsidiaries***

**March 31, 2008**

**Note 8 - Commitments and Contingent Liabilities - Continued**

In May 2007, Roy Mogel, Todd D. Lindsay and Joseph R. Thorley individually and on behalf of those similarly situated v. Unum Life Insurance Company, was filed in the United States District Court for the District of Massachusetts. This is a putative class action alleging that we breached fiduciary duties owed to certain beneficiaries under group life insurance policies when we paid certain life insurance proceeds by establishing interest-bearing Retained Asset Accounts rather than checks. On February 4, 2008, the court granted the Company's motion to dismiss all claims. Plaintiffs have appealed that decision to the 1<sup>st</sup> Circuit Court of Appeals.

**Summary**

Various lawsuits against us, in addition to those discussed above, have arisen in the normal course of business. Further, state insurance regulatory authorities and other federal and state authorities regularly make inquiries and conduct investigations concerning our compliance with applicable insurance and other laws and regulations.

Given the complexity and scope of our litigation and regulatory matters, it is not possible to predict the ultimate outcome of all pending investigations or legal proceedings or provide reasonable estimates of potential losses, except where noted in connection with specific matters. It is possible that our results of operations or cash flows in a particular period could be materially affected by an ultimate unfavorable outcome of pending litigation or regulatory matters depending, in part, on our results of operations or cash flows for the particular period. We believe, however, that the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on our financial position.

**Note 9 - Other**

During the first three months of 2008, we made principal payments of \$15.0 million and \$2.5 million on our senior secured non-recourse variable rate notes which were issued by Northwind Holdings, LLC and Tailwind Holdings, LLC, respectively.

There were no material changes in unrecognized tax benefits during the first quarter of 2008, and we do not expect a significant change in our existing liability for unrecognized tax benefits during the next 12 months.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders

Unum Group and Subsidiaries

We have reviewed the consolidated balance sheet of Unum Group and subsidiaries as of March 31, 2008, and the related consolidated statements of income and comprehensive income (loss) for the three-month periods ended March 31, 2008 and 2007, and the consolidated statements of stockholders' equity and cash flows for the three-month periods ended March 31, 2008 and 2007. These financial statements are the responsibility of the Company's management.

We conducted our review 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, 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 review, 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 Unum Group and subsidiaries as of December 31, 2007, and the related consolidated statements of income, stockholders' equity, cash flows, and comprehensive income (loss) for the year then ended not presented herein, and in our report dated February 21, 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 has been derived.

/s/ ERNST & YOUNG LLP

Chattanooga, Tennessee

April 30, 2008



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## **Table of Contents**

### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **Introduction**

Unum Group, a Delaware general business corporation, and its insurance and non-insurance companies, which collectively with Unum Group we refer to as the Company, operate in the United States, the United Kingdom, and, to a limited extent, in certain other countries around the world. The principal operating subsidiaries in the United States are Unum Life Insurance Company of America (Unum America), Provident Life and Accident Insurance Company (Provident), The Paul Revere Life Insurance Company (Paul Revere Life), and Colonial Life & Accident Insurance Company, and in the United Kingdom, Unum Limited. We are the largest provider of group and individual disability insurance products in the United States and the United Kingdom. We also provide a complementary portfolio of other insurance products, including long-term care insurance, life insurance, employer- and employee-paid group benefits, and other related services.

We have three major business segments: Unum US, Unum UK, and Colonial Life. Our other segments are the Individual Disability Closed Block segment, the Other segment, and the Corporate segment. These segments are discussed more fully under Segment Results included herein in Item 2.

As one of the leading providers of employee benefits, we offer a broad portfolio of products and services to meet the diverse needs of the marketplace. We try to achieve a competitive advantage by offering group, individual, and voluntary benefits products that can be offered as stand alone products or that can be combined with other coverages to provide comprehensive product solutions for customers. We offer businesses of all sizes competitive benefit plans that help them attract and retain a stronger workforce and protect the incomes and lifestyles of employees and their families. Through a variety of technological tools and trained professionals, we offer services which are designed to meet the evolving needs of our customers. We strive to be responsive and timely, and we are committed to service excellence.

We believe that we are a well positioned and competitive force in our sector. However, due to the nature of our business, we are sensitive to economic and financial market movements, including consumer confidence, employment levels, and interest rates.

This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto in Part I, Item 1 contained in this Form 10-Q and with the discussion, analysis, and consolidated financial statements and notes thereto in Part I, Items 1 and 1A, and Part II, Items 6, 7, 7A, and 8 of our annual report on Form 10-K for the year ended December 31, 2007.

#### **Executive Summary**

During 2008, we intend to continue our focus on a number of key areas. Objectives for 2008 include:

Consistent execution of our operating plans. We will continue our emphasis on disciplined, profitable growth.

Continued innovation throughout our businesses. Within Unum US, we plan to more broadly launch *Simply Unum* in the small to mid sized employer marketplace. We also plan to capitalize on the introduction of a number of health related products for Colonial Life, as well as the launch of a pilot voluntary benefits program in our Unum UK business.

Leveraging of our leadership positions and marketplace reputation. We will seek to build on the momentum of 2007 with increased brand and product awareness.

Execution of our capital management strategy. We formalized our capital management strategy during 2007 and established several financial thresholds and targets that will guide our capital decisions during 2008 and beyond.

Professional development of our employees. We have an increased focus on training and development as well as talent management and building bench strength throughout our Company.



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**Table of Contents**

We are confident in our business outlook and believe that our product diversification across sectors and locations, our mix of business, our disciplined underwriting, pricing, claims, and expense management, our investment portfolio, and our capital management strategy will somewhat mitigate the potential impact of an economic slowdown on our operating results.

*Operating Performance*

Unum US reported a 14.3 percent increase in segment operating income for the first quarter of 2008 compared to the prior year first quarter, with increases in each of our three major lines of business within the segment. The group disability benefit ratio was 91.0 percent for the first quarter of 2008, consistent with our goal of continual profit margin improvement for this line of business. Unum US sales increased 29.0 percent over the comparable quarter of 2007. Our group core market segment, which we define for Unum US as employee groups with less than 2,000 lives, had a sales increase of 36.5 percent over the first quarter of 2007, and the number of new accounts increased 30.4 percent over the prior year. Our supplemental and voluntary sales increased 30.7 percent over the first quarter of 2007. Sales in the group large case market segment increased 12.4 percent compared to the prior year. During the third quarter of 2007, we introduced *Simply Unum*, an integrated platform of products and online services that we believe will transform the benefits marketplace through innovative solutions for our group core market segment and our voluntary market. The initial market rollout in 2007 was limited to four pilot sales offices. We are introducing *Simply Unum* in another 18 sales offices during the second quarter of 2008. We will complete the rollout to the remaining eight sales offices as state approvals are received. We are also in the process of developing additional products and services.

Our Unum UK segment continues to produce excellent operating results, with an increase in segment operating income of 14.6 percent for the first quarter of 2008, as measured in Unum UK's local currency, compared to the comparable period of 2007. Overall sales in Unum UK decreased 11.3 percent over the first quarter of 2007. Unum UK reported £2.7 million of additional sales during the first quarter of 2007 related to the change in age equality legislation, compared to approximately £0.5 million of those types of sales in the first quarter of 2008. Excluding sales related to the change in age equality legislation, Unum UK achieved underlying sales growth of approximately 12.7 percent in the first quarter of 2008 as compared to the first quarter of 2007, with sales in the core market segment, which we define for Unum UK as employee groups with less than 500 lives, driving the increase. The U.K. market remains highly competitive. During the first quarter of 2008, Unum UK continued work on the development of a voluntary benefits offering to meet the benefit needs of the changing U.K. marketplace.

Our Colonial Life segment reported an increase in segment operating income of 13.1 percent compared to the prior year first quarter. Colonial Life's sales increased slightly in the first quarter of 2008 relative to last year's first quarter. Sales in the public sector market for local governments and in the commercial market segment for employee groups with less than 100 lives increased 7.5 percent. The number of new accounts increased over the prior year first quarter, although the average new case size was smaller than the prior year. During the latter part of 2007, we introduced a new hospital confinement indemnity insurance plan product and a group limited benefit medical plan product and in the first quarter of 2008, introduced the new Colonial Life brand. We are pleased with the marketplace reception for our new Colonial Life brand and these new product offerings. Colonial Life continues to expand its enrollment capabilities and its product offerings.

Our investment portfolio continues to perform well, with net investment income of \$591.4 million, slightly higher than the first quarter of 2007. We believe our investment portfolio is well positioned for the current environment, with historically low levels of below-investment-grade securities, no exposure to subprime mortgages or collateralized debt obligations in our asset-backed or mortgage-backed securities portfolios, and minimal exposure to collateralized debt obligations within our public bond portfolio and to Alt-A loans.

*Strategic and Capital Initiatives*

The first priority of our capital management strategy is to maintain sufficient financial flexibility to support our operations over various economic cycles and to respond to opportunities in the marketplace while positioning our

## **Table of Contents**

Company for improvements in its credit ratings. We have several financial targets which guide our capital management decisions including:

Maintain a risk based capital (RBC) ratio of 300 percent or greater for our traditional U.S. insurance subsidiaries. This is to be measured on a weighted average basis using the National Association of Insurance Commissioners (NAIC) Company Action Level formula.

Maintain leverage at approximately 25 percent. Leverage will be measured as debt to total capital, which we define as debt plus stockholders' equity, excluding the net unrealized gain or loss on securities and the net gain or loss on cash flow hedges. This target level excludes the non-recourse debt and associated capital of Tailwind Holdings, LLC (Tailwind Holdings) and Northwind Holdings, LLC (Northwind Holdings).

Maintain excess capital at our holding companies sufficient to cover one year of fixed charges (measured as interest expense plus common stock dividends) plus a capital fund which will vary with business and economic conditions.

Maintain a common stock dividend yield that is near the median of our peer companies.

At the end of the first quarter of 2008, all of our financial measurements for capital management continue to compare favorably to our target levels. In addition, we have completed \$350.0 million of our authorized share repurchase program. We expect to repay our short-term debt of \$175.0 million in May 2008, which will further reduce our leverage ratio.

See *Liquidity and Capital Resources* contained herein for further detail.

### *Outstanding Legal and Regulatory Issues*

During 2007, we completed the claim reassessment process required by the 2004 and 2005 regulatory settlement agreements. The lead regulators conducted a final examination and presented their findings to our board of directors and management on April 14, 2008. The report of the multistate market conduct examination for the Maine Bureau of Insurance, Massachusetts Division of Insurance, New York State Insurance Department, Tennessee Department of Commerce and Insurance, and other participating jurisdictions as well as the report of the California Department of Insurance market conduct examination both provided that we satisfactorily complied with each of the agreements' mandates and that no fines will be assessed. We continue to work closely with our regulators and also continue to work toward resolution of other outstanding legal and regulatory issues.

### **First Quarter 2008 Significant Transactions and Events**

#### *Financing*

During 2007, our board of directors authorized the repurchase of up to \$700.0 million of Unum Group's common stock. During January 2008, we repurchased approximately 14.0 million shares for \$350.0 million, using an accelerated share repurchase agreement. Under the terms of the repurchase agreement, we may receive, or be required to pay, a price adjustment based on the volume weighted average price of our common stock during the term of the agreement. Any price adjustment payable to us will be settled in shares of our common stock. Any price adjustment we are required to pay will be settled, at our option, in either cash or common stock. A 30 percent partial acceleration of the agreement, 4.2 million shares, occurred on March 26, 2008 and settled on March 28, 2008, with the price adjustment resulting in the delivery to us of approximately 0.5 million additional shares of our common stock. We expect the price adjustment on the remaining 9.8 million shares to settle on or before the completion of the agreement in May 2008.

During the first quarter of 2008, we made principal payments of \$15.0 million and \$2.5 million on our senior secured non-recourse variable rate notes issued by Northwind Holdings and Tailwind Holdings, respectively.

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## **Table of Contents**

### *Accounting Pronouncements*

Effective January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The adoption of SFAS 157 did not have a material effect on our financial position or results of operations.

Statement of Financial Accounting Standards No. 161 (SFAS 161), *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*, was issued in March 2008. SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. We will adopt the provisions of SFAS 161 effective January 1, 2009. The adoption of SFAS 161 will not have a material effect on our financial position or results of operations.

### **First Quarter 2007 Significant Transactions and Events**

#### *Financing*

The scheduled remarketing of the senior note element of the 2004 adjustable conversion-rate equity units (units) occurred in February 2007, as stipulated by the terms of the original offering, and we reset the interest rate on \$300.0 million of senior notes due May 15, 2009 to 5.859%. We purchased \$150.0 million of the senior notes in the remarketing which were subsequently retired. The associated write-off of deferred debt costs decreased first quarter of 2007 income by \$2.4 million before tax, or \$1.6 million after tax. In May 2007, we settled the purchase contract element of the 2004 units by issuing 17.7 million shares of common stock. We received proceeds of approximately \$300.0 million from the transaction.

During the first quarter of 2007, we made a principal payment of \$10.0 million on our senior secured non-recourse variable rate notes due 2036 which were issued by Tailwind Holdings.

#### *Dispositions*

During the first quarter of 2007, we completed the sale of our wholly-owned subsidiary, GENEX Services, Inc. (GENEX), a leading workers compensation and medical cost containment services provider. Our growth strategy is focused on the development of our primary markets, and GENEX's specialty role in case management and medical cost containment related to the workers' compensation market was no longer consistent with our overall strategic direction. We recognized an after-tax gain on the transaction of approximately \$6.2 million. See Note 3 of the Notes to Consolidated Financial Statements contained herein in Item 1 for additional information.

### *Accounting Pronouncements*

Effective January 1, 2007, we adopted the provisions of Position 05-1 (SOP 05-1), *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts*. SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs (DAC) on internal replacements of insurance and investment contracts other than those specifically described in Statement of Financial Accounting Standards No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*. The cumulative effect of applying the provisions of SOP 05-1 decreased our 2007 opening balance of retained earnings \$445.2 million.

## **Table of Contents**

Effective January 1, 2007, we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of Statement of Financial Accounting Standards No. 109 (SFAS 109)*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. Unlike SFAS 109, FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The cumulative effect of applying the provisions of FIN 48 increased our 2007 opening balance of retained earnings \$22.7 million.

Effective January 1, 2007, we adopted the provisions of Statement of Financial Accounting Standards No. 155 (SFAS 155), *Accounting for Certain Hybrid Financial Instruments, an amendment of Statement of Financial Accounting Standards Nos. 133 (SFAS 133) and 140 (SFAS 140)*. SFAS 155: (a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; (b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133; (c) establishes a requirement to evaluate beneficial interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; (d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and, (e) eliminates restrictions on a qualifying special-purpose entity's ability to hold passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. The adoption of SFAS 155 did not have a material effect on our financial position or results of operations.

## **Critical Accounting Estimates**

We prepare our financial statements in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in our financial statements and accompanying notes. Estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed in our financial statements.

The accounting estimates deemed to be most critical to our results of operations and financial condition are those related to reserves for policy and contract benefits, DAC, valuation of fixed maturity investment securities, pension and postretirement benefit plans, and income taxes. There have been no significant changes in our critical accounting estimates during the first quarter of 2008.

