UNITRIN INC
Form 10-Q
August 02, 2010

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 June 30, 2010

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

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)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

61,924,608 shares of common stock, $0.10 par value, were outstanding as of July 30, 2010.

UNITRIN, INC.

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UNITRIN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in millions, except per share amounts)

(Unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Revenues:				
Earned Premiums	$ 1,095.5	$ 1,175.7	$ 545.8	$ 594.5
Automobile Finance Revenues	57.3	100.3	26.7	47.4
Net Investment Income	160.0	138.6	80.5	92.9
Other Income	0.6	0.5	0.3	0.3
Net Realized Gains on Sales of Investments	7.4	5.2	2.9	4.4
Other-than-temporary Impairment Losses:				
Total Other-than-temporary Impairment Losses	(10.3)	(35.2)	(4.1)	(10.2)
Portion of Losses Recognized in Other Comprehensive Income	2.2	0.6	(0.8)	0.6
Net Impairment Losses Recognized in Earnings	(8.1)	(34.6)	(4.9)	(9.6)
Total Revenues	1,312.7	1,385.7	651.3	729.9
Expenses:				
Policyholders Benefits and Incurred Losses and Loss Adjustment Expenses	791.3	850.9	398.0	433.2
Insurance Expenses	317.7	347.6	159.4	173.9
Automobile Finance Expenses	33.6	82.4	15.2	36.0
Interest Expense on Certificates of Deposits	15.3	24.5	7.4	11.9
Interest and Other Expenses	33.8	33.5	17.4	18.3
Total Expenses	1,191.7	1,338.9	597.4	673.3
Income from Continuing Operations before Income Taxes and Equity in Net Income (Loss) of Investee	121.0	46.8	53.9	56.6
Income Tax Expense	(35.4)	(14.7)	(15.9)	(15.8)
Income from Continuing Operations before Equity in Net Income (Loss) of Investee	85.6	32.1	38.0	40.8
Equity in Net Income (Loss) of Investee	0.2	(0.1)	(0.5)	(1.3)
Income from Continuing Operations	85.8	32.0	37.5	39.5
Discontinued Operations:				
Income from Discontinued Operations before Income Taxes	0.3	6.9	0.4	3.8
Income Tax Expense	(0.1)	(2.6)	(0.1)	(1.4)
Income from Discontinued Operations	0.2	4.3	0.3	2.4
Net Income	$ 86.0	$ 36.3	$ 37.8	$ 41.9
Income from Continuing Operations Per Unrestricted Shares:				
Basic	$ 1.38	$ 0.51	$ 0.60	$ 0.63
Diluted	$ 1.38	$ 0.51	$ 0.60	$ 0.63

Net Income Per Unrestricted Share:				
Basic	$ 1.38	$ 0.58	$ 0.61	$ 0.67
Diluted	$ 1.38	$ 0.58	$ 0.61	$ 0.67
Dividends Paid to Shareholders Per Share	$ 0.44	$ 0.67	$ 0.22	$ 0.20

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

UNITRIN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

	June 30, 2010 (Unaudited)	December 31, 2009
Assets:		
Investments:		
Fixed Maturities at Fair Value (Amortized Cost: 2010 - $4,353.0; 2009 - $4,413.2)	$ 4,654.6	$ 4,561.4
Equity Securities at Fair Value (Cost: 2010 - $214.1; 2009 - $184.4)	229.0	195.4
Investee (Intermec) at Cost Plus Cumulative Undistributed Comprehensive Income (Fair Value: 2010 - $127.1; 2009 - $162.8)	91.8	98.4
Short-term Investments at Cost which Approximates Fair Value	383.7	397.0
Other Investments	789.3	771.6
Total Investments	6,148.4	6,023.8
Cash	97.9	143.7
Automobile Loan Receivables at Cost and Net of Reserve for Loan Losses (Fair Value: 2010 - $476.1; 2009 - $666.2)	470.9	660.8
Other Receivables	610.3	642.0
Deferred Policy Acquisition Costs	518.6	521.1
Goodwill	311.8	331.8
Current and Deferred Income Tax Assets	51.5	107.6
Other Assets	154.5	142.7
Assets of Discontinued Operations	144.0	
Total Assets	$ 8,507.9	$ 8,573.5
Liabilities and Shareholders Equity:		
Insurance Reserves:		
Life and Health	$ 3,014.6	$ 3,028.0
Property and Casualty	1,149.5	1,211.3
Total Insurance Reserves	4,164.1	4,239.3
Certificates of Deposits at Cost (Fair Value: 2010 - $537.0; 2009 - $717.9)	512.7	682.4
Unearned Premiums	677.7	724.9
Liability for Unrecognized Tax Benefits	10.8	11.7
Notes Payable at Amortized Cost (Fair Value: 2010 - $565.5; 2009 - $534.2)	561.8	561.4
Accrued Expenses and Other Liabilities	449.0	436.2
Liabilities of Discontinued Operations	63.6	
Total Liabilities	6,439.7	6,655.9
Shareholders Equity:		
Common Stock, $0.10 Par Value, 100 Million Shares Authorized; 61,924,608 Shares Issued and Outstanding at June 30, 2010 and 62,357,016 Shares Issued and Outstanding at December 31, 2009	6.2	6.2
Paid-in Capital	761.1	765.9
Retained Earnings	1,137.9	1,086.7
Accumulated Other Comprehensive Income	163.0	58.8
Total Shareholders Equity	2,068.2	1,917.6

Total Liabilities and Shareholders Equity	$ 8,507.9	$ 8,573.5

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

UNITRIN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Operating Activities:		
Net Income	$ 86.0	$ 36.3
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Increase in Deferred Policy Acquisition Costs	(3.8)	(7.9)
Equity in Net (Income) Loss of Investee before Taxes	(0.3)	0.3
Equity in Income of Equity Method Limited Liability Investments	(22.8)	(3.8)
Amortization of Investment Securities and Depreciation of Investment Real Estate	9.2	8.6
Net Realized Gains on Sales of Investments	(7.4)	(5.2)
Net Impairment Losses Recognized in Earnings	8.1	34.7
Provision for Loan Losses	2.9	35.7
Depreciation of Property and Equipment	6.2	9.2
Decrease in Other Receivables	28.2	57.2
Decrease in Insurance Reserves	(34.6)	(45.1)
Decrease in Unearned Premiums	(24.9)	(17.5)
Change in Income Taxes	(14.5)	(51.4)
Increase in Accrued Expenses and Other Liabilities	5.1	8.0
Other, Net	12.6	27.8
Net Cash Provided by Operating Activities	50.0	86.9
Investing Activities:		
Sales and Maturities of Fixed Maturities	260.8	348.4
Purchases of Fixed Maturities	(275.6)	(302.4)
Sales of Equity Securities	7.1	28.6
Purchases of Equity Securities	(37.0)	(1.6)
Sales of Investee (Intermec)	1.3	
Acquisition and Improvements of Investment Real Estate	(1.7)	(4.3)
Sale of Investment Real Estate		0.2
Return of Investment of Equity Method Limited Liability Investments	16.2	7.0
Acquisitions of Equity Method Limited Liability Investments	(16.6)	(13.2)
Disposition of Business, Net of Cash Disposed		0.2
Acquisition of Business, Net of Cash Acquired		(190.0)
Decrease in Short-term Investments	2.3	56.0
Decrease in Automobile Loan Receivables	189.6	153.7
Increase in Other Investments	(4.8)	(4.5)
Other, Net	(23.1)	(10.8)
Net Cash Provided by Investing Activities	118.5	67.3
Financing Activities:		
Change in Certificates of Deposits	(173.6)	(201.3)
Note Payable Proceeds		220.0
Note Payable Repayments		(220.0)
Common Stock Repurchases	(12.2)	
Cash Dividends Paid to Shareholders	(27.5)	(41.8)
Cash Exercise of Stock Options	0.1	

Excess Tax Benefits from Share-based Awards	0.1	0.1
Other, Net	1.7	1.8
Net Cash Used by Financing Activities	(211.4)	(241.2)
Decrease in Cash	(42.9)	(87.0)
Cash, Beginning of Year	143.7	184.2
Cash, End of Period, Including Cash Reported in Discontinued Operations	100.8	97.2
Cash, End of Period, Reported in Discontinued Operations	(2.9)	
Cash, End of Period	$ 97.9	$ 97.2

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

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 - Basis of Presentation

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 Unitrin, Inc. (Unitrin) and its subsidiaries (individually and collectively referred to herein as the Company) and are unaudited. All significant intercompany accounts and transactions have been eliminated. 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 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 Unitrin s Annual Report on Form 10-K, filed with the SEC for the year ended December 31, 2009 (the 2009 Annual Report).

