HORACE MANN EDUCATORS CORP /DE/
Form 10-Q
August 08, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2008

OR

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

Commission file number 1-10890

HORACE MANN EDUCATORS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**37-0911756**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1 Horace Mann Plaza, Springfield, Illinois 62715-0001

(Address of principal executive offices, including Zip Code)

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

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

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

Large accelerated filer 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 Act. Yes ¨ No x

As of July 31, 2008, 39,061,788 shares of Common Stock, par value $0.001 per share, were outstanding, net of 21,813,196 shares of treasury stock.

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HORACE MANN EDUCATORS CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Horace Mann Educators Corporation:

We have reviewed the accompanying consolidated balance sheet of Horace Mann Educators Corporation and subsidiaries (the Company) as of June 30, 2008, the related consolidated statements of operations and comprehensive income (loss) for the three-month and six-month periods ended June 30, 2008 and 2007, and the related consolidated statements of changes in shareholders equity and cash flows for the six-month periods ended June 30, 2008 and 2007. These consolidated financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2007, and the related consolidated statements of operations and comprehensive income, changes in shareholders equity, and cash flows for the year then ended (not presented herein); and in our report dated February 28, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2007, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it was derived.

As discussed in Note 1 to the December 31, 2007 consolidated financial statements, the Company adopted American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* , effective January 1, 2007. As discussed in Note 6 to the December 31, 2007 consolidated financial statements, the Company adopted FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No 109* , effective January 1, 2007.

/s/ KPMG LLP

KPMG LLP

Chicago, Illinois

August 7, 2008

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HORACE MANN EDUCATORS CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Investments		
Fixed maturities, available for sale, at fair value		
Fixed maturities (amortized cost 2008, $3,844,829; 2007, $3,795,665)	$ 3,746,983	$ 3,798,343
Fixed maturity securities on loan (amortized cost 2008, $61,776; 2007, $74,599)	61,797	74,658
Total fixed maturities	3,808,780	3,873,001
Equity securities, available for sale, at fair value (amortized cost 2008, $92,795; 2007, $94,083)	84,706	86,548
Short-term and other investments	186,885	143,990
Short-term investments, loaned securities collateral	63,091	76,711
Total investments	4,143,462	4,180,250
Cash	11,028	13,209
Accrued investment income and premiums receivable	101,366	101,427
Deferred policy acquisition costs	273,937	261,789
Goodwill	47,396	47,396
Value of acquired insurance in force	2,780	5,380
Other assets	90,315	87,652
Separate Account (variable annuity) assets	1,382,725	1,562,210
Total assets	$ 6,053,009	$ 6,259,313
LIABILITIES AND SHAREHOLDERS EQUITY		
Policy liabilities		
Fixed annuity contract liabilities	$ 2,085,677	$ 2,014,211
Interest-sensitive life contract liabilities	674,440	663,087
Unpaid claims and claim expenses	321,370	315,382
Future policy benefits	191,074	188,117
Unearned premiums	200,037	202,527
Total policy liabilities	3,472,598	3,383,324
Other policyholder funds	132,497	138,470
Liability for securities lending agreements	63,470	76,850
Other liabilities	211,100	205,696
Short-term debt		
Long-term debt	199,517	199,485
Separate Account (variable annuity) liabilities	1,382,725	1,562,210
Total liabilities	5,461,907	5,566,035
Preferred stock, $0.001 par value, authorized 1,000,000 shares; none issued		
Common stock, $0.001 par value, authorized 75,000,000 shares; issued, 2008, 60,874,984; 2007, 60,855,455	61	61
Additional paid-in capital	354,876	353,841
Retained earnings	708,669	698,539
Accumulated other comprehensive loss net of taxes:		

Net unrealized gains and losses on fixed maturities and equity securities	(61,624)	(2,621)
Net funded status of pension and other postretirement benefit obligations	(3,217)	(3,217)
Treasury stock, at cost, 2008, 21,813,196 shares; 2007, 18,614,971 shares	(407,663)	(353,325)
Total shareholders equity	591,102	693,278
Total liabilities and shareholders equity	$ 6,053,009	$ 6,259,313

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

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HORACE MANN EDUCATORS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues				
Insurance premiums and contract charges earned	$ 163,703	$ 163,514	$ 326,252	$ 324,667
Net investment income	57,812	55,422	114,425	110,276
Net realized investment gains (losses)	(8,021)	(902)	(10,472)	2,566
Other income	2,751	3,497	5,308	6,077
Total revenues	216,245	221,531	435,513	443,586
Benefits, losses and expenses				
Benefits, claims and settlement expenses	122,110	99,974	229,024	198,351
Interest credited	32,600	31,689	64,655	62,844
Policy acquisition expenses amortized	18,747	18,155	39,775	37,265
Operating expenses	33,348	34,284	68,128	69,262
Amortization of intangible assets	1,573	1,225	2,818	2,763
Interest expense	3,376	3,542	6,777	7,231
Total benefits, losses and expenses	211,754	188,869	411,177	377,716
Income before income taxes	4,491	32,662	24,336	65,870
Income tax expense (benefit)	(51)	9,496	5,538	19,436
Net income	$ 4,542	$ 23,166	$ 18,798	$ 46,434
Net income per share				
Basic	$ 0.11	$ 0.54	$ 0.46	$ 1.08
Diluted	$ 0.11	$ 0.52	$ 0.45	$ 1.04
Weighted average number of shares and equivalent shares (in thousands)				
Basic	40,116	43,223	40,586	43,170
Diluted	41,225	44,924	41,706	45,132
Comprehensive income (loss)				
Net income	$ 4,542	$ 23,166	$ 18,798	$ 46,434
Other comprehensive loss, net of taxes:				
Change in net unrealized gains and losses on fixed maturities and equity securities	(27,333)	(46,265)	(59,003)	(45,741)
Change in net funded status of pension and other postretirement benefit obligations				
Other comprehensive loss	(27,333)	(46,265)	(59,003)	(45,741)
Total	$ (22,791)	$ (23,099)	$ (40,205)	$ 693

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

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HORACE MANN EDUCATORS CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

(Dollars in thousands, except per share data)

	Six Months Ended June 30,	
	2008	2007
Common stock		
Beginning balance	$ 61	$ 61
Options exercised, 2008, 0 shares; 2007, 163,452 shares		
Conversion of Director Stock Plan units, 2008, 16,355 shares; 2007, 18,362 shares		
Conversion of restricted stock units, 2008, 3,174 shares; 2007, 2,115 shares		
Ending balance	61	61
Additional paid-in capital		
Beginning balance	353,841	347,873
Options exercised and conversion of Director Stock Plan units and restricted stock units	369	3,467
Share-based compensation expense	666	472
Ending balance	354,876	351,812
Retained earnings		
Beginning balance	698,539	634,110
Net income	18,798	46,434
Cash dividends, $0.21 per share	(8,668)	(9,196)
Ending balance	708,669	671,348
Accumulated other comprehensive income (loss), net of taxes:		
Beginning balance	(5,838)	7,614
Change in net unrealized gains and losses on fixed maturities and equity securities	(59,003)	(45,741)
Change in net funded status of pension and other postretirement benefit obligations		
Ending balance	(64,841)	(38,127)
Treasury stock, at cost		
Beginning balance, 2008, 18,614,971 shares; 2007, 17,503,371 shares	(353,325)	(332,577)
Purchase of 3,198,225 shares in 2008; 0 shares in 2007	(54,338)	
Ending balance, 2008, 21,813,196 shares; 2007, 17,503,371 shares	(407,663)	(332,577)
Shareholders equity at end of period	$ 591,102	$ 652,517

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

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HORACE MANN EDUCATORS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)

	Six Months Ended June 30,	
	2008	**2007**
Cash flows - operating activities		
Premiums collected	$ 330,681	$ 330,377
Policyholder benefits paid	(235,538)	(214,674)
Policy acquisition and other operating expenses paid	(111,947)	(106,388)
Federal income taxes paid	(5,909)	(4,241)
Investment income collected	114,416	112,649
Interest expense paid	(6,628)	(7,117)
Other	(2,004)	2,141
Net cash provided by operating activities	83,071	112,747
Cash flows - investing activities		
Fixed maturities		
Purchases	(556,077)	(764,358)
Sales	341,897	378,975
Maturities, paydowns, calls and redemptions	207,839	316,685
Net cash used in short-term and other investments	(46,594)	(12,766)
Net cash used in investing activities	(52,935)	(81,464)
Cash flows - financing activities		
Dividends paid to shareholders	(8,668)	(9,196)
Purchase of treasury stock	(54,338)	
Exercise of stock options		3,077
Repurchase of Senior Convertible Notes		(32,563)
Annuity contracts, variable and fixed		
Deposits	154,682	170,482
Benefits and withdrawals	(87,200)	(96,209)
Net transfer to Separate Account (variable annuity) assets	(40,129)	(72,811)
Life policy accounts		
Deposits	833	536
Withdrawals and surrenders	(2,878)	(2,988)
Change in bank overdrafts	5,381	4,045
Net cash used in financing activities	(32,317)	(35,627)
Net decrease in cash	(2,181)	(4,344)
Cash at beginning of period	13,209	13,438
Cash at end of period	$ 11,028	$ 9,094

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

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HORACE MANN EDUCATORS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008 and 2007

(Dollars in thousands, except per share data)

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements of Horace Mann Educators Corporation (HMEC ; and together with its subsidiaries, the Company or Horace Mann) have been prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) and with the rules and regulations of the Securities and Exchange Commission (SEC), specifically Regulation S-X and the instructions to Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The Company believes that these consolidated financial statements contain all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary to present fairly the Company s consolidated financial position as of June 30, 2008, the consolidated results of operations and comprehensive income (loss) for the three and six months ended June 30, 2008 and 2007, and the consolidated changes in shareholders equity and cash flows for the six months ended June 30, 2008 and 2007. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (1) the reported amounts of assets and liabilities, (2) disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and (3) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

These consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes to consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

The results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results to be expected for the full year.

The Company has reclassified the presentation of certain prior period information to conform with the 2008 presentation.

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Note 1 - Basis of Presentation-(Continued)

Adoption of SFAS No. 159

Effective January 1, 2008, the Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS or FAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115 . SFAS No. 159 permits all entities to choose to elect, at specified election dates, to measure eligible financial instruments, as defined in SFAS No. 159, at fair value. Changes in unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date and upfront costs and fees related to those items will be reported in earnings as incurred and not deferred. At adoption, for those financial assets and financial liabilities which management has elected to carry at fair value, an entity will report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of retained earnings. The Company s management did not elect to measure any additional eligible financial assets or financial liabilities at fair value and as a result, adoption of this SFAS did not have an effect on the results of operations or financial position of the Company.

Adoption of SFAS No. 157

Effective January 1, 2008, the Company adopted FASB SFAS No. 157, Fair Value Measurements . SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. This pronouncement did not require any new fair value measurements and its adoption did not affect the results of operations or financial position of the Company. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, Effective Date of FASB Statement No. 157 , to defer the effective date of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are not disclosed at fair value in the consolidated financial statements on a recurring basis. The FSP did not defer the recognition and disclosure requirements for financial or nonfinancial assets and liabilities that are measured at least annually. The Company s expanded disclosures as a result of SFAS No. 157 are included in Note 4 Fair Value Measurements .

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Note 2 - Debt

Indebtedness outstanding was as follows:

	June 30, 2008	December 31, 2007
Short-term debt:		
Bank Credit Facility	$	$
Long-term debt:		
6.05% Senior Notes, due June 15, 2015. Aggregate principal amount of $75,000 less unaccrued discount of $185 and $198 (6.1% imputed rate)	74,815	74,802
6.85% Senior Notes, due April 15, 2016. Aggregate principal amount of $125,000 less unaccrued discount of $298 and $317 (6.9% imputed rate)	124,702	124,683
Total	$ 199,517	$ 199,485

The Bank Credit Facility, 6.05% Senior Notes due 2015 (Senior Notes due 2015) and 6.85% Senior Notes due 2016 (Senior Notes due 2016) are described in Notes to Consolidated Financial Statements Note 4 Debt of the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

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Note 3 - Investments

Fixed Maturity Securities and Equity Securities

The following table presents the composition and value of the Company s fixed maturity securities and equity securities portfolios by rating category. At June 30, 2008, 95% of these securities were investment grade, with an overall average quality rating of A+. The Company has classified the entire fixed maturity securities and equity securities portfolios as available for sale, which are carried at fair value.

	Percent of Total Carrying Value		June 30, 2008	
Rating (1)	June 30, 2008	December 31, 2007	Carrying Value (2)	Amortized Cost
Fixed maturity securities				
AAA	42.3%	47.0%	$ 1,611,586	$ 1,617,826
AA	11.6	9.4	440,469	455,261
A	21.0	19.5	798,295	843,067
BBB	20.0	19.0	763,064	785,684
BB	2.6	1.7	97,884	101,943
B	2.4	3.3	93,078	97,048
CCC or lower	0.1	0.1	4,136	5,680
Not rated (3)			268	96
Total	100.0%	100.0%	$ 3,808,780	$ 3,906,605
Equity securities				
AAA				
AA	9.0%	17.6%	$ 7,596	$ 8,901
A	59.9	61.3	50,774	56,714
BBB	24.5	16.3	20,778	22,053
BB	3.1	1.1	2,635	2,545
B				
CCC or lower				
Not rated (4)	3.5	3.7	2,923	2,582
Total	100.0%	100.0%	$ 84,706	$ 92,795

(1) Ratings are as assigned primarily by Standard & Poor s Corporation (S&P) when available, with remaining ratings as assigned on an equivalent basis by Moody s Investors Service, Inc. (Moody s). Ratings for publicly traded securities are determined when the securities are acquired and are updated monthly to reflect any changes in ratings.

