METHANEX CORP
Form 6-K
May 03, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934
FOR THE MONTH OF APRIL 2010
METHANEX CORPORATION
(Registrant s name)
SUITE 1800, 200 BURRARD STREET, VANCOUVER, BC V6C 3M1 CANADA
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F o Form 40-F þ

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82 __________.

NEWS RELEASE

Methanex Corporation
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Vancouver, BC Canada V6C 3M1
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For immediate release

METHANEX REPORTS FIRST QUARTER RESULTS

April 28, 2010

For the first quarter of 2010, Methanex reported Adjusted EBITDA[1] of $81.5 million and net income of $29.3 million ($0.31 per share on a diluted basis). This compares with Adjusted EBITDA of $72.9 million and net income of $25.7 million ($0.28 per share on a diluted basis) for the fourth quarter of 2009.

Bruce Aitken, President and CEO of Methanex commented, We achieved an average realized price which was about $20 per tonne higher than last quarter and this led to higher EBITDA in the first quarter. Our results would normally have been higher, however they were negatively impacted by lower produced product sales volumes relative to production and higher stock-based compensation.

Mr. Aitken added, Methanol demand continues to be healthy and our sales volumes were up 12% over last quarter. We also reported higher production in the first quarter due to a better operating rate at our Chile site as a result of the recent successful development of new gas supply in that country. We look forward to a further improvement to our production and cash flow generation in the second half of this year with the Egypt Project targeted to be producing methanol in the middle of this year.

Mr. Aitken concluded, With US$196 million of cash on hand, a strong balance sheet, no near term refinancing requirements, and an undrawn credit facility, we are well positioned to continue to invest to grow the Company.

A conference call is scheduled for April 29, 2010 at 11:00 am ET (8:00 am PT) to review these first quarter results. To access the call, dial the Conferencing operator ten minutes prior to the start of the call at (416) 340-8018, or toll free at (866) 223-7781. A playback version of the conference call will be available for fourteen days at (416) 695-5800, or toll free at (800) 408-3053. The passcode for the playback version is 4661035. There will be a simultaneous audio-only webcast of the conference call, which can be accessed from our website at www.methanex.com. The webcast will be available on our website for three weeks following the call.

Methanex is a Vancouver-based, publicly traded company and is the world s largest supplier of methanol to major international markets. Methanex shares are listed for trading on the Toronto Stock Exchange in Canada under the trading symbol MX , on the NASDAQ Global Market in the United States under the trading symbol MEOH , and on the foreign securities market of the Santiago Stock Exchange in Chile under the trading symbol Methanex . Methanex can be visited online at www.methanex.com.

- more -

FORWARD-LOOKING INFORMATION WARNING

This First Quarter 2010 press release contains forward-looking statements with respect to us and the chemical industry. Refer to *Forward-Looking Information Warning* in the attached First Quarter 2010 Management s Discussion and Analysis for more information.

[1] *Adjusted EBITDA is a non-GAAP measure that does not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and therefore is unlikely to be comparable to similar measures presented by other companies. Refer to Additional Information Supplemental Non-GAAP Measures in the attached First Quarter 2010 Management s Discussion and Analysis for a description of each supplemental non-GAAP measure and a reconciliation to the most comparable GAAP measure.*

-end-

For further information, contact:
Jason Chesko
Director, Investor Relations
Tel: 604.661.2600

Interim Report
For the
Three Months Ended
March 31, 2010

1

At April 28, 2010 the Company had 92,182,652 common shares issued and outstanding and stock options exercisable for 3,717,120 additional common shares.

Share Information
Methanex Corporation s common shares are listed for trading on the Toronto Stock Exchange under the symbol MX, on the Nasdaq Global Market under the symbol MEOH and on the foreign securities market of the Santiago Stock Exchange in Chile under the trading symbol Methanex.

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Investor Information
All financial reports, news releases and corporate information can be accessed on our website at www.methanex.com.

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FIRST QUARTER MANAGEMENT S DISCUSSION AND ANALYSIS

Except where otherwise noted, all currency amounts are stated in United States dollars.

This First Quarter 2010 Management s Discussion and Analysis dated April 28, 2010 should be read in conjunction with the 2009 Annual Consolidated Financial Statements and the Management s Discussion and Analysis included in the Methanex 2009 Annual Report. The Methanex 2009 Annual Report and additional information relating to Methanex is available on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

	Three Months Ended		
($ millions, except where noted)	**Mar 31 2010**	Dec 31 2009	Mar 31 2009
Sales volumes (thousands of tonnes)			
Produced methanol	**924**	880	1,000
Purchased methanol	**604**	467	270
Commission sales [1]	**150**	152	131
Total sales volumes	**1,678**	1,499	1,401
Methanex average non-discounted posted price ($ per tonne) [2]	**352**	327	216
Average realized price ($ per tonne) [3]	**305**	282	199
Adjusted EBITDA [4]	**81.5**	72.9	13.1
Cash flows from operating activities	**56.6**	35.7	60.9
Cash flows from operating activities before changes in non-cash working capital [4]	**77.9**	74.2	(0.1)
Operating income (loss) [4]	**47.8**	40.9	(15.8)
Net income (loss)	**29.3**	25.7	(18.4)
Basic net income (loss) per common share	**0.32**	0.28	(0.20)
Diluted net income (loss) per common share	**0.31**	0.28	(0.20)
Common share information (millions of shares):			
Weighted average number of common shares	**92.1**	92.1	92.0
Diluted weighted average number of common shares	**93.4**	93.1	92.0
Number of common shares outstanding, end of period	**92.2**	92.1	92.0

[1] Commission sales represent volumes marketed on a commission basis. Commission income is included in revenue when earned.

[2] Methanex average non-discounted posted price represents the average of our non-discounted posted prices in North America, Europe and Asia Pacific weighted by sales volume. Current and historical pricing information is available at www.methanex.com.

[3] Average realized price is calculated as revenue, net of commissions earned, divided by the total sales volumes of produced and purchased methanol.

[4] These items are non-GAAP measures that do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and therefore are unlikely to be comparable to similar measures presented by other companies. Refer to *Additional Information Supplemental Non-GAAP Measures* for a description of each non-GAAP

measure and a
reconciliation to the
most comparable
GAAP measure.

PRODUCTION SUMMARY

	Q1 2010		Q4 2009	Q1 2009
(thousands of tonnes)	**Capacity[1]**	**Production**	**Production**	**Production**
Chile I, II, III and IV	**950**	**304**	265	228
Atlas (Trinidad) (63.1% interest)	**288**	**238**	279	204
Titan (Trinidad)	**225**	**217**	188	223
New Zealand [2]	**225**	**208**	223	194
	1,688	**967**	955	849

[1] *The production capacity of our production facilities may be higher than original nameplate capacity as, over time, these figures have been adjusted to reflect ongoing operating efficiencies at these facilities.*

[2] *The production capacity of New Zealand represents only our 0.9 million tonne per year Motunui facility which we restarted in late 2008. Practical operating capacity will depend partially on the composition of natural gas feedstock and may differ from the stated capacity above. We also have*

additional potential production capacity that is currently idled in New Zealand (refer to the New Zealand section on page 3 for more information).

Chile

We continue to operate our methanol facilities in Chile significantly below site capacity. This is primarily due to curtailments of our natural gas supply from Argentina refer to the Management s Discussion and Analysis included in our 2009 Annual Report for more information.

During the first quarter of 2010 we increased production from our methanol facilities in Chile and produced 304,000 tonnes compared with 265,000 tonnes during the fourth quarter of 2009. Production was higher than the fourth quarter of 2009 due to increased natural gas supply which allowed us to start-up a second plant late in the fourth quarter of 2009.

Our goal is ultimately to return to operating all four of our plants in Chile with natural gas from suppliers in Chile. We are pursuing investment opportunities with the state-owned energy company Empresa Nacional del Petroleo (ENAP), GeoPark Chile Limited (GeoPark) and others to help accelerate natural gas exploration and development in southern Chile. Over the past few years, we have provided GeoPark with $55 million (of which approximately $13 million had been repaid at March 31, 2010) to support and accelerate GeoPark s natural gas exploration and development activities in southern Chile. GeoPark has agreed to supply us with all natural gas sourced from the Fell block in southern Chile under a ten-year exclusive supply arrangement commencing in 2008. We are also working with ENAP to accelerate natural gas exploration and development in the Dorado Riquelme block in southern Chile and to supply natural gas to our production facilities in Chile. Under the arrangement, we fund a 50% participation in the block and, as at March 31, 2010, we had contributed approximately $74 million.

Approximately 55% of total production at our Chilean facilities is currently being produced with natural gas supplied from the Fell and Dorado Riquelme blocks. In mid-December 2009, based on the success of the natural gas development initiatives, we restarted a second plant in Chile and throughout the first quarter of 2010 we operated two plants, each at approximately 60% capacity. In early April 2010, we returned to operating one plant in Chile at almost full rates as a result of lower natural gas deliveries due to the need for ENAP to satisfy incremental demand for natural gas for residential purposes during the winter season in southern Chile. We believe after the southern hemisphere winter period we will again be able to restart a second plant.

Other investment activities are also supporting the acceleration of natural gas exploration and development in areas of southern Chile. In late 2007, the government of Chile completed an international bidding round to assign oil and natural gas exploration areas that lie close to our production facilities and announced the participation of several international oil and gas companies. The terms of the agreements from the bidding round require minimum investment commitments. In July 2008, we announced that under the international bidding round, the Otway exploration block in southern Chile was awarded to a consortium that includes Wintershall Chile Limitada (Wintershall), GeoPark and Methanex. During the first quarter of 2010, we agreed to participate in the Tranquilo exploration block, also located in southern Chile. The participation is part of a new ownership structure that involves both the Tranquilo block and the Otway block. In the new ownership structure, Wintershall, GeoPark, and Pluspetrol Chile S.A. (Pluspetrol) each have 25% participation and International Finance Corporation (IFC), member of the World Bank Group, and Methanex each have 12.5% participation. GeoPark will be the operator of both blocks. The arrangement is subject to approval by the government of Chile. In 2010, approved budgets by the consortium for the two blocks total $37 million.

We cannot provide assurance that ENAP, GeoPark or others will be successful in the exploration and development of natural gas or that we will obtain any additional natural gas from suppliers in Chile on commercially acceptable terms.

Trinidad

Our equity ownership of methanol facilities in Trinidad represent approximately 2.1 million tonnes of competitive-cost annual capacity. Our methanol facilities in Trinidad produced 455,000 tonnes during the first quarter of 2010 compared with 467,000 tonnes during the fourth quarter of 2009. Production at our Trinidad facilities was lower than capacity by approximately 60,000 tonnes during the first quarter of 2010 and by approximately 50,000 tonnes during the fourth quarter of 2009 primarily as a result of unplanned maintenance activities in both periods.

New Zealand

Our New Zealand facilities produced 208,000 tonnes during the first quarter of 2010 compared with 223,000 tonnes during the fourth quarter of 2009. Production was lower in the first quarter of 2010 compared with the fourth quarter of 2009 as a result of reduced operating rates at times during the first quarter of 2010 to resolve a plant technical issue.

In October 2008, we restarted one of our idled 0.9 million tonne per year Motunui methanol plants and idled our 0.5 million tonne per year Waitara Valley plant. We currently have 1.4 million tonnes per year of idled capacity in New Zealand, including a second 0.9 million tonne per year Motunui plant and the Waitara Valley plant. These facilities provide the potential to increase production in New Zealand depending on methanol supply and demand dynamics and the availability of economically priced natural gas feedstock.

EARNINGS ANALYSIS

Our operations consist of a single operating segment the production and sale of methanol. In addition to the methanol that we produce at our facilities, we also purchase and re-sell methanol produced by others and we sell methanol on a commission basis. We analyze the results of all methanol sales together. The key drivers of change in our Adjusted EBITDA for methanol sales are average realized price, sales volume and cash costs.

For a further discussion of the definitions and calculations used in our Adjusted EBITDA analysis, refer to *How We Analyze Our Business*.

For the first quarter of 2010, we recorded Adjusted EBITDA of $81.5 million and net income of $29.3 million ($0.31 per share on a diluted basis). This compares with Adjusted EBITDA of $72.9 million and net income of $25.7 million ($0.28 per share on a diluted basis) for the fourth quarter of 2009 and Adjusted EBITDA of $13.1 million and a net loss of $18.4 million ($0.20 loss per share on a diluted basis) for the first quarter of 2009.

Adjusted EBITDA

The increase in Adjusted EBITDA resulted from changes in the following:

($ millions)	**Q1 2010 compared with Q4 2009**	**Q1 2010 compared with Q1 2009**
Average realized price	$ 34	$ 162
Sales volumes	15	10
Total cash costs	(41)	(104)
	$ 8	$ 68

Average realized price

	Three Months Ended		
($ per tonne, except where noted)	**Mar 31 2010**	Dec 31 2009	Mar 31 2009
Methanex average non-discounted posted price [1]	**352**	327	216
Methanex average realized price	**305**	282	199
Average discount	**13%**	14%	8%

[1] *Methanex average non-discounted posted price represents the average of our non-discounted posted prices in North America, Europe and Asia Pacific weighted by sales volume. Current and historical pricing information is available at* www.methanex.com.

The global financial crisis and weak economic environment in late 2008 and early 2009 resulted in a significant reduction in global methanol demand and a period of low methanol pricing. During 2009, global demand improved, and as a result of this improvement as well as some planned and unplanned plant outages across the industry, methanol prices increased in the latter half of 2009 and into 2010 (refer to *Supply/Demand Fundamentals* section below for more information). Our average non-discounted posted price for the first quarter of 2010 was $352 per tonne compared with $327 per tonne for the fourth quarter of 2009 and $216 per tonne for the first quarter of 2009. Our average realized price for the first quarter of 2010 was $305 per tonne compared with $282 per tonne for the fourth quarter of 2009 and $199 per tonne for the first quarter of 2009. The changes in our average realized price for the first quarter of 2010 increased revenues by $34 million compared with the fourth quarter of 2009 and increased revenues by $162 million compared with first quarter of 2009.

We have entered into long-term contracts for a portion of our production volume with certain global customers where prices are either fixed or linked to our costs plus a margin and accordingly, we expect the discount from our average non-discounted posted prices to widen during periods of higher methanol pricing. The discount from our average non-discounted posted price for the first quarter of 2010 was approximately 13% compared with approximately 14% for the fourth quarter of 2009 and approximately 8% for the first quarter of 2009. Certain of these contracts where prices are either fixed or linked to our costs plus a margin expired at the end of 2009. The contracts represented approximately 10% of overall sales volumes for the first quarter of 2010 compared with approximately 15% for the fourth quarter of 2009 and approximately 18% for the first quarter of 2009.

Sales volumes

Total methanol sales volumes excluding commission sales volumes for the first quarter of 2010 were higher compared with the fourth quarter of 2009 by 181,000 tonnes and higher compared with the first quarter of 2009 by 258,000 tonnes. This resulted in higher Adjusted EBITDA by $15 million for the first quarter of 2010 compared with the fourth quarter of 2009 and higher Adjusted EBITDA by $10 million for the first quarter of 2010 compared with the first quarter of 2009. We have increased sales volumes in 2010 compared with 2009 to capture demand growth and in anticipation of the new methanol plant in Egypt and improved production in Chile.

