UNITRIN INC
Form 10-Q
November 01, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For Quarterly Period Ended September 30, 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 0-18298

Unitrin, Inc.

(Exact name of registrant as specified in its charter)

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

(312) 661-4600

(Registrant s telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller Reporting Company	¨

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

61,450,138 shares of common stock, $0.10 par value, were outstanding as of October 31, 2010.

UNITRIN, INC.

INDEX

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in millions, except per share amounts)

(Unaudited)

	Nine Months Ended		Three Months Ended	
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Revenues:				
Earned Premiums	$ 1,727.8	$ 1,855.0	$ 568.3	$ 616.2
Automobile Finance Revenues	79.9	142.4	22.6	42.1
Net Investment Income	242.5	234.7	79.9	93.3
Other Income	1.0	2.0	0.4	1.1
Net Realized Gains on Sales of Investments	14.6	17.6	7.2	12.4
Other-than-temporary Impairment Losses:				
Total Other-than-temporary Impairment Losses	(13.9)	(49.9)	(3.6)	(14.6)
Portion of Losses Recognized in Other Comprehensive Income	1.2	0.7	(1.0)	0.1
Net Impairment Losses Recognized in Earnings	(12.7)	(49.2)	(4.6)	(14.5)
Total Revenues	2,053.1	2,202.5	673.8	750.6
Expenses:				
Policyholders Benefits and Incurred Losses and Loss Adjustment Expenses	1,240.1	1,328.3	404.0	435.1
Insurance Expenses	506.8	543.7	168.9	177.0
Automobile Finance Expenses	44.9	111.6	11.3	29.2
Interest Expense on Certificates of Deposits	21.8	34.6	6.5	10.1
Write-off of Goodwill	14.8	1.5	14.8	
Interest and Other Expenses	49.9	47.5	16.1	15.5
Total Expenses	1,878.3	2,067.2	621.6	666.9
Income from Continuing Operations before Income Taxes and Equity in Net Loss of Investee	174.8	135.3	52.2	83.7
Income Tax Expense	(52.4)	(38.1)	(16.4)	(21.7)
Income from Continuing Operations before Equity in Net Loss of Investee	122.4	97.2	35.8	62.0
Equity in Net Loss of Investee	(0.1)	(1.1)	(0.3)	(1.0)
Income from Continuing Operations	122.3	96.1	35.5	61.0
Discontinued Operations:				
Income (Loss) from Discontinued Operations before Income Taxes	(1.0)	3.7	0.3	1.6
Income Tax Benefit (Expense)	0.4	(1.4)	(0.1)	(0.5)
Income (Loss) from Discontinued Operations	(0.6)	2.3	0.2	1.1
Net Income	$ 121.7	$ 98.4	$ 35.7	$ 62.1

Income from Continuing Operations Per Unrestricted Shares:				
Basic	$ 1.97	$ 1.54	$ 0.57	$ 0.98
Diluted	$ 1.96	$ 1.54	$ 0.57	$ 0.98
Net Income Per Unrestricted Share:				
Basic	$ 1.96	$ 1.58	$ 0.58	$ 1.00
Diluted	$ 1.95	$ 1.58	$ 0.58	$ 1.00
Dividends Paid to Shareholders Per Share	$ 0.66	$ 0.87	$ 0.22	$ 0.20

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

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

	September 30, 2010 (Unaudited)	December 31, 2009
Assets:		
Investments:		
Fixed Maturities at Fair Value (Amortized Cost: 2010 $4,290.6; 2009 $4,413.2)	$ 4,711.4	$ 4,561.4
Equity Securities at Fair Value (Cost: 2010 $333.1; 2009 $184.4)	415.6	195.4
Investee (Intermec) at Cost Plus Cumulative Undistributed Comprehensive Income (Fair Value: 2009 - $162.8)		98.4
Short-term Investments at Cost which Approximates Fair Value	404.4	397.0
Other Investments	806.4	771.6
Total Investments	6,337.8	6,023.8
Cash	149.6	143.7
Automobile Loan Receivables at Cost and Net of Reserve for Loan Losses (Fair Value: 2010 - $401.7; 2009 - $666.2)	397.4	660.8
Other Receivables	630.7	642.0
Deferred Policy Acquisition Costs	528.1	521.1
Goodwill	311.8	331.8
Current and Deferred Income Tax Assets	27.2	107.6
Other Assets	158.3	142.7
Total Assets	$ 8,540.9	$ 8,573.5
Liabilities and Shareholders Equity:		
Insurance Reserves:		
Life and Health	$ 3,054.0	$ 3,028.0
Property and Casualty	1,131.4	1,211.3
Total Insurance Reserves	4,185.4	4,239.3
Certificates of Deposits at Cost (Fair Value: 2010 - $428.8; 2009 - $717.9)	409.2	682.4
Unearned Premiums	703.9	724.9
Liabilities for Income Taxes	60.3	11.7
Notes Payable at Amortized Cost (Fair Value: 2010 - $574.5; 2009 - $534.2)	561.9	561.4
Accrued Expenses and Other Liabilities	419.9	436.2
Total Liabilities	6,340.6	6,655.9
Shareholders Equity:		
Common Stock, $0.10 Par Value, 100 Million Shares Authorized; 61,450,301 Shares Issued and Outstanding at September 30, 2010 and 62,357,016 Shares Issued and Outstanding at December 31, 2009	6.1	6.2
Paid-in Capital	756.0	765.9
Retained Earnings	1,154.6	1,086.7

Accumulated Other Comprehensive Income		283.6		58.8
Total Shareholders Equity		2,200.3		1,917.6
Total Liabilities and Shareholders Equity	$	8,540.9	$	8,573.5

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

2

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Nine Months Ended	
	Sept. 30, 2010	Sept. 30, 2009
Operating Activities:		
Net Income	$ 121.7	$ 98.4
Adjustments to Reconcile Net Income to Net Cash		
Provided (Used) by Operating Activities:		
Increase in Deferred Policy Acquisition Costs	(7.0)	(11.4)
Equity in Net Loss of Investee before Taxes	0.2	1.6
Equity in Income of Equity Method Limited Liability Investments	(33.1)	(28.7)
Amortization of Investment Securities and Depreciation of Investment Real Estate	14.1	11.6
Net Realized Gains on Sales of Investments	(14.6)	(17.6)
Net Impairment Losses Recognized in Earnings	12.7	49.2
Provision for Loan Losses	(3.7)	50.1
Depreciation of Property and Equipment	10.0	12.9
Decrease in Other Receivables	12.3	50.6
Decrease in Insurance Reserves	(48.3)	(65.9)
Decrease in Unearned Premiums	(21.1)	(20.6)
Change in Income Taxes	1.9	(29.8)
Increase (Decrease) in Accrued Expenses and Other Liabilities	(23.7)	7.0
Other, Net	38.8	32.7
Net Cash Provided by Operating Activities	60.2	140.1
Investing Activities:		
Sales and Maturities of Fixed Maturities	478.3	514.8
Purchases of Fixed Maturities	(371.0)	(578.7)
Sales of Equity Securities	23.8	95.0
Purchases of Equity Securities	(67.0)	(1.6)
Sales of Investment in Investee	1.3	
Acquisition and Improvements of Investment Real Estate	(2.2)	(5.6)
Sale of Investment Real Estate		0.2
Return of Investment of Equity Method Limited Liability Investments	21.0	10.9
Acquisitions of Equity Method Limited Liability Investments	(18.2)	(15.1)
Disposition of Business, Net of Cash Disposed	4.1	0.2
Acquisition of Business, Net of Cash Acquired		(190.0)
Decrease (Increase) in Short-term Investments	(8.8)	123.3
Decrease in Automobile Loan Receivables	268.9	257.9
Increase in Other Investments	(9.2)	(9.1)
Other, Net	(34.0)	(20.9)
Net Cash Provided by Investing Activities	287.0	181.3
Financing Activities:		

Change in Certificates of Deposits	(278.3)	(352.3)
Note Payable Proceeds		220.0
Note Payable Repayments		(220.1)
Common Stock Repurchases	(24.5)	
Cash Dividends Paid to Shareholders	(41.1)	(54.2)
Cash Exercise of Stock Options	0.1	
Excess Tax Benefits from Share-based Awards	0.1	0.1
Other, Net	2.4	2.8
Net Cash Used by Financing Activities	(341.3)	(403.7)
Increase (Decrease) in Cash	5.9	(82.3)
Cash, Beginning of Year	143.7	184.2
Cash, End of Period	$ 149.6	$ 101.9

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

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 - Basis of Presentation

The Condensed Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the SEC) and include the accounts of Unitrin, Inc. (Unitrin) and its subsidiaries (individually and collectively referred to herein as the Company) and are unaudited. All significant intercompany accounts and transactions have been eliminated. Certain financial information that is normally included in annual financial statements, including certain financial statement footnote disclosures, prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) is not required by the rules and regulations of the SEC for interim financial reporting and has been condensed or omitted. In the opinion of the Company s management, the Condensed Consolidated Financial Statements include all adjustments necessary for a fair presentation. The preparation of interim financial statements relies heavily on estimates. This factor and certain other factors, such as the seasonal nature of some portions of the insurance business, as well as market conditions, call for caution in drawing specific conclusions from interim results. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the Company s Consolidated Financial Statements and related notes included in Unitrin s Annual Report on Form 10-K, filed with the SEC for the year ended December 31, 2009 (the 2009 Annual Report).

Discontinued Operations

On February 22, 2010, Unitrin announced that it had reached an agreement in principle to sell its health insurance subsidiary, Reserve National Insurance Company (Reserve National), subject to the negotiation and execution of a definitive agreement, approvals by insurance regulators and other customary closing conditions. On April 23, 2010, Unitrin announced that negotiations with the potential buyer for the sale of Reserve National under such agreement in principle had been terminated due to a failure by the parties to reach a definitive agreement. In connection with this development, Unitrin also announced that it had retained Macquarie Capital to assist in identifying a suitable alternative buyer for Reserve National. Given that a sale process had commenced and that the Company believed at that time that a sale of Reserve National was probable, the Company reported the operations of Reserve National as a discontinued operation in its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010 and June 30, 2010. The Company reclassified the prior year amounts related to Reserve National in the Condensed Consolidated Statements of Income, and the related disclosures, included in such quarterly reports to conform to the then current year s presentation of Reserve National as a discontinued operation. During the third quarter of 2010, the sales process continued and still continues. Based on the status of the sales process and given the uncertainty of the impact of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the Health Care Acts) on Reserve National s business prospects and the status of the sales process, the Company has concluded that a sale of Reserve National in the near term is not probable. As a result, the Company is required to re-establish Reserve National as a continuing operation. Accordingly, the operations of Reserve National have been reported in continuing operations for all periods presented in the accompanying Condensed Consolidated Financial Statements. See Note 5, Goodwill, to the Condensed Consolidated Financial Statements for additional information concerning the sales process, the uncertainty of the impact of the Health Care Acts on Reserve National s business prospects and a charge of $14.8 million recognized in the third quarter of 2010 to write off goodwill associated with Reserve National.

The Company accounts for its former Unitrin Business Insurance operations as discontinued operations (see Note 2, Discontinued Operations, to the Condensed Consolidated Financial Statements).

Adoption of New Accounting Standards

Except for applicable SEC rules and regulations and a limited number of grandfathered standards, the *FASB Accounting Standards Codification* (ASC) is the sole source of authoritative GAAP recognized by the Financial Accounting Standards Board (FASB) to be applied by non-governmental entities for financial statements issued for interim and annual periods ending after September 15, 2009. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. ASC did not change GAAP, but rather combined the sources of GAAP and the framework for selecting among those sources into a single source. Accordingly, the adoption of ASC had no impact on the Company.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 1 - Basis of Presentation (continued)

On January 1, 2010, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*, a grandfathered standard under ASC. The standard provides guidance to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. The initial application of the standard did not have an impact on the Company.

On January 1, 2010, the Company adopted SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, a grandfathered standard under ASC. The standard amends the consolidation guidance that applies to variable interest entities. The initial application of the standard did not have an impact on the Company.

On January 1, 2010, the Company adopted Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. The standard amends ASC Topic 820, *Fair Value Measurements and Disclosures* to require additional disclosures related to transfers between levels in the hierarchy of fair value measurement. The standard does not change how fair values are measured. Accordingly, except for the additional disclosures, the initial application of the standard did not have an impact on the Company.

The Company initially applied ASU 2010-09, *Amendments to Certain Recognition and Disclosure Requirements,* to the Company s Condensed Consolidated Financial Statements as of and for the three months ended March 31, 2010. The standard amends ASC Topic 855, *Subsequent Events*, to clarify SEC filers are not required to disclose the date through which an entity has evaluated subsequent events. The standard does not change how the Company evaluates subsequent events or the date through which the Company evaluates subsequent events. Accordingly, except for the elimination of the disclosure, the initial application of the standard did not have an impact on the Company.

Accounting Standards Not Yet Adopted

The FASB issues ASUs to amend the authoritative literature in ASC. There have been twenty-six ASUs issued in 2010 that amend the original text of ASC. Except for ASU 2010-06, *Improving Disclosures about Fair Value Measurements*, ASU 2010-09, *Amendments to Certain Recognition and Disclosure Requirements*, described above, ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, and ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts,* described below, the ASUs issued in 2010 either (i) provide supplemental guidance, (ii) are technical corrections, (iii) are not applicable to the Company or (iv) are not expected to have a significant impact on the Company.

In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The standard is effective for interim and annual reporting periods ending after December 15, 2010. The standard amends ASC Topic 310, *Receivables*, to require additional disclosures about financing receivables and the allowances for credit losses. The standard does not change how financing receivables or allowances for credit losses are measured. Accordingly, except for the additional disclosures, the Company does not anticipate that the initial application of the standard will have an impact on the Company.

In October 2010, the FASB issued ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. The standard is effective for interim and annual reporting periods beginning after December 15, 2011, with earlier adoption permitted. The provisions of the new standard can be applied either prospectively or retrospectively. The standard amends ASC Topic 944, *Financial Services Insurance*, and modifies the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal contracts. The Company has not yet determined the impact of the new standard on the Company or the method or date of adoption.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 2 - Discontinued Operations

The Company has retained Property and Casualty Insurance Reserves for unpaid insured losses of its former Unitrin Business Insurance operations that occurred prior to June 1, 2008, the effective date of the sale of such operations to AmTrust Financial Services, Inc. Property and Casualty Insurance Reserves reported in the Company s Condensed Consolidated Balance Sheets include $168.5 million and $203.5 million at September 30, 2010 and December 31, 2009, respectively, for such retained liabilities. Changes in the Company s estimate of such retained liabilities after the sale are reported as a separate component of the results of discontinued operations.

Summary financial information included in Income (Loss) from Discontinued Operations for the nine and three months ended September 30, 2010 and 2009 is presented below:

(Dollars in Millions, Except Per Share Amounts)	Nine Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2010	Three Months Ended Sept. 30, 2009
Income (Loss) from Discontinued Operations before Income Taxes:				
Change in Estimate of Retained Liabilities Arising from Discontinued Operations	(1.0)	3.7	0.3	1.6
Income (Loss) from Discontinued Operations before Income Taxes	(1.0)	3.7	0.3	1.6
Income Tax Benefit (Expense)	0.4	(1.4)	(0.1)	(0.5)
Income (Loss) from Discontinued Operations	$ (0.6)	$ 2.3	$ 0.2	$ 1.1
Income (Loss) from Discontinued Operations per Unrestricted Share:				
Basic	$ (0.01)	$ 0.04	$ 0.01	$ 0.02
Diluted	$ (0.01)	$ 0.04	$ 0.01	$ 0.02

Note 3 - Investments

The amortized cost and estimated fair values of the Company s Investments in Fixed Maturities at September 30, 2010 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and Government Agencies and Authorities	$ 538.7	$ 43.0	$	$ 581.7
States, Municipalities and Political Subdivisions	1,772.1	120.3	(1.9)	1,890.5
Corporate Securities:				
Bonds and Notes	1,892.1	261.4	(6.9)	2,146.6

Redeemable Preferred Stocks	78.8	5.2		84.0
Mortgage and Asset-backed	8.9	1.0	(1.3)	8.6
Investments in Fixed Maturities	$ 4,290.6	$ 430.9	$ (10.1)	$ 4,711.4

Included in the fair value of Mortgage and Asset-backed investments at September 30, 2010 are $1.9 million of non-governmental residential mortgage-backed securities, $0.2 million of commercial mortgage-backed securities, $5.1 million of collateralized debt obligations and $1.4 million of other asset-backed securities.

6

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 3 - Investments (continued)

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

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and Government Agencies and Authorities	$ 698.3	$ 26.3	$ (3.7)	$ 720.9
States, Municipalities and Political Subdivisions	1,684.0	72.6	(11.3)	1,745.3
Corporate Securities:				
Bonds and Notes	1,865.9	103.7	(38.0)	1,931.6
Redeemable Preferred Stocks	151.5	2.3	(3.4)	150.4
Mortgage and Asset-backed	13.5	0.5	(0.8)	13.2
Investments in Fixed Maturities	$ 4,413.2	$ 205.4	$ (57.2)	$ 4,561.4

Included in the fair value of Mortgage and Asset-backed investments at December 31, 2009 are $1.6 million of non-governmental residential mortgage-backed securities, $3.4 million of commercial mortgage-backed securities, $5.9 million of collateralized debt obligations and $2.3 million of other asset-backed securities.

The amortized cost and estimated fair values of the Company s Investments in Fixed Maturities at September 30, 2010, by contractual maturity, were:

(Dollars in Millions)	Amortized Cost	Fair Value
Due in One Year or Less	$ 132.9	$ 134.4
Due after One Year to Five Years	503.9	537.2
Due after Five Years to Fifteen Years	1,823.0	2,014.4
Due after Fifteen Years	1,599.5	1,778.3
Asset-backed Securities Not Due at a Single Maturity Date	231.3	247.1
Investments in Fixed Maturities	$ 4,290.6	$ 4,711.4

The expected maturities of the Company s Investments in Fixed Maturities may differ from the contractual maturities because debtors may have the right to call or prepay obligations with or without call or prepayment penalties. Investments in Asset-backed Securities Not Due at a Single Maturity Date at September 30, 2010 consisted of securities issued by the Government National Mortgage Association (Ginnie Mae) with a fair value of $199.2 million, securities issued by the Federal National Mortgage Association (Fannie Mae) with a fair value of $37.6 million, securities issued by the Federal Home Loan Mortgage Corporation (Freddie Mac) with a fair value of $1.7 million and securities of other issuers with a fair value of $8.6 million.

Gross unrealized gains and gross unrealized losses on the Company s Investments in Equity Securities at September 30, 2010 were:

		Gross Unrealized		
(Dollars in Millions)	Cost	Gains	Losses	Fair Value
Preferred Stocks	$ 113.4	$ 11.4	$ (0.4)	$ 124.4
Common Stocks	168.8	61.9	(1.2)	229.5
Other Equity Interests	50.9	12.5	(1.7)	61.7
Investments in Equity Securities	$ 333.1	$ 85.8	$ (3.3)	$ 415.6

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 3 - Investments (continued)

Cost, Gross Unrealized Gains and Fair Value for Common Stocks in the preceding table include $89.2 million, $47.6 million and $136.8 million, respectively, for the Company s investments in the common stock of the Company s former investee, Intermec, Inc. (Intermec) at September 30, 2010. As discussed further below, the Company s investment in the common stock of Intermec was accounted for under the equity method of accounting at December 31, 2009.