For additional information concerning our accounting policies and critical accounting estimates, see Note 1 of the Notes to Consolidated Financial Statements in Part II, Item 8 and Critical Accounting Estimates in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2007.

**Table of Contents****Consolidated Operating Results***(in millions of dollars)*

|  | <b>Three Months Ended March 31</b> |                 |                 |
|--|------------------------------------|-----------------|-----------------|
|  | <b>2008</b>                        | <b>% Change</b> | <b>2007</b>     |
| <b>Revenue</b>   |                                    |                 |                 |
| Premium Income   | \$ 1,950.5                         | 0.3%            | \$ 1,944.0      |
| Net Investment Income                                      | 591.4                              | 0.3             | 589.5           |
| Net Realized Investment Loss                               | (68.5)                             | N.M.            | (3.7)           |
| Other Income   | 67.2                               | (5.1)           | 70.8            |
| <b>Total</b>   | <b>2,540.6</b>                     | <b>(2.3)</b>    | <b>2,600.6</b>  |
| <b>Benefits and Expenses</b>                               |                                    |                 |                 |
| Benefits and Change in Reserves for Future Benefits        | 1,656.9                            | (4.2)           | 1,729.3         |
| Commissions  | 218.9                              | 2.8             | 213.0           |
| Interest and Debt Expense                                  | 43.9                               | (4.4)           | 45.9            |
| Cost Related to Early Retirement of Debt                   |                                    | (100.0)         | 2.4             |
| Deferral of Acquisition Costs                              | (145.6)                            | 5.4             | (138.1)         |
| Amortization of Deferred Acquisition Costs                 | 130.0                              | 11.5            | 116.6           |
| Compensation Expense                                       | 185.9                              | 7.3             | 173.3           |
| Other Expenses   | 205.9                              | 3.8             | 198.3           |
| <b>Total</b>   | <b>2,295.9</b>                     | <b>(1.9)</b>    | <b>2,340.7</b>  |
| <b>Income from Continuing Operations Before Income Tax</b> | <b>244.7</b>                       | <b>(5.8)</b>    | <b>259.9</b>    |
| Income Tax   | 81.6                               | (7.8)           | 88.5            |
| <b>Income from Continuing Operations</b>                   | <b>163.1</b>                       | <b>(4.8)</b>    | <b>171.4</b>    |
| Income from Discontinued Operations                        |                                    | (100.0)         | 6.9             |
| <b>Net Income</b>  | <b>\$ 163.1</b>                    | <b>(8.5)</b>    | <b>\$ 178.3</b> |

*N.M. = not a meaningful percentage*

Consolidated premium income for the first quarter of 2008 includes premium growth, relative to the prior year first quarter, for Unum US supplemental and voluntary lines of business, Unum UK, and Colonial Life. Unum US group disability and group life and accidental death and dismemberment lines of business experienced a decline in premium income during the first quarter of 2008 compared to the first quarter of 2007, as expected, due primarily to our continued pricing discipline for our Unum US group business and our strategy of developing a more balanced business mix. However, both premium and case persistency for these lines of business improved in the first quarter of 2008 relative to the first quarter of 2007, indicating that persistency for these product lines has begun to stabilize as expected. Premium income in the Individual Disability Closed Block segment decreased in the first quarter of 2008 relative to the first quarter of 2007, as expected in this closed block of business.

Net investment income was slightly higher in the first quarter of 2008 than the first quarter of 2007 due primarily to growth in the level of invested assets. Partially offsetting this increase was a decrease in bond call premiums.

We reported a net realized investment loss of \$68.5 million in the first quarter of 2008 compared to a loss of \$3.7 million in the first quarter of 2007. Changes in the fair values of certain embedded derivatives are reported as realized investment gains and losses, as required under the provisions of Statement of Financial Accounting Standards No. 133 Implementation Issue B36 (DIG Issue B36), *Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposure That Are Unrelated or Only Partially*

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*Related to the Creditworthiness of the Obligor Under Those Instruments.* During the first quarter of 2008, changes



**Table of Contents**

in the fair value of the embedded derivatives associated with modified coinsurance arrangements resulted in a realized loss of \$64.1 million, which resulted primarily from a continued widening of credit spreads in the overall investment market, compared to a loss of \$3.4 million in the first quarter of 2007. See **Investments** contained herein in Item 2 for further discussion.

The reported ratio of benefits and change in reserves for future benefits to premium income was 84.9 percent in the first quarter of 2008 compared to 89.0 percent in the first quarter of 2007, with improved risk results in each of our segments and in each of the major lines of business within the segments. See **Segment Results** as follows for discussions of line of business risk results and claims management performance in each of our segments.

Interest and debt expense is \$2.0 million less than the first quarter of 2007 due to lower rates of interest on our outstanding debt during the first quarter of 2008 relative to last year's first quarter, primarily as a result of the replacement of older fixed rate debt with non-recourse floating rate debt.

The amortization of deferred acquisition costs was higher in the first quarter of 2008 relative to the prior year first quarter due primarily to continued growth in certain of our product lines and also due to an increase in the amortization related to Unum US internal replacement transactions that result in a policy that is substantially changed as well as slightly elevated persistency in certain policy issue years.

Our expense ratio increased in the first quarter of 2008 in comparison to the first quarter of 2007 due primarily to our investment in brand and product promotion and an increase in product and service development costs in our core lines of business. We intend to aggressively manage our expenses while continuing to increase the effectiveness of our operating processes.

**Consolidated Sales Results**

*(in millions of dollars)*

|   | <b>Three Months Ended March 31</b> |                 |             |
|---|------------------------------------|-----------------|-------------|
|   | <b>2008</b>                        | <b>% Change</b> | <b>2007</b> |
| <b>Unum US</b>                              |                                    |                 |             |
| Fully Insured Products                      | \$ 173.7                           | 28.8%           | \$ 134.9    |
| Administrative Services Only (ASO) Products | 1.2                                | 71.4            | 0.7         |
| Total Unum US                               | 174.9                              | 29.0            | 135.6       |
| <b>Unum UK</b>                              | 18.7                               | (10.1)          | 20.8        |
| <b>Colonial Life</b>                        | 67.7                               | 0.1             | 67.6        |
| <b>Individual Disability - Closed Block</b> | 0.5                                | (44.4)          | 0.9         |
| <b>Consolidated</b>                         | \$ 261.8                           | 16.4            | \$ 224.9    |

Sales results shown in the preceding chart generally represent the annualized premium or annualized fee income on new sales which we expect to receive and report as premium income or fee income during the next 12 months following or beginning in the initial quarter in which the sale is reported, depending on the effective date of the new sale. Sales do not correspond to premium income or fee income reported as revenue in accordance with GAAP. This is because new annualized sales premiums reflect current sales performance and what we expect to recognize as premium or fee income over a 12 month period, while premium income and fee income reported in our financial statements are reported on an **earned** basis rather than an annualized basis and also include renewals and persistency of in force policies written in prior years as well as current new sales.

**Table of Contents**

Premiums for fully insured products are reported as premium income. Fees for ASO products (those where the risk and responsibility for funding claim payments remain with the customer and we only provide services) are included in other income. Sales, persistency of the existing block of business, and the effectiveness of the renewal program are indicators of growth in our premium and fee income. Trends in new sales, as well as existing market share, also indicate our potential for growth in our respective markets and the level of market acceptance of price changes and new product offerings. Sales results may fluctuate significantly due to case size and timing of sales submissions.

See **Segment Results** as follows for additional discussion of sales by segment.

**Segment Results**

Our reporting segments are comprised of the following: Unum US, Unum UK, Colonial Life, Individual Disability Closed Block, Other, and Corporate. In the following segment financial data and discussions of segment results, operating revenue excludes net realized investment gains and losses. Operating income or operating loss excludes net realized investment gains and losses and income tax. These are considered non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP.

These non-GAAP financial measures of operating revenue and operating income or operating loss differ from revenue and income (loss) from continuing operations before income tax as presented in our consolidated operating results and in income statements prepared in accordance with GAAP due to the exclusion of before tax realized investment gains and losses. We measure segment performance for purposes of Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, excluding realized investment gains and losses because we believe that this performance measure is a better indicator of the ongoing businesses and the underlying trends in the businesses. Our investment focus is on investment income to support our insurance liabilities as opposed to the generation of realized investment gains and losses, and a long-term focus is necessary to maintain profitability over the life of the business. Realized investment gains and losses depend on market conditions and do not necessarily relate to decisions regarding the underlying business of our segments. However, income or loss excluding realized investment gains and losses does not replace net income or net loss as a measure of overall profitability. We may experience realized investment losses, which will affect future earnings levels since our underlying business is long-term in nature and we need to earn the assumed interest rates in our liabilities.

A reconciliation of total operating revenue by segment to total consolidated revenue and total operating income by segment to consolidated net income is as follows:

(in millions of dollars)

|                                     | <b>Three Months Ended March 31</b> |             |
|-------------------------------------|------------------------------------|-------------|
|                                     | <b>2008</b>                        | <b>2007</b> |
| <b>Operating Revenue by Segment</b> | \$ 2,609.1                         | \$ 2,604.3  |
| Net Realized Investment Loss        | (68.5)                             | (3.7)       |
| <b>Revenue</b>                      | \$ 2,540.6                         | \$ 2,600.6  |
| <b>Operating Income by Segment</b>  | \$ 313.2                           | \$ 263.6    |
| Net Realized Investment Loss        | (68.5)                             | (3.7)       |
| Income Tax                          | 81.6                               | 88.5        |
| Income from Discontinued Operations |                                    | 6.9         |
| <b>Net Income</b>                   | \$ 163.1                           | \$ 178.3    |

**Table of Contents****Unum US Segment**

The Unum US segment includes group long-term and short-term disability insurance, group life and accidental death and dismemberment products, and supplemental and voluntary lines of business. The supplemental and voluntary lines of business are comprised of recently issued disability insurance, group and individual long-term care insurance, and voluntary benefits products.

**Unum US Operating Results**

Shown below are financial results for the Unum US segment. In the sections following, financial results and key ratios are also presented for the major lines of business within the segment.

(in millions of dollars)

|  | Three Months Ended March 31 |              |                 |
|--|-----------------------------|--------------|-----------------|
|  | 2008                        | % Change     | 2007            |
| <b>Operating Revenue</b>   |                             |              |                 |
| Premium Income   | \$ 1,230.4                  | (1.2)%       | \$ 1,244.9      |
| Net Investment Income  | 279.1                       | 0.8          | 276.9           |
| Other Income   | 32.6                        | (6.1)        | 34.7            |
| <b>Total</b>   | <b>1,542.1</b>              | <b>(0.9)</b> | <b>1,556.5</b>  |
| <b>Benefits and Expenses</b>   |                             |              |                 |
| Benefits and Change in Reserves for Future Benefits                                    | 989.9                       | (5.4)        | 1,046.0         |
| Commissions  | 132.2                       | 2.1          | 129.5           |
| Deferral of Acquisition Costs  | (81.1)                      | 6.0          | (76.5)          |
| Amortization of Deferred Acquisition Costs   | 81.7                        | 23.0         | 66.4            |
| Other Expenses   | 256.7                       | 3.2          | 248.7           |
| <b>Total</b>   | <b>1,379.4</b>              | <b>(2.5)</b> | <b>1,414.1</b>  |
| <b>Operating Income Before Income Tax and Net Realized Investment Gains and Losses</b> | <b>\$ 162.7</b>             | <b>14.3</b>  | <b>\$ 142.4</b> |

**Table of Contents***Unum US Sales**(in millions of dollars)*

|  | <b>Three Months Ended March 31</b> |                 |                 |
|--|------------------------------------|-----------------|-----------------|
|  | <b>2008</b>                        | <b>% Change</b> | <b>2007</b>     |
| <b>Fully Insured Products</b>                      |                                    |                 |                 |
| Group Long-term Disability                         | \$ 36.1                            | 41.6%           | \$ 25.5         |
| Group Short-term Disability                        | 13.4                               | (11.8)          | 15.2            |
| Group Life   | 27.1                               | 34.8            | 20.1            |
| Accidental Death & Dismemberment                   | 2.9                                | 45.0            | 2.0             |
| Individual Disability - Recently Issued            | 16.5                               | 13.8            | 14.5            |
| Group Long-term Care                               | 8.8                                | 44.3            | 6.1             |
| Individual Long-term Care                          | 2.7                                | 28.6            | 2.1             |
| Voluntary Benefits                                 | 66.2                               | 34.0            | 49.4            |
| <b>Total Fully Insured Products</b>                | <b>173.7</b>                       | <b>28.8</b>     | <b>134.9</b>    |
| <b>Administrative Services Only (ASO) Products</b> | <b>1.2</b>                         | <b>71.4</b>     | <b>0.7</b>      |
| <b>Total Sales</b>                                 | <b>\$ 174.9</b>                    | <b>29.0</b>     | <b>\$ 135.6</b> |

Sales for Unum US increased 29.0 percent in the first quarter of 2008 relative to the first quarter of 2007, with increases in all product lines except group short-term disability. We had a sales mix of approximately 61 percent core market and 39 percent large case market, in line with our targeted 60 percent core/40 percent large case market distribution mix.

Sales for our group core market segment increased 36.5 percent over the prior year first quarter, and sales in the large case segment increased 12.4 percent. All of our group products reported sales increases other than short-term disability, which experienced sales volatility in its large case market segment.

Sales for our individual disability line of business increased over the prior year first quarter, with sales of the multi-life product up approximately 20 percent relative to last year's first quarter. Long-term care sales increased over the prior year first quarter, with growth in both group and individual long-term care. Our voluntary benefits sales increased in the first quarter of 2008 relative to the prior year first quarter, with increases reported for both the core and large case market segments.

We anticipate that sales for our group core market segment and our voluntary products will continue to increase during the remainder of 2008, aided in part by the introduction of *Simply Unum* in additional sales offices during the second quarter of 2008.

**Table of Contents****Unum US Group Disability Operating Results**

Shown below are financial results and key performance indicators for Unum US group disability.