Total cash costs

The primary driver of changes in our total cash costs are changes in the cost of methanol we produce at our facilities and changes in the cost of methanol we purchase from others. Our production facilities are underpinned by natural gas purchase agreements with pricing terms that include base and variable price components. The variable component is adjusted in relation to changes in methanol prices above pre-determined prices at the time of production. We supplement our production with methanol produced by others through methanol offtake contracts and on the spot market to meet customer needs and support our marketing efforts within the major global markets. We have adopted the first-in, first-out method of accounting for inventories and it generally takes between 30 and 60 days to sell the methanol we produce or purchase. Accordingly, the changes in Adjusted EBITDA as a result of changes in natural gas costs and purchased methanol costs will depend on changes in methanol pricing and the timing of inventory flows.

Total cash costs for the first quarter of 2010 were higher compared with the fourth quarter of 2009 by $41 million. Natural gas costs on sales of produced methanol and purchased methanol costs were higher for the first quarter of 2010 compared with the fourth quarter of 2009 by $7 million and $16 million, respectively, primarily as a result of higher methanol pricing. Purchased methanol represented a higher proportion of our overall sales volumes for the first quarter of 2010 compared with the fourth quarter of 2009 and this resulted in higher cash costs by approximately $10 million. Selling, general and administrative expenses for the first quarter of 2010 compared with the fourth quarter of 2009 were higher by $7 million as a result of higher stock-based compensation expense and higher by $1 million as a result of other changes in costs. Stock-based compensation expense was higher for the first quarter of 2010 compared with the fourth quarter of 2009 as a result of the impact of an increase in our share price during the first quarter of 2010 as well as the requirement under accounting rules for immediate recognition of stock-based compensation issued to retirement eligible employees.

Total cash costs for the first quarter of 2010 were higher compared with the first quarter of 2009 by $104 million. Natural gas costs on sales of produced methanol and purchased methanol costs were higher for the first quarter of 2010 compared with the first quarter of 2009 by $19 million and $63 million, respectively, primarily as a result of higher methanol pricing. Purchased methanol represented a higher proportion of our overall sales volumes for the first quarter of 2010 compared with the first quarter of 2009 and this resulted in higher cash costs by approximately $16 million. Selling, general and administrative expenses for the first quarter of 2010 compared with the first quarter of 2009 were higher by $10 million primarily as a result of higher stock-based compensation expense primarily from the impact of changes in our share price. Also cash costs were higher during the first quarter of 2009 as a result of a charge of $4 million for severance and termination costs associated with our Chilean operations.

Depreciation and Amortization

Depreciation and amortization was $34 million for the first quarter of 2010 compared with $32 million for the fourth quarter of 2009 and $29 million for the first quarter of 2009. The increase in depreciation and amortization expense for the first quarter of 2010 compared with the fourth quarter of 2009 and the first quarter of 2009 was primarily due to depletion charges associated with our oil and gas investment in Chile. Depletion charges recorded in earnings for the first quarter of 2010 were approximately $4 million compared with $3 million for the fourth quarter of 2009 and nil for the first quarter of 2009. Upon receipt of final approval from the government of Chile in the third quarter of 2009, we adopted the full cost methodology for accounting for oil and gas exploration costs associated with our 50% participation in the Dorado Riquelme block in Southern Chile (refer to *Production Summary* section on page 2 for more information). Under these accounting standards, cash investments in the block are initially capitalized and are recorded to earnings through non-cash depletion charges as natural gas is produced from the block.

Interest Expense

	Three Months Ended		
($ millions)	**Mar 31 2010**	Dec 31 2009	Mar 31 2009
Interest expense before capitalized interest	**$ 15**	$ 15	$ 15
Less capitalized interest	**(9)**	(9)	(7)
Interest expense	**$ 6**	$ 6	$ 8

Capitalized interest relates to interest costs capitalized during the construction of the 1.3 million tonne per year methanol facility in Egypt.

Interest and Other Income

	Three Months Ended		
($ millions)	**Mar 31 2010**	Dec 31 2009	Mar 31 2009
Interest and other income (expense)	**$ 1**	$	$ (4)

Interest and other income for the first quarter of 2010 was $1 million compared with nil for the fourth quarter of 2009 and expense of $4 million for the first quarter of 2009. The increase in interest and other income during the first quarter of 2010 compared with the fourth quarter of 2009 and the first quarter of 2009 was primarily due to the impact of changes in foreign exchange rates.

Income Taxes

We recorded income tax expense of $12.6 million for the first quarter of 2010 compared with income tax expense of $9.0 million for the fourth quarter of 2009 and income tax recovery of $8.5 million for the first quarter of 2009. The effective tax rate for the first quarter of 2010 was approximately 30% compared with approximately 26% for the fourth quarter of 2009 and 32% for the first quarter of 2009.

The statutory tax rate in Chile and Trinidad, where we earn a substantial portion of our pre-tax earnings, is 35%. Our Atlas facility in Trinidad has partial relief from corporation income tax until 2014. In Chile the tax rate consists of a first tier tax that is payable when income is earned and a second tier tax that is due when earnings are distributed from Chile. The second tier tax is initially recorded as future income tax expense and is subsequently reclassified to current income tax expense when earnings are distributed.

SUPPLY/DEMAND FUNDAMENTALS

During 2009 and into 2010, global methanol demand recovered significantly from the effects of the global financial crisis and weak economic environment and we estimate global demand has surpassed pre-recession levels and is currently approximately 44 million tonnes measured on an annualized basis. We believe current indications are that global demand will continue to improve during 2010. Increases in demand have been in both traditional and energy derivatives in Asia (particularly in China), while we have seen on-going positive signs of modest demand recovery since mid-2009 in other regions including Latin America, Europe and North America. Methanol blending into gasoline in China has been particularly strong and we believe that future growth in this application is supported by recent regulatory changes in that country. For example, an M85 (or 85% methanol) national standard took effect December 1, 2009, and we expect an M15 (or 15% methanol) national standard to be released later in 2010. Supported by a strong energy price environment, methanol demand into DME in China has also been healthy.

Methanex Non-Discounted Regional Posted Prices [1]

(US$ per tonne)	**Apr 2010**	**Mar 2010**	**Feb 2010**	**Jan 2010**
United States	366	366	366	366
Europe [2]	338	319	321	338
Asia	345	365	350	350

[1] Discounts from our posted prices are offered to customers based on various factors.

[2] 250 for Q2 2010 (Q1 2010 235) converted to United States dollars.

In addition to the improvement in demand, over the last year we have seen escalation in feedstock costs for some producers and there have been a number of planned and unplanned plant outages across the industry. Increasing demand and constrained supply led to methanol prices increasing through the latter half of 2009 and into 2010. Higher prices have resulted in the restart of a significant amount of higher cost production, particularly in China. However, supported by strong methanol demand in China, net imports into that country have remained high compared to historical levels. Our average non-discounted posted price in the first quarter of 2010 was approximately $350 per tonne, compared to an average price of $290 per tonne in the second half of 2009. Recently, spot prices in certain markets have declined primarily as a result of industry supply operating at higher rates. We recently posted the non-discounted price for May in North America at $333 per tonne.

The next increments of world scale capacity outside of China are four plants with capacity totaling 4.0 million tonnes. These plants are in the process of starting up or are expected to start up later in 2010, including our own 1.3 million tonne per year plant in Egypt which is targeted for start up in mid-2010. After these four new plants, there are no new capacity additions expected outside of China over the next few years, with the exception of a 0.7 million tonne plant in Azerbaijan, which we expect will impact the market in 2012.

Methanol demand into traditional derivatives is correlated to industrial production and we believe that methanol demand into these derivatives should improve further as the macro-economic environment improves. Also over the

last few years, high energy prices have driven demand for methanol into energy applications such as gasoline blending and DME, primarily in China. Recent regulatory changes have improved the demand outlook for methanol gasoline blending in China and we believe demand potential into these energy derivatives will be stronger in a high energy price environment.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities before changes in working capital in the first quarter of 2010 were $78 million compared with $74 million for the fourth quarter of 2009 and nil for the first quarter of 2009. The change in cash flows for the first quarter of 2010 compared with the first quarter of 2009 is primarily a result of the change in earnings levels.

During the first quarter of 2010, we paid a quarterly dividend of US$0.155 per share, or $14 million.

We are constructing a 1.3 million tonne per year methanol facility in Egypt. We are targeting the methanol facility to start up in mid-2010. We own 60% of Egyptian Methanex Methanol Company S.A.E. (EMethanex) which is the company that is developing the project and we will market 100% of the methanol produced from the facility. We account for our investment in EMethanex using consolidation accounting. This results in 100% of the assets and liabilities of EMethanex being included in our financial statements. The other investors interest in the project is presented as non-controlling interest . During the first quarter of 2010, total plant and equipment construction costs were $24 million. EMethanex has limited recourse debt facilities of $530 million. As at March 31, 2010 a total of $494 million has been drawn, with $22 million being drawn during the first quarter of 2010. We estimate total remaining capital expenditures of approximately $75 million to complete the construction of the Egypt methanol facility, including capitalized interest related to the project financing and excluding working capital. This excludes unpaid capital expenditures recorded in accounts payable at March 31, 2010 of approximately $26 million. These expenditures will be funded from cash generated from operations and cash on hand, cash contributed by the non-controlling shareholders and proceeds from the limited recourse debt facilities. At March 31, 2010, our 60% share of remaining cash equity contributions, including capitalized interest related to the project financing and excluding working capital, is estimated to be approximately $25 million and we expect to fund these expenditures from cash generated from operations and cash on hand.

We have an agreement with ENAP to accelerate natural gas exploration and development in the Dorado Riquelme hydrocarbon exploration block in southern Chile. Under the arrangement, we fund a 50% participation in the block and have contributed $74 million to date. We expect to make further contributions over the next few years to fully realize the potential of the block. These contributions will be based on annual budgets established by ENAP and Methanex in accordance with the Joint Operating Agreement that governs this development.

We have agreements with GeoPark under which we have provided $55 million in financing, of which GeoPark has repaid $13 million as at March 31, 2010, to support and accelerate GeoPark s natural gas exploration and development activities in southern Chile.

We operate in a highly competitive commodity industry and believe it is appropriate to maintain a conservative balance sheet and to retain financial flexibility. Our cash balance at March 31, 2010 was $196 million. We have a strong balance sheet, no near term re-financing requirements, and an undrawn $200 million credit facility provided by highly rated financial institutions that expires in mid-2012. We invest our cash only in highly rated instruments that have maturities of three months or less to ensure preservation of capital and appropriate liquidity. Our planned capital maintenance expenditure program directed towards major maintenance, turnarounds and catalyst changes for existing operations, is currently estimated to total approximately $70 million for the period to the end of 2011.

We believe we are well positioned to meet our financial commitments and continue to invest to grow the Company.

The credit ratings for our unsecured notes at March 31, 2010 were as follows:

Standard & Poor s Rating Services	BBB- (negative)
Moody s Investor Services	Ba1 (stable)

Credit ratings are not recommendations to purchase, hold or sell securities and do not comment on market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future.

SHORT-TERM OUTLOOK

Into 2010 the methanol supply demand fundamentals have been reasonably balanced as a result of strong demand in both traditional and energy derivatives in Asia and some recovery demand for traditional derivatives in other regions including Europe and North America. This has resulted in a relatively stable price environment throughout the first quarter of 2010.

The next increments of world scale capacity outside of China are four plants with capacity totaling 4.0 million tonnes per year, which are in the process of starting up or are scheduled to start up later in 2010. This includes our own 1.3 million tonne per year plant in Egypt which is targeted to start up in mid-2010. We believe this new methanol facility will further enhance our earnings and cash generation capability and positioning within the industry with its competitive cost structure and excellent location to supply the European market.

We expect it may take some time for the new plants to achieve high rates of utilization and have a meaningful impact on industry supply. We also believe that the impact of new supply will be offset by global methanol demand growth and shutdown of high cost capacity. Recent regulatory changes have improved the demand outlook for methanol gasoline blending in China and we believe demand potential into these energy derivatives will be stronger in a high energy price environment. We also believe that methanol demand into traditional derivatives should continue to improve as the macro economic environment improves.

The methanol price will ultimately depend on the strength of the global recovery, industry operating rates, global energy prices, the rate of industry restructuring and the strength of global demand. We believe that our financial position and financial flexibility, outstanding global supply network and low cost position will provide a sound basis for Methanex to continue to be the leader in the methanol industry and to invest to grow the Company.

CONTROLS AND PROCEDURES

For the three months ended March 31, 2010, no changes were made in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the changeover date for Canadian publicly accountable enterprises to start using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

As a result of the IFRS transition, changes in accounting policies are likely and may materially impact our consolidated financial statements. The IASB will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on our consolidated financial statements will only be measured once all the IFRS standards applicable at the conversion date are known.

We have established a working team to manage the transition to IFRS. Additionally, we have established a formal project governance structure that includes the Audit, Finance and Risk Committee of the Board, senior management, and an IFRS steering committee to monitor progress and review and approve recommendations from the working team for the transition to IFRS. The working team provides regular updates to the IFRS steering committee and to the Audit, Finance and Risk Committee.

We have developed a plan to convert our consolidated financial statements to IFRS at the changeover date of January 1, 2011 with comparative financial results for 2010. The IFRS transition plan addresses the impact of IFRS on accounting policies and implementation decisions, infrastructure, business activities, and control activities. For a detailed discussion of the key elements and activities of the changeover plan, see the *Anticipated Changes to Canadian Generally Accepted Accounting Principles* section of the Management s Discussion and Analysis in our 2009 annual report. An update of the status of these activities is as follows:

Accounting policies and implementation decisions

In 2010, we have continued to review our selection of IFRS accounting policies with our auditors to ensure consistent interpretation of IFRS guidance in key areas. We have developed preliminary estimates of adjustments to the financial statements on transition to IFRS. In 2010, all accounting policy changes from the transition to IFRS and the corresponding adjustments to the financial statements will be subject to review by senior management, the IFRS Steering Committee and ultimately final review and approval by the Audit, Finance and Risk Committee of the Board. For a discussion of those accounting policy changes that management considers most significant to the Company, as well as a discussion of optional exemptions available under IFRS 1, *First-time Adoption of International Financial Reporting Standards*, that the Company currently intends to elect on transition to IFRS, see the *Anticipated Changes to Canadian Generally Accepted Accounting Principles* section of the Management s Discussion and Analysis in our 2009 annual report.

Infrastructure: Financial reporting expertise

We continue to provide training and updates for key employees, senior management, the Audit, Risk and Finance Committee, and the Board regarding the application of IFRS accounting policies and the corresponding impact on our consolidated financial statements.

Infrastructure: Information technology and data systems

We have assessed the impact on system requirements for the convergence and post-convergence periods. We do not anticipate significant impact to applications arising from the transition to IFRS.

Business activities: Financial covenants

The financial covenant requirements in our financing relationships are measured on the basis of Canadian GAAP in effect at the commencement of the various relationships, and the transition to IFRS will therefore have no impact on our current financial covenant requirements. In 2010, we will develop a process to compile our financial results on a historical Canadian GAAP basis and to monitor financial covenant requirements through to the conclusion of our current financing relationships.

Business activities: Compensation arrangements

We have identified compensation policies that rely on indicators derived from the financial statements. In 2010, we will work with the Company s human resources department and the Human Resources Committee of the Board to ensure that compensation arrangements incorporate IFRS results in accordance with the Company s overall compensation principles.

Control activities: Internal control over financial reporting

We have identified the required accounting process changes that result from the application of IFRS accounting policies; these changes are not anticipated to be significant. In 2010, we will complete the design, implementation and documentation of the internal controls over accounting process changes that result from the application of IFRS accounting policies.