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

		Gross Unrealized		
(Dollars in Millions)	Cost	Gains	Losses	Fair Value
Preferred Stocks	$ 115.9	$ 3.1	$ (3.9)	$ 115.1
Common Stocks	29.7	12.4	(0.9)	41.2
Other Equity Interests	38.8	4.7	(4.4)	39.1
Investments in Equity Securities	$ 184.4	$ 20.2	$ (9.2)	$ 195.4

An aging of unrealized losses on the Company s Investments in Fixed Maturities and Equity Securities at September 30, 2010 is presented below:

	Less Than 12 Months		12 Months or Longer		Total	
(Dollars in Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
U.S. Government and Government Agencies and Authorities	$ 0.1	$	$	$	$ 0.1	$
States, Municipalities and Political Subdivisions	11.4	(0.5)	12.3	(1.4)	23.7	(1.9)
Corporate Securities:						
Bonds and Notes	52.0	(1.3)	101.0	(5.6)	153.0	(6.9)
Redeemable Preferred Stocks						
Mortgage and Asset-backed			4.7	(1.3)	4.7	(1.3)
Total Fixed Maturities	63.5	(1.8)	118.0	(8.3)	181.5	(10.1)
Equity Securities:						
Preferred Stocks	2.4	(0.1)	8.4	(0.3)	10.8	(0.4)
Common Stocks	11.3	(1.2)			11.3	(1.2)
Other Equity Interests	4.2	(0.4)	6.0	(1.3)	10.2	(1.7)
Total Equity Securities	17.9	(1.7)	14.4	(1.6)	32.3	(3.3)

Total	$ 81.4	$ (3.5)	$ 132.4	$ (9.9)	$ 213.8	$ (13.4)

8

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 3 - Investments (continued)

An aging of unrealized losses on the Company s Investments in Fixed Maturities and Equity Securities at December 31, 2009 is presented below:

	Less Than 12 Months		12 Months or Longer		Total	
(Dollars in Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
U.S. Government and Government Agencies and Authorities	$ 88.8	$ (0.9)	$ 55.3	$ (2.8)	$ 144.1	$ (3.7)
States, Municipalities and Political Subdivisions	255.3	(8.1)	30.7	(3.2)	286.0	(11.3)
Corporate Securities:						
Bonds and Notes	198.8	(8.9)	256.3	(29.1)	455.1	(38.0)
Redeemable Preferred Stocks	11.6	(0.4)	77.7	(3.0)	89.3	(3.4)
Mortgage and Asset-backed	0.5	(0.1)	6.3	(0.7)	6.8	(0.8)
Total Fixed Maturities	555.0	(18.4)	426.3	(38.8)	981.3	(57.2)
Equity Securities:						
Preferred Stocks	1.8	(0.1)	64.6	(3.8)	66.4	(3.9)
Common Stocks	2.2	(0.3)	2.5	(0.6)	4.7	(0.9)
Other Equity Interests	6.9	(0.3)	6.7	(4.1)	13.6	(4.4)
Total Equity Securities	10.9	(0.7)	73.8	(8.5)	84.7	(9.2)
Total	$ 565.9	$ (19.1)	$ 500.1	$ (47.3)	$ 1,066.0	$ (66.4)

The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other-than-temporary. The portions of the declines in the fair values of investments that are determined to be other-than-temporary are reported as losses in the Condensed Consolidated Statements of Income in the period when such determination is made. Based on the Company s evaluations at September 30, 2010 and December 31, 2009 of the prospects of the issuers, including, but not limited to, the credit ratings of the issuers of the investments in the fixed maturities, and the Company s intention to not sell and its determination that it would not be required to sell before recovery of the amortized cost of such investments, the Company concluded that the declines in the fair values of the Company s investments in fixed maturities presented in the two preceding tables were temporary at the respective evaluation dates.

Unrealized losses on fixed maturities, which the Company has determined to be temporary at September 30, 2010, were $10.1 million, of which $8.3 million is related to fixed maturities that were in an unrealized loss position for 12 months or longer. There were no unrealized losses related to securities for which the Company has recognized credit losses in earnings in the second preceding table under the headings Less Than 12 Months. There were no unrealized losses related to securities for which the Company has recognized credit losses in earnings in the second preceding table under the heading 12 Months or Longer. Included in the second preceding table under the heading 12 Months or Longer are unrealized losses of $0.6 million related to securities for which the Company has recognized foreign currency losses in earnings.

Investment-grade fixed maturity investments comprised $5.5 million and below-investment-grade fixed maturity investments comprised $4.6 million of the unrealized losses on investments in fixed maturities at September 30, 2010. Unrealized losses for below-investment-grade fixed maturities included unrealized losses totaling $0.6 million for two issuers that the Company recognized foreign currency impairment losses in earnings for the nine months ended September 30, 2010. For the other remaining below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was less than 5% of the amortized cost basis of the investment. At September 30, 2010, the Company did not have the intent to sell these investments and it was not more likely than not that the Company would be required to sell these investments before recovery of its amortized cost basis, which may be maturity. The Company concluded that these impairments were temporary at September 30, 2010.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 3 - Investments (continued)

Unrealized losses on fixed maturities, which the Company determined to be temporary at December 31, 2009, were $57.2 million, of which $38.8 million is related to fixed maturities that were in an unrealized loss position for 12 months or longer. Included in the preceding table under the heading 12 Months or Longer are unrealized losses of $0.6 million related to securities for which the Company has recognized credit losses in earnings. Investment-grade fixed maturity investments comprised $42.3 million and below-investment-grade fixed maturity investments comprised $14.9 million of the unrealized losses on investments in fixed maturities at December 31, 2009. For below-investment-grade fixed maturity investments, the unrealized loss amount, on average, was less than 10% of the amortized cost basis of the investment. At December 31, 2009, the Company did not have the intent to sell these investments and it was not more likely than not that the Company would be required to sell these investments before recovery of its amortized cost basis, which may be maturity. The Company concluded that these impairments were temporary at December 31, 2009.

For equity securities, the Company considers various factors when determining whether a decline in the fair value is other than temporary including, but not limited to:

- The financial condition and prospects of the issuer;
- The length of time and magnitude of the unrealized loss;
- The volatility of the investment;
- Analyst recommendations and near term price targets;
- Opinions of the Company s external investment managers;
- Market liquidity;
- Debt-like characteristics of perpetual preferred stocks and issuer ratings; and
- The Company s intentions to sell or ability to hold the investments until recovery.

The vast majority of the Company s preferred stocks in an unrealized loss position at September 30, 2010 and December 31, 2009 are perpetual preferred stocks of financial institutions and public utilities. The Company considers the debt-like characteristics of perpetual preferred stocks along with issuer ratings when evaluating impairment. All such preferred stocks paid dividends at the stated dividend rate during the twelve-month period preceding the evaluation date. The Company concluded that the declines in the fair values of these perpetual preferred stocks were temporary in nature, largely driven by market conditions, and since the Company intends to hold the securities until recovery, these investments were not considered to be other-than-temporarily impaired at September 30, 2010 and December 31, 2009. The Company concluded that the unrealized losses on its investments in common stocks at September 30, 2010 were temporary based on the relative short length and magnitude of the losses. The Company s investments in other equity interests are investments in limited liability partnerships that primarily invest in distressed debt, mezzanine debt and secondary transactions. By the nature of their underlying investments, the Company believes that its investments in the limited liability partnerships also exhibit debt-like characteristics which, among other factors, the Company considers when evaluating these investments for impairment. Based on evaluations at September 30, 2010 and December 31, 2009 of the factors in the preceding paragraph, the Company concluded that the declines in the fair values of the Company s investments in equity securities were temporary at the respective evaluation dates.

The carrying value, fair value and approximate voting percentage for the Company s investment in the common stock of Intermec, Inc. (Intermec), which was accounted for under the equity method of accounting and reported as Investment in Investee in the Company s Condensed Consolidated Balance Sheets at December 31, 2009 were:

(Dollars in Millions)	
Carrying Value	$ 98.4
Fair Value	$ 162.8
Approximate Voting Percentage	20.3%

10

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 3 - Investments (continued)

On June 10, 2010, Unitrin s subsidiary, Trinity Universal Insurance Company (Trinity), entered into a pre-arranged trading plan (the Trading Plan) with UBS Financial Services Inc. (UBS) in accordance with SEC Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), covering the sale over a period of one year of up to 1.5 million shares of Intermec common stock that are owned by Trinity. During the second quarter of 2010, Trinity sold 255,904 shares of Intermec common stock under the Trading Plan. During the third quarter of 2010, Trinity sold an additional 1,244,096 shares of Intermec common stock, thereby completing the Trading Plan. As a result of these sales, the Company s approximate voting percentage in Intermec was reduced to 18%. As a result of this change in ownership and other qualitative factors, the Company determined that its investment in the common stock of Intermec no longer qualified for the equity method of accounting. Accordingly, the Company s investment in Intermec common stock is included in Investments in Equity Securities and is reported at its fair value of $136.8 million in the Condensed Consolidated Balance Sheet at September 30, 2010. Prior to discontinuing the use of the equity method of accounting for Intermec, the Company used a reporting lag of three months to report its proportionate share of Intermec s results. Accordingly, Equity in Net Loss of Investee for the three months ended September 30, 2010 relates to the Company s proportionate share of results that Intermec reported for the three months ended June 30, 2010. Net Realized Gains on Sales of Investments includes gains of $3.9 million arising from the sales of Intermec common stock for the nine months ended September 30, 2010, of which $0.8 million has been reported as net realized gains on sales of investee and $3.1 million has been included in net realized gains on sales of equity securities. Net Realized Gains on Sales of Investments includes gains of $3.1 million for the three months ended September 30, 2010, all of which has been included in net realized gains on sales of equity securities. See Note 13, Income from Investments, to the Condensed Consolidated Financial Statements.

The carrying values of the Company s Other Investments at September 30, 2010 and December 31, 2009 were:

(Dollars in Millions)	Sept. 30, 2010	Dec. 31, 2009
Loans to Policyholders at Unpaid Principal	$ 232.8	$ 223.6
Real Estate at Depreciated Cost	252.2	257.1
Equity Method Limited Liability Investments	315.7	285.5
Other	5.7	5.4
Total	$ 806.4	$ 771.6

Note 4 - Automobile Loan Receivables

Automobile Loan Receivables consists primarily of sub-prime loans, which are secured by automobiles, to residents of California and other Western and Midwestern states. Automobile Loan Receivables is stated net of unearned discount, loan fees and reserve for loan losses.

The components of Automobile Loan Receivables at September 30, 2010 and December 31, 2009 were:

(Dollars in Millions)	Sept. 30, 2010	Dec. 31, 2009
Sales Contracts and Loans Receivable	$ 459.6	$ 749.5
Unearned Discounts and Deferred Fees	(2.2)	(5.4)
Net Automobile Loan Receivables Outstanding	457.4	744.1
Reserve for Loan Losses	(60.0)	(83.3)
Automobile Loan Receivables	$ 397.4	$ 660.8

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 4 - Automobile Loan Receivables (continued)

An aging of Net Automobile Loan Receivables Outstanding at September 30, 2010 and December 31, 2009 is presented below:

(Dollars in Millions)	Amount	As a Percentage of Net Automobile Loan Receivables Outstanding	Amount	As a Percentage of Net Automobile Loan Receivables Outstanding
	September 30, 2010		December 31, 2009	
Current Loan Balances	$ 291.1	63.6%	$ 444.4	59.7%
Delinquent Loan Balances:				
Less than 30 Days Delinquent	145.1	31.7%	223.6	30.0%
30 Days to 59 Days Delinquent	16.8	3.7%	57.9	7.8%
60 Days to 89 Days Delinquent	3.5	0.8%	14.1	1.9%
Delinquent 90 Days or Greater	0.9	0.2%	4.1	0.6%
Net Automobile Loan Receivables Outstanding	457.4	100.0%	744.1	100.0%
Reserve for Loan Losses	(60.0)	13.1%	(83.3)	11.2%
Automobile Loan Receivables	$ 397.4		$ 660.8	

Activity in the Reserve for Loan Losses for the nine and three months ended September 30, 2010 and 2009 was:

(Dollars in Millions)	Nine Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2010	Three Months Ended Sept. 30, 2009
Reserve for Loan Losses - Beginning of Period	$ 83.3	$ 120.1	$ 74.8	$ 108.3
Provision for Loan Losses	(3.7)	50.1	(6.6)	14.4
Net Recovery (Charge-off):				
Automobile Loan Receivables Charged Off	(48.4)	(99.1)	(16.9)	(32.2)
Automobile Loan Receivables Recovered	28.8	27.4	8.7	8.0
Net Charge-off	(19.6)	(71.7)	(8.2)	(24.2)
Reserve for Loan Losses - End of Period	$ 60.0	$ 98.5	$ 60.0	$ 98.5

Note 5 - Goodwill

The Company tests goodwill for recoverability on an annual basis at the beginning of the first quarter and, if circumstances or events indicate that the fair value of a reporting unit may have declined below its carrying value, such tests are performed at intervening interim periods. Accordingly, the Company tested goodwill associated with each of its reporting units for recoverability on January 1, 2010. The quoted value of Unitrin s common stock was significantly below the book value per share of the Company at September 30, 2010. Accordingly, the Company tested goodwill associated with each of its reporting units for recoverability on September 30, 2010. However, no goodwill was associated with, and, accordingly, no testing was required for the Unitrin Direct and Fireside Bank reporting units at either date. The Company principally used projections of discounted future cash flows to estimate fair value of the reporting units tested. Except for the Company s Reserve National reporting unit, for each reporting unit tested, the estimated fair value exceeded the carrying value of the reporting unit, and the Company concluded that the associated goodwill was recoverable at each date tested.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 5 - Goodwill (continued)

With respect to the Company s Reserve National reporting unit, the estimated fair value, based on a projection of discounted future cash flows, exceeded the carrying value of the reporting unit at January 1, 2010. Accordingly, the Company concluded that the goodwill associated with its Reserve National reporting unit was recoverable at January 1, 2010. Reserve National focuses on providing non-comprehensive health insurance coverages. During the first quarter of 2010, the Health Care Acts were signed into law. The Company determined that the Health Care Acts could have an adverse impact on Reserve National s prospects. Accordingly, the Company tested goodwill associated with Reserve National for recoverability at March 31, 2010. Goodwill associated with the Company s Reserve National reporting unit was $14.8 million at March 31, 2010 and was reported in Assets of Discontinued Operations. Based on a projection of discounted future cash flows, updated to take into consideration the impact of the Health Care Acts, discussions with a potential buyer during the first quarter of 2010 and preliminary discussions with an adviser retained in April 2010, the Company concluded that the estimated fair value of Reserve National exceeded its carrying value at March 31, 2010, and the Company concluded that such goodwill was recoverable. In the second quarter of 2010, based on the Company s analysis at March 31, 2010 and preliminary, non-binding price indications from potential buyers, the Company concluded that the goodwill associated with Reserve National was also recoverable at June 30, 2010.

During the third quarter of 2010, the sales process continued with several potential buyers conducting on-site due diligence reviews. On September 23, 2010, the National Association of Insurance Commissioners (the NAIC) published for comment a model regulation containing the definitions and methodologies for calculating the medical loss ratios under the Health Care Acts. On October 21, 2010, the NAIC voted to adopt a model regulation containing such definitions and methodologies and authorized the delivery of such model regulation to the U.S. Department of Health and Human Services (HHS) for certification. Based on these proposed regulations, the Company concluded that it was more likely than previously believed that the minimum loss ratio provisions under the Health Care Acts would apply to Reserve National s non-comprehensive health insurance coverages. Accordingly, based on the status of the sales process to date, the continuing uncertainty about the impact of the Health Care Acts on Reserve National s operations and the increased likelihood that the minimum loss ratio provisions of the Health Care Acts would apply to Reserve National s non-comprehensive health insurance coverages, the Company concluded that the sales process is unlikely to result in a sales price that exceeds the carrying value of Reserve National, which includes the associated goodwill, at September 30, 2010. Accordingly, the Company was required to perform a pro forma allocation whereby the estimated fair value of Reserve National was allocated to the fair value of the assets and liabilities of Reserve National as if it had been acquired in a business combination on the valuation date to determine if the associated goodwill was recoverable at September 30, 2010. The Company determined that any premium that a potential buyer might pay for the business would likely be allocated to the value of the in-force business and that no value would be assigned to goodwill. Thus, the Company determined that goodwill associated with Reserve National was impaired and not recoverable at September 30, 2010 and wrote off $14.8 million of goodwill in the third quarter of 2010. The Company cannot currently predict, and no assurances can be made, that the sales process will result in a sale of Reserve National or that a sale, if concluded, would result in a complete recovery of the Company s remaining carrying value of its investment in Reserve National.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 - Property and Casualty Insurance Reserves

Property and Casualty Insurance Reserve activity for the nine months ended September 30, 2010 and 2009 was:

(Dollars in Millions)	Nine Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2009
Property and Casualty Insurance Reserves -		
Gross of Reinsurance at Beginning of Year	$ 1,211.3	$ 1,268.7
Less Reinsurance Recoverables at Beginning of Year	77.4	84.6
Property and Casualty Insurance Reserves -		
Net of Reinsurance at Beginning of Year	1,133.9	1,184.1
Property and Casualty Insurance Reserves Acquired, Net of Reinsurance		94.7
Incurred Losses and LAE Related to:		
Current Year - Continuing Operations	983.7	1,107.0
Prior Years:		
Continuing Operations	(19.5)	(57.9)
Discontinued Operations	0.4	(2.6)
Total Incurred Losses and LAE Related to Prior Years	(19.1)	(60.5)
Total Incurred Losses and LAE	964.6	1,046.5
Paid Losses and LAE Related to:		
Current Year - Continuing Operations	579.0	689.4
Prior Years:		
Continuing Operations	425.3	407.5
Discontinued Operations	32.5	37.9
Total Paid Losses and LAE Related to Prior Years	457.8	445.4
Total Paid Losses and LAE	1,036.8	1,134.8
Property and Casualty Insurance Reserves -		
Net of Reinsurance at End of Period	1,061.7	1,190.5
Plus Reinsurance Recoverable at End of Period	69.7	79.4
Property and Casualty Insurance Reserves -		
Gross of Reinsurance at End of Period	$ 1,131.4	$ 1,269.9

Property and Casualty Insurance Reserves are estimated based on historical experience patterns and current economic trends. Actual loss experience and loss trends are likely to differ from these historical experience patterns and economic conditions. Loss experience and loss trends emerge over several years from the dates of loss inception. The Company monitors such emerging loss trends on a quarterly basis. Changes in such estimates are included in the Condensed Consolidated Statements of Income in the period of change.

For the nine months ended September 30, 2010, the Company reduced its property and casualty insurance reserves by $19.1 million to recognize favorable development of losses and loss adjustment expenses (LAE) from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by $19.2 million and commercial lines insurance losses and LAE reserves developed unfavorably by $0.1 million. The personal lines insurance losses and LAE reserves developed favorably due primarily to the emergence of more favorable loss trends than expected for the 2009, 2007 and 2006 accident years.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 - Property and Casualty Insurance Reserves (continued)

For the nine months ended September 30, 2009, the Company reduced its property and casualty insurance reserves by $60.5 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by $53.7 million and commercial lines insurance losses and LAE reserves developed favorably by $6.8 million. The personal lines insurance losses and LAE reserves developed favorably due primarily to the emergence of more favorable loss trends than expected for the 2007, 2006 and 2005 accident years.