Discontinued Operations

On February 22, 2010, Unitrin announced that it had reached an agreement in principle to sell its health insurance subsidiary, Reserve National Insurance Company (Reserve National), subject to the negotiation and execution of a definitive agreement, approvals by insurance regulators and other customary closing conditions. On April 23, 2010, Unitrin announced that negotiations with the potential buyer for the sale of Reserve National under such agreement in principle had been terminated due to a failure by the parties to reach a definitive agreement. In connection with this development, Unitrin also announced that it has retained Macquarie Capital to assist in identifying a suitable alternative buyer for Reserve National. The Company accounts for Reserve National s operations as discontinued operations and has reclassified the amounts related to Reserve National in the Condensed Consolidated Statement of Income for the six and three months ended June 30, 2009, and the related disclosures, to conform to the current presentation. The assets and liabilities for Reserve National have been summarized and reported as Assets of Discontinued Operations and Liabilities of Discontinued Operations in the Condensed Consolidated Balance Sheet at June 30, 2010 (see Note 2, Discontinued Operations, to the Condensed Consolidated Financial Statements).

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).

Adoption of New Accounting Standards

Except for applicable SEC rules and regulations and a limited number of grandfathered standards, the *FASB Accounting Standards Codification* (ASC) is the sole source of authoritative GAAP recognized by the Financial Accounting Standards Board (FASB) to be applied by non-governmental entities for financial statements issued for interim and annual periods ending after September 15, 2009. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. ASC did not change GAAP, but rather combined the sources of GAAP and the framework for selecting among those sources into a single source. Accordingly, the adoption of ASC had no impact on the Company.

On January 1, 2010, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*, a grandfathered standard under ASC. The standard provides guidance to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. The initial application of the standard did not have an impact on the Company.

On January 1, 2010, the Company adopted SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, a grandfathered standard under ASC. The standard amends the consolidation guidance that applies to variable interest entities. The initial application of the standard did not have an impact on the Company.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 1 - Basis of Presentation (continued)

On January 1, 2010, the Company adopted Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. The standard amends ASC Topic 820, *Fair Value Measurements and Disclosures* to require additional disclosures related to transfers between levels in the hierarchy of fair value measurement. The standard does not change how fair values are measured. Accordingly, except for the additional disclosures, the initial application of the standard did not have an impact on the Company.

The Company initially applied ASU 2010-09, *Amendments to Certain Recognition and Disclosure Requirements*, to the Company s Condensed Consolidated Financial Statements as of and for the three months ended March 31, 2010. The standard amends ASC Topic 855, *Subsequent Events*, to clarify SEC filers are not required to disclose the date through which an entity has evaluated subsequent events. The standard does not change how the Company evaluates subsequent events or the date through which the Company evaluates subsequent events. Accordingly, except for the elimination of the disclosure, the initial application of the standard did not have an impact on the Company.

Accounting Standards Not Yet Adopted

The FASB issues ASUs to amend the authoritative literature in ASC. There have been twenty ASUs issued in 2010 that amend the original text of ASC. Except for ASU 2010-06, *Improving Disclosures about Fair Value Measurements,* and ASU 2010-09*, Amendments to Certain Recognition and Disclosure Requirements*, described above*,* and ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, described below, the ASUs issued in 2010 either (i) provide supplemental guidance, (ii) are technical corrections, (iii) are not applicable to the Company or (iv) are not expected to have a significant impact on the Company.

In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The standard is effective for interim and annual reporting periods ending after December 15, 2010. The standard amends ASC Topic 310, *Receivables*, to require additional disclosures about financing receivables and the allowances for credit losses. The standard does not change how financing receivables or allowances for credit losses are measured. Accordingly, except for the additional disclosures, the Company does not anticipate that the initial application of the standard will have an impact on the Company.

Note 2 - Discontinued Operations

The Company accounts for Reserve National s operations as discontinued operations (See Note 1, Basis of Presentation, to the Condensed Consolidated Financial Statements). The Company has reclassified the results of Reserve National and the related disclosures for the six and three months ended June 30, 2009 to conform to the current presentation.

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 $176.5 million and $203.5 million at June 30, 2010 and December 31, 2009, 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.

UNITRIN, INC. 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 six and three months ended June 30, 2010 and 2009 is presented below:

	Six Months Ended		Three Months Ended	
(Dollars in Millions, Except Per Share Amounts)	**June 30, 2010**	**June 30, 2009**	**June 30, 2010**	**June 30, 2009**
Total Earned Premiums	$ 64.0	$ 63.1	$ 32.2	$ 31.8
Net Investment Income	2.6	2.7	1.3	1.4
Other Income		0.5		0.3
Net Impairment Losses Recognized in Earnings		(0.1)		(0.1)
Total Revenues Included in Discontinued Operations	$ 66.6	$ 66.2	$ 33.5	$ 33.4
Income (Loss) from Discontinued Operations before Income Taxes:				
Results of Operations	$ 1.6	$ 4.8	$ 2.5	$ 2.9
Change in Estimate of Retained Liabilities Arising from Discontinued Operations	(1.3)	2.1	(2.1)	0.9
Income from Discontinued Operations before Income Taxes	0.3	6.9	0.4	3.8
Income Tax Expense	(0.1)	(2.6)	(0.1)	(1.4)
Income from Discontinued Operations	$ 0.2	$ 4.3	$ 0.3	$ 2.4
Income from Discontinued Operations per Unrestricted Share:				
Basic	$	$ 0.07	$ 0.01	$ 0.04
Diluted	$	$ 0.07	$ 0.01	$ 0.04

It is the Company s management reporting practice to allocate indirect overhead expenses to all of its insurance operations. In accordance with GAAP, however, the Company is not permitted to allocate indirect overhead expenses to discontinued operations. Accordingly, the Company s results for discontinued operations presented above and in the Condensed Consolidated Statements of Income exclude indirect overhead expenses of $0.9 million and $0.4 million for the six and three months ended June 30, 2010, respectively. The Company s results for discontinued operations presented above and in the Condensed Consolidated Statements of Income exclude indirect overhead expenses of $0.9 million and $0.5 million for the six and three months ended June 30, 2009, respectively.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 2 - Discontinued Operations (continued)

The components of Assets of Discontinued Operations and Liabilities of Discontinued Operations at June 30, 2010 were:

(Dollars in Millions)	
Assets:	
Investments:	
Fixed Maturities at Fair Value (Amortized Cost - $78.2)	$ 86.9
Equity Securities at Fair Value (Cost - $3.0)	2.8
Short-term Investments at Cost which Approximates Fair Value	9.8
Other Investments	7.1
Total Investments	106.6
Cash	2.9
Other Receivables	2.4
Deferred Policy Acquisition Costs	6.3
Goodwill	14.8
Current and Deferred Income Tax Assets	8.9
Other Assets	2.1
Total Assets of Discontinued Operations	144.0
Liabilities:	
Life and Health Insurance Reserves	34.2
Unearned Premiums	22.4
Accrued Expenses and Other Liabilities	7.0
Total Liabilities of Discontinued Operations	63.6
Net Assets of Discontinued Operations	$ 80.4

Note 3 - Investments

The amortized cost and estimated fair values of the Company s Investments in Fixed Maturities at June 30, 2010 were:

	Amortized	**Gross Unrealized**		
(Dollars in Millions)	**Cost**	**Gains**	**Losses**	**Fair Value**
U.S. Government and Government Agencies and Authorities	$ 601.3	$ 39.2	$ (0.1)	$ 640.4
States, Municipalities and Political Subdivisions	1,764.6	87.0	(4.5)	1,847.1
Corporate Securities:				
Bonds and Notes	1,833.5	197.7	(15.9)	2,015.3
Redeemable Preferred Stocks	144.3	2.7	(3.7)	143.3

Mortgage and Asset-backed	9.3	0.8	(1.6)	8.5
Investments in Fixed Maturities	$ 4,353.0	$ 327.4	$ (25.8)	$ 4,654.6

Included in the fair value of Mortgage and Asset-backed investments at June 30, 2010 are $1.6 million of non-governmental residential mortgage-backed securities, $0.2 million of commercial mortgage-backed securities, $5.0 million of collateralized debt obligations and $1.7 million of other asset-backed securities.

