KEMPER Corp
Form 10-Q
November 02, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For Quarterly Period Ended September 30, 2011
OR
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from to
Commission file number 0-18298

Kemper Corporation
(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)

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

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

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

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

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

60,460,402 shares of common stock, $0.10 par value, were outstanding as of October 31, 2011.

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KEMPER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Dollars in millions, except per share amounts)
(Unaudited)

	Nine Months Ended		Three Months Ended	
	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
Revenues:				
Earned Premiums	$1,637.1	$1,727.8	$543.0	$568.2
Net Investment Income	222.7	241.0	58.6	79.4
Other Income	0.8	1.0	0.4	0.4
Net Realized Gains (Losses) on Sales of Investments	27.8	14.6	(4.2)	7.2
Other-than-temporary Impairment Losses:				
Total Other-than-temporary Impairment Losses	(6.7)	(13.9)	(5.0)	(3.6)
Portion of Losses Recognized in Other Comprehensive (Income) Loss	—	1.2	—	(1.0)
Net Impairment Losses Recognized in Earnings	(6.7)	(12.7)	(5.0)	(4.6)
Total Revenues	1,881.7	1,971.7	592.8	650.6
Expenses:				
Policyholders’ Benefits and Incurred Losses and Loss Adjustment Expenses	1,269.0	1,240.1	399.6	403.9
Insurance Expenses	500.8	506.8	172.6	168.9
Write-off of Goodwill	—	14.8	—	14.8
Interest and Other Expenses	62.0	49.9	21.4	16.1
Total Expenses	1,831.8	1,811.6	593.6	603.7
Income (Loss) from Continuing Operations before Income Taxes and Equity in Net Loss of Investee	49.9	160.1	(0.8)	46.9
Income Tax Benefit (Expense)	(5.1)	(46.6)	4.6	(14.3)
Income from Continuing Operations before Equity in Net Loss of Investee	44.8	113.5	3.8	32.6
Equity in Net Loss of Investee	—	(0.1)	—	(0.3)
Income from Continuing Operations	44.8	113.4	3.8	32.3
Discontinued Operations:				
Income from Discontinued Operations before Income Taxes	19.3	13.7	0.6	5.6
Income Tax Benefit (Expense)	(5.8)	(5.4)	0.3	(2.2)
Income from Discontinued Operations	13.5	8.3	0.9	3.4
Net Income	$58.3	$121.7	$4.7	$35.7
Income from Continuing Operations Per Unrestricted Share:				
Basic	$0.74	$1.83	$0.06	$0.52
Diluted	$0.74	$1.82	$0.06	$0.52
Net Income Per Unrestricted Share:				
Basic	$0.96	$1.96	$0.08	$0.58
Diluted	$0.96	$1.95	$0.08	$0.58
Dividends Paid to Shareholders Per Share	$0.72	$0.66	$0.24	$0.22

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

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KEMPER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions, except per share amounts)

	Sep 30, 2011 (Unaudited)	Dec 31, 2010
Assets:		
Investments:		
Fixed Maturities at Fair Value (Amortized Cost: 2011 - $4,287.1; 2010 - $4,240.8)	$4,782.4	$4,475.3
Equity Securities at Fair Value (Cost: 2011 - $355.0; 2010 - $449.2)	360.8	550.4
Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings	305.0	328.0
Short-term Investments at Cost which Approximates Fair Value	120.9	402.9
Other Investments	495.2	494.2
Total Investments	6,064.3	6,250.8
Cash	471.0	117.2
Automobile Loan Receivables at Cost and Net of Reserve for Loan Losses (Fair Value: 2010 - $340.0)	—	337.6
Other Receivables	604.4	606.7
Deferred Policy Acquisition Costs	539.5	525.2
Goodwill	311.8	311.8
Current and Deferred Income Tax Assets	38.7	39.6
Other Assets	170.9	169.6
Total Assets	$8,200.6	$8,358.5
Liabilities and Shareholders' Equity:		
Insurance Reserves:		
Life and Health	$3,094.5	$3,063.7
Property and Casualty	1,063.6	1,118.7
Total Insurance Reserves	4,158.1	4,182.4
Certificates of Deposits at Cost (Fair Value: 2010 - $336.6)	—	321.4
Unearned Premiums	687.1	678.6
Liabilities for Income Taxes	69.2	15.1
Notes Payable at Amortized Cost (Fair Value: 2011 - $708.5; 2010 - $628.0)	675.4	609.8
Accrued Expenses and Other Liabilities	390.7	437.8
Total Liabilities	5,980.5	6,245.1
Shareholders' Equity:		
Common Stock, $0.10 Par Value, 100 Million Shares Authorized; 60,456,257 Shares Issued and Outstanding at September 30, 2011 and 61,066,587 Shares Issued and Outstanding at December 31, 2010	6.1	6.1
Paid-in Capital	745.4	751.1
Retained Earnings	1,200.5	1,198.8
Accumulated Other Comprehensive Income	268.1	157.4
Total Shareholders' Equity	2,220.1	2,113.4
Total Liabilities and Shareholders' Equity	$8,200.6	$8,358.5