The Company cannot predict whether losses and LAE will develop favorably or unfavorably from the amounts reported in the Company s Condensed Consolidated Financial Statements. The Company believes that any such development will not have a material effect on the Company s consolidated financial position, but could have a material effect on the Company s consolidated financial results for a given period.

Note 7 - Certificates of Deposits

The weighted-average interest rates on Certificates of Deposits were 5.29% and 4.99% at September 30, 2010 and December 31, 2009, respectively. The range of interest rates on Certificates of Deposits was 0.75% to 5.85% at September 30, 2010 and 0.05% to 5.85% at December 31, 2009. The contractual maturities of Certificates of Deposits at September 30, 2010 and December 31, 2009 were:

(Dollars in Millions)	Sept. 30, 2010	Dec. 31, 2009
Due in One Year or Less	$ 208.7	$ 245.4
Due after One Year to Two Years	186.5	228.5
Due after Two Years to Three Years	13.9	202.8
Due after Three Years to Four Years	0.1	5.5
Due after Four Years to Five Years		0.2
Total Certificates of Deposits at Cost	$ 409.2	$ 682.4

Note 8 - Notes Payable

Total debt outstanding at September 30, 2010 and December 31, 2009 was:

(Dollars in Millions)	Sept. 30, 2010	Dec. 31, 2009
Senior Notes at Amortized Cost:		
6.00% Senior Notes due May 15, 2017	$ 356.2	$ 355.9
4.875% Senior Notes due November 1, 2010	200.0	199.7

Mortgage Note Payable at Amortized Cost	5.7	5.8
Notes Payable at Amortized Cost	$ 561.9	$ 561.4

There were no outstanding advances at either September 30, 2010 or December 31, 2009 under Unitrin s three-year, $245 million, unsecured, revolving credit agreement, expiring October 30, 2012 (the 2012 Credit Agreement). Accordingly, the amount available for borrowing under the 2012 Credit Agreement was $245.0 million at both September 30, 2010 and December 31, 2009.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 8 - Notes Payable (continued)

Interest Expense, including facility fees and accretion of discount, for the nine and three months ended September 30, 2010 and 2009 was:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Notes Payable under Revolving Credit Agreements	$ 1.3	$ 0.8	$ 0.4	$ 0.1
6.00% Senior Notes due May 15, 2017	16.5	16.5	5.5	5.5
4.875% Senior Notes due November 1, 2010	7.6	7.5	2.6	2.5
Mortgage Note Payable	0.3	0.3	0.1	0.1
Interest Expense before Capitalization of Interest	25.7	25.1	8.6	8.2
Capitalization of Interest	(1.3)	(0.2)	(0.5)	
Total Interest Expense	$ 24.4	$ 24.9	$ 8.1	$ 8.2

Interest paid, including facility fees, for the nine and three months ended September 30, 2010 and 2009 was:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Notes Payable under Revolving Credit Agreements	$ 0.5	$ 0.7	$ 0.2	$ 0.1
6.00% Senior Notes due May 15, 2017	10.8	10.8		
4.875% Senior Notes due November 1, 2010	4.9	4.9		
Mortgage Note Payable	0.3	0.3	0.1	0.1
Total Interest Paid	$ 16.5	$ 16.7	$ 0.3	$ 0.2

Note 9 - Long-term Equity-based Compensation Plans

Unitrin has adopted a number of long-term equity-based compensation plans to attract, motivate and retain key employees and/or directors of the Company. For equity-based compensation awards with a graded vesting schedule, the Company recognizes compensation expense on a straight-line basis over the requisite service period for each separately vesting portion of the awards as if each award were, in substance, multiple awards. Compensation expense is recognized only for those awards expected to vest, with forfeitures estimated at the date of grant based on the Company s historical experience and future expectations. Share-based compensation expense for all of the Company s long-term equity-based compensation plans was $3.5 million and $2.5 million for the nine months ended September 30, 2010 and 2009, respectively. Total unamortized compensation expense related to nonvested awards of such plans at September 30, 2010 was $3.9 million, which is expected to be recognized over a weighted-average period of 1.4 years.

At September 30, 2010, the Company had three stock option plans, all of which have been approved by Unitrin s shareholders. At September 30, 2010, options to purchase 4,382,435 shares of Unitrin s common stock were outstanding. Original options to purchase shares of Unitrin common stock were available for future grant under only two of the plans, the 1995 Non-employee Director Stock Option Plan and the 2002 Stock Option Plan, at September 30, 2010. Options to purchase 1,547,262 shares of Unitrin s common stock were available for future grants under such stock option plans at September 30, 2010.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each option on the date of grant. The expected terms of options are developed by considering the Company s historical share option exercise experience, demographic profiles, historical share retention practices of employees and assumptions about their propensity for early exercise in the future. Further, the Company aggregates individual awards into relatively homogenous groups that exhibit similar exercise behavior to obtain a more refined estimate of the expected term of options. Expected volatility is estimated using weekly historical volatility. The Company believes that historical volatility is currently the best estimate of expected volatility. For original option grants made in 2009, the dividend yield assumed was the average annualized yield computed over 20 consecutive quarters preceding the date of grant. In light of the changing economic environment, the Company changed its dividend yield assumption prospectively for original options granted in 2010.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 9 - Long-term Equity-based Compensation Plans (continued)

For original option grants made in 2010, the dividend yield assumed is the annualized continuous dividend yield on Unitrin common stock on the date of grant.

The yield is calculated by taking the natural logarithm of the annualized yield divided by the Unitrin common stock price on the date of grant. The Company believes that basing the dividend yield on the current annualized yield is likely to be more consistent with the actual yield during the expected life of the option. No restorative options were granted in 2010 or 2009. The risk-free interest rate was the yield on the grant date of U.S. Treasury zero coupon issues with a maturity comparable to the expected term of the option.

The assumptions used in the Black-Scholes pricing model for options granted during the nine months ended September 30, 2010 and 2009 were as follows:

	Nine Months Ended Sept. 30,	
	Sept. 30,	Sept. 30,
Range of Valuation Assumptions	2010	2009
Expected Volatility	40.55% - 50.51%	33.08% - 40.30%
Risk-free Interest Rate	1.91% - 3.20%	1.63% - 2.76%
Expected Dividend Yield	3.25% - 3.39%	4.59% - 5.07%
Weighted-Average Expected Life		
Employee Grants	4 - 7 Years	4 - 7.5 Years
Director Grants	6 Years	7 Years

Option and stock appreciation right activity for the nine months ended September 30, 2010 is presented below:

	Shares Subject to Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value ($ in Millions)
Outstanding at Beginning of the Year	4,619,470	$ 44.13		
Granted	329,750	23.97		
Exercised	(10,200)	18.39		
Forfeited or Expired	(556,585)	43.80		
Outstanding at September 30, 2010	4,382,435	$ 42.72	4.00	$ 3.0
Vested and Expected to Vest	4,362,033	$ 42.80	3.98	$ 2.9

Exercisable at September 30, 2010	3,957,184	$	44.75	3.50	$	1.6

The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2010 and 2009 were $7.70 per option and $3.07 per option, respectively. Total intrinsic value of stock options exercised was $0.1 million for the nine months ended September 30, 2010. Cash received from option exercises and the total tax benefits realized for tax deductions from option exercises was insignificant for the nine months ended September 30, 2010. No options were exercised during the nine months ended September 30, 2009.

In addition to the stock option plans, the Company has a restricted stock plan, which has been approved by Unitrin s shareholders. Under this plan, restricted stock and restricted stock units may be granted to eligible employees. Recipients of restricted stock are entitled to full dividend and voting rights on the same basis as all other outstanding shares of Unitrin common stock, and all awards are subject to forfeiture until certain restrictions have lapsed. From inception of the plan through September 30, 2010, 585,100 shares of restricted stock having a weighted-average grant-date fair value of $34.63 per share had been awarded, of which 133,879 shares were forfeited and 75,338 shares were tendered to satisfy tax withholding obligations. There were 624,117 common shares available for future grants under the restricted stock plan at September 30, 2010.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 9 - Long-term Equity-based Compensation Plans (continued)

Prior to February 3, 2009, only awards of time-vested restricted stock had been granted under the restricted stock plan. On February 3, 2009, in addition to time-vested restricted stock granted to certain employees and officers, the Company began awarding performance-based restricted stock to certain employees and officers under the restricted stock plan. The initial number of shares awarded to each participant at the start of each performance period represents the shares that would vest if the performance goals were achieved at the target performance level. The final payout of these awards will be determined based on Unitrin s total shareholder return over a three-year performance period relative to the companies in the S&P Supercomposite Insurance Index (Peer Group).

The 2009 three-year performance period began on January 1, 2009 and will end on December 31, 2011. The 2010 three-year performance period began on January 1, 2010 and will end on December 31, 2012. If, at the end of each performance period, the Company s relative performance exceeds the target performance level, additional shares of restricted stock will be issued to the award recipient. If, at the end of each performance period, the Company s relative performance is below the target performance level and above a minimum performance level, only a portion of the shares of performance-based restricted stock originally issued to the award recipient will vest. If, at the end of each performance period, the Company s relative performance is below a minimum performance level, none of the shares of performance-based restricted stock originally issued to the award recipient will vest.

The grant-date fair values of time-based restricted stock awards are determined using the closing price of Unitrin common stock on the date of grant. The grant-date fair values of the performance-based restricted stock awards are determined using the Monte Carlo simulation method. The Monte Carlo simulation model produces a risk-neutral simulation of the daily returns on the common stock of Unitrin and each of the other companies included in the Peer Group. Returns generated by the simulation depend on the risk-free interest rate used and the volatilities of, and the correlation between, these stocks. The model simulates stock prices and dividend payouts to the end of the three-year performance period. Total shareholder returns are generated for each of these stocks based on the simulated prices and dividend payouts. The total shareholder returns are then ranked, and Unitrin s simulated ranking is converted to a payout percentage based on the terms of the performance-based restricted stock awards. The payout percentage is applied to the simulated stock price at the end of the performance period, reinvested dividends are added back, and the total is discounted to the valuation date at the risk-free rate. This process is repeated approximately ten thousand times, and the grant-date fair value is equal to the average of the results from these trials.

Activity related to nonvested restricted stock for the nine months ended September 30, 2010 is presented below:

	Restricted Shares	Weighted-Average Grant-Date Fair Value Per Share
Nonvested Balance at Beginning of the Year	202,916	$ 27.70
Granted	109,900	28.73
Vested	(87,064)	38.46
Forfeited	(20,071)	25.84
Nonvested Balance at September 30, 2010	205,681	23.87

Restricted stock granted during the nine months ended September 30, 2010 includes 43,500 shares of time-vested restricted stock and 66,400 shares of performance-based restricted stock. The nonvested balance of restricted stock at September 30, 2010 was comprised of 94,956 shares of time-vested restricted stock and 110,725 shares of performance-based restricted stock. The number of additional shares that would be granted if the Company were to meet or exceed the maximum performance levels related to the outstanding performance-based shares was 221,450 shares at September 30, 2010. The total fair value of restricted stock that vested during the nine months ended September 30, 2010 was $2.2 million and the tax benefits for tax deductions realized from the vesting of such restricted stock was $0.8 million. The total fair value of restricted stock that vested during the nine months ended September 30, 2009 was $0.8 million and the tax benefits for tax deductions realized from the vesting of such restricted stock was $0.3 million.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 10 - Restructuring Expenses

Activity related to restructuring costs for the nine months ended September 30, 2010 is presented below.

(Dollars in Millions)	Fireside Bank	Unitrin Direct	All Other Segments	Total
Liability at Beginning of Year:				
Employee Termination Costs	$ 2.8	$ 1.4	$ 0.2	$ 4.4
Early Lease Termination Costs	0.2	0.6		0.8
Other Associated Costs				
Liability at Beginning of Year	3.0	2.0	0.2	5.2
Expenses Incurred:				
Employee Termination Costs	2.5	0.6	0.2	3.3
Early Lease Termination Costs	3.5			3.5
Other Associated Costs				
Total Expenses Incurred	6.0	0.6	0.2	6.8
Payments of:				
Employee Termination Costs	0.4	1.4	0.4	2.2
Early Lease Termination Costs	3.7	0.4		4.1
Other Associated Costs				
Total Payments	4.1	1.8	0.4	6.3
Liability at September 30, 2010:				
Employee Termination Costs	4.9	0.6		5.5
Early Lease Termination Costs		0.2		0.2
Other Associated Costs				
Liability at September 30, 2010	$ 4.9	$ 0.8	$	$ 5.7

Employee termination costs are accrued and recognized as expense over the employee s expected service period. Unrecognized employee termination costs were $6.2 million at September 30, 2010, of which $0.8 million is expected to be expensed in the remainder of 2010 and $5.4 million is expected to be expensed in 2011 and thereafter.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 10 - Restructuring Expenses (continued)

Activity related to restructuring costs for the nine months ended September 30, 2009 is presented below.

(Dollars in Millions)	Fireside Bank	Unitrin Direct	All Other Segments	Total
Liability at Beginning of Year:				
Employee Termination Costs	$ 0.1	$ 0.1	$	$ 0.2
Early Lease Termination Costs	1.0	0.3		1.3
Other Associated Costs				
Liability at Beginning of Year	1.1	0.4		1.5
Expenses Incurred:				
Employee Termination Costs	7.1	5.7	1.7	14.5
Early Lease Termination Costs	1.1	1.4		2.5
Other Associated Costs	2.1		0.2	2.3
Total Expenses Incurred	10.3	7.1	1.9	19.3
Payments of:				
Employee Termination Costs	4.9	3.0	1.3	9.2
Early Lease Termination Costs	1.9	0.8		2.7
Other Associated Costs	1.9		0.2	2.1
Total Payments	8.7	3.8	1.5	14.0
Liability at September 30, 2009:				
Employee Termination Costs	2.3	2.8	0.4	5.5
Early Lease Termination Costs	0.2	0.9		1.1
Other Associated Costs	0.2			0.2
Liability at September 30, 2009	$ 2.7	$ 3.7	$ 0.4	$ 6.8

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 11 - Income Per Share from Continuing Operations

The Company s awards of restricted stock contain a right to receive non-forfeitable dividends and participate in the undistributed earnings with common shareholders. Accordingly, the Company is required to apply the two-class method of computing basic and diluted earnings per share. A reconciliation of the numerator and denominator used in the calculation of Basic Income Per Share from Continuing Operations and Diluted Income Per Share from Continuing Operations for the nine months ended September 30, 2010 is as follows:

	Nine Months Ended September 30, 2010		
(Dollars in Millions)	Restricted Common Stock	Unrestricted Common Stock	Total
Income from Continuing Operations	$ 0.6	$ 121.7	$ 122.3
Dilutive Effect on Income of:			
Investee s Equivalent Shares			
Unitrin Share-based Compensation Equivalent Shares			
Diluted Income from Continuing Operations	$ 0.6	$ 121.7	$ 122.3
(Shares in Thousands)			
Weighted-Average Common Shares Outstanding	277.3	61,865.9	
Unitrin Share-based Compensation Equivalent Shares		88.5	
Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution	277.3	61,954.4	
(Per Share in Whole Dollars)			
Basic Income Per Share from Continuing Operations	$ 1.97	$ 1.97	
Diluted Income Per Share from Continuing Operations	$ 1.97	$ 1.96	

Options outstanding to purchase 4.3 million shares of Unitrin common stock were excluded from the computation of Unitrin Share-based Compensation Equivalent Shares and Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution for the nine months ended September 30, 2010 because the exercise price exceeded the average market price.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 11 - Income Per Share from Continuing Operations (continued)

A reconciliation of the numerator and denominator used in the calculation of Basic Income Per Share from Continuing Operations and Diluted Income Per Share from Continuing Operations for the three months ended September 30, 2010 is as follows:

	Three Months Ended September 30, 2010		
(Dollars in Millions)	Restricted Common Stock	Unrestricted Common Stock	Total
Income from Continuing Operations	$ 0.2	$ 35.3	$ 35.5
Dilutive Effect on Income of:			
Investee s Equivalent Shares			
Unitrin Share-based Compensation Equivalent Shares			
Diluted Income from Continuing Operations	$ 0.2	$ 35.3	$ 35.5
(Shares in Thousands)			
Weighted-Average Common Shares Outstanding	262.7	61,457.8	
Unitrin Share-based Compensation Equivalent Shares		85.4	
Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution	262.7	61,543.2	
(Per Share in Whole Dollars)			
Basic Income Per Share from Continuing Operations	$ 0.57	$ 0.57	
Diluted Income Per Share from Continuing Operations	$ 0.57	$ 0.57	

Options outstanding to purchase 4.1 million shares of Unitrin common stock were excluded from the computation of Unitrin Share-based Compensation Equivalent Shares and Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution for the three months ended September 30, 2010 because the exercise price exceeded the average market price.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 11 - Income Per Share from Continuing Operations (continued)

A reconciliation of the numerator and denominator used in the calculation of Basic Income Per Share from Continuing Operations and Diluted Income Per Share from Continuing Operations for the nine months ended September 30, 2009 is as follows:

	Nine Months Ended September 30, 2009		
(Dollars in Millions)	Restricted Common Stock	Unrestricted Common Stock	Total
Income from Continuing Operations	$ 0.3	$ 95.8	$ 96.1
Dilutive Effect on Income of:			
Investee s Equivalent Shares			
Unitrin Share-based Compensation Equivalent Shares			
Diluted Income from Continuing Operations	$ 0.3	$ 95.8	$ 96.1
(Shares in Thousands)			
Weighted-Average Common Shares Outstanding	269.2	62,125.5	
Unitrin Share-based Compensation Equivalent Shares		10.3	
Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution	269.2	62,135.8	
(Per Share in Whole Dollars)			
Basic Income Per Share from Continuing Operations	$ 1.10	$ 1.54	
Diluted Income Per Share from Continuing Operations	$ 1.10	$ 1.54	

Options Outstanding to purchase 4.8 million shares of Unitrin common stock were excluded from the computation of Unitrin Share-based Compensation Equivalent Shares and Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution for the nine months ended September 30, 2009 because the exercise price exceeded the average market price.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 11 - Income Per Share from Continuing Operations (continued)

A reconciliation of the numerator and denominator used in the calculation of Basic Income Per Share from Continuing Operations and Diluted Income Per Share from Continuing Operations for the three months ended September 30, 2009 is as follows:

	Three Months Ended September 30, 2009		
(Dollars in Millions)	Restricted Common Stock	Unrestricted Common Stock	Total
Income from Continuing Operations	$ 0.1	$ 60.9	$ 61.0
Dilutive Effect on Income of:			
Investee s Equivalent Shares			
Unitrin Share-based Compensation Equivalent Shares			
Diluted Income from Continuing Operations	$ 0.1	$ 60.9	$ 61.0
(Shares in Thousands)			
Weighted-Average Common Shares Outstanding	236.1	62,140.0	
Unitrin Share-based Compensation Equivalent Shares		30.8	
Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution	236.1	62,170.8	
(Per Share in Whole Dollars)			
Basic Income Per Share from Continuing Operations	$ 0.43	$ 0.98	
Diluted Income Per Share from Continuing Operations	$ 0.43	$ 0.98	