(2) Carrying values are equal to fair values, with fair values based on quoted market prices, when available. Fair values for private placements and certain other securities that are infrequently traded are estimated by the Company with the assistance of its investment advisors utilizing recognized valuation methodology, including cash flow modeling. See also Note 4 Fair Value Measurements .

(3) This category includes $100 (fair value) of private placement securities not rated by either S&P or Moody s. The National Association of Insurance Commissioners (NAIC) has rated 58.0% of these private placement securities as investment grade. The remaining $168 (fair value) of securities in this category were obtained in partial settlement of a default that occurred in 2002 and are not rated by S&P, Moody s or the NAIC.

(4) This category includes common stocks that are not rated by either S&P or Moody s.

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Note 3 - Investments-(Continued)

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

	Percent of Total Fair Value		June 30, 2008	
	June 30, 2008	December 31, 2007	Fair Value	Amortized Cost
Due in 1 year or less	7.3%	6.8%	$ 276,448	$ 283,548
Due after 1 year through 5 years	26.4	28.5	1,006,921	1,032,783
Due after 5 years through 10 years	33.9	33.6	1,289,859	1,322,988
Due after 10 years through 20 years	11.8	11.3	449,696	461,246
Due after 20 years	20.6	19.8	785,856	806,040
Total	100.0%	100.0%	$ 3,808,780	$ 3,906,605

The average option adjusted duration for the Company s fixed maturity securities was 5.8 years at June 30, 2008 and 5.5 years at December 31, 2007.

In the six months ended June 30, 2008, the Company recorded a total of $13,908 of impairment write-downs $11,170 in the three months ended June 30 and $2,738 in the three months ended March 31. In the first six months of 2007, the Company recorded $2,319 of impairment write-downs, all in the second quarter, from the home builder sector, and these securities were subsequently sold in July 2007. The second quarter 2008 write-downs were primarily related to 2 collateralized debt obligation securities and 5 equity securities, including 4 financial industry preferred stock issues. As of June 30, 2008, all of the securities for which write-downs were recorded in the period were performing, and are continuing to perform as of the time of this Quarterly Report on Form 10-Q, consistent with contractual obligations. And, in all but one case, the Company s credit analysis and/or analysis of the underlying collateral cash flows indicated only a very remote likelihood of default even under severe stress testing. Management s decision to impair these issues was, instead, based on their conclusion that recovery in fair value, given current and expected market conditions, was not likely to occur within a reasonable period of time. The first quarter 2008 write-downs were primarily related to certain below investment grade securities, with $2,291 of the write-downs attributable to 6 securities of telecommunications and telecommunications-related media issuers, which at March 31, 2008 the Company no longer intended to hold until the value fully recovers. In addition, net realized losses in the six months ended June 30, 2008 included $4,204 of realized impairment losses primarily on financial institution and below investment grade securities that were disposed of during the period.

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Note 3 - Investments-(Continued)

The following table presents the fair value and gross unrealized losses of fixed maturity securities and equity securities in an unrealized loss position at June 30, 2008 and December 31, 2007. The Company views the decrease in value of all of the securities with unrealized losses at June 30, 2008 which was driven by spread widening, market illiquidity and changes in interest rates as temporary, expects recovery in fair value in a reasonable timeframe, anticipates continued payments under the terms of the securities, and has the intent and ability to hold these securities until maturity or a recovery in fair value occurs. Therefore, no impairment of these securities was recorded at June 30, 2008.

	12 months or less		More than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
As of June 30, 2008						
Fixed maturity securities						
U.S. government and federally sponsored agency obligations:						
Mortgage-backed securities	$ 373,614	$ 4,387	$ 142,211	$ 4,598	$ 515,825	$ 8,985
Other	69,279	934			69,279	934
Municipal bonds	215,908	3,166	112,177	5,505	328,085	8,671
Foreign government bonds	5,024	101			5,024	101
Corporate bonds	808,309	28,600	569,838	47,848	1,378,147	76,448
Other mortgage-backed securities	194,121	6,916	87,457	22,635	281,578	29,551
Totals	$ 1,666,255	$ 44,104	$ 911,683	$ 80,586	$ 2,577,938	$ 124,690
Equity securities	$ 66,004	$ 8,145	$ 3,956	$ 529	$ 69,960	$ 8,674
As of December 31, 2007						
Fixed maturity securities						
U.S. government and federally sponsored agency obligations:						
Mortgage-backed securities	$ 72,311	$ 185	$ 380,995	$ 5,353	$ 453,306	$ 5,538
Other	64,423	40	25,730	85	90,153	125
Municipal bonds	87,593	1,379	56,253	741	143,846	2,120
Foreign government bonds			3,911	35	3,911	35
Corporate bonds	398,575	17,454	520,356	16,218	918,931	33,672
Other mortgage-backed securities	147,594	9,019	46,602	1,512	194,196	10,531
Totals	$ 770,496	$ 28,077	$ 1,033,847	$ 23,944	$ 1,804,343	$ 52,021
Equity securities	$ 59,757	$ 7,238	$ 5,912	$ 1,273	$ 65,669	$ 8,511

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

Securities Lending

The Company loans fixed income securities to third parties, primarily major brokerage firms. Beginning in the third quarter of 2007, the Company reduced the amount of fixed income securities that it loans compared to previous levels. As of June 30, 2008 and December 31, 2007, fixed maturity securities with a fair value of $61,797 and $74,658, respectively, were on loan. Loans of securities are required at all times to be secured by collateral from borrowers at least equal to 100% of the fair value of the securities loaned. The Company maintains effective control over the loaned securities and therefore reports them as Fixed Maturity Securities in the Consolidated Balance Sheets. Securities lending collateral is classified as short-term investments with a corresponding liability in the Company s Consolidated Balance Sheets.

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Note 4 - Fair Value Measurements

Effective January 1, 2008, the Company adopted SFAS No. 157, which provides a framework for measuring fair value in accordance with GAAP. FSP No. FAS 157-2 defers the effective date of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are not disclosed at fair value in the consolidated financial statements on a recurring basis.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. Government and agency mortgage-backed debt securities and corporate debt securities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity investments.

The following discussion describes the valuation methodologies used for financial assets measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the Company s business, its value or financial position based on the fair value information of financial assets presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

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Note 4 - Fair Value Measurements-(Continued)

Fair values for the Company s fixed maturity securities are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider s expertise. Broker-dealers are also used to price certain types of securities. The broker-dealers valuation methodology is sometimes matrix-based, using indicative evaluation measures and adjustments for specific security characteristics and market sentiment. The Company analyzes market valuations received to verify reasonableness and to understand the key assumptions used and their sources. The Company s fixed maturity securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services. Approximately 90% of the portfolio was priced through pricing services or index priced as of June 30, 2008. The remainder of the portfolio was priced by broker-dealers, which were generally Level 2 inputs.

Fair values of equity securities have been determined by the Company from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes or through the use of internal models or analysis.

Short-term investments are comprised of short-term fixed interest securities. Because of the nature of these assets, carrying amounts approximate fair values which have been determined from public quotations, when available.

Separate Account assets represent variable annuity contract holder funds invested in various mutual funds. Fair values of these assets have been determined from public quotations.

The following table presents the Company s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2008. At June 30, 2008, Level 3 assets comprised approximately 0.01% of the Company s total investment portfolio fair value.

	Fair Value	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3
Financial Assets				
Investments				
Fixed maturities	$ 3,808,780	$ 38,300	$ 3,770,380	$ 100
Equity securities	84,706	41,566	42,683	457
Short-term investments (1)	82,560	80,428	2,132	
Short-term investments, loaned securities collateral	63,091		63,091	
Total	$ 4,039,137	$ 160,294	$ 3,878,286	$ 557
Separate Account (variable annuity) assets	$ 1,382,725	$ 1,382,725		

(1) Short-term investments are included in Short-term and Other Investments in the Consolidated Balance Sheets.

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Note 4 - Fair Value Measurements-(Continued)

The following table presents a reconciliation for all Level 3 assets measured at fair value on a recurring basis for the period January 1, 2008 to June 30, 2008.

	Level 3 Assets		
	Fixed Maturities	Equity Securities	Total
Financial Assets			
Beginning balance, January 1, 2008	$ 688	$ 457	$ 1,145
Total net gains (unrealized)	2		2
Paydowns and maturities	(590)		(590)
Purchases, sales, issuances and settlements			
Transfers in (out) of Level 3			
Ending balance, June 30, 2008	$ 100	$ 457	$ 557

For the period January 1, 2008 to June 30, 2008, there were no realized gains or losses included in earnings that were attributable to Level 3 assets still held at June 30, 2008.

Note 5 - Share Repurchase Programs and Treasury Shares Held (Common Stock)

As disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, on September 12, 2007, the Company s Board of Directors (Board) authorized a new share repurchase program allowing repurchases up to $50,000. The new share repurchase program authorized the repurchase of common shares in open market or privately negotiated transactions, from time to time, depending on market conditions.

From September 12, 2007 through December 31, 2007, the Company repurchased 1,111,600 shares of its common stock, or 2.6% of the outstanding shares on December 31, 2006, at an aggregate cost of $20,748, or an average cost of $18.66 per share, under its new share repurchase program. From January 1, 2008 through February 19, 2008, the Company completed the new program by repurchasing an additional 1,626,776 shares of its common stock, or 3.9% of the outstanding shares on December 31, 2007. In total, 2,738,376 shares were repurchased under the $50,000 program at an average cost of $18.28 per share. The repurchase of shares was financed through use of cash.

On March 7, 2008, the Board authorized an additional $25,000 share repurchase program allowing for repurchase of common shares in open market or privately negotiated transactions, from time to time, depending on market conditions (the March 2008 Program). As of June 30, 2008, the Company completed the March 2008 Program resulting in a total of 1,571,449 shares of its common stock repurchased under this program at an average cost of $15.93 per share. Shares repurchased under the March 2008 Program represented 3.7% of the outstanding shares on December 31, 2007. The repurchase of shares was financed through use of cash.

At June 30, 2008, the Company held 21,813,196 shares in treasury. As of June 30, 2008, the Company had completed its authorized share repurchase programs.

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Note 6 - Pension Plans and Other Postretirement Benefits

The Company has the following retirement plans: a defined contribution plan; a 401(k) plan; a defined benefit plan for employees hired on or before December 31, 1998; and certain employees participate in a supplemental defined contribution plan or a supplemental defined benefit plan or both. Additional information regarding the Company s retirement plans is contained in Notes to Consolidated Financial Statements Note 9 Pension Plans and Other Postretirement Benefits of the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

The following table summarizes the components of net periodic pension cost recognized for the defined benefit plan and the supplemental defined benefit plans for the three and six months ended June 30, 2008 and 2007.

	Defined Benefit Plan			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Components of net periodic pension expense:				
Service cost	$	$	$	$
Interest cost	349	359	598	719
Expected return on plan assets	(404)	(375)	(693)	(751)
Recognized net actuarial loss	190	229	326	459
Settlement loss	79	169	136	338
Net periodic pension expense	$ 214	$ 382	$ 367	$ 765

	Supplemental Defined Benefit Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Components of net periodic pension expense:				
Service cost	$ (9)	$ (11)	$ (20)	$ (23)
Interest cost	191	244	426	489
Expected return on plan assets				
Recognized net actuarial loss	119	227	265	454
Settlement loss				
Net periodic pension expense	$ 301	$ 460	$ 671	$ 920

Consistent with disclosure in Notes to Consolidated Financial Statements Note 9 Pension Plans and Other Postretirement Benefits of the Company s Annual Report on Form 10-K for the year ended December 31, 2007, the Company expects to contribute approximately $1,100 to the supplemental defined benefit plans in 2008, of which $508 was contributed during the six months ended June 30, 2008. Also consistent with disclosures in the Company s Annual Report on Form 10-K, the Company does not expect to make a contribution to the defined benefit plan in 2008.

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Note 6 - Pension Plans and Other Postretirement Benefits-(Continued)

In addition to providing pension benefits, the Company also provides certain health care and life insurance benefits to retired employees, who meet the Plan s eligibility requirements, and their eligible dependents. As described in Notes to Consolidated Financial Statements Note 9 Pension Plans and Other Postretirement Benefits , effective January 1, 2007, the Company eliminated the previous health care benefits for retirees 65 years of age and over and established a defined contribution plan with a Health Reimbursement Account (HRA) for each eligible retired participant. Funding of HRA accounts was approximately $550 for the six months ended June 30, 2008. Also, the new plan does not provide life insurance benefits to individuals who retired after December 31, 1993. As a result of the changes in the plan for other postretirement benefits, the Company anticipates a reduction in its expenses of approximately $2,400 in 2008.

The following table summarizes the components of the net periodic benefit cost (gain) for postretirement benefits other than pension for the three and six months ended June 30, 2008 and 2007.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Components of net periodic cost (gain):				
Service cost	$ 1	$ 13	$ 2	$ 25
Interest cost	35	359	73	717
Amortization of prior service cost	(488)	(1,164)	(1,015)	(2,326)
Recognized net actuarial gain	(102)	(328)	(212)	(656)
Net periodic benefit gain	$ (554)	$ (1,120)	$ (1,152)	$ (2,240)

Consistent with disclosure in Notes to Consolidated Financial Statements Note 9 Pension Plans and Other Postretirement Benefits of the Company s Annual Report on Form 10-K for the year ended December 31, 2007, the Company expects to contribute approximately $700 to the defined benefit postretirement benefit plans other than pensions in 2008, of which $238 was contributed during the six months ended June 30, 2008.

The Pension Protection Act of 2006

In the third quarter of 2006, the federal government enacted the Pension Protection Act of 2006 (the Act) which changes the manner in which pension funding is determined. The new rules are effective for funding beginning in 2008. Management does not expect the Act to have a material impact on the Company s funding activity.

