

UNITRIN INC
Form 10-K
February 04, 2009
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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, 2008

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
(State or other jurisdiction of
incorporation or organization)

95-4255452
(I.R.S. Employer
Identification No.)

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One East Wacker Drive, Chicago, Illinois
(Address of principal executive offices)

60601
(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	New York Stock Exchange

pursuant to Rights Agreement

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 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

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 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of June 30, 2008, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1.6 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 62,314,503 shares of common stock outstanding as of January 30, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 6, 2009 are incorporated by reference into Part III.

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Caution Regarding Forward-Looking Statements

This 2008 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 or financial performance. 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 2008 Annual Report on Form 10-K. 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. 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.

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

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

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

The number and severity of insurance claims (including those associated with catastrophe losses) and their impact on the adequacy of loss 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;

Orders, interpretations or other actions by regulators that impact the reporting, adjustment and payment of claims;

Changes in the pricing or availability of reinsurance;

Changes in the financial condition of reinsurers and amounts recoverable therefrom;

Changes in industry trends and significant industry developments;

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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;

Governmental actions, including new laws or regulations or court decisions interpreting existing laws and regulations or policy provisions;

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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;

The impact of residual market assessments and assessments for insurance industry insolvencies;

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

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

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, the impact of changes in the value of collateral held;

The failure to complete the acquisition of Direct Response Corporation and its subsidiaries (Direct Response);

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

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 the Company's filings with the 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 2008 Annual Report on Form 10-K. The reader is advised, however, to consult any further disclosures the Company makes on related subjects in filings made 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.

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The Company 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 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 the Company 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, the Company makes copies available to the public free of charge through its website at unitrin.com.

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(a) GENERAL DEVELOPMENT OF BUSINESS

Purchase of Primesco, Inc.

On April 1, 2008, Unitrin completed its acquisition of Primesco, Inc. (Primesco) of Decatur, Alabama, in a cash merger transaction for a total purchase price of \$95.5 million, including transaction costs of \$0.2 million. Primesco's wholly-owned subsidiaries, Mutual Savings Life Insurance Company (Mutual Savings Life) and Mutual Savings Fire Insurance Company (Mutual Savings Fire), specialize in the sale of life, health and fire insurance products to persons of modest financial means in Alabama, Georgia, Mississippi and several other states in the Southeast. Similar to the Company's Career Agency Companies business unit, Mutual Savings Life and Mutual Savings Fire employ a network of employee agents who call on customers in their homes to sell and service products and collect premiums. Due to the similarity of the products, distribution network and back-office operations of the Company's Career Agency Companies and Mutual Savings Life and Mutual Savings Fire, the Company is in the process of combining the businesses into a single business unit.

Pending Purchase of Direct Response Corporation

On August 29, 2008, Unitrin's subsidiary, Trinity, entered into a definitive agreement to acquire Direct Response in a cash transaction initially valued at approximately \$220 million, subject to certain purchase price adjustments. Such purchase price adjustments are currently estimated to reduce the purchase price to approximately \$200 million. Except for approval yet to be received from a state insurance regulator, the Company has received all federal and state regulatory approvals necessary to close the transaction. The transaction is subject to timely approval by such insurance regulator and the satisfaction of other customary closing conditions. 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 and back-office operations of the Company's Unitrin Direct business unit and Direct Response, the Company intends to combine the two businesses into a single business unit.

Sale of Unitrin Business Insurance

On June 3, 2008, the Company completed its previously disclosed sale of its Unitrin Business Insurance operations to AmTrust Financial Services, Inc. (AmTrust) for total consideration of \$101.8 million. AmTrust acquired the renewal rights to the Unitrin Business Insurance book of business, certain legal entities and selected other assets, and the workforce that the Company employed to underwrite and process its Unitrin Business Insurance products. The Company retained pre-closing loss and loss adjustment expense (LAE) reserves. Results of operations for Unitrin Business Insurance are reported as discontinued operations in the Consolidated Financial Statements.

Unitrin Business Insurance's products included commercial automobile, general liability, fire, multi-peril and workers compensation insurance and were marketed by independent insurance agents.

Unitrin Common Stock Repurchases

During 2008, Unitrin repurchased approximately 2 million shares of its common stock at an aggregate cost of \$69 million in open market transactions. Subject to market conditions and other factors, the Company may, from time to time, repurchase additional shares of Unitrin common stock, in the open market or in privately negotiated transactions, pursuant to the outstanding repurchase authorization of Unitrin's Board of Directors. At December 31, 2008, approximately 1.4 million shares of Unitrin common stock remained under such authorization.

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(b) BUSINESS SEGMENT FINANCIAL DATA

Financial information about Unitrin's business segments for the years ended December 31, 2008, 2007 and 2006 is contained in the following portions of this 2008 Annual Report on Form 10-K of Unitrin, Inc. and is incorporated herein by reference: (i) Note 19, "Business Segments," to the Consolidated Financial Statements; and (ii) MD&A.

(c) DESCRIPTION OF BUSINESS

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 7,700 full-time associates supporting its operations of which approximately 1,220 are employed in the Kemper segment, 770 in the Unitrin Specialty segment, 610 in the Unitrin Direct segment, 4,100 in the Life and Health Insurance segment, 730 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 57%, 57% and 56% of Unitrin's consolidated insurance premiums earned from continuing operations for the years ended December 31, 2008, 2007 and 2006, respectively. Automobile insurance in these segments accounted for 50%, 45% and 45% of Unitrin's consolidated revenues from continuing operations for the years ended December 31, 2008, 2007 and 2006, respectively. Homeowners insurance, excluding dwellings and personal property insurance, in these segments accounted for 12%, 13% and 12% of Unitrin's consolidated insurance premiums earned from continuing operations for the years ended December 31, 2008, 2007 and 2006, respectively. Homeowners insurance, excluding dwellings and personal property insurance, in these segments accounted for 11%, 10% and 10% of Unitrin's consolidated revenues from continuing operations for the years ended December 31, 2008, 2007 and 2006, 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.

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.

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Kemper

Kemper, based in Jacksonville, Florida, conducts business in 39 states geographically dispersed throughout the United States. In 2008, the following states provided approximately three-fifths of the premium revenues included in this segment: New York (18%), North Carolina (13%), California (13%) and Texas (12%).

Kemper primarily sells preferred and standard risk automobile and homeowners insurance. Kemper's insurance products accounted for approximately 51% of the aggregate insurance premium revenues of Unitrin's continuing property and casualty insurance business in 2008. Kemper's products are marketed by over 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 24 states, principally in the midwest, southeast, southwest and western United States. In 2008, the following states provided more than two-thirds of the premium revenues in this segment: California (38%), Texas (20%), Washington (5%) 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 continuing property and casualty insurance business in 2008. 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 insurance primarily through direct mail, web insurance portals, click-thrus, and its own website. In addition, Merastar Insurance Company, based in Chattanooga, Tennessee, specializes in the sale of personal automobile and homeowners insurance through employer-sponsored voluntary benefit programs. The combined Unitrin Direct segment's automobile and homeowners insurance products are available in every state in the U.S. with the exception of Alaska, Hawaii and Massachusetts. In 2008, the following states provided approximately two-thirds of the premium revenues in this segment: California (14%), Florida (14%), Michigan (7%), Pennsylvania (7%), New York (6%), Virginia (6%), Georgia (5%) and New Jersey (5%). Unitrin Direct's insurance products accounted for approximately 16% of the aggregate insurance premium revenues