Options outstanding to purchase 4.4 million shares of Unitrin common stock were excluded from the computation of Unitrin Share-based Compensation Equivalent Shares and Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution for the three months ended September 30, 2009 because the exercise price exceeded the average market price.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 12 - Other Comprehensive Income and Accumulated Other Comprehensive Income

Other Comprehensive Income for the nine and three months ended September 30, 2010 and 2009 was:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Other Comprehensive Income (Loss) Before Income Taxes:				
Unrealized Holding Gains (Losses) Arising During the Period Before Reclassification Adjustment	$ 343.1	$ 279.2	$ 176.4	$ 225.4
Reclassification Adjustment for Amounts Included in Net Income	0.3	32.5	1.2	2.5
Unrealized Holding Gains (Losses)	343.4	311.7	177.6	227.9
Foreign Currency Translation Adjustments Arising During the Period Before Reclassification Adjustment	(1.4)	1.8	0.7	0.2
Reclassification Adjustment for Amounts Included in Net Income	2.1	(0.1)		
Foreign Currency Translation Adjustments	0.7	1.7	0.7	0.2
Equity in Other Comprehensive Income (Loss) of Investee	2.9	(3.2)	7.9	6.2
Amortization of Unrecognized Postretirement Benefit Costs	0.8	(1.4)	0.2	(0.5)
Other Comprehensive Income Before Income Taxes	347.8	308.8	186.4	233.8
Income Tax Benefit (Expense):				
Unrealized Holding Gains and Losses Arising During the Period Before Reclassification Adjustment	(121.3)	(98.7)	(62.2)	(79.7)
Reclassification Adjustment for Amounts Included in Net Income	(0.1)	(11.4)	(0.5)	(0.9)
Unrealized Holding Gains and Losses	(121.4)	(110.1)	(62.7)	(80.6)
Foreign Currency Translation Adjustments Arising During the Period Before Reclassification Adjustment	0.5	(0.6)	(0.3)	(0.1)
Reclassification Adjustment for Amounts Included in Net Income	(0.8)			
Foreign Currency Translation Adjustments	(0.3)	(0.6)	(0.3)	(0.1)
Equity in Other Comprehensive Income (Loss) of Investee	(1.0)	1.1	(2.7)	(2.2)
Amortization of Unrecognized Postretirement Benefit Costs	(0.3)	0.5	(0.1)	0.2

Income Tax Benefit (Expense)	(123.0)	(109.1)	(65.8)	(82.7)
Other Comprehensive Income	$ 224.8	$ 199.7	$ 120.6	$ 151.1

Total Comprehensive Income was $346.5 million and $156.3 million for the nine and three months ended September 30, 2010, respectively. Total Comprehensive Income was $298.1 million and $213.2 million for the nine and three months ended September 30, 2009, respectively.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 12 - Other Comprehensive Income and Accumulated Other Comprehensive Income (continued)

The components of Accumulated Other Comprehensive Income at September 30, 2010 and December 31, 2009 were:

(Dollars in Millions)	Sept. 30, 2010	Dec. 31, 2009
Unrealized Gains (Losses) on Investments, Net of Income Taxes:		
Available for Sale Fixed Maturities with Portion of OTTI Recognized in Earnings	$ 0.5	$ (0.3)
Other Unrealized Gains on Investments	324.7	103.5
Equity in Accumulated Other Comprehensive Loss of Investee, Net of Income Taxes		(1.9)
Foreign Currency Translation Adjustments, Net of Income Taxes	0.1	(0.3)
Net Unrecognized Postretirement Benefit Costs, Net of Income Taxes	(41.7)	(42.2)
Accumulated Other Comprehensive Income	$ 283.6	$ 58.8

Note 13 - Income from Investments

Net Investment Income for the nine and three months ended September 30, 2010 and 2009 was:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Investment Income:				
Interest and Dividends on Fixed Maturities	$ 185.3	$ 181.7	$ 61.0	$ 60.5
Dividends on Equity Securities	11.2	9.8	4.0	3.3
Short-term Investments	0.3	0.9	0.1	0.2
Loans to Policyholders	12.3	11.5	4.2	4.0
Real Estate	20.2	21.5	6.7	6.9
Equity Method Limited Liability Investments	33.3	29.3	10.5	24.8
Other		0.3		
Total Investment Income	262.6	255.0	86.5	99.7
Investment Expenses:				
Real Estate	19.4	20.0	6.4	6.2
Other Investment Expenses	0.7	0.3	0.2	0.2
Total Investment Expenses	20.1	20.3	6.6	6.4

Net Investment Income	$ 242.5	$ 234.7	$ 79.9	$ 93.3

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 13 - Income from Investments (continued)

The components of Net Realized Gains on Sales of Investments for the nine and three months ended September 30, 2010 and 2009 were:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Fixed Maturities:				
Gains on Sales	$ 5.7	$ 7.3	$ 0.9	$ 3.9
Losses on Sales		(0.3)		(0.2)
Equity Securities:				
Gains on Sales	7.7	9.8	5.7	8.3
Investee - Intermec:				
Gains on Sales	0.8			
Other Investments:				
Gains on Sales	0.1		0.1	
Losses on Sales	(0.1)	(0.1)		(0.1)
Trading Securities Net Gains	0.4	0.9	0.5	0.5
Net Realized Gains on Sales of Investments	$ 14.6	$ 17.6	$ 7.2	$ 12.4

The components of Net Impairment Losses Recognized in Earnings in the Condensed Consolidated Statements of Income for the nine and three months ended September 30, 2010 and 2009 were:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Fixed Maturities	$ (12.4)	$ (41.2)	$ (4.6)	$ (14.5)
Equity Securities	(0.3)	(8.0)		
Net Impairment Losses Recognized in Earnings	$ (12.7)	$ (49.2)	$ (4.6)	$ (14.5)

Net Impairment Losses Recognized in Earnings on Investments in Fixed Maturities includes credit losses of $5.7 million for the nine ended September 30, 2010. Net Impairment Losses Recognized in Earnings on Investments in Fixed Maturities includes foreign currency losses of $2.1 million for the nine months ended September 30, 2010. Net Impairment Losses Recognized in Earnings on Investments in Fixed Maturities includes losses of $4.6 million for both the nine and three months ended September 30, 2010 related to impaired securities that the Company intends to sell. See Note 2, Summary of Accounting Policies and Accounting Changes, to the Consolidated Financial Statements included in the 2009 Annual Report for a discussion of a change in accounting principle adopted in the second quarter of 2009 which impacts the determination of the amount of other-than-temporary-impairment (OTTI) losses on Investments in Fixed Maturities that are recognized in earnings on and subsequent to April 1, 2009.

The following table sets forth the pre-tax amount of OTTI credit losses, recognized in Retained Earnings for Investments in Fixed Maturities held by the Company as of the dates indicated, for which a portion of the OTTI loss has been recognized in Accumulated Other Comprehensive Income, and the corresponding changes in such amounts.

	Nine Months Ended Sept. 30, 2010	Three Months Ended Sept. 30, 2010
Balance at Beginning of Period	$ 3.7	$ 5.4
Additions for Previously Unrecognized OTTI Credit Losses	5.3	
Increases to Previously Recognized OTTI Credit Losses	0.4	
Reductions to Previously Recognized OTTI Credit Losses	(1.6)	(0.1)
Reductions due to Intent to Sell Investments	(5.1)	(2.6)
Balance at End of Period	$ 2.7	$ 2.7

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 13 - Income from Investments (continued)

The following table sets forth the pre-tax amount of OTTI credit losses, recognized in Retained Earnings for Investments in Fixed Maturities held by the Company as of the dates indicated, for which a portion of the OTTI loss has been recognized in Accumulated Other Comprehensive Loss, and the corresponding changes in such amounts.

(Dollars in Millions)	April 1, 2009 to Sept. 30, 2009	July 1, 2009 to Sept. 30, 2009
Balance at Beginning of Period	$ 39.8	$ 40.1
Additions for Previously Unrecognized OTTI Credit Losses	1.9	0.2
Increases to Previously Recognized OTTI Credit Losses	0.4	0.3
Reduction for Previously Recognized OTTI Credit Losses	(0.4)	(0.4)
Reduction due to Intent to Sell Investments	(35.6)	(35.6)
Reduction for Investments Sold During the Period	(2.8)	(1.3)
Balance at End of Period	$ 3.3	$ 3.3

Note 14 - Income Taxes

Current and Deferred Income Tax Assets at September 30, 2010 and December 31, 2009 were:

(Dollars in Millions)	Sept. 30, 2010	Dec. 31, 2009
Current Income Tax Assets	$ 26.4	$ 10.4
Deferred Income Tax Assets	10.0	106.8
Valuation Allowance for State Income Taxes	(9.2)	(9.6)
Current and Deferred Income Tax Assets	$ 27.2	$ 107.6

The components of Liabilities for Income Taxes at September 30, 2010 and December 31, 2009 were:

(Dollars in Millions)	Sept. 30, 2010	Dec. 31, 2009
Deferred Income Tax Liabilities	$ 52.7	$
Unrecognized Tax Benefits	7.6	11.7

Liabilities for Income Taxes	$ 60.3	$ 11.7

Deferred Income Tax Assets and Liabilities include net operating loss carryforwards of $73.5 million and $67.2 million at September 30, 2010 and December 31, 2009, respectively, which included federal net operating loss carryforwards of $68.3 million and $62.2 million, respectively, and state net operating loss carryforwards of $5.2 million and $5.0 million, respectively. The federal net operating loss carryforwards are scheduled to expire in years 2017 through 2028. The Company expects to fully utilize these federal net operating loss carryforwards. The state net operating loss carryforwards relate to Fireside Bank, the majority of which are scheduled to expire in 2029. Deferred income tax asset valuation allowances of $9.2 million and $9.6 million were required at September 30, 2010 and December 31, 2009, respectively, and relate to state income taxes for Fireside Bank.

The Company has not provided Federal income taxes on $14.7 million of Mutual Savings Life Insurance Company s income earned prior to 1984 which is not subject to income taxes under certain circumstances. Federal income taxes of $5.1 million would be paid on such income if it is distributed to its parent, United Insurance Company of America (United), a subsidiary of Unitrin, in the future or if it does not continue to meet certain limitations.

Income tax expense for the nine months ended September 30, 2010 includes income tax expense of $0.8 million due to a decrease in deferred tax assets related to a limitation, imposed under the Health Care Acts signed into law in the first quarter of 2010, on the future deductibility of certain benefit payments under the Company s postretirement medical plan.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 14 - Income Taxes (continued)

The statute of limitations related to Unitrin and its eligible subsidiaries consolidated Federal income tax returns, Primesco s consolidated Federal income tax returns and Direct Response s consolidated Federal income tax returns is closed for all tax years up to and including 2006. The expiration of the statute of limitations related to the various state income tax returns that Unitrin and its subsidiaries file varies by state. None of the consolidated Federal income tax returns are currently under examination. During the third quarter of 2010, the Internal Revenue Service completed an audit of Direct Response s 2007 consolidated Federal income tax return, and accepted the return as filed.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(Dollars in Millions)	Liability for Unrecognized Tax Benefits
Balance at December 31, 2009	$ 11.7
Reductions for Tax Positions of Current Period	(1.4)
Additions for Tax Positions of Prior Years	26.1
Reduction for Expiration of 2006 Federal Statute of Limitations	(28.8)
Balance at September 30, 2010	$ 7.6

Included in the balance of unrecognized tax benefits at September 30, 2010 and December 31, 2009 are tax positions of $5.7 million and $7.2 million, respectively, for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred income tax accounting, other than for interest and penalties, the disallowance of the shorter deductibility period would not affect the effective income tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The liability for unrecognized tax benefits included accrued interest of $1.9 million and $4.2 million at September 30, 2010 and December 31, 2009, respectively. Tax expense for the nine months ended September 30, 2010 includes an interest benefit related to unrecognized tax benefits of $2.3 million, which is comprised of an interest benefit of $2.8 million resulting from the expiration of the 2006 federal statute of limitations and $0.5 million of interest expense related to tax positions of prior years. Tax expense for the nine months ended September 30, 2009 includes an interest benefit of $2.0 million, which is comprised of an interest benefit of $2.9 million resulting from the expiration of the 2005 federal statute of limitations and $0.9 million of interest expense related to tax positions of prior years.

Income taxes paid were $49.9 million and $68.6 million for the nine months ended September 30, 2010 and 2009, respectively.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 15 - Pension Benefits and Postretirement Benefits Other Than Pensions

The components of Pension Expense for the nine and three months ended September 30, 2010 and 2009 were:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Service Cost on Benefits Earned	$ 6.8	$ 7.4	$ 2.3	$ 2.4
Interest Cost on Projected Benefit Obligation	16.8	16.0	5.6	5.3
Expected Return on Plan Assets	(17.8)	(18.2)	(6.0)	(6.1)
Net Amortization and Deferral	1.7	(0.1)	0.6	
Total Pension Expense	$ 7.5	$ 5.1	$ 2.5	$ 1.6

The components of Postretirement Benefits Other than Pensions Expense for the nine and three months ended September 30, 2010 and 2009 were:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Service Cost on Benefits Earned	$ 0.1	$ 0.1	$	$
Interest Cost on Projected Benefit Obligation	1.5	1.5	0.5	0.5
Net Amortization and Deferral	(0.8)	(1.3)	(0.3)	(0.4)
Total Postretirement Benefits Other than Pensions Expense	$ 0.8	$ 0.3	$ 0.2	$ 0.1

The Company is required to measure the benefit obligation associated with its postretirement benefit plan other than pensions annually on December 31. The Company currently cannot predict what effect, if any, the Health Care Acts will have on the valuation of such benefit obligation at the next measurement date.

Note 16 - Business Segments

The Company is engaged, through its subsidiaries, in the property and casualty insurance, life and health insurance and automobile finance businesses. The Company conducts its continuing operations through five operating segments: Kemper®, Unitrin Specialty, Unitrin Direct, Life and Health Insurance and Fireside Bank. Kemper® is a registered service mark of Unitrin, Inc.

The Kemper segment provides preferred and standard risk personal automobile insurance, homeowners insurance and other personal insurance through independent agents. The Unitrin Specialty segment provides automobile insurance to individuals and businesses in the non-standard and specialty market through independent agents. The non-standard automobile insurance market consists of individuals and companies that have difficulty obtaining standard or preferred risk insurance, usually because of their adverse driving records or claim or credit histories. Unitrin

Direct markets personal automobile and homeowners insurance through direct mail and the Internet through web insurance portals, click-thrus and its own website and through employer-sponsored voluntary benefit programs and other affinity relationships. The Life and Health Insurance segment provides individual life, accident, health and property insurance. The Fireside Bank segment made sub-prime automobile loans primarily for the purchase of pre-owned automobiles and offered certificates of deposits. On March 24, 2009, Fireside Bank suspended all new lending activity and ceased opening new certificate of deposit accounts as part of a plan to exit the automobile finance business.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 16 - Business Segments (continued)

Segment Revenues for the nine and three months ended September 30, 2010 and 2009 were:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Revenues:				
Kemper:				
Earned Premiums	$ 667.1	$ 700.9	$ 221.8	$ 234.7
Net Investment Income	38.6	28.7	12.3	13.9
Other Income	0.3	0.3	0.1	0.1
Total Kemper	706.0	729.9	234.2	248.7
Unitrin Specialty:				
Earned Premiums	359.9	398.9	117.0	131.6
Net Investment Income	18.5	14.2	5.7	6.8
Other Income	0.5	0.2	0.2	0.1
Total Unitrin Specialty	378.9	413.3	122.9	138.5
Unitrin Direct:				
Earned Premiums	217.6	264.7	68.6	88.1
Net Investment Income	16.0	12.6	4.8	6.2
Other Income	0.1	0.7		0.6
Total Unitrin Direct	233.7	278.0	73.4	94.9
Life and Health Insurance:				
Earned Premiums	483.2	490.5	160.9	161.8
Net Investment Income	158.4	167.4	53.8	60.9
Other Income	0.1	0.7	0.1	0.2
Total Life and Health Insurance	641.7	658.6	214.8	222.9
Fireside Bank:				
Interest, Loan Fees and Earned Discounts	78.9	139.4	22.4	41.2
Other Automobile Finance Revenues	1.0	3.0	0.2	0.9

Automobile Finance Revenues	79.9	142.4	22.6	42.1
Net Investment Income	1.5	2.3	0.5	0.6
Total Fireside Bank	81.4	144.7	23.1	42.7
Total Segment Revenues	2,041.7	2,224.5	668.4	747.7
Unallocated Dividend Income	0.3	1.1		0.4
Net Realized Gains on Sales of Investments	14.6	17.6	7.2	12.4
Net Impairment Losses Recognized in Earnings	(12.7)	(49.2)	(4.6)	(14.5)
Other	9.2	8.5	2.8	4.6
Total Revenues	$ 2,053.1	$ 2,202.5	$ 673.8	$ 750.6

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 16 - Business Segments (continued)

Segment Operating Profit (Loss) for the nine and three months ended September 30, 2010 and 2009 was:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Segment Operating Profit (Loss):				
Kemper	$ 54.0	$ 61.1	$ 17.1	$ 26.4
Unitrin Specialty	23.0	21.3	8.0	10.5
Unitrin Direct	(1.7)	(18.4)	(1.5)	0.6
Life and Health Insurance	100.9	118.9	26.9	47.8
Fireside Bank	14.7	(1.5)	5.3	3.4
Total Segment Operating Profit	190.9	181.4	55.8	88.7
Unallocated Dividend Income	0.3	1.1		0.4
Net Realized Gains on Sales of Investments	14.6	17.6	7.2	12.4
Net Impairment Losses Recognized in Earnings	(12.7)	(49.2)	(4.6)	(14.5)
Other Expense, Net	(18.3)	(15.6)	(6.2)	(3.3)
Income from Continuing Operations before Income Taxes and Equity in Net Loss of Investee	$ 174.8	$ 135.3	$ 52.2	$ 83.7

Segment Net Income (Loss) for the nine and three months ended September 30, 2010 and 2009 was:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Segment Net Income (Loss):				
Kemper	$ 41.6	$ 45.7	$ 13.5	$ 19.2
Unitrin Specialty	18.0	16.8	6.2	7.8
Unitrin Direct	0.8	(9.7)	0.3	1.3
Life and Health Insurance	60.3	77.7	12.4	31.7
Fireside Bank	8.9	(7.3)	3.2	2.4
Total Segment Net Income	129.6	123.2	35.6	62.4
Net Income (Loss) From:				
Unallocated Dividend Income	0.3	1.0	0.1	0.4
Net Realized Gains on Sales of Investments	9.5	11.5	4.7	8.1
Net Impairment Losses Recognized in Earnings	(8.3)	(32.0)	(3.0)	(9.4)

Other Expense, Net	(8.7)	(6.5)	(1.6)	0.5
Income from Continuing Operations before Equity in Net Loss of Investee	122.4	97.2	35.8	62.0
Equity in Net Loss of Investee	(0.1)	(1.1)	(0.3)	(1.0)
Income from Continuing Operations	$ 122.3	$ 96.1	$ 35.5	$ 61.0

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 16 - Business Segments (continued)

Earned Premiums by product line for the nine and three months ended September 30, 2010 and 2009 were:

(Dollars in Millions)	Nine Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2010	Three Months Ended Sept. 30, 2009
Life	$ 298.3	$ 301.1	$ 98.9	$ 100.0
Accident and Health	120.5	118.9	40.5	40.1
Property and Casualty:				
Personal Lines:				
Automobile	947.4	1,055.4	308.3	351.1
Homeowners	223.7	225.5	75.1	76.2
Other Personal	104.6	110.8	34.8	35.4
Total Personal Lines	1,275.7	1,391.7	418.2	462.7
Commercial Automobile	33.3	43.3	10.7	13.4
Total Earned Premiums	$ 1,727.8	$ 1,855.0	$ 568.3	$ 616.2

Note 17 - Fair Value Measurements

The Company classifies its Investments in Fixed Maturities and Equity Securities as available for sale and reports these investments at fair value. The Company classifies certain investments in mutual funds included in Other Investments as trading securities and reports these investments at fair value. The Company has no material liabilities that are measured and reported at fair value.