UNITRIN, INC. 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, 2009 were:

(Dollars in Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and Government Agencies and Authorities	$ 698.3	$ 26.3	$ (3.7)	$ 720.9
States, Municipalities and Political Subdivisions	1,684.0	72.6	(11.3)	1,745.3
Corporate Securities:				
Bonds and Notes	1,865.9	103.7	(38.0)	1,931.6
Redeemable Preferred Stocks	151.5	2.3	(3.4)	150.4
Mortgage and Asset-backed	13.5	0.5	(0.8)	13.2
Investments in Fixed Maturities	$ 4,413.2	$ 205.4	$ (57.2)	$ 4,561.4

Included in the fair value of Mortgage and Asset-backed investments at December 31, 2009 are $1.6 million of non-governmental residential mortgage-backed securities, $3.4 million of commercial mortgage-backed securities, $5.9 million of collateralized debt obligations and $2.3 million of other asset-backed securities.

The amortized cost and estimated fair values of the Company s Investments in Fixed Maturities at June 30, 2010, by contractual maturity, were:

(Dollars in Millions)	Amortized Cost	Fair Value
Due in One Year or Less	$ 117.4	$ 118.4
Due after One Year to Five Years	562.8	585.8
Due after Five Years to Fifteen Years	1,796.8	1,939.9
Due after Fifteen Years	1,625.7	1,742.4
Asset-backed Securities Not Due at a Single Maturity Date	250.3	268.1
Investments in Fixed Maturities	$ 4,353.0	$ 4,654.6

The expected maturities of the Company s Investments in Fixed Maturities may differ from the contractual maturities because debtors 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 June 30, 2010 consisted of securities issued by the Government National Mortgage Association (Ginnie Mae) with a fair value of $218.0 million, securities issued by the Federal National Mortgage Association (Fannie Mae) with a fair value of $39.8 million, securities issued by the Federal Home Loan Mortgage Corporation (Freddie Mac) with a fair value of $1.8 million and securities of other issuers with a fair value of $8.5 million.

Gross unrealized gains and gross unrealized losses on the Company s Investments in Equity Securities at June 30, 2010 were:

(Dollars in Millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Preferred Stocks	$ 112.2	$ 5.4	$ (4.0)	$ 113.6
Common Stocks	54.9	11.0	(2.0)	63.9
Other Equity Interests	47.0	8.2	(3.7)	51.5
Investments in Equity Securities	$ 214.1	$ 24.6	$ (9.7)	$ 229.0

UNITRIN, INC. 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 December 31, 2009 were:

		Gross Unrealized		
(Dollars in Millions)	**Cost**	**Gains**	**Losses**	**Fair Value**
Preferred Stocks	$ 115.9	$ 3.1	$ (3.9)	$ 115.1
Common Stocks	29.7	12.4	(0.9)	41.2
Other Equity Interests	38.8	4.7	(4.4)	39.1
Investments in Equity Securities	$ 184.4	$ 20.2	$ (9.2)	$ 195.4

An aging of unrealized losses on the Company s Investments in Fixed Maturities and Equity Securities at June 30, 2010 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	$	$	$ 0.7	$ (0.1)	$ 0.7	$ (0.1)
States, Municipalities and Political Subdivisions	81.4	(2.0)	21.3	(2.5)	102.7	(4.5)
Corporate Securities:						
Bonds and Notes	89.2	(4.3)	127.2	(11.6)	216.4	(15.9)
Redeemable Preferred Stocks	6.6	(1.1)	65.2	(2.6)	71.8	(3.7)
Mortgage and Asset-backed			4.5	(1.6)	4.5	(1.6)
Total Fixed Maturities	177.2	(7.4)	218.9	(18.4)	396.1	(25.8)
Equity Securities:						
Preferred Stocks	30.3	(1.3)	30.7	(2.7)	61.0	(4.0)
Common Stocks	25.2	(2.0)			25.2	(2.0)
Other Equity Interests	18.9	(1.3)	10.8	(2.4)	29.7	(3.7)
Total Equity Securities	74.4	(4.6)	41.5	(5.1)	115.9	(9.7)
Total	$ 251.6	$ (12.0)	$ 260.4	$ (23.5)	$ 512.0	$ (35.5)

UNITRIN, INC. 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 December 31, 2009 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	$ 88.8	$ (0.9)	$ 55.3	$ (2.8)	$ 144.1	$ (3.7)
States, Municipalities and Political Subdivisions	255.3	(8.1)	30.7	(3.2)	286.0	(11.3)
Corporate Securities:						
Bonds and Notes	198.8	(8.9)	256.3	(29.1)	455.1	(38.0)
Redeemable Preferred Stocks	11.6	(0.4)	77.7	(3.0)	89.3	(3.4)
Mortgage and Asset-backed	0.5	(0.1)	6.3	(0.7)	6.8	(0.8)
Total Fixed Maturities	555.0	(18.4)	426.3	(38.8)	981.3	(57.2)
Equity Securities:						
Preferred Stocks	1.8	(0.1)	64.6	(3.8)	66.4	(3.9)
Common Stocks	2.2	(0.3)	2.5	(0.6)	4.7	(0.9)
Other Equity Interests	6.9	(0.3)	6.7	(4.1)	13.6	(4.4)
Total Equity Securities	10.9	(0.7)	73.8	(8.5)	84.7	(9.2)
Total	$ 565.9	$ (19.1)	$ 500.1	$ (47.3)	$ 1,066.0	$ (66.4)

The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other-than-temporary. The portions of the declines in the fair values of investments that are determined to be other-than-temporary are reported as losses in the Condensed Consolidated Statements of Income in the period when such determination is made. Based on the Company s evaluations at June 30, 2010 and December 31, 2009 of the prospects of the issuers, including, but not limited to, the credit ratings of the issuers of the investments in the fixed maturities, and the Company s intention to not sell and its determination that it would not be required to sell before recovery of the amortized cost of such investments, the Company concluded that the declines in the fair values of the Company s investments in fixed maturities presented in the two preceding tables were temporary at the respective evaluation dates.

Unrealized losses on fixed maturities, which the Company has determined to be temporary at June 30, 2010, were $25.8 million, of which $18.4 million is related to fixed maturities that were in an unrealized loss position for 12 months or longer. Included in the second preceding table under the headings Less Than 12 Months are unrealized losses of $1.1 million related to securities for which the Company has recognized credit losses in earnings. There were no unrealized losses related to securities for which the Company has recognized credit losses in earnings in the second preceding table under the heading 12 Months or Longer. Included in the second preceding table under the heading 12 Months or Longer are unrealized losses of $1.3 million related to securities for which the Company has recognized foreign currency losses in earnings. Investment-grade fixed maturity investments comprised $15.5 million and below-investment-grade fixed maturity investments comprised $10.3 million of the unrealized losses on investments in fixed maturities at June 30, 2010. Unrealized losses for below-investment-grade fixed maturities included unrealized losses totaling $2.4 million for three issuers that the Company recognized impairment losses in earnings for the six months ended June 30, 2010. For the other remaining below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was less than 10% of the amortized cost basis of the investment. At June 30, 2010, the Company did not have the intent to sell these investments and it was not more likely than not that the Company would be required to sell these investments before recovery of its amortized cost basis, which may be maturity. The Company concluded that these impairments were temporary at June 30, 2010.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 3 - Investments (continued)

Unrealized losses on fixed maturities, which the Company determined to be temporary at December 31, 2009, were $57.2 million, of which $38.8 million is related to fixed maturities that were in an unrealized loss position for 12 months or longer. Included in the preceding table under the heading 12 Months or Longer are unrealized losses of $0.6 million related to securities for which the Company has recognized credit losses in earnings. Investment-grade fixed maturity investments comprised $42.3 million and below-investment-grade fixed maturity investments comprised $14.9 million of the unrealized losses on investments in fixed maturities at December 31, 2009. For below-investment-grade fixed maturity investments, the unrealized loss amount, on average, was less than 10% of the amortized cost basis of the investment. At December 31, 2009, the Company did not have the intent to sell these investments and it was not more likely than not that the Company would be required to sell these investments before recovery of its amortized cost basis, which may be maturity. The Company concluded that these impairments were temporary at December 31, 2009.