(in millions of dollars, except ratios)

|  | Three Months Ended March 31 |              |                |
|--|-----------------------------|--------------|----------------|
|  | 2008                        | % Change     | 2007           |
| <b>Operating Revenue</b>   |                             |              |                |
| Premium Income   |                             |              |                |
| Group Long-term Disability   | \$ 459.4                    | (2.5)%       | \$ 471.4       |
| Group Short-term Disability  | 109.0                       | (8.2)        | 118.7          |
| <b>Total Premium Income</b>  | <b>568.4</b>                | <b>(3.7)</b> | <b>590.1</b>   |
| Net Investment Income  | 154.0                       | (0.8)        | 155.3          |
| Other Income   | 24.4                        | (1.2)        | 24.7           |
| <b>Total</b>   | <b>746.8</b>                | <b>(3.0)</b> | <b>770.1</b>   |
| <b>Benefits and Expenses</b>   |                             |              |                |
| Benefits and Change in Reserves for Future Benefits                                    | 517.4                       | (6.1)        | 551.1          |
| Commissions  | 42.8                        | (5.7)        | 45.4           |
| Deferral of Acquisition Costs  | (14.4)                      | (7.1)        | (15.5)         |
| Amortization of Deferred Acquisition Costs   | 19.4                        | 16.9         | 16.6           |
| Other Expenses   | 143.0                       | (0.6)        | 143.8          |
| <b>Total</b>   | <b>708.2</b>                | <b>(4.5)</b> | <b>741.4</b>   |
| <b>Operating Income Before Income Tax and Net Realized Investment Gains and Losses</b> | <b>\$ 38.6</b>              | <b>34.5</b>  | <b>\$ 28.7</b> |
| <b>Operating Ratios (% of Premium Income):</b>   |                             |              |                |
| Benefit Ratio  | 91.0%                       |              | 93.4%          |
| Other Expense Ratio  | 25.2%                       |              | 24.4%          |
| Before-tax Operating Income (Loss) Ratio   | 6.8%                        |              | 4.9%           |
| <b>Premium Persistency:</b>  |                             |              |                |
| Group Long-term Disability   | 87.6%                       |              | 84.6%          |
| Group Short-term Disability  | 82.4%                       |              | 75.1%          |
| <b>Case Persistency:</b>   |                             |              |                |
| Group Long-term Disability   | 88.8%                       |              | 87.6%          |
| Group Short-term Disability  | 87.3%                       |              | 85.8%          |

Premium income for group disability decreased in the first quarter of 2008 relative to the prior year first quarter, as expected, due primarily to our pricing, renewal, and risk selection strategy. However, premium persistency and case persistency both improved over the prior year first quarter in both the core and large case markets, indicating that persistency for these lines is beginning to stabilize as expected. Net investment income decreased in the first quarter of 2008 in comparison to the prior year first quarter due primarily to the investment of new cash at lower rates than that of the portfolio yield as a result of the lower interest rate environment, partially offset by an increase in the level of assets supporting these lines of business. Other income includes ASO fees of \$16.2 million and \$16.0 million for the first quarter of 2008 and 2007, respectively.

The benefit ratio for the first quarter of 2008 was lower than the benefit ratio for the first quarter of 2007 due primarily to a higher rate of claim recoveries in group long-term disability and lower paid claims in short-term disability. Claim incidence rates are consistent with the first quarter of last year, with no unusual trends noted by sector or by case size.



**Table of Contents**

The deferral of acquisition costs decreased in the first quarter of 2008 due to a slight decline in acquisition related expenses relative to the level of expenses in the first quarter of 2007. Amortization was higher in the first quarter of 2008 relative to the prior year due to an increase in amortization related to internal replacement transactions that result in a policy that is substantially changed. These transactions are accounted for as an extinguishment of the original policy and the issuance of a new policy.

The other expense ratio increased in the first quarter of 2008 compared to the prior year first quarter due to the decline in premium income. An increase in policy maintenance expenses and product and service development costs was offset by a decrease in acquisition related expenses, as noted above.

As discussed under Cautionary Statement Regarding Forward-Looking Statements, certain risks and uncertainties are inherent in group disability business. Components of claims experience, including, but not limited to, incidence and recovery rates, may be worse than we expect. Both economic and societal factors can affect claim incidence. Adjustments to reserve amounts may be required if there are changes in assumptions regarding the incidence of claims or the rate of recovery, as well as persistency, mortality, and interest rates used in calculating the reserve amounts.

**Table of Contents****Unum US Group Life and Accidental Death and Dismemberment Operating Results**

Shown below are financial results and key performance indicators for Unum US group life and accidental death and dismemberment.

(in millions of dollars, except ratios)

|   | Three Months Ended March 31 |               |              |
|---|-----------------------------|---------------|--------------|
|   | 2008                        | % Change      | 2007         |
| <b>Operating Revenue</b>                            |                             |               |              |
| Premium Income                                      |                             |               |              |
| Group Life  | \$ 261.4                    | (6.9)%        | \$ 280.8     |
| Accidental Death & Dismemberment                    | 31.0                        | (4.3)         | 32.4         |
| <b>Total Premium Income</b>                         | <b>292.4</b>                | <b>(6.6)</b>  | <b>313.2</b> |
| Net Investment Income                               | 31.3                        | (9.0)         | 34.4         |
| Other Income  | 0.5                         | (16.7)        | 0.6          |
| <b>Total</b>  | <b>324.2</b>                | <b>(6.9)</b>  | <b>348.2</b> |
| <b>Benefits and Expenses</b>                        |                             |               |              |
| Benefits and Change in Reserves for Future Benefits | 199.3                       | (15.3)        | 235.4        |
| Commissions   | 21.6                        | (4.4)         | 22.6         |
| Deferral of Acquisition Costs                       | (9.6)                       | 5.5           | (9.1)        |
| Amortization of Deferred Acquisition Costs          | 13.7                        | 47.3          | 9.3          |
| Other Expenses                                      | 43.8                        | 7.9           | 40.6         |
| <b>Total</b>  | <b>268.8</b>                | <b>(10.0)</b> | <b>298.8</b> |

|  |                |             |                |
|--|----------------|-------------|----------------|
| <b>Operating Income Before Income Tax and Net Realized Investment Gains and Losses</b> | <b>\$ 55.4</b> | <b>12.1</b> | <b>\$ 49.4</b> |
|--|----------------|-------------|----------------|

**Operating Ratios (% of Premium Income):**

|                                   |       |       |
|-----------------------------------|-------|-------|
| Benefit Ratio                     | 68.2% | 75.2% |
| Other Expense Ratio               | 15.0% | 13.0% |
| Before-tax Operating Income Ratio | 18.9% | 15.8% |

**Premium Persistency:**

|                                  |       |       |
|----------------------------------|-------|-------|
| Group Life                       | 84.3% | 78.1% |
| Accidental Death & Dismemberment | 86.3% | 78.7% |

**Case Persistency:**

|                                  |       |       |
|----------------------------------|-------|-------|
| Group Life                       | 87.7% | 85.7% |
| Accidental Death & Dismemberment | 88.3% | 86.5% |

Premium income for group life decreased in the first quarter of 2008 relative to the prior year first quarter due primarily to our pricing, renewal, and risk selection strategy. Premium persistency and case persistency both improved in comparison to the prior year first quarter, consistent with our group disability lines of business. The decrease in net investment income relative to the prior year first quarter resulted primarily from a decline in the level of assets supporting these lines of business and a lower yield due to the investment of new cash at lower rates than that of our portfolio yield.

The benefit ratio decreased in the first quarter of 2008 due primarily to lower submitted and paid claim incidence rates for both group life and the accidental death and dismemberment lines of business.

Amortization of deferred acquisition costs was higher in the first quarter of 2008 relative to the prior year due to an increase in amortization related to internal replacement transactions.





**Table of Contents**

The other expense ratio increased in the first quarter of 2008 in comparison to the prior year due to the decline in premium income as well as an increase in policy maintenance expenses and product and service development costs.

**Unum US Supplemental and Voluntary Operating Results**

Shown below are financial results and key performance indicators for Unum US supplemental and voluntary product lines.

(in millions of dollars, except ratios)

|  | Three Months Ended March 31 |            |                |
|--|-----------------------------|------------|----------------|
|  | 2008                        | % Change   | 2007           |
| <b>Operating Revenue</b>   |                             |            |                |
| Premium Income   |                             |            |                |
| Individual Disability - Recently Issued  | \$ 118.2                    | 4.0%       | \$ 113.7       |
| Long-term Care   | 141.3                       | 9.8        | 128.7          |
| Voluntary Benefits   | 110.1                       | 11.0       | 99.2           |
| <b>Total Premium Income</b>  | <b>369.6</b>                | <b>8.2</b> | <b>341.6</b>   |
| Net Investment Income  | 93.8                        | 7.6        | 87.2           |
| Other Income   | 7.7                         | (18.1)     | 9.4            |
| <b>Total</b>   | <b>471.1</b>                | <b>7.5</b> | <b>438.2</b>   |
| <b>Benefits and Expenses</b>   |                             |            |                |
| Benefits and Change in Reserves for Future Benefits                                    | 273.2                       | 5.3        | 259.5          |
| Commissions  | 67.8                        | 10.2       | 61.5           |
| Deferral of Acquisition Costs  | (57.1)                      | 10.0       | (51.9)         |
| Amortization of Deferred Acquisition Costs   | 48.6                        | 20.0       | 40.5           |
| Other Expenses   | 69.9                        | 8.7        | 64.3           |
| <b>Total</b>   | <b>402.4</b>                | <b>7.6</b> | <b>373.9</b>   |
| <b>Operating Income Before Income Tax and Net Realized Investment Gains and Losses</b> | <b>\$ 68.7</b>              | <b>6.8</b> | <b>\$ 64.3</b> |

Operating Ratios (% of Premium Income):

|   |        |  |        |
|---|--------|--|--------|
| <b>Benefit Ratios</b>                   |        |  |        |
| Individual Disability - Recently Issued | 52.6%  |  | 57.2%  |
| Long-term Care                          | 104.3% |  | 104.7% |
| Voluntary Benefits                      | 57.8%  |  | 60.3%  |
| Other Expense Ratio                     | 18.9%  |  | 18.8%  |
| Before-tax Operating Income Ratio       | 18.6%  |  | 18.8%  |
| <b>Interest Adjusted Loss Ratios</b>    |        |  |        |
| Individual Disability - Recently Issued | 36.6%  |  | 42.1%  |
| Long-term Care                          | 74.7%  |  | 76.6%  |
| <b>Premium Persistency:</b>             |        |  |        |
| Individual Disability - Recently Issued | 90.7%  |  | 90.8%  |
| Long-term Care                          | 95.2%  |  | 95.0%  |
| Voluntary Benefits                      | 80.1%  |  | 78.9%  |

The increase in premium income for the first quarter of 2008 relative to the prior year first quarter is due to sales growth in our supplemental and voluntary product lines, the impact of premium rate increases implemented for individual long-term care, and overall stable persistency. Net investment income increased relative to the prior year first quarter primarily from growth in the level of assets supporting these lines of business.



## **Table of Contents**

The interest adjusted loss ratio for the individual disability recently issued line of business decreased in the first quarter of 2008 relative to the prior year first quarter due primarily to a decrease in the paid claim incidence rates, partially offset by a lower claim recovery rate relative to last year's first quarter. The interest adjusted loss ratio for long-term care was lower in the first quarter of 2008 than in the prior year first quarter due primarily to an increase in the claim recovery rate which was partially offset by an increase in the submitted claim incidence rate. The benefit ratio for voluntary benefits decreased in comparison to the prior year first quarter due primarily to a lower rate of paid claim incidence for the voluntary benefits disability line of business and a lower mortality rate for the voluntary life line of business.

The increase in commissions and deferral of acquisition costs from the prior year first quarter is due primarily to growth in these lines of business. The increase in amortization of acquisition costs from the prior year first quarter is also due to growth in these lines of business as well as an acceleration of amortization due to lower than expected persistency in certain issue years. We adjust our amortization of deferred acquisition costs to reflect actual policy persistency as compared to anticipated experience and therefore experience accelerated amortization if policies terminate earlier than projected. The other expense ratio increased slightly in comparison to the prior year first quarter due to an increase in product and service development costs.

## ***Segment Outlook***

Our primary focus in 2008 is continued improvement of our claims management performance in our group disability line of business along with growth in our core group market and our supplemental and voluntary lines of business. We expect our overall benefit ratio for group disability to gradually improve to the 88 to 89 percent range by late 2008 to early 2009.

We are focused on diversifying our product portfolio through new initiatives such as *Simply Unum* and increased focus on our group core market and voluntary product sales. *Simply Unum* combines group and voluntary coverages on one fully-integrated platform and represents substantial changes in existing technologies and workflow processes, from quote and proposal to billing and administration and ultimately to the payment of claims. The initial market rollout in the third quarter of 2007 was limited to four pilot sales offices. Marketplace reaction from brokers and customers has been very positive. We are introducing *Simply Unum* in another 18 sales offices during the second quarter of 2008. We will complete the rollout to the remaining eight sales offices as state approvals are received.

We expect that premium income growth will emerge in late 2008 and 2009 as our group large case market persistency stabilizes and growth continues in our group core market and our supplemental product lines.

**Table of Contents****Unum UK Segment**

Unum UK includes insurance for group long-term disability, group life, and individual disability products sold primarily in the United Kingdom through field sales personnel and independent brokers and consultants.

**Operating Results**

Shown below are financial results and key performance indicators for the Unum UK segment.

(in millions of dollars, except ratios)

|  | <b>Three Months Ended March 31</b> |                 |                |
|--|------------------------------------|-----------------|----------------|
|  | <b>2008</b>                        | <b>% Change</b> | <b>2007</b>    |
| <b>Operating Revenue</b>   |                                    |                 |                |
| Premium Income   |                                    |                 |                |
| Group Long-term Disability   | \$ 185.0                           | 6.0%            | \$ 174.6       |
| Group Life   | 45.5                               | 17.6            | 38.7           |
| Individual Disability  | 10.1                               | 12.2            | 9.0            |
| Total Premium Income   | 240.6                              | 8.2             | 222.3          |
| Net Investment Income  | 45.3                               | (1.1)           | 45.8           |
| Other Income   | 0.2                                | (88.2)          | 1.7            |
| <b>Total</b>   | <b>286.1</b>                       | <b>6.0</b>      | <b>269.8</b>   |
| <b>Benefits and Expenses</b>   |                                    |                 |                |
| Benefits and Change in Reserves for Future Benefits                                    | 137.8                              | 1.5             | 135.8          |
| Commissions  | 17.1                               | 11.0            | 15.4           |
| Deferral of Acquisition Costs  | (8.6)                              | (7.5)           | (9.3)          |
| Amortization of Deferred Acquisition Costs   | 7.4                                | (37.8)          | 11.9           |
| Other Expenses   | 45.3                               | 10.8            | 40.9           |
| <b>Total</b>   | <b>199.0</b>                       | <b>2.2</b>      | <b>194.7</b>   |
| <b>Operating Income Before Income Tax and Net Realized Investment Gains and Losses</b> | <b>\$ 87.1</b>                     | <b>16.0</b>     | <b>\$ 75.1</b> |
| Operating Ratios (% of Premium Income):  |                                    |                 |                |
| Benefit Ratio  | 57.3%                              |                 | 61.1%          |
| Other Expense Ratio  | 18.8%                              |                 | 18.4%          |
| Before-tax Operating Income Ratio  | 36.2%                              |                 | 33.8%          |
| Premium Persistency:   |                                    |                 |                |
| Group Long-term Disability   | 84.5%                              |                 | 89.6%          |
| Group Life   | 84.3%                              |                 | 72.6%          |
| Individual Disability  | 90.6%                              |                 | 90.1%          |

**Table of Contents****Foreign Currency Translation**

The functional currency of Unum UK is the British pound sterling. Unum UK's premiums, net investment income, claims, and expenses are received or paid in pounds, and we hold pound denominated assets to support Unum UK's pound denominated policy reserves and liabilities. We translate Unum UK's pound-denominated financial statement items into dollars for our consolidated financial reporting. We translate income statement items using an average exchange rate for the reporting period, and we translate balance sheet items using the exchange rate at the end of the period. We report unrealized foreign currency translation gains and losses in accumulated other comprehensive income in our consolidated balance sheets.