The valuation of assets measured at fair value in the Company s Condensed Consolidated Balance Sheet at September 30, 2010 is summarized below:

	Fair Value Measurements			
(Dollars in Millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Sept. 30, 2010
Available for Sale Securities:				
Fixed Maturities:				
U.S. Government and Government Agencies and Authorities	$ 302.1	$ 279.6	$	$ 581.7

States, Municipalities and Political Subdivisions		1,890.5		1,890.5
Corporate Securities:				
Bonds and Notes		2,010.7	135.9	2,146.6
Redeemable Preferred Stocks		84.0		84.0
Mortgage and Asset-backed		8.1	0.5	8.6
Total Investments in Fixed Maturities	302.1	4,272.9	136.4	4,711.4
Equity Securities:				
Preferred Stocks		116.3	8.1	124.4
Common Stocks	215.4	5.0	9.1	229.5
Other Equity Interests			61.7	61.7
Total Equity Securities	215.4	121.3	78.9	415.6
Total Available for Sale Securities	517.5	4,394.2	215.3	5,127.0
Trading Securities:				
Other Investments	4.9			4.9
Total	$ 522.4	$ 4,394.2	$ 215.3	$ 5,131.9

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 17 - Fair Value Measurements (continued)

The valuation of assets measured at fair value in the Company s Condensed Consolidated Balance Sheet at December 31, 2009 is summarized below:

	Fair Value Measurements			
(Dollars in Millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Dec. 31, 2009
Available for Sale Securities:				
Fixed Maturities:				
U.S. Government and Government Agencies and Authorities	$ 245.3	$ 475.6	$	$ 720.9
States, Municipalities and Political Subdivisions		1,745.3		1,745.3
Corporate Securities:				
Bonds and Notes		1,806.8	124.8	1,931.6
Redeemable Preferred Stocks		80.3	70.1	150.4
Mortgage and Asset-backed		8.3	4.9	13.2
Total Investments in Fixed Maturities	245.3	4,116.3	199.8	4,561.4
Equity Securities:				
Preferred Stocks		109.5	5.6	115.1
Common Stocks	28.0	4.8	8.4	41.2
Other Equity Interests			39.1	39.1
Total Equity Securities	28.0	114.3	53.1	195.4
Total Available for Sale Securities	273.3	4,230.6	252.9	4,756.8
Trading Securities:				
Other Investments	4.6			4.6
Total	$ 277.9	$ 4,230.6	$ 252.9	$ 4,761.4

The Company s investments in available for sale securities reported as Fixed Maturities and classified as Level 1 in the above tables primarily consist of U.S. Treasury Bonds and Notes. The Company s investments in available for sale securities reported as Equity Securities and classified as Level 1 in the above tables primarily consist of investments in publicly-traded common stocks. The Company s investments in available for sale securities reported as Fixed Maturities and classified as Level 2 in the above tables primarily consist of investments in corporate bonds and redeemable preferred stocks, state and municipal bonds, and bonds and mortgage-backed securities of U.S. government agencies. The Company s investments in available for sale securities reported as Equity Securities and classified as Level 2 in the above tables primarily consist of investments in preferred stocks. The Company uses a leading, nationally recognized provider of market data and analytics to price the vast majority of the Company s Level 2 measurements. The provider utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Because many fixed maturity securities do not trade on a daily basis, the provider s evaluated pricing applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing to prepare evaluations. In addition, the provider uses model processes to develop prepayment and interest rate scenarios. The pricing provider s models and processes also take into account market convention. For each asset class, teams of its evaluators gather information from market sources and integrate relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models. The Company generally validates the measurements obtained from its primary pricing provider by comparing them with measurements obtained from one additional pricing provider that provides either prices from recent market transactions or quotes in inactive markets or evaluations based on its own proprietary models.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 17 - Fair Value Measurements (continued)

The Company investigates significant differences related to the values provided. On completion of its investigation, management exercises judgment to determine the price selected and whether adjustments, if any, to the price obtained from the Company s primary pricing provider would warrant classification of the price as Level 3. In instances where a measurement cannot be obtained from either pricing provider, the Company generally will evaluate bid prices from one or more binding quotes obtained from market makers to value investments in inactive markets and classified by the Company as Level 2. The Company generally classifies securities when it receives non-binding quotes or indications as Level 3 securities unless the Company can validate the quote or indication against recent transactions in the market. For securities classified as Level 3, the Company either uses valuations provided by third party fund managers, third party appraisers or the Company s own internal valuations. These valuations typically employ valuation techniques including earning multiples based on comparable public securities, industry specific non-earnings based multiples or discounted cash flow models. Valuations classified as Level 3 by the Company generally consist of investments in various private placement securities of non-rated entities. In rare cases, if the private placement security has only been outstanding for a short amount of time, the Company, after considering the initial assumptions used in acquiring an investment, considers the original purchase price as representative of the fair value.

Information by security type pertaining to the changes in the fair value of the Company s investments classified as Level 3 for the nine months ended September 30, 2010 is presented below:

	Fixed Maturities			Equity Securities		
(Dollars in Millions)	Corporate Bonds and Notes	Redeemable Preferred Stocks	Mortgage and Asset-backed	Preferred and Common Stocks	Other Equity Interests	Total
Balance at Beginning of Period	$ 124.8	$ 70.1	$ 4.9	$ 14.0	$ 39.1	$ 252.9
Total Gains (Losses):						
Included in Condensed Consolidated Statement of Income	(5.5)	(5.1)				(10.6)
Included in Other Comprehensive Income (Loss)	8.9	2.6	(1.1)	3.7	10.5	24.6
Purchases, Sales and Settlements, Net	7.7	(67.6)	(0.2)	(0.5)	12.1	(48.5)
Transfers in and/or out of Level 3			(3.1)			(3.1)
Balance at End of Period	$ 135.9	$	$ 0.5	$ 17.2	$ 61.7	$ 215.3

Information by security type pertaining to the changes in the fair value of the Company s investments classified as Level 3 for the three months ended September 30, 2010 is presented below:

	Fixed Maturities			Equity Securities		
(Dollars in Millions)	Corporate Bonds and Notes	Redeemable Preferred Stocks	Mortgage and Asset-backed	Preferred and Common Stocks	Other Equity Interests	Total
Balance at Beginning of Period	$ 121.6	$ 66.8	$ 0.5	$ 15.4	$ 51.5	$ 255.8
Total Gains (Losses):						
Included in Condensed Consolidated Statement of Income	(1.6)	(2.7)				(4.3)

Included in Other Comprehensive Income (Loss)	2.1	3.7		1.6	6.3	13.7
Purchases, Sales and Settlements, Net	13.8	(67.8)		0.2	3.9	(49.9)
Transfers in and/or out of Level 3						
Balance at End of Period	$ 135.9	$	$ 0.5	$ 17.2	$ 61.7	$ 215.3

The Company s policy is to recognize transfers between levels as of the end of the reporting period. Transfers between levels 1 and 2 were not significant for the nine and three months ended September 30, 2010.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 17 - Fair Value Measurements (continued)

Information by security type pertaining to the changes in the fair value of the Company s investments classified as Level 3 for the nine months ended September 30, 2009 is presented below:

(Dollars in Millions)	Fixed Maturities Corporate Bonds and Notes	Redeemable Preferred Stocks	Mortgage and Asset - Backed	Equity Securities Preferred and Common Stocks	Other Equity Interests	Total
Balance at Beginning of Period	$ 128.6	$ 70.6	$ 5.6	$ 15.3	$ 44.1	$ 264.2
Total Gains (Losses):						
Included in Condensed Consolidated Statement of Income	(24.4)	(5.7)		(2.2)	(0.5)	(32.8)
Included in Other Comprehensive Income (Loss)	2.0	2.7	(0.2)	5.4	7.9	17.8
Purchases, Sales and Settlements, Net	(3.5)	1.0	(1.2)		(13.8)	(17.5)
Transfers in and/or out of Level 3			0.8			0.8
Balance at End of Period	$ 102.7	$ 68.6	$ 5.0	$ 18.5	$ 37.7	$ 232.5

Information by security type pertaining to the changes in the fair value of the Company s investments classified as Level 3 for the three months ended September 30, 2009 is presented below:

(Dollars in Millions)	Fixed Maturities Corporate Bonds and Notes	Redeemable Preferred Stocks	Mortgage and Asset - Backed	Equity Securities Preferred and Common Stocks	Other Equity Interests	Total
Balance at Beginning of Period	$ 114.5	$ 68.7	$ 6.1	$ 17.2	$ 40.3	$ 246.8
Total Gains (Losses):						
Included in Condensed Consolidated Statement of Income	(7.8)	(5.7)		0.5	0.7	(12.3)
Included in Other Comprehensive Income (Loss)	(5.3)	5.2		1.7	0.7	2.3
Purchases, Sales and Settlements, Net	1.3	0.4	(1.1)		(4.0)	(3.4)
Transfers in and/or out of Level 3				(0.9)		(0.9)
Balance at End of Period	$ 102.7	$ 68.6	$ 5.0	$ 18.5	$ 37.7	$ 232.5

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 18 - Contingencies

In the ordinary course of their businesses, Unitrin and its subsidiaries are involved in legal proceedings including lawsuits, regulatory examinations and inquiries. Some of these proceedings involve matters particular to the Company or one or more of its subsidiaries, while others pertain to business practices in the industries in which Unitrin or its subsidiaries operate. Some lawsuits seek class action status that, if granted, could expose Unitrin or its subsidiaries to potentially significant liability by virtue of the size of the putative classes. These matters can raise complicated issues and may be subject to many uncertainties, including but not limited to: (i) the underlying facts of the matter; (ii) unsettled questions of law; (iii) issues unique to the jurisdiction where the matter is pending; (iv) damage claims, including claims for punitive damages, that are disproportionate to the actual economic loss incurred; and (v) the legal, regulatory and political environments faced by large corporations generally and the insurance and banking sectors specifically. Accordingly, the outcomes of these matters are difficult to predict, and the amounts or ranges of potential loss at particular points in time are in most cases difficult or impossible to ascertain.

Certain subsidiaries of Unitrin, like many property and casualty insurers, are defending a significant volume of lawsuits in Florida, Louisiana and Texas arising out of property damage caused by catastrophes and storms, including major hurricanes. In these matters, the plaintiffs seek compensatory and punitive damages, and equitable relief. The Company believes its relevant subsidiaries have meritorious defenses to these proceedings which they are vigorously defending. However, it is anticipated that additional lawsuits will continue to be filed, at least until the applicable statutes of limitation expire, though some courts continue to demonstrate reluctance to enforce these statutes.

The Company believes that resolution of its pending legal proceedings will not have a material adverse effect on the Company s financial position. However, given the unpredictability of the legal environment, there can be no assurance that one or more of these matters will not produce a loss which could have a material adverse effect on the Company s financial results for any given period.

The legal and regulatory environment within which Unitrin and its subsidiaries conduct their businesses is often unpredictable. Industry practices that were considered legally-compliant and reasonable for years may suddenly be deemed unacceptable by virtue of an unexpected court or regulatory ruling. Anticipating such shifts in the law and the impact they may have on the Company and its operations is a difficult task and there can be no assurances that the Company will not encounter such shifts in the future.

Note 19 - Related Parties

One of Unitrin s directors, Mr. Fayez Sarofim, is the Chairman of the Board, President and the majority shareholder of Fayez Sarofim & Co. (FS&C), a registered investment advisory firm. In the second quarter of 2010, Unitrin s subsidiary, Trinity, entered into an agreement with FS&C whereby FS&C provides investment management services with respect to certain assets of Trinity. Such agreement is terminable by either party at any time upon 30 days advance written notice. At September 30, 2010, Trinity had $60.1 million in assets managed by FS&C. Investment Expenses incurred in connection with such agreement were $0.1 million for the nine and three months ended September 30, 2010.

FS&C also provides investment management services with respect to certain assets of the Company s pension plan pursuant to an agreement between the parties. Such agreement is terminable by either party at any time upon 30 days advance written notice. At September 30, 2010, the Company s pension plan had $89.2 million in assets managed by FS&C. For the nine months and three months ended September 30, 2010, the Company s pension plan incurred investment expenses of $0.2 million and $0.1 million, respectively, in connection with its agreement with FS&C. For the nine months and three months ended September 30, 2009, the Company s pension plan incurred investment expenses of $0.2 million and $0.1 million, respectively, in connection with its agreement with FS&C.

Table of Contents

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 19 - Related Parties (continued)

With respect to the Company s defined contribution plans, one of the alternative investment choices afforded to participating employees is the Dreyfus Appreciation Fund, an open-end, diversified managed investment fund. FS&C provides investment management services to the Dreyfus Appreciation Fund as a sub-investment advisor. According to published reports filed by FS&C with the SEC, the Dreyfus Appreciation Fund pays monthly fees to FS&C according to a graduated schedule computed at an annual rate based on the value of the Dreyfus Appreciation Fund s average daily net assets. The Company does not compensate FS&C for services provided to the Dreyfus Appreciation Fund. As of September 30, 2010, participants in the Company s defined contribution plans had allocated $16.8 million for investment in the Dreyfus Appreciation Fund, representing 6% of the total amount invested in the Company s defined contribution plans.

The Company believes that the services described above have been provided on terms no less favorable to the Company than could have been negotiated with non-affiliated third parties.

As described in Note 20, Relationships with Mutual Insurance Companies, to the Condensed Consolidated Financial Statements, the Company also has certain relationships with Capitol County Mutual Fire Insurance Company (Capitol), a mutual insurance company which is owned by its policyholders.

Note 20 - Relationships with Mutual Insurance Companies

Unitrin s subsidiary, Trinity and Capitol, and Trinity and Capitol s wholly-owned subsidiary, Old Reliable Casualty Company (ORCC), are parties to quota share reinsurance agreements whereby Trinity assumes 100% of the business written by Capitol and ORCC. Capitol is a mutual insurance company and, accordingly, is owned by its policyholders. Five employees of the Company serve as directors of Capitol s five-member board of directors. Nine employees of the Company also serve as directors of ORCC s nine-member board of directors.

Unitrin s subsidiary, United, provides claims and administrative services to Capitol and ORCC. In addition, agents appointed by United s subsidiary, The Reliable Life Insurance Company, and employed by United, are also appointed by Capitol and ORCC to sell property insurance products. The Company also provides certain investment services to Capitol and ORCC.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Summary of Results

Net Income was $121.7 million ($1.96 per unrestricted common share) and $35.7 million ($0.58 per unrestricted common share) for the nine and three months ended September 30, 2010, respectively, compared to Net Income of $98.4 million ($1.58 per unrestricted common share) and $62.1 million ($1.00 per unrestricted common share) for the same periods in 2009. Income from Continuing Operations was $122.3 million ($1.97 per unrestricted common share) and $35.5 million ($0.57 per unrestricted common share) for the nine and three months ended September 30, 2010, respectively, compared to Income from Continuing Operations of $96.1 million ($1.54 per unrestricted common share) and $61.0 million ($0.98 per unrestricted common share) for the same periods in 2009. As discussed throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), Income from Continuing Operations increased for the nine months ended September 30, 2010 due primarily to improved operating results in the Unitrin Direct, Fireside Bank and Unitrin Specialty segments and lower Net Impairment Losses Recognized in Earnings, partially offset by lower segment operating profit in the Kemper and Life and Health Insurance segments. Income from Continuing Operations decreased for the three months ended September 30, 2010 due primarily to lower operating profit in the Life and Health Insurance, Kemper, Unitrin Specialty and Unitrin Direct segments, partially offset by higher operating profit in the Fireside Bank segment and lower Net Impairment Losses Recognized in Earnings. Operating results for the Life and Health Insurance segment for both the nine and three months ended September 30, 2010 included a charge of $14.8 million to write off goodwill related to Reserve National. Catastrophe losses from continuing operations were $58.7 million and $16.4 million before tax for the nine and three months ended September 30, 2010, respectively, compared to $49.9 million and $13.9 million for the same periods in 2009. The Company reported Loss from Discontinued Operations of $0.6 million and Income from Discontinued Operations of $0.2 million for the nine and three months ended September 30, 2010, respectively, compared to Income from Discontinued Operations of $2.3 million and $1.1 million for the same periods in 2009.

Earned Premiums were $1,727.8 million and $1,855.0 million for the nine months ended September 30, 2010 and 2009, respectively, a decrease of $127.2 million. Earned Premiums were $568.3 million and $616.2 million for the three months ended September 30, 2010 and 2009, respectively, a decrease of $47.9 million. Earned Premiums decreased in all four insurance segments.

Automobile Finance Revenues decreased by $62.5 million and $19.5 million for the nine and three months ended September 30, 2010, compared to the same periods in 2009, due to Fireside Bank s execution of its ongoing plan to exit the automobile finance business.

Net Investment Income increased by $7.8 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to higher net investment income from certain Equity Method Limited Liability Investments and, to a lesser extent, higher interest from Investments in Fixed Maturities. Net Investment Income from Equity Method Limited Liability Investments was $33.3 million for the nine months ended September 30, 2010, compared to $29.3 million for the same period in 2009. Net Investment Income decreased by $13.4 million for the three months ended September 30, 2010 compared to the same period in 2009, due primarily to lower net investment income from certain Equity Method Limited Liability Investments. Net Investment Income included income of $10.5 million from Equity Method Limited Liability Investments for the three months ended September 30, 2010, compared to income of $24.8 million for the same period in 2009.

Net Realized Gains on Sales of Investments were $14.6 million and $7.2 million for the nine and three months ended September 30, 2010, respectively, compared to $17.6 million and $12.4 million for the same periods in 2009. Net Impairment Losses Recognized in Earnings were $12.7 million and $4.6 million for the nine and three months ended September 30, 2010, respectively, compared to $49.2 million and $14.5 million for the same periods in 2009, resulting from other than temporary declines in fair values of investments. The Company cannot predict if or when similar investment gains or losses may occur in the future.

