UNITRIN INC
Form 10-K
February 01, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number: 001-18298

UNITRIN, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4255452**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

One East Wacker Drive, Chicago, Illinois **60601**
(Address of principal executive offices) **(Zip Code)**
(312) 661-4600

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.10 par value per share	New York Stock Exchange
Preferred Share Purchase Rights pursuant to Rights Agreement	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange 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 Exchange Act). Yes ¨ No x

As of June 30, 2009, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $0.7 billion based on the closing sale price as reported on the New York Stock Exchange. Solely for purposes of this calculation, all executive officers and directors of the registrant are considered affiliates.

Registrant had 62,357,016 shares of common stock outstanding as of January 29, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 5, 2010 are incorporated by reference into Part III.

Table of Contents

Table of Contents

Table of Contents

Caution Regarding Forward-Looking Statements

This 2009 Annual Report on Form 10-K, including the accompanying consolidated financial statements of Unitrin, Inc. (Unitrin) and its subsidiaries (individually and collectively referred to herein as the Company) and the notes thereto appearing in Item 8 herein (the Consolidated Financial Statements), the Management s Discussion and Analysis of Financial Condition and Results of Operations appearing in Item 7 herein (the MD&A) and the other Exhibits and Financial Statement Schedules filed as a part hereof or incorporated by reference herein may contain or incorporate by reference information that includes or is based on forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements give expectations or forecasts of future events. The reader can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as believe(s), goal(s), target(s), estimate(s), anticipate(s), forecast(s), project(s), plan(s), intend(s), expect(s), might, and terms of similar meaning in connection with a discussion of future operating, financial performance or financial condition. Forward-looking statements, in particular, include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results.

Any or all forward-looking statements may turn out to be wrong, and, accordingly, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this 2009 Annual Report on Form 10-K. These statements are based on current expectations and the current economic environment. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance; actual results could differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining the Company s actual future results and financial condition. The reader should consider the following list of general factors that could affect the Company s future results and financial condition, as well as those discussed below under Item 1A., Risk Factors, in this 2009 Annual Report on Form 10-K.

Among the general factors that could cause actual results and financial condition to differ materially from estimated results and financial condition are:

- The incidence, frequency, and severity of catastrophes occurring in any particular reporting period or geographic concentration, including natural disasters, pandemics and terrorist attacks or other man-made events;
- The number and severity of insurance claims (including those associated with catastrophe losses) and their impact on the adequacy of loss reserves;
- Changes in facts and circumstances affecting assumptions used in determining loss and LAE reserves;
- The impact of inflation on insurance claims, including, but not limited to, the effects attributed to scarcity of resources available to rebuild damaged structures, including labor and materials and the amount of salvage value recovered for damaged property;
- Changes in the pricing or availability of reinsurance, or in the financial condition of reinsurers and amounts recoverable therefrom;
- Orders, interpretations or other actions by regulators that impact the reporting, adjustment and payment of claims;
- The impact of residual market assessments and assessments for insurance industry insolvencies;
- Changes in industry trends and significant industry developments;

Uncertainties related to regulatory approval of insurance rates, policy forms, license applications and similar matters;

Developments related to insurance policy claims and coverage issues including, but not limited to, interpretations or decisions by courts or regulators that may govern or influence insurance policy coverage issues arising with respect to losses incurred in connection with hurricanes and other catastrophes;

Changes in ratings by credit rating agencies including A.M. Best Co., Inc. (A.M. Best);

Adverse outcomes in litigation or other legal or regulatory proceedings involving Unitrin or its subsidiaries or affiliates;

Regulatory, accounting or tax changes that may affect the cost of, or demand for, the Company s products or services;

Governmental actions, including, but not limited to, American health care reform, financial services regulatory reform, new laws or regulations or court decisions interpreting existing laws and regulations or policy provisions;

Changes in distribution channels, methods or costs resulting from changes in laws or regulations, lawsuits or market forces;

Changes in laws or regulations governing or affecting the regulatory status of industrial banks, such as Fireside Bank, and their parent companies, including minimum capital requirements and restrictions on the non-financial activities and equity investments of companies that acquire control of industrial banks;

Changes in the estimated rates of automobile loan receivables net charge-off used to estimate Fireside Bank s reserve for loan losses, including, but not limited to, changes in general economic conditions, unemployment rates and the impact of changes in the value of collateral held;

The degree of success in effecting an orderly wind-down of the operations of Fireside Bank and the recovery of Unitrin s investment in Fireside Bank;

Changes in general economic conditions, including performance of financial markets, interest rates, unemployment rates and fluctuating values of particular investments held by the Company;

The level of success and costs expended in realizing economies of scale and implementing significant business consolidations and technology initiatives;

Heightened competition, including, with respect to pricing, entry of new competitors and the development of new products by new and existing competitors;

Increased costs and risks related to data security;

Absolute and relative performance of the Company s products or services; and

Other risks and uncertainties described from time to time in Unitrin s filings with the U.S. Securities and Exchange Commission (SEC).

No assurances can be given that the results contemplated in any forward-looking statements will be achieved or will be achieved in any particular timetable. The Company assumes no obligation to publicly correct or update any forward-looking statements as a result of events or developments subsequent to the date of this 2009 Annual Report on Form 10-K. The reader is advised, however, to consult any further disclosures Unitrin makes on related subjects in its filings with the SEC.

PART I

Item 1. Business.

Unitrin was incorporated in Delaware in 1990. Unitrin s subsidiaries serve the basic financial needs of individuals, families and small businesses by providing property and casualty insurance, life and health insurance, and automobile finance services.

Unitrin files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports, and other information with the SEC. The public can obtain copies of these

Table of Contents

materials by visiting the SEC s Public Reference Room at 450 Fifth Street, NW, Washington DC 20549, or by calling the SEC at 1-800-SEC-0330, or by accessing the SEC s website at sec.gov, where the SEC maintains reports, proxy and information statements and other information regarding Unitrin and other issuers that file electronically with the SEC. In addition, as soon as reasonably practicable after such materials are filed with or furnished to the SEC, Unitrin makes copies available to the public free of charge through its website at unitrin.com.

(a) GENERAL DEVELOPMENT OF BUSINESS

Purchase of Direct Response Corporation

On February 13, 2009, Unitrin s subsidiary, Trinity Universal Insurance Company (Trinity) completed its acquisition of Direct Response Corporation and its subsidiaries (Direct Response) in a cash transaction for a total purchase price of $201.6 million. Direct Response specializes in the sale of personal automobile insurance through direct mail and the Internet through web insurance portals and its own websites, Response.com and Teachers.com. Due to the similarity of the products, distribution method and back-office operations, the Company is in the process of combining the operations of Direct Response with its Unitrin Direct business unit.

Fireside Bank s Plan to Exit Automobile Finance Business

On March 24, 2009, Unitrin announced that its subsidiary, Fireside Bank, would be suspending all new lending activity as part of a plan to exit the automobile finance business. The exit plan envisions an orderly wind-down of Fireside Bank s operations over the next several years. Fireside Bank will continue to collect outstanding loan balances and make interest payments and redemptions on outstanding certificates of deposits in the ordinary course of business. Following the announcement, Fireside Bank ceased accepting new loan applications. Fireside Bank also has ceased opening new certificate of deposit accounts. Fireside Bank closed all of its branch offices during 2009. Fireside Bank s remaining operations are conducted from its home office housing a collection call center in California and from a collection call center in Arizona. See Fireside Bank Regulation beginning on Page 18 and MD&A, Fireside Bank, for more information on Fireside Bank s exit plan.

American Health Care Reform

The U. S. House of Representatives and the U.S. Senate passed separate, but not identical, bills in late 2009 which would effect sweeping changes to the American health care system. In the event that some version of these bills is enacted into law, the business model of Unitrin s subsidiary, Reserve National Insurance Company (Reserve National), which focuses on providing limited health insurance coverages to persons who lack access to traditional private options, would likely be adversely affected. Depending on the provisions of any such law ultimately enacted, Reserve National might suffer significant loss of revenue and might not be able to compete effectively in the markets that it has historically served. See MD&A, Life and Health Insurance, MD&A, Critical Accounting Estimates, under the heading Goodwill Recoverability and Note 7, Goodwill, to the Consolidated Financial Statements.

Revolving Credit Agreement

On October 30, 2009, Unitrin entered into a new three-year, $245 million, unsecured, revolving credit agreement, expiring October 30, 2012 (the 2012 Credit Agreement), with a group of financial institutions and terminated its then existing five-year, $325 million credit agreement, which was scheduled to expire on June 30, 2010 (the 2010 Credit Agreement). The 2012 Credit Agreement provides for fixed and floating rate advances for periods up to six months at various interest rates. The 2012 Credit Agreement contains various financial covenants, including limits on total debt to total capitalization, consolidated net worth and minimum risk-based capital ratios

3

Table of Contents

for Unitrin s largest insurance subsidiaries, United Insurance Company of America (United Insurance) and Trinity. Proceeds from advances under the 2012 Credit Agreement may be used for general corporate purposes, including repayment of existing indebtedness.

(b) BUSINESS SEGMENT FINANCIAL DATA

Financial information about Unitrin s business segments for the years ended December 31, 2009, 2008 and 2007 is contained in the following portions of this 2009 Annual Report on Form 10-K of Unitrin, Inc. and is incorporated herein by reference: (i) Note 21, Business Segments, to the Consolidated Financial Statements; and (ii) MD&A.

(c) DESCRIPTION OF BUSINESS

Unitrin is a diversified insurance holding company, with subsidiaries that provide life, health, auto, homeowners and other insurance products for individuals and small businesses. The Company is engaged, through its subsidiaries, in the property and casualty insurance, life and health insurance and automobile finance businesses. The Company conducts its operations through five operating segments: Kemper, Unitrin Specialty, Unitrin Direct, Life and Health Insurance and Fireside Bank.

NOTE: *The Company uses the registered trademark, Kemper, under license, for personal lines insurance only, from Lumbermens Mutual Casualty Company (Lumbermens), which is not affiliated with the Company. Lumbermens continues to use the name, Kemper Insurance Companies (KIC), in connection with its operations, which are distinct from, and not to be confused with, Unitrin s Kemper business segment.*

Unitrin s subsidiaries employ approximately 7,230 full-time associates supporting its operations, of which approximately 900 are employed in the Kemper segment, 740 in the Unitrin Specialty segment, 630 in the Unitrin Direct segment, 420 shared by the Kemper, Unitrin Specialty and Unitrin Direct segments, 3,900 in the Life and Health Insurance segment, 450 at Fireside Bank and the remainder in various corporate and other staff functions.

Property and Casualty Insurance Business

Unitrin s property and casualty insurance business operations are primarily conducted through the Kemper, Unitrin Specialty, and Unitrin Direct segments. In addition, the Life and Health Insurance segment s career agents also sell property insurance to its customers. Unitrin s insurance subsidiaries operating in the Kemper, Unitrin Specialty, Unitrin Direct and Life and Health Insurance segments provide automobile, homeowners, fire, and other types of property and casualty insurance to individuals and commercial automobile insurance to businesses. Automobile insurance in these segments accounted for 59%, 57% and 57% of Unitrin s consolidated insurance premiums earned from continuing operations for the years ended December 31, 2009, 2008 and 2007, respectively. Automobile insurance in these segments accounted for 49%, 50% and 45% of Unitrin s consolidated revenues from continuing operations for the years ended December 31, 2009, 2008 and 2007, respectively. Homeowners insurance in these segments accounted for 12%, 12% and 13% of Unitrin s consolidated insurance premiums earned from continuing operations for the years ended December 31, 2009, 2008 and 2007, respectively. Homeowners insurance in these segments accounted for 10%, 11% and 10% of Unitrin s consolidated revenues from continuing operations for the years ended December 31, 2009, 2008 and 2007, respectively.

Property insurance indemnifies an insured with an interest in physical property for loss of, or damage to, such property or the loss of its income-producing abilities. Casualty insurance primarily covers liability for damage to property of, or injury to, a person or entity other than the insured. In most cases casualty insurance also obligates the insurance company to provide a defense for the insured in litigation arising out of events covered by the policy.

Table of Contents

The Kemper and Unitrin Specialty segments distribute their products through independent agents who are paid commissions for their services. The Unitrin Direct segment distributes its products directly to consumers and through employer-sponsored voluntary benefit programs and other affinity relationships.

Kemper

Kemper, based in Jacksonville, Florida, conducts business in 39 states geographically dispersed throughout the United States. In 2009, the following states provided approximately half of the premium revenues included in this segment: New York (19%), North Carolina (12%), California (12%) and Texas (12%).

Kemper primarily sells preferred and standard risk automobile and homeowners insurance. Kemper s insurance products accounted for approximately 49% of the aggregate insurance premium revenues of Unitrin s property and casualty insurance business in 2009. Kemper s products are marketed by approximately 2,500 independent insurance agents. These personal lines products are designed and priced for those individuals who have demonstrated favorable risk characteristics and loss history. Typical customers include middle to upper income individuals and families.

Unitrin Specialty

Unitrin Specialty, based in Dallas, Texas, conducts business in 21 states, principally in the midwest, southeast, southwest and western United States. In 2009, the following states provided more than 73% of the premium revenues in this segment: California (43%), Texas (19%), Washington (6%) and Louisiana (5%).

Unitrin Specialty provides nonstandard personal and commercial automobile insurance. Unitrin Specialty s insurance products accounted for approximately 27% of the aggregate insurance premium revenues of Unitrin s property and casualty insurance business in 2009. Nonstandard automobile insurance is provided for individuals and businesses that have had difficulty obtaining standard or preferred risk insurance, usually because of their driving records or claims or premium payment history. Unitrin Specialty s products are marketed through approximately 8,000 independent agents and brokers.

Unitrin Direct

Unitrin Direct, based in Chicago, Illinois, markets automobile and homeowners insurance primarily via direct mail, web insurance portals, click-thrus, its own websites, employer-sponsored voluntary benefit programs and other affinity relationships. The Unitrin Direct segment s automobile and homeowners insurance products are available in every state in the U.S. with the exception of Hawaii and Massachusetts. In 2009, the following states provided approximately two-thirds of the premium revenues in this segment: Florida (18%), New York (13%), California (11%), Texas (6%), Pennsylvania (5%), Connecticut (5%), Michigan (5%) and Georgia (5%). Unitrin Direct s insurance products accounted for approximately 18% of the aggregate insurance premium revenues of Unitrin s property and casualty insurance business in 2009.

Unitrin Direct writes a broad spectrum of personal automobile insurance risks ranging from preferred to non-standard private passenger automobile insurance risks, and competes with companies that sell insurance directly to the consumer and employer-sponsored voluntary benefit programs, as well as companies that sell through agents. Unitrin Direct also offers homeowners and renters insurance across 47 states, complementing its direct automobile insurance business.