Fluctuations in the pound to dollar exchange rate have an effect on Unum UK's reported financial results and our consolidated financial results. In periods when the pound weakens, translating pounds into dollars decreases current year results relative to the prior year. In periods when the pound strengthens, translating into dollars increases current year results in relation to the prior year.

(in millions of pounds, except ratios)

|  | Three Months Ended March 31 |             |               |
|--|-----------------------------|-------------|---------------|
|  | 2008                        | % Change    | 2007          |
| <b>Operating Revenue</b>   |                             |             |               |
| Premium Income   |                             |             |               |
| Group Long-term Disability   | £ 93.5                      | 4.7%        | £ 89.3        |
| Group Life   | 23.0                        | 16.2        | 19.8          |
| Individual Disability  | 5.1                         | 10.9        | 4.6           |
| Total Premium Income   | 121.6                       | 6.9         | 113.7         |
| Net Investment Income  | 22.9                        | (2.1)       | 23.4          |
| Other Income   | 0.1                         | (88.9)      | 0.9           |
| <b>Total</b>   | <b>144.6</b>                | <b>4.8</b>  | <b>138.0</b>  |
| <b>Benefits and Expenses</b>   |                             |             |               |
| Benefits and Change in Reserves for Future Benefits                                    | 69.7                        | 0.3         | 69.5          |
| Commissions  | 8.6                         | 8.9         | 7.9           |
| Deferral of Acquisition Costs  | (4.4)                       | (8.3)       | (4.8)         |
| Amortization of Deferred Acquisition Costs   | 3.8                         | (37.7)      | 6.1           |
| Other Expenses   | 22.9                        | 9.6         | 20.9          |
| <b>Total</b>   | <b>100.6</b>                | <b>1.0</b>  | <b>99.6</b>   |
| <b>Operating Income Before Income Tax and Net Realized Investment Gains and Losses</b> | <b>£ 44.0</b>               | <b>14.6</b> | <b>£ 38.4</b> |

Weighted Average Pound/Dollar

|               |       |       |
|---------------|-------|-------|
| Exchange Rate | 1.980 | 1.956 |
|---------------|-------|-------|

Premium income increased in the first quarter of 2008 relative to the prior year first quarter due primarily to prior period sales growth in the group and individual disability products as well as a decrease in group life ceded premiums as a result of a modification, in the fourth quarter of 2007, of a quota share reinsurance arrangement relating to new group life sales. Net investment income decreased slightly in the first quarter of 2008 relative to the prior year first quarter due primarily to the impact of a lower yield on certain assets within the investment portfolio.

The lower benefit ratio in the first quarter of 2008 in comparison to the prior year first quarter was primarily due to a lower rate of claim incidence for both group long-term disability and group life and an increased rate of claim recoveries for group long-term disability.

**Table of Contents**

The decrease in amortization of acquisition costs in the first quarter of 2008 relative to the prior year first quarter is due primarily to a decrease in amortization related to internal replacement transactions that result in a policy that is substantially changed. These transactions are accounted for as an extinguishment of the original policy and the issuance of a new policy.

The other expense ratio increased in comparison with the prior year first quarter due in part to continued growth in expenses associated with the development of new product offerings and investing in process changes.

**Sales**

*(in millions of dollars)*

|   | Three Months Ended March 31 |          |         |
|---|-----------------------------|----------|---------|
|   | 2008                        | % Change | 2007    |
| Group Long-term Disability                        | \$ 14.8                     | (9.2)%   | \$ 16.3 |
| Group Life  | 2.1                         | (25.0)   | 2.8     |
| Individual Disability                             | 1.8                         | 5.9      | 1.7     |
| <b>Total Sales</b>                                | \$ 18.7                     | (10.1)   | \$ 20.8 |
| <b>Total Sales</b> <i>(in millions of pounds)</i> | £ 9.4                       | (11.3)   | £ 10.6  |

Sales in Unum UK for the first quarter of 2008 were lower in comparison to the level of the prior year first quarter due primarily to decreases in sales to existing customers. In the U.K., legislative changes that removed discrimination by employers on the basis of age, therefore encouraging the extension of insurance coverage, became effective in October 2006. During 2007, Unum UK took advantage of the opportunities offered by age equality legislation, with £2.7 million of additional sales during the first quarter of 2007 compared to only £0.5 million in the first quarter of 2008. Excluding sales related to the change in age equality legislation, Unum UK achieved underlying sales growth of approximately 12.7 percent in the first quarter of 2008 as compared to the first quarter of 2007, with sales in the core market segment, which we define for Unum UK as employee groups with less than 500 lives, driving the increase.

**Segment Outlook**

During 2008, we intend to focus on continued profitable sales growth and improvement in our premium persistency. We anticipate that high levels of profitability in this segment will continue, but with margins likely to return to approximately 30 percent in the medium term as we invest in new growth opportunities.

We expect to maintain our strong leadership position in the U.K. We are exploring additional market opportunities to expand our growth in the group market through new distribution channels and new product offerings, including leveraging Unum US expertise to open up the voluntary workplace market in the U.K. In April 2008, we launched an innovative group disability product targeted to our core market segment, and in our individual business we plan to emphasize our own brand sales in those markets where we presently hold a strong position. We are making good progress on our initiative to provide Unum UK with industry leading services, processes, systems, and operational capability.

**Table of Contents****Colonial Life Segment**

The Colonial Life segment includes insurance for accident, sickness, and disability products, life products, and cancer and critical illness products issued primarily by Colonial Life & Accident Insurance Company and marketed to employees at the workplace through an agency sales force and brokers.

**Operating Results**

Shown below are financial results and key performance indicators for the Colonial Life segment.

(in millions of dollars, except ratios)

|  | Three Months Ended March 31 |             |                |
|--|-----------------------------|-------------|----------------|
|  | 2008                        | % Change    | 2007           |
| <b>Operating Revenue</b>   |                             |             |                |
| Premium Income   |                             |             |                |
| Accident, Sickness, and Disability   | \$ 149.5                    | 7.0%        | \$ 139.7       |
| Life   | 38.5                        | 8.1         | 35.6           |
| Cancer and Critical Illness  | 52.4                        | 8.9         | 48.1           |
| Total Premium Income   | 240.4                       | 7.6         | 223.4          |
| Net Investment Income  | 25.9                        | 6.1         | 24.4           |
| Other Income   | 0.1                         | (66.7)      | 0.3            |
| <b>Total</b>   | <b>266.4</b>                | <b>7.4</b>  | <b>248.1</b>   |
| <b>Benefits and Expenses</b>   |                             |             |                |
| Benefits and Change in Reserves for Future Benefits                                    | 113.5                       | 3.2         | 110.0          |
| Commissions  | 53.1                        | 7.5         | 49.4           |
| Deferral of Acquisition Costs  | (55.9)                      | 6.9         | (52.3)         |
| Amortization of Deferred Acquisition Costs   | 40.9                        | 6.8         | 38.3           |
| Other Expenses   | 47.4                        | 10.0        | 43.1           |
| <b>Total</b>   | <b>199.0</b>                | <b>5.6</b>  | <b>188.5</b>   |
| <b>Operating Income Before Income Tax and Net Realized Investment Gains and Losses</b> | <b>\$ 67.4</b>              | <b>13.1</b> | <b>\$ 59.6</b> |
| Operating Ratios (% of Premium Income):  |                             |             |                |
| Benefit Ratio  | 47.2%                       |             | 49.2%          |
| Other Expense Ratio  | 19.7%                       |             | 19.3%          |
| Before-tax Operating Income Ratio  | 28.0%                       |             | 26.7%          |
| Premium Persistency:   |                             |             |                |
| Accident, Sickness, and Disability   | 76.0%                       |             | 75.6%          |
| Life   | 84.5%                       |             | 83.2%          |
| Cancer and Critical Illness  | 83.8%                       |             | 83.6%          |



**Table of Contents**

Growth in premium income for the first quarter of 2008 compared to the prior year first quarter was attributable primarily to current and prior period sales and slightly higher persistency. Net investment income increased in the first quarter of 2008 in comparison to the prior year first quarter due primarily to growth in the level of assets supporting these lines of business.

The benefit ratio for this segment decreased in the first quarter of 2008 in comparison to the prior year first quarter due primarily to favorable risk experience in the accident, sickness, and disability line of business, offset somewhat by higher benefit ratios in the life and cancer and critical illness lines of business. The improvement in the accident, sickness, and disability line of business resulted from the continued favorable experience related to several new products introduced in 2004. The life line of business benefit ratio was higher in the first quarter of 2008 relative to the same period last year due to a higher level of death claims and a higher average claim cost. The cancer and critical illness product line reported a higher benefit ratio in the first quarter of 2008 relative to the prior year first quarter due primarily to unfavorable claim experience associated with the older cancer products.

Although we continue to focus on expense management, the other expense ratio for the first quarter of 2008 increased in comparison to the prior year first quarter due primarily to our investment in brand and product promotion and the development of additional product offerings.

**Sales**

*(in millions of dollars)*

|                                    | <b>Three Months Ended March 31</b> |                 |                |
|------------------------------------|------------------------------------|-----------------|----------------|
|                                    | <b>2008</b>                        | <b>% Change</b> | <b>2007</b>    |
| Accident, Sickness, and Disability | \$ 43.9                            | 2.6%            | \$ 42.8        |
| Life                               | 13.5                               | (5.6)           | 14.3           |
| Cancer and Critical Illness        | 10.3                               | (1.9)           | 10.5           |
| <b>Total Sales</b>                 | <b>\$ 67.7</b>                     | <b>0.1</b>      | <b>\$ 67.6</b> |

Colonial Life reported first quarter of 2008 sales increases in the commercial market segment for employee groups with less than 100 lives and in the public sector local government market. These increases were partially offset by decreases in sales in the public sector market for educators and in the commercial market segment for employee groups with greater than 100 lives. The number of new accounts increased over the prior year first quarter, but the new account annualized sales premium per case sold declined.

**Segment Outlook**

Throughout 2008, we intend to focus on sales and distribution growth by accelerating recruiting and development, capitalizing on sales opportunities where we have less market share, and assessing emerging distribution opportunities. We anticipate that high levels of profitability in this segment will continue, but with margins decreasing modestly over time as the benefit ratio returns to more historic levels.

We will continue the investment in brand, product promotion, and marketing programs that we initiated during 2007. Our 2008 initiatives also include enhancement of our product development and enrollment capabilities. We intend to further enhance our continuous improvement program and focus on training and leadership development of our sales organization. We believe that the changes we have made and continue to make in our sales organization through recruiting, development, and training will continue to drive accelerated growth through improved productivity.

**Table of Contents****Individual Disability - Closed Block Segment**

The Individual Disability Closed Block segment generally consists of those individual disability policies in force before the substantial changes in product offerings, pricing, distribution, and underwriting, which generally occurred during the period 1994 through 1998. A small amount of new business continued to be sold after these changes, but we stopped selling new policies in this segment at the beginning of 2004 other than update features contractually allowable on existing policies.

**Operating Results**

Shown below are financial results and key performance indicators for the Individual Disability Closed Block segment.

(in millions of dollars, except ratios)

|  | Three Months Ended March 31 |               |                |
|--|-----------------------------|---------------|----------------|
|  | 2008                        | % Change      | 2007           |
| <b>Operating Revenue</b>   |                             |               |                |
| Premium Income   | \$ 238.4                    | (5.5)%        | \$ 252.3       |
| Net Investment Income  | 190.7                       | (6.8)         | 204.6          |
| Other Income   | 24.1                        | (4.7)         | 25.3           |
| <b>Total</b>   | <b>453.2</b>                | <b>(6.0)</b>  | <b>482.2</b>   |
| <b>Benefits and Expenses</b>   |                             |               |                |
| Benefits and Change in Reserves for Future Benefits                                    | 387.5                       | (4.5)         | 405.9          |
| Commissions  | 16.1                        | (10.6)        | 18.0           |
| Other Expenses   | 35.9                        | 0.3           | 35.8           |
| <b>Total</b>   | <b>439.5</b>                | <b>(4.4)</b>  | <b>459.7</b>   |
| <b>Operating Income Before Income Tax and Net Realized Investment Gains and Losses</b> | <b>\$ 13.7</b>              | <b>(39.1)</b> | <b>\$ 22.5</b> |
| Interest Adjusted Loss Ratio   | 90.1%                       |               | 93.9%          |
| <b>Operating Ratios (% of Premium Income):</b>   |                             |               |                |
| Other Expense Ratio  | 15.1%                       |               | 14.2%          |
| Before-tax Operating Income Ratio  | 5.7%                        |               | 8.9%           |
| Premium Persistency  | 94.1%                       |               | 94.5%          |

The decrease in premium income for the first quarter of 2008 relative to the prior year first quarter is due to the expected decline in this block of closed business. Partially offsetting this decline is an increase in premium income due to the reinsurance recapture, in the third quarter of 2007, of a small block of business, with an effective date of January 1, 2007, and an annualized premium income of approximately \$7.0 million.

Net investment income decreased in the first quarter of 2008 compared to the prior year first quarter due to a decrease in bond call premiums, a lower level of assets supporting this closed block of business, and a decline in the overall portfolio yield rate for this segment. During the fourth quarter of 2007, we entered into an intercompany reinsurance transaction which allowed us to release excess statutory capital previously supporting this reinsured closed block business. As a result, the capital allocated to our Individual Disability Closed Block segment declined, with a resulting decrease in net investment income due to the lower asset levels needed to support allocated capital. Because this is an intercompany reinsurance arrangement, reported results remain unchanged for this segment other than the lower net investment income.

Other income includes the underlying results of certain blocks of reinsured business.

**Table of Contents**

The interest adjusted loss ratio was lower in the first quarter of 2008 than the ratio for the prior year first quarter due primarily to a higher rate of claim recoveries offset partially by a higher rate of submitted claims.

**Segment Outlook**

As a result of the decline in capital allocated to this segment, net investment income will decrease in 2008 relative to 2007 due to the lower asset levels needed to support allocated capital. It is possible that net investment income will be negatively impacted in 2008 by a reduced level of bond call premiums, relative to recent historical experience.

We also expect that operating revenue and income will decline over time as this closed block of business winds down. We believe that the interest adjusted loss ratio for this block of business will be relatively flat over the long term, but the segment may experience quarterly volatility. Claim resolution rates are very sensitive to operational and environmental changes and can be volatile over short periods of time. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the life of the block of business and will vary from actual experience in any one period. It is possible, however, that variability in our reserve assumptions could result in a material impact on our reserve levels.

**Other Segment**

The Other operating segment includes results from Unum US insured products not actively marketed (with the exception of certain individual disability products), including individual life and corporate-owned life insurance, reinsurance pools and management operations, group pension, health insurance, and individual annuities. We expect operating revenue and income resulting from the products that are not actively marketed to decline over time as these business lines wind down, and we expect to reinvest the capital supporting these lines of business in the future growth of our Unum US, Unum UK, and Colonial Life segments.