Table of Contents

Kemper

Selected financial information for the Kemper segment follows:

(Dollars in Millions)	Nine Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2010	Three Months Ended Sept. 30, 2009
Earned Premiums:				
Automobile	$ 409.9	$ 441.1	$ 135.6	$ 147.0
Homeowners	217.2	219.9	72.9	74.2
Other Personal	40.0	39.9	13.3	13.5
Total Earned Premiums	667.1	700.9	221.8	234.7
Net Investment Income	38.6	28.7	12.3	13.9
Other Income	0.3	0.3	0.1	0.1
Total Revenues	706.0	729.9	234.2	248.7
Incurred Losses and LAE	469.4	470.5	155.9	158.8
Insurance Expenses	182.6	198.3	61.2	63.5
Operating Profit	54.0	61.1	17.1	26.4
Income Tax Expense	(12.4)	(15.4)	(3.6)	(7.2)
Net Income	$ 41.6	$ 45.7	$ 13.5	$ 19.2

Ratios Based On Earned Premiums

	Nine Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2010	Three Months Ended Sept. 30, 2009
Incurred Loss and LAE Ratio (excluding Catastrophes)	63.5%	62.9%	65.2%	64.9%
Incurred Catastrophe Loss and LAE Ratio	6.9%	4.2%	5.1%	2.8%
Total Incurred Loss and LAE Ratio	70.4%	67.1%	70.3%	67.7%
Incurred Expense Ratio	27.4%	28.3%	27.6%	27.1%
Combined Ratio	97.8%	95.4%	97.9%	94.8%

Insurance Reserves

(Dollars in Millions)	Sept. 30, 2010	Dec. 31, 2009
Insurance Reserves:		
Automobile	$ 290.0	$ 300.4
Homeowners	93.1	86.4

Other Personal	38.7	35.9
Insurance Reserves	$ 421.8	$ 422.7
Insurance Reserves:		
Loss Reserves:		
Case	$ 263.2	$ 259.5
Incurred but Not Reported	85.1	90.1
Total Loss Reserves	348.3	349.6
LAE Reserves	73.5	73.1
Insurance Reserves	$ 421.8	$ 422.7

40

Table of Contents

Kemper (continued)

(Dollars in Millions)	Nine Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2010	Three Months Ended Sept. 30, 2009
Favorable Loss and LAE Reserve Development, Net (excluding Catastrophes)	$ 14.9	$ 37.3	$ 4.2	$ 11.0
Favorable Catastrophe Loss and LAE Reserve Development, Net	4.3	17.5	0.4	5.9
Total Favorable Loss and LAE Reserve Development, Net	$ 19.2	$ 54.8	$ 4.6	$ 16.9
Loss and LAE Reserve Development as a Percentage of Insurance Reserves at Beginning of Year	4.5%	11.5%	1.1%	3.5%

Earned Premiums in the Kemper segment decreased by $33.8 million and $12.9 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009, due primarily to lower volume, partially offset by higher average premium rates. Volume decreased due, in part, to Kemper s decision to maintain its underwriting discipline and increase premium rates while facing increased competition in a soft personal lines insurance market, as well as planned decreases related to certain initiatives implemented in 2009 to improve profitability and the return on required capital. Kemper expects earned premiums to decrease for the next several quarters as lower volume is partially offset by higher average premium rates. Earned premiums on automobile insurance decreased by $31.2 million and $11.4 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009, due to lower volume, partially offset by higher average premium rates. The weighted-average number of automobile insurance policies in force decreased by approximately 9% and 10% for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009. Earned premiums on homeowners insurance decreased by $2.7 million and $1.3 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009, due primarily to lower volume, partially offset by higher average premium rates. The weighted-average number of homeowners insurance policies in force decreased by approximately 6% for both the nine and three months ended September 30, 2010, compared to the same periods in 2009. Earned premiums on other personal insurance increased by $0.1 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to higher average premium rates, partially offset by lower volume. Earned premiums on other personal insurance decreased by $0.2 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to lower volume, partially offset by higher average premium rates.

Net Investment Income in the Kemper segment increased by $9.9 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to higher net investment income from Equity Method Limited Liability Investments and the Company reinvesting short-term investments into higher yielding fixed maturity investments. The Kemper segment reported net investment income of $11.0 million from Equity Method Limited Liability Investments for the nine months ended September 30, 2010, compared to $2.9 million for the same period in 2009. Net Investment Income in the Kemper segment decreased by $1.6 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to lower net investment income from Equity Method Limited Liability Investments. The Kemper segment reported net investment income of $2.9 million from Equity Method Limited Liability Investments for the three months ended September 30, 2010, compared to $5.2 million for the same period in 2009.

Operating Profit in the Kemper segment decreased by $7.1 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to higher Incurred Losses and LAE as a percentage of earned premiums, partially offset by higher Net Investment Income and lower Insurance Expenses as a percentage of earned premiums. Operating Profit in the Kemper segment decreased by $9.3 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to higher Incurred Losses and LAE as a percentage of earned premiums, lower Net Investment Income and higher Insurance Expenses as a percentage of earned premiums.

Table of Contents

Kemper (continued)

Automobile insurance incurred losses and LAE were $292.4 million for the nine months ended September 30, 2010, compared to $297.9 million for the same period in 2009. Automobile insurance incurred losses and LAE decreased by $5.5 million due primarily to lower claim volume resulting principally from fewer automobile insurance policies in force, partially offset by the impact of lower favorable loss and LAE reserve development. Favorable loss and LAE reserve development was $10.8 million for the nine months ended September 30, 2010, compared to $28.3 million for the same period in 2009.

Automobile insurance incurred losses and LAE were $95.0 million for the three months ended September 30, 2010, compared to $101.1 million for the same period in 2009. Automobile insurance incurred losses and LAE decreased by $6.1 million due primarily to lower claim volume resulting principally from fewer automobile insurance policies in force, partially offset by the impact of lower favorable loss and LAE reserve development. Favorable loss and LAE reserve development was $3.6 million for the three months ended September 30, 2010, compared to $7.7 million for the same period in 2009.

Homeowners insurance incurred losses and LAE were $158.3 million for the nine months ended September 30, 2010, compared to $151.2 million for the same period in 2009. Homeowners insurance incurred losses and LAE increased by $7.1 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to the impact of lower favorable loss and LAE reserve development and higher catastrophe losses and LAE (excluding development), partially offset by lower non-catastrophe losses and LAE (excluding development). Favorable loss and LAE reserve development was $7.0 million for the nine months ended September 30, 2010, compared to favorable development of $24.4 million for the same period in 2009. Catastrophe losses and LAE (excluding development) on homeowners insurance were $44.1 million for the nine months ended September 30, 2010, compared to $37.8 million for the same period in 2009. Non-catastrophe losses and LAE (excluding development) decreased by $16.6 million due primarily to lower average, estimated severity of losses and lower claim volume resulting principally from fewer homeowners insurance policies in force.

Homeowners insurance incurred losses and LAE were $54.5 million for the three months ended September 30, 2010, compared to $51.2 million for the same period in 2009. Homeowners insurance incurred losses and LAE increased by $3.3 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to the impact of lower favorable loss and LAE reserve development and higher catastrophe losses and LAE (excluding development), partially offset by lower non-catastrophe losses and LAE (excluding development). Favorable loss and LAE reserve development was $0.5 million for the three months ended September 30, 2010, compared to favorable development of $8.0 million for the same period in 2009. Catastrophe losses and LAE (excluding development) on homeowners insurance were $10.8 million for the three months ended September 30, 2010, compared to $10.0 million for the same period in 2009. Non-catastrophe losses and LAE (excluding development) decreased by $5.0 million due to lower claim volume resulting principally from fewer homeowners insurance policies in force.

Other personal insurance incurred losses and LAE were $18.7 million for the nine months ended September 30, 2010, compared to $21.4 million for the same period in 2009. Other personal insurance incurred losses and LAE decreased by $2.7 million due primarily to lower levels of non-catastrophe and catastrophe losses and LAE, partially offset by the impact of lower favorable loss and LAE reserve development. Non-catastrophe losses and LAE (excluding development) decreased by $2.5 million due to lower average, estimated severity of umbrella losses. Catastrophe losses and LAE (excluding development) were $1.2 million for the nine months ended September 30, 2010, compared to $2.1 million for the same period in 2009. Favorable loss and LAE reserve development was $1.4 million for the nine months ended September 30, 2010, compared to favorable development of $2.1 million for the same period in 2009.

Other personal insurance incurred losses and LAE were $6.4 million for the three months ended September 30, 2010, compared to $6.5 million for the same period in 2009. Other personal insurance incurred losses and LAE decreased by $0.1 million due primarily to lower levels of non-catastrophe and catastrophe losses and LAE, partially offset by the impact of lower favorable loss and LAE reserve development. Non-catastrophe losses and LAE (excluding development) decreased by $0.7 million due to lower average, estimated severity of umbrella losses. Catastrophe losses and LAE (excluding development) were $0.5 million for the three months ended September 30, 2010, compared to $0.6 million for the same period in 2009. Favorable loss and LAE reserve development was $0.5 million for the three months ended September 30, 2010, compared to favorable development of $1.2 million for the same period in 2009.

Table of Contents

Kemper (continued)

See MD&A, Critical Accounting Estimates, of the 2009 Annual Report for additional information pertaining to the Company s process of estimating property and casualty insurance reserves for losses and LAE, development of property and casualty insurance losses and LAE, estimated variability of property and casualty insurance reserves for losses and LAE, and a discussion of some of the variables that may impact development of property and casualty insurance losses and LAE and the estimated variability of property and casualty insurance reserves for losses and LAE.

Insurance Expenses decreased by $15.7 million and $2.3 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009. Insurance Expenses for the nine and three months ended September 30, 2009 included a reduction in expense of $2.8 million due to a change in the Kemper segment s estimated Texas Windstorm Insurance Association (TWIA) assessment for Hurricane Ike. Insurance Expenses for the nine and three months ended September 30, 2009 included a charge of $2.7 million to write off the Kemper segment s equity in the North Carolina Beach Plan (the NC Beach Plan) underwriting pool due to a change in the law enacted in the third quarter of 2009. Excluding the impact of the TWIA assessment and NC Beach Plan write-off, Insurance Expenses decreased due primarily to lower acquisition expenses and the favorable impact of expense savings initiatives begun in 2009.

Net Income in the Kemper segment decreased by $4.1 million and $5.7 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009, due primarily to the lower Operating Profit. The Kemper segment s effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $18.4 million and $6.2 million for the nine and three months ended September 30, 2010, respectively, compared to $17.6 million and $5.9 million for the same periods in 2009.

Unitrin Specialty

Selected financial information for the Unitrin Specialty segment follows:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Earned Premiums:				
Personal Automobile	$ 326.6	$ 355.6	$ 106.3	$ 118.2
Commercial Automobile	33.3	43.3	10.7	13.4
Total Earned Premiums	359.9	398.9	117.0	131.6
Net Investment Income	18.5	14.2	5.7	6.8
Other Income	0.5	0.2	0.2	0.1
Total Revenues	378.9	413.3	122.9	138.5
Incurred Losses and LAE	286.6	317.8	91.8	103.1
Insurance Expenses	69.3	74.2	23.1	24.9
Operating Profit	23.0	21.3	8.0	10.5
Income Tax Expense	(5.0)	(4.5)	(1.8)	(2.7)
Net Income	$ 18.0	$ 16.8	$ 6.2	$ 7.8

Ratios Based On Earned Premiums

	Nine Months Ended		Three Months Ended	
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Incurred Loss and LAE Ratio (excluding Catastrophes)	78.8%	78.8%	78.1%	76.8%
Incurred Catastrophe Loss and LAE Ratio	0.8%	0.9%	0.4%	1.5%
Total Incurred Loss and LAE Ratio	79.6%	79.7%	78.5%	78.3%
Incurred Expense Ratio	19.3%	18.6%	19.7%	18.9%
Combined Ratio	98.9%	98.3%	98.2%	97.2%

Table of Contents

Unitrin Specialty (continued)

Insurance Reserves

(Dollars in Millions)	Sept. 30, 2010	Dec. 31, 2009
Insurance Reserves:		
Personal Automobile	$ 180.0	$ 186.5
Commercial Automobile	65.9	82.9
Other	8.5	8.5
Insurance Reserves	$ 254.4	$ 277.9
Insurance Reserves:		
Loss Reserves:		
Case	$ 156.5	$ 169.5
Incurred but Not Reported	62.4	71.3
Total Loss Reserves	218.9	240.8
LAE Reserves	35.5	37.1
Insurance Reserves	$ 254.4	$ 277.9

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Favorable (Adverse) Loss and LAE Reserve Development, Net (excluding Catastrophes)	$ (1.5)	$ 5.1	$ 1.5	$ 2.2
Adverse Catastrophe Loss and LAE Reserve Development, Net	(0.1)	(0.1)		
Total Favorable (Adverse) Loss and LAE Reserve Development, Net	$ (1.6)	$ 5.0	$ 1.5	$ 2.2
Loss and LAE Reserve Development as a Percentage of Insurance Reserves at Beginning of Year	-0.6%	1.7%	0.5%	0.8%

Earned Premiums in the Unitrin Specialty segment decreased by $39.0 million and $14.6 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009, due to lower earned premiums for both personal automobile insurance and commercial automobile insurance. Personal automobile insurance earned premiums decreased by $29.0 million and $11.9 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009, due to lower volume, slightly offset by higher average premium rates. Economic conditions, increased competition and higher premium rates, particularly in California, have all contributed to a decline in the number of personal automobile insurance policies in force in the Unitrin Specialty segment over the past several quarters. There were approximately 360,000 personal automobile insurance policies in force at the beginning of 2009, rising to a peak of approximately 380,000 policies at the end of the first quarter of 2009 and then declining to approximately 332,000 policies at the end of the third quarter of 2010. Unitrin Specialty expects that policies in force will continue to decline for the next several quarters, but at a slower pace. Commercial automobile insurance earned premiums decreased by $10.0 million and $2.7 million for the nine and three months ended

September 30, 2010, respectively, compared to the same periods in 2009, due to lower volume and, to a lesser extent, lower average earned premium per policy. Commercial automobile insurance volume has declined due, in part, to increased competition and a contraction of the commercial automobile insurance market resulting from the continued effects of the recession. Average earned premium per policy on commercial automobile insurance has declined due, in part, to the continued shift in the mix of Unitrin Specialty s commercial automobile insurance business towards light commercial vehicle insurance products, which carry a lower premium rate per policy than other classes of commercial vehicles.

Table of Contents

Unitrin Specialty (continued)

Net Investment Income in the Unitrin Specialty segment increased by $4.3 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to higher net investment income from Equity Method Limited Liability Investments. The Unitrin Specialty segment reported net investment income of $5.3 million from Equity Method Limited Liability Investments for the nine months ended September 30, 2010, compared to $1.4 million for the same period in 2009. Net Investment Income decreased by $1.1 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to lower net investment income from Equity Method Limited Liability Investments. The Unitrin Specialty segment reported net investment income of $1.4 million from Equity Method Limited Liability Investments for the three months ended September 30, 2010, compared to $2.5 million for the same period in 2009.

Operating Profit in the Unitrin Specialty segment increased by $1.7 million for the nine months ended September 30, 2010, compared to the same period in 2009, due to higher operating profit in personal automobile insurance, partially offset by lower operating profit in commercial automobile insurance and other insurance. Operating Profit in the Unitrin Specialty segment decreased by $2.5 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to lower operating profit in commercial automobile insurance.

Personal automobile insurance operating profit increased by $8.6 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to higher net investment income and lower incurred losses and LAE as a percentage of personal automobile insurance earned premiums, partially offset by higher insurance expenses as a percentage of personal automobile insurance earned premiums. Net investment income allocated to personal automobile insurance increased by $4.0 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to higher investment returns on Equity Method Limited Liability Investments. Incurred losses and LAE (excluding catastrophes and development) as a percentage of personal automobile earned premiums decreased due primarily to lower frequency, partially offset by higher severity. Loss and LAE reserve development on personal automobile insurance had an adverse effect of $1.0 million for the nine months ended September 30, 2010, compared to a favorable effect of $0.8 million for the same period in 2009. See MD&A, Critical Accounting Estimates, of the 2009 Annual Report for additional information pertaining to the Company s process of estimating property and casualty insurance reserves for losses and LAE, development of property and casualty insurance losses and LAE and estimated variability of property and casualty insurance reserves for losses and LAE. Personal automobile insurance catastrophe losses and LAE were $2.8 million for the nine months ended September 30, 2010, compared to $3.6 million for the same period in 2009. Insurance expenses as a percentage of personal automobile insurance earned premiums increased due primarily to increased investment in technology and reduced economies of scale.

Personal automobile insurance operating profit was $6.0 million for each of the three-month periods ended September 30, 2010 and 2009, as lower catastrophe losses and LAE were principally offset by lower net investment income, higher insurance expenses as a percentage of personal automobile insurance earned premiums and lower favorable loss and LAE reserve development. Personal automobile insurance catastrophe losses and LAE were $0.4 million for the three months ended September 30, 2010, compared to $2.0 million for the same period in 2009. Loss and LAE reserve development on personal automobile insurance had a favorable effect of $1.0 million for the three months ended September 30, 2010, compared to a favorable effect of $1.3 million for the same period in 2009. Net investment income allocated to personal automobile insurance decreased by $0.6 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to lower investment returns on Equity Method Limited Liability Investments.

Commercial automobile insurance operating profit decreased by $5.3 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to lower favorable reserve development and higher incurred losses and LAE (excluding development) as a percentage of commercial automobile insurance earned premiums and higher insurance expenses as a percentage of commercial automobile insurance earned premiums. Favorable loss and LAE reserve development on commercial automobile insurance was $1.0 million for the nine months ended September 30, 2010, compared to $4.0 million for the same period in 2009. Incurred losses and LAE (excluding development) as a percentage of commercial automobile insurance earned premiums increased for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to higher frequency, partially offset by lower severity of losses. Net investment income allocated to commercial automobile insurance was flat for the nine months ended September 30, 2010, compared to the same period in 2009, as lower levels of investments allocated to commercial

Table of Contents

Unitrin Specialty (continued)

automobile insurance was offset by higher investment returns on Equity Method Limited Liability Investments. Insurance expenses as a percentage of commercial automobile insurance earned premiums increased due primarily to reduced economies of scale.

Commercial automobile insurance operating profit decreased by $2.2 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to higher incurred losses and LAE (excluding development) as a percentage of commercial automobile insurance earned premiums and, to a lesser extent, lower net investment income and higher insurance expenses as a percentage of commercial automobile insurance earned premiums. Incurred losses and LAE (excluding development) as a percentage of commercial automobile insurance earned premiums increased for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to higher frequency, partially offset by lower severity of losses. Loss and LAE reserve development on commercial automobile insurance had a favorable effect of $0.7 million for the three months ended September 30, 2010, compared to a favorable effect of $0.9 million for the same period in 2009. Net investment income allocated to commercial automobile insurance decreased by $0.5 million for the three months ended September 30, 2010, due primarily to lower levels of investments allocated to commercial automobile insurance. Insurance expenses as a percentage of commercial automobile insurance earned premiums increased due primarily to reduced economies of scale.

Operating results in other insurance decreased by $1.7 million and $0.3 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009, due primarily to the impact of adverse loss and LAE reserve development. Loss and LAE reserve development on certain reinsurance pools in run-off, which are included in other insurance, had an adverse effect of $0.7 million for the nine months ended September 30, 2010, compared to a favorable development of $0.2 million for the same period in 2009. Loss and LAE reserve development on these reinsurance pools was not significant for either the three months ended September 30, 2010 or September 30, 2009. Loss and LAE reserve development on other personal insurance had an adverse effect of $0.9 million and $0.2 million for the nine and three months ended September 30, 2010, respectively, and was almost entirely related to two liability claims, one from 2003 and the other from 2005. Loss and LAE reserve development on other personal insurance was not significant for the nine and three months ended September 30, 2009.