Control activities: Disclosure controls and procedures

We continue to provide IFRS project updates in quarterly and annual disclosure documents. In 2010, all accounting policy changes from the transition to IFRS and the corresponding adjustments to the financial statements will be subject to review by senior management, the IFRS Steering Committee and ultimately final review and approval by the Audit, Finance and Risk Committee of the Board.

We are progressing according to schedule and continue to be on-track toward project completion in 2011. We will continue to provide updates on the status of the project and its impact on financial reporting in our quarterly and annual Management s Discussion and Analysis throughout the convergence period to January 1, 2011.

ADDITIONAL INFORMATION SUPPLEMENTAL NON-GAAP MEASURES

In addition to providing measures prepared in accordance with Canadian generally accepted accounting principles (GAAP), we present certain supplemental non-GAAP measures. These are Adjusted EBITDA, operating income and cash flows from operating activities before changes in non-cash working capital. These measures do not have any standardized meaning prescribed by Canadian GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. We believe these measures are useful in evaluating the operating performance and liquidity of the Company s ongoing business. These measures should be considered in addition to, and not as a substitute for, net income, cash flows and other measures of financial performance and liquidity reported in accordance with Canadian GAAP.

Adjusted EBITDA

This supplemental non-GAAP measure is provided to assist readers in determining our ability to generate cash from operations. We believe this measure is useful in assessing performance and highlighting trends on an overall basis. We also believe Adjusted EBITDA is frequently used by securities analysts and investors when comparing our results with those of other companies. Adjusted EBITDA differs from the most comparable GAAP measure, cash flows from operating activities, primarily because it does not include changes in non-cash working capital, other cash payments related to operating activities, stock-based compensation expense, other non-cash items, interest expense, interest and other income (expense), and current income taxes.

The following table shows a reconciliation of cash flows from operating activities to Adjusted EBITDA:

	Three Months Ended		
($ thousands)	**Mar 31 2010**	Dec 31 2009	Mar 31 2009
Cash flows from operating activities	**$ 56,646**	$ 35,737	$ 60,947
Add (deduct):			
Changes in non-cash working capital	**21,206**	38,433	(61,052)
Other cash payments	**3,162**	327	6,514
Stock-based compensation expense	**(9,980)**	(4,598)	(1,874)
Other non-cash items	**(2,202)**	(1,329)	(2,451)
Interest expense	**6,389**	6,217	7,559
Interest and other income (expense)	**(526)**	(18)	3,581
Current income taxes	**6,794**	(1,880)	(95)
Adjusted EBITDA	**$ 81,489**	$ 72,889	$ 13,129

Operating Income and Cash Flows from Operating Activities before Non-Cash Working Capital

Operating income and cash flows from operating activities before changes in non-cash working capital are reconciled to Canadian GAAP measures in our consolidated statements of income and consolidated statements of cash flows, respectively.

QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of selected financial information for the prior eight quarters is as follows:

	Three Months Ended			
($ thousands, except per share amounts)	**Mar 31 2010**	**Dec 31 2009**	**Sep 30 2009**	**Jun 30 2009**
Revenue	$ 466,706	$ 381,729	$ 316,932	$ 245,501
Net income (loss)	29,320	25,718	(831)	(5,743)
Basic net income (loss) per common share	0.32	0.28	(0.01)	(0.06)
Diluted net income (loss) per common share	0.31	0.28	(0.01)	(0.06)

	Three Months Ended			
($ thousands, except per share amounts)	**Mar 31 2009**	**Dec 31 2008**	**Sep 30 2008**	**Jun 30 2008**
Revenue	$ 254,007	$ 408,384	$ 569,876	$ 600,025
Net income (loss)	(18,406)	(3,949)	70,045	38,059
Basic net income (loss) per common share	(0.20)	(0.04)	0.75	0.40

Diluted net income (loss) per common share	(0.20)	(0.04)	0.74	0.40

FORWARD-LOOKING INFORMATION WARNING

This First Quarter 2010 Management s Discussion and Analysis (MD&A) as well as comments made during the First Quarter 2010 investor conference call contain forward-looking statements with respect to us and the chemical industry. Statements that include the words believes, expects, may, will, should, seeks, intends, pla anticipates, or the negative version of those words or other comparable terminology and similar statements of a future or forward-looking nature identify forward-looking statements.

More particularly and without limitation, any statements regarding the following are forward looking statements:

- expected demand for methanol and its derivatives,
- expected new methanol supply and timing for start-up of the same,
- expected shut downs (either temporary or permanent) or re-starts of existing methanol supply (including our own facilities), including, without limitation, timing of planned maintenance outages,
- expected methanol and energy prices,
- anticipated production rates of our plants, including the new methanol plant in Egypt targeted for startup in mid-2010,
- expected levels of natural gas supply to our plants,
- capital committed by third parties towards future natural gas exploration in Chile and New Zealand, anticipated results of natural gas exploration in Chile and New Zealand and timing of same,
- expected capital expenditures and future sources of funding for such capital expenditures, including capital expenditures to support natural gas exploration and development in Chile and New Zealand,
- expected operating costs, including natural gas feedstock costs and logistics costs,
- expected tax rates,
- expected cash flows and earnings capability,
- anticipated completion date of, and cost to complete, our methanol project in Egypt,
- availability of committed credit facilities and other financing,
- shareholder distribution strategy and anticipated distributions to shareholders,
- commercial viability of, or ability to execute, future projects or capacity expansions,
- financial strength and ability to meet future financial commitments,
- expected global or regional economic activity (including industrial production levels), and
- expected actions of governments, gas suppliers, courts and tribunals, or other third parties, including establishment by the Chinese government of new fuel blending standards.

We believe that we have a reasonable basis for making such forward-looking statements. The forward-looking statements in this document are based on our experience, our perception of trends, current conditions and expected

future developments as well as other factors. Certain material factors or assumptions were applied in drawing the conclusions or making the forecasts or projections that are included in these forward-looking statements, including, without limitation, future expectations and assumptions concerning the following:

supply of, demand for, and price of, methanol, methanol derivatives, natural gas, oil and oil derivatives,

production rates of our facilities, including the new methanol plant in Egypt targeted for startup in 2010,

success of natural gas exploration in Chile and New Zealand,

receipt or issuance of third party consents or approvals, including without limitation, governmental approvals related to natural gas exploration rights, rights to purchase natural gas or the establishment of new fuel standards,

operating costs including natural gas feedstock and logistics costs, capital costs, tax rates, cash flows, foreign exchange rates and interest rates,

timing of completion and cost of our methanol project in Egypt,

availability of committed credit facilities and other financing,

global and regional economic activity (including industrial production levels),

absence of a material negative impact from major natural disasters or global pandemics,

absence of a material negative impact from changes in laws or regulations, and

performance of contractual obligations by customers, suppliers and other third parties.

However, forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. The risks and uncertainties primarily include those attendant with producing and marketing methanol and successfully carrying out major capital expenditure projects in various jurisdictions, including without limitation:

- conditions in the methanol and other industries, including fluctuations in supply, demand and price for methanol and its derivatives, including demand for methanol for energy uses,
- the price of natural gas, oil and oil derivatives,
- the success of natural gas exploration and development activities in southern Chile and New Zealand and our ability to obtain any additional gas in those regions or other regions on commercially acceptable terms,
- the timing of start-up and cost to complete our new methanol joint venture project in Egypt,
- the ability to successfully carry out corporate initiatives and strategies,
- actions of competitors and suppliers,
- actions of governments and governmental authorities including implementation of policies or other measures by the Chinese government or other governments that could impact the demand for methanol or its derivatives,
- changes in laws or regulations,
- import or export restrictions, anti-dumping measures, increases in duties, taxes and government royalties, and other actions by governments that may adversely affect our operations,
- world-wide economic conditions, and
- other risks described in our 2009 Management s Discussion and Analysis and this First Quarter 2010 Management s Discussion and Analysis.

Having in mind these and other factors, investors and other readers are cautioned not to place undue reliance on forward-looking statements. They are not a substitute for the exercise of one s own due diligence and judgment. The outcomes anticipated in forward-looking statements may not occur and we do not undertake to update forward-looking statements except as required by applicable securities laws.

HOW WE ANALYZE OUR BUSINESS

Our operations consist of a single operating segment   the production and sale of methanol. We review our results of operations by analyzing changes in the components of our adjusted earnings before interest, taxes, depreciations and amortization (Adjusted EBITDA) (refer to the *Supplemental Non-GAAP Measures* section on page 11 for a reconciliation to the most comparable GAAP measure), depreciation and amortization, interest expense, interest and other income, and income taxes. In addition to the methanol that we produce at our facilities (Methanex-produced methanol), we also purchase and re-sell methanol produced by others (purchased methanol) and we sell methanol on a commission basis. We analyze the results of all methanol sales together. The key drivers of change in our Adjusted EBITDA are average realized price, cash costs and sales volume.

The price, cash cost and volume variances included in our Adjusted EBITDA analysis are defined and calculated as follows:

PRICE The change in Adjusted EBITDA as a result of changes in average realized price is calculated as the difference from period to period in the selling price of methanol multiplied by the current period total methanol sales volume excluding commission sales volume plus the difference from period to period in commission revenue.

COST The change in our Adjusted EBITDA as a result of changes in cash costs is calculated as the difference from period to period in cash costs per tonne multiplied by the current period total methanol sales volume excluding commission sales volume in the current period. The cash costs per tonne is the weighted average of the cash cost per tonne of Methanex-produced methanol and the cash cost per tonne of purchased methanol. The cash cost per tonne of Methanex-produced methanol includes absorbed fixed cash costs per tonne and variable cash costs per tonne. The cash cost per tonne of purchased methanol consists principally of the cost of methanol itself. In addition, the change in our Adjusted EBITDA as a result of changes in cash costs includes the changes from period to period in unabsorbed fixed production costs, consolidated selling, general and administrative expenses and fixed storage and handling costs.

VOLUME The change in Adjusted EBITDA as a result of changes in sales volume is calculated as the difference from period to period in total methanol sales volume excluding commission sales volumes multiplied by the margin per tonne for the prior period. The margin per tonne for the prior period is the weighted average margin per tonne of Methanex-produced methanol and purchased methanol. The margin per tonne for Methanex-produced methanol is calculated as the selling price per tonne of methanol less absorbed fixed cash costs per tonne and variable cash costs per tonne. The margin per tonne for purchased methanol is calculated as the selling price per tonne of methanol less the cost of purchased methanol per tonne.

We also sell methanol on a commission basis. Commission sales represent volumes marketed on a commission basis related to the 36.9% of the Atlas methanol facility in Trinidad that we do not own.

Methanex Corporation
Consolidated Statements of Income (Loss) *(unaudited)*
(thousands of U.S. dollars, except number of common shares and per share amounts)

	Three Months Ended	
	Mar 31 2010	Mar 31 2009
Revenue	**$ 466,706**	$ 254,007
Cost of sales and operating expenses	**385,217**	240,878
Depreciation and amortization	**33,733**	28,921
Operating income (loss) before undernoted items	**47,756**	(15,792)
Interest expense (note 6)	**(6,389)**	(7,559)
Interest and other income (expense)	**526**	(3,581)
Income (loss) before income taxes	**41,893**	(26,932)
Income tax (expense) recovery:		
Current	**(6,794)**	95
Future	**(5,779)**	8,431
	(12,573)	8,526
Net income (loss)	**$ 29,320**	$ (18,406)
Net income (loss) per common share:		
Basic	**$ 0.32**	$ (0.20)
Diluted	**$ 0.31**	$ (0.20)
Weighted average number of common shares outstanding:		
Basic	**92,128,325**	92,034,025
Diluted	**93,412,230**	92,034,025
Number of common shares outstanding at period end	**92,168,582**	92,039,492

See accompanying notes to consolidated financial statements.

Methanex Corporation
Consolidated Balance Sheets *(unaudited)*
(thousands of U.S. dollars)

	Mar 31 2010	Dec 31 2009
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 196,303**	$ 169,788
Receivables	**271,346**	257,418
Inventories	**169,460**	171,554
Prepaid expenses	**20,492**	23,893
	657,601	622,653
Property, plant and equipment (note 3)	**2,197,358**	2,183,787
Other assets	**109,916**	116,977
	$ 2,964,875	$ 2,923,417
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 216,696**	$ 232,924
Current maturities on long-term debt (note 5)	**45,903**	29,330
Current maturities on other long-term liabilities	**9,839**	9,350
	272,438	271,604
Long-term debt (note 5)	**900,269**	884,914
Other long-term liabilities	**101,396**	97,185
Future income tax liabilities	**306,289**	300,510
Non-controlling interest	**136,052**	133,118
Shareholders equity:		
Capital stock	**428,614**	427,792
Contributed surplus	**27,546**	27,007
Retained earnings	**821,193**	806,158
Accumulated other comprehensive loss	**(28,922)**	(24,871)
	1,248,431	1,236,086
	$ 2,964,875	$ 2,923,417

See accompanying notes to consolidated financial statements.

Methanex Corporation
Consolidated Statements of Shareholders Equity *(unaudited)*
(thousands of U.S. dollars, except number of common shares)

	Number of Common Shares	Capital Stock	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders Equity
Balance, December 31, 2008	92,031,392	$ 427,265	$ 22,669	$ 862,507	$ (24,025)	$ 1,288,416
Net income				738		738
Compensation expense recorded for stock options			4,440			4,440
Issue of shares on exercise of stock options	76,850	425				425
Reclassification of grant date fair value on exercise of stock options		102	(102)			
Dividend payments				(57,087)		(57,087)
Other comprehensive loss					(846)	(846)
Balance, December 31, 2009	92,108,242	427,792	27,007	806,158	(24,871)	1,236,086
Net income				**29,320**		**29,320**
Compensation expense recorded for stock options			**682**			**682**
Issue of shares on exercise of stock options	**60,340**	**679**				**679**
Reclassification of grant date fair value on exercise of stock options		**143**	**(143)**			
Dividend payments				**(14,285)**		**(14,285)**
Other comprehensive loss					**(4,051)**	**(4,051)**
Balance, March 31, 2010	**92,168,582**	**$ 428,614**	**$ 27,546**	**$ 821,193**	**$ (28,922)**	**$ 1,248,431**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss) *(unaudited)*
(thousands of U.S. dollars)

	Three Months Ended **Mar 31 2010**	Mar 31 2009
Net income (loss)	**$ 29,320**	$ (18,406)
Other comprehensive income (loss), net of tax:		
Change in fair value of forward exchange contracts (note 11)	**253**	42
Change in fair value of interest rate swap contracts (note 11)	**(4,304)**	1,070
	(4,051)	1,112
Comprehensive income (loss)	**$ 25,269**	$ (17,294)

See accompanying notes to consolidated financial statements.