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

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KEMPER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)
(Unaudited)

	Nine Months Ended Sep 30, 2011	Nine Months Ended Sep 30, 2010
Operating Activities:		
Net Income	$58.3	$121.7
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Increase in Deferred Policy Acquisition Costs	(14.3)	(7.0)
Equity in Net Loss of Former Investee before Taxes	—	0.2
Equity in Earnings of Equity Method Limited Liability Investments	(7.2)	(33.1)
Amortization of Investment Securities and Depreciation of Investment Real Estate	12.2	14.1
Net Realized Gains on Sales of Investments	(28.2)	(14.6)
Net Impairment Losses Recognized in Earnings	6.7	12.7
Gain on Sale of Portfolio of Automobile Loan Receivables	(4.5)	—
Benefit for Loan Losses	(34.1)	(3.7)
Depreciation of Property and Equipment	10.4	10.0
Write-off of Goodwill	—	14.8
Decrease (Increase) in Other Receivables	(2.8)	12.3
Decrease in Insurance Reserves	(25.6)	(48.3)
Increase (Decrease) in Unearned Premiums	8.5	(21.1)
Change in Income Taxes	(7.5)	1.9
Decrease in Accrued Expenses and Other Liabilities	(8.3)	(23.7)
Other, Net	26.3	24.0
Net Cash Provided (Used) by Operating Activities	(10.1)	60.2
Investing Activities:		
Sales and Maturities of Fixed Maturities	547.8	478.3
Purchases of Fixed Maturities	(577.1)	(371.0)
Sales of Equity Securities	236.6	23.8
Purchases of Equity Securities	(181.3)	(67.0)
Sales of Former Investee	—	1.3
Acquisition and Improvements of Investment Real Estate	(4.0)	(2.2)
Sales of Investment Real Estate	0.3	—
Return of Investment of Equity Method Limited Liability Investments	47.7	21.0
Acquisitions of Equity Method Limited Liability Investments	(17.5)	(18.2)
Disposition of Business, Net of Cash Disposed	—	4.1
Decrease (Increase) in Short-term Investments	282.1	(8.8)
Net Proceeds from Sale of Portfolio of Automobile Loan Receivables	220.7	—
Receipts from Automobile Loan Receivables	158.6	268.9
Increase in Other Investments	(10.2)	(9.2)
Other, Net	(19.1)	(34.0)
Net Cash Provided by Investing Activities	684.6	287.0
Financing Activities:		
Repayments of Certificates of Deposits	(321.8)	(278.3)
Proceeds from Issuance of Notes Payable	95.0	—
Repayments of Notes Payable	(30.0)	—
Common Stock Repurchases	(21.7)	(24.5)

Cash Dividends Paid to Shareholders	(43.7)	(41.1)
Cash Exercise of Stock Options	0.1	0.1
Excess Tax Benefits from Share-based Awards	0.2	0.1
Other, Net	1.2	2.4
Net Cash Used by Financing Activities	(320.7)	(341.3)
Increase in Cash	353.8	5.9
Cash, Beginning of Year	117.2	143.7
Cash, End of Period	$471.0	$149.6

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

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KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation

On August 25, 2011, Unitrin, Inc. changed its name to Kemper Corporation and began trading on the New York Stock Exchange under a new ticker symbol, KMPR. The Condensed Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") and include the accounts of Kemper Corporation, formerly known as Unitrin, Inc. ("Kemper"), and its subsidiaries (individually and collectively referred to herein as the "Company") and are unaudited. All significant intercompany accounts and transactions have been eliminated.