Net Income in the Unitrin Specialty segment increased by $1.2 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to the higher operating profit. Net Income in the Unitrin Specialty segment decreased by $1.6 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to the lower operating profit. Unitrin Specialty s effective tax rate differs from the statutory tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $8.8 million and $2.9 million for the nine and three months ended September 30, 2010, compared to $8.7 million and $2.9 million for the same periods in 2009.

Table of Contents

Unitrin Direct

Selected financial information for the Unitrin Direct segment follows:

(Dollars in Millions)	Nine Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2010	Three Months Ended Sept. 30, 2009
Earned Premiums:				
Automobile	$ 210.9	$ 258.7	$ 66.4	$ 85.9
Homeowners	6.5	5.6	2.2	2.0
Other	0.2	0.4		0.2
Total Earned Premiums	217.6	264.7	68.6	88.1
Net Investment Income	16.0	12.6	4.8	6.2
Other Income	0.1	0.7		0.6
Total Revenues	233.7	278.0	73.4	94.9
Incurred Losses and LAE	168.2	211.4	54.5	68.8
Insurance Expenses	67.2	83.5	20.4	25.5
Write-off of Goodwill		1.5		
Operating Profit (Loss)	(1.7)	(18.4)	(1.5)	0.6
Income Tax Benefit	2.5	8.7	1.8	0.7
Net Income (Loss)	$ 0.8	$ (9.7)	$ 0.3	$ 1.3

Ratios Based On Earned Premiums

	Nine Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2010	Three Months Ended Sept. 30, 2009
Incurred Loss and LAE Ratio (excluding Catastrophes)	76.7%	78.8%	78.8%	77.2%
Incurred Catastrophe Loss and LAE Ratio	0.6%	1.1%	0.6%	0.9%
Total Incurred Loss and LAE Ratio	77.3%	79.9%	79.4%	78.1%
Incurred Expense Ratio	30.9%	32.1%	29.7%	28.9%
Combined Ratio	108.2%	112.0%	109.1%	107.0%

Insurance Reserves

(Dollars in Millions)	Sept. 30, 2010	Dec. 31, 2009
Insurance Reserves:		
Automobile	$ 227.4	$ 241.2

Homeowners	3.6	3.2
Other	1.5	2.6
Insurance Reserves	$ 232.5	$ 247.0

Insurance Reserves:		
Loss Reserves:		
Case	$ 144.1	$ 126.4
Incurred but Not Reported	53.8	79.8
Total Loss Reserves	197.9	206.2
LAE Reserves	34.6	40.8
Insurance Reserves	$ 232.5	$ 247.0

Table of Contents

Unitrin Direct (continued)

(Dollars in Millions)	Nine Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2010	Three Months Ended Sept. 30, 2009
Favorable Loss and LAE Reserve Development, Net (excluding Catastrophes)	$ 7.8	$ 9.1	$ 0.5	$ 1.6
Adverse Catastrophe Loss and LAE Reserve Development, Net	(0.2)	(0.2)		
Total Favorable Loss and LAE Reserve Development, Net	$ 7.6	$ 8.9	$ 0.5	$ 1.6
Loss and LAE Reserve Development as a Percentage of Insurance Reserves at Beginning of Year	3.1%	5.5%	0.2%	1.0%

On February 13, 2009, the Company completed its acquisition of Direct Response Corporation, including its insurance subsidiaries, (Direct Response) in a cash transaction. Direct Response specializes in the sale of personal automobile insurance through direct mail and the internet through web insurance portals and its own websites, Response.com and Teachers.com. The results for Direct Response are included in the Unitrin Direct segment from the date of acquisition. Direct Response had earned premiums of $83.7 million for the nine months ended September 30, 2010, compared to $83.9 million from the date of acquisition through September 30, 2009.

Earned Premiums in the Unitrin Direct segment decreased by $47.1 million and $19.5 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009, due primarily to lower volume.

Unitrin Direct continues to modify its marketing program to target better response and conversion rates from customers with more favorable risk characteristics and place greater emphasis on improving premium rate adequacy and insurance risk selection. Unitrin Direct has substantially ceased using Direct Response s products to write new business and has designed a new Unitrin Direct product to replace these products, as well as other products. Unitrin Direct is in the early stages of introducing this newly-designed product on a segment-wide-basis. Unitrin Direct currently estimates that this product will comprise approximately 12% of its earned premiums in 2011. The Unitrin Direct segment has implemented and continues to implement rate increases across its book of business. These actions have led to a decrease in the overall premium volume, with the number of policies in force at September 30, 2010 decreasing by 20% from the level at September 30, 2009. While premium rate increases have been and continue to be implemented over much of the Unitrin Direct segment s book of business, average earned premiums per policy have remained relatively flat due primarily to an improvement in the risk characteristics of the book of business. In the third quarter of 2010, one of Unitrin Direct s web insurance portal partners was purchased and the acquiring company ceased marketing for the portal. The number of new policies written through this portal has substantially declined in the third quarter and this substantial decline is expected to continue through the fourth quarter at which point the new policy sales from this portal will be minimal. The web insurance portal partner represented 9% of Unitrin Direct s policies in force at both September 30, 2010 and December 31, 2009. The Unitrin Direct segment expects earned premiums will continue to decline, on a sequential quarter basis, for the next few quarters and then remain relatively flat throughout 2011.

Net Investment Income in the Unitrin Direct segment increased by $3.4 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to higher net investment income from Equity Method Limited Liability Investments and from reinvesting short-term investments into higher-yielding, fixed maturity investments. The Unitrin Direct segment reported net investment income of $4.6 million from Equity Method Limited Liability Investments for the nine months ended September 30, 2010, compared to $1.8 million for the same period in 2009.

Net Investment Income in the Unitrin Direct segment decreased by $1.4 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to lower net investment income from Equity Method Limited Liability Investments. The Unitrin Direct segment reported net investment income of $1.2 million from Equity Method Limited Liability Investments for the three months ended September 30, 2010, compared to $2.3 million for the same period in 2009.

Table of Contents

Unitrin Direct (continued)

The Unitrin Direct segment reported an Operating Loss of $1.7 million for the nine months ended September 30, 2010, compared to an Operating Loss of $18.4 million for the same period in 2009. The Unitrin Direct segment reported an Operating Loss of $1.5 million for the three months ended September 30, 2010, compared to an Operating Profit of $0.6 million for the same period in 2009. Operating results improved in the Unitrin Direct segment for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to lower Incurred Losses and LAE as a percentage of earned premiums, lower Insurance Expenses as a percentage of earned premiums and higher Net Investment Income. Operating results decreased in the Unitrin Direct segment for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to higher Incurred Losses and LAE as a percentage of earned premiums, higher Insurance Expenses as a percentage of earned premiums and lower Net Investment Income.

Incurred Losses and LAE as a percentage of earned premiums were 77.3% for the nine months ended September 30, 2010, compared to 79.9% to for the same period in 2009. Incurred Losses and LAE as a percentage of earned premiums decreased due primarily to lower non-catastrophe losses and LAE (excluding development) and lower catastrophe losses and LAE (excluding development). Incurred Losses and LAE as a percentage of earned premiums were 79.4% for the three months ended September 30, 2010, compared to 78.1% to for the same period in 2009. Incurred Losses and LAE as a percentage of earned premiums increased due primarily to increased LAE expenses.

Incurred Losses and LAE as a percentage of earned premiums for the nine and three months ended September 30, 2010 remain significantly higher than the level required to produce an underwriting profit. Underwriting profit is a non-GAAP measure of profitability before tax used by insurance companies to measure the profits directly related to earned premiums. Accordingly, underwriting profit excludes net investment income, whereas Operating Profit, a GAAP measure, includes net investment income.

Insurance Expenses in the Unitrin Direct segment were $67.2 million, or 30.9% of earned premiums, for the nine months ended September 30, 2010, compared to $83.5 million, or 31.5% of earned premiums, for the same period in 2009. Insurance Expenses in the Unitrin Direct segment were $20.4 million, or 29.7% of earned premiums, for the three months ended September 30, 2010, compared to $25.5 million, or 28.9% of earned premiums, for the same period in 2009. Insurance Expenses decreased for the nine and three months ended September 30, 2010, compared to the same periods in 2009, due primarily to lower restructuring costs, lower salary and benefits expenses due, in part, to certain restructuring actions taken in 2009, lower bad debt expense and lower premium tax expense, partially offset by higher amortization expense related to the acquisition of Direct Response. Restructuring costs were $0.6 million and $0.1 million for the nine and three months ended September 30, 2010, respectively, compared to $7.1 million and $1.2 million, respectively, for the same periods in 2009.

Unitrin Direct reported Net Income of $0.8 million and $0.3 million for the nine and three months ended September 30, 2010, respectively, compared to a Net Loss of $9.7 million and Net Income of $1.3 million, respectively, for the same periods in 2009. Unitrin Direct s effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions and changes in certain recoverables that are not taxable for tax purposes. Tax-exempt investment income and dividends received deductions were $7.6 million and $2.4 million for the nine and three months ended September 30, 2010, respectively, compared to $7.3 million and $2.6 million, respectively, for the same periods in 2009. Income taxes for the nine months ended September 30, 2010 exclude a tax benefit of $0.8 million related to a reduction of $2.4 million of the Unitrin Direct segment s estimate of certain recoverables that are not taxable for tax purposes. Income taxes for the three months ended September 30, 2010 exclude tax expense of $0.3 million related to an increase of $0.7 million of the Unitrin Direct segment s estimate of certain recoverables that are not taxable for tax purposes.

Table of Contents

Life and Health Insurance

Selected financial information for the Life and Health Insurance segment follows:

(Dollars in Millions)	Nine Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2010	Three Months Ended Sept. 30, 2009
Earned Premiums:				
Life	$ 298.3	$ 301.1	$ 98.9	$ 100.0
Accident and Health	120.5	118.9	40.5	40.1
Property	64.4	70.5	21.5	21.7
Total Earned Premiums	483.2	490.5	160.9	161.8
Net Investment Income	158.4	167.4	53.8	60.9
Other Income	0.1	0.7	0.1	0.2
Total Revenues	641.7	658.6	214.8	222.9
Policyholders Benefits and Incurred Losses and LAE	315.8	328.6	101.7	104.5
Insurance Expenses	210.2	211.1	71.4	70.6
Write-off of Goodwill	14.8		14.8	
Operating Profit	100.9	118.9	26.9	47.8
Income Tax Expense	(40.6)	(41.2)	(14.5)	(16.1)
Net Income	$ 60.3	$ 77.7	$ 12.4	$ 31.7

Insurance Reserves

(Dollars in Millions)	Sept. 30, 2010	Dec. 31, 2009
Insurance Reserves:		
Future Policyholder Benefits	$ 2,995.4	$ 2,960.3
Incurred Losses and LAE:		
Life	34.2	41.7
Accident and Health	24.4	26.0
Property	21.2	19.0
Total Incurred Losses and LAE	79.8	86.7
Insurance Reserves	$ 3,075.2	$ 3,047.0

Earned Premiums in the Life and Health Insurance segment decreased by $7.3 million and $0.9 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009. Earned premiums on property insurance decreased by $6.1 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to lower volume resulting from a strategy to reduce the segment s catastrophe exposure through the non-renewal of dwelling policies in certain coastal areas and the continued run-off of dwelling policies in all other markets, slightly offset by lower catastrophe reinsurance premiums and higher average premium rates on dwelling coverage in Texas. Earned premiums on property insurance decreased by $0.2 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to lower volume resulting from the continued run-off of dwelling policies, slightly offset by lower catastrophe reinsurance premiums and higher average premium rates on dwelling coverage in Texas. Earned premiums on life insurance decreased by $2.8 million and $1.1 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009, due to lower volume, partially offset by higher average premium rates. Earned premiums on accident and health insurance increased by $1.6 million and $0.4 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009, due to higher average premium rates, partially offset by lower volume.

Life and Health Insurance (continued)

Over the past several years the Life and Health Insurance segment has taken several actions to reduce its exposure to catastrophe risks. These actions have included non-renewing dwelling policies in coastal areas and areas further inland and the halting of new sales of dwelling coverage in all markets. The non-renewals were substantially completed in the second quarter of 2009. As the remaining insurance policies providing dwelling coverage run off over the next several years, the Life and Health Insurance segment expects that its exposure to catastrophe risks will continue to decline along with the related earned premiums. Earned premiums from dwelling coverage comprised 34% of the Life and Health Insurance segment s earned premiums on property insurance for the nine months ended September 30, 2010, compared to 39% for the same period in 2009. Earned premiums from dwelling coverage comprised 33% of the Life and Health Insurance segment s earned premiums on property insurance for the three months ended September 30, 2010, compared to 36% for the same period in 2009.

The Company believes that some, but not all, of the health insurance products sold by its subsidiary, Reserve National, could be adversely impacted by some provisions of the Health Care Acts that were signed into law in the first quarter of 2010. In particular, a provision which sets minimum loss ratios for health insurance policies could adversely impact Reserve National s business prospects. Such affected health insurance products accounted for approximately 44% of the Life and Health Insurance segment s accident and health insurance earned premiums for the nine months ended September 30, 2010. Based on the status of the Reserve National sales process to date (see Note 1, Basis of Presentation, and Note 2, Goodwill, to the Condensed Consolidated Financial Statements), the continuing uncertainty about the impact of the Health Care Acts on Reserve National s operations and the increased likelihood that the minimum loss ratio provisions of the Health Care Acts would apply to Reserve National s non-comprehensive health insurance coverages, the Company determined that goodwill associated with Reserve National was impaired and not recoverable at September 30, 2010 and wrote off $14.8 million of goodwill in the third quarter of 2010. See Note 5, Goodwill, to the Condensed Consolidated Financial Statements.

Net Investment Income in the Life and Health Insurance segment decreased by $9.0 million and $7.1 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009, due primarily to lower net investment income from Equity Method Limited Liability Investments, partially offset by higher net investment income from investments in fixed maturities. The Life and Health Insurance segment reported net investment income of $9.3 million and $4.3 million from Equity Method Limited Liability Investments for the nine and three months ended September 30, 2010, respectively, compared to net investment income of $22.4 million and $13.2 million, respectively, for the same periods in 2009.

Policyholders Benefits and Incurred Losses and LAE decreased by $12.8 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to lower losses and LAE on property insurance and, to a lesser extent, lower policyholders benefits on life insurance. Policyholders benefits on life insurance were $202.4 million for nine months ended September 30, 2010, compared to $205.9 million for the same period in 2009, and decreased due primarily to lower mortality experience on life insurance and the impact of lower volume of life insurance in force. Policyholders benefits and incurred losses and LAE on accident and health insurance were $73.4 million for the nine months ended September 30, 2010, compared to $73.3 million for the same period in 2009. Incurred accident and health losses as a percentage of earned premiums decreased due primarily to lower Medicare supplement accident and health insurance claims as a percentage of earned premiums partially offset by higher first time cancer related incurred accident and health insurance claims as a percentage of accident and health insurance earned premiums. Incurred Losses and LAE, net of reinsurance, on property insurance were $40.0 million for the nine months ended September 30, 2010, compared to $49.4 million for the same period in 2009, and decreased due primarily to lower adverse loss and LAE reserve development, lower catastrophe losses and LAE (excluding development) and lower non-catastrophe losses and LAE. Adverse loss reserve development on property insurance was $5.7 million (including adverse development of $5.0 million on catastrophes) for the nine months ended September 30, 2010, compared to adverse development of $10.8 million (including adverse development of $7.9 million on catastrophes) for the same period in 2009. Catastrophe losses and LAE, net of reinsurance (excluding development), were $3.5 million for the nine months ended September 30, 2010, compared to $6.2 million for the same period in 2009.

The Life and Health Insurance segment has a number of pending legal matters related to catastrophes and storms and could continue to report either favorable or unfavorable catastrophe reserve development in future periods depending on the resolution of these matters. See Note 18, Contingencies, to the Condensed Consolidated Financial Statements.

Table of Contents

Life and Health Insurance (continued)

Policyholders Benefits and Incurred Losses and LAE decreased by $2.8 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to lower policyholders benefits and incurred losses and LAE on accident and health insurance. Policyholders benefits and incurred losses and LAE on accident and health decreased to $23.3 million for the three months ended September 30, 2010, from $26.1 million for the same period in 2009, and due primarily to lower limited benefit medical incurred accident and health insurance claims as a percentage of accident and health insurance earned premiums, partially offset by higher first time cancer related incurred accident and health insurance claims as a percentage of accident and health insurance earned premiums. Losses and LAE, net of reinsurance (excluding development), on property insurance were $12.1 million for the three months ended September 30, 2010, compared to $11.2 million for the same period in 2009, and increased due to higher catastrophe losses and LAE (excluding development). Catastrophe losses and LAE, net of reinsurance (excluding development), were $1.3 million for the three months ended September 30, 2010, compared to $0.5 million for the same period in 2009. Adverse loss reserve development on property insurance was $3.2 million (including adverse development of $2.9 million on catastrophes) for the three months ended September 30, 2010, compared to adverse development of $4.1 million (all arising from catastrophes) for the same period in 2009.

Net Income in the Life and Health Insurance segment was $60.3 million and $12.4 million for the nine and three months ended September 30, 2010, respectively, compared to $77.7 million and $31.7 million, respectively, for the same periods in 2009.