The Company s funding policy for the defined benefit pension plan is to contribute amounts which are actuarially determined to provide the plan with sufficient assets to meet future benefit payments consistent with the funding requirements of federal laws and regulations. There was no minimum funding requirement for the defined benefit pension plan as of June 30, 2008. The Company s obligations have not changed as a result of these developments.

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Note 7 - Reinsurance

The Company recognizes the cost of reinsurance premiums over the contract periods for such premiums in proportion to the insurance protection provided. Amounts recoverable from reinsurers for unpaid claims and claim settlement expenses, including estimated amounts for unsettled claims, claims incurred but not reported and policy benefits, are estimated in a manner consistent with the insurance liability associated with the policy. The effects of reinsurance on premiums written and contract deposits; premiums and contract charges earned; and benefits, claims and settlement expenses were as follows:

Three months ended June 30, 2008	Gross Amount	Ceded	Assumed	Net
Premiums written and contract deposits	$ 251,655	$ 7,641	$ 988	$ 245,002
Premiums and contract charges earned	170,952	8,172	923	163,703
Benefits, claims and settlement expenses	126,320	4,565	355	122,110
Three months ended June 30, 2007				
Premiums written and contract deposits	$ 258,810	$ 9,408	$ 1,397	$ 250,799
Premiums and contract charges earned	171,866	9,833	1,481	163,514
Benefits, claims and settlement expenses	99,243	648	1,379	99,974
Six months ended June 30, 2008				
Premiums written and contract deposits	$ 483,938	$ 15,518	$ 1,169	$ 469,589
Premiums and contract charges earned	341,793	16,790	1,249	326,252
Benefits, claims and settlement expenses	235,485	7,147	686	229,024
Six months ended June 30, 2007				
Premiums written and contract deposits	$ 497,614	$ 19,023	$ 2,486	$ 481,077
Premiums and contract charges earned	341,831	20,047	2,883	324,667
Benefits, claims and settlement expenses	202,458	4,862	755	198,351

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Note 8 - Segment Information

The Company conducts and manages its business through four segments. The three operating segments, representing the major lines of insurance business, are: property and casualty insurance, principally personal lines automobile and homeowners products; annuity products, principally individual, tax-qualified fixed and variable deposits; and life insurance. The Company does not allocate the impact of corporate level transactions to the insurance segments, consistent with the basis for management s evaluation of the results of those segments, but classifies those items in the fourth segment, corporate and other. In addition to ongoing transactions such as debt service, realized investment gains and losses and certain public company expenses, within the past five years such items have included debt retirement costs/gains and restructuring charges. Summarized financial information for these segments is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Insurance premiums and contract charges earned				
Property and casualty	$ 134,472	$ 133,574	$ 267,459	$ 265,771
Annuity	4,828	5,492	9,603	10,883
Life	24,403	24,448	49,190	48,013
Total	$ 163,703	$ 163,514	$ 326,252	$ 324,667
Net investment income				
Property and casualty	$ 9,104	$ 9,256	$ 18,284	$ 18,456
Annuity	34,058	32,039	67,113	63,540
Life	14,907	14,150	29,534	28,064
Corporate and other	13	253	36	768
Intersegment eliminations	(270)	(276)	(542)	(552)
Total	$ 57,812	$ 55,422	$ 114,425	$ 110,276
Net income (loss)				
Property and casualty	$ 1,851	$ 17,926	$ 14,886	$ 34,751
Annuity	5,208	5,070	8,146	8,464
Life	5,116	3,674	7,751	7,233
Corporate and other	(7,633)	(3,504)	(11,985)	(4,014)
Total	$ 4,542	$ 23,166	$ 18,798	$ 46,434
Amortization of intangible assets, pretax (included in segment net income)				
Value of acquired insurance in force				
Annuity	$ 1,246	$ 886	$ 2,164	$ 2,085
Life	327	339	654	678
Total	$ 1,573	$ 1,225	$ 2,818	$ 2,763

	June 30, 2008	December 31, 2007
Assets		
Property and casualty	$ 862,081	$ 908,209
Annuity	3,930,058	4,086,619
Life	1,188,810	1,199,147
Corporate and other	100,512	102,250
Intersegment eliminations	(28,452)	(36,912)

Total	$ 6,053,009	$ 6,259,313

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in millions, except per share data)

Forward-looking Information

Statements made in the following discussion that state the Company s or management s intentions, hopes, beliefs, expectations or predictions of future events or the Company s future financial performance are forward-looking statements and involve known and unknown risks, uncertainties and other factors. Horace Mann is not under any obligation to (and expressly disclaims any such obligation to) update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. It is important to note that the Company s actual results could differ materially from those projected in forward-looking statements due to, among other risks and uncertainties inherent in the Company s business, the following important factors:

Changes in the composition of the Company s assets and liabilities which may result from occurrences such as acquisitions, divestitures, impairment in asset values or changes in estimates of insurance reserves.

Fluctuations in the fair value of securities in the Company s investment portfolio and the related after-tax effect on the Company s shareholders equity and total capital through either realized or unrealized investment losses. In addition, the impact of fluctuations in the financial markets on the Company s defined benefit pension plan assets and the related after-tax effect on the Company s operating expenses, shareholders equity and total capital.

The impact of fluctuations in the financial markets on the Company s variable annuity fee revenues, valuations of deferred policy acquisition costs and value of acquired insurance in force, and the level of guaranteed minimum death benefit reserves.

The impact of fluctuations in the capital markets on the Company s ability to refinance outstanding indebtedness or repurchase shares of the Company s common stock.

Defaults on interest or dividend payments in the Company s investment portfolio due to credit issues and the resulting impact on investment income.

Prevailing interest rate levels, including the impact of interest rates on (1) unrealized gains and losses in the Company s investment portfolio and the related after-tax effect on the Company s shareholders equity and total capital, (2) the book yield of the Company s investment portfolio, (3) the Company s ability to maintain appropriate interest rate spreads over the fixed rates guaranteed in the Company s life and annuity products and (4) valuations of deferred policy acquisition costs and value of acquired insurance in force.

The cyclicality of the insurance industry and the related effects of changes in price competition and industry-wide underwriting results.

The frequency and severity of catastrophes such as hurricanes, earthquakes, storms and wildfires and the ability of the Company to provide accurate estimates of ultimate catastrophe costs in its consolidated financial statements in light of such factors as: the proximity of the catastrophe occurrence date to the date of the consolidated financial statements; potential inflation of property repair costs in the affected area; the occurrence of multiple catastrophes in a geographic area over a relatively short period of time; the outcome of litigation which may be filed against the Company by policyholders, state attorneys general and other parties relative to loss coverage disputes and loss settlement payments; and the ability of state insurance facilities to assess participating insurers when financial deficits occur.

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The Company s risk exposure to catastrophe-prone areas. Based on full year 2007 property and casualty direct earned premiums, the Company s ten largest states represented 57% of the segment total. Included in this top ten group are certain states which are considered more prone to catastrophe occurrences: Florida, California, North Carolina, Texas, Louisiana, South Carolina and Georgia.

The potential near-term, adverse impact of underwriting actions to mitigate the Company s risk exposure to catastrophe-prone areas on premium, policy and earnings growth.

The ability of the Company to maintain a favorable catastrophe reinsurance program considering both availability and cost; and the collectibility of reinsurance receivables.

Adverse development of property and casualty loss and loss adjustment expense reserve experience and its impact on estimated claims and claim settlement expenses for losses occurring in prior years.

Adverse changes in business persistency, policyholder mortality and morbidity rates, interest spreads and market appreciation and the resulting impact on both estimated reserves and the valuations of deferred policy acquisition costs and value of acquired insurance in force.

Changes in insurance regulations, including (1) those affecting the ability of the Company s insurance subsidiaries to distribute cash to the holding company and (2) those impacting the Company s ability to profitably write property and casualty insurance policies in one or more states.

Changes in federal income tax laws and changes resulting from federal tax audits affecting corporate tax rates or taxable income.

Changes in federal and state laws and regulations, which affect the relative tax and other advantages of the Company s life and annuity products to customers, including, but not limited to, changes in IRS regulations governing Section 403(b) plans.

The resolution of legal proceedings and related matters including the potential adverse impact on the Company s reputation and charges against the Company s earnings resulting from legal defense costs, a settlement agreement and/or an adverse finding or findings against the Company from the proceedings.

The Company s ability to maintain favorable claims-paying ability, financial strength and debt ratings.

The Company s ability to profitably expand its property and casualty business in highly competitive environments.

The competitive impact of the new Section 403(b) tax-qualified annuity regulations, including (1) their potential to lead plan sponsors to restrict the number of providers and (2) the possible entry into the 403(b) market of larger competitors experienced in 401(k) plans.

The Company s ability to develop and expand its agency operations, including its agent force and their licensed producers and support staff, as well as the Company s ability to maintain and secure sponsorships by local, state and national education associations.

The Company s dated and complex information systems, which are difficult to upgrade and more prone to error than advanced technology systems.

Disruptions of the general business climate, investments, capital markets and consumer attitudes caused by pandemics or geopolitical acts such as terrorism, war or other similar events.

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Executive Summary

Horace Mann Educators Corporation (HMEC ; and together with its subsidiaries, the Company or Horace Mann) is an insurance holding company. Through its subsidiaries, HMEC markets and underwrites personal lines of property and casualty insurance, retirement annuities and life insurance in the U.S. The Company markets its products primarily to K-12 educators and other employees of public schools and their families.

For the three months ended June 30, 2008, the Company s net income of $4.5 million decreased $18.6 million compared to the prior year, including an $11.3 million increase in after-tax catastrophe costs and a $4.5 million increase in after-tax net realized investment losses on securities. Consistent with industry experience, the current quarter reflected a significant level of weather-related catastrophe losses along with the continued impact of a challenging financial market environment and the adverse effect of a slowing economy on both home and automobile sales. Second quarter 2008 property and casualty segment net income was $16.0 million less than the prior year, reflecting a higher level of catastrophe and non-catastrophe weather-related losses. Net income for the annuity segment was equal to the second quarter of 2007, as current period improvements in the interest margin were offset by the adverse impact of the financial markets on both the valuation of deferred policy acquisition costs and the level of contract charges earned. Life segment net income for the quarter increased $1.6 million, reflecting growth in investment income and lower mortality costs.

For the six months ended June 30, 2008, the Company s net income of $18.8 million decreased $27.6 million compared to the prior year, including an $8.4 million reduction in after-tax realized investment gains and losses. Catastrophe costs increased $13.2 million after tax and non-catastrophe weather-related losses also increased compared to the prior year. In addition, results in the current six months were negatively impacted by a reduced level of favorable prior years property and casualty reserve development. Including all factors, the property and casualty combined ratio was 100.2% for the first six months of 2008 compared to 89.3% for the same period in 2007. Annuity segment net income decreased $0.4 million, or 5%, compared to the first six months of 2007, as current period improvements in the interest margin were more than offset by the adverse impact of the financial market on the valuation of deferred policy acquisition costs and the level of contract charges earned. Life segment net income increased $0.6 million, or 8%, compared to a year earlier, reflecting growth in investment income partially offset by higher mortality costs.

Premiums written and contract deposits declined 2%, compared to both the three and six months ended June 30, 2007, largely due to expected decreases in single premium annuity deposit receipts in 2008. For the six months ended June 30, 2008, reduced costs associated with the Company s property and casualty catastrophe reinsurance program represented a $3.5 million increase in premiums written compared to 2007. New automobile sales units in the current period were 8% less than the first six months of 2007, with second quarter sales improving sequentially compared to first quarter 2008. The year-to-date sales decrease was somewhat offset by favorable policy retention, resulting in voluntary automobile policies in force declining only 1,000 compared to June 30, 2007. However, automobile policies of educators increased 3% compared to a year earlier. Annuity contract deposits for both the three and six months ended June 30, 2008 decreased 9%, compared to a year earlier, and life segment insurance premiums and contract deposits were comparable to the prior year.

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Critical Accounting Policies

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires the Company s management to make estimates and assumptions based on information available at the time the consolidated financial statements are prepared. These estimates and assumptions affect the reported amounts of the Company s consolidated assets, liabilities, shareholders equity and net income. Certain accounting estimates are particularly sensitive because of their significance to the Company s consolidated financial statements and because of the possibility that subsequent events and available information may differ markedly from management s judgements at the time the consolidated financial statements were prepared. Management has discussed with the Audit Committee the quality, not just the acceptability, of the Company s accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the Company s accounting policies and their application, and the clarity and completeness of the Company s consolidated financial statements, which include related disclosures. For the Company, the areas most subject to significant management judgements include: liabilities for property and casualty claims and claim settlement expenses, liabilities for future policy benefits, deferred policy acquisition costs, value of acquired insurance in force for annuity and interest-sensitive life products, valuation of investments and valuation of assets and liabilities related to the defined benefit pension plan.

Liabilities for Property and Casualty Claims and Claim Settlement Expenses

Underwriting results of the property and casualty segment are significantly influenced by estimates of the Company s ultimate liability for insured events. There is a high degree of uncertainty inherent in the estimates of ultimate losses underlying the liability for unpaid claims and claim settlement expenses. This inherent uncertainty is particularly significant for liability-related exposures due to the extended period, often many years, that transpires between a loss event, receipt of related claims data from policyholders and ultimate settlement of the claim. Reserves for property and casualty claims include provisions for payments to be made on reported claims (case reserves), claims incurred but not yet reported (IBNR) and associated settlement expenses (together, loss reserves). The process by which these reserves are established requires reliance upon estimates based on known facts and on interpretations of circumstances, including the Company s experience with similar cases and historical trends involving claim payments and related patterns, pending levels of unpaid claims and product mix, as well as other factors including court decisions, economic conditions and public attitudes.

