

HORACE MANN EDUCATORS CORP /DE/  
Form 10-Q  
May 07, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended **March 31, 2010**

OR

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

Commission file number 1-10890

## HORACE MANN EDUCATORS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 37-0911756  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)  
1 Horace Mann Plaza, Springfield, Illinois 62715-0001

(Address of principal executive offices, including Zip Code)

Registrant's Telephone Number, Including Area Code: 217-789-2500

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

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Non-accelerated filer

Smaller reporting company

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

As of April 30, 2010, 39,223,054 shares of Common Stock, par value \$0.001 per share, were outstanding, net of 21,813,196 shares of treasury stock.

HORACE MANN EDUCATORS CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2010

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

Horace Mann Educators Corporation:

We have reviewed the accompanying consolidated balance sheet of Horace Mann Educators Corporation and subsidiaries (the Company) as of March 31, 2010, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for the three-month periods ended March 31, 2010 and 2009. These consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2009, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 1, 2010, 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, 2009, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it was derived.

As discussed in note 1 to the December 31, 2009 consolidated financial statements, the Company changed its method of accounting for other-than-temporary impairments of debt securities due to the adoption of FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, (included in FASB ASC Topic 320, *Investments-Debt and Equity Securities*), as of April 1, 2009.

/s/ KPMG LLP

KPMG LLP

Chicago, Illinois

May 7, 2010

## HORACE MANN EDUCATORS CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	March 31, 2010 (Unaudited)	December 31, 2009
<b>ASSETS</b>		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost 2010, \$4,311,877; 2009, \$4,062,020)	\$ 4,411,009	\$ 4,099,865
Equity securities, available for sale, at fair value (cost 2010, \$49,509; 2009, \$61,507)	52,074	59,678
Short-term and other investments	301,212	415,081
<b>Total investments</b>	<b>4,764,295</b>	<b>4,574,624</b>
Cash	18,370	7,848
Accrued investment income and premiums receivable	122,347	113,058
Deferred policy acquisition costs	272,774	276,124
Goodwill	47,396	47,396
Other assets	90,487	97,633
Separate Account (variable annuity) assets	1,281,527	1,226,430
<b>Total assets</b>	<b>\$ 6,597,196</b>	<b>\$ 6,343,113</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Policy liabilities		
Fixed annuity contract liabilities	\$ 2,412,653	\$ 2,367,170
Interest-sensitive life contract liabilities	711,193	706,067
Unpaid claims and claim expenses	322,200	312,738
Future policy benefits	198,807	197,870
Unearned premiums	204,010	210,765
<b>Total policy liabilities</b>	<b>3,848,863</b>	<b>3,794,610</b>
Other policyholder funds	116,298	117,349
Other liabilities	334,641	247,565
Short-term debt	38,000	38,000
Long-term debt	199,631	199,614
Separate Account (variable annuity) liabilities	1,281,527	1,226,430
<b>Total liabilities</b>	<b>5,818,960</b>	<b>5,623,568</b>
Preferred stock, \$0.001 par value, authorized 1,000,000 shares; none issued	-	-
Common stock, \$0.001 par value, authorized 75,000,000 shares; issued, 2010, 61,033,123; 2009, 60,997,917	61	61
Additional paid-in capital	358,857	358,081
Retained earnings	777,689	758,343
Accumulated other comprehensive income (loss) net of taxes:		
Net unrealized gains and losses on fixed maturities and equity securities	60,835	22,266
Net funded status of pension and other postretirement benefit obligations	(11,543)	(11,543)

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Treasury stock, at cost, 21,813,196 shares	(407,663)	(407,663)
Total shareholders' equity	778,236	719,545
Total liabilities and shareholders' equity	\$ 6,597,196	\$ 6,343,113