Fireside Bank

Selected financial information for the Fireside Bank segment follows:

(Dollars in Millions)	Nine Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2010	Three Months Ended Sept. 30, 2009
Interest, Loan Fees and Earned Discounts	$ 78.9	$ 139.4	$ 22.4	$ 41.2
Other Automobile Finance Revenues	1.0	3.0	0.2	0.9
Total Automobile Finance Revenues	79.9	142.4	22.6	42.1
Net Investment Income	1.5	2.3	0.5	0.6
Total Revenues	81.4	144.7	23.1	42.7
Provision for Loan Losses	(3.7)	50.1	(6.6)	14.4
Interest Expense on Certificates of Deposits	21.8	34.6	6.5	10.1
Incentives to Close Deposit Accounts Early	3.0	0.1	1.5	
General and Administrative Expenses	45.6	61.4	16.4	14.8
Operating Profit (Loss)	14.7	(1.5)	5.3	3.4
Income Tax Expense	(5.8)	(5.8)	(2.1)	(1.0)
Net Income (Loss)	$ 8.9	$ (7.3)	$ 3.2	$ 2.4
Automobile Loan Originations	$	$ 77.0	$	$

Automobile Loan Receivables

(Dollars in Millions)	Sept. 30, 2010	Dec. 31, 2009
Sales Contracts and Loans Receivable	$ 459.6	$ 749.5
Unearned Discounts and Deferred Fees	(2.2)	(5.4)
Net Automobile Loan Receivables Outstanding	457.4	744.1
Reserve for Loan Losses	(60.0)	(83.3)
Automobile Loan Receivables	$ 397.4	$ 660.8

Table of Contents

Fireside Bank (continued)

Automobile Loan Receivables

(Dollars in Millions)	Amount	As a Percentage of Net Automobile Loan Receivables Outstanding	Amount	As a Percentage of Net Automobile Loan Receivables Outstanding
	September 30, 2010		December 31, 2009	
Current Loan Balances	$ 291.1	63.6%	$ 444.4	59.7%
Delinquent Loan Balances:				
Less than 30 Days Delinquent	145.1	31.7%	223.6	30.0%
30 Days to 59 Days Delinquent	16.8	3.7%	57.9	7.8%
60 Days to 89 Days Delinquent	3.5	0.8%	14.1	1.9%
Delinquent 90 Days or Greater	0.9	0.2%	4.1	0.6%
Net Automobile Loan Receivables Outstanding	457.4	100.0%	744.1	100.0%
Reserve for Loan Losses	(60.0)	13.1%	(83.3)	11.2%
Automobile Loan Receivables	$ 397.4		$ 660.8	

Reserve for Loan Losses

(Dollars in Millions)	Nine Months Ended Sept. 30, 2010	Nine Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2010	Three Months Ended Sept. 30, 2009
Reserve for Loan Losses - Beginning of Period	$ 83.3	$ 120.1	$ 74.8	$ 108.3
Provision for Loan Losses	(3.7)	50.1	(6.6)	14.4
Net Recovery (Charge-off):				
Automobile Loan Receivables Charged Off	(48.4)	(99.1)	(16.9)	(32.2)
Automobile Loan Receivables Recovered	28.8	27.4	8.7	8.0
Net Charge-off	(19.6)	(71.7)	(8.2)	(24.2)
Reserve for Loan Losses - End of Period	$ 60.0	$ 98.5	$ 60.0	$ 98.5

Table of Contents

Fireside Bank (continued)

Certificates of Deposits

(Dollars in Millions)	Sept. 30, 2010	Dec. 31, 2009
Due in One Year or Less	$ 208.7	$ 245.4
Due after One Year to Two Years	186.5	228.5
Due after Two Years to Three Years	13.9	202.8
Due after Three Years to Four Years	0.1	5.5
Due after Four Years to Five Years		0.2
Total Certificates of Deposits at Cost	$ 409.2	$ 682.4
Weighted-average Yield on Certificates of Deposits	5.3%	5.0%

Capital

(Dollars in Millions)	Sept. 30, 2010	Dec. 31, 2009
Capital	$ 243.4	$ 233.4
Ratio of Tier 1 Capital to Total Average Assets	31.0%	21.3%

As more fully discussed in the 2009 Annual Report, near the end of the first quarter of 2009 Fireside Bank began a plan to exit the automobile finance business and wind down its operations in an orderly fashion over the next several years. The exit plan continues to favorably exceed the Company s original expectations. Net Automobile Loan Receivables Outstanding has declined steadily to $457.4 million at September 30, 2010 from $1,125.2 million at March 31, 2009, while Certificates of Deposits has declined to $409.2 million at September 30, 2010 from $1,054.4 million at March 31, 2009. Fireside Bank s liquidity has increased as measured by the ratio of cash and investments to certificates of deposits. Cash and investments totaled $240.5 million, or 58.8% of Certificates of Deposits at September 30, 2010, compared to $204.7 million, or 19.4% of Certificates of Deposits at March 31, 2009. Fireside Bank estimates that collections of automobile loans receivables will be approximately $321 million over the next 15 months. The Company expects that the Fireside Bank segment will report positive bottom line results for the fourth quarter of 2010 and the full year. Fireside Bank s ratio of Tier 1 capital to total average assets increased from 15.6% at March 31, 2009 to 31.0% at September 30, 2010. The Company expects Fireside Bank s ratio of Tier 1 capital to total average assets will continue to remain well above regulatory requirements through the remainder of 2010 and 2011.

Interest, Loan Fees and Earned Discounts in the Fireside Bank segment decreased by $60.5 million and $18.8 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009, due primarily to lower levels of Sales Contracts and Loans Receivable resulting from the cessation of lending activities in connection with the exit plan. Sales Contracts and Loans Receivable was $459.6 million at September 30, 2010, compared to $874.4 million at September 30, 2009. Fireside Bank has no loans outstanding that are secured by real estate. Fireside Bank has not sold or securitized any portion of its loan portfolio.

The Fireside Bank segment reported Operating Profit of $14.7 million for the nine months ended September 30, 2010, compared to an Operating Loss of $1.5 million for the same period in 2009. The Fireside Bank segment reported Operating Profit of $5.3 million for the three months ended September 30, 2010, compared to Operating Profit of $3.4 million for the same period in 2009. Operating results improved for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to a negative provision for loan losses of $3.7 million in

2010, compared with a positive provision of $50.1 million in 2009, lower General and Administrative Expenses and lower Interest Expense on Certificates of Deposits, partially offset by lower Interest Income, Loan Fees and Earned Discounts and higher Incentives to Close Deposit Accounts Early. Operating results improved for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to a negative provision for loan losses of $6.6 million in 2010, compared to a positive provision of $14.4 million in 2009, lower Interest Expense on Certificates of Deposits, partially offset by lower Interest Income, Loan Fees and Earned Discounts and higher General and Administrative Expenses.

Table of Contents

Fireside Bank (continued)

The Provision for Loan Losses decreased by $53.8 million and $21.0 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009, due primarily to the cessation of all lending activities in connection with the exit plan and a lower rate of Net Charge-Off than previously anticipated for automobile loans originated in prior years. The Reserve for Loan Losses is maintained at a level that considers such factors as actual and expected loss experience, regulatory requirements and economic conditions to provide for estimated loan losses. Any change in these factors will result in either an addition to, or reduction in, the Provision for Loan Losses in future periods. Net Charge-off decreased by $52.1 million and $16.0 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009, due to the lower level of Net Automobile Loan Receivables Outstanding and improved collection results. The improved collection results were partially the result of Fireside Bank maintaining a higher ratio of collectors to the number of delinquent customer accounts than in prior periods. Approximately 65% of Net Automobile Loan Receivables are concentrated in the state of California, where the unemployment rate has been higher than the national average over the last several years.

Fireside Bank s loan portfolio delinquency has typically followed a seasonal pattern in which quarter-end delinquency is at its highest point at the end of the year, at its lowest point at the end of the first quarter, and then trends higher at the end of the second and third quarters. However, loan portfolio delinquency measured as a percentage of loans outstanding has not followed this pattern in 2010, but rather has trended lower in the second and third quarters of 2010. Fireside Bank cannot currently predict whether a new seasonal pattern is emerging or if loan portfolio delinquency as measured as a percentage of loans outstanding will trend higher in the fourth quarter and revert to the seasonal pattern that it has typically followed. Fireside Bank does, however, expect that while delinquent accounts measured in dollars will continue to decline as the loan portfolio declines, delinquency as a percentage of loans outstanding may increase compared to the same periods in prior years. Fireside Bank has historically had many customers who have fallen behind one or two loan payments, but have continued to make regular monthly payments. Fireside Bank expects that the number of these delinquent, but regularly paying, customers will decline at a slower pace than the overall loan portfolio and, accordingly, will comprise a greater percentage of the loan portfolio over time.

The Reserve for Loan Losses as a percentage of Net Automobile Loan Receivables was 13.1% at September 30, 2010, compared to 11.2% at December 31, 2009. The Reserve for Loan Losses was $60.0 million at September 30, 2010, while Delinquent Loan Balances 30 Days or greater totaled $21.2 million. The Reserve for Loan Losses was $83.3 million at December 31, 2009, while Delinquent Loan Balances 30 Days or greater totaled $76.1 million.

Interest Expense on Certificates of Deposits decreased by $12.8 million and $3.6 million for the nine and three months ended September 30, 2010, respectively, compared to the same periods in 2009, due primarily to lower levels of deposits. Fireside Bank is making interest payments and redemptions on outstanding certificates of deposits in the ordinary course of business. In connection with the exit plan, Fireside Bank no longer permits depositors to renew existing Certificates of Deposits when they mature and is not opening new certificate of deposit accounts.

Fireside Bank has offered incentives to certain depositors to redeem their certificates of deposits earlier than their scheduled maturity. Fireside Bank redeemed $57.4 million and $19.8 million of certificates of deposits for the nine and three months ended September 30, 2010, respectively, and paid incentives of $3.0 million and $1.5 million, respectively, in connection with such offers. Fireside Bank paid incentives of $0.1 million for the nine months ended September 30, 2009 in connection with such offers.

General and Administrative Expenses decreased by $15.8 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to the cessation of all lending activities in 2009 and a decline in costs associated with a smaller loan portfolio. General and Administrative Expenses increased by $1.6 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to early lease termination costs of $3.5 million related to the termination of a portion of Fireside Bank s lease of its main office located in Pleasanton, California, partially offset by lower salary and related expenses. Including the early lease termination costs, Fireside Bank incurred $6.0 million and $4.2 million of pre-tax restructuring charges for the nine and three months ended September 30, 2010, respectively, related to its plan to exit the automobile finance business. Fireside Bank incurred $10.3 million and $1.5 million of pre-tax restructuring charges for the nine and three months ended September 30, 2009, respectively, related to its plan to exit the automobile finance business.

Table of Contents

Fireside Bank (continued)

The Fireside Bank segment reported Net Income of $8.9 million for the nine months ended September 30, 2010, compared to a Net Loss of $7.3 million for the same period in 2009. The Fireside Bank segment reported Net Income of $3.2 million for the three months ended September 30, 2010, compared to $2.4 million for the same period in 2009. Income tax expense for the nine and three months ended September 30, 2010 included tax benefits of $0.5 million and $0.2 million, respectively, for decreases in the valuation allowance for deferred state income taxes, net of federal taxes. Income tax expense for the nine months ended September 30, 2009 included tax expense of $6.3 million for an increase in the valuation allowance for deferred state income taxes, net of federal benefit, due to the decision to exit the automobile finance business. The Fireside Bank segment s effective tax rate differs from the Federal statutory tax rate due primarily to state income taxes.

Investment Results

Investment Income

Net Investment Income for the nine and three months ended September 30, 2010 and 2009 was:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Investment Income:				
Interest and Dividends on Fixed Maturities	$ 185.3	$ 181.7	$ 61.0	$ 60.5
Dividends on Equity Securities	11.2	9.8	4.0	3.3
Short-term Investments	0.3	0.9	0.1	0.2
Loans to Policyholders	12.3	11.5	4.2	4.0
Real Estate	20.2	21.5	6.7	6.9
Equity Method Limited Liability Investments	33.3	29.3	10.5	24.8
Other		0.3		
Total Investment Income	262.6	255.0	86.5	99.7
Investment Expenses:				
Real Estate	19.4	20.0	6.4	6.2
Other Investment Expenses	0.7	0.3	0.2	0.2
Total Investment Expenses	20.1	20.3	6.6	6.4
Net Investment Income	$ 242.5	$ 234.7	$ 79.9	$ 93.3

Net Investment Income was $242.5 million and $234.7 million for the nine months ended September 30, 2010 and 2009, respectively. Net Investment Income increased by $7.8 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to higher net investment income from Equity Method Limited Liability Investments and higher interest and dividends on fixed maturities. The Company reported net investment income of $33.3 million from Equity Method Limited Liability Investments for the nine months ended September 30, 2010, compared to net investment income of $29.3 million for the same period in 2009. Investment income from Equity Method Limited Liability Investments increased in 2010, compared to 2009, due primarily to increased investment returns. Interest and dividends on fixed maturities increased by $3.6 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to a higher level of fixed maturities due, in part, to the Company reinvesting a portion of its short-term investments in fixed maturities.

Table of Contents

Investment Results (continued)

Net Investment Income was $79.9 million and $93.3 million for the three months ended September 30, 2010 and 2009, respectively. Net Investment Income decreased by $13.4 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to lower net investment income from Equity Method Limited Liability Investments. The Company reported net investment income of $10.5 million from Equity Method Limited Liability Investments for the three months ended September 30, 2010, compared to $24.8 million for the same period in 2009. Investment income from Equity Method Limited Liability Investments decreased in 2010, compared to 2009, due primarily to decreased investment returns.

Total Comprehensive Investment Gains

Total Comprehensive Investment Gains are comprised of Net Realized Gains on Sales of Investments and Net Impairment Losses Recognized in Earnings that are reported in the Condensed Consolidated Statements of Income and other investment gains and losses that are not reported in the Condensed Consolidated Statements of Income, but rather are reported in a consolidated statement of comprehensive income. The components of Total Comprehensive Investment Gains for the nine and three months ended September 30, 2010 and 2009 were:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
Fixed Maturities:				
Recognized in Condensed Consolidated Statements of Income:				
Gains on Sales	$ 5.7	$ 7.3	$ 0.9	$ 3.9
Losses on Sales		(0.3)		(0.2)
Net Impairment Losses Recognized in Earnings	(12.4)	(41.2)	(4.6)	(14.5)
Total Recognized in Condensed Consolidated Statements of Income	(6.7)	(34.2)	(3.7)	(10.8)
Recognized in Other Comprehensive Gains	272.7	270.9	110.5	209.6
Total Comprehensive Investment Gains on Fixed Maturities	266.0	236.7	106.8	198.8
Equity Securities:				
Recognized in Condensed Consolidated Statements of Income:				
Gains on Sales	7.7	9.8	5.7	8.3
Net Impairment Losses Recognized in Earnings	(0.3)	(8.0)		
Total Recognized in Condensed Consolidated Statements of Income	7.4	1.8	5.7	8.3
Recognized in Other Comprehensive Gains	71.4	42.5	67.8	18.5
Total Comprehensive Investment Gains on Equity Securities	78.8	44.3	73.5	26.8
Investee:				
Recognized in Condensed Consolidated Statements of Income:				
Gains on Sales	0.8			
Recognized in Other Comprehensive Gains (Losses)	2.9	(3.2)	7.9	6.2
Total Comprehensive Investment Gains (Losses) on Investee	3.7	(3.2)	7.9	6.2

Other Investments:				
Recognized in Condensed Consolidated Statements of Income:				
Gains on Sales	0.1		0.1	
Losses on Sales	(0.1)	(0.1)		(0.1)
Trading Securities Net Gains	0.4	0.9	0.5	0.5
Total Recognized in Condensed Consolidated Statements of Income	0.4	0.8	0.6	0.4
Total Comprehensive Investment Gains	$ 348.9	$ 278.6	$ 188.8	$ 232.2
Recognized in Condensed Consolidated Statements of Income	$ 1.9	$ (31.6)	$ 2.6	$ (2.1)
Recognized in Other Comprehensive Income	347.0	310.2	186.2	234.3
Total Comprehensive Investment Gains	$ 348.9	$ 278.6	$ 188.8	$ 232.2

Table of Contents

Investment Results (continued)

Other-than-Temporary Impairment

The Company regularly reviews its investment portfolio for factors that may indicate that a decline in the fair value of an investment is other-than-temporary. Losses arising from other-than-temporary declines in fair values are reported in the Condensed Consolidated Statements of Income in the period that the declines are determined to be other-than-temporary. Net Impairment Losses recognized in the Condensed Consolidated Statements of Income for the nine and three months ended September 30, 2010 include OTTI losses of $12.7 million and $4.6 million, respectively, from other-than-temporary declines in the fair values of investments. OTTI losses recognized in the Condensed Consolidated Statements of Income for the nine and three months ended September 30, 2010 included pre-tax losses of $9.8 million and $4.6 million, respectively, due to the deterioration of the business prospects of a single issuer in the waste management business. OTTI losses recognized in the Condensed Consolidated Statements of Income for the nine months ended September 30, 2010 included pre-tax foreign currency losses of $2.1 million.

Net Impairment Losses recognized in the Condensed Consolidated Statements of Income for the nine and three months ended September 30, 2009 include OTTI losses of $49.2 million and $14.5 million, respectively, from other-than-temporary declines in the fair values of investments. OTTI losses recognized in the Condensed Consolidated Statements of Income for the nine and three months ended September 30, 2009 included pre-tax losses of $24.2 million and $8.1 million, respectively, due to the deterioration of the business prospects of a single issuer in the manufacturing business.

Investment Quality and Concentrations

The Company s fixed maturity investment portfolio is comprised primarily of high-grade municipal, corporate and agency bonds. At September 30, 2010, nearly 95% of the Company s fixed maturity investment portfolio was rated investment grade, which is defined as a security having a rating of AAA, AA, A or BBB from Standard & Poors (S&P); a rating of Aaa, Aa, A or Baa from Moody s Investors Services (Moody s); or a rating from the National Association of Insurance Commissioners (NAIC) of 1 or 2. The Company has not made significant investments in securities that are directly or indirectly related to sub-prime mortgage loans including, but not limited to, collateralized debt obligations and structured investment vehicles.

The following table summarizes the credit quality of the Company s fixed maturity investment portfolio at September 30, 2010 and December 31, 2009:

		September 30, 2010		December 31, 2009	
NAIC Rating	S & P Equivalent Rating	Fair Value in Millions	Percentage of Total	Fair Value in Millions	Percentage of Total
1	AAA, AA, A	$ 3,721.9	79.0%	$ 3,678.4	80.6%
2	BBB	746.2	15.9%	650.3	14.3%
3	BB	118.8	2.5%	110.4	2.4%
4	B	30.3	0.6%	27.1	0.6%
5	CCC	79.6	1.7%	74.1	1.6%
6	In or Near Default	14.6	0.3%	21.1	0.5%
Total Investments in Fixed Maturities		$ 4,711.4	100.0%	$ 4,561.4	100.0%

Gross unrealized losses on the Company s investments in below-investment-grade fixed maturities were $4.6 million and $14.9 million at September 30, 2010 and December 31, 2009, respectively. At September 30, 2010, the Company had $1,890.5 million of investments in municipal bonds, of which $525.1 million were enhanced with insurance from monoline bond insurers. The Company s municipal bond investment credit-risk strategy is to focus on the underlying credit rating of the issuer and not to rely on the credit enhancement provided by the monoline bond insurer when making investment decisions. To that end, the average underlying rating of the Company s entire municipal bond portfolio is AA, the majority of which are direct obligations of states.

Table of Contents

Investment Quality and Concentrations (continued)

The following table summarizes the credit enhanced ratings and underlying ratings of the Company s investments in obligations of states, municipalities and political subdivisions, which are included in the preceding table of the credit quality of the Company s fixed maturity investment portfolio at September 30, 2010:

	Credit Enhanced Rating		Underlying Rating	
S & P Equivalent Rating	Fair Value in Millions	Percentage of Total	Fair Value in Millions	Percentage of Total
AAA	$ 416.4	22.0%	$ 404.5	21.4%
AA	1,365.6	72.3%	1,373.3	72.7%
A	97.2	5.1%	97.2	5.1%
BBB	9.6	0.5%	13.8	0.7%
Below Investment Grade	1.7	0.1%	1.7	0.1%
Total Investments in States, Municipalities and Political Subdivisions	$ 1,890.5	100.0%	$ 1,890.5	100.0%

The following table summarizes the fair value of the Company s Investments in Fixed Maturities by industry at September 30, 2010 and December 31, 2009:

(Dollars in Millions)	Sept. 30, 2010	Dec. 31, 2009
States, Municipalities and Political Subdivisions	$ 1,890.5	$ 1,745.3
Manufacturing	1,069.0	928.8
Finance, Insurance and Real Estate	576.6	608.8
U.S. Government and Government Agencies and Authorities	581.7	720.9
Transportation, Communication and Utilities	245.4	236.2
Services	198.2	181.9
Mining	61.1	58.4
Wholesale Trade	37.5	