For equity securities, the Company considers various factors when determining whether a decline in the fair value is other than temporary including, but not limited to:

- The financial condition and prospects of the issuer;
- The length of time and magnitude of the unrealized loss;
- The volatility of the investment;
- Analyst recommendations and near term price targets;
- Opinions of the Company s external investment managers;
- Market liquidity;
- Debt-like characteristics of perpetual preferred stocks and issuer ratings; and
- The Company s intentions to sell or ability to hold the investments until recovery.

The vast majority of the Company s equity securities in an unrealized loss position at June 30, 2010 and December 31, 2009 are perpetual preferred stocks of financial institutions and public utilities or investments in limited liability partnerships that primarily invest in distressed debt, mezzanine debt and secondary transactions. The Company considers the debt-like characteristics of perpetual preferred stocks along with issuer ratings when evaluating impairment. All such preferred stocks paid dividends at the stated dividend rate during the twelve-month period preceding the evaluation date. The Company concluded that the declines in the fair values of these perpetual preferred stocks were temporary in nature, largely driven by market conditions, and since the Company intends to hold the securities until recovery, these investments were not considered to be other-than-temporarily impaired at June 30, 2010 and December 31, 2009. By the nature of their underlying investments, the

Company believes that its investments in the limited liability partnerships also exhibit debt-like characteristics which, among other factors, the Company considers when evaluating these investments for impairment. Based on evaluations at June 30, 2010 and December 31, 2009 of the factors in the preceding paragraph, the Company concluded that the declines in the fair values of the Company s investments in equity securities were temporary at the respective evaluation dates.

The carrying value, fair value and approximate voting percentage for the Company s investment in the common stock of Intermec, Inc. (Intermec), which is accounted for under the equity method of accounting and reported as Investment in Investee in the Company s Condensed Consolidated Balance Sheets, at June 30, 2010 and December 31, 2009 were:

(Dollars in Millions)	**June 30, 2010**	**Dec. 31, 2009**
Carrying Value	$ 91.8	$ 98.4
Fair Value	$ 127.1	$ 162.8
Approximate Voting Percentage	20.1%	20.3%

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 3 - Investments (continued)

On June 10, 2010, Unitrin s subsidiary, Trinity, entered into a pre-arranged trading plan (the Trading Plan) with UBS Financial Services Inc. in accordance with SEC Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), covering the sale over a period of one year of up to 1.5 million shares of Intermec common stock that are owned by Trinity. The Company sold 255,904 shares of Intermec common stock and recognized a gain of $0.8 million for the six and three months ended June 30, 2010.

The carrying values of the Company s Other Investments at June 30, 2010 and December 31, 2009 were:

(Dollars in Millions)	June 30, 2010	Dec. 31, 2009
Loans to Policyholders at Unpaid Principal	$ 228.3	$ 223.6
Real Estate at Depreciated Cost	247.1	257.1
Equity Method Limited Liability Investments	308.6	285.5
Other	5.3	5.4
Total	$ 789.3	$ 771.6

Note 4 - Automobile Loan Receivables

Automobile Loan Receivables consists primarily of sub-prime loans, which are secured by automobiles, to residents of California and other Western and Midwestern states. Automobile Loan Receivables is stated net of unearned discount, loan fees and reserve for loan losses.

The components of Automobile Loan Receivables at June 30, 2010 and December 31, 2009 were:

(Dollars in Millions)	June 30, 2010	Dec. 31, 2009
Sales Contracts and Loans Receivable	$ 548.7	$ 749.5
Unearned Discounts and Deferred Fees	(3.0)	(5.4)
Net Automobile Loan Receivables Outstanding	545.7	744.1
Reserve for Loan Losses	(74.8)	(83.3)
Automobile Loan Receivables	$ 470.9	$ 660.8

An aging of Net Automobile Loan Receivables Outstanding at June 30, 2010 and December 31, 2009 is presented below:

	Amount	As a Percentage of Net	Amount	As a Percentage of Net

(Dollars in Millions)	Automobile Loan Receivables Outstanding June 30, 2010		Automobile Loan Receivables Outstanding December 31, 2009	
Current Loan Balances	$ 346.0	63.4%	$ 444.4	59.7%
Delinquent Loan Balances:				
Less than 30 Days Delinquent	165.0	30.2%	223.6	30.0%
30 Days to 59 Days Delinquent	26.6	4.9%	57.9	7.8%
60 Days to 89 Days Delinquent	6.2	1.1%	14.1	1.9%
Delinquent 90 Days or Greater	1.9	0.4%	4.1	0.6%
Net Automobile Loan Receivables Outstanding	545.7	100.0%	744.1	100.0%
Reserve for Loan Losses	(74.8)	13.7%	(83.3)	11.2%
Automobile Loan Receivables	$ 470.9		$ 660.8	

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 4 - Automobile Loan Receivables (continued)

Activity in the Reserve for Loan Losses for the six and three months ended June 30, 2010 and 2009 was:

	Six Months Ended		Three Months Ended	
(Dollars in Millions)	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Reserve for Loan Losses - Beginning of Period	$ 83.3	$ 120.1	$ 74.7	$ 113.6
Provision for Loan Losses	2.9	35.7		15.7
Net Recovery (Charge-off):				
Automobile Loan Receivables Charged Off	(31.5)	(66.9)	(9.1)	(30.6)
Automobile Loan Receivables Recovered	20.1	19.4	9.2	9.6
Net Recovery (Charge-off)	(11.4)	(47.5)	0.1	(21.0)
Reserve for Loan Losses - End of Period	$ 74.8	$ 108.3	$ 74.8	$ 108.3

Note 5 - Goodwill

The Company tests goodwill for recoverability on an annual basis at the beginning of the first quarter and, if circumstances or events indicate that the fair value of a reporting unit may have declined below its carrying value, such tests are performed at intervening interim periods. Accordingly, the Company tested goodwill associated with each of its reporting units for recoverability on January 1, 2010. However, no goodwill was associated with, and, accordingly, no testing was required for the Unitrin Direct and Fireside Bank segments at January 1, 2010. The Company used discounted projections of future cash flows to estimate fair value of the reporting units tested. For each reporting unit tested, the estimated fair value exceeded the carrying value of the reporting unit, and the Company concluded that the reported goodwill was recoverable at January 1, 2010.

Assets of Discontinued Operations included $14.8 million of goodwill associated with the Company s Reserve National reporting unit at June 30, 2010. Reserve National focuses on providing non-comprehensive health insurance coverages to persons who lack access to traditional private options. During the first quarter of 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the Health Care Acts) were signed into law. The Company determined that the Health Care Acts could have an adverse impact on Reserve National s prospects. Accordingly, the Company tested goodwill associated with Reserve National for recoverability at March 31, 2010. Based on a discounted projection of future cash flows, updated to take into consideration the impact of the Health Care Acts, discussions with a potential buyer during the first quarter of 2010 and preliminary discussions with an adviser retained on April 23, 2010, the Company concluded that the estimated fair value of Reserve National exceeded its carrying value at March 31, 2010. Accordingly, the Company concluded that the goodwill associated with Reserve National was recoverable at March 31, 2010. Based on the Company s analysis at March 31, 2010 and preliminary, non-binding price indications from potential buyers, the Company concluded that the goodwill associated with Reserve National was recoverable at June 30, 2010. While the Company currently believes that it will be able to recover the goodwill associated with Reserve National in a sale of the business, no assurances can be made that such a sale will occur that results in a complete recovery of the associated goodwill.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 - Property and Casualty Insurance Reserves

Property and Casualty Insurance Reserve activity for the six months ended June 30, 2010 and 2009 was:

(Dollars in Millions)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Property and Casualty Insurance Reserves -		
Gross of Reinsurance at Beginning of Year	$ 1,211.3	$ 1,268.7
Less Reinsurance Recoverables at Beginning of Year	77.4	84.6
Property and Casualty Insurance Reserves -		
Net of Reinsurance at Beginning of Year	1,133.9	1,184.1
Property and Casualty Insurance Reserves Acquired, Net of Reinsurance		94.7
Incurred Losses and LAE Related to:		
Current Year - Continuing Operations	662.8	744.4
Prior Years:		
Continuing Operations	(16.1)	(41.3)
Discontinued Operations	0.1	(1.1)
Total Incurred Losses and LAE Related to Prior Years	(16.0)	(42.4)
Total Incurred Losses and LAE	646.8	702.0
Paid Losses and LAE Related to:		
Current Year - Continuing Operations	343.8	411.8
Prior Years:		
Continuing Operations	328.6	323.4
Discontinued Operations	23.9	24.8
Total Paid Losses and LAE Related to Prior Years	352.5	348.2
Total Paid Losses and LAE	696.3	760.0
Property and Casualty Insurance Reserves -		
Net of Reinsurance at End of Period	1,084.4	1,220.8
Plus Reinsurance Recoverable at End of Period	65.1	78.4
Property and Casualty Insurance Reserves -		
Gross of Reinsurance at End of Period	$ 1,149.5	$ 1,299.2

Property and Casualty Insurance Reserves are estimated based on historical experience patterns and current economic trends. Actual loss experience and loss trends are likely to differ from these historical experience patterns and economic conditions. Loss experience and loss trends emerge over several years from the dates of loss inception. The Company monitors such emerging loss trends on a quarterly basis. Changes in such estimates are included in the Condensed Consolidated Statements of Income in the period of change.

For the six months ended June 30, 2010, the Company reduced its property and casualty insurance reserves by $16.0 million to recognize favorable development of losses and loss adjustment expenses (LAE) from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by $16.5 million and commercial lines insurance losses and LAE reserves developed unfavorably by $0.5 million. The personal lines insurance losses and LAE reserves developed favorably due primarily to the emergence of more favorable loss trends than expected for the 2009, 2007 and 2006 accident years.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6 - Property and Casualty Insurance Reserves (continued)

For the six months ended June 30, 2009, the Company reduced its property and casualty insurance reserves by $42.4 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by $38.0 million and commercial lines insurance losses and LAE reserves developed favorably by $4.4 million. The personal lines insurance losses and LAE reserves developed favorably due primarily to the emergence of more favorable loss trends than expected for the 2007, 2006, and 2005 accident years due to the improvements in the Company s claims handling procedures.

The Company cannot predict whether losses and LAE will develop favorably or unfavorably from the amounts reported in the Company s Condensed Consolidated Financial Statements. The Company believes that any such development will not have a material effect on the Company s consolidated financial position, but could have a material effect on the Company s consolidated financial results for a given period.

Note 7 - Certificates of Deposits

The weighted-average interest rates on Certificates of Deposits were 5.20% and 4.99% at June 30, 2010 and December 31, 2009, respectively. The range of interest rates on Certificates of Deposits was 0.35% to 5.85% at June 30, 2010 and 0.05% to 5.85% at December 31, 2009. The contractual maturities of Certificates of Deposits at June 30, 2010 and December 31, 2009 were:

(Dollars in Millions)	**June 30, 2010**	**Dec. 31, 2009**
Due in One Year or Less	$ 220.1	$ 245.4
Due after One Year to Two Years	231.5	228.5
Due after Two Years to Three Years	60.6	202.8
Due after Three Years to Four Years	0.5	5.5
Due after Four Years to Five Years		0.2
Total Certificates of Deposits at Cost	$ 512.7	$ 682.4

Note 8 - Notes Payable

Total debt outstanding at June 30, 2010 and December 31, 2009 was:

(Dollars in Millions)	**June 30, 2010**	**Dec. 31, 2009**
Senior Notes at Amortized Cost:		
6.00% Senior Notes due May 15, 2017	$ 356.1	$ 355.9
4.875% Senior Notes due November 1, 2010	199.9	199.7
Mortgage Note Payable at Amortized Cost	5.8	5.8
Notes Payable at Amortized Cost	$ 561.8	$ 561.4

There were no outstanding advances at either June 30, 2010 or December 31, 2009 under Unitrin s three-year, $245 million, unsecured, revolving credit agreement, expiring October 30, 2012 (the 2012 Credit Agreement). Accordingly, the amount available for borrowing under the 2012

Credit Agreement was $245.0 million at both June 30, 2010 and December 31, 2009.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 8 - Notes Payable (continued)

Interest Expense, including facility fees and accretion of discount, for the six and three months ended June 30, 2010 and 2009 was:

	Six Months Ended		Three Months Ended	
(Dollars in Millions)	**June 30, 2010**	**June 30, 2009**	**June 30, 2010**	**June 30, 2009**
Notes Payable under Revolving Credit Agreements	$ 0.9	$ 0.7	$ 0.5	$ 0.4
6.00% Senior Notes due May 15, 2017	11.0	11.0	5.5	5.5
4.875% Senior Notes due November 1, 2010	5.0	5.0	2.5	2.5
Mortgage Note Payable	0.2	0.2	0.1	0.1
Interest Expense before Capitalization of Interest	17.1	16.9	8.6	8.5
Capitalization of Interest	(0.8)	(0.2)	(0.6)	
Total Interest Expense	$ 16.3	$ 16.7	$ 8.0	$ 8.5

Interest paid, including facility fees, for the six and three months ended June 30, 2010 and 2009 was:

	Six Months Ended		Three Months Ended	
(Dollars in Millions)	**June 30, 2010**	**June 30, 2009**	**June 30, 2010**	**June 30, 2009**
Notes Payable under Revolving Credit Agreements	$ 0.3	$ 0.6	$ 0.1	$ 0.5
6.00% Senior Notes due May 15, 2017	10.8	10.8	10.8	10.8
4.875% Senior Notes due November 1, 2010	4.9	4.9	4.9	4.9
Mortgage Note Payable	0.2	0.2	0.1	0.1
Total Interest Paid	$ 16.2	$ 16.5	$ 15.9	$ 16.3

Note 9 - Long-term Equity-based Compensation Plans

Unitrin has adopted a number of long-term equity-based compensation plans to attract, motivate and retain key employees and/or directors of the Company. For equity-based compensation awards with a graded vesting schedule, the Company recognizes compensation expense on a straight-line basis over the requisite service period for each separately vesting portion of the awards as if each award were, in substance, multiple awards. Compensation expense is recognized only for those awards expected to vest, with forfeitures estimated at the date of grant based on the Company s historical experience and future expectations. Share-based compensation expense for all of the Company s long-term equity-based compensation plans was $2.5 million and $2.7 million for the six months ended June 30, 2010 and 2009, respectively. Total unamortized compensation expense related to nonvested awards of such plans at June 30, 2010 was $5.4 million, which is expected to be recognized over a weighted-average period of 1.5 years.

At June 30, 2010, the Company had three stock option plans, all of which have been approved by Unitrin s shareholders. At June 30, 2010, options to purchase 4,496,895 shares of Unitrin s common stock were outstanding. Original options to purchase shares of Unitrin common stock were available for future grant under only two of the plans, the 1995 Non-employee Director Stock Option Plan and the 2002 Stock Option Plan, at June 30, 2010. Options to purchase 1,439,682 shares of Unitrin s common stock were available for future grants under such stock option plans at June 30, 2010.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each option on the date of grant. The expected terms of options are developed by considering the Company s historical share option exercise experience, demographic profiles, historical share retention practices of employees and assumptions about their propensity for early exercise in the future. Further, the Company aggregates individual awards into relatively homogenous groups that exhibit similar exercise behavior to obtain a more refined estimate of the expected term of options. Expected volatility is estimated using weekly historical volatility. The Company believes that historical volatility is currently the best estimate of expected volatility. For original option grants made in 2009, the dividend yield assumed was the average annualized yield computed over 20 consecutive quarters preceding the date of grant. In light of the changing economic environment, the Company changed its dividend yield assumption prospectively for original options granted in 2010.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 9 - Long-term Equity-based Compensation Plans (continued)

For original option grants made in 2010, the dividend yield assumed is the annualized continuous dividend yield on Unitrin common stock on the date of grant.

The yield is calculated by taking the natural logarithm of the annualized yield divided by the Unitrin common stock price on the date of grant. The Company believes that basing the dividend yield on the current annualized yield is likely to be more consistent with the actual yield during the expected life of the option. No restorative options were granted in 2010 or 2009. The risk-free interest rate was the yield on the grant date of U.S. Treasury zero coupon issues with a maturity comparable to the expected term of the option.