Table of Contents

Property and Casualty Loss and Loss Adjustment Expense Reserves

The Company s reserves for losses and loss adjusting expenses (LAE) for property and casualty insurance (Property and Casualty Insurance Reserves) are reported using the Company s estimate of its ultimate liability for losses and LAE for claims that occurred prior to the end of any given accounting period but have not yet been paid. The Company had $1,211.3 million and $1,268.7 million of gross loss and LAE reserves at December 31, 2009 and 2008, respectively. Property and Casualty Insurance Reserves by business segment at December 31, 2009 and 2008 were:

DOLLARS IN MILLIONS	**2009**	**2008**
Business Segments:		
Kemper	**$ 422.7**	$ 476.1
Unitrin Specialty	**277.9**	293.1
Unitrin Direct	**247.0**	163.1
Life and Health Insurance	**19.0**	23.0
Total Business Segments	**966.6**	955.3
Discontinued Operations	**214.4**	280.0
Unallocated Ceded Reserves	**30.3**	33.4
Total Property and Casualty Insurance Reserves	**$ 1,211.3**	$ 1,268.7

Certain reserves acquired in connection with a business acquisition from SCOR Reinsurance Company (SCOR) in 2002 (the Unallocated Ceded Reserves) are reinsured by an insurance subsidiary of SCOR (see Note 8, Property and Casualty Insurance Reserves, to the Consolidated Financial Statements). The Company does not allocate these reserves to its business segments.

In estimating the Company s Property and Casualty Insurance Reserves, the Company s actuaries exercise professional judgment and must consider, and are influenced by, many variables that are difficult to quantify. Accordingly, the process of estimating and establishing the Company s Property and Casualty Insurance Reserves is inherently uncertain and the actual ultimate net cost of claims may vary materially from the estimated amounts reserved. The reserving process is particularly imprecise for claims involving asbestos, environmental matters, construction defect and other emerging and/or long-tailed exposures which may not be discovered or reported until years after the insurance policy period has ended. Property and Casualty Insurance Reserves related to the Company s Discontinued Operations are predominantly long-tailed exposures, of which $71 million was related to asbestos, environmental matters and construction defect exposures at December 31, 2009. See MD&A, Critical Accounting Estimates, under the caption Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expense beginning on page 71 for a discussion of the Company s reserving process and the factors considered by the Company s actuaries in estimating the Company s Property and Casualty Insurance Reserves.

Table of Contents

The Company s goal is to ensure its total reserves for property and casualty insurance losses and LAE are adequate to cover all costs, while sustaining minimal variation from the time reserves for losses and LAE are initially estimated until losses and LAE are fully developed. Changes in the Company s estimates of these losses and LAE over time, also referred to as development, will occur and may be material. Favorable development is recognized and reported in the Consolidated Financial Statements when the Company decreases its previous estimate of ultimate losses and LAE and results in an increase in net income in the period recognized, whereas adverse development is recognized and reported in the Consolidated Financial Statements when the Company increases its previous estimate of ultimate losses and LAE and results in a decrease in net income. The Company recognized total favorable development of $80.9 million, $79.3 million and $101.1 million before tax for the years ended December 31, 2009, 2008 and 2007, respectively. Development for each of the Company s continuing business segments and Unitrin Business Insurance for the years ended December 31, 2009, 2008 and 2007, was:

	Favorable (Adverse) Development		
DOLLARS IN MILLIONS	**2009**	**2008**	**2007**
Continuing Operations:			
Kemper	**$ 60.5**	$ 61.0	$ 54.2
Unitrin Specialty	**7.9**	5.5	15.3
Unitrin Direct	**12.1**	(3.2)	(5.5)
Life and Health Insurance	**(2.6)**	(13.7)	(8.6)
Total Favorable Development from Continuing Operations, Net	**77.9**	49.6	55.4
Discontinued Operations:			
Unitrin Business Insurance, Net	**3.0**	29.7	45.7
Total Favorable Development, Net	**$ 80.9**	$ 79.3	$ 101.1

Development in the Company s Kemper segment comprised a substantial portion of the Company s development reported in continuing operations in 2009, 2008 and 2007. See MD&A, Critical Accounting Estimates, under the caption Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expense Kemper Development for additional information regarding this development. Adverse development in the Life and Health Insurance segment in 2008 and 2007 is due primarily to adverse development on Hurricanes Rita and Katrina. See MD&A, Catastrophes and Life and Health Insurance, and Note 25, Contingencies, to the Consolidated Financial Statements for additional information on the impact of catastrophes on the development reported for the Company s Life and Health Insurance segment. See MD&A, Catastrophes, Kemper, Unitrin Specialty, Unitrin Direct, and Life and Health Insurance for the impact of development on the results reported by the Compan business segments.

Development in Unitrin Business Insurance comprised all of the Company s development reported in discontinued operations. While development, either favorable or adverse, is likely for Unitrin Business Insurance, the Company expects that such development, as compared to the past three years, will not have as great of an impact as the losses and LAE continue to become more fully developed.

See Note 8, Property and Casualty Insurance Reserves to the Consolidated Financial Statements for a tabular reconciliation for the latest three one-year periods setting forth the Company s Property and Casualty Insurance Reserves as of the beginning of each year, incurred losses and LAE for insured events of the current year, changes in incurred losses and LAE for insured events of prior years, payments of losses and LAE for insured events of the current year, payments of losses and LAE for insured events of prior years and the Company s Property and Casualty Insurance Reserves at the end of the year and additional information regarding the nature of adjustments to incurred losses and LAE for insured events of prior years.

Ten Year Loss Development History

The following table illustrates the change over time in the Company s estimate of reserves for losses and LAE. The first section shows the amount of reserves reported in the Company s consolidated financial statements as originally reported at the end of each calendar year. The second section, reading down, shows the cumulative amount of payments made through the end of each successive year with respect to that reserve liability. The third section, reading down, shows a re-estimation of the original reserve shown in the first section. In the third section, the original reserve is re-estimated using information that has become known in subsequent years and as trends become more apparent. The last section compares the latest re-estimate with the original estimate. Conditions and trends that affected development in the past may not necessarily repeat in the future. Accordingly, it may not be appropriate to extrapolate reserve deficiencies or redundancies based on this table.

Table of Contents

Loss and Loss Adjustment Expense Reserve Development

	December 31,										
Dollars in Millions	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Gross Reserve for Unpaid Losses and LAE	$ 521	$ 541	$ 700	$ 975	$ 1,426	$ 1,511	$ 1,531	$ 1,433	$ 1,323	$ 1,269	$ 1,211
Deduct:											
Reinsurance Recoverables	35	36	62	92	325	229	209	138	85	85	77
Net Reserve for Unpaid Losses and LAE	$ 486	$ 505	$ 638	$ 883	$ 1,101	$ 1,282	$ 1,322	$ 1,295	$ 1,238	$ 1,184	$ 1,134
Cumulative Amount Paid, Net of Reinsurance as of:											
One Year Later	$ 229	$ 274	$ 341	$ 402	$ 407	$ 487	$ 508	$ 511	$ 518	$ 541	
Two Years Later	336	393	483	531	623	707	742	724	738		
Three Years Later	404	477	521	635	741	830	854	834			
Four Years Later	456	476	570	684	803	891	906				
Five Years Later	439	509	600	715	835	918					
Six Years Later	461	529	619	734	850						
Seven Years Later	476	543	632	745							
Eight Years Later	484	553	640								
Nine Years Later	492	556									
Ten Years Later	496										
Reestimate of Net Reserve for Unpaid Losses and LAE as of:											
End of Year	$ 486	$ 505	$ 638	$ 883	$ 1,101	$ 1,282	$ 1,322	$ 1,295	$ 1,238	$ 1,184	$ 1,134
One Year Later	485	564	720	886	1,062	1,190	1,230	1,195	1,159	1,103	
Two Years Later	495	612	722	879	1,026	1,131	1,158	1,106	1,088		
Three Years Later	533	619	724	872	1,006	1,088	1,106	1,054			
Four Years Later	544	623	725	857	980	1,049	1,068				
Five Years Later	548	624	719	840	951	1,033					
Six Years Later	549	623	709	819	947						
Seven Years Later	548	618	693	820							
Eight Years Later	543	608	694								
Nine Years Later	535	609									
Ten Years Later	536										

Table of Contents

Loss and Loss Adjustment Expense Reserve Development

DOLLARS IN MILLIONS	December 31, 1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Initial Net Reserve for Unpaid Losses and LAE in Excess Of (Less Than) Reestimated Net Reserve for Unpaid Losses and LAE:											
Amount of Reestimate	$ (50)	$ (104)	$ (56)	$ 63	$ 154	$ 249	$ 254	$ 241	$ 150	$ 81	
Reestimate as a Percentage of Initial Net Reserve for Unpaid Losses and LAE	(10.3)%	(20.6)%	(8.8)%	7.1%	14.0%	19.4%	19.2%	18.6%	12.1%	6.8%	
Latest Reestimate of:											
Gross Reserve for Unpaid Losses and LAE	$ 625	$ 708	$ 793	$ 916	$ 1,272	$ 1,275	$ 1,308	$ 1,202	$ 1,150	$ 1,148	
Recoverable for Reinsurance	89	99	99	96	325	242	240	148	62	45	
Net Reserve for Unpaid Losses and LAE	$ 536	$ 609	$ 694	$ 820	$ 947	$ 1,033	$ 1,068	$ 1,054	$ 1,088	$ 1,103	
Cumulative (Increase) Decrease to Reestimation of Gross Reserve for Unpaid Losses and LAE:	$ (104)	$ (167)	$ (93)	$ 59	$ 154	$ 236	$ 223	$ 231	$ 173	$ 121	

Table of Contents

The Company acquired Valley Group Inc. and its subsidiaries (VGI) in 1999. Under the agreement governing the acquisition of VGI, the Company was entitled to recover from the seller 90% of the unfavorable development of VGI s pre-acquisition loss and LAE reserves, subject to a maximum recovery of $50 million. Reserve development shown in the preceding table for the years 1999 to 2004 is net of changes in the Company s estimated recovery, which was received in 2004. Reserves increased in 2002 and 2003 partly due to the Company s acquisition of the personal lines business of KIC. At the end of 2002, the Company also acquired two insurance companies from SCOR. Reinsurance recoverable in 2003 and forward includes a recoverable from a subsidiary of SCOR under an indemnity reinsurance agreement whereby the subsidiary assumed the pre-acquisition liabilities of the two insurance companies acquired by the Company. In 2005, three major hurricanes that significantly impacted the Company (Katrina, Rita and Wilma) made landfall in the United States. Accordingly, reserves at December 31, 2005 increased as claims from these hurricanes were established for adjudication and declined in subsequent years as claims were paid. The Company acquired Merastar Insurance Company (Merastar) in 2007. Accordingly, reserves for this business are included in the table for 2007 and forward. In 2008, three major hurricanes that significantly impacted the Company (Dolly, Gustav and Ike) made landfall in the United States. Accordingly, reserves at December 31, 2008 increased as claims from these hurricanes were established for adjudication and declined in 2009 as claims were paid. The Company acquired Direct Response in 2009. Accordingly, reserves for this business are included in the table for 2009.

Reserve estimates increase or decrease as more information becomes known about individual claims and as changes in conditions and claims trends become more apparent. In 2009, the Company reduced Property and Casualty Insurance Reserves by $80.9 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by $72.3 million and commercial lines, including discontinued operations, developed favorably by $8.6 million. Personal insurance losses and LAE developed favorably in 2009 due primarily to the emergence of more favorable loss trends for the 2007, 2006 and 2005 accident years due to improvements in the Company s claims handling procedures and favorable development on catastrophes. In 2008, the Company reduced Property and Casualty Insurance Reserves by $79.3 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by $45.8 million and commercial lines insurance losses and LAE reserves developed favorably by $33.5 million in 2008. Personal lines insurance losses and LAE reserves developed favorably in 2008 due primarily to the emergence of more favorable loss trends than expected for the 2006 and 2005 accident years due to the improvements in the Company s claims handling procedures, partially offset by adverse development of $8.9 million related to certain re-opened claims from Hurricane Rita, which occurred in the 2005 accident year. Commercial lines insurance losses and LAE reserves developed favorably in 2008 primarily in the Company s discontinued operations. During the fourth quarter of 2008, the Company s actuaries conducted their regular reserve review of the Unitrin Business Insurance run-off business for all traditional reserving groups. In addition, the Company s actuaries updated certain analyses using the Company s experience as well as more recent industry studies to re-estimate asbestos, environmental liabilities and construction defect liabilities. These updated analyses, along with the actuaries regular reserve reviews during 2008, resulted in favorable reserve development of $29.7 million in 2008. In 2007, the Company reduced Property and Casualty Insurance Reserves by $101.1 million to record favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE and commercial lines insurance losses and LAE developed favorably by $44.4 million and $56.7 million, respectively, in 2007. The reserve reductions were primarily due to the emergence of more favorable loss trends than expected for the 2006, 2005 and 2004 accident years, partially due to the improvements in the Company s claims handling procedures. In 2006, the Company reduced Property and Casualty Insurance Reserves by $91.6 million to record favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE and commercial lines insurance losses and LAE developed favorably by $63.6 million and $28.0 million, respectively, in 2006. The reserve reductions were primarily due to the emergence of more favorable loss trends than expected for the 2005 and 2004 accident years, partially due to the improvements in the Company s claims handling procedures. In 2005, the Company reduced Property and Casualty Insurance Reserves by $92.1 million to record favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE and commercial lines insurance losses and LAE developed favorably by $73.1 million and $19.0 million,

Table of Contents

respectively, in 2005. The reserve reductions were primarily due to the emergence of more favorable loss trends than expected for the 2004 and 2003 accident years, partially due to improvements in the Company s claims handling procedures. In 2004, the Company reduced Property and Casualty Insurance Reserves by $39.0 million to record favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE and commercial lines insurance losses and LAE developed favorably by $29.7 million and $9.3 million, respectively, in 2004. The reserve reductions were primarily due to favorable development of the 2003 accident year. During 2001 and 2002, the Company increased Property and Casualty Insurance Reserves to reflect adverse development due to developing loss trends primarily related to construction defect, mold, automobile liability and product liability loss exposures in its commercial lines of business as well as personal automobile liability.

The Company does not discount reserves. There are no significant differences between the Company s property and casualty reserves carried on a statutory basis and those computed in accordance with accounting principles generally accepted in the United States of America, except that such reserves for statutory reporting purposes are reported net of reinsurance in the statutory financial statements.