During the third quarter of 2011, Kemper's subsidiary, Fireside Bank, sold its active portfolio of automobile loan receivables. Accordingly, the Company has accounted for Fireside Bank as a discontinued operation beginning with these financial statements and has reclassified the results of Fireside Bank and the related disclosures for the nine and three months ended September 30, 2010 to conform to the current presentation. The Company also accounts for its former Unitrin Business Insurance operations as discontinued operations. See Note 2, "Discontinued Operations," to the Condensed Consolidated Financial Statements.

Certain financial information that is normally included in annual financial statements, including certain financial statement footnote disclosures, prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") is not required by the rules and regulations of the SEC for interim financial reporting and has been condensed or omitted. In the opinion of the Company's management, the Condensed Consolidated Financial Statements include all adjustments necessary for a fair presentation. The preparation of interim financial statements relies heavily on estimates. This factor and certain other factors, such as the seasonal nature of some portions of the insurance business, as well as market conditions, call for caution in drawing specific conclusions from interim results. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the Company's Consolidated Financial Statements and related notes included in Kemper's Annual Report on Form 10-K, filed with the SEC for the year ended December 31, 2010 (the "2010 Annual Report").

Adoption of New Accounting Standards and Accounting Standards Not Yet Adopted

The Financial Accounting Standards Board ("FASB") issues Accounting Standards Updates ("ASUs") to amend the authoritative literature in the FASB Accounting Standards Codification ("ASC"). The Company has not adopted any new accounting standards in 2011. There have been nine ASUs issued in 2011 that amend the original text of ASC. Except for ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements and ASU 2011-08, Testing Goodwill for Impairment, described below, none of the ASUs issued in 2011 are expected to have an impact on the Company. ASU 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts, which was issued in 2010 and also described below, is expected to have an impact on the Company.

In October 2010, the FASB issued ASU 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The standard is effective for interim and annual reporting periods beginning after December 15, 2011, with earlier adoption permitted. The provisions of the new standard can be applied either prospectively or retrospectively. The standard amends ASC Topic 944, Financial Services—Insurance, and modifies the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal contracts. The Company intends to adopt the standard retrospectively beginning with its 2012 consolidated financial statements. The Company anticipates that the adoption of the standard will reduce consolidated shareholders' equity by approximately $100 million.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements. The standard is effective for the first interim or annual period beginning on or after December 15, 2011. The new standard amends the existing fair value definition and enhances disclosure requirements. Other than the enhanced disclosure requirements, the Company does not anticipate that the adoption of the new standard will have a material impact on the Company.

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment. The standard is effective for the first interim or annual period beginning on or after December 15, 2011 with early adoption permitted. The standard amends ASC Topic 350, Intangibles—Goodwill and Other, and gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Except for the requirement to perform the qualitative assessment, the Company does not anticipate that the adoption of the new standard will have a material impact on the Company.

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KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 2 - Discontinued Operations

In the first quarter of 2011, Kemper's subsidiary, Fireside Bank, paid $0.6 million in incentives, in lieu of future interest, to holders of certificates of deposits to voluntarily close their accounts in advance of their scheduled maturity dates. Fireside Bank redeemed $12.4 million of certificates of deposits in connection with such incentive offers.

In the first quarter of 2011, Fireside Bank also paid $85.2 million, plus $3.6 million of future interest payable through the respective maturity dates, to redeem and close certain certificates of deposits. In the second quarter of 2011, Fireside Bank paid $172.7 million, plus future interest payable of $6.9 million through the respective maturity dates, to redeem and close all certificates of deposits that remained outstanding at March 31, 2011.