Reserves are reestimated quarterly. Changes to reserves are recorded in the period in which development factor changes result in reserve reestimates. Detailed discussion of the process utilized to estimate loss reserves, risk factors considered and the impact of adjustments recorded during recent years is included in Notes to Consolidated Financial Statements Note 3 Property and Casualty Unpaid Claims and Claim Expenses of the Company s Annual Report on Form 10-K for the year ended December 31, 2007. Due to the nature of the Company s personal lines business, the Company has no exposure to claims for toxic waste cleanup, other environmental remediation or asbestos-related illnesses other than claims under homeowners insurance policies for environmentally related items such as mold.

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Based on the Company s products and coverages, historical experience, and modeling of various actuarial methodologies used to develop reserve estimates, the Company estimates that the potential variability of the property and casualty loss reserves within a reasonable probability of other possible outcomes may be approximately plus or minus 6%, which equates to plus or minus approximately $12 million of net income based on reserves as of June 30, 2008. Although this evaluation reflects the most likely outcomes, it is possible the final outcome may fall below or above these estimates.

There are a number of assumptions involved in the determination of the Company s property and casualty loss reserves. Among the key factors affecting recorded loss reserves for both long-tail and short-tail related coverages, claim severity and claim frequency are of particular significance. Management estimates that a 2% change in claim severity or claim frequency for the most recent 36-month period is a reasonably likely scenario based on recent experience and would result in a change in the estimated loss reserves of between $6.0 million and $10.0 million for long-tail liability related exposures (automobile liability coverages) and between $3.0 million and $4.0 million for short-tail liability related exposures (homeowners and automobile physical damage coverages). Actual results may change, depending on the magnitude and direction of the deviation.

The Company s loss and loss adjustment expense actuarial analysis is discussed with management. As part of this discussion, the indicated point estimate of the IBNR loss reserve by line of business (coverage) is reviewed. The Company actuaries also discuss any indicated changes to the underlying assumptions used to calculate the indicated point estimate. Review of the variance between the indicated reserves from these changes in assumptions and the previously carried reserves takes place. After discussion of these analyses and all relevant risk factors, management determines whether the reserve balances require adjustment. The Company s best estimate of loss reserves may change depending on a revision in the underlying assumptions.

The Company s liabilities for property and casualty unpaid claims and claim settlement expenses were as follows:

	June 30, 2008			December 31, 2007		
	Case Reserves	IBNR Reserves	Total (1)	Case Reserves	IBNR Reserves	Total (1)
Automobile liability	$ 78.1	$ 134.1	$ 212.2	$ 77.3	$ 135.4	$ 212.7
Automobile other	4.4	1.3	5.7	6.7	0.8	7.5
Homeowners	20.0	42.2	62.2	14.0	36.2	50.2
All other	3.9	28.7	32.6	3.5	32.3	35.8
Total	$ 106.4	$ 206.3	$ 312.7	$ 101.5	$ 204.7	$ 306.2

(1) These amounts are gross, before reduction for ceded reinsurance reserves.

The facts and circumstances leading to the Company s reestimate of reserves relate to revisions of the development factors used to predict how losses are likely to develop from the end of a reporting period until all claims have been paid. Reestimates occur because actual loss amounts are different than those predicted by the estimated development factors used in prior reserve estimates. At June 30, 2008, the impact of a reserve reestimation resulting in a 1% increase in net reserves would be a decrease of approximately $2 million in net income. A reserve reestimation resulting in a 1% decrease in net reserves would increase net income by approximately $2 million.

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Favorable reserve reestimates increased net income for the six months ended June 30, 2008 by approximately $3.3 million, primarily the result of favorable trends in voluntary automobile loss and loss adjustment expense emergence for accident years 2005 and prior. The lower than expected claims and expense emergence and resultant lower expected loss ratios caused the Company to lower its reserve estimate.

Information regarding the Company s property and casualty claims and claims settlement expense reserve development table as of December 31, 2007 is located in Business Property and Casualty Segment Property and Casualty Reserves of the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

Liabilities for Future Policy Benefits

Liabilities for future benefits on life and annuity policies are established in amounts adequate to meet the estimated future obligations on policies in force. Liabilities for future policy benefits on certain life insurance policies are computed using the net level premium method and are based on assumptions as to future investment yield, mortality and withdrawals. Mortality and withdrawal assumptions for all policies have been based on actuarial tables which are consistent with the Company s own experience. In the event actual experience is worse than the assumptions, additional reserves may be required. This would result in a charge to income for the period in which the increase in reserves occurred. Liabilities for future benefits on annuity contracts and certain long-duration life insurance contracts are carried at accumulated policyholder values without reduction for potential surrender or withdrawal charges.

Deferred Policy Acquisition Costs and Value of Acquired Insurance in Force for Annuity and Interest-sensitive Life Products

Policy acquisition costs, consisting of commissions, policy issuance and other costs, which vary with and are primarily related to the production of business, are capitalized and amortized on a basis consistent with the type of insurance coverage. For all investment (annuity) contracts, acquisition costs, and also the value of annuity business acquired in the 1989 acquisition of the Company (Annuity VIF), are amortized over 20 years in proportion to estimated gross profits. Capitalized acquisition costs for interest-sensitive life contracts are also amortized over 20 years in proportion to estimated gross profits.

The most significant assumptions that are involved in the estimation of annuity gross profits include interest rate spreads, future financial market performance, business surrender/lapse rates, expenses and the impact of realized investment gains and losses. For the variable deposit portion of the annuity segment, the Company amortizes policy acquisition costs and the Annuity VIF utilizing a future financial market performance assumption of a 10% reversion to the mean approach with a 200 basis point corridor around the mean. At June 30, 2008, the ratio of capitalized annuity policy acquisition costs and the Annuity VIF asset to the total annuity accumulated cash value was approximately 4%.

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In the event actual experience differs significantly from assumptions or assumptions are significantly revised, the Company may be required to record a material charge or credit to amortization expense for the period in which the adjustment is made. As noted above, there are key assumptions involved in the valuation of capitalized policy acquisition costs and the Annuity VIF. In terms of the sensitivity of this amortization to two of the more significant assumptions, assuming all other assumptions are met, (1) a 10 basis point deviation in the annual targeted interest rate spread assumption would currently impact amortization between $0.2 million and $0.3 million and (2) a 1% deviation from the targeted financial market performance for the underlying mutual funds of the Company s variable annuities would currently impact amortization between $0.15 million and $0.25 million. These results may change depending on the magnitude and direction of the deviations but represent a range of reasonably likely experience for the noted assumptions. Detailed discussion of the impact of adjustments to the amortization of capitalized acquisition costs and Annuity VIF is included in Results of Operations Amortization of Policy Acquisition Expenses and Intangible Assets .

Valuation of Investments

Market valuations for the fixed maturity and equity securities portfolio are based on observable market quotations as well as prices provided by the Company s custodian bank and its investment managers. Both the custodian bank and the investment managers use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider s expertise. Broker-dealers are also used to price certain types of securities. The broker-dealers valuation methodology is sometimes matrix-based, using indicative evaluation measures and adjustments for specific security characteristics and market sentiment. The Company analyzes market valuations received to verify reasonableness and to understand the key assumptions used and their sources. The Company s fixed maturity securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services. Approximately 90% of the portfolio was priced through pricing services or index priced as of June 30, 2008. The remainder of the portfolio was priced by broker-dealers.

The Company s methodology of assessing other-than-temporary impairments is based on security-specific facts and circumstances as of the date of the reporting period. Based on these facts, if management believes it is probable that amounts due will not be collected according to the contractual terms of a debt security, or if the Company does not have the ability and intent to hold a debt or equity security with an unrealized loss until it matures or recovers in value, an other-than-temporary impairment is considered to have occurred. As a general rule, if the fair value of a debt or equity security has fallen below 80% of book value for more than six months, this security will be reviewed for an other-than-temporary impairment. Additionally, if events become known that call into question whether the security issuer has the ability to honor its contractual commitments, whether or not such security has been trading above an 80% fair value to book value relationship, such security holding will be evaluated to determine whether or not such security has suffered an other-than-temporary decline in value.

The Company reviews the fair value of all investments in its portfolio on a monthly basis to assess whether an other-than-temporary decline in value has occurred. These reviews, in conjunction with the Company s investment managers monthly credit reports and relevant factors such as (1) the financial condition and near-term prospects of the issuer, (2) the length of time and extent to which the fair value has been less than amortized cost for fixed maturity securities or cost for equity securities, (3) the Company s ability and intent to retain the

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investment long enough to allow for the anticipated recovery in fair value or until it matures, (4) the stock price trend of the issuer, (5) the market leadership position of the issuer, (6) the debt ratings of the issuer and (7) the cash flows of the issuer, are all considered in the impairment assessment. A write-down of an investment is recorded when a decline in the fair value of that investment is deemed to be other-than-temporary, with a realized investment loss charged to income for the period.

The Company s intent and ability to hold securities considers broad portfolio management objectives such as asset/liability duration management, issuer and industry segment exposures, interest rate views and the overall total return focus. In following these portfolio management objectives, changes in facts and circumstances that were present in past reporting periods may trigger a decision to sell securities that were held in prior reporting periods. Decisions to sell are based on current conditions or the Company s need to shift the portfolio to maintain its portfolio management objectives, including liquidity needs or duration targets on asset/liability managed portfolios. The Company attempts to anticipate these types of changes and if a sale decision has been made on an impaired security and that security is not expected to recover prior to the expected time of sale, the security will be deemed other-than-temporarily impaired in the period that the sale decision was made and an other-than-temporary impairment loss will be recognized.

A decline in fair value below amortized cost is not assumed to be other-than-temporary for fixed maturity investments with unrealized losses due to changes in interest rates, spread widening or market illiquidity where there exists a reasonable expectation that fair value will recover in a reasonable timeframe versus historical cost and the Company has the intent and ability to hold the investment until maturity or a market recovery is realized. An other-than-temporary impairment loss will be recognized based upon all relevant facts and circumstances for each investment, as appropriate.

Valuation of Assets and Liabilities Related to the Defined Benefit Pension Plan

Effective April 1, 2002, participants stopped accruing benefits under the defined benefit pension plan but continue to retain the benefits they had accrued to that date.

The Company s cost estimates for its defined benefit pension plan are determined annually based on assumptions which include the discount rate, expected return on plan assets, anticipated retirement rate and estimated lump sum distributions. A discount rate of 6.05% was used by the Company for estimating accumulated benefits under the plan at December 31, 2007, which was based on the average yield for long-term, high grade securities having maturities generally consistent with the defined benefit pension payout period. To set its discount rate, the Company looks to leading indicators, including the Citigroup Pension Discount Curve. The expected annual return on plan assets assumed by the Company at December 31, 2007 was 7.5%. The assumption for the long-term rate of return on plan assets was determined by considering actual investment experience during the lifetime of the plan, balanced with reasonable expectations of future growth considering the various classes of assets and percentage allocation for each asset class. Management believes that it has adopted reasonable assumptions for investment returns, discount rates and other key factors used in the estimation of pension costs and asset values.

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To the extent that actual experience differs from the Company s assumptions, subsequent adjustments may be required, with the effects of those adjustments charged or credited to income and/or shareholders equity for the period in which the adjustments are made. Generally, a change of 50 basis points in the discount rate would inversely impact pension expense and accumulated other comprehensive income (AOCI) by approximately $0.1 million and $1.5 million, respectively. In addition, for every $1 million increase (decrease) in the value of pension plan assets, there is a comparable increase (decrease) in AOCI.

Results of Operations

Insurance Premiums and Contract Charges

Insurance Premiums Written and Contract Deposits

(Includes annuity and life contract deposits)

	Six Months Ended June 30,		Change From Prior Year	
	2008	2007	Percent	Amount
Property & casualty				
Automobile and property (voluntary)	$ 264.3	$ 259.4	1.9%	$ 4.9
Involuntary and other property & casualty	1.0	1.7	-41.2%	(0.7)
Total property & casualty	265.3	261.1	1.6%	4.2
Annuity deposits	154.7	170.5	-9.3%	(15.8)
Life	49.6	49.5	0.2%	0.1
Total	$ 469.6	$ 481.1	-2.4%	$ (11.5)

Insurance Premiums and Contract Charges Earned

(Excludes annuity and life contract deposits)

	Six Months Ended June 30,		Change From Prior Year	
	2008	2007	Percent	Amount
Property & casualty				
Automobile and property (voluntary)	$ 267.4	$ 260.7	2.6%	$ 6.7
Involuntary and other property & casualty	0.1	5.1	-98.0%	(5.0)
Total property & casualty	267.5	265.8	0.6%	1.7
Annuity	9.6	10.9	-11.9%	(1.3)
Life	49.2	48.0	2.5%	1.2
Total	$ 326.3	$ 324.7	0.5%	$ 1.6

For the three and six months ended June 30, 2008, the Company s premiums written and contract deposits decreased 2.3% and 2.4%, respectively, compared to the prior year, largely due to decreases in single premium annuity deposit receipts in 2008. The reduced costs associated with the Company s property and casualty catastrophe reinsurance program, as described below, represented a $3.5 million increase to premiums for the six months ended June 30, 2008. Voluntary property and casualty business represents policies sold through the Company s marketing organization and issued under the Company s underwriting guidelines. Involuntary property and casualty business consists of allocations of business from state mandatory insurance facilities and assigned risk business.

