

HORACE MANN EDUCATORS CORP /DE/
Form 10-Q
May 08, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended **March 31, 2015**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-10890

HORACE MANN EDUCATORS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

37-0911756

(I.R.S. Employer
Identification No.)

1 Horace Mann Plaza, Springfield, Illinois 62715-0001
(Address of principal executive offices, including Zip Code)

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

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

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

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

Large accelerated filer

Accelerated
filer

Non-accelerated filer

Smaller reporting
company

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

As of April 30, 2015, 41,141,003 shares of Common Stock, par value \$0.001 per share, were outstanding, net of 23,331,930 shares of treasury stock.

HORACE MANN EDUCATORS CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Horace Mann Educators Corporation:

We have reviewed the consolidated balance sheet of Horace Mann Educators Corporation and subsidiaries (the Company) as of March 31, 2015, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the three-month periods ended March 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Horace Mann Educators Corporation and subsidiaries as of December 31, 2014, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 2, 2015, we expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

KPMG LLP

Chicago, Illinois

May 8, 2015

HORACE MANN EDUCATORS CORPORATION**CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except per share data)**

	March 31, <u>2015</u> (Unaudited)	December 31, <u>2014</u>
ASSETS		
Investments		
Fixed maturities, available for sale, at fair value (amortized cost 2015, \$6,479,270; 2014, \$6,375,237)	\$7,065,799	\$6,893,090
Equity securities, available for sale, at fair value (cost 2015, \$99,860; 2014, \$99,904)	105,066	110,655
Short-term and other investments	450,347	399,722
Total investments	7,621,212	7,403,467
Cash	43,931	11,675
Deferred policy acquisition costs	211,522	215,082
Goodwill	47,396	47,396
Other assets	285,118	277,350
Separate Account (variable annuity) assets	1,865,240	1,813,557
Total assets	\$10,074,419	\$9,768,527
LIABILITIES AND SHAREHOLDERS' EQUITY		
Policy liabilities		
Fixed annuity contract liabilities	\$3,847,694	\$3,774,457
Interest-sensitive life contract liabilities	794,600	792,039
Unpaid claims and claim expenses	340,103	325,784
Future policy benefits	239,225	235,775
Unearned premiums	217,066	223,413
Total policy liabilities	5,438,688	5,351,468
Other policyholder funds	607,622	606,738
Other liabilities	515,143	422,362
Short-term debt	38,000	38,000
Long-term debt, current and noncurrent	199,955	199,939
Separate Account (variable annuity) liabilities	1,865,240	1,813,557
Total liabilities	8,664,648	8,432,064
Preferred stock, \$0.001 par value, authorized 1,000,000 shares; none issued	-	-
Common stock, \$0.001 par value, authorized 75,000,000 shares; issued, 2015, 64,454,178; 2014, 64,245,048	64	64
Additional paid-in capital	435,079	422,232
Retained earnings	1,088,917	1,065,318
Accumulated other comprehensive income (loss), net of taxes:		

Net unrealized gains on fixed maturities and equity securities	335,132	297,554
Net funded status of pension and other postretirement benefit obligations	(12,953)	(12,953)
Treasury stock, at cost, 2015, 23,331,930 shares; 2014, 23,308,430 shares	(436,468)	(435,752)
Total shareholders' equity	1,409,771	1,336,463
Total liabilities and shareholders' equity	\$ 10,074,419	\$ 9,768,527

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

HORACE MANN EDUCATORS CORPORATION**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****(Dollars in thousands, except per share data)**

	Three Months Ended	
	<u>March 31,</u>	
	<u>2015</u>	<u>2014</u>
Revenues		
Insurance premiums and contract charges earned	\$ 179,739	\$ 175,403
Net investment income	83,313	83,044
Net realized investment gains	6,068	1,699
Other income	999	1,119
Total revenues	270,119	261,265
Benefits, losses and expenses		
Benefits, claims and settlement expenses	114,019	111,988
Interest credited	44,537	43,087
Policy acquisition expenses amortized	23,684	23,033
Operating expenses	35,928	39,947
Interest expense	3,552	3,546
Total benefits, losses and expenses	221,720	221,601
Income before income taxes	48,399	39,664
Income tax expense	14,124	11,298
Net income	\$ 34,275	\$ 28,366
Net income per share		
Basic	\$ 0.82	\$ 0.69
Diluted	\$ 0.81	\$ 0.67
Weighted average number of shares and equivalent shares (in thousands)		
Basic	41,950	41,180
Diluted	42,300	42,259
Net realized investment gains (losses)		
Total other-than-temporary impairment losses on securities	\$ (2,289)	\$ -
Portion of losses recognized in other comprehensive income	-	-
Net other-than-temporary impairment losses on securities recognized in earnings	(2,289)	-
Realized gains, net	8,357	1,699