Catastrophe Losses

Catastrophes and storms are inherent risks of the property and casualty insurance business. These catastrophic events and natural disasters include, without limitation, hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds and winter storms. Such events result in insured losses that are, and will continue to be, a material factor in the results of operations and financial position of Unitrin s property and casualty insurance companies. Further, because the level of insured losses that could occur in any one year cannot be accurately predicted, these losses contribute to material year-to-year fluctuations in the results of the operations and financial position of these companies. Specific types of catastrophic events are more likely to occur at certain times within the year than others. This factor adds an element of seasonality to property and casualty insurance claims. The occurrence and severity of catastrophic events are difficult to accurately predict in any year. However, some geographic locations are more susceptible to these events than others. Management has endeavored to control its direct insurance exposures in certain regions that are prone to naturally occurring catastrophic events through a combination of geographic diversification, restrictions on the amount and location of new business production in such regions, and reinsurance. The Company has adopted the industry-wide catastrophe classifications of storms and other events promulgated by Insurance Services Office, Inc. (ISO) to track and report losses related to catastrophes. ISO classifies a disaster as a catastrophe when the event causes $25.0 million or more in direct losses to property and affects a significant number of policyholders and insurers. ISO-classified catastrophes are assigned a unique serial number recognized throughout the insurance industry. The discussions throughout this 2009 Annual Report on Form 10-K utilize ISO s definition of catastrophes.

The process of estimating and establishing reserves for catastrophe losses is inherently uncertain and the actual ultimate cost of a claim, net of reinsurance recoveries, may vary materially from the estimated amount reserved. See Note 22, Catastrophe Reinsurance, to the Consolidated Financial Statements for a discussion of the factors that influence the process of estimating and establishing reserves for catastrophes.

Table of Contents

Reinsurance

The Company manages its exposure to catastrophes and other natural disasters through a combination of geographical diversification, restrictions on the amount and location of new business production in certain regions, and reinsurance. To limit its exposures to catastrophic events, the Company maintains various primary catastrophe reinsurance programs for its property and casualty insurance businesses. Coverage for each primary catastrophe reinsurance program is provided in various layers. In addition to these programs, the Company purchases reinsurance from the Florida Hurricane Catastrophe Fund (the FHCF) for hurricane losses in Florida at retentions lower than those described below for the Company s primary catastrophe reinsurance programs. See Note 22, Catastrophe Reinsurance, to the Consolidated Financial Statements for information pertaining to the Company s primary catastrophe reinsurance programs for 2009, 2008 and 2007. The Company s catastrophe reinsurance programs for 2010 are described below.

Coverage for each catastrophe reinsurance program effective January 1, 2010 is provided in various layers as presented below:

	Catastrophe Losses and LAE		
DOLLARS IN MILLIONS	**In Excess of**	**Up to**	**Percentage of Coverage**
Kemper Segment			
Retained	$	$ 50.0	%
1st Layer of Coverage	50.0	100.0	65.0
2nd Layer of Coverage	100.0	200.0	95.0
3rd Layer of Coverage	200.0	350.0	90.0
Unitrin Direct and Unitrin Specialty Segments			
Retained	$	$ 3.0	%
1st Layer of Coverage	3.0	16.0	100.0
Life and Health Insurance Segment Property Insurance Operations			
Retained	$	$ 8.0	%
1st Layer of Coverage	8.0	15.0	88.5
2nd Layer of Coverage	15.0	40.0	100.0

The estimated aggregate annual premiums in 2010 are $22.0 million for the Kemper segment program, $1.2 million for the Unitrin Direct and Unitrin Specialty segments program and $3.0 million for the Life and Health Insurance segment program.

In the event that the Company s incurred catastrophe losses and LAE covered by any of its catastrophe reinsurance programs exceed the retention for a particular layer, each of the programs above requires one reinstatement of such coverage. In such an instance, the Company is required to pay a reinstatement premium to the reinsurers to reinstate the full amount of reinsurance available under such layer. The reinstatement premium is a percentage of the original premium based on the ratio of the losses exceeding the Company s retention to the reinsurers coverage limit.

In addition to the catastrophe loss exposures caused by natural events described above, Unitrin s property and casualty insurance companies are exposed to losses from catastrophic events that are not the result of acts of nature, such as acts of terrorism, the nature and level of which in any period are very difficult to predict. While there were no reported losses experienced by Unitrin s property and casualty insurance companies in relation to the terrorist attacks on September 11, 2001, the companies have reinsurance coverage to address certain exposures to potential future terrorist attacks. The reinsurance coverage for certified events, as designated by the federal government, is from the Terrorist Risk Insurance Act and the coverage for non-certified events is available in the catastrophe reinsurance program for Unitrin s property and casualty insurance companies. However, certain perils, such as biological, chemical, nuclear pollution or contamination, are excluded from the Company s reinsurance coverage for non-certified events.

Table of Contents

In addition to the catastrophe reinsurance programs described above, Unitrin s property and casualty insurance companies utilize other reinsurance arrangements to limit their maximum loss, provide greater diversification of risk and minimize exposures on larger risks.

Under the various reinsurance arrangements, Unitrin s property and casualty insurance companies are indemnified by reinsurers for certain losses incurred under insurance policies issued by the companies. As indemnity reinsurance does not discharge an insurer from its direct obligations to policyholders on risks insured, Unitrin s property and casualty insurance companies remain directly liable. However, so long as the reinsurers meet their obligations, the net liability for Unitrin s property and casualty insurance companies is limited to the amount of risk that they retain. Unitrin s property and casualty insurance companies purchase their reinsurance only from reinsurers rated A- or better by A. M. Best at the time of purchase.

For further discussion of the reinsurance programs, see Note 8, Property and Casualty Insurance Reserves, Note 22, Catastrophe Reinsurance, and Note 23, Other Reinsurance, to the Consolidated Financial Statements.

Pricing

Pricing levels for property and casualty insurance are influenced by many factors, including the frequency and severity of claims, state regulation and legislation, competition, general business and economic conditions including market rates of interest, inflation, expense levels, and judicial decisions. In addition, many state regulators require consideration of investment income when approving or setting rates, which reduces underwriting margins. See MD&A under the captions Kemper, Unitrin Specialty and Unitrin Direct.

Competition

Based on the most recent annual data published by A.M. Best as of the end of 2008, there were approximately 1,000 property and casualty insurance groups in the United States, made up of approximately 2,400 companies. Unitrin s property and casualty insurance companies ranked among the 75 largest property and casualty insurance groups in the United States, measured by net premiums written (40th), policyholders surplus (74th) and admitted assets (75th). Unitrin s property and casualty insurance companies ranked among the 25 largest personal automobile insurance writers, measured by written premium.

In 2008, the property and casualty insurance industry s estimated net premiums written were more than $436 billion, of which 79% were accounted for by the top 50 groups of property and casualty insurance companies. Unitrin s property and casualty insurance companies wrote less than 1% of the industry s estimated 2008 premium volume.

Property and casualty insurance is a highly competitive business, particularly with respect to personal automobile insurance. Unitrin s property and casualty insurance companies compete on the basis of, among other measures, (i) using appropriate pricing, (ii) maintaining underwriting discipline, (iii) selling to selected markets, (iv) utilizing technological innovations for the marketing and sale of insurance, (v) controlling expenses, (vi) maintaining adequate ratings from A.M. Best and other ratings agencies, (vii) providing quality services to agents and policyholders, and (viii) making strategic acquisitions of suitable property and casualty insurers.

Life and Health Insurance Business

The Company s Life and Health Insurance segment consists of Unitrin s wholly-owned subsidiaries, United Insurance, The Reliable Life Insurance Company (Reliable), Union National Life Insurance Company (Union National Life), Mutual Savings Life Insurance Company (Mutual Savings Life), United Casualty Insurance Company of America (United Casualty), Union National Fire Insurance Company (Union National Fire), Mutual Savings Fire Insurance Company (Mutual Savings Fire) and Reserve National. As discussed below,

Table of Contents

United Insurance, Reliable, Union National Life, Mutual Savings Life, United Casualty, Union National Fire and Mutual Savings Fire (the Career Agency Companies) distribute their products through a network of employee, or career, agents. Reserve National distributes its products through a network of exclusive independent agents. Both these career agents and independent agents are paid commissions for their services. In 2009, the following states provided more than two-thirds of the Life and Health Insurance segment s premium revenues: Texas (22%), Louisiana (11%), Alabama (7%), Mississippi (6%), Florida (5%), Georgia (4%), California (4%), Illinois (4%), North Carolina (4%) and South Carolina (3%). Life insurance accounted for 16%, 17% and 17% of the Company s consolidated insurance premiums earned from continuing operations for the years ended December 31, 2009, 2008 and 2007, respectively. Life insurance accounted for 14%, 15% and 13% of Unitrin s consolidated revenues from continuing operations for the years ended December 31, 2009, 2008 and 2007, respectively.

Career Agency Companies

The Career Agency Companies, based in St. Louis, Missouri, focus on providing individual life and health insurance products to customers of modest incomes who desire basic protection for themselves and their families. Their leading product is ordinary life insurance, including permanent and term insurance. Face amounts of these policies are lower than those of policies typically sold to higher income customers by other companies in the life insurance industry. Premiums average about $15 per policy per month. Permanent policies are offered primarily on a non-participating, guaranteed-cost basis. Approximately 80% of the Life and Health Insurance segment s premium revenues are generated by the Career Agency Companies.

The Career Agency Companies employ nearly 2,600 career agents to distribute their products in 25 states. These career agents are full-time employees who call on customers in their homes to sell insurance products, provide services related to policies in force and collect premiums, typically monthly. The Life and Health Insurance segment s career agents also distribute certain property insurance products.

Customers of the Career Agency Companies generally are families with annual incomes of less than $25,000. According to the U.S. Bureau of the Census, in 2008, there were approximately 26.2 million households in the United States with less than $25,000 of annual income, representing approximately 23.3% of all U.S. households.

Reserve National

Reserve National, based in Oklahoma City, Oklahoma, is licensed in 34 states throughout the south, southwest and midwest, and specializes in the sale of accident and health insurance products and Medicare Supplement insurance, primarily to individuals living in rural areas where health maintenance organizations and preferred provider organizations are less prevalent. See MD&A, Life and Health Insurance and Critical Accounting Estimates, Note 7, Goodwill, to the Consolidated Financial Statements, and Item 1A., Risk Factors, under the caption Reserve National s business model is vulnerable to American health care reform, for a discussion of the impact of American health care reform on Reserve National.

Reserve National has approximately 275 independent agents appointed to market and distribute its products. These agents typically represent only Reserve National.

Reinsurance

Consistent with insurance industry practice, Unitrin s life and health insurance companies utilize reinsurance arrangements to limit their maximum loss, provide greater diversification of risk and minimize exposures on larger risks. Included among the segment s reinsurance arrangements is excess of loss reinsurance coverage specifically designed to protect against losses arising from catastrophic events under the property insurance policies distributed by the Career Agency Companies agents and written by Unitrin s subsidiaries, United Casualty, Union National Fire and Mutual Savings Fire, and reinsured by Unitrin s Subsidiary, Trinity, or written by Capitol County Mutual Fire Insurance Company (Capitol), a mutual insurance company owned by its policyholders, and its subsidiary, Old Reliable Casualty Company (ORCC), and reinsured by Trinity. The annual catastrophe reinsurance program for the Career Agency Companies, Capitol and ORCC is described above in the discussion of Reinsurance under Property and Casualty Insurance Business of this Item 1 beginning on page 12. Also see MD&A Catastrophes and Note 22, Catastrophe Reinsurance to the Consolidated Financial Statements for additional information pertaining to the Life and Health Insurance segment s catastrophe reinsurance program.

Lapse Ratio

The lapse ratio is a measure of a life insurer s loss of existing business. For a given year, this ratio is commonly computed as the total face amount of individual life insurance policies lapsed, surrendered, expired and decreased during such year, less policies increased and revived during such year, divided by the total face amount of policies at the beginning of the year plus the face amount of policies issued and reinsurance assumed in the prior year. The Life and Health Insurance segment s lapse ratio for individual life insurance was 9%, 9% and 10% in 2009, 2008 and 2007, respectively.

The customer base served by the Career Agency Companies and competing life insurance companies tends to have a higher incidence of lapse than other demographic segments of the population. Thus, to maintain or increase the level of its business, the Career Agency Companies must write a high volume of new policies.

Pricing

Premiums for life and health insurance products are based on assumptions with respect to mortality, morbidity, investment yields, expenses, and lapses and are also affected by state laws and regulations, as well as competition. Pricing assumptions are based on the experience of Unitrin s life and health insurance subsidiaries, as well as the industry in general, depending upon the factor being considered. The actual profit or loss produced by a product will vary from the anticipated profit if the actual experience differs from the assumptions used in pricing the product.

Premiums for policies sold by the Career Agency Companies are set at levels designed to cover the relatively high cost of in home servicing of such policies. As a result of such higher expenses, incurred claims as a percentage of earned premiums tend to be lower for companies utilizing this method of distribution than the life insurance industry average.

Premiums for Medicare supplement and other accident and health policies must take into account the rising costs of medical care. The annual rate of medical cost inflation has historically been higher than the general rate of inflation, necessitating frequent rate increases, most of which are subject to approval by state regulatory agencies.

Competition

Based on the most recent data published by A.M. Best as of the end of 2008, there were approximately 386 life and health insurance company groups in the United States, made up of approximately 1,858 companies. The Unitrin Life and Health Insurance segment ranked in the top quartile of life and health insurance company groups, as measured by admitted assets (84th), net premiums written (92nd) and capital and surplus (91st).

Unitrin s life and health insurance subsidiaries generally compete by using appropriate pricing, selling to selected markets, controlling expenses, maintaining adequate ratings from A.M. Best and providing competitive services to agents and policyholders.

Table of Contents

Automobile Finance Business

On March 24, 2009, Unitrin announced that Fireside Bank would be suspending all new lending activity as part of a plan to exit the automobile finance business. Fireside Bank is based in Pleasanton, California and organized under California law as an industrial bank, and its deposits are insured by the Federal Deposit Insurance Corporation (the FDIC). Fireside Bank s principal business was the financing of used automobiles through the purchase of retail installment contracts from automobile dealers and is now limited to the collection and servicing of those accounts. The borrowers under these contracts typically have marginal credit histories and are considered to be sub-prime.

At December 31, 2009, the following states comprised over four-fifths of Fireside Bank s outstanding loans and contracts: California (64%), Oregon (5%), Washington (5%), Colorado (5%) and Arizona (5%). Fireside Bank has over 90,000 contracts and loans outstanding, totaling in excess of $700 million.

Strong collection and loan servicing practices are key elements to the successful execution of the plan to exit the automobile finance business. Over 80% of Fireside Bank s employees are now directly involved in loan collection and servicing activities. Collections and servicing activities are conducted from its Pleasanton call center in California and from a collection call center in Arizona. See the discussion of loan loss reserves under the headings Fireside Bank and Critical Accounting Estimates in the MD&A and Note 1, Basis of Presentation and Significant Estimates, Note 2, Summary of Accounting Policies and Accounting Changes, and Note 6, Automobile Loan Receivables, to the Consolidated Financial Statements.