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The Company s exclusive agent force totaled 721 at June 30, 2008, reflecting a decrease of 12.2% compared to 821 agents at June 30, 2007 and a decrease of 8.7% compared to 790 at December 31, 2007. Of the current period-end total, 172 agents were in their first 24 months with the Company, down 29.5% compared to June 30, 2007. The number of experienced agents in the agent force, 549, decreased 4.9% compared to a year earlier. In addition to agents, the Company s total points of distribution include licensed producers who work with the agents. At June 30, 2008, there were 322 licensed producers, compared to 187 at June 30, 2007. Including these licensed producers, the Company s total points of distribution increased to 1,043 at June 30, 2008, a growth of 3.5% compared to 12 months earlier. At the time of this Quarterly Report on Form 10-Q, management anticipates that over the next several quarters the agent count will continue to decline modestly during the Company s transition to its new Agency Business Model, with an increase in total points of distribution resulting from the growing number of licensed producers supporting agents who adopt the new model.

In October 2006, the Company began the transition from a single-person agent operation to its new Agency Business Model, with agents in outside offices with support personnel and licensed producers, designed to remove capacity constraints and increase productivity. The first Agency Business School session was conducted in October 2006, beginning the formal roll-out of this model. From October 2006 through June 30, 2008, 219 of the agents at June 30, 2008 and all field sales management completed this training. See additional description in Business Corporate Strategy and Marketing Exclusive Agency Force of the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

For the first six months of 2008, new automobile sales units were 8.1% less than for the same period a year earlier. New homeowners sales units decreased 9.7% compared to the first six months of 2007. For the Company, as well as other personal lines property and casualty companies, new business levels have been impacted by the economy and the decreases in automobile and home sales. Annuity new business declined 14.1% compared to the first six months of 2007, primarily due to an expected decline in single premium and rollover deposits, particularly from the independent agent distribution channel, somewhat mitigated by new business growth in the Company s core scheduled deposit business from the Company s exclusive agents. Life new business decreased 18.4% compared to the prior year, primarily reflecting reduced sales of partner company products. For the first six months of 2008, total new business sales decreased 13.3% compared to a year earlier. In total, exclusive agent sales for the first six months of 2008 decreased 8.1% compared to prior year, reflecting the lower number of agents in the current period. Average overall productivity per agent increased slightly compared to the first six months of 2007. Average agent productivity is measured as new sales premiums from the exclusive agent force per the average number of exclusive agents for the period.

Total voluntary automobile and homeowners premium written increased 1.9%, or $4.9 million, in the first six months of 2008, including the $3.5 million reduction in the cost of catastrophe reinsurance in the current year which reflected the elimination of the catastrophe aggregate reinsurance coverage as well as favorable pricing on the remaining coverages for the current year. The automobile average written premium per policy was comparable to a year earlier while the homeowners average premium increased in the current period compared to prior year, with the change in average premium for both lines adversely impacted by the improved quality of the books of business. At June 30, 2008, there were 535,000 voluntary automobile and 264,000 homeowners policies in force, for a total of 799,000 policies, compared to a total of 801,000 policies at both December 31, 2007 and June 30, 2007.

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Based on policies in force, the voluntary automobile 6-month retention rate for new and renewal policies was 91.3% at June 30, 2008 compared to 91.0% at June 30, 2007. The property 12-month new and renewal policy retention rate was 88.8% at June 30, 2008 compared to 87.8% a year earlier. For the first six months of 2008, approved rate increases for the Company s automobile and homeowners business were minimal, similar to rate actions in 2007.

Voluntary automobile premium written increased 0.3% ($0.6 million) compared to the first six months of 2007. In the first six months of 2008, automobile policies in force and average written premium per policy were comparable to the same period in 2007. Average earned premium per policy decreased 1% compared to a year ago. Automobile policies in force at June 30, 2008 were equal to December 31, 2007 and decreased by 1,000 compared to June 30, 2007. Educator policies increased throughout the period.

Voluntary homeowners premium written increased 5.5% ($4.3 million) compared to the first half of 2007 including the lower amount of catastrophe reinsurance premiums described above. Homeowners average written premium per policy increased 3% compared to a year earlier, while average earned premium per policy increased 6%. Homeowners policies in force at June 30, 2008 decreased 2,000 compared to December 31, 2007 and 1,000 compared to a year earlier, as growth in the number of educator policies was offset by expected reductions, primarily in non-educator policies, due to the Company s pricing and underwriting actions, including actions in catastrophe-prone coastal areas. The Company continues to evaluate and implement actions to further mitigate its risk exposure in hurricane-prone areas. Such actions could include, but are not limited to, non-renewal of homeowners policies, restricted agent geographic placement, limitations on agent new business sales, further tightening of underwriting standards and increased utilization of third-party vendor marketing alliances.

The primary component of involuntary and other property and casualty earned premiums, which represented less than 2% of total property and casualty premiums for full year 2007, has been educator excess professional liability insurance purchased by the National Education Association (NEA) for all of its members. The NEA s five-year contract to purchase this insurance from the Company expired on August 31, 2007 and represented approximately $8.6 million of premiums written in 2006, with 1/12, or approximately $0.7 million, of that premium earned each month during the September 2006 through August 2007 coverage period. The Company s underwriting results from educator excess professional liability insurance have generally represented amounts which were not a material portion of net income for the Company or for the property and casualty segment. The other significant component of involuntary and other property and casualty premiums is automobile business assumed from state mandatory insurance facilities and this component decreased approximately $1 million compared to the first six months of 2007.

Annuity deposits received decreased 9.3% for the six months ended June 30, 2008 compared to the same period in 2007. In the first six months of 2008, scheduled annuity deposits decreased 1.0% compared to the prior year while single premium and rollover deposits decreased 24.0%, impacted by the industry-wide effect on 403(b) transfers of the transition to the new Internal Revenue Service (IRS) Section 403(b) regulations and also the current year level of new single premium deposits from the independent agent distribution channel. In the first six months of 2008, new deposits to variable accounts decreased 6.0%, or $4.5 million, and new deposits to fixed accounts decreased 11.9%, or $11.3 million, compared

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to the prior year. In addition to external contractholder deposits, annuity new deposits include contributions and transfers for the 401(k) group annuity contract by the Company s employees.

The Company utilizes a nationwide network of independent agents who comprise a supplemental distribution channel for the Company s 403(b) tax-qualified annuity products. The independent agent distribution channel included 954 authorized agents at June 30, 2008. During the first six months of 2008, this channel generated $10.8 million in annualized new annuity sales for the Company compared to $19.3 million for the first six months of 2007, with the decline primarily in single and rollover deposit business. The decrease in 2008 was anticipated as management continued to focus this channel on 403(b) and other tax-qualified business.

Total annuity accumulated cash value of $3.6 billion at June 30, 2008 decreased 3.3% compared to a year earlier, reflecting the increase from new deposits received and favorable retention more than offset by unfavorable financial market performance over the 12 months. At June 30, 2008, the number of annuity contracts outstanding of 168,000 increased 0.6%, or 1,000 contracts, compared to December 31, 2007 and increased 1.8%, or 3,000 contracts, compared to June 30, 2007.

Variable annuity accumulated balances were 13.7% lower at June 30, 2008 than at June 30, 2007, primarily reflecting financial market performance, and annuity segment contract charges earned decreased 11.9%, or $1.3 million, compared to the first six months of 2007.

Life segment premiums and contract deposits increased 0.2%, or $0.1 million, compared to the first six months of 2007. The ordinary life insurance in force lapse ratio was 5.6% for the 12 months ended June 30, 2008 compared to 5.9% for the 12 months ended June 30, 2007.

Net Investment Income

For the three months ended June 30, 2008, pretax investment income of $57.8 million increased 4.3%, or $2.4 million, (4.5%, or $1.7 million, after tax) compared to the same period in 2007. Pretax investment income of $114.4 million for the six months ended June 30, 2008 increased 3.7%, or $4.1 million, (3.9%, or $2.9 million, after tax) compared to prior year. The increase reflected growth in the size of the investment portfolio and a modest increase in the portfolio yield. Average invested assets (excluding securities lending collateral) increased 3.0% over the prior 12 months. The average pretax yield on the investment portfolio was 5.52% (3.75% after tax) for the first six months of 2008, compared to a pretax yield of 5.48% (3.72% after tax) a year earlier.

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Net Realized Investment Gains and Losses

For the three months ended June 30, 2008 and 2007, net realized investment losses (pretax) were $8.1 million and $0.9 million, respectively. Net realized investment losses (pretax) were $10.5 million for the first six months of 2008 compared to net realized investment gains of $2.6 million in the prior year. The net gains and losses in both periods were realized from ongoing investment portfolio management activity and recording of impairment charges. In addition, the first six months of 2008 and 2007 included $1.1 million and $0.2 million, respectively, of litigation proceeds on previously impaired WorldCom, Inc. debt securities.

In the first half of 2008, the Company recorded a total of $13.9 million of impairment write-downs $11.2 million in the second quarter and $2.7 million in the first quarter. In the first six months of 2007, the Company recorded $2.3 million of impairment write-downs, all in the second quarter, from the home builder sector, and these securities were subsequently sold in July 2007. The second quarter 2008 write-downs were primarily related to 2 collateralized debt obligation securities and 5 equity securities, including 4 financial industry preferred stock issues. As of June 30, 2008, all of the securities for which write-downs were recorded in the period were performing, and are continuing to perform as of the time of this Quarterly Report on Form 10-Q, consistent with contractual obligations. And, in all but one case, the Company s credit analysis and/or analysis of the underlying collateral cash flows indicated only a very remote likelihood of default even under severe stress testing. Management s decision to impair these issues was, instead, based on their conclusion that recovery in fair value, given current and expected market conditions, was not likely to occur within a reasonable period of time. The first quarter 2008 write-downs were primarily related to certain below investment grade securities, with $2.3 million of the write-downs attributable to 6 securities of telecommunications and telecommunications-related media issuers, which at March 31, 2008 the Company no longer intended to hold until the value fully recovers. In addition, net realized losses in the first half of 2008 included $4.2 million of realized impairment losses primarily on financial institution and below investment grade securities that were disposed of during the period. Net realized investment losses in the first six months of 2008 included gains of (1) $0.2 million from sales of securities for which impairment charges were recorded in the first quarter of 2008 and (2) $0.1 million from sales of securities for which impairment charges were recorded in 2007. Net realized investment gains in the first half of 2007 included $2.9 million from sales of securities for which impairment write-downs were recorded in 2002.

There were securities priced below 80% of book value at June 30, 2008 that were not impaired. The illiquidity in the marketplace, continued concern over economic weakness, continued write-offs related to mortgage and structured securities, distressed sellers in the marketplace and overall spread widening related to demand for increased risk premiums contributed to the decline in security valuations. Management views the decrease in value of all of these securities as temporary, anticipates continued payments under the terms of the securities and has the intent and ability to hold these securities until maturity or a recovery in fair value occurs.

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The table below presents the Company s fixed maturity securities and equity securities portfolios as of June 30, 2008 by major asset class, including the ten largest sectors of the Company s corporate bond holdings (based on fair value) and the sectors of the equity securities holdings. The banking and finance sector and mortgage-backed securities asset class accounted for nearly half of the total pretax net unrealized loss at June 30, 2008. These losses were primarily attributable to the direct and indirect impact of the troubled residential real estate and mortgage markets.

	Number of Issuers	Fair Value	Amortized Cost	Pretax Unrealized Gain(Loss)
Fixed Maturity Securities				
Corporate bonds				
Energy	58	$ 307.0	$ 313.4	$ (6.4)
Banking and Finance	48	294.3	312.3	(18.0)
Utilities	27	180.3	183.9	(3.6)
Telecommunications	21	168.9	172.1	(3.2)
Health Care	32	143.3	149.5	(6.2)
Transportation	14	83.4	85.7	(2.3)
Insurance	21	82.7	87.5	(4.8)
Food and Beverage	14	72.0	72.6	(0.6)
Metal and Mining	11	60.6	64.2	(3.6)
Broadcasting and Media	14	55.2	56.9	(1.7)
All Other Corporates (1)	133	399.5	413.0	(13.5)
Total corporate bonds	393	1,847.2	1,911.1	(63.9)
Mortgage-backed securities				
U.S. government and federally sponsored agencies	419	881.9	886.1	(4.2)
Other	126	280.3	302.5	(22.2)
Municipal bonds	181	506.5	511.6	(5.1)
Government bonds				
U.S.	8	175.0	174.2	0.8
Foreign	4	15.3	14.4	0.9
Collateralized debt obligations (2)	8	14.6	17.2	(2.6)
Asset-backed securities	34	88.0	89.5	(1.5)
Total fixed maturity securities	1,173	$ 3,808.8	$ 3,906.6	$ (97.8)
Equity Securities				
Non-redeemable preferred stocks				
Banking and Finance	27	$ 52.9	$ 58.0	$ (5.1)
Insurance	8	7.5	8.6	(1.1)
Real estate	12	9.2	9.8	(0.6)
U.S. federally sponsored agencies	2	6.9	8.2	(1.3)
Utilities	4	4.7	5.0	(0.3)
Energy	1	0.6	0.6	*
Common stocks				
Cable	3	2.5	2.6	(0.1)
Technology and other	2	0.4	*	0.4
Total equity securities	59	$ 84.7	$ 92.8	$ (8.1)
Total	1,232	$ 3,893.5	$ 3,999.4	$ (105.9)

* Less than $0.1 million.

(1) The All Other Corporates category contains 18 additional industry classifications. Real estate, cable, technology, defense, automobiles, and manufacturing represented $275.3 million of fair value at June 30, 2008, with the remaining 12 classifications each representing less than $30 million.

(2) Based on fair value, 93.6% of the collateralized debt obligation securities were rated investment grade by Standard and Poor s Corporation (S&P) and/or Moody s Investors Service, Inc. (Moody s) at June 30, 2008.