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

## HORACE MANN EDUCATORS CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2010	2009
<b>Revenues</b>		
Insurance premiums and contract charges earned	\$ 166,353	\$ 162,463
Net investment income	65,918	57,863
Net realized investment gains (losses)	4,867	(847)
Other income	1,535	2,890
Total revenues	238,673	222,369
<b>Benefits, losses and expenses</b>		
Benefits, claims and settlement expenses	112,917	107,740
Interest credited	35,558	33,729
Policy acquisition expenses amortized	20,065	23,009
Operating expenses	34,796	35,543
Amortization of intangible assets	-	223
Interest expense	3,472	3,497
Total benefits, losses and expenses	206,808	203,741
Income before income taxes	31,865	18,628
Income tax expense	9,262	5,197
Net income	\$ 22,603	\$ 13,431
<b>Net income per share</b>		
Basic	\$ 0.58	\$ 0.34
Diluted	\$ 0.55	\$ 0.33
<b>Weighted average number of shares and equivalent shares (in thousands)</b>		
Basic	39,206	39,164
Diluted	40,900	40,385
Net realized investment gains (losses)		
Total other-than-temporary impairment losses on securities	\$ (760)	\$ (17,752)
Portion of losses recognized in other comprehensive income	-	-
Net other-than-temporary impairment losses on securities recognized in earnings	(760)	(17,752)
Realized gains	5,627	16,905

Total	\$ 4,867	\$ (847)
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See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.



**HORACE MANN EDUCATORS CORPORATION**  
**CONSOLIDATED STATEMENTS OF**  
**COMPREHENSIVE INCOME (LOSS) (UNAUDITED)**

(Dollars in thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
Comprehensive income (loss)		
Net income	\$ 22,603	\$ 13,431
Other comprehensive income (loss), net of taxes:		
Change in net unrealized gains and losses on fixed maturities and equity securities	38,569	(16,900)
Change in net funded status of pension and other postretirement benefit obligations	-	-
Other comprehensive income (loss)	38,569	(16,900)
<b>Total</b>	<b>\$ 61,172</b>	<b>\$ (3,469)</b>

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

## HORACE MANN EDUCATORS CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

(Dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2010	2009
<b>Common stock</b>		
Beginning balance	\$ 61	\$ 61
Conversion of Director Stock Plan units, 2010, 27,774 shares; 2009, 84,562 shares	-	-
Conversion of restricted stock units, 2010, 7,432 shares; 2009, 22,659 shares	-	-
Ending balance	61	61
<b>Additional paid-in capital</b>		
Beginning balance	358,081	355,542
Conversion of Director Stock Plan units and restricted stock units	448	1,168
Share-based compensation expense	328	293
Ending balance	358,857	357,003
<b>Retained earnings</b>		
Beginning balance	758,343	694,492
Net income	22,603	13,431
Cash dividends, 2010, \$0.0800 per share; 2009, \$0.0525 per share	(3,257)	(2,126)
Ending balance	777,689	705,797
<b>Accumulated other comprehensive income (loss), net of taxes</b>		
Beginning balance	10,723	(193,587)
Change in net unrealized gains and losses on fixed maturities and equity securities	38,569	(16,900)
Change in net funded status of pension and other postretirement benefit obligations	-	-
Ending balance	49,292	(210,487)
<b>Treasury stock, at cost</b>		
Beginning and ending balance, 2010 and 2009, 21,813,196 shares	(407,663)	(407,663)
Shareholders' equity at end of period	\$ 778,236	\$ 444,711

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.



## HORACE MANN EDUCATORS CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)

	Three Months Ended March 31,	
	2010	2009
Cash flows - operating activities		
Premiums collected	\$ 160,788	\$ 156,224
Policyholder benefits paid	(107,488)	(117,001)
Policy acquisition and other operating expenses paid	(66,711)	(54,410)
Federal income taxes paid	(960)	-
Investment income collected	58,067	54,266
Interest expense paid	(110)	(550)
Other	(62)	1,674
<b>Net cash provided by operating activities</b>	<b>43,524</b>	<b>40,203</b>
Cash flows - investing activities		
Fixed maturities		
Purchases	(353,807)	(606,774)
Sales	89,802	653,322
Maturities, paydowns, calls and redemptions	82,215	23,524
<b>Net cash provided by (used in) short-term and other investments</b>	<b>127,961</b>	<b>(123,576)</b>
<b>Net cash used in investing activities</b>	<b>(53,829)</b>	<b>(53,504)</b>
Cash flows - financing activities		
Dividends paid to shareholders	(3,257)	(2,126)
Annuity contracts, variable and fixed		
Deposits	84,186	68,714
Benefits and withdrawals	(42,040)	(44,084)
Net transfer to Separate Account (variable annuity) assets	(20,924)	(6,950)
Life policy accounts		
Deposits	477	281
Withdrawals and surrenders	(1,185)	(1,279)
Change in bank overdrafts	3,570	1,900
<b>Net cash provided by financing activities</b>	<b>20,827</b>	<b>16,456</b>
<b>Net increase in cash</b>	<b>10,522</b>	<b>3,155</b>
<b>Cash at beginning of period</b>	<b>7,848</b>	<b>9,204</b>
<b>Cash at end of period</b>	<b>\$ 18,370</b>	<b>\$ 12,359</b>

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.