**Operating Results**

(in millions of dollars)

|  | Three Months Ended March 31 |              |               |
|--|-----------------------------|--------------|---------------|
|  | 2008                        | % Change     | 2007          |
| <b>Operating Revenue</b>   |                             |              |               |
| Premium Income   | \$ 0.7                      | (36.4)%      | \$ 1.1        |
| Net Investment Income  | 25.9                        | (7.8)        | 28.1          |
| Other Income   | 8.0                         | (2.4)        | 8.2           |
| <b>Total</b>   | <b>34.6</b>                 | <b>(7.5)</b> | <b>37.4</b>   |
| <b>Benefits and Expenses</b>   |                             |              |               |
| Benefits and Change in Reserves for Future Benefits                                    | 28.2                        | (10.8)       | 31.6          |
| Commissions  | 0.4                         | (42.9)       | 0.7           |
| Other Expenses   | 2.1                         | 40.0         | 1.5           |
| <b>Total</b>   | <b>30.7</b>                 | <b>(9.2)</b> | <b>33.8</b>   |
| <b>Operating Income Before Income Tax and Net Realized Investment Gains and Losses</b> | <b>\$ 3.9</b>               | <b>8.3</b>   | <b>\$ 3.6</b> |

**Reinsurance Pools and Management**

Our reinsurance operations include the reinsurance management operations of Duncanson & Holt, Inc. and the risk assumption, which includes reinsurance pool participation; direct reinsurance, which includes accident and health, long-term care, and long-term disability coverages; and Lloyd's of London syndicate participations. During the first quarter of 2008, this line of business reported an operating loss of \$2.5 million compared to an operating loss of \$0.8 million in the first quarter of 2007.



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## **Table of Contents**

### ***Individual Life and Corporate-Owned Life***

During 2000, we reinsured substantially all of the individual life and corporate-owned life insurance blocks of business and ceded approximately \$3.3 billion of reserves to the reinsurer. The \$388.2 million before-tax gain on these transactions was deferred and is being amortized into income based upon expected future premium income on the traditional insurance policies ceded and estimated future gross profits on the interest-sensitive insurance policies ceded. A portion of the ceded corporate-owned life insurance block of business surrendered during 2007. The termination of this fully ceded business had no impact on our operating results and will not materially affect the amortization of the deferred gain.

Total operating revenue for individual life and corporate-owned life insurance was \$8.3 million and \$9.2 million in the first quarters of 2008 and 2007, respectively. Operating income for the same periods was \$6.8 million and \$8.2 million.

### ***Other***

Group pension, health insurance, individual annuities, and other closed lines of business had combined operating revenue of \$24.3 million in the first quarter of 2008 compared to \$25.9 million in the first quarter of 2007. These closed lines of business had combined operating losses for the same periods of \$0.4 million and \$3.8 million.

### **Corporate Segment**

The Corporate segment includes investment income on corporate assets not specifically allocated to a line of business, corporate interest expense, and certain corporate income and expense not allocated to a line of business.

Operating revenue in the Corporate segment was \$26.7 million in the first quarter of 2008 compared to \$10.3 million in the first quarter of 2007. The increased operating revenue in the first quarter of 2008 compared to the prior year first quarter is due primarily to an increase in net investment income resulting from higher levels of assets held by the Corporate segment. This trend will continue throughout 2008 until we redeploy the excess capital to other uses.

The Corporate segment reported operating losses of \$21.6 million and \$39.6 million in the first quarters of 2008 and 2007, respectively. Interest and debt expense was \$43.9 million in the first quarter of 2008 compared to \$45.9 million in the first quarter of 2007, excluding \$2.4 million of costs related to early retirement of debt in the first quarter of 2007. See *Debt* contained herein in Item 2 for further discussion.

### **Discontinued Operations**

During the first quarter of 2007, we completed the sale of GENEX and recognized an after-tax gain on the transaction of approximately \$6.2 million. This gain is included with income from discontinued operations in our statements of income. Also included in discontinued operations is after-tax income for GENEX of \$0.7 million, in the first quarter of 2007. See Note 2 of the *Notes to Consolidated Financial Statements* contained herein in Item 1 for additional information.

### **Investments**

#### ***Overview***

Investment activities are an integral part of our business, and profitability is significantly affected by investment results. We segment our invested assets into portfolios that support our various product lines. Generally, our investment strategy for our portfolios is to match the effective asset cash flows and durations with related expected liability cash flows and durations to consistently meet the liability funding requirements of our businesses. We try to maximize investment income and assume credit risk in a prudent and selective manner, subject to constraints of

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**Table of Contents**

quality, liquidity, diversification, and regulatory considerations. Our overall investment philosophy is to invest in a portfolio of high quality assets that provide investment returns consistent with those assumed in the pricing of our insurance products. Assets are invested predominately in fixed maturity securities, and the portfolio is matched with liabilities so as to eliminate as much as possible our exposure to changes in the overall level of interest rates. Changes in interest rates may affect the amount and timing of cash flows. For information on our formal investment philosophy, including our overall quality and diversification objectives, see "Investments" in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2007.

We actively manage our asset and liability cash flow match, as well as our asset and liability duration match to minimize interest rate risk. We may redistribute investments within our different lines of business, when necessary, to adjust the cash flow and/or duration of the asset portfolios to better match the cash flow and duration of the liability portfolios. Asset and liability portfolio modeling is updated on a quarterly basis and is used as part of the overall interest rate risk management strategy. Cash flows from the inforce asset and liability portfolios are projected at current interest rate levels and also at levels reflecting an increase and a decrease in interest rates to obtain a range of projected cash flows under the different interest rate scenarios. These results enable us to assess the impact of projected changes in cash flows and duration resulting from potential changes in interest rates. Testing the asset and liability portfolios under various interest rate scenarios enables us to choose the most appropriate investment strategy as well as to minimize the risk of disadvantageous outcomes. This analysis is a precursor to our activities in derivative financial instruments, which are used to hedge interest rate risk and to manage duration match.

Our investment portfolio consists primarily of fixed income securities. We have established an investment strategy that we believe will provide for adequate cash flows from operations and allow us to hold our securities through periods where significant decreases in fair value occur. We have no exposure to subprime mortgages or collateralized debt obligations in our asset-backed or mortgage-backed securities portfolios, our exposure to Alt-A loans within our mortgage-backed securities portfolio is \$5.5 million, and we hold \$2.0 million of collateralized debt obligations within our public bond portfolio. We have \$132.3 million of exposure to investments for which the payment of interest and principal is guaranteed under a financial guaranty insurance policy. The weighted average rating of the underlying securities, absent the guaranty insurance policy, is A1.

We recognize impairment losses when we determine that the value of certain fixed maturity securities has other than temporarily declined during the applicable reporting period, as well as when there are further declines in the values of fixed maturity securities that were initially written down in a prior period. See "Critical Accounting Estimates" in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2007, for a complete discussion of the valuation of fixed maturity securities.

*Investment Results*

Net investment income was \$591.4 million in the first quarter of 2008, an increase of 0.3 percent relative to the prior year first quarter. The level of invested assets was higher in the first quarter of 2008 relative to the prior year, but we received fewer bond call premiums.

The overall yield in our investment portfolio was 6.70 percent as of March 31, 2008, and the weighted average credit rating was A2. This compares to an overall yield in the portfolio of 6.66 percent as of December 31, 2007 and a weighted average credit rating of A2. At March 31, 2008, the weighted average duration of our policyholder liability portfolio was approximately 7.69 years, and the weighted average duration of our investment portfolio supporting those policyholder liabilities was approximately 7.02 years.

**Table of Contents**

We report changes in the fair values of embedded derivatives in certain modified coinsurance arrangements as realized investment gains and losses, as required under the provisions of DIG Issue B36. During the first quarter of 2008, changes in the fair value of these embedded derivatives resulted in a realized loss of \$64.1 million, which resulted primarily from a continued widening of credit spreads in the overall investment market.

Realized investment gains and losses, before tax, are as follows:

*(in millions of dollars)*

|  | <b>Three Months Ended March 31</b> |             |
|--|------------------------------------|-------------|
|  | <b>2008</b>                        | <b>2007</b> |
| <b>Gross Realized Investment Gain from Sales</b>         | \$ 23.7                            | \$ 19.9     |
| <b>Gross Realized Investment Loss</b>                    |                                    |             |
| Write-downs  | 11.3                               | 6.6         |
| Sales  | 16.8                               | 13.6        |
| Total  | 28.2                               | 20.2        |
| <b>Change in Fair Value of DIG Issue B36 Derivatives</b> | (64.1)                             | (3.4)       |
| <b>Net Realized Investment Loss</b>                      | \$ 68.5                            | \$ 3.7      |

We had no individual realized investment losses \$10.0 million or greater from other than temporary impairments or from the sale of fixed maturity securities during the first quarters of 2008 or 2007.

*Fair Value Measurements*

Effective January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is intended to increase consistency and comparability among fair value estimates used in financial reporting. It does not require any new fair value measurements. SFAS 157 clarifies a number of considerations with respect to fair value measurement objectives for financial reporting and expands disclosure about the use of fair value measurements, with particular emphasis on the inputs used to measure fair value. This disclosure is intended to provide users of the financial statements the ability to assess the reliability of an entity's fair value measurements. The adoption of SFAS 157 did not materially change the approach or methods we utilize for determining fair value measurements or the fair values derived under those methods.

**Definition of Fair Value**

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and, therefore, represents an exit price, not an entry price. The exit price objective applies regardless of a reporting entity's intent and/or ability to sell the asset or transfer the liability at the measurement date.

The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted have less observability and are measured at fair value using valuation techniques that require more judgment. Pricing

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## Table of Contents

observability is generally impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, and overall market conditions.

### Valuation Techniques

In accordance with SFAS 157, valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types:

1. The *market approach* uses prices and other relevant information from market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach often use market multiples derived from a set of comparables or matrix pricing. Market multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering both quantitative and qualitative factors specific to the measurement. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities but comparing the securities to benchmark or comparable securities.
2. The *income approach* converts future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. Income approach techniques rely on current market expectations of future amounts. Examples of income approach valuation techniques include present value techniques, option-pricing models that incorporate present value techniques, and the multi-period excess earnings method.
3. The *cost approach* is based upon the amount that currently would be required to replace the service capacity of an asset, or the current replacement cost. That is, from the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available. In some cases, a single valuation technique will be appropriate (for example, when valuing an asset or liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate. If we use multiple valuation techniques to measure fair value, we evaluate and weigh the results, as appropriate, considering the reasonableness of the range indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

The selection of the valuation method(s) to apply considers the definition of an exit price and depends on the nature of the asset or liability being valued. For assets and liabilities accounted for at fair value, we generally use the market approach, and to a lesser extent, the income approach. During the quarter ended March 31, 2008, we have applied valuation techniques on a consistent basis to similar assets and liabilities and consistent with those techniques used at year end 2007.

### Inputs to Valuation Techniques

Inputs refer broadly to the assumptions that market participants use in pricing assets or liabilities, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable.

*Observable inputs* are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources.

*Unobservable inputs* are inputs that reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.



**Table of Contents**

Observable inputs which we utilize to determine the fair values of our investments and derivative financial instruments include indicative broker prices and prices obtained from external pricing services. We review these prices to ensure they include references to a variety of observable inputs and to verify the validity of a security's price. These inputs, along with our knowledge of the financial conditions and industry in which the issuer operates, will be considered in determining whether the quoted or indicated price, as well as the change in price from quarter to quarter, are valid. On selected securities where there is not an indicated price, some of these inputs may be used to determine a price using a pricing matrix, or we may use a comparable security. The parameters and inputs used to validate a price on a security may be adjusted for assumptions about risk and current market conditions on a quarter to quarter basis, as certain features may be more significant drivers of valuation at the time of pricing. Changes to inputs in valuations are not changes to valuation methodologies; rather, the inputs are modified to reflect direct or indirect impacts on asset classes from changes in market conditions.

Inputs that may be used include the following:

Benchmark yields (Treasury and swap curves)

Transactional data for new issuance and secondary trades

Broker/dealer quotes and pricing

Security cash flows and structures

Recent issuance/supply

Sector and issuer level spreads

Credit ratings/maturity/weighted average life/seasoning/capital structure

Security optionality

Corporate actions

Underlying collateral

Prepayment speeds/loan performance/delinquencies

Public covenants

Comparative bond analysis

Derivative spreads

Third-party pricing sources

The overall valuation process for determining fair values may include adjustments to valuations obtained from our pricing sources. These adjustments may be made when, in our judgment, certain features of the financial instrument, such as its complexity or the market in which the financial instrument is traded (such as counterparty, credit, concentration, or liquidity), require that an adjustment be made to the value originally obtained from our pricing sources. Additionally, an adjustment from the price derived from a model typically reflects our judgment that other participants in the market for the financial instrument being measured at fair value would also consider such an adjustment in pricing that same financial instrument.

Certain of our investments do not have readily determinable market prices and/or observable inputs. For these securities, we use internally prepared valuations combining matrix pricing with vendor purchased software programs, including valuations based on estimates of future profitability, to estimate the fair value. Additionally, we may obtain prices from independent third-party brokers to aid in establishing valuations for certain of these securities. Key assumptions used by us to determine fair value for these securities include risk-free interest rates, risk premiums, performance of underlying collateral (if any), and other factors involving significant assumptions which may or may not reflect those of an active market.

As of March 31, 2008, the key assumptions we generally used to estimate the fair value of these types of securities included the following:

Risk free interest rates of 2.44 percent for five-year maturities to 4.29 percent for 30-year maturities were derived from the current yield curve for U.S. Treasury Bonds with similar maturities.

Current Baa corporate bond spreads ranging from 2.42 percent to 3.32 percent plus an additional 20 basis points were added to the risk free rate to reflect the lack of liquidity.

An additional five basis points were added to the risk free rates for foreign investments.

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**Table of Contents**

Additional basis points were added as deemed appropriate for certain industries and for individual securities in certain industries that are considered to be of greater risk.

Increasing the 20 basis points added to the risk free rate for lack of liquidity by 1.5 basis points, increasing the five basis points added to the risk free rates for foreign investments by one basis point, and increasing the additional basis points added to each industry considered to be of greater risk by one basis point would have decreased the March 31, 2008 net unrealized gain in the fixed maturity securities portfolio by approximately \$1.4 million. We believe this range of variability is appropriate, as the inputs noted have generally not deviated outside the range provided.

We regularly test the validity of the fair values determined by our valuation techniques by comparing the prices of assets sold to the fair values reported for the assets in the immediately preceding reporting period. Historically, our realized gains or losses on dispositions of investments have not varied significantly from amounts estimated under the valuation methodologies described above, which, combined with the results of our testing, indicates to us that our pricing methodologies are appropriate.