The assumptions used in the Black-Scholes pricing model for options granted during the six months ended June 30, 2010 and 2009 were as follows:

	Six Months Ended	
Range of Valuation Assumptions	**June 30, 2010**	**June 30, 2009**
Expected Volatility	40.55% - 50.51%	33.08% - 40.30%
Risk-free Interest Rate	1.91% - 3.20%	1.63% - 2.76%
Expected Dividend Yield	3.25% - 3.39%	4.59% - 5.07%
Weighted-Average Expected Life		
Employee Grants	4 -7 Years	4 -7.5 Years
Director Grants	6 Years	7 Years

Option and stock appreciation right activity for the six months ended June 30, 2010 is presented below:

	Shares Subject to Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value ($ in Millions)
Outstanding at Beginning of the Year	4,619,470	$ 44.13		
Granted	329,750	23.97		
Exercised	(10,200)	18.39		
Forfeited or Expired	(442,125)	46.91		
Outstanding at June 30, 2010	4,496,895	$ 42.44	4.67	$ 3.9
Vested and Expected to Vest	4,463,398	$ 42.53	4.64	$ 3.8
Exercisable at June 30, 2010	3,678,019	$ 45.79	3.80	$ 1.0

The weighted-average grant-date fair value of options granted during the six months ended June 30, 2010 and 2009 were $7.70 per option and $3.07 per option, respectively. Total intrinsic value of stock options exercised was $0.1 million for the six months ended June 30, 2010. Cash received from option exercises and the total tax benefits realized for tax deductions from option exercises was insignificant for the six months ended June 30, 2010. No options were exercised during the six months ended June 30, 2009.

In addition to the stock option plans, the Company has a restricted stock plan, which has been approved by Unitrin s shareholders. Under this plan, restricted stock and restricted stock units may be granted to eligible employees. Recipients of restricted stock are entitled to full dividend and voting rights on the same basis as all other outstanding shares of Unitrin common stock, and all awards are subject to forfeiture until certain restrictions have lapsed. From inception of the plan through June 30, 2010, 585,100 shares of restricted stock having a weighted-average grant-date fair value of $34.63 per share had been awarded, of which 117,879 shares were forfeited and 49,731 shares were tendered to satisfy tax withholding obligations. There were 582,510 common shares available for future grants under the restricted stock plan at June 30, 2010.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 9 - Long-term Equity-based Compensation Plans (continued)

Prior to February 3, 2009, only awards of time-vested restricted stock had been granted under the restricted stock plan. On February 3, 2009, in addition to time-vested restricted stock granted to certain employees and officers, the Company began awarding performance-based restricted stock to certain employees and officers under the restricted stock plan. The initial number of shares awarded to each participant at the start of each performance period represents the shares that would vest if the performance goals were achieved at the target performance level. The final payout of these awards will be determined based on Unitrin s total shareholder return over a three-year performance period relative to the companies in the S&P Supercomposite Insurance Index (Peer Group).

The 2009 three-year performance period began on January 1, 2009 and will end on December 31, 2011. The 2010 three-year performance period began on January 1, 2010 and will end on December 31, 2012. If, at the end of each performance period, the Company s relative performance exceeds the target performance level, additional shares of restricted stock will be issued to the award recipient. If, at the end of each performance period, the Company s relative performance is below the target performance level, only a portion of the shares of performance-based restricted stock originally issued to the award recipient will vest. If, at the end of each performance period, the Company s relative performance is below a minimum performance level, none of the shares of performance-based restricted stock originally issued to the award recipient will vest.

The grant-date fair values of time-based restricted stock awards are determined using the closing price of Unitrin common stock on the date of grant. The grant-date fair values of the performance-based restricted stock awards are determined using the Monte Carlo simulation method. The Monte Carlo simulation model produces a risk-neutral simulation of the daily returns on the common stock of Unitrin and each of the other companies included in the Peer Group. Returns generated by the simulation depend on the risk-free interest rate used and the volatilities of, and the correlation between, these stocks. The model simulates stock prices and dividend payouts to the end of the three-year performance period. Total shareholder returns are generated for each of these stocks based on the simulated prices and dividend payouts. The total shareholder returns are then ranked, and Unitrin s simulated ranking is converted to a payout percentage based on the terms of the performance-based restricted stock awards. The payout percentage is applied to the simulated stock price at the end of the performance period, reinvested dividends are added back, and the total is discounted to the valuation date at the risk-free rate. This process is repeated approximately ten thousand times, and the grant-date fair value is equal to the average of the results from these trials.

Activity related to nonvested restricted stock for the six months ended June 30, 2010 is presented below:

	Restricted Shares	Weighted-Average Grant-Date Fair Value Per Share
Nonvested Balance at Beginning of the Year	202,916	$ 27.70
Granted	109,900	28.73
Vested	(2,000)	47.86
Forfeited	(4,071)	32.34
Nonvested Balance at June 30, 2010	306,745	$ 27.87

Restricted stock granted during the six months ended June 30, 2010 includes 43,500 shares of time-vested restricted stock and 66,400 shares of performance-based restricted stock. The nonvested balance of restricted stock at June 30, 2010 was comprised of 180,020 shares of time-vested restricted stock and 126,725 shares of performance-based restricted stock. The number of additional shares that would be granted if the Company were to meet or exceed the maximum performance levels related to the outstanding performance-based shares was 253,450 shares at June 30, 2010. The total fair value of restricted stock that vested during the six months ended June 30, 2010 and the tax benefits for tax deductions realized from the vesting of such restricted stock was insignificant. No restricted stock vested during the six months ended June 30, 2009.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 10 - Restructuring Expenses

Activity related to restructuring costs for the six months ended June 30, 2010 is presented below.

(Dollars in Millions)	Fireside Bank	Unitrin Direct	All Other Segments	Total
Liability at Beginning of Year:				
Employee Termination Costs	$ 2.8	$ 1.4	$ 0.2	$ 4.4
Early Lease Termination Costs	0.2	0.6		0.8
Other Associated Costs				
Liability at Beginning of Year	3.0	2.0	0.2	5.2
Expenses Incurred:				
Employee Termination Costs	1.7	0.5	0.2	2.4
Early Lease Termination Costs				
Other Associated Costs	0.1			0.1
Total Expenses Incurred	1.8	0.5	0.2	2.5
Payments of:				
Employee Termination Costs	0.3	1.2	0.4	1.9
Early Lease Termination Costs	0.2	0.2		0.4
Other Associated Costs	0.1			0.1
Total Payments	0.6	1.4	0.4	2.4
Liability at June 30, 2010:				
Employee Termination Costs	4.2	0.7		4.9
Early Lease Termination Costs		0.4		0.4
Other Associated Costs				
Liability at June 30, 2010	$ 4.2	$ 1.1	$	$ 5.3

Employee termination costs are accrued and recognized as expense over the employee s expected service period. Unrecognized employee termination costs were $6.6 million at June 30, 2010, of which $1.6 million is expected to be expensed in the remainder of 2010 and $5.0 million is expected to be expensed in 2011 and thereafter.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 10 - Restructuring Expenses (continued)

Activity related to restructuring costs for the six months ended June 30, 2009 is presented below.