Fireside Bank s financing activities are funded primarily by FDIC-insured certificates of deposits. Fireside Bank s deposits were originated through its then-existing California branch network, brokers and over the Internet. Fireside Bank no longer accepts new deposits or allows existing deposits to roll over at maturity.

Investments

The quality, nature, and amount of the various types of investments which can be made by insurance companies are regulated by state laws. Depending on the state, these laws permit investments in qualified assets including, but not limited to, municipal, state and federal government obligations, corporate bonds, real estate, preferred and common stocks, investment partnerships, limited liability investment companies and limited partnerships and mortgages where the value of the underlying real estate exceeds the amount of the loan.

The Company employs a total return investment strategy, with an emphasis on yield, while maintaining liquidity to meet both its short and long-term insurance obligations primarily through the combination of investment-grade fixed maturity investments and, to a lesser extent, equity securities with the potential for long-term price appreciation. See the discussions of the Company s investments under the headings Critical Accounting Estimates, Investment Results, Investment Quality and Concentrations, Securities Lending, Credit Default Swaps and Hedging Activities, Distressed and Mezzanine Debt and Secondary Transactions Investments and Liquidity and Capital Resources in the MD&A, Quantitative and Qualitative Disclosures about Market Risk, in Item 7A and Note 5, Investments, and Note 17, Income from Investments, to the Consolidated Financial Statements.

Regulation

Insurance Regulation

Unitrin is subject to the insurance holding company laws of a number of states. Certain dividends and distributions by an insurance subsidiary are subject to approval by the insurance regulators of the state of incorporation of such subsidiary. Other significant transactions between an insurance subsidiary and its holding company or other subsidiaries of the holding company may require approval by insurance regulators in the state of incorporation of each of the insurance subsidiaries participating in such transactions.

Table of Contents

Unitrin s insurance subsidiaries are subject to extensive regulation in the states in which they do business. Such regulation pertains to a variety of matters, including policy forms, premium rate plans, licensing of agents, licenses to transact business, trade practices, investments and solvency. The majority of Unitrin s insurance operations are in states requiring prior approval by regulators before proposed rates for property, casualty, or health insurance policies may be implemented. However, rates proposed for life insurance generally become effective immediately upon filing with a state, even though the same state may require prior rate approval for other types of insurance. Insurance regulatory authorities perform periodic examinations of an insurer s market conduct and other affairs.

Insurance companies are required to report their financial condition and results of operation in accordance with statutory accounting principles prescribed or permitted by state insurance regulators in conjunction with the National Association of Insurance Commissioners (the NAIC). State insurance regulators also prescribe the form and content of statutory financial statements, perform periodic financial examinations of insurers, set minimum reserve and loss ratio requirements, establish standards for the types and amounts of investments and require minimum capital and surplus levels. Such statutory capital and surplus requirements include risk-based capital (RBC) rules promulgated by the NAIC. These RBC standards are intended to assess the level of risk inherent in an insurance company s business and consider items such as asset risk, credit risk, underwriting risk and other business risks relevant to its operations. In accordance with RBC formulas, a company s RBC requirements are calculated and compared to its total adjusted capital to determine whether regulatory intervention is warranted. At December 31, 2009, the total adjusted capital of each of Unitrin s insurance subsidiaries exceeded the minimum levels required under RBC rules.

Unitrin s insurance subsidiaries are required under the guaranty fund laws of most states in which they transact business to pay assessments up to prescribed limits to fund policyholder losses or liabilities of insolvent insurance companies. Unitrin s insurance subsidiaries also are required to participate in various involuntary pools or assigned risk pools, principally involving windstorms and high risk drivers. In most states, the involuntary pool participation of Unitrin s insurance subsidiaries is in proportion to their voluntary writings of related lines of business in such states.

In addition to the regulatory requirements described above, a number of legislative and regulatory measures pending or enacted in recent years may significantly affect the insurance business in a variety of ways. These measures include, among other things, tort reform, consumer privacy requirements, credit score regulation, producer compensation regulations, corporate governance requirements and financial services deregulation initiatives.

State insurance laws intended primarily for the protection of policyholders contain certain requirements that must be met prior to any change of control of an insurance company or insurance holding company that is domiciled or, in some cases, an insurance company having such substantial business that it is deemed commercially domiciled, in that state. These requirements may include the advance filing of specific information with the state insurance regulators, a public hearing on the matter, and the review and approval of the change of control by such regulators. The Company has insurance subsidiaries domiciled in a number of states, including Alabama, California, Connecticut, Illinois, Indiana, Louisiana, Missouri, New York, Oklahoma, Oregon, Texas, Washington and Wisconsin. In these states, except Alabama, control generally is presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of an insurance company. Control is presumed to exist in Alabama with a 5% or more ownership interest in such securities. Any purchase of Unitrin s shares that would result in the purchaser owning Unitrin s voting securities in the foregoing percentages for the states indicated would be presumed to result in the acquisition of control of Unitrin s insurance subsidiaries in those states. Therefore, acquisitions subject to the 10% threshold generally would require the prior approval of the insurance regulatory authorities in each state in which Unitrin s insurance subsidiaries are domiciled or deemed to be commercially domiciled, including those in Alabama, while acquisitions subject to the 5% threshold generally would require the prior approval of only Alabama regulatory authorities. In addition, many states require pre-acquisition notification to the state insurance regulators of a change of control of an insurance company licensed in that state if specific market concentration thresholds would be triggered by the acquisition.

Table of Contents

While those pre-acquisition notification statutes generally do not authorize the state insurance regulators to disapprove the change of control, they do authorize the issuance of a cease and desist order with respect to the insurance company if certain conditions, such as undue market concentration, would result from the acquisition. These insurance regulatory requirements may deter, delay or prevent transactions effecting control of the Company or the ownership of Unitrin s voting securities, including transactions that could be advantageous to Unitrin s shareholders.

Fireside Bank Regulation

Fireside Bank is an industrial bank regulated by the California Department of Financial Institutions (the CDFI). Under California banking law, Fireside Bank is permitted to engage in the activities of a commercial bank, except the activity of accepting demand deposits, and is generally subject to the same laws and regulations to which commercial banks are subject under the California banking law. Fireside Bank s activities are now limited to the servicing of its existing loan and deposit customers. In addition, since Fireside Bank s deposits are insured by the FDIC, it is subject to a broad system of regulation under the Federal Deposit Insurance Act, FDIC regulations and other federal regulations. The regulations of these state and federal agencies govern most aspects of Fireside Bank s business, and are generally intended to protect a bank s depositors, creditors, borrowers and the deposit insurance fund. They impose reporting obligations, minimum capitalization requirements, limitations on dividends, investments, loans, borrowings, branching, mergers and acquisitions, reserves against deposits, and other requirements, including those relating to privacy, fairness in consumer credit, and prevention and detection of fraud and financial crime. Federal law also imposes certain restrictions on Fireside Bank s transactions with the Company and other affiliates, and certain fair lending and reporting requirements involving consumer lending operations and Community Reinvestment Act activities.

On March 24, 2009, Unitrin announced that Fireside Bank would be suspending all new lending activity as part of a plan to exit the automobile finance business. The exit plan envisions an orderly wind-down of Fireside Bank s operations over the next several years, during which time Fireside Bank will continue to collect outstanding loan balances and make interest payments and redemptions on outstanding certificates of deposits in the ordinary course of business. Following the announcement, Fireside Bank ceased accepting new loan applications and purchasing retail installment contracts from automobile dealers. Fireside Bank also has ceased opening new certificate of deposit accounts and no longer permits depositors to renew existing certificates of deposits when they mature. During 2009, Fireside Bank also closed all of its branch offices and reduced its staffing. Effective December 21, 2009, Fireside Bank agreed to and became the subject of a consent order issued by the FDIC and CDFI. The consent order requires Fireside Bank to develop and submit to the FDIC and CDFI a written liquidation plan and to update that plan by November 30 of each year. Other requirements of the consent order include: (i) certain restrictions and procedures relative to Fireside Bank s management and directors; (ii) the adoption of certain policies and procedures and the submission of quarterly reports to the FDIC and CDFI; (iii) the maintenance of a minimum ratio of Tier 1 capital to total assets of 15%; (iv) the maintenance of adequate reserves for loan losses; and (v) restrictions on the payment of dividends by Fireside Bank to Unitrin. Given the current status of Fireside Bank s ongoing run-off plan, Fireside Bank s management does not consider the terms of the consent order to be onerous nor does it believe that compliance with the order will have a material adverse affect on Fireside Bank, the run-off plan or Unitrin s ability to recover its investment in Fireside Bank over the next several years.

In response to the U.S. financial crisis, a number of bills have been introduced in the U.S. Congress to reform the U.S. bank regulatory system. Of special note is H.R. 4173, passed by the U.S. House of Representatives on December 11, 2009. H.R. 4173 would create an inter-agency Financial Services Oversight Council to (i) identify and regulate financial institutions that pose systemic risks; (ii) restructure the responsibilities of some of the federal bank regulatory agencies; (iii) impose new regulatory restrictions on financial services companies; (iv) impose new disclosures and limitations on executive pay; (v) establish a new Consumer Financial Protection Agency with rulemaking, supervision, and enforcement authority over consumer financial activities of banking and non-bank financial institutions; (vi) and establish a Federal Insurance Office in the U.S. Department of

Table of Contents

Treasury to address certain issues relating to the insurance industry. Once effective, H.R. 4173 would require Unitrin, so long as it owns Fireside Bank, to establish a Section 6 holding company that would hold all of its financial activities (including insurance activities). A Section 6 holding company would have to register as a bank holding company with the Federal Reserve Board, and it would be subject to regulation and the exercise of enforcement powers by the Federal Reserve Board. Unitrin would be required to serve as a source of strength for the Section 6 holding company. If any legislation ultimately enacted, if it may have considerably different provisions from those currently proposed.

Item 1A. Risk Factors.

Most issuers, including Unitrin, are exposed to numerous risk factors that could cause actual results to differ materially from recent results or anticipated future results. The following discussion details the significant risk factors that are more specific to Unitrin. In addition to those described below, the Company s business, financial condition and results of operation could be materially affected by other factors not presently known by, or considered material to, the Company. Readers are advised to consider these factors along with the other information included in this 2009 Annual Report on Form 10-K, and to consult any further disclosures Unitrin makes on related subjects in its filings with the SEC.

Catastrophe losses, whether resulting from natural disasters, terrorism or other man-made events, and reinsurance risks could adversely affect the Company s results of operations, liquidity or financial condition.

Property and casualty insurance companies are subject to claims arising out of catastrophes that may have a significant effect on their results of operations, liquidity and financial condition. Catastrophes can be caused by various events, including hurricanes, tornadoes, windstorms, earthquakes, hail storms, explosions, severe winter weather and wildfires and may include man-made events, such as terrorist attacks. The incidence, frequency and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event.

Unitrin s Life and Health Insurance subsidiaries are particularly exposed to risks of catastrophic mortality, such as pandemic or other events that result in large numbers of deaths. In addition, the occurrence of such an event in a concentrated geographic area could have a severe disruptive effect on the Company s workforce and business operations. The likelihood and severity of such events can not be predicted and are difficult to estimate.

Unitrin s insurance subsidiaries seek to reduce their exposure to catastrophe losses through underwriting strategies and the purchase of catastrophe reinsurance. Reinsurance does not relieve Unitrin s insurance subsidiaries of their direct liability to their policyholders. As long as the reinsurers meet their obligations, the net liability for Unitrin s insurance subsidiaries is limited to the amount of risk that they retain. While the Company s principal reinsurers are each rated A- or better by A.M. Best at the time reinsurance is purchased, the Company cannot be certain that reinsurers will pay the amounts due from them either now, in the future, or on a timely basis, which could impact the Company s liquidity. A reinsurer s insolvency or inability to make payments under the terms of its reinsurance agreement with Unitrin s insurance subsidiaries could have a material adverse effect on the Company s financial position and results of operations.

In addition, market conditions beyond the Company s control determine the availability and cost of the reinsurance protection Unitrin s insurance subsidiaries may purchase. A decrease in the amount of reinsurance protection that Unitrin s insurance subsidiaries purchase generally should decrease their cost of reinsurance, but increase their risk of loss. An increase in the amount of reinsurance protection that Unitrin s insurance subsidiaries purchase generally should increase their cost of reinsurance, but decrease their risk of loss. However, if the amount of reinsurance available is reduced, Unitrin s insurance subsidiaries could pay more for the same level, or a lower level, of reinsurance coverage. Accordingly, the Company may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect the ability of Unitrin s insurance subsidiaries to write future business or result in their retaining more risk with respect to their insurance policies.

Table of Contents

Significant catastrophe events may also result in residual market assessments and assessments for insurance industry insolvencies. Although the occurrence and amount of any such assessments can not be predicted, a significant assessment against one of Unitrin s insurance subsidiaries could adversely affect the results of its operations for the affected reporting period.

Estimating losses and LAE for determining property and casualty insurance reserves, or determining premium rates, is inherently uncertain, and the Company s results of operations may be materially impacted if the Company s insurance reserves or premium rates are insufficient.

The Company establishes loss and LAE reserves to cover estimated liabilities, which remain unpaid as of the end of each accounting period, and to investigate and settle all claims incurred under the property and casualty insurance policies that it has issued. Loss and LAE reserves are established for claims that have been reported to the Company as of the end of the accounting period, as well as for claims that have occurred but have not yet been reported to the Company. The estimates of loss and LAE reserves are based on the Company s assessment of the facts and circumstances known to it at the time, as well as estimates of the impact of future trends in the severity of claims, the frequency of claims and other factors. See MD&A, Critical Accounting Estimates, under the caption Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses beginning on page 71 for a discussion of the Company s reserving process and the factors considered by the Company s actuaries in estimating the Company s Property and Casualty Insurance Reserves.

As the process of estimating property and casualty insurance reserves is inherently uncertain, the reserves established by the Company are not precise estimates of liability and could prove to be inadequate to cover its ultimate losses and expenses. The process of estimating loss reserves is complex and imprecise. The estimate of the ultimate cost of claims must take into consideration many factors that are dependent on the outcome of future events. The impacts on the Company s estimate of property and casualty insurance reserves from these factors are difficult to estimate accurately. A change in any one or more of the factors is likely to result in a projected ultimate loss that is different than the previous projected ultimate loss, and may have a material impact on the Company s estimate of the projected ultimate loss. Increases in the estimates of ultimate losses and LAE will decrease earnings, while decreases in such estimates will increase earnings, as reported by the Company in the results of its operations for the periods in which the changes to the estimates are made by the Company.