Total	\$6,068	\$1,699
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See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

HORACE MANN EDUCATORS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in thousands)

	Three Months Ended	
	<u>March 31,</u>	
	<u>2015</u>	<u>2014</u>
Comprehensive income		
Net income	\$ 34,275	\$ 28,366
Other comprehensive income, net of taxes:		
Change in net unrealized gains and losses on fixed maturities and equity securities	37,578	77,408
Change in net funded status of pension and other postretirement benefit obligations	-	-
Other comprehensive income	37,578	77,408
Total	\$ 71,853	\$ 105,774

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

HORACE MANN EDUCATORS CORPORATION**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)****(Dollars in thousands, except per share data)**

	Three Months Ended	
	<u>March 31,</u>	
	<u>2015</u>	<u>2014</u>
Common stock, \$0.001 par value		
Beginning balance	\$64	\$64
Options exercised, 2015, 43,298 shares; 2014, 196,840 shares	-	-
Conversion of common stock units, 2015, 8,293 shares; 2014, 10,834 shares	-	-
Conversion of restricted stock units, 2015, 157,539 shares; 2014, 65,730 shares	-	-
Ending balance	64	64
Additional paid-in capital		
Beginning balance	422,232	407,056
Options exercised and conversion of common stock units and restricted stock units	10,882	6,065
Share-based compensation expense	1,965	340
Ending balance	435,079	413,461
Retained earnings		
Beginning balance	1,065,318	1,000,312
Net income	34,275	28,366
Cash dividends, 2015, \$0.25 per share; 2014, \$0.23 per share	(10,676)	(9,784)
Ending balance	1,088,917	1,018,894
Accumulated other comprehensive income (loss), net of taxes		
Beginning balance	284,601	122,214
Change in net unrealized gains and losses on fixed maturities and equity securities	37,578	77,408
Change in net funded status of pension and other postretirement benefit obligations	-	-
Ending balance	322,179	199,622
Treasury stock, at cost		
Beginning balance, 2015, 23,308,430 shares; 2014, 23,117,554 shares	(435,752)	(430,341)

Acquisition of shares, 2015, 23,500 shares; 2014, 136,976 shares	(716)	(3,867)
Ending balance, 2015, 23,331,930 shares; 2014, 23,254,530 shares	(436,468)	(434,208)
Shareholders' equity at end of period	\$1,409,771	\$1,197,833

See accompanying Notes to Consolidated Financial Statements.

See accompanying Report of Independent Registered Public Accounting Firm.

HORACE MANN EDUCATORS CORPORATION**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****(Dollars in thousands)**

	Three Months Ended	
	<u>March 31,</u>	
	<u>2015</u>	<u>2014</u>
Cash flows - operating activities		
Premiums collected	\$ 168,558	\$ 167,568
Policyholder benefits paid	(112,404)	(114,113)
Policy acquisition and other operating expenses paid	(73,560)	(76,090)
Investment income collected	82,486	77,459
Interest expense paid	(165)	(275)
Other	2,387	(1,464)
Net cash provided by operating activities	67,302	53,085
Cash flows - investing activities		
Fixed maturities		
Purchases	(284,293)	(321,571)
Sales	81,320	52,940
Maturities, paydowns, calls and redemptions	166,847	66,605
Purchase of other invested assets	(12,472)	-
Net cash provided by (used in) short-term and other investments	(32,073)	130,778
Net cash used in investing activities	(80,671)	(71,248)
Cash flows - financing activities		
Dividends paid to shareholders	(10,676)	(9,784)
Acquisition of treasury stock	(716)	(3,867)
Exercise of stock options	884	3,746
Annuity contracts: variable, fixed and FHLB funding agreements		
Deposits	141,962	100,305