(Dollars in Millions)	Fireside Bank	Unitrin Direct	All Other Segments	Total
Liability at Beginning of Year:				
Employee Termination Costs	$ 0.1	$ 0.1	$	$ 0.2
Early Lease Termination Costs	1.0	0.3		1.3
Other Associated Costs				
Liability at Beginning of Year	1.1	0.4		1.5
Expenses Incurred:				
Employee Termination Costs	6.0	5.0	1.3	12.3
Early Lease Termination Costs	1.1	0.9		2.0
Other Associated Costs	1.7		0.2	1.9
Total Expenses Incurred	8.8	5.9	1.5	16.2
Payments of:				
Employee Termination Costs	4.5	1.5	1.2	7.2
Early Lease Termination Costs	1.1	0.3		1.4
Other Associated Costs	1.6		0.2	1.8
Total Payments	7.2	1.8	1.4	10.4
Liability at June 30, 2009:				
Employee Termination Costs	1.6	3.6	0.1	5.3
Early Lease Termination Costs	1.0	0.9		1.9
Other Associated Costs	0.1			0.1
Liability at June 30, 2009	$ 2.7	$ 4.5	$ 0.1	$ 7.3

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 11 - Income Per Share from Continuing Operations

The Company s awards of restricted stock contain a right to receive non-forfeitable dividends and participate in the undistributed earnings with common shareholders. Accordingly, the Company is required to apply the two-class method of computing basic and diluted earnings per share. A reconciliation of the numerator and denominator used in the calculation of Basic Income Per Share from Continuing Operations and Diluted Income Per Share from Continuing Operations for the six months ended June 30, 2010 is as follows:

	Six Months Ended June 30, 2010		
(Dollars in Millions)	**Restricted Common Stock**	**Unrestricted Common Stock**	**Total**
Income from Continuing Operations	$ 0.4	$ 85.4	$ 85.8
Dilutive Effect on Income of:			
Investee s Equivalent Shares			
Unitrin Share-based Compensation Equivalent Shares			
Diluted Income from Continuing Operations	$ 0.4	$ 85.4	$ 85.8
(Shares in Thousands)			
Weighted-Average Common Shares Outstanding	284.6	62,070.0	
Unitrin Share-based Compensation Equivalent Shares		90.1	
Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution	284.6	62,160.1	
(Per Share in Whole Dollars)			
Basic Income Per Share from Continuing Operations	$ 1.38	$ 1.38	
Diluted Income Per Share from Continuing Operations	$ 1.38	$ 1.38	

Options outstanding to purchase 4.3 million shares of Unitrin common stock were excluded from the computation of Unitrin Share-based Compensation Equivalent Shares and Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution for the six months ended June 30, 2010 because the exercise price exceeded the average market price.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 11 - Income Per Share from Continuing Operations (continued)

A reconciliation of the numerator and denominator used in the calculation of Basic Income Per Share from Continuing Operations and Diluted Income Per Share from Continuing Operations for the three months ended June 30, 2010 is as follows:

	Three Months Ended June 30, 2010		
(Dollars in Millions)	**Restricted Common Stock**	**Unrestricted Common Stock**	**Total**
Income from Continuing Operations	$ 0.2	$ 37.3	$ 37.5
Dilutive Effect on Income of:			
Investee s Equivalent Shares			
Unitrin Share-based Compensation Equivalent Shares			
Diluted Income from Continuing Operations	$ 0.2	$ 37.3	$ 37.5
(Shares in Thousands)			
Weighted-Average Common Shares Outstanding	307.2	61,985.2	
Unitrin Share-based Compensation Equivalent Shares		98.9	
Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution	307.2	62,084.1	
(Per Share in Whole Dollars)			
Basic Income Per Share from Continuing Operations	$ 0.58	$ 0.60	
Diluted Income Per Share from Continuing Operations	$ 0.58	$ 0.60	

Options outstanding to purchase 4.1 million shares of Unitrin common stock were excluded from the computation of Unitrin Share-based Compensation Equivalent Shares and Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution for the three months ended June 30, 2010 because the exercise price exceeded the average market price.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 11 - Income Per Share from Continuing Operations (continued)

A reconciliation of the numerator and denominator used in the calculation of Basic Income Per Share from Continuing Operations and Diluted Income Per Share from Continuing Operations for the six months ended June 30, 2009 is as follows:

	Six Months Ended June 30, 2009		
(Dollars in Millions)	**Restricted Common Stock**	**Unrestricted Common Stock**	**Total**
Income from Continuing Operations	$ 0.2	$ 31.8	$ 32.0
Dilutive Effect on Income of:			
Investee s Equivalent Shares			
Unitrin Share-based Compensation Equivalent Shares			
Diluted Income from Continuing Operations	$ 0.2	$ 31.8	$ 32.0
(Shares in Thousands)			
Weighted-Average Common Shares Outstanding	285.8	62,118.2	
Unitrin Share-based Compensation Equivalent Shares			
Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution	285.8	62,118.2	
(Per Share in Whole Dollars)			
Basic Income Per Share from Continuing Operations	$ 0.54	$ 0.51	
Diluted Income Per Share from Continuing Operations	$ 0.54	$ 0.51	

Options Outstanding to purchase 5.1 million shares of Unitrin common stock were excluded from the computation of Unitrin Share-based Compensation Equivalent Shares and Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution for the six months ended June 30, 2009 because the exercise price exceeded the average market price.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 11 - Income Per Share from Continuing Operations (continued)

A reconciliation of the numerator and denominator used in the calculation of Basic Income Per Share from Continuing Operations and Diluted Income Per Share from Continuing Operations for the three months ended June 30, 2009 is as follows:

	Three Months Ended June 30, 2009		
(Dollars in Millions)	**Restricted Common Stock**	**Unrestricted Common Stock**	**Total**
Income from Continuing Operations	$ 0.2	$ 39.3	$ 39.5
Dilutive Effect on Income of:			
Investee s Equivalent Shares			
Unitrin Share-based Compensation Equivalent Shares			
Diluted Income from Continuing Operations	$ 0.2	$ 39.3	$ 39.5
(Shares in Thousands)			
Weighted-Average Common Shares Outstanding	303.4	62,118.2	
Unitrin Share-based Compensation Equivalent Shares			
Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution	303.4	62,118.2	
(Per Share in Whole Dollars)			
Basic Income Per Share from Continuing Operations	$ 0.59	$ 0.63	
Diluted Income Per Share from Continuing Operations	$ 0.59	$ 0.63	

Options outstanding to purchase 4.8 million shares of Unitrin common stock were excluded from the computation of Unitrin Share-based Compensation Equivalent Shares and Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution for the three months ended June 30, 2009 because the exercise price exceeded the average market price.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 12 - Other Comprehensive Income and Accumulated Other Comprehensive Income

Other Comprehensive Income for the six and three months ended June 30, 2010 and 2009 was:

(Dollars in Millions)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Other Comprehensive Income (Loss) Before Income Taxes:				
Unrealized Holding Gains (Losses) Arising During the Period Before Reclassification Adjustment	$ 166.7	$ 53.8	$ 122.4	$ 145.7
Reclassification Adjustment for Amounts Included in Net Income	(0.9)	30.0	0.1	7.0
Unrealized Holding Gains (Losses)	165.8	83.8	122.5	152.7
Foreign Currency Translation Adjustments Arising During the Period Before Reclassification Adjustment	(2.1)	1.6	(1.3)	2.3
Reclassification Adjustment for Amounts Included in Net Income	2.1	(0.1)	2.1	(1.3)
Foreign Currency Translation Adjustments		1.5	0.8	1.0
Equity in Other Comprehensive Income (Loss) of Investee	(5.0)	(9.4)	(0.6)	(0.6)
Amortization of Unrecognized Postretirement Benefit Costs	0.6	(0.9)	0.6	(0.4)
Other Comprehensive Income Before Income Taxes	161.4	75.0	123.3	152.7
Income Tax Benefit (Expense):				
Unrealized Holding Gains and Losses Arising During the Period Before Reclassification Adjustment	(59.1)	(19.0)	(43.3)	(51.4)
Reclassification Adjustment for Amounts Included in Net Income	0.4	(10.5)	0.1	(2.5)
Unrealized Holding Gains and Losses	(58.7)	(29.5)	(43.2)	(53.9)
Foreign Currency Translation Adjustments Arising During the Period Before Reclassification Adjustment	0.8	(0.5)	0.5	(0.7)
Reclassification Adjustment for Amounts Included in Net Income	(0.8)		(0.8)	0.4
Foreign Currency Translation Adjustments		(0.5)	(0.3)	(0.3)
Equity in Other Comprehensive Income (Loss) of Investee	1.7	3.3	0.2	0.2
Amortization of Unrecognized Postretirement Benefit Costs	(0.2)	0.3	(0.2)	0.1
Income Tax Benefit (Expense)	(57.2)	(26.4)	(43.5)	(53.9)
Other Comprehensive Income	$ 104.2	$ 48.6	$ 79.8	$ 98.8

Total Comprehensive Income was $190.2 million and $117.6 million for the six and three months ended June 30, 2010, respectively. Total Comprehensive Income was $84.9 million and $140.7 million for the six and three months ended June 30, 2009, respectively.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 12 - Other Comprehensive Income and Accumulated Other Comprehensive Income (continued)