Methanex Corporation
Consolidated Statements of Cash Flows *(unaudited)*
(thousands of U.S. dollars)

	Three Months Ended	
	Mar 31 2010	Mar 31 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	**$ 29,320**	$ (18,406)
Add (deduct) non-cash items:		
Depreciation and amortization	**33,733**	28,921
Future income taxes	**5,779**	(8,431)
Stock-based compensation expense	**9,980**	1,874
Other	**2,202**	2,451
Other cash payments, including stock-based compensation	**(3,162)**	(6,514)
Cash flows from operating activities before undernoted	**77,852**	(105)
Changes in non-cash working capital (note 10)	**(21,206)**	61,052
	56,646	60,947
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend payments	**(14,285)**	(14,267)
Proceeds from limited recourse debt (note 5)	**31,600**	45,000
Equity contribution by non-controlling interest	**5,804**	15,275
Repayment of limited recourse debt	**(313)**	(313)
Proceeds on issue of shares on exercise of stock options	**679**	38
Repayment of other long-term liabilities	**(9,064)**	(2,417)
	14,421	43,316
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, plant and equipment	**(12,489)**	(16,416)
Egypt plant under construction	**(24,098)**	(86,352)
Oil and gas assets	**(9,326)**	(8,089)
GeoPark financing, net of repayments	**2,929**	1,984
Changes in project debt reserve accounts		7,600
Other assets		(2,411)
Changes in non-cash working capital related to investing activities (note 10)	**(1,568)**	(16,115)
	(44,552)	(119,799)
Increase (decrease) in cash and cash equivalents	**26,515**	(15,536)
Cash and cash equivalents, beginning of period	**169,788**	328,430
Cash and cash equivalents, end of period	**$ 196,303**	$ 312,894

SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	**$ 23,359**	$ 21,690
Income taxes paid, net of amounts refunded	**$ 1,770**	$ 5,765

See accompanying notes to consolidated financial statements.

Methanex Corporation
Notes to Consolidated Financial Statements *(unaudited)*
Except where otherwise noted, tabular dollar amounts are stated in thousands of U.S. dollars.

1. Basis of presentation:

These interim consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada on a basis consistent with those followed in the most recent annual consolidated financial statements. These accounting principles are different in some respects from those generally accepted in the United States and the significant differences are described and reconciled in Note 13. These interim consolidated financial statements do not include all note disclosures required by Canadian generally accepted accounting principles for annual financial statements, and therefore should be read in conjunction with the annual consolidated financial statements included in the Methanex Corporation 2009 Annual Report.

2. Inventories:

Inventories are valued at the lower of cost, determined on a first-in first-out basis, and estimated net realizable value. The amount of inventories included in cost of sales and operating expense and depreciation and amortization during the three months ended March 31, 2010 was $364 million (2009 $231 million).

3. Property, plant and equipment:

	Cost	Accumulated Depreciation	Net Book Value
March 31, 2010			
Plant and equipment	**$ 2,590,736**	**$ 1,405,569**	**$ 1,185,167**
Egypt plant under construction	**878,262**		**878,262**
Oil and gas assets	**77,728**	**9,128**	**68,600**
Other	**136,296**	**70,967**	**65,329**
	$ 3,683,022	**$ 1,485,664**	**$ 2,197,358**
December 31, 2009			
Plant and equipment	$ 2,586,920	$ 1,380,379	$ 1,206,541
Egypt plant under construction	854,164		854,164
Oil and gas assets	68,402	4,560	63,842
Other	127,623	68,383	59,240
	$ 3,637,109	$ 1,453,322	$ 2,183,787

4. Interest in Atlas joint venture:

The Company has a 63.1% joint venture interest in Atlas Methanol Company (Atlas). Atlas owns a 1.7 million tonne per year methanol production facility in Trinidad. Included in the consolidated financial statements are the following amounts representing the Company s proportionate interest in Atlas:

Consolidated Balance Sheets	Mar 31 2010	Dec 31 2009
Cash and cash equivalents	$ 19,313	$ 8,252
Other current assets	71,526	72,667
Property, plant and equipment	236,227	240,290
Other assets	12,920	12,920
Accounts payable and accrued liabilities	23,121	22,380
Long-term debt, including current maturities (note 5)	93,279	93,155
Future income tax liabilities	18,760	18,660

	Three Months Ended	
Consolidated Statements of Income	Mar 31 2010	Mar 31 2009
Revenue	$ 52,836	$ 37,861
Expenses	(47,001)	(34,675)
Income before income taxes	5,835	3,186
Income tax expense	(943)	(742)
Net income	$ 4,892	$ 2,444

	Three Months Ended	
Consolidated Statements of Cash Flows	Mar 31 2010	Mar 31 2009
Cash inflows from operating activities	$ 11,577	$ 17,322
Cash outflows from investing activities	(516)	(933)

5. Long-term debt:

	Mar 31 2010	Dec 31 2009
Unsecured notes		
8.75% due August 15, 2012	$ 198,744	$ 198,627
6.00% due August 15, 2015	148,754	148,705
	347,498	347,332
Atlas limited recourse debt facilities	93,279	93,155
Egypt limited recourse debt facilities	484,220	461,570
Other limited recourse debt facilities	21,175	12,187

	946,172	914,244
Less current maturities	**(45,903)**	(29,330)
	$ 900,269	$ 884,914

6. Interest expense:

Total Equity Securities		22.8		(0.8)	12.2	(1.4)	35.0	(2.2)
Total	$	549.3	$	(17.8)	$ 123.8	$ (10.3)	$ 673.1	$ (28.1)

Unrealized losses on fixed maturities, which the Company has determined to be temporary at March 31, 2011, were $25.9 million, of which $8.9 million is related to fixed maturities that were in an unrealized loss position for 12 months or longer. There were no unrealized losses related to securities for which the Company has recognized credit losses in earnings in the preceding table under either the heading Less Than 12 Months or the heading 12 Months or Longer. Included in the preceding table under the heading 12 Months or Longer are unrealized losses of $0.1 million related to securities for which the Company has previously recognized foreign currency losses in earnings. Investment-grade fixed maturity investments comprised $23.1 million and below-investment-grade fixed maturity investments comprised $2.8 million of the unrealized losses on investments in fixed maturities at March 31, 2011. Unrealized losses for below-investment-grade fixed maturities included unrealized losses totaling $0.1 million for one issuer that the Company previously recognized foreign currency impairment losses in earnings. For the other remaining below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was less than 4% of the amortized cost basis of the investment. At March 31, 2011, 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 at maturity. The Company concluded that these impairments were temporary at March 31, 2011.

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UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2 - Investments (continued)

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 preferred stocks in an unrealized loss position at March 31, 2011 are perpetual preferred stocks of financial institutions and public utilities. 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 March 31, 2011. The Company concluded that the unrealized losses on its investments in common stocks at March 31, 2011 were temporary based on the relative short length and magnitude of the losses. The Company s investments in other equity interests are investments in limited liability partnerships that primarily invest in distressed debt, mezzanine debt and secondary transactions. 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 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 March 31, 2011.

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UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2 - Investments (continued)

An aging of unrealized losses on the Company s Investments in Fixed Maturities and Equity Securities at December 31, 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	$ 18.5	$ (0.1)	$ 0.1	$	$ 18.6	$ (0.1)
States and Political Subdivisions	455.6	(16.9)	16.5	(3.8)	472.1	(20.7)
Corporate Securities:						
Bonds and Notes	123.0	(3.7)	87.8	(6.4)	210.8	(10.1)
Redeemable Preferred Stocks	0.7				0.7	
Mortgage and Asset-backed			4.6	(1.3)	4.6	(1.3)
Total Fixed Maturities	597.8	(20.7)	109.0	(11.5)	706.8	(32.2)
Preferred Stocks:						
Finance, Insurance and Real Estate	3.0		2.6	(0.2)	5.6	(0.2)
Other Industries	0.7	(0.1)	2.8	(0.1)	3.5	(0.2)
Common Stocks:						
Manufacturing	7.9	(0.3)	1.7		9.6	(0.3)
Other Industries	6.3	(0.1)			6.3	(0.1)
Other Equity Interests:						
Limited Liability Companies and Limited Partnerships	2.2	(0.3)	6.1	(0.9)	8.3	(1.2)
Total Equity Securities	20.1	(0.8)	13.2	(1.2)	33.3	(2.0)
Total	$ 617.9	$ (21.5)	$ 122.2	$ (12.7)	$ 740.1	$ (34.2)

Unrealized losses on fixed maturities, which the Company determined to be temporary at December 31, 2010, were $32.2 million, of which $11.5 million is related to fixed maturities that were in an unrealized loss position for 12 months or longer. There were no unrealized losses at December 31, 2010 related to securities for which the Company has recognized credit losses in earnings in the preceding table under either the heading Less Than 12 Months or the heading 12 Months or Longer. Included in the preceding table under the heading 12 Months or Longer are unrealized losses of $0.1 million at December 31, 2010 related to securities for which the Company has recognized foreign currency losses in earnings. Investment-grade fixed maturity investments comprised $28.1 million and below-investment-grade fixed maturity investments comprised $4.1 million of the unrealized losses on investments in fixed maturities at December 31, 2010. Unrealized losses for below-investment-grade fixed maturities included unrealized losses totaling $0.1 million for one issuer that the Company recognized foreign currency impairment losses in earnings for the year ended December 31, 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 4% of the amortized cost basis of the investment. At December 31, 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 at maturity. The Company concluded that these impairments were temporary at December 31, 2010.

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UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2 - Investments (continued)

The vast majority of the Company s preferred stocks in an unrealized loss position at December 31, 2010 are perpetual preferred stocks of financial institutions and public utilities. 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 December 31, 2010. The Company concluded that the unrealized losses on its investments in common stocks at December 31, 2010 were temporary based on the relative short length and magnitude of the losses. The Company s investments in other equity interests are investments in limited liability partnerships that primarily invest in distressed debt, mezzanine debt and secondary transactions. 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 of the factors described above that the Company considers when determining whether a decline in the fair value of an investment in equity securities is other than temporary, the Company concluded that the declines in the fair values of the Company s investments in equity securities were temporary at December 31, 2010.

The following table sets forth the pre-tax amount of other-than-temporary-impairment (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)	Three Months Ended March 31, 2011	2010
Balance at Beginning of Period	$ 2.4	$ 3.7
Additions for Previously Unrecognized OTTI Credit Losses		3.1
Increases to Previously Recognized OTTI Credit Losses		0.1
Reductions to Previously Recognized OTTI Credit Losses	(0.1)	(1.3)
Balance at End of Period	$ 2.3	$ 5.6

The carrying values of the Company s Other Investments at March 31, 2011 and December 31, 2010 were:

(Dollars in Millions)	March 31, 2011	Dec. 31, 2010
Loans to Policyholders at Unpaid Principal	$ 240.7	$ 238.4
Real Estate at Depreciated Cost	249.3	249.9
Trading Securities	5.2	5.1
Other	0.8	0.8
Total	$ 496.0	$ 494.2

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UNITRIN, INC. AND SUBSIDIARIES

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Note 3 - Automobile Loan Receivables

Automobile Loan Receivables consists 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 maximum original term for Sales Contracts and Loans at March 31, 2011 is approximately 72 months. The maximum remaining term of Sales Contracts and Loans at March 31, 2011 is approximately 50 months. There were no sales contracts originated in 2011 or 2010.

The components of Automobile Loan Receivables at March 31, 2011 and December 31, 2010 were:

(Dollars in Millions)	March 31, 2011	Dec. 31, 2010
Sales Contracts and Loans Receivable	$ 311.3	$ 382.9
Unearned Discounts and Deferred Fees	(1.1)	(1.6)
Net Automobile Loan Receivables Outstanding	310.2	381.3
Reserve for Loan Losses	(32.1)	(43.7)
Automobile Loan Receivables	$ 278.1	$ 337.6

Activity in the Reserve for Loan Losses for the three months ended March 31, 2011 and 2010 was:

	Three Months Ended	
(Dollars in Millions)	March 31, 2011	March 31, 2010
Reserve for Loan Losses - Beginning of Period	$ 43.7	$ 83.3
Provision for Loan Losses	(13.8)	2.9
Net Recovery (Charge-off):		
Automobile Loan Receivables Charged Off	(9.8)	(22.4)
Automobile Loan Receivables Recovered	12.0	10.9
Net Recovery (Charge-off)	2.2	(11.5)
Reserve for Loan Losses - End of Period	$ 32.1	$ 74.7

The Company used several quality indicators, including, but not limited to, Fair Isaac Corporation (FICO) credit scores, loan-to-value (LTV) ratios and residency of customers to underwrite its automobile loans and uses these indicators to monitor its automobile loan portfolio. The FICO score is a measure of the creditworthiness of a borrower. A lower FICO score, compared to a higher FICO score, represents a higher likelihood of default. The LTV ratio is a measure of the value of a loan to the value of the collateral at the time a loan is originated. In the event of default, loans with higher initial LTV ratios are more likely to result in greater charge-off, compared to loans with lower initial LTV ratios, because a greater portion of the loan is unsecured. Economic conditions may vary by state and impact the ability of borrowers to repay their loans. For example, the unemployment rate in the state of California has been higher than the national average for the past several years. The Company does not update the initial quality indicators periodically, but rather monitors changes in the mix of its automobile loan portfolio by

such quality indicators to assess whether or not its historical charge-off and recovery patterns used to estimate future charge-offs and recoveries should be adjusted.

Automobile Loan Receivables outstanding at March 31, 2011 and December 31, 2010 by initial FICO score were:

	March 31, 2011	Dec. 31, 2010
Score Lower than 580	38.4%	38.9%
Score Greater than or Equal to 580 and Lower than 620	29.8%	29.6%
Score Greater than or Equal to 620	31.8%	31.5%
Total	100.0%	100.0%

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UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 3 - Automobile Loan Receivables (continued)

Automobile Loan Receivables outstanding at March 31, 2011 and December 31, 2010 by initial LTV ratio were:

	March 31, 2011	Dec. 31, 2010
LTV Ratio Lower than 100%	21.6%	21.4%
LTV Ratio Greater than or Equal to 100% and Lower than 120%	47.7%	47.7%
LTV Ratio Greater than 120%	30.7%	30.9%
Total	100.0%	100.0%

Approximately two-thirds of Fireside Bank s automobile loan portfolio was concentrated in loans to borrowers residing in California at both March 31, 2011 and December 31, 2010.

Note 4 - Property and Casualty Insurance Reserves

Property and Casualty Insurance Reserve activity for the three months ended March 31, 2011 and 2010 was:

	Three Months Ended	
(Dollars in Millions)	March 31, 2011	March 31, 2010
Property and Casualty Insurance Reserves - Gross of Reinsurance at Beginning of Year	$ 1,118.7	$ 1,211.3
Less Reinsurance Recoverables at Beginning of Year	78.1	77.4
Property and Casualty Insurance Reserves - Net of Reinsurance at Beginning of Year	1,040.6	1,133.9
Incurred Losses and LAE Related to:		
Current Year - Continuing Operations	309.0	331.3
Prior Years:		
Continuing Operations	(3.9)	(10.7)
Discontinued Operations	2.2	(0.8)
Total Incurred Losses and LAE Related to Prior Years	(1.7)	(11.5)
Total Incurred Losses and LAE	307.3	319.8
Paid Losses and LAE Related to:		

Current Year - Continuing Operations	134.0	137.6
Prior Years:		
Continuing Operations	189.4	203.4
Discontinued Operations	12.3	13.7
Total Paid Losses and LAE Related to Prior Years	201.7	217.1
Total Paid Losses and LAE	335.7	354.7
Property and Casualty Insurance Reserves - Net of Reinsurance at End of Period	1,012.2	1,099.0
Plus Reinsurance Recoverable at End of Period	83.6	71.7
Property and Casualty Insurance Reserves - Gross of Reinsurance at End of Period	$ 1,095.8	$ 1,170.7

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.

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UNITRIN, INC. AND SUBSIDIARIES

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Note 4 - Property and Casualty Insurance Reserves (continued)

For the three months ended March 31, 2011, the Company reduced its property and casualty insurance reserves by $1.7 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 $2.9 million and commercial lines insurance losses and LAE reserves developed adversely by $1.2 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 2010 and 2008 accident years.