**Fair Value Hierarchy**

SFAS 157 requires financial instruments measured at fair value to be categorized into a three-level classification. The lowest level input that is significant to the fair value measurement of a financial instrument is used to categorize the instrument and reflects the judgment of management. Financial assets and liabilities presented at fair value in our consolidated balance sheets generally are categorized as follows:

Level 1 Inputs are unadjusted and represent quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 Inputs reflect our best estimate of what market participants would use in pricing the asset or liability at the measurement date. Generally, assets and liabilities carried at fair value and included in this category are comprised of certain mortgage and asset-backed securities, certain corporate fixed maturity securities, certain private equity investments, and certain derivatives. Financial assets and liabilities presented at fair value and categorized as Level 3 are generally those that are valued using unobservable inputs to extrapolate an estimated fair value. The inputs reflect our assumptions about the assumptions that market participants would use in pricing the instrument in a current period transaction, and outputs represent an exit price and expected future cash flows.

As of March 31, 2008, approximately 11.7 percent of our fixed maturity securities were categorized as Level 1, 87.1 percent as Level 2, and 1.2 percent as Level 3. See Note 4 of the Notes to Consolidated Financial Statements contained herein in Item 1 for additional information.

**Table of Contents***Fixed Maturity Securities*

Fixed maturity securities at March 31, 2008, included \$35.0 billion, or 99.0 percent, of bonds and \$355.9 million, or 1.0 percent, of redeemable preferred stocks. The following table shows the fair value composition by internal industry classification of the fixed maturity bond portfolio and the associated unrealized gains and losses.

**Fixed Maturity Bonds By Industry Classification**

As of March 31, 2008

*(in millions of dollars)*

| Classification                              | Fair Value         | Net<br>Unrealized<br>Gain<br>(Loss) | Fair Value of<br>Bonds with<br>Gross<br>Unrealized<br>Loss | Gross<br>Unrealized<br>Loss | Fair Value of<br>Bonds with<br>Gross<br>Unrealized<br>Gain | Gross<br>Unrealized<br>Gain |
|---|--------------------|-------------------------------------|--|-----------------------------|--|-----------------------------|
| Basic Industry                              | \$ 2,114.7         | \$ (10.1)                           | \$ 994.2   | \$ 91.2                     | \$ 1,120.5   | \$ 81.1                     |
| Canadian                                    | 282.6              | 64.5                                |  |                             | 282.6  | 64.5                        |
| Capital Goods                               | 2,761.3            | 52.4                                | 1,102.8  | 85.2                        | 1,658.5  | 137.6                       |
| Communications                              | 2,166.5            | (6.0)                               | 1,059.1  | 118.1                       | 1,107.4  | 112.1                       |
| Consumer Cyclical                           | 1,506.4            | (41.1)                              | 868.8  | 92.8                        | 637.6  | 51.7                        |
| Consumer Non-Cyclical                       | 4,031.2            | 67.4                                | 1,714.5  | 96.6                        | 2,316.7  | 164.0                       |
| Energy (Oil & Gas)                          | 2,432.0            | 179.6                               | 554.3  | 31.3                        | 1,877.7  | 210.9                       |
| Financial Institutions                      | 3,370.9            | (180.6)                             | 2,590.1  | 227.6                       | 780.8  | 47.0                        |
| Mortgage/Asset-Backed                       | 4,228.3            | 241.9                               | 344.8  | 12.5                        | 3,883.5  | 254.4                       |
| Sovereigns                                  | 1,102.7            | 74.7                                | 253.9  | 3.9                         | 848.8  | 78.6                        |
| Technology                                  | 611.7              | 1.6                                 | 313.8  | 22.2                        | 297.9  | 23.8                        |
| Transportation                              | 973.5              | 43.1                                | 333.4  | 24.7                        | 640.1  | 67.8                        |
| U.S. Government Agencies and Municipalities | 2,398.8            | 57.9                                | 1,166.2  | 138.4                       | 1,232.6  | 196.3                       |
| Utilities                                   | 6,990.7            | 65.0                                | 3,666.6  | 222.9                       | 3,324.1  | 287.9                       |
| <b>Total</b>                                | <b>\$ 34,971.3</b> | <b>\$ 610.3</b>                     | <b>\$ 14,962.5</b>   | <b>\$ 1,167.4</b>           | <b>\$ 20,008.8</b>   | <b>\$ 1,777.7</b>           |

The following table is a distribution of the maturity dates for fixed maturity bonds in an unrealized loss position at March 31, 2008.

**Fixed Maturity Bonds - By Maturity**

As of March 31, 2008

*(in millions of dollars)*

|                                  | Fair Value of Bonds with<br>Gross Unrealized<br>Loss | Gross Unrealized<br>Loss |
|----------------------------------|--|--------------------------|
| Due in 1 year or less            | \$ 165.3   | \$ 0.9                   |
| Due after 1 year up to 5 years   | 1,201.3  | 35.1                     |
| Due after 5 years up to 10 years | 4,000.5  | 252.3                    |
| Due after 10 years               | 9,250.6  | 866.6                    |
| <b>Subtotal</b>                  | <b>14,617.7</b>                                      | <b>1,154.9</b>           |
| Mortgage/Asset-Backed Securities | 344.8  | 12.5                     |
| <b>Total</b>                     | <b>\$ 14,962.5</b>                                   | <b>\$ 1,167.4</b>        |

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Of the \$1,167.4 million in gross unrealized losses at March 31, 2008, \$959.1 million, or 82.2 percent, are related to investment-grade fixed maturity bonds and result primarily from increases in interest rates or changes in market or sector credit spreads which occurred subsequent to acquisition of the bonds. The following table shows the length of time the investment-grade fixed maturity bonds had been in a gross unrealized loss position as of March 31, 2008.

**Table of Contents****Unrealized Loss on Investment-Grade Fixed Maturity Bonds****Length of Time in Unrealized Loss Position****As of March 31, 2008***(in millions of dollars)*

|                      | <b>Fair Value</b> | <b>Gross Unrealized Loss</b> |
|----------------------|-------------------|------------------------------|
| <= 90 days           | \$ 2,900.4        | \$ 110.7                     |
| > 90 <= 180 days     | 536.5             | 23.5                         |
| > 180 <= 270 days    | 480.3             | 29.7                         |
| > 270 <= 1 year      | 1,474.6           | 85.3                         |
| > 1 year <= 2 years  | 2,284.3           | 161.6                        |
| > 2 years <= 3 years | 4,674.4           | 403.0                        |
| > 3 years            | 1,200.1           | 113.1                        |

|       |             |          |
|-------|-------------|----------|
| Total | \$ 13,550.6 | \$ 926.9 |
|-------|-------------|----------|

*Fair value < 70% >= 40% of amortized cost*

|                      |        |        |
|----------------------|--------|--------|
| > 2 years <= 3 years | \$ 1.3 | \$ 0.6 |
| > 3 years            | 48.9   | 31.6   |

|       |         |         |
|-------|---------|---------|
| Total | \$ 50.2 | \$ 32.2 |
|-------|---------|---------|

The following table shows the length of time the below-investment-grade fixed maturity bonds had been in a gross unrealized loss position as of March 31, 2008. The relationships of the current fair value to amortized cost are not necessarily indicative of the fair value to amortized cost relationships for the securities throughout the entire time that the securities have been in an unrealized loss position nor are they necessarily indicative of the relationships after March 31, 2008.

**Unrealized Loss on Below-Investment-Grade Fixed Maturity Bonds****Length of Time in Unrealized Loss Position****As of March 31, 2008***(in millions of dollars)*

|                      | <b>Fair Value</b> | <b>Gross Unrealized Loss</b> |
|----------------------|-------------------|------------------------------|
| <= 90 days           | \$ 209.6          | \$ 7.9                       |
| > 90 <= 180 days     | 173.9             | 8.1                          |
| > 180 <= 270 days    | 152.7             | 22.5                         |
| > 270 <= 1 year      | 312.5             | 30.4                         |
| > 1 year <= 2 years  | 104.5             | 23.9                         |
| > 2 years <= 3 years | 201.6             | 38.4                         |
| > 3 years            | 80.8              | 12.0                         |

|       |            |          |
|-------|------------|----------|
| Total | \$ 1,235.6 | \$ 143.2 |
|-------|------------|----------|

*Fair value < 70% >= 40% of amortized cost*

|                   |        |        |
|-------------------|--------|--------|
| > 180 <= 270 days | \$ 3.4 | \$ 1.6 |
|-------------------|--------|--------|

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|                      |          |         |
|----------------------|----------|---------|
| > 270 <= 1 year      | 25.9     | 13.8    |
| > 2 years <= 3 years | 74.5     | 39.2    |
| > 3 years            | 22.3     | 10.5    |
|                      | \$ 126.1 | \$ 65.1 |

**Table of Contents**

As of March 31, 2008, we held 13 securities with a gross unrealized loss of \$10.0 million or greater, as shown in the chart below.

**Gross Unrealized Losses on Fixed Maturity Bonds****\$10.0 Million or Greater**

As of March 31, 2008

(in millions of dollars)

| <b>Fixed Maturity Bonds</b>                        | <b>Fair Value</b> | <b>Gross Unrealized Loss</b> | <b>Length of Time in a Loss Position</b> |
|--|-------------------|------------------------------|--|
| <i>Investment-Grade</i>                            |                   |                              |  |
| Canadian Based Railroad Company                    | \$ 72.3           | \$ 11.9                      | > 270 <= 1 year                          |
| United Kingdom Based Financial Institution         | 66.3              | 14.2                         | > 1 year <= 2 years                      |
| U.S. Government Sponsored Mortgage Funding Company | 413.3             | 59.5                         | > 2 years <= 3 years                     |
| Netherlands Based Financial Institution            | 46.8              | 11.8                         | > 2 years <= 3 years                     |
| U.S. Government Sponsored Mortgage Funding Company | 737.9             | 78.4                         | > 3 years                                |
| Principal Protected Equity Linked Note             | 48.9              | 31.6                         | > 3 years                                |
| U.S. Based Electric Utility Company                | 67.5              | 11.6                         | > 3 years                                |
| U.S. Based Media Conglomerate                      | 61.9              | 10.9                         | > 3 years                                |
| <b>Total</b>                                       | <b>\$ 1,514.9</b> | <b>\$ 229.9</b>              |  |
| <i>Below-Investment Grade</i>                      |                   |                              |  |
| U.S. Based Financial Services Company              | \$ 26.2           | \$ 10.4                      | > 180 <= 270 days                        |
| United Kingdom Based Financial Institution         | 16.6              | 13.2                         | > 1 year <= 2 years                      |
| South African Based Paper Products Company         | 27.0              | 13.5                         | > 2 years <= 3 years                     |
| U.S. Based Automobile Manufacturer                 | 25.4              | 11.8                         | > 2 years <= 3 years                     |
| U.S. Based Media Conglomerate                      | 27.0              | 12.7                         | > 3 years                                |
| <b>Total</b>                                       | <b>\$ 122.2</b>   | <b>\$ 61.6</b>               |  |

Unrealized losses on investment-grade fixed maturity securities principally relate to changes in interest rates or changes in market or sector credit spreads which occurred after the acquisition of the securities. These changes are generally temporary and are not recognized as realized investment losses unless the securities are sold, it becomes unlikely that we will hold the securities until recovery based on relevant facts and circumstances, or the securities become other than temporarily impaired. Generally, below-investment-grade fixed maturity securities are more likely to develop credit concerns. In determining whether a decline in fair value below amortized cost of a fixed maturity security is other than temporary, we utilize a formal, well-defined, and disciplined process to monitor and evaluate our fixed income investment portfolio. The process results in a thorough evaluation of problem investments and the recording of realized losses on a timely basis for investments determined to have an other than temporary impairment.

For those fixed maturity securities with an unrealized loss and on which we have not recorded an impairment loss, we believe that the decline in fair value below amortized cost is temporary. We have the ability and intent to hold our securities to the earlier of recovery or maturity. If information becomes available that changes our assessment as to whether we will receive contractual payments related to a fixed maturity security and the security is also not projected to recover in value, the related security is generally sold. We may also in certain circumstances sell a security in an unrealized loss position because of changes in tax laws, when a merger or the disposition of a segment or product line results in positions outside of our investment guidelines, due to changes in regulatory or capital requirements, due to unexpected changes in liquidity needs, to better match portfolio cash flows, or to take advantage of relative value opportunities or tender offers that recover up to or beyond the cost of the investment.





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**Table of Contents**

For those securities with a gross unrealized loss of \$10.0 million or greater, further discussed as follows are (a) the factors which we believe resulted in the impairment and (b) the information we considered, both positive and negative, in reaching the conclusion that the impairments were not other than temporary.

**Investment-Grade Fixed Maturity Securities:**

The decline in fair value of the Canadian based railroad company securities is due primarily to the increase in leverage resulting from its recent acquisition of another railroad company. The company has also been negatively impacted by the strengthening Canadian dollar and increased labor costs. Additionally, pressure from shareholders to increase equity returns has negatively impacted the company's bond values. Operationally, the company continues to perform as one of the most efficient in the industry. The company continues to produce strong cash flow and is free cash flow positive. The company has sufficient liquidity to service its debt obligations. We believe the decline in fair value of these securities is temporary. We have the ability to hold these securities to the earlier of recovery or maturity.

The decline in fair value of the United Kingdom based financial institution securities is due to a lack of market liquidity currently affecting most European financial institutions. This company is well diversified and has global market operations in capital markets, asset-backed securities, wealth management, asset management, commodities, and insurance. Some of the countries in which this institution operates are going through an economic slowdown which may lower earnings over the near term. We believe the decline in fair value of these securities is temporary. We have the ability to hold these securities to the earlier of recovery or maturity.

The first fixed maturity bond of the U.S. government sponsored mortgage funding company was issued by the Federal Home Loan Bank. The bond was rated AAA by Standard & Poor's Corporation (S&P) as of March 31, 2008, with no negative outlook by rating agencies or in analysts' reports. The change in the market value of this security relates to changes in interest rates after the purchase of the bond. We believe the decline in fair value of this security is temporary. The market value of this security will increase if interest rates decline to levels similar to when the bonds were purchased. We believe this is likely to occur over the life of the security. We have the ability to hold this security to the earlier of recovery or maturity.

The fair value of the Netherlands based financial institution securities declined due to a lack of market liquidity currently affecting most European financial institutions. The company is well diversified in the various financial products and services it offers. In recent years, the company has expanded into other countries, some of which are experiencing an economic slowdown. We believe the decline in fair value of these securities is temporary. We have the ability to hold these securities to the earlier of recovery or maturity.

The second fixed maturity bond of the U.S. government sponsored mortgage funding company was issued by the Federal Home Loan Mortgage Corporation. The bond was rated AAA by S&P as of March 31, 2008, with no negative outlook by rating agencies or in analysts' reports. The change in the market value of this security relates to changes in interest rates after the purchase of the bond. We believe that the decline in fair value of this security is temporary. The market value of this security will increase if interest rates decline to levels similar to when the bonds were purchased. We believe this is likely to occur over the life of the security. We have the ability to hold this security to the earlier of recovery or maturity.