The Company s actuaries also consider trends in the severity and frequency of claims and other factors, when determining the premium rates to charge for its property and casualty insurance products. A change in any one or more of these factors or trends, as well as competitive conditions, may also result in inadequate premium rates charged for insurance policies issued by Unitrin s property and casualty insurance subsidiaries in the future. Such pricing inadequacies could have a material impact on the Company s operating results.

The success of Fireside Bank s plan to exit the automobile finance business is subject to risk.

The results of operations and financial condition of Fireside Bank and the success of the Company s announced plan to exit the automobile finance business, including, but not limited to, the recovery of Unitrin s investment in Fireside Bank depend, to a large extent, on the performance of its automobile loan receivable portfolio. Automobile loan borrowers may default during the terms of their loans. Fireside Bank bears the full risk of losses resulting from defaults. In the event of a default, the collateral value of the financed vehicle usually does not cover the outstanding loan balance and costs of recovery. A substantial portion of Fireside Bank s automobile loan receivable portfolio is considered sub-prime. The risk of default for sub-prime loans is higher than for prime loans and has been accentuated by recent economic conditions. Approximately 65% of Fireside Bank s automobile loan portfolio is concentrated in loans to borrowers residing in California, where the unemployment rate has been higher than the national average. Continued economic stress in the California economy could result in increases over time in loan delinquencies and loan charge-offs in Fireside Bank s loan portfolio and consequent adverse effects on the execution of Fireside Bank s plan to exit the automobile finance business.

Fireside Bank maintains an allowance for loan losses that represents management s best estimate of the inherent losses in Fireside Bank s automobile loan receivable portfolio. If the allowance is inadequate, Fireside Bank would recognize losses in excess of that allowance as an expense in the period that the Company determines that the allowance is inadequate. Accordingly, the Company s results of operations could be adversely affected. A material increase to the allowance for loan losses could also result in Fireside Bank s ratio of Tier 1 capital to total assets falling below 15%, the minimum ratio level at which Fireside Bank has agreed with its regulators to maintain. In such a case, the Company would likely contribute additional amounts of capital to Fireside Bank. Such contributions could impact Unitrin s liquidity and capital resources available for other corporate purposes.

Fireside Bank has funded its automobile loan portfolio by issuing certificates of deposits. Accordingly, Fireside Bank is exposed to interest rate risk. While market interest rates for certificates of deposits have remained lower than the interest rates inherent in the outstanding certificates of deposits issued by Fireside Bank, an increase in market interest rates above those of Fireside Bank s outstanding certificates of deposits could result in redemptions of certificates by Fireside Bank s depositors at a greater pace than anticipated in Fireside Bank s exit plan, and at a greater pace than collections of its automobile loan portfolio. In such a case, Unitrin may need to advance funds to Fireside Bank under an intercompany line of credit it has extended to Fireside Bank and may need to increase the line of credit. Advances under the intercompany line of credit could impact Unitrin s liquidity and capital resources available for other corporate purposes.

Effective December 21, 2009, Fireside Bank agreed to and became the subject of a consent order issued by the FDIC and CDFI. The consent order requires Fireside Bank to develop and submit a written liquidation plan to these agencies and to update that plan by November 30 of each year. The consent order imposes a number of additional requirements on Fireside Bank. Any failure to comply with the consent order could subject Fireside Bank to the exercise of enforcement remedies by the FDIC and CDFI. For more information about the consent order, see Fireside Bank Regulation under Regulation in Item 1, beginning on page 18.

Reserve National s business model is vulnerable to American health care reform.

The U. S. House of Representatives and the U.S. Senate passed separate, but not identical, bills in late 2009 which would effect sweeping changes to the American health care system. In the event that some version of these bills is enacted into law, Reserve National s business model, which focuses on providing limited health insurance coverages to persons who lack access to traditional private options, would likely be adversely affected. Depending on the provisions of any such law ultimately enacted, Reserve National might suffer significant loss of revenue and might not be able to compete effectively in the markets that it has historically served. In particular, provisions in both of the bills passed by the House and Senate would establish minimum loss ratios for health insurance policies significantly above the levels historically experienced by Reserve National. Such minimum loss ratios could adversely impact Reserve National s ability to achieve an adequate return and may result in a significant loss of business for Reserve National. A significant loss of business could have a material adverse effect on the financial condition and results of operations of Reserve National and could adversely impact the Company s ability to fully realize its investment in Reserve National, including the recoverability of $14.8 million of goodwill. Reserve National reported earned premiums of $127.0 million and net income of $3.1 million for the year ended December 31, 2009.

The Unitrin Direct segment may not reach consistent profitability or an adequate rate of return.

The Unitrin Direct segment reported significant operating losses in each of the last three years, though it operated profitably during each of the past two quarters. The Company has taken a number of actions intended to improve Unitrin Direct s operating results including, but not limited to, implementing premium rate increases in most states, improving insurance risk selection and retention, reducing marketing spending, modifying its direct marketing program to target a better response rate and improving operating scale with the acquisitions and integrations of Merastar and Direct Response. However, there is no assurance that Unitrin Direct will be profitable or reach an adequate rate of return in future years.

Table of Contents

Unitrin is dependent on receiving dividends from its subsidiaries to service its debt and to pay dividends to its shareholders.

As a holding company with no business operations of its own, Unitrin depends on the dividend income that it receives from its subsidiaries as the primary source of funds to pay interest and principal on its outstanding debt obligations and to pay dividends to its shareholders. Unitrin s subsidiaries are subject to significant regulatory restrictions under state insurance and banking laws and regulations which limit their ability to declare and pay dividends. These regulations impose minimum solvency and liquidity requirements on dividends between affiliated companies and require prior notice to, and may require approval from, state insurance or bank regulators before dividends can be paid. The inability of one or more of Unitrin s subsidiaries to pay sufficient dividends to Unitrin may materially affect Unitrin s ability to timely pay its debt obligations or to pay dividends to its shareholders.

A significant downgrade in the ratings of Unitrin or its insurance subsidiaries could adversely affect the Company.

Third party rating agencies, such as A.M. Best, assess the financial strength and rate the claims-paying ability of insurance companies based on criteria established by the rating agencies. Third-party ratings are important competitive factors in the insurance industry. Financial strength ratings are used by agents and clients as an important means of assessing the financial strength and quality of insurers. A significant downgrade by a recognized rating agency in the ratings of Unitrin s insurance subsidiaries, particularly those that market their products through independent agents, could result in a substantial loss of business if agents or policyholders of such subsidiaries move to other companies with higher claims paying and financial strength ratings. Any substantial loss of business could have a material adverse effect on the financial condition and results of operations of such subsidiaries.

A downgrade in Unitrin s credit rating by Standard & Poor s (S&P) and Moody s Investors Services (Moody s), may increase Unitrin s future cos to borrow funds for general corporate purposes, including the refinancing of existing debt, or limit Unitrin s ability to access the capital markets. A substantial increase in borrowing costs or limitation on Unitrin s ability to access capital markets could have a material adverse effect on the financial condition and results of operations of the Company.

Unitrin s subsidiaries are subject to significant regulation by state insurance departments and by the FDIC and state bank regulators.

Insurance. Unitrin s insurance subsidiaries are subject to extensive regulation in the states in which they do business. Current regulations encompass a wide variety of matters, including policy forms, premium rates, licensing, trade practices, investment standards, statutory capital and surplus requirements, reserve and loss ratio requirements, restrictions on transactions among affiliates and consumer privacy.

Banking. Fireside Bank is regulated by the FDIC and the CDFI and is subject to a consent order agreed to with these two agencies. These agencies regulate most aspects of Fireside Bank s business and impose reporting obligations and a broad array of restrictions and requirements on such matters as capitalization, dividends, investments, loans and borrowings, and many requirements which relate to privacy and fairness in consumer credit or the detection and prevention of fraud and financial crime.

Effect on Operations. Insurance and banking regulatory agencies conduct periodic examinations of Unitrin s subsidiaries and require the filing of annual and other reports relating to financial condition, holding company issues and other matters. If an insurance company fails to obtain required licenses or approvals, or if any of Unitrin s subsidiaries fail to comply with other regulatory requirements, including banking regulations and the consent order applicable to Fireside Bank, the regulatory agencies can suspend or delay their operations or licenses, require corrective action, and impose penalties or other remedies available under the applicable regulations.

Table of Contents

These federal and state laws and regulations, and their interpretation by the various regulatory agencies and courts, are undergoing continual revision and expansion. The regulatory structures in the financial services industry have come under intense scrutiny over the past year and a half as a result of the turmoil experienced by the financial markets. It is not possible to predict how new legislation or regulations or new interpretations of existing laws and regulations may impact the operations of Unitrin s subsidiaries.

Significant changes in, or new interpretations of, these laws and regulations could make it more expensive for Unitrin s subsidiaries to conduct their businesses and could materially affect the profitability of their operations and the Company s financial results. Numerous bills have been introduced and are currently under consideration in the U.S. Congress to reform the U.S. health care system. See the discussion in the separate risk factor above regarding the potential effect of such legislation on Reserve National s business model. In addition, a number of bills have been introduced in the U.S. Congress in response to the U.S. financial crisis which would make significant changes to the system for regulating banking and financial institutions. One proposal would require Unitrin, so long as it owns Fireside Bank, to establish a Section 6 holding company that would hold all of its financial activities (including insurance activities). Any legislation ultimately enacted may have considerably different provisions than those currently proposed. For a more detailed discussion of the regulations applicable to Unitrin s subsidiaries, and the consent order applicable to Fireside Bank, see Insurance Regulation and Fireside Bank Regulation under Regulation in Item 1, beginning on page 16.

Realized losses from investments may occur in the event that policyholders surrender life insurance policies or request policy loans at rates materially greater than assumed.

The Company s Life and Health Insurance segment s principal market for life insurance consists of customers of modest incomes who desire basic protection for themselves and their families. These customers generally are families with annual incomes of less than $25,000. In a severe downturn in the economy with high unemployment rates, these customers may forgo basic insurance protection for themselves and their families in favor of basic daily necessities such as food and shelter. In such cases, customers might surrender their life insurance policies to receive the policies cash value or may request policy loans. While the Company s Life and Health Insurance segment maintains short-term liquidity to meet normal policy surrender and loan activity, a material, elevated level of policy surrender and loan activity could result in the Company s Life and Health Insurance segment selling impaired investments before unrealized losses have been fully recovered. The Company s premium revenues could also decline due to policy surrender activity which may adversely affect the Company s results of operations.

The Company is subject to interest rate risk and credit risk in its fixed maturity investment portfolio.

One of the Company s primary market risk exposures is to changes in interest rates. A decline in market interest rates could have an adverse effect on the Company s investment income as it invests cash in new investments that may yield less than the portfolio s average rate. In a declining interest rate environment, borrowers may seek to refinance their borrowings at lower rates and, accordingly, prepay or redeem securities the Company holds as investments more quickly than the Company initially expected. Such prepayment or redemption action may cause the Company to reinvest the redeemed proceeds in lower yielding investments. An increase in market interest rates could also have an adverse effect on the value of the Company s investment portfolio, for example, by decreasing the fair values of the fixed income securities that comprise a substantial majority of its investment portfolio.

The Company s fixed maturity investment portfolio is subject to credit risk from the issuers of the securities in the portfolio. Deterioration in the financial conditions of the issuers could result in a decline in the fair value of the Company s fixed maturity investment portfolio. Deterioration in the financial conditions of the issuers could also result in issuer defaults and impact the Company s ability to recover the reported value of its fixed maturity investment portfolio. Accordingly, deterioration in the credit quality of the Company s investment portfolio could adversely affect the Company s operating results and financial position.

Table of Contents

The Company has a large equity concentration in Intermec, Inc.

The carrying value of the Company s investment in the common stock of its investee, Intermec, Inc. (Intermec), is reported under the equity method of accounting at cost plus the accumulated undistributed comprehensive earnings in the Consolidated Balance Sheet and was $98.4 million at December 31, 2009. The fair value of the Company s investment in the common stock of Intermec was $162.8 million. The Company s investment in Intermec common stock is subject to a variety of risk factors under the umbrella of market risk. General economic swings influence Intermec s performance. A downturn in the global economy, or in the global supply chain solutions industry, in which Intermec competes, could have a negative impact on Intermec. Such results could have an adverse effect on the fair value of the Company s investment in Intermec common stock.

The Company s investments in limited liability investment companies and limited partnerships are concentrated in companies and partnerships that invest in distressed and mezzanine debt and secondary transactions.

At December 31, 2009, Unitrin s insurance subsidiaries had $285.5 million invested in limited liability investment companies and limited partnerships accounted for under the equity method of accounting (Equity Method Limited Liability Investments), that invest in distressed and mezzanine debt of other companies and secondary transactions. In addition, Unitrin s insurance subsidiaries had unfunded commitments to invest an additional $47.2 million in such limited liability investment companies and limited partnerships. Such unfunded commitments generally may be used to fund additional investments made, or losses incurred, by such limited liability investment companies and limited partnerships. The underlying investments of such limited liability investment companies and limited partnerships generally provide opportunities for higher returns, but at a higher risk than investment-grade investments. General economic swings influence the performance of the underlying investments in distressed and mezzanine debt and secondary transactions. Unitrin s insurance subsidiaries have also made direct investments in the same or similar distressed and mezzanine debt securities of certain issuers in which such limited liability investment companies and limited partnerships have made investments, which could exacerbate any losses attributable to poor performance of any such investments. A severe and continued downturn in the economy may result in deterioration in the business prospects of the issuers of the underlying investments that could adversely affect the Company s operating results and financial position.

The insurance industry is highly competitive.

The Company s insurance businesses face significant competition. Competitive success is based on many factors, including, but not limited to, the following:

- Competitiveness of prices charged for insurance policies;
- Underwriting discipline;
- Selectiveness of sales markets;
- Technological innovation;
- Ability to control expenses;
- Adequacy of ratings from A.M. Best; and
- Quality of services provided to agents and policyholders.

The inability to compete effectively in any of the Company s insurance businesses could materially reduce the Company s customer base and revenues, and could adversely affect the future results and financial condition of the Company.

See Competition in Item 1 of Part I beginning on pages 13 and 15, for more information on the competitive rankings in the property and casualty insurance markets and the life and health insurance markets, respectively, in the United States.

Table of Contents

The effects of emerging claim and coverage issues on Unitrin s insurance subsidiaries are uncertain.

As industry practices and regulatory, judicial, political, social and other environmental conditions change, unexpected and unintended issues related to insurance claims and coverages may emerge. These emerging practices, conditions and issues could adversely affect Unitrin s insurance subsidiaries by either extending coverages beyond Unitrin s insurance subsidiaries underwriting intent or by increasing the number or size of claims. The effects of such emerging claim and coverage issues are extremely hard to predict, but could materially affect the financial results of the Company.

Legal and regulatory proceedings are unpredictable.