**HORACE MANN EDUCATORS CORPORATION**

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

**March 31, 2010 and 2009**

**(Dollars in thousands, except per share data)**

**Note 1 - Basis of Presentation**

The accompanying unaudited consolidated financial statements of Horace Mann Educators Corporation ( HMEC ; and together with its subsidiaries, the Company or Horace Mann ) have been prepared in accordance with United States ( U.S. ) generally accepted accounting principles ( GAAP ) and with the rules and regulations of the Securities and Exchange Commission ( SEC ), specifically Regulation S-X and the instructions to Form 10-Q. Certain information and note disclosures which are normally included in annual financial statements prepared in accordance with GAAP but are not required for interim reporting purposes have been omitted. The Company believes that these consolidated financial statements contain all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary to present fairly the Company s consolidated financial position as of March 31, 2010 and the consolidated results of operations, comprehensive income (loss), changes in shareholders equity and cash flows for the three months ended March 31, 2010 and 2009. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (1) the reported amounts of assets and liabilities, (2) disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and (3) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The subsidiaries of HMEC market and underwrite tax-qualified retirement annuities and private passenger automobile, homeowners, and life insurance products, primarily to K-12 teachers, administrators and other employees of public schools and their families. HMEC s principal operating subsidiaries are Horace Mann Life Insurance Company, Horace Mann Insurance Company, Teachers Insurance Company, Horace Mann Property & Casualty Insurance Company and Horace Mann Lloyds.

The Company has evaluated subsequent events through the date these consolidated financial statements were issued.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes to consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results to be expected for the full year.

**Note 1 - Basis of Presentation-(Continued)**

*Adopted Accounting Standards*

Fair Value Measurements and Disclosures

Effective January 1, 2010, the Company adopted accounting guidance to improve disclosure requirements related to fair value measurements. The guidance requires disclosures pertaining to transfers of assets between Levels 1 and 2 of the three-tier fair value hierarchy as defined in Note 3 -- Fair Value of Financial Instruments and a reconciliation reporting purchase, sale, issuance and settlement transactions of recurring and nonrecurring fair value measurement assets and liabilities utilizing Level 3 fair value inputs. The guidance also clarifies existing requirements regarding the measurement disclosures for each class of assets and liabilities and disclosure about inputs and valuation techniques. The adoption of this accounting guidance did not have an effect on the results of operations or financial position of the Company.

Amendments to Accounting for Variable Interest Entities

Effective January 1, 2010, the Company adopted accounting guidance which amended the accounting for variable interest entities ( VIEs ). The new guidance eliminates the concept of a qualifying special-purpose entity and the quantitative-based risks and rewards calculation for determining a controlling financial interest in a VIE. The guidance also requires an analysis of whether a company has the power to direct the activities of a VIE that most significantly impact that entity's economic performance and the obligation to absorb the losses or the right to receive benefits from that entity that could potentially be significant to the company. Additional disclosures are required about a company's involvement in VIEs and an ongoing assessment of whether a company is the primary beneficiary is required. The guidance is effective for all VIEs owned on or formed after January 1, 2010. Because, as of the time of this Quarterly Report on Form 10-Q, (1) the Company does not have any relationships with unconsolidated entities or financial partnerships and (2) the Company's Separate Accounts are not VIEs, adoption of this accounting guidance did not have an effect on the results of operations or financial position of the Company.

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

The following table presents the distribution of the Company's fixed maturity securities (fixed maturities) portfolio by estimated expected maturity. Estimated expected maturities differ from contractual maturities, reflecting assumptions regarding borrowers' utilization of the right to call or prepay obligations with or without call or prepayment penalties. For structured securities, including mortgage-backed securities and other asset-backed securities, estimated expected maturities consider broker dealer survey prepayment assumptions and are verified for consistency with the interest rate and economic environments.