For the three months ended March 31, 2010, the Company reduced its property and casualty insurance reserves by $11.5 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by $11.0 million and commercial lines insurance losses and LAE reserves developed favorably 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, 2008 and 2007 accident years.

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 shareholders equity, but could have a material effect on the Company s consolidated financial results for a given period.

Note 5 - Certificates of Deposits

In the first quarter of 2011, Fireside Bank paid $0.6 million in incentives, in lieu of future interest, to certificate holders 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 April 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.

Note 6 - 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. Share-based compensation expense for all of the Company s long-term equity-based compensation plans was $1.3 million and $1.1 million for the three months ended March 31, 2011 and 2010, respectively. Total unamortized compensation expense related to nonvested awards of such plans at March 31, 2011 was $8.8 million, which is expected to be recognized over a weighted-average period of 1.6 years.

At March 31, 2011, the Company had three stock option plans, all of which have been approved by Unitrin s shareholders. The Company uses the Black-Scholes option pricing model to estimate the fair value of each option on the date of grant. The assumptions used in the Black-Scholes pricing model for options granted during the three months ended March 31, 2011 and 2010 were as follows:

	Three Months Ended March 31,	
Range of Valuation Assumptions	2011	2010
Expected Volatility	41.34% - 55.16%	40.55% - 50.51%
Risk-free Interest Rate	1.30% - 2.87%	1.91% - 3.20%

Expected Dividend Yield	3.38%	3.33% - 3.39%
Weighted-Average Expected Life		
Employee Grants	3.5 - 7 Years	4 - 7 Years
Director Grants	NA	6 Years

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UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 6 - Long-term Equity-based Compensation Plans (continued)

Option and stock appreciation right activity for the three months ended March 31, 2011 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	4,004,546	$ 42.34		
Granted	276,750	27.89		
Exercised	(8,000)	16.48		
Forfeited or Expired	(101,870)	48.06		
Outstanding at March 31, 2011	4,171,426	$ 41.29	4.38	$ 7.5
Vested and Expected to Vest at March 31, 2011	4,134,607	$ 41.42	4.33	$ 7.3
Exercisable at March 31, 2011	3,416,550	$ 44.80	3.36	$ 2.8

The weighted-average grant-date fair value of options granted during the three months ended March 31, 2011 and 2010 were $9.06 per option and $7.60 per option, respectively. Total intrinsic value of stock options exercised was $0.1 million for the three months ended March 31, 2011. Cash received from option exercises and the total tax benefits realized for tax deductions from option exercises were insignificant for the three months ended March 31, 2011. No options were exercised during the three months ended March 31, 2010.

In addition to the stock option plans, the Company had 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 March 31, 2011, 717,175 shares of restricted stock having a weighted-average grant-date fair value of $34.40 per share had been awarded, of which 135,517 shares were forfeited and 75,721 shares were tendered to satisfy tax withholding obligations. As of March 31, 2011, there were 494,063 common shares available for future grants under the restricted stock plan, of which 176,200 were reserved for future grants under outstanding performance-based restricted stock awards if performance levels exceed target levels.

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.

Activity related to nonvested restricted stock for the three months ended March 31, 2011 is presented below:

	Restricted Shares	Weighted-Average

		Grant-Date Fair Value Per Share
Nonvested Balance at Beginning of the Year	218,156	$ 23.72
Granted	117,075	34.57
Forfeited	(363)	20.97
Nonvested Balance at March 31, 2011	334,868	$ 27.52

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UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Note 6 - Long-term Equity-based Compensation Plans (continued)

Restricted stock granted during the three months ended March 31, 2011 includes 51,600 shares of time-vested restricted stock and 65,475 shares of performance-based restricted stock. The nonvested balance of restricted stock at March 31, 2011 was comprised of 158,668 shares of time-vested restricted stock and 176,200 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 176,200 shares at March 31, 2011. No restricted stock vested during the three months ended March 31, 2011. The total fair value of restricted stock that vested during the three months ended March 31, 2010 and the tax benefits for tax deductions realized from the vesting of such restricted stock was insignificant.

Note 7 - Restructuring Expenses

Activity related to restructuring costs for the three months ended March 31, 2011 is presented below:

(Dollars in Millions)	Fireside Bank	Unitrin Direct	All Other Segments	Total
Liability at Beginning of Year:				
Employee Termination Costs	$ 5.7	$ 0.6	$	$ 6.3
Early Lease Termination Costs		0.1		0.1
Liability at Beginning of Year	5.7	0.7		6.4
Expenses Incurred:				
Employee Termination Costs	1.7	0.5	0.4	2.6
Early Lease Termination Costs				
Total Expenses Incurred	1.7	0.5	0.4	2.6
Payments of:				
Employee Termination Costs	0.3	0.2	0.4	0.9
Early Lease Termination Costs		0.1		0.1
Total Payments	0.3	0.3	0.4	1.0
Liability at March 31, 2011:				
Employee Termination Costs	7.1	0.9		8.0
Early Lease Termination Costs				
Liability at March 31, 2011	$ 7.1	$ 0.9	$	$ 8.0

Employee termination costs are accrued and recognized as expense over the employee s expected service period. Unrecognized employee termination costs were $5.2 million at March 31, 2011, of which $2.5 million is expected to be expensed in the remainder of 2011 and $2.7 million is expected to be expensed in 2012 and thereafter.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 7 - Restructuring Expenses (continued)

Activity related to restructuring costs for the three months ended March 31, 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	1.0	0.1	0.1	1.2
Early Lease Termination Costs				
Other Associated Costs	0.1			0.1
Total Expenses Incurred	1.1	0.1	0.1	1.3
Payments of:				
Employee Termination Costs	0.3	0.7	0.1	1.1
Early Lease Termination Costs	0.2			0.2
Other Associated Costs	0.1			0.1
Total Payments	0.6	0.7	0.1	1.4
Liability at March 31, 2010:				
Employee Termination Costs	3.5	0.8	0.2	4.5
Early Lease Termination Costs		0.6		0.6
Other Associated Costs				
Liability at March 31, 2010	$ 3.5	$ 1.4	$ 0.2	$ 5.1

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UNITRIN, INC. AND SUBSIDIARIES

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Note 8 - Income from Continuing Operations Per Unrestricted Share

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 from Continuing Operations Per Unrestricted Share and Diluted Income from Continuing Operations Per Unrestricted Share for the three months ended March 31, 2011 and 2010 is as follows:

(Dollars in Millions)	Three Months Ended March 31, 2011	2010
Income from Continuing Operations	$ 55.8	$ 47.7
Less Income from Continuing Operations Attributed to Restricted Shares	0.2	0.2
Income from Continuing Operations Attributed to Unrestricted Shares	$ 55.6	$ 47.5
Dilutive Effect on Income of Unitrin Share-based Compensation Equivalent Shares		
Diluted Income from Continuing Operations Attributed to Unrestricted Shares	$ 55.6	$ 47.5
(Shares in Thousands)		
Weighted-Average Unrestricted Shares Outstanding	60,677.5	62,154.8
Unitrin Share-based Compensation Equivalent Shares	104.4	81.3
Weighted-Average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution	60,781.9	62,236.1
(Per Unrestricted Share in Whole Dollars)		
Basic Income from Continuing Operations Per Unrestricted Share	$ 0.92	$ 0.76
Diluted Income from Continuing Operations Per Unrestricted Share	$ 0.92	$ 0.76

Options outstanding to purchase 3.5 million shares of Unitrin common stock were excluded from the computation of Unitrin Share-based Compensation Equivalent Shares and Weighted-Average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution for the three months ended March 31, 2011 because the exercise price exceeded the average market price. Options outstanding to purchase 4.5 million shares of Unitrin common stock were excluded from the computation of Unitrin Share-based Compensation Equivalent Shares and Weighted-Average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution for the three months ended March 31, 2010 because the exercise price exceeded the average market price.

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UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Note 9 - Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income

Other Comprehensive Income (Loss) for the three months ended March 31, 2011 and 2010 was:

	Three Months Ended	
(Dollars in Millions)	March 31, 2011	March 31, 2010
Other Comprehensive Income (Loss) Before Income Taxes:		
Unrealized Holding Gains (Losses) Arising During the Period Before Reclassification Adjustment	$ (12.9)	$ 44.3
Reclassification Adjustment for Amounts Included in Net Income	(13.7)	(1.0)
Unrealized Holding Gains (Losses)	(26.6)	43.3
Foreign Currency Translation Adjustments Arising During the Period Before Reclassification Adjustment	0.4	(0.8)
Equity in Other Comprehensive Income (Loss) of Investee		(4.4)
Amortization of Unrecognized Postretirement Benefit Costs	1.9	
Other Comprehensive Income (Loss) Before Income Taxes	(24.3)	38.1
Income Tax Benefit (Expense):		
Unrealized Holding Gains and Losses Arising During the Period Before Reclassification Adjustment	4.5	(15.8)
Reclassification Adjustment for Amounts Included in Net Income	4.8	0.3
Unrealized Holding Gains and Losses	9.3	(15.5)
Foreign Currency Translation Adjustments Arising During the Period Before Reclassification Adjustment	(0.1)	0.3
Equity in Other Comprehensive Income of Investee		1.5
Amortization of Unrecognized Postretirement Benefit Costs	(0.7)	
Income Tax Benefit (Expense)	8.5	(13.7)
Other Comprehensive Income (Loss)	$ (15.8)	$ 24.4

Total Comprehensive Income was $38.3 million for the three months ended March 31, 2011. Total Comprehensive Income was $72.6 million for the three months ended March 31, 2010.

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UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 9 - Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (continued)

The components of Accumulated Other Comprehensive Income at March 31, 2011 and December 31, 2010 were:

(Dollars in Millions)	March 31, 2011	Dec. 31, 2010
Unrealized Gains on Investments, Net of Income Taxes:		
Available for Sale Fixed Maturities with Portion of OTTI Recognized in Earnings	$ 1.4	$ 0.8
Other Unrealized Gains on Investments	198.9	216.8
Foreign Currency Translation Adjustments, Net of Income Taxes	(0.3)	(0.6)
Net Unrecognized Postretirement Benefit Costs, Net of Income Taxes	(58.4)	(59.6)
Accumulated Other Comprehensive Income	$ 141.6	$ 157.4

Note 10 - Income Taxes

Current and Deferred Income Tax Assets at March 31, 2011 and December 31, 2010 were:

(Dollars in Millions)	March 31, 2011	Dec. 31, 2010
Current Income Tax Assets	$	$ 39.3
Deferred Income Tax Assets	9.8	9.4
Valuation Allowance for State Income Taxes	(7.9)	(9.1)
Current and Deferred Income Tax Assets	$ 1.9	$ 39.6

The components of Liabilities for Income Taxes at March 31, 2011 and December 31, 2010 were:

(Dollars in Millions)	March 31, 2011	Dec. 31, 2010
Current Income Tax Liabilities	$ 1.1	$
Deferred Income Tax Liabilities		7.3
Unrecognized Tax Benefits	7.5	7.8
Liabilities for Income Taxes	$ 8.6	$ 15.1

Refunds, net of income taxes paid of $7.8 million, were $17.1 million for the three months ended March 31, 2011. Income taxes paid were $21.8 million for the three months ended March 31, 2010.

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Note 11 - Pension Benefits and Postretirement Benefits Other Than Pensions

The components of Pension Expense for the three months ended March 31, 2011 and 2010 were:

	Three Months Ended	
(Dollars in Millions)	March 31, 2011	March 31, 2010
Service Cost on Benefits Earned	$ 2.6	$ 2.5
Interest Cost on Projected Benefit Obligation	5.7	5.5
Expected Return on Plan Assets	(6.1)	(5.9)
Net Amortization and Deferral	2.1	0.4
Total Pension Expense	$ 4.3	$ 2.5

The components of Postretirement Benefits Other than Pensions Expense for the three months ended March 31, 2011 and 2010 were:

	Three Months Ended	
(Dollars in Millions)	March 31, 2011	March 31, 2010
Interest Cost on Projected Benefit Obligation	$ 0.5	$ 0.5
Net Amortization and Deferral	(0.2)	(0.4)
Total Postretirement Benefits Other than Pensions Expense	$ 0.3	$ 0.1

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Note 12 - Business Segments

Segment Revenues for the three months ended March 31, 2011 and 2010 were:

(Dollars in Millions)	Three Months Ended March 31, 2011	March 31, 2010
Revenues:		
Kemper:		
Earned Premiums	$ 211.9	$ 222.4
Net Investment Income	14.1	12.4
Other Income	0.1	0.1
Total Kemper	226.1	234.9
Unitrin Specialty:		
Earned Premiums	112.4	122.4
Net Investment Income	6.3	6.1
Other Income	0.1	0.2
Total Unitrin Specialty	118.8	128.7
Unitrin Direct:		
Earned Premiums	59.9	76.0
Net Investment Income	5.4	5.3
Total Unitrin Direct	65.3	81.3
Life and Health Insurance:		
Earned Premiums	161.8	160.7
Net Investment Income	53.0	53.3
Total Life and Health Insurance	214.8	214.0
Fireside Bank:		
Interest, Loan Fees and Earned Discounts	15.4	30.2
Other Automobile Finance Revenues	0.1	0.4
Automobile Finance Revenues	15.5	30.6
Net Investment Income	0.4	0.5
Total Fireside Bank	15.9	31.1

Total Segment Revenues	640.9	690.0
Net Realized Gains on Sales of Investments	14.5	4.5
Net Impairment Losses Recognized in Earnings	(0.4)	(3.2)
Other	2.4	3.2
Total Revenues	$ 657.4	$ 694.5

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UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 12 - Business Segments (continued)

Segment Operating Profit (Loss) for the three months ended March 31, 2011 and 2010 was:

(Dollars in Millions)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Segment Operating Profit (Loss):		
Kemper	$ 14.2	$ 19.3
Unitrin Specialty	5.1	7.5
Unitrin Direct	(7.4)	(1.1)
Life and Health Insurance	50.8	40.5
Fireside Bank	11.7	4.8
Total Segment Operating Profit	74.4	71.0
Net Realized Gains on Sales of Investments	14.5	4.5
Net Impairment Losses Recognized in Earnings	(0.4)	(3.2)
Other Expense, Net	(9.2)	(6.1)
Income from Continuing Operations before Income Taxes and Equity in Net Income of Investee	$ 79.3	$ 66.2

Segment Net Income (Loss) for the three months ended March 31, 2011 and 2010 was:

(Dollars in Millions)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Segment Net Income (Loss):		
Kemper	$ 11.3	$ 14.6
Unitrin Specialty	4.2	5.8
Unitrin Direct	(3.8)	0.1
Life and Health Insurance	32.7	26.4
Fireside Bank	8.0	3.0
Total Segment Net Income	52.4	49.9
Net Income (Loss) From:		
Net Realized Gains on Sales of Investments	9.4	2.9
Net Impairment Losses Recognized in Earnings	(0.3)	(2.1)
Other Expense, Net	(5.7)	(3.7)
Income from Continuing Operations before Equity in Net Income of Investee	55.8	47.0

Equity in Net Income of Investee		0.7
Income from Continuing Operations	$ 55.8	$ 47.7

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UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 12 - Business Segments (continued)

Earned Premiums by product line for the three months ended March 31, 2011 and 2010 were:

(Dollars in Millions)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Life	$ 99.4	$ 99.5
Accident and Health	41.2	39.9
Property and Casualty:		
Personal Lines:		
Automobile	287.1	322.2
Homeowners	74.1	74.1
Other Personal	34.4	34.3
Total Personal Lines	395.6	430.6
Commercial Automobile	9.8	11.5
Total Earned Premiums	$ 546.0	$ 581.5

Note 13 - Fair Value Measurements

The Company classifies its Investments in Fixed Maturities and Equity Securities as available for sale and reports these investments at fair value. The Company classifies certain investments in mutual funds included in Other Investments as trading securities and reports these investments at fair value. The Company has no material liabilities that are measured and reported at fair value.