Unitrin and its subsidiaries are involved in lawsuits, regulatory inquiries, and other legal proceedings arising out of the ordinary course of their businesses. Many of these matters raise difficult and complicated factual and legal issues and are subject to uncertainties and complexities, and the outcomes of these matters are difficult to predict. Given the unpredictability of the legal and regulatory environment in which the Company operates, there can be no assurance that one or more of these matters will not produce a loss which could have a material adverse effect on the Company s financial results for any given period. For further information about the Company s pending litigation, see Item 3, Legal Proceedings, on page 26.

Managing technology initiatives to address business developments and increasing data security regulations and risks present significant challenges to the Company.

While technological developments can streamline many business processes and ultimately reduce the cost of operations, technology initiatives can present short-term cost and implementation risks. In addition, projections of expenses, implementation schedules and utility of results may be inaccurate and can escalate over time. The Company faces rising costs and competing time constraints in meeting compliance requirements of new and proposed regulations. The expanding volume and sophistication of computer viruses, hackers and other external hazards may increase the vulnerability of the Company s data systems to security breaches. These increased risks and expanding regulatory requirements, including requirements related to personal data security, expose the Company to potential data loss and damages and significant increases in compliance and litigation costs.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Owned Properties

The Company owns the 41-story office building at One East Wacker Drive, Chicago, Illinois, that houses the executive offices of Unitrin. Unitrin and one of its subsidiaries occupy approximately 48,000 square feet of the 527,000 rentable square feet in the building. In addition, Unitrin s subsidiaries together own and occupy 15 buildings located in 5 states consisting of approximately 55,000 square feet in the aggregate. Unitrin s subsidiaries hold additional properties solely for investment purposes that are not utilized by Unitrin or its subsidiaries.

Leased Facilities

Kemper leases facilities with an aggregate square footage of approximately 237,000 at 8 locations in 8 states. The latest expiration date of the existing leases is in September of 2018.

Fireside Bank leases 3 facilities, of which 2 are occupied, with an aggregate square footage of approximately 92,000 in 2 states. The latest expiration date of the existing leases is in August of 2016.

Table of Contents

Unitrin Specialty leases facilities with an aggregate square footage of approximately 148,000 at 3 locations in 3 states. The latest expiration date of the existing leases is in June of 2018.

Unitrin Direct leases facilities with an aggregate square footage of approximately 321,000 at 12 locations in 8 states. The latest expiration date of the existing leases is in September of 2015.

Unitrin s Life and Health Insurance segment leases facilities with aggregate square footage of approximately 529,000 at 131 locations in 26 states. The latest expiration date of the existing leases is in November of 2019.

Unitrin s corporate data processing operation occupies a facility with an aggregate square footage of approximately 30,000 square feet under a lease that expires in December of 2014.

Kemper, Unitrin Specialty and Unitrin Direct share leased facilities with an aggregate square footage of approximately 99,000 at 3 locations in 3 states. The latest expiration date of the existing leases is in September of 2018.

The properties described above are in good condition. The properties utilized in the Company s operations consist of facilities suitable for general office space, call centers and data processing operations.

Item 3. Legal Proceedings.
Proceedings

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

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

Financial Impact

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

Table of Contents

Legal Environment

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

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

During the quarter ended December 31, 2009, no matters were submitted to a vote of shareholders.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Unitrin s common stock is traded on the New York Stock Exchange (the NYSE) under the symbol of UTR.

		THREE MONTHS ENDED			YEAR ENDED
DOLLARS PER SHARE	**MARCH 31, 2009**	**JUNE 30, 2009**	**SEPT. 30, 2009**	**DEC. 31, 2009**	**DEC. 31, 2009**
Common Stock Market Prices:					
High	**$ 16.70**	**$ 17.43**	**$ 20.46**	**$ 23.87**	**$ 23.87**
Low	**7.96**	**11.80**	**10.91**	**18.35**	**7.96**
Close	**13.98**	**12.02**	**19.49**	**22.05**	**22.05**

		THREE MONTHS ENDED			YEAR ENDED
DOLLARS PER SHARE	**MARCH 31, 2008**	**JUNE 30, 2008**	**SEPT. 30, 2008**	**DEC. 31, 2008**	**DEC. 31, 2008**
Common Stock Market Prices:					
High	$ 47.74	$ 40.00	$ 29.74	$ 28.00	$ 47.74
Low	32.60	27.54	20.73	13.05	13.05
Close	35.34	27.57	24.94	15.94	15.94

Holders

As of January 29, 2010, the number of record holders of Unitrin s common stock was approximately 5,500.

Dividends

		THREE MONTHS ENDED			YEAR ENDED
DOLLARS PER SHARE	**MARCH 31, 2009**	**JUNE 30, 2009**	**SEPT. 30, 2009**	**DEC. 31, 2009**	**DEC. 31, 2009**
Cash Dividends Paid to Shareholders (per share)	**$ 0.47**	**$ 0.20**	**$ 0.20**	**$ 0.20**	**$ 1.07**

		THREE MONTHS ENDED			YEAR ENDED
DOLLARS PER SHARE					

	MARCH 31, 2008	JUNE 30, 2008	SEPT. 30, 2008	DEC. 31, 2008	DEC. 31, 2008
Cash Dividends Paid to Shareholders (per share)	$ 0.47	$ 0.47	$ 0.47	$ 0.47	$ 1.88

Table of Contents

Unitrin s insurance subsidiaries are subject to various state insurance laws that restrict the ability of these insurance subsidiaries to pay dividends without prior regulatory approval. In addition, Unitrin s automobile finance subsidiary, Fireside Bank, is subject to certain risk-based capital regulations having the effect of limiting the amount of dividends that may be paid by Fireside Bank. Fireside Bank also has agreed not to pay dividends without the prior approval of the FDIC and the CDFI. See MD&A, Letter to Shareholders and Liquidity and Capital Resources and Note 12, Shareholders Equity, to the Consolidated Financial Statements for information on Unitrin s ability and intent to pay dividends.

Issuer Purchases of Equity Securities

Unitrin s stock repurchase program was first announced on August 8, 1990. The repurchase program was subsequently expanded several times, most recently in November 2006, when the Board of Directors expanded Unitrin s authority to repurchase Unitrin s common stock by an aggregate number of 6,000,000 shares (in addition to approximately 750,000 shares remaining under its prior authorization). A total of 1,378,454 shares remain available for repurchase under the repurchase programs which does not have an expiration date.

Unitrin did not repurchase any shares of its common stock in the fourth quarter of 2009.

During the quarter ended December 31, 2009, no shares were withheld or surrendered, either actually or constructively, to satisfy the exercise price and/or tax withholding obligations relating to the exercise of stock options or stock appreciation rights under Unitrin s three stock option plans or shares withheld to satisfy tax withholding obligations on the vesting of awards under Unitrin s restricted stock plan.

Table of Contents

Unitrin Common Stock Performance Graph

The following graph assumes $100 invested on December 31, 2004 in (i) Unitrin common stock, (ii) the S&P MidCap 400 Index, and (iii) the S&P Composite 1500 Insurance Index, in each case with dividends reinvested. Unitrin is a constituent of each of these two indices.

The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of Unitrin common stock.

Company / Index	2004	2005	2006	2007	2008	2009
Unitrin, Inc.	$ 100.00	$ 102.71	$ 118.65	$ 118.13	$ 42.05	$ 62.74
S&P MidCap 400 Index	100.00	112.56	124.17	134.08	85.50	117.46
S&P Composite 1500 Insurance Index	100.00	114.75	127.15	118.57	55.44	61.42

Table of Contents

Item 6. Selected Financial Data.

DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	2009	2008	2007 (a)	2006 (b)	2005
FOR THE YEAR					
Earned Premiums	**$ 2,455.5**	$ 2,376.6	$ 2,286.9	$ 2,290.5	$ 2,287.7
Automobile Finance Revenues	**178.5**	242.3	260.2	245.0	217.6
Net Investment Income	**322.7**	212.9	289.9	286.0	258.4
Other Income	**2.5**	4.1	3.5	14.4	9.5
Net Realized Gains on Sales of Investments	**24.6**	59.2	95.5	29.3	67.2
Net Impairment Losses Recognized in Earnings	**(50.4)**	(152.9)	(33.0)	(2.8)	(10.3)
Total Revenues	**$ 2,933.4**	$ 2,742.2	$ 2,903.0	$ 2,862.4	$ 2,830.1
Income (Loss) from Continuing Operations	**$ 162.2**	$ (38.0)	$ 178.1	$ 267.6	$ 237.2
Income from Discontinued Operations	**2.5**	8.4	27.3	19.4	18.9
Net Income (Loss)	**$ 164.7**	$ (29.6)	$ 205.4	$ 287.0	$ 256.1
Per Unrestricted Share:					
Income (Loss) from Continuing Operations	**$ 2.60**	$ (0.60)	$ 2.71	$ 3.94	$ 3.44
Income from Discontinued Operations	**0.04**	0.13	0.42	0.28	0.27
Net Income (Loss)	**$ 2.64**	$ (0.47)	$ 3.13	$ 4.22	$ 3.71
Per Unrestricted Share Assuming Dilution:					
Income (Loss) from Continuing Operations	**$ 2.60**	$ (0.60)	$ 2.70	$ 3.92	$ 3.41
Income from Discontinued Operations	**0.04**	0.13	0.41	0.28	0.27
Net Income (Loss)	**$ 2.64**	$ (0.47)	$ 3.11	$ 4.20	$ 3.68
Dividends Paid to Shareholders (per share)	**$ 1.07**	$ 1.88	$ 1.82	$ 1.76	$ 1.70
AT YEAR END					
Total Assets	**$ 8,573.5**	$ 8,818.8	$ 9,394.4	$ 9,329.9	$ 9,200.9
Insurance Reserves	**$ 4,239.3**	$ 4,241.3	$ 3,855.9	$ 3,918.7	$ 3,936.4
Unearned Premiums	**724.9**	733.5	722.2	778.9	810.6
Certificates of Deposits	**682.4**	1,110.8	1,274.3	1,162.7	1,074.3
Notes Payable	**561.4**	560.8	560.1	504.5	503.6
All Other Liabilities	**447.9**	523.8	690.9	675.5	716.6
Total Liabilities	**6,655.9**	7,170.2	7,103.4	7,040.3	7,041.5
Shareholders Equity	**1,917.6**	1,648.6	2,291.0	2,289.6	2,159.4
Total Liabilities and Shareholders Equity	**$ 8,573.5**	$ 8,818.8	$ 9,394.4	$ 9,329.9	$ 9,200.9
Book Value Per Share	**$ 30.75**	$ 26.46	$ 35.65	$ 34.18	$ 31.52

(a) In 2007, the Company s Shareholders Equity was decreased by $3.2 million for the Company s pro rata share of the impact of Intermec s (the Company s Investee) changes in measuring and reporting postretirement benefits plans and accounting for uncertain income taxes.

(b) In 2006, the Company s Shareholders Equity was decreased by $7.3 million due to changes in measuring and reporting postretirement benefits plans.

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Index to

Management s Discussion and Analysis of

Financial Condition and Results of Operations

Table of Contents

Unitrin, Inc. and Subsidiaries

Management s Discussion and Analysis of Financial Condition and Results of Operations

SUMMARY OF RESULTS

Net Income was $164.7 million ($2.64 per unrestricted common share) for the year ended December 31, 2009, compared to Net Loss of $29.6 million ($0.47 per unrestricted common share) for the year ended December 31, 2008. Net income from Continuing Operations was $162.2 million ($2.60 per unrestricted common share) in 2009, compared to Net loss from Continuing Operations of $38.0 million ($0.60 per unrestricted common share) in 2008. As discussed throughout this MD&A, results from continuing operations increased for the year ended December 31, 2009 due primarily to higher segment operating results in the aggregate, including lower catastrophe losses and higher Net Investment Income, and lower Net Impairment Losses Recognized in Earnings, partially offset by lower Net Realized Gains on Sales of Investments. Catastrophe losses from continuing operations were $43.5 million before tax for the year ended December 31, 2009, compared to $144.9 million for the same period in 2008. The Company reported Income from Discontinued Operations of $2.5 million and $8.4 million for the years ended December 31, 2009 and 2008, respectively.

Earned Premiums were $2,455.5 million in 2009, compared to $2,376.6 million in 2008, an increase of $78.9 million. Earned Premiums increased primarily in the Unitrin Direct, which includes premiums from the acquisition of Direct Response, and Unitrin Specialty segments and decreased in the Life and Health Insurance segment.

Automobile Finance Revenues decreased by $63.8 million in 2009, compared to 2008, due to Fireside Bank s plan to exit the automobile finance business.

Net Investment Income increased by $109.8 million in 2009 due primarily to higher net investment income from certain Equity Method Limited Liability Investments, partially offset by lower dividend income from Investments in Equity Securities. Net Investment Income included income of $47.7 million from Equity Method Limited Liability Investments for the year ended December 31, 2009, compared to a loss of $76.3 million for the same period in 2008. Dividend income from Investments in Equity Securities decreased by $16.5 million for the year ended December 31, 2009, compared to the same period in 2008, due primarily to sales of the vast majority of the Company s investments in Northrop Grumman Corporation (Northrop) common stock and other publicly-traded common stocks during 2008.

Net Realized Gains on Sales of Investments, reported in the Statement of Operations, were $24.6 million in 2009, compared to $59.2 million in 2008. Net Impairment Losses Recognized in Earnings for the years ended December 31, 2009 and 2008 were $50.4 million and $152.9 million, respectively. The Company cannot predict when or if similar investments gains or losses may occur in the future.

Other Comprehensive Investment Gains (Losses), which are not reported in the Statement of Operations, but rather are reported in the Statement of Comprehensive Income (Loss), was a gain of $235.9 million in 2009, compared to a loss of $595.6 million in 2008. The net comprehensive investment gain for the year ended December 31, 2009 was largely due to lower overall interest rates resulting from narrower credit spreads, partially offset by higher risk-free interest rates. The net comprehensive investment loss for the year ended December 31, 2008 was due primarily to a $281.3 million decline in the value of the Company s investment in Northrop stock and the general decline in value of most of the Company s investments in fixed maturities and equity securities due to the overall decline in the economy and stock market in the fourth quarter of 2008.

CATASTROPHES

The Company manages its exposure to catastrophes and other natural disasters through a combination of geographical diversification, restrictions on the amount and location of new business production in certain regions, and reinsurance. To limit its exposures to catastrophic events, the Company maintains various primary catastrophe reinsurance programs for its property and casualty insurance businesses. Coverage for each primary

Table of Contents

Unitrin, Inc. and Subsidiaries

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

CATASTROPHES (Continued)

catastrophe reinsurance program is provided in various layers (see Note 22, Catastrophe Reinsurance, to the Consolidated Financial Statements for further discussion of these programs). In addition to these programs, the Company purchases reinsurance from the FHCF for hurricane losses in Florida at retentions lower than the Company s primary catastrophe reinsurance programs.