The components of Accumulated Other Comprehensive Income at June 30, 2010 and December 31, 2009 were:

(Dollars in Millions)	June 30, 2010	Dec. 31, 2009
Unrealized Gains (Losses) on Investments, Net of Income Taxes:		
Available for Sale Fixed Maturities with Portion of OTTI Recognized in Earnings	$ (0.9)	$ (0.3)
Other Unrealized Gains on Investments	211.2	103.5
Equity in Accumulated Other Comprehensive Loss of Investee, Net of Income Taxes	(5.2)	(1.9)
Foreign Currency Translation Adjustments, Net of Income Taxes	(0.3)	(0.3)
Net Unrecognized Postretirement Benefit Costs, Net of Income Taxes	(41.8)	(42.2)
Accumulated Other Comprehensive Income	$ 163.0	$ 58.8

Note 13 - Income from Investments

Net Investment Income for the six and three months ended June 30, 2010 and 2009 was:

(Dollars in Millions)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Investment Income:				
Interest and Dividends on Fixed Maturities	$ 121.8	$ 118.8	$ 60.1	$ 60.6
Dividends on Equity Securities	7.1	6.3	2.8	3.1
Short-term Investments	0.2	0.7	0.1	0.3
Loans to Policyholders	8.1	7.5	4.0	3.8
Real Estate	13.5	14.2	6.9	7.2
Equity Method Limited Liability Investments	22.8	4.5	13.4	24.8
Other		0.2		0.1
Total Investment Income	173.5	152.2	87.3	99.9
Investment Expenses:				
Real Estate	13.0	13.5	6.5	6.9
Other Investment Expenses	0.5	0.1	0.3	0.1
Total Investment Expenses	13.5	13.6	6.8	7.0
Net Investment Income	$ 160.0	$ 138.6	$ 80.5	$ 92.9

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 13 - Income from Investments (continued)

The components of Net Realized Gains on Sales of Investments for the six and three months ended June 30, 2010 and 2009 were:

(Dollars in Millions)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Fixed Maturities:				
Gains on Sales	$ 4.8	$ 3.4	$ 2.3	$ 3.0
Losses on Sales		(0.1)		(0.1)
Equity Securities:				
Gains on Sales	2.0	1.5	0.3	1.0
Investee:				
Gains on Sales	0.8		0.8	
Other Investments:				
Losses on Sales	(0.1)		(0.1)	
Trading Securities Net Gains (Losses)	(0.1)	0.4	(0.4)	0.5
Net Realized Gains on Sales of Investments	$ 7.4	$ 5.2	$ 2.9	$ 4.4

The components of Net Impairment Losses Recognized in Earnings in the Condensed Consolidated Statements of Income for the six and three months ended June 30, 2010 and 2009 were:

(Dollars in Millions)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Fixed Maturities	$ (7.8)	$ (26.6)	$ (4.6)	$ (5.0)
Equity Securities	(0.3)	(8.0)	(0.3)	(4.6)
Net Impairment Losses Recognized in Earnings	$ (8.1)	$ (34.6)	$ (4.9)	$ (9.6)

Net Impairment Losses Recognized in Earnings on Investments in Fixed Maturities includes credit losses of $5.7 million and $2.5 million for the six and three months ended June 30, 2010, respectively. Net Impairment Losses Recognized in Earnings on Investments in Fixed Maturities includes foreign currency losses of $2.1 million for both the six and three months ended June 30, 2010. See Note 2, Summary of Accounting Policies and Accounting Changes, to the Consolidated Financial Statements included in the 2009 Annual Report for a discussion of a change in accounting principle adopted in the second quarter of 2009 which impacts the determination of the amount of other-than-temporary-impairment (OTTI) losses on Investments in Fixed Maturities that are recognized in earnings on and subsequent to April 1, 2009.

The following table sets forth the pre-tax amount of OTTI credit losses, recognized in Retained Earnings for Investments in Fixed Maturities held by the Company as of the dates indicated, for which a portion of the OTTI loss has been recognized in Accumulated Other Comprehensive Income, and the corresponding changes in such amounts.

(Dollars in Millions)	Six Months Ended June 30, 2010	Three Months Ended June 30, 2010
Beginning Balance	$ 3.7	$ 5.6
Additions for Previously Unrecognized OTTI Credit Losses	5.3	
Increases to Previously Recognized OTTI Credit Losses	0.4	2.5
Reductions to Previously Recognized OTTI Credit Losses	(1.5)	(0.2)
Reductions due to Intent to Sell Investments	(2.5)	(2.5)
Ending Balance	$ 5.4	$ 5.4

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 13 - Income from Investments (continued)

The following table sets forth the pre-tax amount of OTTI credit losses, recognized in Retained Earnings for Investments in Fixed Maturities held by the Company as of the dates indicated, for which a portion of the OTTI loss has been recognized in Accumulated Other Comprehensive Loss, and the corresponding changes in such amounts.

(Dollars in Millions)	
Balance at April 1, 2009	$ 39.8
Additions for Previously Unrecognized OTTI Credit Losses	1.7
Increases to Previously Recognized OTTI Credit Losses	0.1
Reduction for Investments Sold During the Period	(1.5)
Balance at June 30, 2009	$ 40.1

Note 14 - Income Taxes

Current and Deferred Income Tax Assets at June 30, 2010 and December 31, 2009 were:

(Dollars in Millions)	**June 30, 2010**	**December 31, 2009**
Current Income Tax Assets	$ 38.1	$ 10.4
Deferred Income Tax Assets	22.7	106.8
Valuation Allowance for State Income Taxes	(9.3)	(9.6)
Current and Deferred Income Tax Assets	$ 51.5	$ 107.6

Deferred Income Tax Assets include net operating loss carryforwards of $73.1 million and $67.2 million at June 30, 2010 and December 31, 2009, respectively, which included federal net operating loss carryforwards of $68.2 million and $62.2 million, respectively, and state net operating loss carryforwards of $4.9 million and $5.0 million, respectively. The federal net operating loss carryforwards are scheduled to expire in years 2017 through 2027. The Company expects to fully utilize these federal net operating loss carryforwards. The state net operating loss carryforwards relate to Fireside Bank, the majority of which are scheduled to expire in 2029. Deferred income tax asset valuation allowances of $9.3 million and $9.6 million were required at June 30, 2010 and December 31, 2009, respectively, and relate to state income taxes for Fireside Bank.

The Company has not provided Federal income taxes on $14.7 million of Mutual Savings Life Insurance Company s income earned prior to 1984 which is not subject to income taxes under certain circumstances. Federal income taxes of $5.1 million would be paid on such income if it is distributed to its parent, United Insurance Company of America (United), a subsidiary of Unitrin, in the future or if it does not continue to meet certain limitations.

Income tax expense for the six months ended June 30, 2010 includes income tax expense of $0.8 million due to a decrease in deferred tax assets related to a limitation, imposed under the Health Care Acts signed into law in the first quarter of 2010, on the future deductibility of certain benefit payments under the Company s postretirement medical plan.

Income taxes paid were $49.9 million and $68.5 million for the six months ended June 30, 2010 and 2009, respectively.

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 15 - Pension Benefits and Postretirement Benefits Other Than Pensions

The components of Pension Expense for the six and three months ended June 30, 2010 and 2009 were:

	Six Months Ended		Three Months Ended	
(Dollars in Millions)	**June 30, 2010**	**June 30, 2009**	**June 30, 2010**	**June 30, 2009**
Service Cost on Benefits Earned	$ 4.5	$ 5.0	$ 2.0	$ 2.4
Interest Cost on Projected Benefit Obligation	11.2	10.7	5.7	5.3
Expected Return on Plan Assets	(11.8)	(12.1)	(5.9)	(6.0)
Net Amortization and Deferral	1.1	(0.1)	0.7	(0.1)
Total Pension Expense	$ 5.0	$ 3.5	$ 2.5	$ 1.6

Total Pension Expense presented above includes service cost benefits earned and reported in discontinued operations of $0.2 million for each of the six-month periods ended June 30, 2010 and 2009. Total Pension Expense presented above includes service cost benefits earned and reported in discontinued operations of $0.1 million for each of the three-month periods ended June 30, 2010 and 2009.

The components of Postretirement Benefits Other than Pensions Expense for the six and three months ended June&nb