The principal protected equity linked note is a zero coupon bond, issued by a large, well capitalized Fortune 500 financial services company, the return of which is linked to a Vanguard S&P 500 index mutual fund. This bond matures on August 24, 2020 and carried the AA rating of the issuer, as determined by S&P as of March 31, 2008. This note has an embedded derivative contract and substitutes highly rated bonds in place of the underlying S&P 500 index mutual fund to provide principal protection if there is a significant decline in the equities market. The note derives its value from the underlying S&P 500 index mutual fund. This note is currently at an unrealized loss because



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**Table of Contents**

the fixed rate of accretion on the note has exceeded the rate of return on the underlying S&P 500 index fund since the purchase date of the note. Based on historical long-term returns of the S&P 500 index, we believe that the value of the underlying S&P 500 index mutual fund will equate to or exceed the par value of the security at maturity. We believe that the decline in fair value of the note is temporary. We have the ability to hold this security to the earlier of recovery or maturity.

The fair value of the U.S. based regulated electric utility company securities declined due to widening credit spreads affecting lower rated investment-grade utilities. The company has sufficient liquidity to satisfy its obligations. We believe the decline in fair value of these securities is temporary. We have the ability to hold these securities to the earlier of recovery or maturity.

The fair value of the U.S. based media conglomerate securities declined due to general widening of credit spreads in the media industry as well as widespread rumors of a purchase transaction which would increase the company's leverage. The company generates significant free cash flow, maintains a sizeable cash balance, and owns interests in various media businesses which could be sold to lower leverage should a potential debt-financed transaction occur. We believe the decline in fair value of these securities is temporary. We have the ability to hold these securities to the earlier of recovery or maturity.

**Below-Investment-Grade Fixed Maturity Securities:**

The fair value of the U.S. based financial services company securities declined primarily due to losses reported by its residential real estate finance subsidiary. These losses are a result of a decline in housing prices, higher mortgage delinquencies, and a decline in value of mortgages held for investment. This subsidiary is considered bankruptcy remote, and the company's core automotive finance business has strong liquidity and capital support. We believe the decline in fair value of these securities is temporary. We have the ability to hold these securities to the earlier of recovery or maturity.

The fair value of the United Kingdom based financial institution securities declined due to a significant decrease in funding liquidity which ultimately required the U.K. Treasury to nationalize the institution. In this process, the government will guarantee the institution's deposits and senior debt. The institution has a good quality loan book, and its capital is sufficiently above the regulatory minimum. We believe the decline in fair value of these securities is temporary. We have the ability to hold these securities to the earlier of recovery or maturity.

The fair value of South African based paper products company securities declined primarily as a result of excess capacity of key paper grades in Europe, which has caused lower prices. Additionally, the value of the bonds has been affected by the general widening of credit spreads. The company has paper capacity, strong market positions, and favorable liquidity. We believe the decline in fair value of these securities is temporary. We have the ability to hold these securities to the earlier of recovery or maturity.

The fixed maturity bonds of the U.S. based automobile manufacturer are securities issued by the manufacturer and its captive finance subsidiary. The reduction in market value of these securities is due primarily to a decline in profitability and cash flow due to the competitive environment, a loss of market share, the shift in consumer demand, and an increase in the cost of raw materials and employee healthcare and pension benefits. The company and its finance subsidiary both have substantial liquidity, and the company has non-core automotive brands available for sale. Given this available liquidity, we believe that the decline in fair value of these securities is temporary. We have the ability to hold these securities to the earlier of recovery or maturity.

The fair value of the U.S. based media conglomerate securities declined in value due to the potential increase in leverage if its proposed leveraged buyout transaction is completed as well as a general widening of credit spreads in the media industry. The company should continue to generate sufficient cash flow to service its debt obligations, and it has ownership interests in a variety of media businesses that may be sold to further reduce leverage. We believe the decline in fair value of these securities is temporary. We have the ability to hold these securities to the earlier of recovery or maturity.



**Table of Contents**

Our mortgage/asset-backed securities were approximately \$4.0 billion on an amortized cost basis at March 31, 2008 and December 31, 2007. At March 31, 2008, the mortgage/asset-backed securities had an average life of 6.6 years, effective duration of 5.5 years, and a weighted average credit rating of AAA. The mortgage/asset-backed securities are valued on a monthly basis using valuations supplied by the brokerage firms that are dealers in these securities as well as independent pricing services. The primary risk involved in investing in mortgage/asset-backed securities is the uncertainty of the timing of cash flows from the underlying loans due to prepayment of principal with the possibility of reinvesting the funds in a lower interest rate environment. We use models which incorporate economic variables and possible future interest rate scenarios to predict future prepayment rates.

We have not invested in mortgage-backed derivatives, such as interest-only, principal-only, or residuals, where market values can be highly volatile relative to changes in interest rates. All of our mortgage-backed securities are fixed rate. The credit quality of our mortgage-backed securities portfolio has not been negatively impacted by the recent issues in the market concerning subprime mortgage loans. The change in value of our mortgage-backed securities portfolio has moved in line with that of prime agency-backed mortgage-backed securities.

As of March 31, 2008, our exposure to below-investment-grade fixed maturity securities was \$1,986.7 million, approximately 5.2 percent of the fair value of invested assets excluding ceded policy loans. Below-investment-grade bonds are inherently more risky than investment-grade bonds since the risk of default by the issuer, by definition and as exhibited by bond rating, is higher. Also, the secondary market for certain below-investment-grade issues can be highly illiquid. Additional downgrades may occur, but we do not anticipate any liquidity problem caused by our investments in below-investment-grade securities, nor do we expect these investments to adversely affect our ability to hold our other investments to maturity.

We have a significant interest in, but are not the primary beneficiary of, a special purpose entity which is a collateralized bond obligation asset trust (CBO) in which we hold interests in several of the tranches and for which we act as investment manager of the underlying high-yield securities. This entity is a cash flow CBO and was fully funded at the time of issuance. Our potential losses in this CBO are limited to our investment in the entity. Our investment in this entity is reported at fair value with fixed maturity securities in the consolidated balance sheets. The fair value of this investment was derived from the fair value of the underlying assets. The fair value and amortized cost of this investment were \$10.9 million and \$10.8 million, respectively, at March 31, 2008, and \$12.0 million and \$11.8 million, respectively, at December 31, 2007.

*Mortgage Loans and Real Estate*

Our mortgage loan portfolio was \$1,087.9 million and \$1,068.9 million on an amortized cost basis at March 31, 2008 and December 31, 2007, respectively. Our mortgage loan portfolio is comprised entirely of commercial mortgage loans. We expect that we will continue to add investments in this category either through the secondary market or through loan originations. We believe our mortgage loan portfolio is well diversified geographically and among property types. The incidence of problem mortgage loans and foreclosure activity remains low, and we expect the level of delinquencies and problem loans to remain low in the future. At March 31, 2008, delinquent mortgage loans, or those past due more than 30 days as to interest or principal payments, totaled \$1.4 million. We had no delinquent mortgage loans at December 31, 2007 and no impaired mortgage loans at March 31, 2008 or December 31, 2007.

Real estate was \$18.7 million and \$18.2 million at March 31, 2008 and December 31, 2007, respectively. Investment real estate is carried at cost less accumulated depreciation. Real estate acquired through foreclosure is valued at fair value at the date of foreclosure and may be classified as investment real estate if it meets our investment criteria. If investment real estate is determined to be permanently impaired, the carrying amount of the asset is reduced to fair value. Occasionally, investment real estate is reclassified to real estate held for sale when it no longer meets our investment criteria. Real estate held for sale, which is valued net of a valuation allowance that reduces the carrying value to the lower of cost or fair value less estimated cost to sell, was \$8.9 million at March 31, 2008 and December 31, 2007.

We use a comprehensive rating system to evaluate the investment and credit risk of each mortgage loan and to identify specific properties for inspection and reevaluation. We establish an investment valuation allowance for mortgage loans based on a review of individual loans and the overall loan portfolio, considering the value of the

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**Table of Contents**

underlying collateral. Investment valuation allowances for real estate held for sale are established based on a review of specific assets. If a decline in value of a mortgage loan or real estate investment is considered to be other than temporary or if the asset is deemed permanently impaired, the investment is reduced to estimated net realizable value, and the reduction is recognized as a realized investment loss. We monitor the risk associated with these invested asset portfolios and regularly review and adjust the investment valuation allowance. We had no valuation allowance for mortgage loans at March 31, 2008 or December 31, 2007. The balance in the valuation allowance for real estate was \$7.6 million at March 31, 2008 and December 31, 2007.

*Derivative Financial Instruments*

We use derivative financial instruments to manage reinvestment risk, duration, and currency risk. Historically, we have utilized interest rate futures contracts, current and forward interest rate swaps and options on forward interest rate swaps, current and forward currency swaps, interest rate forward contracts, forward treasury locks, currency forward contracts, and forward contracts on specific fixed income securities. All of these freestanding derivative transactions are hedging in nature and not speculative. Positions under our hedging programs for derivative activity that were open during the first quarter of 2008 involved forward interest rate swaps, current and forward currency swaps, currency forward contracts, and options on forward interest rate swaps. Almost all hedging transactions are associated with the individual and group long-term care and the individual and group disability products. All other product portfolios are periodically reviewed to determine if hedging strategies would be appropriate for risk management purposes.

During the first quarters of 2008 and 2007, we recognized net gains of \$64.6 million and \$7.9 million, respectively, on the termination of cash flow hedges and reported \$67.1 million and \$7.9 million, respectively, in other comprehensive income (loss). During the first quarter of 2008 we reported a net loss of \$2.5 million as a component of realized investment gains and losses. We amortized \$4.8 million and \$6.9 million of net deferred gains into net investment income in the first quarters of 2008 and 2007, respectively.

Our current credit exposure on derivatives, which is limited to the value of those contracts in a net gain position less collateral held, was \$29.4 million at March 31, 2008. The carrying value of fixed maturity securities pledged as collateral to our counterparties was \$206.7 million at March 31, 2008.

Additions and terminations, in notional amounts, to our hedging programs during the first quarter of 2008 were \$569.5 million and \$757.1 million, respectively, and in the first quarter of 2007 were \$90.0 million and \$284.0 million, respectively. Additions and terminations include roll activity, which is the closing out of an old contract and the initiation of a new one when a contract is about to mature but the need for it still exists. The notional amount of derivatives outstanding under the hedge programs was \$2,798.1 million at March 31, 2008 and \$2,985.7 million at December 31, 2007.

As of March 31, 2008 and December 31, 2007, we had \$1,520.0 million and \$1,645.0 million, respectively, notional amount of forward starting interest rate swaps outstanding to lock in the reinvestment rates on future anticipated cash flows through the year 2013 for certain of our long-term product portfolios.

As of March 31, 2008 and December 31, 2007, we had \$333.5 million notional amount of currency swaps and \$216.3 million notional amount of forward currency contracts outstanding to hedge the foreign currency risk associated with the U.S. dollar denominated debt issued by one of our U.K. subsidiaries.

As of March 31, 2008 and December 31, 2007, we had \$604.5 million and \$612.1 million, respectively, notional amount of open current and forward foreign currency swaps to hedge fixed income foreign dollar denominated securities.

As of March 31, 2008 and December 31, 2007, we had \$25.0 million and \$80.0 million, respectively, notional amount of open options on forward interest rate swaps to lock in a reinvestment rate floor for the reinvestment of cash flows from renewals on policies with a one to two year minimum premium rate guarantee.

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## **Table of Contents**

We have invested in certain structured fixed maturity securities that contain embedded derivatives with a notional amount of \$98.8 million as of March 31, 2008 and December 31, 2007. These embedded derivatives represent forward contracts and are accounted for as cash flow hedges. The purpose of these forward contracts is to hedge the risk of changes in cash flows related to the anticipated purchase of certain equity securities in the years 2020 through 2022.

We also have embedded derivatives associated with modified coinsurance contracts. Those derivatives are not designated as hedging instruments, and the change in fair value is reported as a realized investment gain or loss during the period of change. Due to the change in fair value of these embedded derivatives, we recognized \$64.1 million and \$3.4 million of net realized investment losses during the first quarters of 2008 and 2007, respectively.

### *Other*

Our exposure to non-current investments, on a fair value basis, totaled \$4.0 million and \$2.6 million at March 31, 2008 and December 31, 2007, respectively.

We have an investment program where we simultaneously enter into repurchase agreement transactions and reverse repurchase agreement transactions with the same party. We net the related receivables and payables in the consolidated balance sheets since these transactions meet the requirements for the right of offset. We did not have any of these agreements in an open position at March 31, 2008. We also use the repurchase agreement market as a source of short-term financing, but had no contracts for this purpose outstanding at March 31, 2008.

## **Liquidity and Capital Resources**

Our liquidity requirements are met primarily by cash flows provided from operations, principally in our insurance subsidiaries. Premium and investment income, as well as maturities and sales of invested assets, provide the primary sources of cash. Debt and/or securities offerings provide an additional source of liquidity. Cash is applied to the payment of policy benefits, costs of acquiring new business (principally commissions), operating expenses, and taxes, as well as purchases of new investments. We have established an investment strategy that we believe will provide for adequate cash flows from operations.

Our policy benefits are primarily in the form of claim payments, and we have minimal exposure to the policy withdrawal risk associated with deposit products such as individual life policies or annuities. A decrease in demand for our insurance products or an increase in the incidence of new claims or the duration of existing claims could negatively impact our cash flows from operations. Deterioration in the credit market, which could delay our ability to sell our positions in certain of our fixed maturity securities in a timely manner, could also negatively impact our cash flows. We believe our cash resources are sufficient to meet our liquidity requirements for the next 12 months.

During 2007, our board of directors authorized the repurchase of up to \$700.0 million of Unum Group's common stock. The share repurchase program does not have an expiration date, and the pace of repurchase activity will depend upon various factors such as the level of available cash, alternative uses for cash, and our stock price. The authorization may be modified, extended, or terminated by our board of directors at any time.

During January 2008, we repurchased approximately 14.0 million shares for \$350.0 million, using an accelerated share repurchase agreement. Under the terms of the repurchase agreement, we may receive, or be required to pay, a price adjustment based on the volume weighted average price of our common stock during the term of the agreement. Any price adjustment payable to us will be settled in shares of our common stock. Any price adjustment we are required to pay will be settled, at our option, in either cash or common stock. A 30 percent partial acceleration of the agreement, 4.2 million shares, occurred on March 26, 2008 and settled on March 28, 2008, with the price adjustment resulting in the delivery to us of approximately 0.5 million additional shares of our common stock. We expect the price adjustment on the remaining 9.8 million shares to settle on or before the completion of the agreement in May 2008.



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**Table of Contents**

During 2008, we intend to retain sufficient capital in our traditional U.S. insurance subsidiaries to maintain a weighted average RBC ratio in excess of our stated long-term objective of 300 percent. We also intend to maintain our leverage ratio at or slightly below our target levels. We expect that holding company liquidity will be in excess of \$300.0 million at the end of 2008.

Our cash flows from discontinued operations are combined with cash flows from continuing operations within each cash flow statement category in our consolidated statements of cash flows for the applicable periods. The absence of cash flows from discontinued operations has not, nor is it expected to, materially affect liquidity and capital resources.