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At June 30, 2008, the Company s diversified fixed maturity securities portfolio consisted of 1,563 investment positions, issued by 1,173 entities, and totaled approximately $3.8 billion in fair value. This portfolio was 94.9% investment grade, based on fair value, with an average quality rating of A+.

At June 30, 2008, the Company had limited exposure to subprime and Alt-A mortgage loans. The Company had three subprime securities with a fair value of $4.8 million at June 30, 2008. The characteristics of the Company s sub-prime securities include the following: low average Fair Isaac Credit Organization (FICO) score (less than 650), high weighted average coupon relative to other mortgage-backed and home equity securities of similar loan age and issue date, high prepayment penalties, and a high percentage of hybrid loans or negative amortizing loans. The Alt-A mortgage loan exposure was comprised of five securities with a total fair value of approximately $7.9 million, of which $5.2 million was vintage year 2004 and prior, with an unrealized loss of approximately $0.6 million at June 30, 2008. The characteristics of the Company s Alt-A mortgage loans include the following: low average FICO score (less than 680), borrowers meet Fannie Mae and Freddie Mac standards for credit scores but might not meet standard guidelines for documentation requirements, property type, and debt ratio or loan-to-value ratio.

At June 30, 2008, the Company had $506.5 million fair value invested in municipal bonds, primarily in the portfolios of the property and casualty insurance subsidiaries, with an unrealized loss of $5.1 million. The overall credit quality of these securities was AA+, with approximately 64% of the value insured at June 30, 2008. This represents approximately 8% of the Company s total investment portfolio that is guaranteed by the mono-line credit insurers. When selecting securities, the Company focuses primarily on the quality of the underlying security and does not place significant reliance on the additional insurance benefit. Excluding the effect of insurance, the credit quality of the underlying municipal bond portfolio was AA at June 30, 2008.

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At June 30, 2008, the fixed maturity securities and equity securities portfolio had $133.4 million pretax of gross unrealized losses related to 1,088 positions. The following table provides information regarding all fixed maturity securities and equity securities that had an unrealized loss at June 30, 2008, including the length of time that the securities have continuously been in an unrealized loss position.

Investment Positions With Unrealized Losses Segmented by

Quality and Period of Continuous Unrealized Loss

As of June 30, 2008

	Number of Positions	Fair Value	Amortized Cost	Pretax Unrealized Loss
Fixed Maturity Securities				
Investment grade				
3 Months or less	262	$ 1,035.6	$ 1,051.3	$ (15.7)
4 through 6 months	153	466.8	484.9	(18.1)
7 through 9 months	50	73.5	79.2	(5.7)
10 through 12 months	31	17.4	19.3	(1.9)
13 through 24 months	108	400.0	449.1	(49.1)
25 through 36 months	61	240.6	256.6	(16.0)
37 through 48 months	28	99.8	103.9	(4.1)
Greater than 48 months	23	97.6	101.0	(3.4)
Total	716	$ 2,431.3	$ 2,545.3	$ (114.0)
Non-investment grade				
3 Months or less	53	$ 26.3	$ 26.9	$ (0.6)
4 through 6 months	32	20.2	21.0	(0.8)
7 through 9 months	41	17.4	18.2	(0.8)
10 through 12 months	17	9.0	9.5	(0.5)
13 through 24 months	78	49.7	55.5	(5.8)
25 through 36 months	29	16.8	18.5	(1.7)
37 through 48 months	15	6.8	7.3	(0.5)
Greater than 48 months	1	0.4	0.4	*
Total	266	$ 146.6	$ 157.3	$ (10.7)
Not rated				
Total fixed maturity securities	982	$ 2,577.9	$ 2,702.6	$ (124.7)
Equity Securities				
Investment grade				
3 Months or less	34	$ 17.3	$ 18.2	$ (0.9)
4 through 6 months	16	13.7	14.5	(0.8)
7 through 9 months	12	3.7	4.1	(0.4)
10 through 12 months	41	31.0	37.0	(6.0)
13 through 24 months	1	4.0	4.5	(0.5)
Greater than 24 months				
Total	104	$ 69.7	$ 78.3	$ (8.6)

Non-investment grade				
Not rated				
3 Months or less	1	*	*	*
4 through 6 months	1	0.2	0.3	(0.1)
Greater than 6 months				
Total	2	$ 0.2	$ 0.3	$ (0.1)
Total equity securities	106	$ 69.9	$ 78.6	$ (8.7)
Total fixed maturity securities and equity securities	1,088	$ 2,647.8	$ 2,781.2	$ (133.4)

* Less than $0.1 million.

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Of the investment positions (fixed maturity securities and equity securities) with unrealized losses, no single issuer had a pretax unrealized loss greater than $2.7 million. Of those securities, 34 were trading below 80% of book value at June 30, 2008 and the table below provides additional information regarding these securities. Structured securities represented 15 of these positions which were priced below 80% due to the illiquidity of the market. The other 19 securities were primarily equities and below investment grade securities.

Investment Positions With Fair Value Below 80% of Amortized Cost

Segmented by Quality and Period of Continuous Valuation Below 80%

As of June 30, 2008

	Number of Positions	Fair Value	Amortized Cost	Pretax Unrealized Loss
Fixed Maturity Securities				
Investment grade				
3 Months or less	13	$ 39.6	$ 51.5	$ (11.9)
4 through 6 months	5	22.1	31.9	(9.8)
7 through 9 months	1	0.8	1.0	(0.2)
Greater than 9 months				
Total	19	$ 62.5	$ 84.4	$ (21.9)
Non-investment grade				
3 months or less	6	$ 7.8	$ 10.0	$ (2.2)
4 through 6 months	1	2.0	3.4	(1.4)
Greater than 6 months				
Total	7	$ 9.8	$ 13.4	$ (3.6)
Not rated				
Total fixed maturity securities	26	$ 72.3	$ 97.8	$ (25.5)
Equity Securities				
Investment grade				
3 Months or less	6	$ 5.8	$ 7.5	$ (1.7)
4 through 6 months	2	4.4	5.7	(1.3)
Greater than 6 months				
Non-investment grade				
Not rated				
Total equity securities	8	$ 10.2	$ 13.2	$ (3.0)
Total fixed maturity securities and equity securities	34	$ 82.5	$ 111.0	$ (28.5)

The 34 securities trading below 80% of book value at June 30, 2008 represented approximately 2% of the Company s total investments at fair value. Of the total securities trading below 80% of book value, 9 securities had fair values less than 70% of book value, representing 0.4% of the Company s total investments, with a pretax unrealized loss of $10 million.

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The Company views the decrease in value of all of the securities with unrealized losses at June 30, 2008 which was driven by spread widening, market illiquidity and changes in interest rates as temporary, expects recovery in fair value in a reasonable timeframe, anticipates continued payments under the terms of the securities including favorable underlying cash flows, and has the intent and ability to hold these securities until maturity or a recovery in fair value occurs. Therefore, no impairment of these securities was recorded at June 30, 2008. Future changes in circumstances related to these and other securities could require subsequent recognition of other-than-temporary impairment losses. The Company s investment guidelines generally limit single corporate issuer concentrations to 1.0% of invested assets for AA or AAA rated securities, 0.75% of invested assets for A rated securities, 0.5% of invested assets for BBB rated securities, and 0.2% of invested assets for non-investment grade securities.

The following table provides information regarding the fixed maturity securities and equity securities that were trading below 80% of book value at December 31, 2007.

Investment Positions With Fair Value Below 80% of Amortized Cost

Segmented by Quality and Period of Continuous Valuation Below 80%

As of December 31, 2007

	Number of Positions	Fair Value	Amortized Cost	Pretax Unrealized Loss
Fixed Maturity Securities				
Investment grade				
3 Months or less	2	$ 4.7	$ 6.1	$ (1.4)
4 through 6 months	1	3.0	4.9	(1.9)
Greater than 6 months				
Non-investment grade				
Not rated				
Total fixed maturity securities	3	$ 7.7	$ 11.0	$ (3.3)
Equity Securities				
Investment grade				
Non-investment grade, all 3 Months or less	1	$ 1.6	$ 2.5	$ (0.9)
Not rated, all 4 through 6 months	1	2.3	3.4	(1.1)
Total equity securities	2	$ 3.9	$ 5.9	$ (2.0)
Total fixed maturity securities and equity securities	5	$ 11.6	$ 16.9	$ (5.3)

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Benefits, Claims and Settlement Expenses

	Six Months Ended June 30,		Change From Prior Year	
	2008	2007	Percent	Amount
Property and casualty	$ 202.7	$ 172.9	17.2%	$ 29.8
Annuity	0.1	0.6	-83.3%	(0.5)
Life	26.2	24.9	5.2%	1.3
Total	$ 229.0	$ 198.4	15.4%	$ 30.6
Property and casualty catastrophe losses, included above (1)	$ 27.8	$ 7.4	275.7%	$ 20.4

Property and Casualty Claims and Claim Expenses (losses)

	Six Months Ended June 30,	
	2008	2007
Incurred claims and claim expenses:		
Claims occurring in the current year	$ 207.8	$ 184.0
Decrease in estimated reserves for claims occurring in prior years (2)	(5.1)	(11.1)
Total claims and claim expenses incurred	$ 202.7	$ 172.9
Property and casualty loss ratio:		
Total	75.8%	65.0%
Effect of catastrophe costs, included above (1)	10.4%	2.7%

(1) Property and casualty catastrophe losses were incurred as follows:

	2008	2007
Three months ended		
March 31	$ 5.4	$ 2.5
June 30	22.4	4.9
Total year-to-date	$ 27.8	$ 7.4

(2) Shows the amounts by which the Company decreased its reserves in each of the periods indicated for claims occurring in previous periods to reflect subsequent information on such claims and changes in their projected final settlement costs.
(Favorable)/unfavorable development of prior years reserves was recorded as follows:

	2008	2007
Three months ended		
March 31	$ (2.7)	$ (5.5)

June 30	(2.4)	(5.6)
Total year-to-date	$ (5.1)	$ (11.1)

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For the three months ended June 30, 2008, the Company s benefits, claims and settlement expenses of $122.1 million increased 22.1%, or $22.1 million, compared to the same period in 2007. This increase was primarily due to the $17.5 million increase in catastrophe losses resulting from a significant number of severe storms the number of tornadoes was more than double the average for the second quarters of the prior three years and was also greater than the full year counts for each of those years. The current quarter incurred amount for catastrophes also included approximately $1 million related to reserve development for catastrophe activity in the first quarter of 2008. Property and casualty claims in the current quarter also reflected an increase in non-catastrophe weather-related losses.

For the six months ended June 30, 2008, the Company s benefits, claims and settlement expenses increased compared to the prior year, including a significant increase in catastrophe losses primarily from events in the second quarter, a smaller decrease in estimated reserves for property and casualty claims occurring in prior years, and unfavorable life mortality experience.

The current period favorable development of prior years property and casualty reserves of $5.1 million was the result of actual and remaining projected losses for prior years being below the level anticipated in the December 31, 2007 loss reserve estimate, primarily driven by favorable voluntary automobile loss and loss adjustment expense emergence for accident years 2005 and prior.

For the six months ended June 30, 2008, the voluntary automobile loss ratio of 71.4% increased by 2.1 percentage points compared to the same period a year earlier, including a 1.0 percentage point increase due to the higher level of catastrophe losses and a 0.5 percentage point increase due to the lower level of favorable development of prior years reserves in the current period. The homeowners loss ratio of 86.2% for the six months ended June 30, 2008 increased 34.0 percentage points compared to a year earlier, including an increase of 21.2 percentage points due to the higher level of catastrophe costs and an increase of 8.0 percentage points due to the lower level of favorable development of prior years reserves recorded in 2008. In 2008, in addition to the significant increase in catastrophe losses incurred in the second quarter, late-winter storms in some sections of the U.S. and heavy thunderstorms and tornadoes across the Southern U.S. contributed to higher than average first quarter catastrophic losses for the Company as well as the industry. For the six months, catastrophe costs represented 29.8 percentage points of the homeowners loss ratio for the current period compared to 8.6 percentage points for the prior year. Also for the six months, the current period homeowners loss ratio reflected an increase in non-catastrophe weather-related losses due to the more severe weather in 2008.

For the annuity segment, benefits in the first half of 2008 decreased $0.5 million compared to prior year. The Company s guaranteed minimum death benefits (GMDB) reserve was $0.1 million at June 30, 2008, compared to less than $0.1 million at December 31, 2007 and $0.8 million at June 30, 2007.

For the life segment, benefits in the current six months increased compared to a year earlier primarily reflecting higher mortality costs.

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Interest Credited to Policyholders

	Six Months Ended June 30,		Change From Prior Year	
	2008	2007	Percent	Amount
Annuity	$ 45.7	$ 44.3	3.2%	$ 1.4
Life	19.0	18.5	2.7%	0.5
Total	$ 64.7	$ 62.8	3.0%	$ 1.9

For the three months ended June 30, 2008, interest credited of $32.6 million increased 3.2%, or $1.0 million, compared to the same period in 2007, consistent with the percentage increase reflected for the six months.

Compared to the first six months of 2007, the current period increase in annuity segment interest credited reflected a 3.9% increase in average accumulated fixed deposits, partially offset by a 7 basis point decline in the average annual interest rate credited to 4.28%. Life insurance interest credited increased as a result of the growth in interest-sensitive life insurance reserves.

The net interest spread on fixed annuity account value on deposit measures the difference between the rate of income earned on the underlying invested assets and the rate of interest which policyholders are credited on their account values. Fixed annuity crediting rates were lowered in recent years to reflect the decline in the rate of income on invested assets caused by lower investment rates on new and reinvested funds. The net interest spreads for the six months ended June 30, 2008 and 2007 were 155 basis points and 139 basis points, respectively.