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UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 13 - Fair Value Measurements (continued)

The valuation of assets measured at fair value in the Company s Condensed Consolidated Balance Sheet at March 31, 2011 is summarized below:

	Fair Value Measurements			
(Dollars in Millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value March 31, 2011
Fixed Maturities:				
U.S. Government and Government Agencies and Authorities	$ 220.5	$ 320.8	$	$ 541.3
States and Political Subdivisions		1,762.1		1,762.1
Corporate Securities:				
Bonds and Notes		1,922.8	168.2	2,091.0
Redeemable Preferred Stocks		83.6	5.4	89.0
Mortgage and Asset-backed		8.1	0.4	8.5
Total Investments in Fixed Maturities	220.5	4,097.4	174.0	4,491.9
Equity Securities:				
Preferred Stocks:				
Finance, Insurance and Real Estate		99.6		99.6
Other Industries		17.0	8.2	25.2
Common Stocks:				
Intermec	107.0			107.0
Manufacturing	70.8	4.5	1.4	76.7
Other Industries	42.8		2.2	45.0
Other Equity Interests:				
Exchange Traded Funds	83.6			83.6
Limited Liability Companies and Limited Partnerships			74.6	74.6
Total Investments in Equity Securities	304.2	121.1	86.4	511.7
Other Investments:				
Trading Securities	5.2			5.2
Total	$ 529.9	$ 4,218.5	$ 260.4	$ 5,008.8

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 13 - Fair Value Measurements (continued)

The valuation of assets measured at fair value in the Company s Condensed Consolidated Balance Sheet at December 31, 2010 is summarized below:

	Fair Value Measurements			
(Dollars in Millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Dec. 31, 2010
Fixed Maturities:				
U.S. Government and Government Agencies and Authorities	$ 281.0	$ 255.9	$	$ 536.9
States and Political Subdivisions		1,792.8		1,792.8
Corporate Securities:				
Bonds and Notes		1,902.8	146.2	2,049.0
Redeemable Preferred Stocks		83.8	4.5	88.3
Mortgage and Asset-backed		7.9	0.4	8.3
Total Investments in Fixed Maturities	281.0	4,043.2	151.1	4,475.3
Equity Securities:				
Preferred Stocks:				
Finance, Insurance and Real Estate		97.7		97.7
Other Industries		17.0	10.4	27.4
Common Stocks:				
Intermec	137.5			137.5
Manufacturing	82.9	4.7	2.0	89.6
Other Industries	41.5		2.3	43.8
Other Equity Interests:				
Exchange Traded Funds	79.2			79.2
Limited Liability Companies and Limited Partnerships			75.2	75.2
Total Investments in Equity Securities	341.1	119.4	89.9	550.4
Other Investments:				
Trading Securities	5.1			5.1
Total	$ 627.2	$ 4,162.6	$ 241.0	$ 5,030.8

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UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 13 - Fair Value Measurements (continued)

The Company s investments in Fixed Maturities that are classified as Level 1 in the two preceding tables primarily consist of U.S. Treasury Bonds and Notes. The Company s investments in Equity Securities that are classified as Level 1 in the two preceding tables consist of either investments in publicly-traded common stocks, or exchange traded funds. The Company s investments in Fixed Maturities that are classified as Level 2 in the two preceding tables primarily consist of investments in corporate bonds and redeemable preferred stocks, states and political subdivisions, and bonds and mortgage-backed securities of U.S. government agencies. The Company s investments in Equity Securities that are classified as Level 2 in the two preceding tables primarily consist of investments in preferred stocks. The Company uses a leading, nationally recognized provider of market data and analytics to price the vast majority of the Company s Level 2 measurements. The provider utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Because many fixed maturity securities do not trade on a daily basis, the provider s evaluated pricing applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing to prepare evaluations. In addition, the provider uses model processes to develop prepayment and interest rate scenarios. The pricing provider s models and processes also take into account market convention. For each asset class, teams of its evaluators gather information from market sources and integrate relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models. The Company generally validates the measurements obtained from its primary pricing provider by comparing them with measurements obtained from one additional pricing provider that provides either prices from recent market transactions or quotes in inactive markets or evaluations based on its own proprietary models.

The Company investigates significant differences related to the values provided. On completion of its investigation, management exercises judgment to determine the price selected and whether adjustments, if any, to the price obtained from the Company s primary pricing provider would warrant classification of the price as Level 3. In instances where a measurement cannot be obtained from either pricing provider, the Company generally will evaluate bid prices from one or more binding quotes obtained from market makers to value investments in inactive markets and classified by the Company as Level 2. The Company generally classifies securities when it receives non-binding quotes or indications as Level 3 securities unless the Company can validate the quote or indication against recent transactions in the market. For securities classified as Level 3, the Company either uses valuations provided by third party fund managers, third party appraisers or the Company s own internal valuations. These valuations typically employ valuation techniques, including earnings multiples based on comparable public securities, industry specific non-earnings based multiples or discounted cash flow models. Valuations classified as Level 3 by the Company generally consist of investments in various private placement securities of non-rated entities. In rare cases, if the private placement security has only been outstanding for a short amount of time, the Company, after considering the initial assumptions used in acquiring an investment, considers the original purchase price as representative of the fair value.

Information by security type pertaining to the changes in the fair value of the Company s investments classified as Level 3 for the three months ended March 31, 2011 is presented below:

	Fixed Maturities			Equity Securities		
(Dollars in Millions)	Corporate Bonds and Notes	Redeemable Preferred Stocks	Mortgage and Asset-backed	Preferred and Common Stocks	Other Equity Interests	Total
Balance at Beginning of Period	$ 146.2	$ 4.5	$ 0.4	$ 14.7	$ 75.2	$ 241.0
Total Gains (Losses):						
Included in Condensed Consolidated Statement of Income				1.5		1.5
Included in Other Comprehensive Income	1.2	0.9		(2.3)	(2.3)	(2.5)
Purchases	32.4			0.3	7.5	40.2
Settlements	(11.1)				(5.8)	(16.9)

Sales	(0.5)			(2.4)		(2.9)
Transfers in and/or out of Level 3						
Balance at March 31, 2011	$ 168.2	$ 5.4	$ 0.4	$ 11.8	$ 74.6	$ 260.4

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UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 13 - Fair Value Measurements (continued)

The Company s policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers into or out of Levels 1, 2 or 3 for the three months ended March 31, 2011. Included in Other Equity Interests at March 31, 2011 in the preceding table is $58.9 million of private equity funds and mezzanine debt funds which the Company has unfunded commitments of $67.0 million. These funds cannot be redeemed; instead distributions are received through the liquidation of the underlying investments of the fund. It is estimated that the assets of these funds will be liquidated and distributed to the Company between 2011 and 2021.

Information by security type pertaining to the changes in the fair value of the Company s investments classified as Level 3 for the three months ended March 31, 2010 is presented below:

(Dollars in Millions)	Fixed Maturities Corporate Bonds and Notes	Fixed Maturities Redeemable Preferred Stocks	Fixed Maturities Mortgage and Asset-backed	Equity Securities Preferred and Common Stocks	Equity Securities Other Equity Interests	Total
Balance at Beginning of Period	$ 124.8	$ 70.1	$ 4.9	$ 14.0	$ 39.1	$ 252.9
Total Gains (Losses):						
Included in Condensed Consolidated Statement of Income	(0.7)	(1.8)			0.1	(2.4)
Included in Other Comprehensive Income	(0.5)	(1.7)	(0.8)	2.2	1.3	0.5
Purchases	0.4	0.2			7.1	7.7
Settlements	(1.0)		(0.1)	(0.4)	(0.5)	(2.0)
Balance at March 31, 2010	$ 123.0	$ 66.8	$ 4.0	$ 15.8	$ 47.1	$ 256.7

There were no transfers into or out of Levels 1, 2 or 3 for the three months ended March 31, 2010.

Note 14 - Contingencies

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

Certain subsidiaries of Unitrin, like many property and casualty insurers, are defending a significant volume of lawsuits in southern coastal states arising out of property damage caused by catastrophes and storms, including major hurricanes. In these matters, the plaintiffs seek compensatory and punitive damages, and equitable relief. The Company believes its relevant subsidiaries have meritorious defenses to assert in these proceedings, and will vigorously contest these matters.

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

UNITRIN, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 14 - Contingencies (continued)

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

Note 15 - Related Parties

One of Unitrin s directors, Mr. Fayez Sarofim, is the Chairman of the Board, President and the majority shareholder of Fayez Sarofim & Co. (FS&C), a registered investment advisory firm. In the second quarter of 2010, Unitrin s subsidiary, Trinity Universal Insurance Company (Trinity), entered into an agreement with FS&C whereby FS&C provides investment management services with respect to certain assets of Trinity for a fee based on the fair market value of the assets under management. Such agreement is terminable by either party at any time upon 30 days advance written notice. Trinity had $107.8 million in assets managed by FS&C at March 31, 2011. Investment expenses incurred in connection with such agreement were $0.1 million for the three months ended March 31, 2011.

FS&C also provides investment management services with respect to certain funds of the Company s defined benefit pension plan. At March 31, 2011, the Company s pension plan had $103.7 million in assets managed by FS&C. Investment expenses in connection with such agreement were $0.1 million for each of the three month periods ended March 31, 2011 and 2010.

With respect to the Company s defined contribution plans, one of the alternative investment choices afforded to participating employees is the Dreyfus Appreciation Fund, an open-end, diversified managed investment fund. FS&C provides investment management services to the Dreyfus Appreciation Fund as a sub-investment advisor. According to published reports filed by FS&C with the SEC, the Dreyfus Appreciation Fund pays monthly fees to FS&C according to a graduated schedule computed at an annual rate based on the value of the Dreyfus Appreciation Fund s average daily net assets. The Company does not compensate FS&C for services provided to the Dreyfus Appreciation Fund. Participants in the Company s defined contribution plans had allocated $18.9 million for investment in the Dreyfus Appreciation Fund at March 31, 2011, representing 6.2% of the total amount invested in the Company s defined contribution plans at March 31, 2011.

The Company believes that the services described above have been provided on terms no less favorable to the Company than could have been negotiated with non-affiliated third parties.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Summary of Results

Net Income was $54.1 million ($0.89 per unrestricted common share) for the three months ended March 31, 2011 compared to Net Income of $48.2 million ($0.77 per unrestricted common share) for the same period in 2010. Income from Continuing Operations was $55.8 million ($0.92 per unrestricted common share) for the three months ended March 31, 2011, compared to $47.7 million ($0.76 per unrestricted common share) for the same period in 2010.

The impact of changes in segment net income on Income from Continuing Operations is presented below:

(Dollars in Millions)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Increase (Decrease) in Income From Continuing Operations
Segment Net Income (Loss):			
Kemper	$ 11.3	$ 14.6	$ (3.3)
Unitrin Specialty	4.2	5.8	(1.6)
Unitrin Direct	(3.8)	0.1	(3.9)
Life and Health Insurance	32.7	26.4	6.3
Fireside Bank	8.0	3.0	5.0
Total Segment Net Income	52.4	49.9	2.5
Net Income (Loss) From:			
Net Realized Gains on Sales of Investments	9.4	2.9	6.5
Net Impairment Losses Recognized in Earnings	(0.3)	(2.1)	1.8
Other Expense, Net	(5.7)	(3.7)	(2.0)
Income from Continuing Operations before Equity in Net Income of Investee	55.8	47.0	8.8
Equity in Net Income of Investee		0.7	(0.7)
Income from Continuing Operations	$ 55.8	$ 47.7	$ 8.1

The Company reported Loss from Discontinued Operations of $1.7 million for the three months ended March 31, 2011, compared to Income from Discontinued Operations of $0.5 million for the same period in 2010.

Earned Premiums were $546.0 million and $581.5 million for the three months ended March 31, 2011 and 2010, respectively, a decrease of $35.5 million. Earned Premiums decreased in the Unitrin Direct, Kemper and Unitrin Specialty segments.

Automobile Finance Revenues decreased by $15.1 million for the three months ended March 31, 2011, compared to the same period in 2010, due to Fireside Bank s execution of its ongoing plan to exit the automobile finance business.

Net Investment Income increased by $0.8 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to higher net investment income from Dividends on Equity Securities and, to a lesser extent, higher investment income from certain Equity Method Limited Liability Investments, partially offset by lower interest and dividends from Investments in Fixed Maturities.

Net Realized Gains on Sales of Investments were $14.5 million for the three months ended March 31, 2011, compared to $4.5 million for the same period in 2010. Net Impairment Losses Recognized in Earnings were $0.4 million for the three months ended March 31, 2011, compared to $3.2 million for the same period in 2010, resulting from other than temporary declines in fair values of investments. The Company cannot predict if or when similar investment gains or losses may occur in the future.

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Catastrophes

Catastrophe losses and LAE from continuing operations were $9.6 million for the three months ended March 31, 2011, compared to $14.0 million for the same period in 2010. Catastrophe losses and LAE (including development) by business segment for the three months ended March 31, 2011 and 2010 is presented below:

	Three Months Ended	
(Dollars in Millions)	March 31, 2011	March 31, 2010
Kemper	$ 8.7	$ 14.0
Unitrin Specialty	0.2	0.2
Unitrin Direct	0.4	0.4
Life and Health Insurance	0.3	(0.6)
Total Catastrophe Losses and LAE	$ 9.6	$ 14.0

In April 2011, the United States experienced a high volume of spring storms, including a record level of tornadoes. The Company is in the early stages of investigating and settling claims from these spring storms, some of which are classified as catastrophes. Based on initial reports, the Company currently believes that these spring storms and catastrophes will have a material effect on the Company s results for the second quarter of 2011, but are not expected to have a material effect on the Company s Consolidated shareholders equity.

Non-GAAP Financial Measures

The following discussions for the Kemper, Unitrin Specialty and Unitrin Direct segments use the non-GAAP financial measures of (i) Underlying Losses and LAE and (ii) Underlying Combined Ratio. Underlying Losses and LAE (also referred to in the discussion as Current Year Non-catastrophe Losses and LAE) exclude the impact of catastrophe losses, and loss and LAE reserve development from the Company s Incurred Losses and LAE, which is the most directly comparable GAAP financial measure. The Underlying Combined Ratio is computed by adding the Current Year Non-catastrophe Losses and LAE Ratio with the Incurred Expense Ratio. The most directly comparable GAAP financial measure is the combined ratio, which uses total incurred losses and LAE, including the impact of catastrophe losses, and loss and LAE reserve development. The Company believes Underlying Losses and LAE and the Underlying Combined Ratio is useful to investors and is used by management to reveal the trends in our Property and Casualty businesses that may be obscured by catastrophe losses and prior year reserve development. These catastrophe losses may cause our loss trends to vary significantly between periods as a result of their incidence of occurrence and magnitude, and can have a significant impact on incurred losses and LAE and the combined ratio. Prior year reserve developments are caused by unexpected loss development on historical reserves. Because reserve development relates to the re-estimation of losses from earlier periods, it has no bearing on the performance of our insurance products in the current period. The Company believes it is useful for investors to evaluate these components separately and in the aggregate when reviewing our underwriting performance. The discussion of the Unitrin Direct segment also uses the non-GAAP financial measure of Underwriting Profit. Underwriting Profit is a measure of profitability before tax commonly used by insurance companies to measure the profits directly related to earned premiums. Accordingly, Underwriting Profit excludes net investment income, whereas Operating Profit, the directly comparable GAAP financial measure includes net investment income.