Catastrophe reinsurance premiums for the Company s primary reinsurance programs and the FHCF reduced earned premiums for the years ended December 31, 2009, 2008 and 2007 by the following:

DOLLARS IN MILLIONS	**2009**	**2008**	**2007**
Kemper	**$ 22.4**	$ 19.6	$ 19.4
Unitrin Specialty	**0.3**	0.3	0.2
Unitrin Direct	**1.5**	0.2	1.1
Life and Health Insurance	**4.3**	10.5	8.5
Total Ceded Catastrophe Reinsurance Premiums	**$ 28.5**	$ 30.6	$ 29.2

The Life and Health Insurance segment presented above includes reinsurance reinstatement premiums of $4.4 million for the year ended December 31, 2008 to reinstate coverage following Hurricanes Dolly, Gustav and Ike.

Total catastrophe losses and LAE (including development), net of reinsurance recoveries, reported in continuing operations were $43.5 million, $144.9 million and $39.4 million for the years ended December 31, 2009, 2008 and 2007, respectively. Catastrophe losses and LAE (including development), net of reinsurance recoveries, for the years ended December 31, 2009, 2008 and 2007 by business segment are presented below.

DOLLARS IN MILLIONS	**2009**	**2008**	**2007**
Kemper	**$ 29.3**	$ 97.4	$ 27.8
Unitrin Specialty	**4.2**	2.9	0.5
Unitrin Direct	**3.4**	3.1	0.6
Life and Health Insurance	**6.6**	41.5	10.5
Total Catastrophe Losses and LAE	**$ 43.5**	$ 144.9	$ 39.4

Catastrophe loss and LAE reserves, net of reinsurance recoverables, developed favorably by $18.4 million for the year ended December 31, 2009. Catastrophe loss and LAE reserves, net of reinsurance recoverables, developed adversely by $4.8 million for the year ended December 31, 2008. Catastrophe loss and LAE reserves, net of reinsurance recoverables, developed favorably by $4.6 million for the year ended December 31, 2007. No major hurricanes that significantly impacted the Company made landfall in the United States during 2009 or 2007. In the third quarter of 2008, three major hurricanes that significantly impacted the Company (Dolly, Gustav and Ike) made landfall in the United States. A summary of the Company s estimated losses and LAE, net of reinsurance recoveries, from Hurricanes Dolly, Gustav and Ike reported in the Company s Consolidated Statements of Operations for the year ended December 31, 2008 by business segment were:

DOLLARS IN MILLIONS	**Dolly**	**Gustav**	**Ike**	**Total**
Kemper	**$ 0.6**	**$ 12.1**	**$ 27.9**	**$ 40.6**

Unitrin Specialty				**0.5**		**1.0**		**1.5**
Unitrin Direct						**0.5**		**0.5**
Life and Health Insurance		**6.8**		**7.3**		**8.7**		**22.8**
Total Loss and LAE, Net of Reinsurance	**$**	**7.4**	**$**	**19.9**	**$**	**38.1**	**$**	**65.4**

Table of Contents

Unitrin, Inc. and Subsidiaries

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

CATASTROPHES (Continued)

The estimated losses presented above by the Life and Health Insurance segment are net of reinsurance recoveries of $2.9 million, $6.0 million and $37.2 million related to Hurricanes Dolly, Gustav and Ike, respectively. In addition to the losses presented above, Insurance Expenses for the year ended December 31, 2008 includes an expense of $3.9 million related to the Kemper segment s estimate of its share of assessments from the Texas Windstorm Insurance Association (TWIA). Insurance Expenses for the year ended December 31, 2009 includes a reduction of expense of $2.8 million due to a decrease in the Company s estimate of its share of assessments from TWIA.

KEMPER

Selected financial information for the Kemper segment follows:

DOLLARS IN MILLIONS	**2009**	**2008**	**2007**
Earned Premiums:			
Automobile	**$ 584.6**	$ 590.0	$ 594.4
Homeowners	**294.0**	288.8	283.7
Other Personal	**53.2**	51.9	48.2
Total Earned Premiums	**931.8**	930.7	926.3
Net Investment Income	**42.1**	19.1	44.0
Other Income	**0.4**	0.5	0.5
Total Revenues	**974.3**	950.3	970.8
Incurred Losses and LAE	**627.8**	673.8	618.1
Insurance Expenses	**260.3**	268.9	264.5
Operating Profit	**86.2**	7.6	88.2
Income Tax Benefit (Expense)	**(22.5)**	5.8	(21.7)
Net Income	**$ 63.7**	$ 13.4	$ 66.5
RATIOS BASED ON EARNED PREMIUMS			
Incurred Loss and LAE Ratio (excluding Catastrophes)	**64.2%**	61.9%	63.7%
Incurred Catastrophe Loss and LAE Ratio	**3.2**	10.5	3.0
Total Incurred Loss and LAE Ratio	**67.4**	72.4	66.7
Incurred Expense Ratio	**27.9**	28.9	28.6
Combined Ratio	**95.3%**	101.3%	95.3%

INSURANCE RESERVES

DOLLARS IN MILLIONS		DEC. 31, 2009		DEC. 31, 2008
Insurance Reserves:				
Personal Automobile	**$**	**300.4**	$	336.3
Homeowners		**86.4**		103.0
Other		**35.9**		36.8
Total Insurance Reserves	**$**	**422.7**	$	476.1

Table of Contents

Unitrin, Inc. and Subsidiaries

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

KEMPER (Continued)

DOLLARS IN MILLIONS	DEC. 31, 2009	DEC. 31, 2008
Loss Reserves:		
Case	**$ 259.5**	$ 273.3
Incurred but Not Reported	**90.1**	125.9
Total Loss Reserves	**349.6**	399.2
LAE Reserves	**73.1**	76.9
Total Insurance Reserves	**$ 422.7**	$ 476.1
For The Year Ended		
Favorable Loss and LAE Reserve Development, Net (excluding Catastrophes)	**$ 42.2**	$ 55.2
Favorable Catastrophe Loss and LAE Reserve Development, Net	**18.3**	5.8
Total Favorable Loss and LAE Reserve Development, Net	**$ 60.5**	$ 61.0
Loss and LAE Reserve Development as a Percentage of Insurance Reserves at Beginning of Year	**12.7%**	12.1%

2009 Compared with 2008

Earned Premiums in the Kemper segment increased by $1.1 million for the year ended December 31, 2009, compared to the same period in 2008, due primarily to higher average premium rates, partially offset by an increase in the cost of reinsurance. Earned premiums on homeowners insurance increased by $5.2 million for the year ended December 31, 2009, compared to the same period in 2008, due primarily to higher average premium rates, partially offset by an increase in the cost of reinsurance. Earned premiums on automobile insurance decreased by $5.4 million for the year ended December 31, 2009, compared to the same period in 2008, due primarily to lower average premium rates and, to a lesser extent, lower volume.

Net Investment Income in the Kemper Segment increased by $23.0 million for the year ended December 31, 2009, compared to the same period in 2008, due primarily to higher net investment income from Equity Method Limited Liability Investments, partially offset by a lower level of investments. The Kemper segment reported net investment income of $7.0 million from Equity Method Limited Liability Investments for the year ended December 31, 2009, compared to net investment losses of $17.4 million in 2008.

Operating Profit in the Kemper segment increased by $78.6 million for the year ended December 31, 2009, compared to the same period in 2008, due primarily to lower incurred catastrophe losses and LAE (including the impact of loss and LAE reserve development which recognizes changes in estimates of prior year losses and LAE reserves in the current period), higher Net Investment Income and to a lesser extent lower insurance expenses, partially offset by the impact of lower favorable loss and LAE reserve development on automobile insurance and higher incurred losses and LAE on automobile insurance. There were no major hurricane catastrophe losses in 2009. The Kemper segment recognized catastrophe losses, totaling $40.6 million, from Hurricanes Dolly, Gustav and Ike in 2008. See MD&A, Catastrophes, and Note 22, Catastrophe Reinsurance, to the Consolidated Financial Statements for additional information on Hurricanes Dolly, Gustav and Ike and the Company s catastrophe reinsurance programs. Catastrophe losses for the year ended December 31, 2009 also decreased due to lower frequency and severity of wind and hail storms in the first half of 2009, compared to the same period in 2008.

Homeowners insurance incurred losses and LAE were $188.8 million for the year ended December 31, 2009, compared to $248.1 million for the same period in 2008. Homeowners insurance incurred losses and LAE decreased due primarily to lower catastrophe losses and LAE (including loss and LAE reserve development).

35

Table of Contents

Unitrin, Inc. and Subsidiaries

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

KEMPER (Continued)

Homeowners insurance catastrophe losses and LAE (excluding loss and LAE reserve development) were $38.8 million for the year ended December 31, 2009, compared to $90.4 million for the same period in 2008. Catastrophe losses and LAE decreased for the year ended December 31, 2009 due primarily to no major hurricanes occurring in 2009, compared to the aforementioned major hurricanes in 2008, and, to a lesser extent, a decrease in the frequency and severity of wind and hail storms in the first half of 2009, compared to the same period in 2008. Favorable catastrophe loss and LAE reserve development was $17.5 million for the year ended December 31, 2009, compared to a favorable development of $5.2 million for the same period in 2008. Catastrophe loss and LAE reserve development for the year ended December 31, 2009 included favorable development of $8.7 million on Hurricanes Ike and Gustav, both of which occurred in 2008, and $3.1 million of higher subrogation recoveries from certain California wildfires, which occurred in 2007.

Automobile insurance incurred losses and LAE were $409.6 million for the year ended December 31, 2009, compared to $393.5 million for the same period in 2008. Automobile insurance incurred losses and LAE increased due primarily to lower favorable loss and LAE reserve development and higher incurred non-catastrophe losses and LAE, partially offset by lower catastrophe losses and LAE (excluding loss and LAE reserve development). Loss and LAE reserve development on automobile insurance had a favorable effect of $32.5 million for the year ended December 31, 2009, compared to a favorable effect of $48.2 million for the same period in 2008. Non-catastrophe losses and LAE increased due primarily to higher severity on automobile liability claims. Automobile insurance catastrophe losses and LAE (excluding loss and LAE reserve development) were $6.6 million for the year ended December 31, 2009, compared to $8.8 million for the same period in 2008.

Other personal insurance incurred losses and LAE were $29.4 million for the year ended December 31, 2009, compared to $32.2 million for the same period in 2008. Other personal insurance Catastrophe losses and LAE (excluding loss and LAE reserve development) were $2.2 million for the year ended December 31, 2009, compared to $3.9 million in 2008. Favorable loss and LAE reserve development on other personal insurance was $2.1 for the year ended December 31, 2009, compared to unfavorable loss and LAE development of $1.3 million for the same period in 2008.

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

Insurance Expenses in the Kemper segment decreased by $8.6 million for the year ended December 31, 2009, compared to the same period in 2008. Insurance Expenses for the year ended December 31, 2009 included a reduction in expense of $2.8 million due to a change in the Kemper segment s estimated TWIA assessment for Hurricane Ike. Insurance Expenses for the year ended December 31, 2008 included expense of $3.9 million related to the estimated TWIA assessment. Insurance Expenses for the year ended December 31, 2009 included a charge of $3.3 million to write off the Kemper segment s equity in the North Carolina Beach Plan underwriting pool (the NC Beach Plan) due to a change in the law enacted in 2009. Excluding the impact of the TWIA assessments and NC Beach Plan write-off, Insurance Expenses for the year ended December 31, 2009 decreased by $5.4 million, compared to the same period in 2008, due primarily to expense savings initiatives, partially offset by restructuring costs. Restructuring costs were $1.6 million for the year ended December 31, 2009.

Net Income in the Kemper segment increased by $50.3 million for the year ended December 31, 2009, compared to the same period in 2008, due primarily to the changes in Operating Profit. The Kemper segment s effective

Unitrin, Inc. and Subsidiaries

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

KEMPER (Continued)

income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $23.4 million for the year ended December 31, 2009, compared to $24.8 million for the same period in 2008.

2008 Compared with 2007

Earned Premiums in the Kemper segment increased by $4.4 million for the year ended December 31, 2008, compared to the same period in 2007, due primarily to higher earned premiums on homeowners and other personal lines, partially offset by lower earned premiums on automobile insurance. Earned premiums on homeowners insurance increased by $5.1 million due primarily to higher average premium rates and, to a lesser extent, higher volume. Earned premiums on other personal insurance increased by $3.7 million due primarily to higher volume. Earned premiums on automobile insurance decreased by $4.4 million due primarily to lower average premium rates and lower volume from involuntary premium assignments.

Net Investment Income in the Kemper segment decreased by $24.9 million for the year ended December 31, 2008, compared to the same period in 2007, due primarily to lower net investment income from Equity Method Limited Liability Investments. The Kemper segment reported a net investment loss of $17.4 million from Equity Method Limited Liability Investments for the year ended December 31, 2008, compared to net investment income of $2.4 million for the same period in 2007.

Operating Profit in the Kemper segment decreased by $80.6 million for the year ended December 31, 2008, compared to the same period in 2007, due primarily to higher incurred losses and LAE and lower Net Investment Income.

Incurred Losses and LAE increased for the year ended December 31, 2008, compared to the same period in 2007, due primarily to higher catastrophe losses and LAE, partially offset by lower non-catastrophe losses and LAE and higher favorable loss and LAE reserve development. Catastrophe losses and LAE (including development) were $97.4 million for the year ended December 31, 2008, compared to $27.8 million for the same period in 2007. The Kemper segment recognized catastrophe losses, totaling $40.6 million, from Hurricanes Dolly, Gustav and Ike in 2008. There were no major hurricane catastrophe losses in 2007. Catastrophe losses for the year ended December 31, 2008 also increased due to higher frequency and severity of wind and hail storms in the first half of 2008, compared to the same period in 2007. Loss and LAE reserve development had a favorable effect of $61.0 million (including favorable development of $5.8 million for catastrophes for the year ended December 31, 2008), compared to a favorable effect of $54.2 million (including favorable development of $11.6 million for catastrophes) for the same period in 2007.

Automobile insurance incurred losses and LAE decreased due primarily to the impact of higher favorable loss and LAE reserve development. Loss and LAE reserve development on automobile insurance had a favorable effect of $48.2 million for the year ended December 31, 2008, compared to a favorable effect of $28.9 million in 2007. Catastrophe losses and LAE (including development) on automobile insurance were $8.4 million for the year ended December 31, 2008, compared to $2.3 million in 2007.