As of June 30, 2008, fixed annuity account values totaled $2.2 billion, including $2.0 billion of deferred annuities. Approximately 19% of the deferred annuity account values had minimum guaranteed interest rates of 3% or lower while approximately 71% of account values had minimum guaranteed rates of 4.5% or greater. For $1.6 billion of the deferred annuity account values, the credited interest rate was equal to the minimum guaranteed rate. The annuity net interest spread increased 16 basis points compared to the first six months of 2007, due to improvements in the Company s investment portfolio yield and continued decreases in average interest crediting rates.

Operating Expenses

For the first six months of 2008, operating expenses decreased 1.7%, or $1.2 million, compared to the prior year, with $0.9 million of the decline recorded in the second quarter. The decline was attributable primarily to reductions in incentive compensation accruals which were partially offset by the impact of increased strategic investments in distribution and technology initiatives in the first six months of 2008. The property and casualty expense ratio of 24.4% for the six months ended June 30, 2008 increased 0.1 percentage point compared to the prior year reflecting the items above and the Company s overall expense control discipline.

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Amortization of Policy Acquisition Expenses and Intangible Assets

For the three months ended June 30, 2008, the combined amortization of policy acquisition expenses and intangible assets of $20.4 million increased $0.9 million compared to the second quarter of 2007. For the six months ended June 30, 2008, the combined amortization of policy acquisition expenses and intangible assets was $42.6 million compared to $40.1 million recorded for the same period in the prior year, an increase of $2.5 million.

Amortized policy acquisition expenses were $39.8 million for the first six months of 2008 compared to $37.3 million for the same period in 2007. The June 30, 2008 valuation of annuity deferred policy acquisition costs resulted in an increase in amortization of $2.1 million, primarily driven by financial market performance, compared to no change in amortization from a similar valuation at June 30, 2007. For the life segment, the June 30, 2008 valuation of deferred policy acquisition costs resulted in a $0.1 million increase in amortization compared to a $0.1 million decrease for the 2007 valuation. The remaining increase in amortized policy acquisition costs was due to scheduled amortization of capitalized costs.

Amortization of intangible assets was $2.8 million for both the six months ended June 30, 2008 and 2007. The June 30, 2008 valuation of Annuity VIF resulted in a $0.2 million increase in amortization compared to a $0.1 million increase at June 30, 2007.

Income Tax Expense

The effective income tax rate on the Company s pretax income, including net realized investment gains and losses, was 22.6% and 29.6% for the six months ended June 30, 2008 and 2007, respectively. Income from investments in tax-advantaged securities reduced the effective income tax rate 14.7 and 6.2 percentage points for the six months ended June 30, 2008 and 2007, respectively. While the income from tax-advantaged securities decreased somewhat compared to a year earlier, the reduced level of taxable income in the current period resulted in this having a greater impact on the effective income tax rate for 2008. The decrease in the effective income tax rate from 28.1% for the three months ended March 31, 2008 to the current rate favorably impacted income tax expense for the three months ended June 30, 2008.

The Company records liabilities for uncertain tax filing positions where it is more-likely-than-not that the position will not be sustainable upon audit by taxing authorities. These liabilities are reevaluated routinely and are adjusted appropriately based upon changes in facts or law. The Company has no unrecorded liabilities from uncertain tax filing positions.

At June 30, 2008, the Company had income tax returns for the 2002 through 2007 tax years still open and subject to adjustment upon examination by taxing authorities. The Company is currently under examination by the Internal Revenue Service for tax years 2002, 2004, 2005 and 2006. The Company has recorded $5.5 million of uncertain tax position liabilities including interest related to all open tax years.

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Net Income

For the three months ended June 30, 2008, the Company s net income of $4.5 million decreased $18.6 million compared to the prior year, including an $11.3 million increase in after-tax catastrophe costs and a $4.5 million increase in after-tax net realized investment losses on securities. Consistent with industry experience, the current quarter reflected a significant level of weather-related catastrophe losses along with the continued impact of a challenging financial market environment and the adverse effect of a slowing economy on both home and automobile sales. Second quarter 2008 property and casualty segment net income was $16.0 million less than the prior year, reflecting a higher level of catastrophe and non-catastrophe weather-related losses. Net income for the annuity segment was equal to the second quarter of 2007, as current period improvements in the interest margin were offset by the adverse impact of the financial markets on both the valuation of deferred policy acquisition costs and the level of contract charges earned. Life segment net income for the quarter increased $1.6 million, reflecting growth in investment income and lower mortality costs.

For the six months ended June 30, 2008, the Company s net income of $18.8 million decreased $27.6 million compared to the prior year, including an $8.4 million reduction in after-tax realized investment gains and losses. Catastrophe costs increased $13.2 million after tax and non-catastrophe weather-related losses also increased compared to the prior year. In addition, results in the current six months were negatively impacted by a reduced level of favorable prior years property and casualty reserve development. Including all factors, the property and casualty combined ratio was 100.2% for the first six months of 2008 compared to 89.3% for the same period in 2007. Annuity segment net income decreased $0.4 million, or 5%, compared to the first six months of 2007, as current period improvements in the interest margin were more than offset by the adverse impact of the financial market on the valuation of deferred policy acquisition costs and the level of contract charges earned. Life segment net income increased $0.6 million, or 8%, compared to a year earlier, reflecting growth in investment income partially offset by higher mortality costs.

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Net income by segment and net income per share were as follows:

	Six Months Ended June 30,		Change From Prior Year	
	2008	2007	Percent	Amount
Analysis of net income (loss) by segment:				
Property and casualty	$ 14.9	$ 34.7	-57.1%	$ (19.8)
Annuity	8.1	8.5	-4.7%	(0.4)
Life	7.8	7.2	8.3%	0.6
Corporate and other (1)	(12.0)	(4.0)	200.0%	(8.0)
Net income	$ 18.8	$ 46.4	-59.5%	$ (27.6)
Effect of catastrophe costs, after tax, included above	$ (18.0)	$ (4.8)	275.0%	$ (13.2)
Diluted:				
Net income per share	$ 0.45	$ 1.04	-56.7%	$ (0.59)
Weighted average number of shares and equivalent shares (in millions)	41.7	45.1	-7.5%	(3.4)
Property and casualty combined ratio:				
Total	100.2%	89.3%	N.M.	10.9%
Effect of catastrophe costs, included above	10.4%	2.7%	N.M.	7.7%

N.M. Not meaningful.

(1) The corporate and other segment includes interest expense on debt, realized investment gains and losses, certain public company expenses and other corporate level items. The Company does not allocate the impact of corporate level transactions to the insurance segments, consistent with the basis for management s evaluation of the results of those segments.

For the current period, the changes in net income for the property and casualty, annuity and life segments are described above.

For the corporate and other segment, the current period decline in net income compared to the first half of 2007 was due primarily to net realized investment losses, compared to net realized investment gains in the first half of 2007.

Return on shareholders equity based on net income was 8% and 15% for the trailing 12 months ended June 30, 2008 and 2007, respectively.

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At the time of this Quarterly Report on Form 10-Q, management estimates that 2008 full year net income before realized investment gains and losses will be within a range of $1.30 to $1.45 per diluted share. This projection incorporates results for the first half of 2008 which included a significant level of property and casualty weather-related catastrophe costs, as well as the adverse impact of financial market performance and anticipates an average level of catastrophe losses and relatively flat financial market performance in the last six months of the year. The revised estimate also anticipates $0.05 per share of expenses related to the Company s recent decision to consolidate its property and casualty field claims offices. As described in Critical Accounting Policies , certain of the Company s significant accounting measurements require the use of estimates and assumptions. As additional information becomes available, adjustments may be required. Those adjustments are charged or credited to income for the period in which the adjustments are made and may impact actual results compared to management s current estimate. A projection of net income including realized investment gains and losses is not accessible on a forward-looking basis because it is not possible to provide a reliable forecast of realized investment gains and losses, which can vary substantially from one period to another and may have a significant impact on net income.

Liquidity and Financial Resources

Off-Balance Sheet Arrangements

At June 30, 2008 and 2007, the Company did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. As such, the Company is not exposed to any financing, liquidity, market or credit risk that could arise if the Company had engaged in such relationships.

Investments

Information regarding the Company s investment portfolio, which is comprised primarily of investment grade, fixed income securities, is located in Results of Operations Net Realized Investment Gains and Losses and in the Notes to Consolidated Financial Statements Note 3 Investments

Cash Flow

The short-term liquidity requirements of the Company, within a 12-month operating cycle, are for the timely payment of claims and benefits to policyholders, operating expenses, interest payments and federal income taxes. Cash flow generated from operations has been, and is expected to be, adequate to meet the Company s operating cash needs in the next 12 months. Cash flow in excess of operational needs has been used to fund business growth, retire short-term debt, pay dividends to shareholders and repurchase shares of the Company s common stock. Long-term liquidity requirements, beyond one year, are principally for the payment of future insurance policy claims and benefits and retirement of long-term debt.

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Operating Activities

As a holding company, HMEC conducts its principal operations in the personal lines segment of the property and casualty and life insurance industries through its subsidiaries. HMEC s insurance subsidiaries generate cash flow from premium and investment income, generally well in excess of their immediate needs for policy obligations, operating expenses and other cash requirements. Cash provided by operating activities primarily reflects net cash generated by the insurance subsidiaries. For the first six months of 2008, net cash provided by operating activities decreased compared to the same period in 2007, primarily reflecting an increase in the level of benefits/claims paid, including the impact of significant property and casualty catastrophe claims in the current period.

Payment of principal and interest on debt, dividends to shareholders and parent company operating expenses are dependent upon the ability of the insurance subsidiaries to pay cash dividends or make other cash payments to HMEC, including tax payments pursuant to tax sharing agreements. Payments for the share repurchase programs also have this dependency. The insurance subsidiaries are subject to various regulatory restrictions which limit the amount of annual dividends or other distributions, including loans or cash advances, available to HMEC without prior approval of the insurance regulatory authorities. Dividends which may be paid by the insurance subsidiaries to HMEC during 2008 without prior approval are approximately $93 million, of which $74.5 million was paid during the six months ended June 30, 2008. Although regulatory restrictions exist, dividend availability from subsidiaries has been, and is expected to be, adequate for HMEC s capital needs.

Investing Activities

HMEC s insurance subsidiaries maintain significant investments in fixed maturity securities to meet future contractual obligations to policyholders. In conjunction with its management of liquidity and other asset/liability management objectives, the Company, from time to time, will sell fixed maturity securities prior to maturity and reinvest the proceeds in other investments with different interest rates, maturities or credit characteristics. Accordingly, the Company has classified the entire fixed maturity securities and equity securities portfolios as available for sale .

Financing Activities

Financing activities include primarily payment of dividends, the receipt and withdrawal of funds by annuity contractholders, repurchases of the Company s common stock, fluctuations in bank overdraft balances, and borrowings, repayments and repurchases related to its debt facilities.

For the six months ended June 30, 2008, receipts from annuity contracts decreased $15.8 million, or 9.3%, compared to the same period in the prior year. Annuity contract benefits and withdrawals decreased $9.0 million, or 9.4%, compared to the prior year. Cash value retentions for variable and fixed annuity options were 91.8% and 92.4%, respectively, for the 12 month period ended June 30, 2008. Net transfers to variable annuity accumulated cash values decreased $32.7 million, or 44.9%, compared to the prior year.

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During the first six months of 2008, the Company repurchased 3,198,225 shares of its common stock, or 7.6% of the outstanding shares on December 31, 2007, at an aggregate cost of $54.3 million, or an average cost of $16.99 per share, under its stock repurchase programs, which are further described in Notes to Consolidated Financial Statements Note 5 Share Repurchase Programs and Treasury Shares Held . The repurchase of shares was financed through use of cash. As of June 30, 2008, the Company had completed its authorized share repurchase programs. See also Liquidity and Financial Resources Capital Resources and Item 2: Unregistered Sales of Equity Securities and Use of Proceeds Issuer Purchases of Equity Securities .

Capital Resources

The Company has determined the amount of capital which is needed to adequately fund and support business growth, primarily based on risk-based capital formulas including those developed by the National Association of Insurance Commissioners (NAIC). Historically, the Company s insurance subsidiaries have generated capital in excess of such needed capital. These excess amounts have been paid to HMEC through dividends. HMEC has then utilized these dividends and its access to the capital markets to service and retire long-term debt, pay dividends to its shareholders, fund growth initiatives, repurchase shares of its common stock and for other corporate purposes. Management anticipates that the Company s sources of capital will continue to generate capital in excess of the needs for business growth, debt interest payments and shareholder dividends.

The total capital of the Company was $790.6 million at June 30, 2008, including $199.5 million of long-term debt and no short-term debt outstanding. Total debt represented 23.4% of total capital excluding unrealized investment gains and losses (25.2% including unrealized investment gains and losses) at June 30, 2008, which was below the Company s long-term target of 25%.

Shareholders equity was $591.1 million at June 30, 2008, including a net unrealized loss in the Company s investment portfolio of $61.6 million after taxes and the related impact on deferred policy acquisition costs and the value of acquired insurance in force associated with annuity and interest-sensitive life policies. The market value of the Company s common stock and the market value per share were $547.6 million and $14.02, respectively, at June 30, 2008. Book value per share was $15.13 at June 30, 2008 ($16.71 excluding investment fair value adjustments).

In September 2007, HMEC s Board of Directors (Board) authorized a new $50 million share repurchase program and ended the May 1999 authorization. The new program authorized the repurchase of common shares in open market or privately negotiated transactions, from time to time, depending on market conditions. By February 19, 2008, the Company had completed the $50.0 million authorized by the new program, resulting in a total of 2,738,376 shares repurchased under this program at an average cost of $18.28 per share. In March 2008, the Board authorized an additional $25.0 million share repurchase program allowing for repurchase of common shares in open market or privately negotiated transactions, from time to time, depending on market conditions (the March 2008 Program). As of June 30, 2008, the Company had completed the March 2008 Program, resulting in a total of 1,571,449 shares repurchased under this program at an average cost of $15.93 per share. As

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of June 30, 2008, the Company had completed all of its authorized share repurchase programs. See also Notes to Consolidated Financial Statements Note 5 Share Repurchase Programs and Treasury Shares Held .