*Consolidated Cash Flows*

Operating Cash Flows

Net cash provided by operating activities was \$274.4 million for the three months ended March 31, 2008, compared to \$280.2 million for the comparable period of 2007. Operating cash flows are primarily attributable to the receipt of premium and investment income, offset by payments of claims, commissions, expenses, and income taxes. Premium income growth is dependent not only on new sales, but on renewals of existing business, renewal price increases, and stable persistency. Investment income growth is dependent on the growth in the underlying assets supporting our insurance reserves and on the level of portfolio yield rates. Increases in commissions and operating expenses are attributable primarily to new sales growth and the first year acquisition expenses associated with new business. The level of paid claims is due partially to the growth and aging of the block of business and also to the general economy, as previously discussed in the operating results by segment. The other accrued liabilities adjustment to reconcile net income to net cash provided by operating activities declined \$69.2 million in the first quarter of 2008 compared to the first quarter of 2007 primarily as a result of a voluntary pension contribution to our U.S. qualified defined benefit plan of \$55.0 million.

Investing Cash Flows

Investing cash inflows consist primarily of the proceeds from the sales and maturities of investments. Investing cash outflows consist primarily of payments for purchases of investments. Net cash provided by investing activities was \$11.8 million for the three months ended March 31, 2008 compared to net cash used of \$77.2 million for the comparable period of 2007.

We had lower proceeds from sales and maturities of available-for-sale securities in the first quarter of 2008 compared to the first quarter of 2007, primarily due to a decrease in maturities of fixed maturity securities as well as a lower level of proceeds from bond calls. Proceeds from sales and maturities of other investments increased in the first quarter of 2008 primarily due to higher proceeds from terminations of derivatives within our cash flow hedging programs.

Purchases of available-for-sale securities decreased during the first quarter of 2008 relative to the prior year first quarter. The decline resulted in part from fewer funds available for reinvestment as compared to the prior year because of the lower level of proceeds from sales and maturities, as noted in the preceding paragraph. Also contributing to the comparatively lower purchases during 2008 was the investing of the net cash inflows of \$98.8 million, during the first quarter of 2007, from the sale of GENEX.

Purchases of other investments decreased during the first quarter of 2008 relative to the prior year first quarter due to a decline in the purchase of commercial mortgage loans.

Net sales of short-term investments increased during the first quarter of 2008 due in part to the sale of investments to fund the \$350.0 million accelerated share repurchase agreement executed in January 2008.

As noted above, the proceeds from dispositions in the first quarter of 2007 relate to the sale of GENEX.

**Table of Contents****Financing Cash Flows**

Financing cash flows consist primarily of borrowings and repayments of debt, issuance or repurchase of common stock, and dividends paid to stockholders. Net cash used by financing activities was \$400.5 million for the three months ended March 31, 2008 compared to \$188.9 million for the comparable period of 2007. As discussed previously, during the first quarter of 2008, we repurchased approximately 14.5 million shares of Unum Group's common stock for \$350.0 million using an accelerated share repurchase agreement. During the first quarter of 2007, we purchased \$150.0 million, aggregate principal amount of the remarketed senior note element of the 2004 units, which were subsequently retired. During the first quarters of 2008 and 2007, Tailwind Holdings made principal payments on its floating rate, senior secured non-recourse notes due 2036 of \$2.5 million and \$10.0 million, respectively. During the first quarter of 2008, Northwind Holdings made a \$15.0 million principal payment on its floating rate, senior secured non-recourse notes due 2037.

See "Debt" as follows for further information.

*Cash Available from Subsidiaries*

Unum Group and certain of its intermediate holding company subsidiaries and/or finance subsidiaries depend on payments from subsidiaries to pay dividends to stockholders, to pay debt obligations, and/or to pay expenses. These payments by our insurance and non-insurance subsidiaries may take the form of interest payments on loans from the parent to a subsidiary, operating and investment management fees, and/or dividends.

Restrictions under applicable state insurance laws limit the amount of ordinary dividends that can be paid to a parent company from its insurance subsidiaries in any 12-month period without prior approval by regulatory authorities. For life insurance companies domiciled in the United States, that limitation generally equals, depending on the state of domicile, either ten percent of an insurer's statutory surplus with respect to policyholders as of the preceding year end or the statutory net gain from operations, excluding realized investment gains and losses, of the preceding year.

The payment of ordinary dividends to a parent company from its insurance subsidiaries is generally further limited to the amount of statutory surplus as it relates to policyholders. Based on the restrictions under current law, during 2008, \$626.5 million is available for the payment of ordinary dividends to Unum Group from its traditional U.S. insurance subsidiaries, excluding Northwind Reinsurance Company and Tailwind Reinsurance Company.

Unum Group and/or certain of its finance subsidiaries may also receive dividends from its United Kingdom-based affiliate, Unum Limited, subject to applicable insurance company regulations and capital guidance in the United Kingdom. Approximately £202.1 million is available for the payment of dividends from Unum Limited during 2008, subject to regulatory approval.

The ability of Unum Group and certain of its intermediate holding company subsidiaries and/or finance subsidiaries to continue to receive dividends from their insurance subsidiaries without regulatory approval generally depends on the level of earnings of those insurance subsidiaries as calculated under law. In addition to regulatory restrictions, the amount of dividends that may be paid by insurance subsidiaries will depend on additional factors, such as RBC ratios, funding growth objectives at an affiliate level, and maintaining appropriate capital adequacy ratios to support desired ratings. Insurance regulatory restrictions do not limit the amount of dividends available for distribution from non-insurance subsidiaries except where the non-insurance subsidiaries are held directly or indirectly by an insurance subsidiary and only indirectly by Unum Group.

*Debt*

At March 31, 2008, we had long-term debt, including senior secured notes and junior subordinated debt securities, totaling \$2,497.7 million and short-term debt of \$175.0 million due in May 2008. Our leverage ratio, when calculated excluding the non-recourse debt and associated capital of Tailwind Holdings and Northwind Holdings was 21.9 percent at March 31, 2008, compared to 21.4 percent at December 31, 2007. Our leverage ratio, when calculated using consolidated debt to total consolidated capital, was 26.8 percent at March 31, 2008, compared to 26.4 percent at December 31, 2007.

**Table of Contents**

During the first quarter of 2008, we made principal payments of \$15.0 million on our senior secured non-recourse variable rate notes due 2037 which were issued by Northwind Holdings and principal payments of \$2.5 million on our senior secured non-recourse variable rate notes due 2036 which were issued by Tailwind Holdings.

See Debt in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2007, for further discussion.

*Commitments and Off-Balance Sheet Arrangements*

With respect to our commitments and off-balance sheet arrangements, see the discussions under Commitments and Off-Balance Sheet Arrangements in Part II, Item 7 of our annual report on Form 10-K for the year ended December 31, 2007. During the first quarter of 2008, there were no substantive changes in our commitments, contractual liabilities, or other off-balance sheet arrangements.

**Ratings**

A.M. Best Company (AM Best), Fitch Ratings (Fitch), Moody's Investors Service (Moody's), and Standard & Poor's Corporation (S&P) are among the third parties that assign issuer credit ratings to Unum Group and financial strength ratings to our insurance subsidiaries. Issuer credit ratings reflect an agency's opinion of the overall financial capacity of a company to meet its senior debt obligations. Financial strength ratings are specific to each individual insurance subsidiary and reflect each rating agency's view of the overall financial strength (capital levels, earnings, growth, investments, business mix, operating performance, and market position) of the insuring entity and its ability to meet its obligations to policyholders. Both the issuer credit ratings and financial strength ratings incorporate quantitative and qualitative analyses by rating agencies and are routinely reviewed and updated on an ongoing basis.

We compete based in part on the financial strength ratings provided by rating agencies. A downgrade of our financial strength ratings can be expected to adversely affect us and could potentially, among other things, adversely affect our relationships with distributors of our products and services and retention of our sales force, negatively impact persistency and new sales, particularly large case group sales and individual sales, and generally adversely affect our ability to compete. A downgrade in the issuer credit rating assigned to Unum Group can be expected to adversely affect our cost of capital or our ability to raise additional capital.

The table below reflects the issuer credit ratings for Unum Group and the financial strength ratings for each of our traditional insurance subsidiaries as of the date of this filing.

| <b>Issuer Credit Ratings</b>      | <b>AM Best</b><br>bbb- (Good) | <b>Fitch</b><br>BBB- (Good) | <b>Moody's</b><br>Ba1 (Speculative) | <b>S&amp;P</b><br>BB+ (Speculative) |
|-----------------------------------|-------------------------------|-----------------------------|-------------------------------------|-------------------------------------|
| <b>Financial Strength Ratings</b> |                               |                             |                                     |                                     |
| Provident Life & Accident         | A- (Excellent)                | A- (Strong)                 | Baa1 (Adequate)                     | BBB+ (Good)                         |
| Provident Life & Casualty         | A- (Excellent)                | A- (Strong)                 | Not Rated                           | Not Rated                           |
| Unum Life of America              | A- (Excellent)                | A- (Strong)                 | Baa1 (Adequate)                     | BBB+ (Good)                         |
| First Unum Life                   | A- (Excellent)                | A- (Strong)                 | Baa1 (Adequate)                     | BBB+ (Good)                         |
| Colonial Life & Accident          | A- (Excellent)                | A- (Strong)                 | Baa1 (Adequate)                     | BBB+ (Good)                         |
| Paul Revere Life                  | A- (Excellent)                | A- (Strong)                 | Baa1 (Adequate)                     | BBB+ (Good)                         |
| Paul Revere Variable              | A- (Excellent)                | A- (Strong)                 | Baa1 (Adequate)                     | Not Rated                           |
| Unum Limited                      | A- (Excellent)                | Not Rated                   | Not Rated                           | BBB+ (Good)                         |

We maintain an ongoing dialogue with the four rating agencies that evaluate us in order to inform them of progress we are making regarding our strategic objectives and financial plans, as well as other pertinent issues. A significant component of our communications involves an annual review meeting; included as well are other meetings not limited to quarterly updates regarding our business. We plan to hold our annual review with each of the rating agencies during the second and third quarters of 2008.

## **Table of Contents**

On January 29, 2008, AM Best reaffirmed the ratings of Unum Group and its operating subsidiaries and upgraded the outlook from negative to stable. The agency's revised outlook was positioned on our increased financial flexibility, the quality of our investment portfolio, the operational execution of our operating segments, and the completion of the claim reassessment process. On February 4, 2008, Fitch revised its outlook for Unum Group and its operating subsidiaries to positive from stable, citing our progress in increasing profitability and decreasing risk along with our improved capitalization levels as the basis for the upgrade. On February 14, 2008, Moody's revised its outlook for Unum Group and its operating subsidiaries to stable from negative, basing its revision on the overall improvement in our financial flexibility. There have been no other changes in any of the rating agencies' outlook statements or ratings during the first quarter of 2008 or prior to the date of this filing.

Agency ratings are not directed toward the holders of our securities and are not recommendations to buy, sell, or hold our securities. Each rating is subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be regarded as an independent assessment, not conditional on any other rating. Given the dynamic nature of the ratings process, changes by these or other rating agencies may or may not occur in the near-term.

See our annual report on Form 10-K for the year ended December 31, 2007, for further information regarding our debt and financial strength ratings and the risks associated with rating changes.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are subject to various market risk exposures including interest rate risk and foreign exchange rate risk. With respect to our exposure to market risk, see the discussion under "Investments" in Item 2 of this Form 10-Q and in Part II, Item 7A of our annual report on Form 10-K for the year ended December 31, 2007. During the first three months of 2008, there was no substantive change to our market risk or the management of this risk.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this quarterly report. Based on that evaluation, these officers concluded that our disclosure controls and procedures were effective as of March 31, 2008.

#### **Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, during the quarter ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

In the ordinary course of business, our internal control over financial reporting changes as we modify and enhance our processes and information technology systems to meet changing needs and increase our efficiency. Any significant changes in internal controls are evaluated prior to implementation to help maintain the continued effectiveness of our internal control. While changes have occurred in our internal controls during the quarter ended March 31, 2008, there were no changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II****ITEM 1. LEGAL PROCEEDINGS**

Refer to Part I, Item 1, Note 8 of the Notes to Consolidated Financial Statements for information on legal proceedings.

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors disclosed in our annual report on Form 10-K for the year ended December 31, 2007.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table provides information about our share repurchase activity for the first quarter of 2008:

|                                | (a) Total<br>Number of<br>Shares<br>Purchased (1) | (b) Average<br>Price Paid<br>per<br>Share (4) | (c) Total Number<br>of Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Program (2) (3) | (d) Approximate Dollar<br>Value of Shares that<br>May Yet Be<br>Purchased Under the<br>Program (2) (3) |
|--------------------------------|---|---|---|--|
| January 1 - January 31, 2008   | 14,000,750  | \$ 24.23                                      | 14,000,000  | \$ 350,000,000   |
| February 1 - February 29, 2008 | 1,630   | 23.32   |   | 350,000,000  |
| March 1 - March 31, 2008       | 483,853   | 22.42   | 482,483   | 350,000,000  |
| Total                          | 14,486,233  |   | 14,482,483  |  |

- (1) Of the total number of shares purchased, 3,750 shares were received in connection with the exercise of stock options.
- (2) On October 31, 2007, we announced that our board of directors authorized the repurchase of up to \$700.0 million of Unum Group's common stock. The share repurchase program does not have an expiration date, and the pace of repurchase activity will depend upon various factors such as the level of available cash, alternative uses for cash, and our stock price. The authorization may be modified, extended, or terminated by our board of directors at any time.
- (3) On January 31, 2008, we repurchased 14,000,000 shares of Unum Group's common stock for \$350.0 million using an accelerated share repurchase agreement. Under the terms of the repurchase agreement, we may receive, or be required to pay, a price adjustment based on the volume weighted average price of Unum Group common stock during the term of the agreement. Any price adjustment payable to us will be settled in shares of our common stock. Any price adjustment we are required to pay will be settled in either cash or common stock. A 30 percent partial acceleration of the agreement, 4,200,000 shares, occurred on March 26, 2008 and settled on March 28, 2008 with the price adjustment resulting in the delivery to us of 482,483 additional shares of our common stock. We expect the price adjustment on the remaining 9,800,000 shares to settle on or before the completion of the agreement in May 2008.
- (4) For the original shares repurchased in January 2008, the average price paid per share shown is the initial estimated repurchase agreement price adjusted for the partial acceleration of the agreement in March 2008.

**Table of Contents**

**ITEM 6. EXHIBITS**

Index to Exhibits

- Exhibit 10.1 Agreement dated January 31, 2008 between Unum Group and Morgan Stanley & Co. Incorporated for an Accelerated Share Repurchase Transaction.\*
- Exhibit 15 Letter Re: Unaudited Interim Financial Information.
- Exhibit 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Confidential treatment has been requested with respect to portions of this document.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Unum Group**  
(Registrant)

Date: May 2, 2008

/s/ Thomas R. Watjen  
Thomas R. Watjen  
President and Chief Executive Officer

Date: May 2, 2008

/s/ Robert C. Greving  
Robert C. Greving  
Executive Vice President, Chief Financial Officer and Chief Actuary