During the third quarter of 2011, Fireside Bank sold its active portfolio of automobile loan receivables with a carrying value of $214.2 million, net of Reserve for Loan Losses of $22.9 million, at a gain of $4.5 million before tax. The Company has accounted for Fireside Bank as a discontinued operation beginning with these financial statements and has reclassified the results of Fireside Bank and the related disclosures for the nine and three months ended September 30, 2010 to conform to the current presentation.

Fireside Bank had total capital of $266.2 million at September 30, 2011. Following approval from its regulators, Fireside Bank distributed $250.0 million of its capital to its parent company, Fireside Securities Corporation ("Fireside Securities") in October 2011. Fireside Securities, then in turn, distributed the same amount to its parent company, Kemper Corporation.

The Company has retained Property and Casualty Insurance Reserves for unpaid insured losses of its former Unitrin Business Insurance operations that occurred prior to June 1, 2008, the effective date of the sale of such operations to AmTrust Financial Services, Inc. Property and Casualty Insurance Reserves reported in the Company's Condensed Consolidated Balance Sheets include $134.3 million and $155.0 million at September 30, 2011 and December 31, 2010, respectively, for such retained liabilities. Changes in the Company's estimate of such retained liabilities after the sale are reported as a separate component of the results of discontinued operations.

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KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 2 - Discontinued Operations (continued)
Summary financial information included in Income from Discontinued Operations for the nine and three months ended September 30, 2011 and 2010 is presented below:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions, Except Per Share Amounts)	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
Interest, Loan Fees and Earned Discounts	$31.8	$78.9	$3.8	$22.4
Other Automobile Finance Revenues	1.4	1.0	1.1	0.2
Gain on Sale of Portfolio of Automobile Loan Receivables	4.5	—	4.5	—
Total Automobile Finance Revenues	37.7	79.9	9.4	22.6
Net Investment Income	0.5	1.5	—	0.5
Net Realized Gains on Sales of Investments	0.4	—	—	—
Total Revenues Included in Discontinued Operations	$38.6	$81.4	$9.4	$23.1
Income (Loss) from Discontinued Operations before Income Taxes:				
Fireside Bank:				
Results of Operations	$17.8	$14.7	$(2.0)	$5.3
Gain on Sale of Portfolio of Automobile Loan Receivables	4.5	—	4.5	—
Unitrin Business Insurance:				
Change in Estimate of Retained Liabilities Arising from Discontinued Operations	(3.0)	(1.0)	(1.9)	0.3
Income from Discontinued Operations before Income Taxes	19.3	13.7	0.6	5.6
Income Tax Benefit (Expense)	(5.8)	(5.4)	0.3	(2.2)
Income from Discontinued Operations	$13.5	$8.3	$0.9	$3.4
Income from Discontinued Operations Per Unrestricted Share:				
Basic	$0.22	$0.13	$0.02	$0.06
Diluted	$0.22	$0.13	$0.02	$0.06

Note 3 - Investments
The amortized cost and estimated fair values of the Company’s Investments in Fixed Maturities at September 30, 2011 were:

	Amortized	Gross Unrealized		Fair Value
(Dollars in Millions)	Cost	Gains	Losses	
U.S. Government and Government Agencies and Authorities	$464.7	$52.0	$—	$516.7
States and Political Subdivisions	1,761.0	143.1	(0.8)	1,903.3
Corporate Securities:				
Bonds and Notes	1,977.7	307.8	(10.3)	2,275.2
Redeemable Preferred Stocks	78.4	3.4	(0.3)	81.5
Mortgage and Asset-backed	5.3	1.1	(0.7)	5.7
Investments in Fixed Maturities	$4,287.1	$507.4	$(12.1)	$4,782.4

Included in the fair value of Mortgage and Asset-backed investments at September 30, 2011 are $3.2 million of collateralized debt obligations, $1.8 million of non-governmental residential mortgage-backed securities, $0.6 million of other asset-backed securities and $0.1 million of commercial mortgage-backed securities.

KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 3 - Investments (continued)

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at December 31, 2010 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and Government Agencies and Authorities	$508.6	$28.4	$(0.1)	$536.9
States and Political Subdivisions	1,760.0	53.5	(20.7)	1,792.8
Corporate Securities:				
Bonds and Notes	1,880.3	178.8	(10.1)	2,049.0
Redeemable Preferred Stocks	83.4	4.9	—	88.3
Mortgage and Asset-backed	8.5	1.1	(1.3)	8.3
Investments in Fixed Maturities	$4,240.8	$266.7	$(32.2)	$4,475.3

Included in the fair value of Mortgage and Asset-backed investments at December 31, 2010 are $5.0 million of collateralized debt obligations, $1.9 million of non-governmental residential mortgage-backed securities, $1.2 million of other asset-backed securities and $0.2 million of commercial mortgage-backed securities.
The estimated fair values of the Company's Investments in Fixed Maturities at September 30, 2011, by contractual maturity, were:

(Dollars in Millions)	
Due in One Year or Less	$90.3
Due after One Year to Five Years	466.7
Due after Five Years to Ten Years	942.2
Due after Ten Years	2,978.3
Asset-backed Securities Not Due at a Single Maturity Date	304.9
Investments in Fixed Maturities	$4,782.4

The expected maturities of the Company's Investments in Fixed Maturities may differ from the contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Investments in Asset-backed Securities Not Due at a Single Maturity Date at September 30, 2011 consisted of securities issued by the Government National Mortgage Association with a fair value of $268.2 million, securities issued by the Federal National Mortgage Association with a fair value of $30.1 million, securities issued by the Federal Home Loan Mortgage Corporation with a fair value of $0.9 million and securities of other issuers with a fair value of $5.7 million.

Accrued Expenses and Other Liabilities at September 30, 2011 includes a payable of $4.9 million for purchases of Investments in Fixed Maturities that settled in October. There were no unsettled purchases of Investments in Fixed Maturities at December 31, 2010.

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KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 3 - Investments (continued)

Gross unrealized gains and gross unrealized losses on the Company's Investments in Equity Securities at September 30, 2011 were:

		Gross Unrealized		
(Dollars in Millions)	Cost	Gains	Losses	Fair Value
Preferred Stocks:				
Finance, Insurance and Real Estate	$94.4	$0.8	$(6.3)	$88.9
Other Industries	18.3	2.6	(0.7)	20.2
Common Stocks:				
Manufacturing	63.6	9.6	(0.9)	72.3
Other Industries	40.3	4.0	(2.8)	41.5
Other Equity Interests:				
Exchange Traded Funds	66.0	0.1	(0.4)	65.7
Limited Liability Companies and Limited Partnerships	72.4	5.1	(5.3)	72.2
Investments in Equity Securities	$355.0	$22.2	$(16.4)	$360.8

Gross unrealized gains and gross unrealized losses on the Company's Investments in Equity Securities at December 31, 2010 were:

		Gross Unrealized		
(Dollars in Millions)	Cost	Gains	Losses	Fair Value
Preferred Stocks:				
Finance, Insurance and Real Estate	$94.4	$3.5	$(0.2)	$97.7
Other Industries	20.0	7.6	(0.2)	27.4
Common Stocks:				
Intermec	86.9	50.6	—	137.5
Manufacturing	75.3	14.6	(0.3)	89.6
Other Industries	37.3	6.6	(0.1)	43.8
Other Equity Interests:				
Exchange Traded Funds	76.5	2.7	—	79.2
Limited Liability Companies and Limited Partnerships	58.8	17.6	(1.2)	75.2
Investments in Equity Securities	$449.2	$103.2	$(2.0)	$550.4

KEMPER CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 3 - Investments (continued)

An aging of unrealized losses on the Company's Investments in Fixed Maturities and Equity Securities at September 30, 2011 is presented below:

	Less Than 12 Months		12 Months or Longer		Total	
(Dollars in Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
U.S. Government and Government Agencies and Authorities	$1.3	$—	$—	$—	$1.3	