Homeowners insurance incurred losses and LAE increased due primarily to higher catastrophe losses and LAE and to a lesser extent the impact of lower favorable loss and LAE reserve development, due largely to lower favorable catastrophe loss and LAE reserve development. Catastrophe losses and LAE (excluding development) on homeowners insurance were $90.4 million for the year ended December 31, 2008, compared to $35.5 million for the same period in 2007. Catastrophe losses and LAE increased for the year ended December 31, 2008 due

Table of Contents

Unitrin, Inc. and Subsidiaries

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

KEMPER (Continued)

primarily to the aforementioned hurricanes and increased frequency and severity of wind and hail storms. Loss and LAE reserve development on homeowners insurance had a favorable effect of $13.5 million (including favorable development of $5.2 million for catastrophes) for the year ended December 31, 2008, compared to a favorable effect of $22.5 million (including favorable development of $10.6 million for catastrophes) in 2007.

Other personal insurance incurred losses and LAE increased due primarily to higher catastrophe losses and LAE and unfavorable loss and LAE development in 2008, compared to favorable loss and LAE development in 2007. Other personal insurance catastrophe losses and LAE (excluding development) were $3.9 million for the year ended December 31, 2008, compared to $0.6 million in 2007. Unfavorable loss and LAE reserve development on other personal insurance was $1.1 million for the year ended December 31, 2008, compared to $2.8 million of favorable loss and LAE development for the same period in 2007.

Insurance Expenses increased by $4.4 million for the year ended December 31, 2008, compared to the same period in 2007, due primarily to assessments from TWIA related to Hurricane Ike.

Net Income in the Kemper segment decreased by $53.1 million for the year ended December 31, 2008, compared to the same period in 2007, due primarily to the changes in Operating Profit. The Kemper segment s effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $24.8 million in 2008, compared to $26.0 million in 2007.

UNITRIN SPECIALTY

Selected financial information for the Unitrin Specialty segment follows:

DOLLARS IN MILLIONS	**2009**	**2008**	**2007**
Earned Premiums:			
Personal Automobile	**$ 471.5**	$ 414.0	$ 343.3
Commercial Automobile	**56.0**	80.0	106.0
Total Earned Premiums	**527.5**	494.0	449.3
Net Investment Income	**20.8**	8.6	19.2
Other Income	**0.4**	0.2	0.1
Total Revenues	**548.7**	502.8	468.6
Incurred Losses and LAE	**418.8**	397.0	340.9
Insurance Expenses	**99.4**	95.6	92.4
Operating Profit	**30.5**	10.2	35.3
Income Tax Expense	**(7.0)**	(0.1)	(8.3)
Net Income	**$ 23.5**	$ 10.1	$ 27.0

RATIOS BASED ON EARNED PREMIUMS

Incurred Loss and LAE Ratio (excluding Catastrophes)	**78.6%**	79.8%	75.8%
Incurred Catastrophe Loss and LAE Ratio	**0.8**	0.6	0.1
Total Incurred Loss and LAE Ratio	**79.4**	80.4	75.9
Incurred Expense Ratio	**18.8**	19.4	20.6
Combined Ratio	**98.2%**	99.8%	96.5%

Table of Contents

Unitrin, Inc. and Subsidiaries

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

UNITRIN SPECIALTY (Continued)

INSURANCE RESERVES

DOLLARS IN MILLIONS	DEC. 31, 2009	DEC. 31, 2008
Insurance Reserves:		
Personal Automobile	**$ 186.5**	$ 175.7
Commercial Automobile	**82.9**	107.2
Other	**8.5**	10.2
Total Insurance Reserves	**$ 277.9**	$ 293.1
Loss Reserves:		
Case	**$ 169.5**	$ 179.6
Incurred but Not Reported	**71.3**	76.3
Total Loss Reserves	**240.8**	255.9
LAE Reserves	**37.1**	37.2
Total Insurance Reserves	**$ 277.9**	$ 293.1
For The Year Ended		
Favorable Loss and LAE Reserve Development, Net	**$ 7.9**	$ 5.5
Loss and LAE Reserve Development as a Percentage of Insurance Reserves at Beginning of Year	**2.7%**	2.0%

2009 Compared with 2008

Earned Premiums in the Unitrin Specialty segment increased by $33.5 million for the year ended December 31, 2009, compared to the same period in 2008, due to higher earned premiums on personal automobile insurance, partially offset by lower earned premiums on commercial automobile insurance. Personal automobile insurance earned premiums increased by $57.5 million for the year ended December 31, 2009, compared to the same period in 2008, due to higher volume, partially offset by lower average earned premium rates. Personal automobile insurance volume increased due primarily to a higher level of renewal policies resulting from the Unitrin Specialty segment s significant growth in 2008 in California. Unitrin Specialty s growth rate in personal automobile insurance volume has slowed and management expects that earned premiums will decrease slightly in 2010 due to lower volume during the latter part of 2009 and lower volume expected during the first half of 2010. Commercial automobile insurance earned premiums decreased by $24.0 million for the year ended December 31, 2009, compared to the same period in 2008, due to lower volume, partially the result of increased competition and, to a lesser extent, lower average earned premium rates. In the fourth quarter of 2008 and throughout 2009, Unitrin Specialty implemented several initiatives targeted to stabilize commercial automobile premium volume, including the introduction of a new commercial insurance product for light commercial vehicles, a reduction in down payment requirements for certain commercial automobile insurance risks and the introduction of improved internet-enabled commercial lines rating technology. While these initiatives appear to have stabilized new business production, commercial automobile insurance premium volume decreased for the year ended December 31, 2009, compared to the same period in 2008, due primarily to a lower level of renewal policies. Unitrin Specialty s management expects commercial automobile insurance earned premiums to continue to decline in 2010, but at a slower pace than experienced in 2009.

Net Investment Income in the Unitrin Specialty segment increased by $12.2 million for the year ended December 31, 2009, compared to the same period in 2008, due primarily to higher net investment income from Equity Method Limited Liability Investments. The Unitrin Specialty segment reported net investment income of

Unitrin, Inc. and Subsidiaries

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

UNITRIN SPECIALTY (Continued)

$3.5 million from Equity Method Limited Liability Investments for the year ended December 31, 2009, compared to net investment losses of $7.9 million for the same period in 2008.

Operating Profit in the Unitrin Specialty segment increased by $20.3 million for the year ended December 31, 2009, compared to the same period in 2008, due primarily to higher operating profit in both personal and commercial automobile insurance, partially offset by lower operating profit in other insurance, which is comprised of certain reinsurance pools in run-off.

Personal automobile insurance operating profit increased by $13.8 million for the year ended December 31, 2009, compared to the same period in 2008, due primarily to higher net investment income, and to a lesser degree lower insurance expenses as a percentage of personal automobile insurance earned premiums and lower incurred losses and LAE (excluding catastrophes and development) as a percentage of personal automobile insurance earned premiums. Net investment income allocated to personal automobile insurance increased by $9.3 million for the year ended December 31, 2009, compared to the same period in 2008, due to higher investment returns on Equity Method Limited Liability Investments and a higher level of investments. Insurance expenses as a percentage of personal automobile insurance earned premiums decreased for the year ended December 31, 2009, compared to the same period in 2008, due primarily to lower commission rates, principally due to a greater proportion of renewal policies, and greater economies of scale. Incurred losses and LAE (excluding catastrophes and development) as a percentage of personal automobile earned premiums decreased due primarily to lower frequency and severity on physical damage coverages, partially offset by higher severity on liability coverages. Personal automobile insurance catastrophe losses and LAE were $4.2 million for the year ended December 31, 2009, compared to $2.9 million for the same period in 2008. Loss and LAE reserve development on personal automobile insurance had a favorable effect of $2.3 million for the year ended December 31, 2009, compared to a favorable effect of $1.7 million for the same period in 2008. See MD&A, Critical Accounting Estimates, for additional information pertaining to the Company s process of estimating property and casualty insurance reserves for losses and LAE, development of property and casualty insurance losses and LAE and estimated variability of property and casualty insurance reserves for losses and LAE.

Commercial automobile insurance operating profit increased by $8.4 million for the year ended December 31, 2009, compared to the same period in 2008, due primarily to higher favorable loss and LAE reserve development, higher net investment income allocated to commercial automobile insurance and lower incurred losses and LAE (excluding development) as a percentage of commercial automobile insurance earned premiums. Loss and LAE reserve development on commercial automobile insurance had a favorable effect of $5.4 million for the year ended December 31, 2009, compared to a favorable effect of $1.3 million for the same period in 2008. Net investment income allocated to commercial automobile insurance increased by $2.9 million for the year ended December 31, 2009, compared to the same period in 2008, due primarily to higher investment returns on Equity Method Limited Liability Investments partially offset by lower levels of investments. Incurred losses and LAE (excluding development) as a percentage of commercial automobile insurance earned premiums decreased for the year ended December 31, 2009, compared to the same period in 2008, due primarily to lower severity and, to a lesser extent, lower frequency of losses.

Operating profit in other insurance decreased by $1.9 million for the year ended December 31, 2009, compared to the same period in 2008, due to the impact of lower favorable loss and LAE reserve development, partially offset by the impact of the change in the Unitrin Specialty segment s estimate of losses and LAE recoverable from certain reinsurers that had assumed business from these run-off pools. Favorable loss and LAE reserve development on other insurance was $0.2 million for the year ended December 31, 2009, compared to $2.5 million for the same period in 2008.

Net Income in the Unitrin Specialty segment increased by $13.4 million for the year ended December 31, 2009, compared to the same period in 2008, due primarily to the higher operating profit. The Unitrin Specialty

Unitrin, Inc. and Subsidiaries

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

UNITRIN SPECIALTY (Continued)

segment s effective tax rate differs from the statutory tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $11.5 million for the year ended December 31, 2009, compared to $11.2 million for the same period in 2008.

2008 Compared with 2007

Earned Premiums in the Unitrin Specialty segment increased by $44.7 million for the year ended December 31, 2008, compared to the same period in 2007, due to higher earned premiums on personal automobile insurance, partially offset by lower earned premiums on commercial automobile insurance. Personal automobile insurance earned premiums increased by $70.7 million for the year ended December 31, 2008, compared to the same period in 2007, due primarily to higher volume, partially offset by lower average earned premium rates. Personal automobile insurance volume increased due primarily to lower overall premium rates in the state of California. Commercial automobile insurance earned premiums decreased by $26.0 million for the year ended December 31, 2008, compared to the same period in 2007, due primarily to lower volume resulting from increased competition.

Net Investment Income in the Unitrin Specialty segment decreased by $10.6 million for the year ended December 31, 2008, compared to the same period in 2007, due primarily to lower net investment income from certain investments in Equity Method Limited Liability Investments. The Unitrin Specialty segment reported net investment losses of $7.9 million from these investments for the year ended December 31, 2008, compared to net investment income of $1.0 million in 2007.

Operating Profit in the Unitrin Specialty segment decreased by $25.1 million for the year ended December 31, 2008, compared to 2007, due primarily to higher incurred losses and LAE as a percentage of earned premiums in both personal automobile insurance and commercial automobile insurance and the lower Net Investment Income. Unitrin Specialty s incurred losses related to Hurricanes Dolly, Gustav and Ike were $1.5 million. See MD&A, Catastrophes, and Note 22, Catastrophe Reinsurance, to the Consolidated Financial Statements for additional information on Hurricanes Dolly, Gustav and Ike and the Company s catastrophe reinsurance programs.

Personal automobile insurance incurred losses and LAE as a percentage of earned premiums increased due primarily to the significant growth in new personal automobile insurance volume in California and lower favorable loss and LAE reserve development for the year ended December 31, 2008, compared to the same period in 2007. Historically, incurred losses and LAE as a percentage of earned premiums for personal automobile insurance have been higher for new business than they have been for renewal business. Personal automobile insurance loss and LAE reserve development had a favorable effect of $1.7 million in 2008, compared to a favorable effect of $4.2 million in 2007. For the year ended December 31, 2008, commercial automobile insurance incurred losses and LAE as a percentage of earned premiums increased due primarily to lower favorable loss and LAE reserve development. Commercial automobile insurance loss and LAE reserve development had a favorable effect of $1.3 million in 2008, compared to a favorable effect of $10.1 million in 2007. Loss and LAE reserve development on certain reinsurance pools in run-off, included in other insurance, had a favorable effect of $2.5 million for the year ended December 31, 2008, compared to a favorable effect of $1.0 million for the same period in 2007.

Net Income in the Unitrin Specialty segment decreased by $16.9 million for the year ended December 31, 2008, compared to the same period in 2007, due primarily to the lower Operating Profit. The Unitrin Specialty segment s effective tax rate differs from the statutory tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $11.2 million for the year ended December 31, 2008, compared to $11.4 million for the same period in 2007.

Table of Contents

Unitrin, Inc. and Subsidiaries

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

UNITRIN DIRECT

Selected financial information for the Unitrin Direct segment follows:

DOLLARS IN MILLIONS	2009	2008	2007
Earned Premiums:			
Automobile	**$ 338.0**	$ 283.8	$ 254.6
Homeowners	**7.1**	6.4	2.9
Other Personal	**0.5**	0.3	0.1
Total Earned Premiums	**345.6**	290.5	257.6
Net Investment Income	**18.5**	4.6	8.9
Other Income	**0.9**	0.4	0.4
Total Revenues	**365.0**	295.5	266.9
Incurred Losses and LAE	**269.1**	246.7	219.3
Insurance Expenses	**107.0**	101.3	88.8
Write-off of Goodwill	**1.5**		
Operating Loss	**(12.6)**	(52.5)	(41.2)
Income Tax Benefit	**7.3**	20.5	16.3
Net Loss	**$ (5.3)**	$ (32.0)	$ (24.9)
RATIOS BASED ON EARNED PREMIUMS			
Incurred Loss and LAE Ratio (excluding Catastrophes)	**76.9%**	83.8%	84.9%
Incurred Catastrophe Loss and LAE Ratio	**1.0**	1.1	0.2
Total Incurred Loss and LAE Ratio	**77.9**	84.9	85.1
Incurred Expense Ratio	**31.4**	34.9	34.5
Combined Ratio	**109.3%**	119.8%	119.6%

INSURANCE RESERVES

DOLLARS IN MILLIONS	DEC. 31, 2009	DEC. 31, 2008
Insurance Reserves:		
Personal Automobile	**$ 241.2**	$ 159.3
Homeowners	**3.2**	3.1
Other	**2.6**	0.7

Total Insurance Reserves	**$**	**247.0**	$	163.1
Loss Reserves:				
Case	**$**	**126.4**	$	97.9
Incurred but Not Reported		**79.8**		37.5
Total Loss Reserves		**206.2**		135.4
LAE Reserves		**40.8**		27.7
Total Insurance Reserves	**$**	**247.0**	$	163.1
For The Year Ended				
Favorable (Adverse) Loss and LAE Reserve Development, Net	**$**	**12.1**	$	(3.2)
Loss and LAE Reserve Development as a Percentage of Insurance Reserves at Beginning of Year	** **			