These non-GAAP financial measures should not be considered a substitute for the comparable GAAP financial measures as they do not fully recognize the overall underwriting profitability of our business.

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Kemper

Selected financial information for the Kemper segment follows:

(Dollars in Millions)	Three Months Ended March 31, 2011	March 31, 2010
Net Premiums Written	$ 199.6	$ 207.3
Earned Premiums:		
Automobile	$ 126.9	$ 137.4
Homeowners	71.9	72.1
Other Personal	13.1	12.9
Total Earned Premiums	211.9	222.4
Net Investment Income	14.1	12.4
Other Income	0.1	0.1
Total Revenues	226.1	234.9
Incurred Losses and LAE related to:		
Current Year:		
Non-catastrophe Losses and LAE	145.5	147.0
Catastrophe Losses and LAE	9.0	15.6
Prior Years:		
Non-catastrophe Losses and LAE	(1.1)	(6.6)
Catastrophe Losses and LAE	(0.3)	(1.6)
Total Incurred Losses and LAE	153.1	154.4
Insurance Expenses	58.8	61.2
Operating Profit	14.2	19.3
Income Tax Expense	(2.9)	(4.7)
Net Income	$ 11.3	$ 14.6
Ratios Based On Earned Premiums		
Current Year Non-catastrophe Losses and LAE Ratio	68.7%	66.1%
Current Year Catastrophe Losses and LAE Ratio	4.2%	7.0%
Prior Years Non-catastrophe Losses and LAE Ratio	-0.5%	-3.0%
Prior Years Catastrophe Losses and LAE Ratio	-0.1%	-0.7%
Total Incurred Loss and LAE Ratio	72.3%	69.4%
Incurred Expense Ratio	27.7%	27.5%
Combined Ratio	100.0%	96.9%
Underlying Combined Ratio		
Current Year Non-catastrophe Losses and LAE Ratio	68.7%	66.1%
Incurred Expense Ratio	27.7%	27.5%

Underlying Combined Ratio	96.4%	93.6%

Non-GAAP Measure Reconciliation		
Underlying Combined Ratio	96.4%	93.6%
Current Year Catastrophe Losses and LAE Ratio	4.2%	7.0%
Prior Years Non-catastrophe Losses and LAE Ratio	-0.5%	-3.0%
Prior Years Catastrophe Losses and LAE Ratio	-0.1%	-0.7%
Combined Ratio as Reported	100.0%	96.9%

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Kemper (continued)

Insurance Reserves

(Dollars in Millions)	March 31, 2011	Dec. 31, 2010
Insurance Reserves:		
Automobile	$ 277.3	$ 286.2
Homeowners	101.0	97.6
Other Personal	37.6	36.7
Insurance Reserves	$ 415.9	$ 420.5
Insurance Reserves:		
Loss Reserves:		
Case	$ 263.6	$ 261.5
Incurred but Not Reported	82.6	88.0
Total Loss Reserves	346.2	349.5
LAE Reserves	69.7	71.0
Insurance Reserves	$ 415.9	$ 420.5

Earned Premiums in the Kemper segment decreased by $10.5 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to lower volume, partially offset by higher average premium rates. Volume decreased due, in part, to Kemper s decision to maintain its underwriting discipline and increase premium rates while facing increased competition in a soft personal lines insurance market. Kemper expects earned premiums to decrease in the short term as lower volume is partially offset by higher average premium rates. Earned premiums on automobile insurance decreased by $10.5 million for the three months ended March 31, 2011, compared to 2010, due to lower volume, partially offset by higher average premium rates. The weighted-average number of automobile insurance policies in force decreased by approximately 8.9% for the three months ended March 31, 2011, compared to 2010. Earned premiums on homeowners insurance decreased by $0.2 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to lower volume, partially offset by higher average premium rates. The weighted-average number of homeowners insurance policies in force decreased by approximately 5.2% for the three months ended March 31, 2011, compared to the same period in 2010. Earned premiums on other personal insurance increased by $0.2 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to higher average premium rates, partially offset by lower volume.

Net Investment Income in the Kemper segment increased by $1.7 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to higher net investment income from Equity Method Limited Liability Investments and a higher level of investments. The Kemper segment reported net investment income of $3.8 million from Equity Method Limited Liability Investments for the three months ended March 31, 2011, compared to $2.8 million for the same period in 2010.

Operating Profit in the Kemper segment decreased by $5.1 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to the impact of lower favorable loss and LAE reserve development and higher underlying losses and LAE as a percentage of earned premiums partially offset by lower incurred catastrophe losses and LAE (excluding development) and higher Net Investment Income. Underlying incurred losses and LAE exclude the impact of catastrophes, and loss and LAE reserve development. Favorable loss and LAE reserve development was $1.4 million for the three months ended March 31, 2011, compared to $8.2 million in 2010. Underlying losses and LAE as a percentage of earned premiums was 68.7% for the three months ended March 31, 2011, compared to 66.1% in 2010. Catastrophe losses and LAE were $9.0 million (excluding development), compared to $15.6 million (excluding development) for the same period in 2010.

Automobile insurance incurred losses and LAE were $89.0 million for the three months ended March 31, 2011, compared to $97.2 million for the same period in 2010. Automobile insurance incurred losses and LAE decreased by $8.2 million due primarily to lower claim volume resulting principally from fewer automobile insurance policies in force and lower underlying losses and LAE as a percentage of earned premiums on automobile insurance, partially offset by the impact of lower favorable loss and LAE reserve development. Underlying losses and LAE as a percentage

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Kemper (continued)

of earned premiums on automobile insurance was 69.2% for the three months ended March 31, 2011, compared to 72.9% for the same period in 2010. Underlying losses and LAE as a percentage of automobile insurance earned premiums decreased due primarily to lower average frequency of losses and higher average earned premiums. Unfavorable Loss and LAE reserve development was $1.0 million for the three months ended March 31, 2011, compared to favorable development of $3.9 million for the same period in 2010.

Homeowners insurance incurred losses and LAE were $56.4 million for the three months ended March 31, 2011, compared to $50.8 million for the same period in 2010. Homeowners insurance incurred losses and LAE increased by $5.6 million for the three months ended March 31, 2011, compared to 2010, due primarily to higher underlying losses and LAE and the impact of lower favorable loss and LAE reserve development, partially offset by lower catastrophe losses and LAE (excluding development). Underlying losses and LAE were $50.9 million for the three months ended March 31, 2011, compared to $40.5 million for the same period in 2010. Underlying losses and LAE increased due primarily to higher average estimated severity and frequency of losses. Average estimated severity increased due in part to losses from fires. The higher frequency of losses was largely due to winter storms. Favorable loss and LAE reserve development was $2.7 million for the three months ended March 31, 2011, compared to favorable development of $3.7 million for the same period in 2010. Catastrophe losses and LAE (excluding development) on homeowners insurance were $8.2 million for the three months ended March 31, 2011, compared to $14.0 million in 2010.

Other personal insurance incurred losses and LAE were $7.7 million for the three months ended March 31, 2011, compared to $6.4 million for the same period in 2010. Other personal insurance incurred losses and LAE increased by $1.3 million due primarily to the impact of lower favorable loss and LAE reserve development and higher underlying losses and LAE. Adverse loss and LAE reserve development (including catastrophe development) was $0.3 million for the three months ended March 31, 2011, compared to favorable development of $0.6 million in the same period in 2010. Underlying losses and LAE increased by $0.4 million due to higher average frequency of losses.

See Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A), Critical Accounting Estimates, of the 2010 Annual Report for additional information pertaining to the Company s process of estimating property and casualty insurance reserves for losses and LAE, development of property and casualty insurance losses and LAE, estimated variability of property and casualty insurance reserves for losses and LAE, and a discussion of some of the variables that may impact development of property and casualty insurance losses and LAE and the estimated variability of property and casualty insurance reserves for losses and LAE.

Insurance Expenses decreased by $2.4 million for the three months ended March 31, 2011, compared to the same period in 2010 due primarily to lower acquisition expenses, largely due to lower earned premiums.

Net Income in the Kemper segment decreased by $3.3 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to the lower Operating Profit. The Kemper segment s effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $6.2 million for the three months ended March 31, 2011, compared to $6.1 million for the same period in 2010.

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Unitrin Specialty

Selected financial information for the Unitrin Specialty segment follows:

(Dollars in Millions)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net Premiums Written	$ 123.1	$ 126.6
Earned Premiums:		
Personal Automobile	$ 102.6	$ 110.9
Commercial Automobile	9.8	11.5
Total Earned Premiums	112.4	122.4
Net Investment Income	6.3	6.1
Other Income	0.1	0.2
Total Revenues	118.8	128.7
Incurred Losses and LAE related to:		
Current Year:		
Non-catastrophe Losses and LAE	92.8	95.8
Catastrophe Losses and LAE	0.1	0.1
Prior Years:		
Non-catastrophe Losses and LAE	(1.9)	1.3
Catastrophe Losses and LAE	0.1	0.1
Total Incurred Losses and LAE	91.1	97.3
Insurance Expenses	22.6	23.9
Operating Profit	5.1	7.5
Income Tax Expense	(0.9)	(1.7)
Net Income	$ 4.2	$ 5.8
Ratios Based On Earned Premiums		
Current Year Non-catastrophe Losses and LAE Ratio	82.5%	78.2%
Current Year Catastrophe Losses and LAE Ratio	0.1%	0.1%
Prior Years Non-catastrophe Losses and LAE Ratio	-1.7%	1.1%
Prior Years Catastrophe Losses and LAE Ratio	0.1%	0.1%
Total Incurred Loss and LAE Ratio	81.0%	79.5%
Incurred Expense Ratio	20.1%	19.5%
Combined Ratio	101.1%	99.0%
Underlying Combined Ratio		
Current Year Non-catastrophe Losses and LAE Ratio	82.5%	78.2%
Incurred Expense Ratio	20.1%	19.5%
Underlying Combined Ratio	102.6%	97.7%

Non-GAAP Measure Reconciliation		
Underlying Combined Ratio	102.6%	97.7%
Current Year Catastrophe Losses and LAE Ratio	0.1%	0.1%
Prior Years Non-catastrophe Losses and LAE Ratio	-1.7%	1.1%
Prior Years Catastrophe Losses and LAE Ratio	0.1%	0.1%
Combined Ratio as Reported	101.1%	99.0%

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Unitrin Specialty (continued)

Insurance Reserves

(Dollars in Millions)	March 31, 2011	Dec. 31, 2010
Insurance Reserves:		
Personal Automobile	$ 179.7	$ 181.9
Commercial Automobile	58.7	61.7
Other	8.3	7.2
Insurance Reserves	$ 246.7	$ 250.8
Insurance Reserves:		
Loss Reserves:		
Case	$ 147.3	$ 151.9
Incurred but Not Reported	63.1	63.4
Total Loss Reserves	210.4	215.3
LAE Reserves	36.3	35.5
Insurance Reserves	$ 246.7	$ 250.8

Earned Premiums in the Unitrin Specialty segment decreased by $10.0 million for the three months ended March 31, 2011, compared to the same period in 2010, due to lower earned premiums for both personal and commercial automobile insurance. Personal automobile insurance earned premiums decreased by $8.3 million for the three months ended March 31, 2011, compared to 2010, due primarily to lower volume. Throughout 2010, Unitrin Specialty s personal automobile insurance policies in force decreased due to economic conditions, increased competition and higher premium rates, particularly in California. Personal automobile policies in force were approximately 329,000 at the beginning of the first quarter of 2011, compared to approximately 351,000 at the beginning of 2010. Unitrin Specialty expects that personal automobile insurance policies in force will flatten in the second quarter of 2011 and remain flat throughout the second half of 2011. Commercial automobile insurance earned premiums decreased by $1.7 million for the three months ended March 31, 2011, compared to 2010, due primarily to lower volume. Commercial automobile insurance volume has decreased due primarily to a smaller renewal book of business, partially offset by higher retention rates.

Operating Profit in the Unitrin Specialty segment decreased by $2.4 million for the three months ended March 31, 2011, compared to the same period in 2010, due to lower operating profit in personal automobile insurance, partially offset by higher operating profit in commercial automobile insurance and other insurance.

Personal automobile insurance operating profit decreased by $3.5 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to higher underlying incurred losses and LAE as a percentage of personal automobile insurance earned premiums. Underlying incurred losses and LAE exclude the impact of catastrophes, and loss and LAE reserve development. Underlying incurred losses and LAE as a percentage of personal automobile insurance earned premiums increased due primarily to higher frequency, and to a lesser extent higher severity. Loss and LAE reserve development had a favorable effect of $0.7 million for the three months ended March 31, 2011, compared to an adverse effect of $0.4 million in 2010. See MD&A, Critical Accounting Estimates, of the 2010 Annual Report for additional information pertaining to the Company s process of estimating property and casualty insurance reserves for losses and LAE, development of property and casualty insurance losses and LAE and estimated variability of property and casualty insurance reserves for losses and LAE.

Commercial automobile insurance operating profit increased by $0.5 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to the effects of loss and LAE reserve development, partially offset by higher underlying incurred losses and LAE as a percentage of commercial automobile insurance earned premiums and higher insurance expenses as a percentage of commercial automobile

insurance earned premiums. Loss and LAE reserve development on commercial automobile insurance had a favorable effect of $1.0 million for the three months ended March 31, 2011, compared to an adverse effect of $0.3 million in 2010. Underlying incurred losses and

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Unitrin Specialty (continued)

LAE as a percentage of commercial automobile insurance earned premiums increased for the three months ended March 31, 2011, compared to 2010, due primarily to higher frequency, partially offset by lower severity of losses. Insurance expenses as a percentage of commercial automobile insurance earned premiums increased due primarily to employee termination costs and reduced economies of scale.

Other insurance operating profit increased by $0.6 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to the impact of adverse loss and LAE reserve development in 2010. Adverse loss and LAE reserve development on other insurance in 2010 was almost entirely related to two liability claims, one from 2003 and the other from 2005.

Net Income in the Unitrin Specialty segment decreased by $1.6 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to the lower operating profit. Unitrin Specialty s effective tax rate differs from the statutory tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $2.8 million for the three months ended March 31, 2011, compared to $3.0 million in 2010.