	Percent of Total Fair Value		March 31, 2010	
	March 31, 2010	December 31, 2009	Fair Value	Amortized Cost
Due in 1 year or less	4.6%	4.8%	\$ 203,270	\$ 198,702
Due after 1 year through 5 years	21.4	20.4	945,821	924,565
Due after 5 years through 10 years	30.8	31.1	1,360,205	1,329,636
Due after 10 years through 20 years	15.1	15.0	665,471	650,515
Due after 20 years	28.1	28.7	1,236,242	1,208,459
Total	100.0%	100.0%	\$4,411,009	\$4,311,877

The average option-adjusted duration for the Company's fixed maturity securities was 6.8 years at both March 31, 2010 and December 31, 2009.

Proceeds from sales of fixed maturities, determined using the specific identification method, and gross gains and gross losses realized as a result of those sales for each period were:

	Three Months Ended	
	March 31, 2010	March 31, 2009
Proceeds	\$89,802	\$653,322
Gross gains realized	3,563	16,850
Gross losses realized	(6)	(1,772)

*Realized Investment Gains and Losses*

In the first quarter of 2010, pretax net realized investment gains were \$4,867, including \$745 of credit-related other-than-temporary impairment charges. These charges related to securities of one high-yield bond issuer that the Company no longer intended to hold until the value fully recovers.



**Note 2 - Investments-(Continued)***Unrealized Gains and Losses on Fixed Maturities and Equity Securities*

The amortized cost or cost, unrealized investment gains and losses, fair values and other-than-temporary impairment ( OTTI ) included in accumulated other comprehensive income (loss) ( AOCI ) of all fixed maturities and equity securities in the portfolio as of March 31, 2010 and December 31, 2009 were as follows:

	Amortized Cost/Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI in AOCI (2)
<b>As of March 31, 2010</b>					
Fixed maturity securities					
U.S. government and federally sponsored agency obligations (1)					
Mortgage-backed securities	\$ 469,628	\$ 20,181	\$ 2,579	\$ 487,230	
Other	399,476	1,432	11,397	389,511	
Municipal bonds	873,806	35,266	6,343	902,729	
Foreign government bonds	46,307	3,166	372	49,101	
Corporate bonds	1,874,959	120,317	19,519	1,975,757	
Other mortgage-backed securities	647,701	25,180	66,200	606,681	\$ 1,168
Totals	\$ 4,311,877	\$ 205,542	\$ 106,410	\$ 4,411,009	\$ 1,168
Equity securities	\$ 49,509	\$ 5,768	\$ 3,203	\$ 52,074	
<b>As of December 31, 2009</b>					
Fixed maturity securities					
U.S. government and federally sponsored agency obligations (1)					
Mortgage-backed securities	\$ 436,856	\$ 18,942	\$ 673	\$ 455,125	
Other	360,977	847	14,674	347,150	
Municipal bonds	891,174	32,496	9,721	913,949	
Foreign government bonds	39,931	2,424	413	41,942	
Corporate bonds	1,766,835	102,270	30,564	1,838,541	
Other mortgage-backed securities	566,247	16,889	79,978	503,158	\$ (476)
Totals	\$ 4,062,020	\$ 173,868	\$ 136,023	\$ 4,099,865	\$ (476)
Equity securities	\$ 61,507	\$ 3,937	\$ 5,766	\$ 59,678	

(1) Fair value includes securities issued by Federal National Mortgage Association ( FNMA ) of \$427,588 and \$360,026; Federal Home Loan Mortgage Association ( FHLMA ) of \$314,407 and \$330,279; and Government National Mortgage Association ( GNMA ) of \$41,011 and \$41,508 as of March 31, 2010 and December 31, 2009, respectively.

(2) Represents the amount of other-than-temporary impairment losses in AOCI which, beginning April 1, 2009, was not included in earnings under current accounting guidance. Amounts include unrealized gains and losses on impaired securities relating to changes in the fair value of such securities subsequent to the impairment measurement date.