As of June 30, 2008, the Company had outstanding $75.0 million aggregate principal amount of 6.05% Senior Notes (Senior Notes due 2015), which will mature on June 15, 2015, issued at a discount resulting in an effective yield of 6.1%. Interest on the Senior Notes due 2015 is payable semi-annually at a rate of 6.05%. Detailed information regarding the redemption terms of the Senior Notes due 2015 is contained in the Notes to Consolidated Financial Statements Note 4 Debt of the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

The Senior Notes due 2015 have an investment grade rating from S&P (BBB), Moody s (Baa3), and A.M. Best Company, Inc. (A.M. Best) (bbb-). See also Financial Ratings . The Senior Notes due 2015 are traded in the open market (HMN 6.05).

As of June 30, 2008, the Company had outstanding $125.0 million aggregate principal amount of 6.85% Senior Notes (Senior Notes due 2016), which will mature on April 15, 2016, issued at a discount resulting in an effective yield of 6.893%. Interest on the Senior Notes due 2016 is payable semi-annually at a rate of 6.85%. Detailed information regarding the redemption terms of the Senior Notes due 2016 is contained in the Notes to Consolidated Financial Statements Note 4 Debt of the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

The Senior Notes due 2016 have an investment grade rating from S&P (BBB), Moody s (Baa3), and A.M. Best (bbb-). See also Financial Ratings . The Senior Notes due 2016 are traded in the open market (HMN 6.85).

As of June 30, 2008, the Company had no balance outstanding under its Bank Credit Facility. The Bank Credit Facility provides for unsecured borrowings of up to $125.0 million and expires on December 19, 2011. Interest accrues at varying spreads relative to corporate or Eurodollar base rates and is payable monthly or quarterly depending on the applicable base rate. The unused portion of the Bank Credit Facility is subject to a variable commitment fee, which was 0.125% on an annual basis at June 30, 2008.

To provide additional capital management flexibility, the Company filed a universal shelf registration on Form S-3 with the SEC in December 2003. The registration statement, which registers the offer and sale by the Company from time to time of up to $300 million of various securities, which may include debt securities, preferred stock, common stock and/or depositary shares, was declared effective on December 30, 2003. Unless fully utilized or withdrawn by the Company earlier, this registration statement will remain effective through December 1, 2008. The $75.0 million face amount of Senior Notes due 2015 and $125.0 million face amount of Senior Notes due 2016 were issued utilizing this registration statement. No other securities associated with the registration statement have been issued as of the date of this Quarterly Report on Form 10-Q.

Total shareholder dividends were $8.7 million for the six months ended June 30, 2008. In March and May 2008, the Board of Directors announced regular quarterly dividends of $0.105 per share.

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Information regarding the reinsurance program for the Company s property and casualty segment is located in Business Property and Casualty Segment Property and Casualty Reinsurance of the Company s Annual Report on Form 10-K for the year ended December 31, 2007. As previously disclosed, through June 1, 2008, the Company s predominant insurance subsidiary for property and casualty business written in Florida reinsured 90% of hurricane losses in that state above an estimated retention of $14.7 million up to $87.2 million with the Florida Hurricane Catastrophe Fund (FHCF). The FHCF contract is a one-year contract. Effective June 1, 2008, the new contract with the FHCF reinsures 90% of hurricane losses in Florida above an estimated retention of $15.1 million up to $84.9 million, based on the FHCF s financial resources. These limits reflect the Company s purchase of both mandatory coverage and the Temporary Increase in Coverage Limit (TICL) option and resulted in changes to attachment points under the Company s primary reinsurance contract for hurricane losses occurring in Florida. Additional coverage made available by the FHCF to the industry in future contract periods could increase the likelihood of assessments in periods following significant hurricane losses.

Information regarding the reinsurance program for the Company s life segment is located in Business Life Segment of the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

Financial Ratings

The Company s principal insurance subsidiaries are rated by S&P, Moody s and A.M. Best. These rating agencies have also assigned ratings to the Company s long-term debt securities.

Assigned ratings as of July 31, 2008, which were unchanged from the disclosure in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, were as follows (the insurance financial strength ratings for the Company s property and casualty insurance subsidiaries and the Company s principal life insurance subsidiary are the same):

	Insurance Financial Strength Ratings (Outlook)	Debt Ratings (Outlook)
As of July 31, 2008		
S&P (1)	A(stable)	BBB(stable)
Moody s (1)	A3(stable)	Baa3(stable)
A.M. Best	A-(stable)	bbb-(stable)

(1) This agency has not yet rated Horace Mann Lloyds.

Market Value Risk

Market value risk, the Company s primary market risk exposure, is the risk that the Company s invested assets will decrease in value. This decrease in value may be due to (1) a change in the yields realized on the Company s assets and prevailing market yields for similar assets, (2) an unfavorable change in the liquidity of the investment, (3) an unfavorable change in the financial prospects of the issuer of the investment, or (4) a downgrade in the credit rating of the issuer of the investment. See also Results of Operations Net Realized Investment Gains and Losses .

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Significant changes in interest rates expose the Company to the risk of experiencing losses or earning a reduced level of income based on the difference between the interest rates earned on the Company s investments and the credited interest rates on the Company s insurance liabilities. See also Results of Operations Interest Credited to Policyholders .

The Company seeks to manage its market value risk by coordinating the projected cash inflows of assets with the projected cash outflows of liabilities. For all its assets and liabilities, the Company seeks to maintain reasonable durations, consistent with the maximization of income without sacrificing investment quality, while providing for liquidity and diversification. The investment risk associated with variable annuity deposits and the underlying mutual funds is assumed by those contractholders, and not by the Company. Certain fees that the Company earns from variable annuity deposits are based on the market value of the funds deposited.

More detailed descriptions of the Company s exposure to market value risks and the management of those risks is presented in Management s Discussion and Analysis of Financial Condition and Results of Operations Market Value Risk of the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

Recent Accounting Changes

SFAS No. 163

In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS or FAS) No. 163, Accounting for Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60 . SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. This statement applies to financial guarantee insurance and reinsurance contracts, including the recognition and measurement of premium revenue and claim liabilities. Management believes this pronouncement will not have a material effect on the results of operations or financial position of the Company.

SFAS No. 162

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles . SFAS No. 162 will be effective 60 days following the Securities and Exchange Commission s approval of the Public Company Accounting Oversight Board s related amendments to remove the generally accepted accounting principles in the United States (GAAP) hierarchy from auditing standards. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principals used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. Management believes the adoption of this pronouncement will not have a material effect on the results of operations or financial position of the Company.

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FSP APB 14-1

In May 2008, the FASB issued FASB Staff Position (FSP) Accounting Principles Board (APB) 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) . FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. This FSP requires issuers of convertible debt instruments that may be settled in cash upon conversion to separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Management is currently assessing the impact of this FSP, but anticipates that its adoption will not have a material effect on the results of operations or financial position of the Company.

FSP FAS 142-3

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets . FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. This FSP requires companies estimating the useful life of a recognized intangible asset to consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, to consider assumptions that market participants would use about renewal or extension as adjusted for SFAS No. 142, Goodwill and Other Intangible Assets . Management anticipates that adoption of this FSP will not have a material effect on the results of operations or financial position of the Company.

FSP FAS 140-3

In February 2008, the FASB amended SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125 , through issuance of FSP FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions . FSP FAS 140-3 is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. This FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement unless four conditions are all met. Transactions that meet all four criteria will be accounted for separately from repurchase financings. Management is currently assessing the impact of this FSP but anticipates that its adoption will not have a material effect on the results of operations or financial position of the Company.

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Other Matters

Proposal for Federal Regulation Option

In March 2008, the United States Treasury Department issued a report, Blueprint for Financial Regulatory Reform , including recommendations to improve regulatory oversight of the financial services sector. The report includes a proposal that would establish a federal insurance regulatory structure and allow individual insurance companies the option of obtaining a federal charter, similar to the current dual-chartering system for banking. As disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, Congress also has pending proposals regarding optional federal chartering of insurance companies which may be subject to congressional hearings in 2008. Management will continue to monitor these proposals and the potential impact on the Company, insurers of similar size and the insurance industry as a whole.

Other

Ariel Capital Management, LLC, HMEC s largest shareholder with 16.0% of the common shares outstanding per their SEC filing on Schedule 13G as of March 31, 2008, is the investment adviser for two of the mutual funds under the Company s variable annuity contracts.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

The information required by Item 305 of Regulation S-K is contained in Management s Discussion and Analysis of Financial Condition and Results of Operations contained in this Quarterly Report on Form 10-Q.

Item 4: Controls and Procedures

Management s Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 as amended (the Exchange Act), as of June 30, 2008 pursuant to Rule 13a-15(b) of the Exchange Act. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) that is required to be included in the Company s periodic Securities and Exchange Commission filings. No significant deficiencies or material weaknesses in the Company s disclosure controls and procedures were identified in the evaluation and therefore, no corrective actions were taken. There were no significant changes in the Company s internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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Changes in Internal Control Over Financial Reporting

There were no changes in the Company s internal control over financial reporting that occurred during the Company s last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1A: Risk Factors

At the time of this Quarterly Report on Form 10-Q, management believes there are no material changes from the risk factors as previously disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

As previously disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, $29.3 million remained authorized for future repurchases of Horace Mann Educators Corporation s Common Stock, par value $0.001, under the September 2007 $50.0 million authorization by the Company s Board of Directors (the Board). By February 19, 2008, the Company had completed the $50.0 million authorization described above, resulting in a total of 2,738,376 shares repurchased under this program at an average cost of $18.28 per share. On March 7, 2008, the Board authorized an additional $25.0 million share repurchase program allowing repurchases in open market or privately negotiated transactions, from time to time, depending on market conditions, and repurchased 9,600 shares at an aggregate cost of $0.2 million in March 2008. During the three months ended June 30, 2008, the Company repurchased shares of HMEC common stock as follows:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under The Plans or Programs
April 1 April 30				$ 24.8 million
May 1 May 31	732,832	$ 16.22	732,832	$ 13.0 million
June 1 June 30	829,017	$ 15.67	829,017	
Total	1,561,849	$ 15.93	1,561,849	

As of June 30, 2008, the Company had completed the $25.0 million authorization described above, resulting in a total of 1,571,449 shares repurchased under this program at an average cost of $15.93 per share.

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Item 4: Submission of Matters to a Vote of Security Holders

The Company s Annual Meeting of Shareholders was held on May 21, 2008. The results of the matters submitted to a vote of security holders are shown in the table below.

	Votes For	Votes Against	Abstentions
Votes representing 37,508,101 shares of Common Stock were represented and cast regarding Proposal 1.			
Election of the following nominees to hold the office of Director until the next Annual Meeting of Shareholders and until their respective successors have been duly elected and qualified:			
Mary H. Futrell	37,081,857	426,244	
Stephen J. Hasenmiller	37,034,024	474,077	
Louis G. Lower II	36,865,091	643,010	
Joseph J. Melone	36,888,790	619,311	
Jeffrey L. Morby	36,629,535	878,566	
Charles A. Parker	36,770,056	738,045	
Gabriel L. Shaheen	37,033,224	474,877	
Roger J. Steinbecker	37,033,546	474,555	
Charles R. Wright	37,034,024	474,077	
Votes representing 37,508,100 shares of Common Stock were represented and cast regarding Proposal 2.			
Ratification of the appointment of KPMG LLP, an independent registered public accounting firm, as the Company s auditors for the year ended December 31, 2008	35,718,703	1,597,039	192,358

Item 5: Other Information

The Company is not aware of any information required to be disclosed in a report on Form 8-K during the three months ended June 30, 2008 which has not been filed with the SEC.

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Item 6: Exhibits

Exhibit No.	Description

(a) The following items are filed as Exhibits. Management contracts and compensatory plans are indicated by an asterisk (*).

(10) Material contracts:

10.1* Summary of Horace Mann Educators Corporation Non-Employee Director Compensation.

10.2* Waiver and Release Agreement entered by and between Horace Mann Service Corporation and Frank D Ambra as of May 21, 2008.

(11) Statement re computation of per share earnings.

(15) KPMG LLP letter regarding unaudited interim financial information.

(31) Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.1 Certification by Louis G. Lower II, Chief Executive Officer of HMEC.

31.2 Certification by Peter H. Heckman, Chief Financial Officer of HMEC.

(32) Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.1 Certification by Louis G. Lower II, Chief Executive Officer of HMEC.

32.2 Certification by Peter H. Heckman, Chief Financial Officer of HMEC.

(99.1) Glossary of Selected Terms.

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SIGNATURES

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

	HORACE MANN EDUCATORS CORPORATION (Registrant)
Date August 7, 2008	/s/ Louis G. Lower II Louis G. Lower II President and Chief Executive Officer
Date August 7, 2008	/s/ Peter H. Heckman Peter H. Heckman Executive Vice President and Chief Financial Officer
Date August 7, 2008	/s/ Bret A. Conklin Bret A. Conklin Senior Vice President and Controller

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HORACE MANN EDUCATORS CORPORATION

EXHIBITS

To

FORM 10-Q

For the Quarter Ended June 30, 2008

VOLUME 1 OF 1

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The following items are filed as Exhibits to Horace Mann Educators Corporation s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2008. Management contracts and compensatory plans are indicated by an asterisk (*).

EXHIBIT INDEX

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