**Note 2 - Investments-(Continued)**

Net unrealized gains and losses are computed as the difference between fair value and amortized cost for fixed maturities or cost for equity securities. The following table reconciles the net unrealized investment gains and losses, net of tax, included in accumulated other comprehensive income (loss), before the valuation impact on deferred policy acquisition costs:

	Three Months Ended	
	March 31,	
	2010	2009
Net unrealized investment gains (losses) on fixed maturity securities, net of tax		
Beginning of period	\$ 24,599	\$ (196,687)
Change in unrealized investment gains and losses	38,025	(29,049)
Reclassification of net realized investment (gains) losses to net income	1,812	8,464
End of period	\$ 64,436	\$ (217,272)
Net unrealized investment gains (losses) on equity securities, net of tax		
Beginning of period	\$ (1,189)	\$ (16,000)
Change in unrealized investment gains and losses	2,642	7,788
Reclassification of net realized investment (gains) losses to net income	214	(8,234)
End of period	\$ 1,667	\$ (16,446)

The following table summarizes the cumulative amounts related to the Company's credit loss component of the other-than-temporary impairment losses on fixed maturity securities held as of March 31, 2010 that the Company does not intend to sell, and it is not more likely than not that the Company will be required to sell the securities before the anticipated recovery in fair value or maturity, for which the non-credit portion of the other-than-temporary impairment losses were recognized in other comprehensive income:

	Three Months Ended	
	March 31,	
	2010	2009
Cumulative credit loss (1)		
Beginning of period	\$ 2,875	\$ -
New credit losses	-	-
Losses related to securities sold or paid down during the period	-	-
End of period	\$ 2,875	\$ -

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- (1) The cumulative credit loss amounts exclude other-than-temporary impairment losses on securities held as of the periods indicated that the Company intended to sell or it was more likely than not that the Company would be required to sell the security before the recovery of fair value or maturity. The current definition, reporting and disclosure of credit loss was effective as of April 1, 2009.

**Note 2 - Investments-(Continued)**

At March 31, 2010, the gross unrealized loss position in the fixed maturity and equity securities portfolio was \$109,613 (403 positions, representing 2.5% of total fixed maturity and equity securities fair value). The following table presents the fair value and gross unrealized losses of fixed maturity securities and equity securities in an unrealized loss position at March 31, 2010 and December 31, 2009, respectively. The Company views the decrease in value of all of the securities with unrealized losses at March 31, 2010 as temporary. For fixed maturity securities, management does not have the intent to sell the securities and it is not more likely than not the Company will be required to sell the securities before the anticipated recovery in fair value or maturity. In addition, management expects to recover the entire cost basis of the fixed maturity securities. For equity securities, the Company has the ability and intent to hold the securities for the recovery of cost within a reasonable period of time. Therefore, no impairment of these securities was recorded at March 31, 2010.

	12 Months or Less		More than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>As of March 31, 2010</b>						
Fixed maturity securities						
U.S. government and federally sponsored agency obligations						
Mortgage-backed securities	\$ 124,213	\$ 2,563	\$ 2,336	\$ 16	\$ 126,549	\$ 2,579
Other	318,299	11,397	-	-	318,299	11,397
Municipal bonds	137,966	2,448	54,180	3,895	192,146	6,343
Foreign government bonds	16,824	120	3,629	252	20,453	372
Corporate bonds	175,382	3,603	211,452	15,916	386,834	19,519
Other mortgage-backed securities	67,451	1,144	171,466	65,056	238,917	66,200
<b>Totals</b>	<b>\$ 840,135</b>	<b>\$ 21,275</b>	<b>\$ 443,063</b>	<b>\$ 85,135</b>	<b>\$ 1,283,198</b>	<b>\$ 106,410</b>
Equity securities	\$ 12	\$ 2	\$ 27,065	\$ 3,201	\$ 27,077	\$ 3,203
<b>As of December 31, 2009</b>						
Fixed maturity securities						
U.S. government and federally sponsored agency obligations						
Mortgage-backed securities	\$ 78,577	\$ 604	\$ 2,399	\$ 69	\$ 80,976	\$ 673
Other	311,917	14,674	-	-	311,917	14,674
Municipal bonds	235,320	5,420	52,289	4,301	287,609	9,721
Foreign government bonds	12,665	413	-	-	12,665	413
Corporate bonds	158,749	4,708	272,673	25,856	431,422	30,564
Other mortgage-backed securities	88,325	5,856	181,797	74,122	270,122	79,978
<b>Totals</b>	<b>\$ 885,553</b>	<b>\$ 31,675</b>	<b>\$ 509,158</b>	<b>\$ 104,348</b>	<b>\$ 1,394,711</b>	<b>\$ 136,023</b>
Equity securities	\$ 3,836	\$ 932	\$ 28,168	\$ 4,834	\$ 32,004	\$ 5,766

The Company's investment portfolio includes no derivative financial instruments (futures, forwards, swaps, option contracts or other financial instruments with similar characteristics).



**Note 3 - Fair Value of Financial Instruments**

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring and nonrecurring basis as of March 31, 2010 and December 31, 2009. At March 31, 2010, Level 3 invested assets comprised approximately 0.3% of the Company's total investment portfolio fair value.

	Carrying Amount	Fair Value	Fair Value Measurements at Reporting Date Using (1)		
			Level 1	Level 2	Level 3
<b>March 31, 2010</b>					
<b>Financial Assets</b>					
Investments					
Fixed maturities					
U.S. government and federally sponsored agency obligations					
Mortgage-backed securities	\$ 487,230	\$ 487,230	\$ -	\$ 487,230	\$ -
Other	389,511	389,511	37,751	351,760	-
Municipal bonds	902,729	902,729	-	902,729	-
Foreign government bonds	49,101	49,101	-	49,101	-
Corporate bonds	1,975,757	1,975,757	42,984	1,928,791	3,982
Other mortgage-backed securities	606,681	606,681	-	599,225	7,456
<b>Total</b>	<b>4,411,009</b>	<b>4,411,009</b>	<b>80,735</b>	<b>4,318,836</b>	<b>11,438</b>
Equity securities	52,074	52,074	24,954	26,581	539
Short-term investments	183,387	183,387	183,387	-	-
Other investments (2)	117,825	106,540	-	-	-
<b>Total investments</b>	<b>4,764,295</b>	<b>4,753,010</b>	<b>289,076</b>	<b>4,345,417</b>	<b>11,977</b>
Separate Account (variable annuity) assets	1,281,527	1,281,527	-	1,281,527	-
<b>Financial Liabilities</b>					
Policyholder account balances on interest-sensitive life contracts					
Annuity contract liabilities	79,658	71,740			
Other policyholder funds	2,412,653	2,124,314			
Short-term debt	116,298	116,298			
Long-term debt	38,000	38,000			
	199,631	200,323			
<b>December 31, 2009</b>					
<b>Financial Assets</b>					
Investments					
Fixed maturities					
U.S. government and federally sponsored agency obligations					
Mortgage-backed securities	\$ 455,125	\$ 455,125	\$ -	\$ 455,125	\$ -
Other	347,150	347,150	12,472	334,678	-
Municipal bonds	913,949	913,949	-	913,949	-
Foreign government bonds	41,942	41,942	-	41,942	-
Corporate bonds	1,838,541	1,838,541	42,364	1,793,738	2,439
Other mortgage-backed securities	503,158	503,158	-	495,298	7,860
<b>Total</b>	<b>4,099,865</b>	<b>4,099,865</b>	<b>54,836</b>	<b>4,034,730</b>	<b>10,299</b>
Equity securities	59,678	59,678	28,917	30,222	539
Short-term investments	299,109	299,109	299,109	-	-
Other investments (2)	115,972	97,235	-	-	-
<b>Total investments</b>	<b>4,574,624</b>	<b>4,555,887</b>	<b>382,862</b>	<b>4,064,952</b>	<b>10,838</b>
Separate Account (variable annuity) assets	1,226,430	1,226,430	-	1,226,430	-
<b>Financial Liabilities</b>					
Policyholder account balances on interest-sensitive life contracts					
	79,688	71,766			

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Annuity contract liabilities	2,367,170	2,084,267
Other policyholder funds	117,349	117,349
Short-term debt	38,000	38,000
Long-term debt	199,614	199,545

- (1) This information is not required for financial and nonfinancial assets and liabilities not recognized at fair value in the consolidated balance sheets.  
(2)