Unitrin Direct

Selected financial information for the Unitrin Direct segment follows:

(Dollars in Millions)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net Premiums Written	$ 60.9	$ 74.8
Earned Premiums:		
Automobile	$ 57.6	$ 73.9
Homeowners	2.2	2.0
Other Personal	0.1	0.1
Total Earned Premiums	59.9	76.0
Net Investment Income	5.4	5.3
Total Revenues	65.3	81.3
Incurred Losses and LAE related to:		
Current Year:		
Non-catastrophe Losses and LAE	52.3	62.0
Catastrophe Losses and LAE	0.1	0.2
Prior Years:		
Non-catastrophe Losses and LAE	(0.1)	(3.8)
Catastrophe Losses and LAE	0.3	0.2
Total Incurred Losses and LAE	52.6	58.6
Insurance Expenses	20.1	23.8
Operating Loss	(7.4)	(1.1)
Income Tax Benefit	3.6	1.2
Net Income (Loss)	$ (3.8)	$ 0.1

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Unitrin Direct (continued)

	Three Months Ended	
	March 31, 2011	March 31, 2010
Ratios Based On Earned Premiums		
Current Year Non-catastrophe Losses and LAE Ratio	87.3%	81.5%
Current Year Catastrophe Losses and LAE Ratio	0.2%	0.3%
Prior Years Non-catastrophe Losses and LAE Ratio	-0.2%	-5.0%
Prior Years Catastrophe Losses and LAE Ratio	0.5%	0.3%
Total Incurred Loss and LAE Ratio	87.8%	77.1%
Incurred Expense Ratio	33.6%	31.3%
Combined Ratio	121.4%	108.4%
Underlying Combined Ratio		
Current Year Non-catastrophe Losses and LAE Ratio	87.3%	81.5%
Incurred Expense Ratio	33.6%	31.3%
Underlying Combined Ratio	120.9%	112.8%
Non-GAAP Measure Reconciliation		
Underlying Combined Ratio	120.9%	112.8%
Current Year Catastrophe Losses and LAE Ratio	0.2%	0.3%
Prior Years Non-catastrophe Losses and LAE Ratio	-0.2%	-5.0%
Prior Years Catastrophe Losses and LAE Ratio	0.5%	0.3%
Combined Ratio as Reported	121.4%	108.4%

Insurance Reserves

(Dollars in Millions)	March 31, 2011	Dec. 31, 2010
Insurance Reserves:		
Automobile	$ 230.5	$ 229.5
Homeowners	5.4	3.7
Other	2.5	2.4
Insurance Reserves	$ 238.4	$ 235.6
Insurance Reserves:		
Loss Reserves:		
Case	$ 150.8	$ 144.9
Incurred but Not Reported	54.9	56.8
Total Loss Reserves	205.7	201.7
LAE Reserves	32.7	33.9

Insurance Reserves	$ 238.4	$ 235.6

Earned Premiums in the Unitrin Direct segment decreased by $16.1 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to lower volume, partially offset by higher average rates.

Unitrin Direct continues to modify its marketing program to target better response and conversion rates from customers with more favorable risk characteristics and place greater emphasis on improving premium rate adequacy and insurance risk selection. Unitrin Direct is in the early stages of introducing a newly-designed product that is intended to improve policyholder retention, loss ratios and per policy acquisition costs.

The Unitrin Direct segment has implemented and continues to implement rate increases across its book of business. These actions have led to a decrease in the overall premium volume, with the number of policies in force at March 31, 2011 decreasing by approximately 20% from the level at March 31, 2010. The Unitrin Direct segment expects that

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Unitrin Direct (continued)

earned premiums, on a sequential quarter basis, will continue to decrease for the remainder of 2011.

The Unitrin Direct segment reported an Operating Loss of $7.4 million for the three months ended March 31, 2011, compared to an Operating Loss of $1.1 million for the same period in 2010. Operating results declined in the Unitrin Direct segment for the three months ended March 31, 2011, compared to 2010, due primarily to the impact of lower favorable loss and LAE reserve development and higher underlying losses and LAE as a percentage of earned premiums. Underlying incurred losses and LAE exclude the impact of catastrophes, and loss and LAE reserve development.

Incurred Losses and LAE as a percentage of earned premiums was 87.8% for the three months ended March 31, 2011, compared to 77.1% for the same period in 2010. Incurred Losses and LAE as a percentage of earned premiums increased due primarily to the impact of lower favorable loss and LAE reserve development and higher underlying losses and LAE as a percentage of earned premiums. Loss and LAE reserve development was unfavorable by $0.2 million for the three months ended March 31, 2011, compared to favorable development of $3.6 million for the same period in 2010. Underlying losses and LAE as a percentage of earned premiums was 87.3% for the three months ended March 31, 2011, compared to 81.5% for the same period in 2010. Underlying losses and LAE as a percentage of earned premiums increased for the three months ended March 31, 2011, compared to 2010, due primarily to increased severity on homeowners insurance and increased frequency on automobile insurance.

Incurred Losses and LAE as a percentage of earned premiums for the three months ended March 31, 2011 was significantly higher than the level required to produce an underwriting profit. Underwriting profit is a non-GAAP measure of profitability before tax used by insurance companies to measure the profits directly related to earned premiums. Accordingly, underwriting profit excludes net investment income, whereas Operating Profit, a GAAP measure, includes net investment income.

See MD&A, Critical Accounting Estimates, of the 2010 Annual Report for additional information pertaining to the Company s process of estimating property and casualty insurance reserves for losses and LAE, development of property and casualty insurance losses and LAE, estimated variability of property and casualty insurance reserves for losses and LAE, and a discussion of some of the variables that may impact development of property and casualty insurance losses and LAE and the estimated variability of property and casualty insurance reserves for losses and LAE.

Insurance Expenses in the Unitrin Direct segment were 33.6% of earned premiums for the three months ended March 31, 2011, compared to 31.3% of earned premiums for the same period in 2010. Insurance Expenses as a percentage of earned premiums increased for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to higher amortization expense related to the acquisition of Direct Response Corporation and higher restructuring costs. Restructuring costs were $0.5 million for the three months ended March 31, 2011, compared to $0.1 million for the same period in 2010.

Unitrin Direct reported a Net Loss of $3.8 million for the three months ended March 31, 2011, compared to a Net Income of $0.1 million for the same period in 2010. Unitrin Direct s effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $2.4 million for the three months ended March 31, 2011, compared to $2.6 million for the same period in 2010.

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Life and Health Insurance

Selected financial information for the Life and Health Insurance segment follows:

(Dollars in Millions)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Earned Premiums:		
Life	$ 99.4	$ 99.5
Accident and Health	41.2	39.9
Property	21.2	21.3
Total Earned Premiums	161.8	160.7
Net Investment Income	53.0	53.3
Total Revenues	214.8	214.0
Policyholders Benefits and Incurred Losses and LAE	95.5	106.8
Insurance Expenses	68.5	66.7
Operating Profit	50.8	40.5
Income Tax Expense	(18.1)	(14.1)
Net Income	$ 32.7	$ 26.4

Insurance Reserves

(Dollars in Millions)	March 31, 2011	Dec. 31, 2010
Insurance Reserves:		
Future Policyholder Benefits	$ 3,014.7	$ 3,004.8
Incurred Losses and LAE Reserves:		
Life	36.0	35.3
Accident and Health	22.9	23.6
Property	16.9	20.8
Total Incurred Losses and LAE Reserves	75.8	79.7
Insurance Reserves	$ 3,090.5	$ 3,084.5

Earned Premiums in the Life and Health Insurance segment increased by $1.1 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to higher accident and health insurance earned premiums. Earned premiums on accident and health insurance increased by $1.3 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to higher average premium rates, partially offset by lower volume of insurance.

Approximately 50% of the Life and Health Insurance segment s accident and health insurance earned premiums for the three months ended March 31, 2011 were derived from health insurance products that may be adversely impacted by the Patient Protection and Affordable Care Act (PPACA). These insurance products are sold by Reserve National. Reserve National has begun to transition its sales to other health insurance products that are not expected to be as severely impacted by PPACA.

Operating Profit in the Life and Health Insurance segment was $50.8 million for the three months ended March 31, 2011, compared to $40.5 million for the same period in 2010. Operating Profit increased due primarily to lower Policyholders Benefits and Incurred Losses and LAE, partially offset by higher insurance expenses.

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Life and Health Insurance (continued)

Policyholders Benefits and Incurred Losses and LAE decreased by $11.3 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to lower policyholders benefits on life insurance, lower accident and health losses as a percentage of accident and health earned premiums and lower incurred losses and LAE on property insurance. Policyholders benefits on life insurance were $63.2 million for the three months ended March 31, 2011, compared to $69.5 million in 2010, a decrease of $6.3 million. Policyholder benefits on life insurance decreased due primarily to a reserve adjustment associated with correcting expiry dates for certain extended term life insurance policies. Incurred accident and health losses were $24.0 million, or 58.2% of accident and health insurance earned premiums, for the three months ended March 31, 2011, compared to $27.0 million, or 67.7%, in 2010. Incurred accident and health losses decreased due primarily to lower frequency and severity of health claims. Incurred Losses and LAE, net of reinsurance, on property insurance were $8.3 million for the three months ended March 31, 2011, compared to $10.3 million in 2010. Incurred Losses and LAE, net of reinsurance, on property insurance decreased due primarily to lower frequency and severity of non-catastrophe losses and LAE (excluding development) and higher favorable loss and LAE reserve development, partially offset by high catastrophe losses and LAE (excluding development). Catastrophe losses and LAE, net of reinsurance (excluding development), were $0.5 million for the three months ended March 31, 2011, compared to $0.1 million in 2010. Favorable loss reserve development on property insurance was $0.9 million (including favorable development of $0.2 million on catastrophes) for the three months ended March 31, 2011, compared to favorable development of $0.3 million (including favorable development of $0.7 million on catastrophes) in 2010.

Insurance Expenses in the Life and Health Insurance segment increased $1.8 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to higher commission and fringe benefit expenses attributed to an increase in the number of career agents employed.

Net Income in the Life and Health Insurance segment was $32.7 million for the three months ended March 31, 2011, compared to $26.4 million for the same period in 2010.

Fireside Bank

Selected financial information for the Fireside Bank segment follows:

(Dollars in Millions)	Three Months Ended March 31, 2011	March 31, 2010
Interest, Loan Fees and Earned Discounts	$ 15.4	$ 30.2
Other Automobile Finance Revenues	0.1	0.4
Total Automobile Finance Revenues	15.5	30.6
Net Investment Income	0.4	0.5
Total Revenues	15.9	31.1
Provision for Loan Losses	(13.8)	2.9
Interest Expense on Certificates of Deposits	7.1	7.9
Incentives to Close Deposit Accounts Early	0.6	0.3
General and Administrative Expenses	10.3	15.2
Operating Profit	11.7	4.8
Income Tax Expense	(3.7)	(1.8)
Net Income	$ 8.0	$ 3.0

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Fireside Bank (continued)

Automobile Loan Receivables

(Dollars in Millions)	March 31, 2011	Dec. 31, 2010
Sales Contracts and Loans Receivable	$ 311.3	$ 382.9
Unearned Discounts and Deferred Fees	(1.1)	(1.6)
Net Automobile Loan Receivables Outstanding	310.2	381.3
Reserve for Loan Losses	(32.1)	(43.7)
Automobile Loan Receivables	$ 278.1	$ 337.6

Delinquencies

	Amount	As a Percentage of Net Automobile Loan Receivables Outstanding	Amount	As a Percentage of Net Automobile Loan Receivables Outstanding
(Dollars in Millions)	March 31, 2011		December 31, 2010	
Current Loan Balances	$ 203.9	65.8%	$ 229.7	60.2%
Delinquent Loan Balances:				
Less than 30 Days Delinquent	97.5	31.4%	132.3	34.7%
30 Days to 59 Days Delinquent	8.0	2.6%	16.3	4.3%
60 Days to 89 Days Delinquent	0.7	0.2%	2.6	0.7%
Delinquent 90 Days or Greater	0.1	0.0%	0.4	0.1%
Net Automobile Loan Receivables Outstanding	310.2	100.0%	381.3	100.0%
Reserve for Loan Losses	(32.1)	10.3%	(43.7)	11.5%
Automobile Loan Receivables	$ 278.1		$ 337.6	

Automobile Loan Receivables at March 31, 2011 by Year of Origination

(Dollars in Millions)	Delinquent 30 Days and Greater as a Percentage of Originated Net

Year of Origination	Current Loan Balance	Less than 30 Days Delinquent	30 Days to 59 Days Delinquent	60 Days to 89 Days Delinquent	90 Days and Greater Delinquent	Total	Automobile Loan Receivables Outstanding
2009	$ 27.9	$ 9.3	$ 0.4	$ 0.1	$	$ 37.7	1.3%
2008	107.7	49.2	3.8	0.3	0.1	161.1	2.6%
2007	55.9	30.6	2.9	0.2		89.6	3.5%
2006	12.0	8.1	0.9	0.1		21.1	4.7%
2005	0.4	0.3				0.7	0.0%
Total	$ 203.9	$ 97.5	$ 8.0	$ 0.7	$ 0.1	$ 310.2	

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Fireside Bank (continued)

Reserve for Loan Losses

	Three Months Ended	
(Dollars in Millions)	March 31, 2011	March 31, 2010
Reserve for Loan Losses - Beginning of Period	$ 43.7	$ 83.3
Provision for Loan Losses	(13.8)	2.9
Net Recovery (Charge-off):		
Automobile Loan Receivables Charged Off	(9.8)	(22.4)
Automobile Loan Receivables Recovered	12.0	10.9
Net Recovery (Charge-off)	2.2	(11.5)
Reserve for Loan Losses - End of Period	$ 32.1	$ 74.7

Capital

(Dollars in Millions)	March 31, 2011	Dec. 31, 2010
Capital	$ 257.7	$ 249.4
Ratio of Tier 1 Capital to Total Average Assets	45.7%	37.3%

Near the end of the first quarter of 2009, Fireside Bank began a plan to exit the automobile finance business and wind down its operations in an orderly fashion. Net Automobile Loan Receivables Outstanding and Certificates of Deposits have declined steadily since the inception of the exit plan, while liquidity has steadily increased. Cash and investments totaled $150.3 million, or 87.0% of Certificates of Deposits, at March 31, 2011. In April 2011, Fireside Bank used its cash and investments, cash flow from operations and proceeds from its line of credit with Unitrin to redeem all remaining certificates of deposits, plus future interest of $6.9 million, that were outstanding at March 31, 2011. Fireside Bank intends to begin the process of surrendering its industrial bank charter in the second quarter of 2011.

Interest, Loan Fees and Earned Discounts in the Fireside Bank segment decreased by $14.8 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to collections of Sales Contracts and Loans Receivable. Sales Contracts and Loans Receivable was $311.3 million at March 31, 2011, compared to $634.8 million at March 31, 2010. Fireside Bank has no loans outstanding that are secured by real estate. Fireside Bank has not sold or securitized any portion of its loan portfolio.

Operating Profit in the Fireside Bank segment increased by $6.9 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to a negative provision for loan losses of $13.8 million for the three months ended March 31, 2011, compared with a positive provision of $2.9 million in 2010, lower General and Administrative Expenses and lower Interest Expense on Certificates of Deposits, partially offset by lower Interest Income, Loan Fees and Earned Discounts and higher Incentives to Close Deposit Accounts Early. The negative provision for loan losses in 2011 was primarily due to recoveries of loans that had been previously charged off.

Fireside Bank s loan portfolio delinquency has typically followed a seasonal pattern in which quarter-end delinquency is at its highest point at the end of the year, at its lowest point at the end of the first quarter, and then trends higher at the end of the second and third quarters. Loan portfolio delinquency has followed the historical pattern and trended lower during the first quarter of 2011. Fireside Bank cannot currently predict whether a new pattern will emerge in 2011, or if loan portfolio delinquency as measured as a percentage of loans outstanding will continue the seasonal pattern that it has typically followed. Fireside Bank does, however, expect that while delinquent accounts measured in dollars will

continue to decline as the loan portfolio declines, delinquency as a percentage of loans outstanding may increase compared to the same periods in prior years. Fireside Bank has historically had many customers who have fallen behind one or two loan payments, but have continued to make regular monthly payments. Fireside Bank expects that the number of these delinquent, but regularly paying, customers will decline at a slower pace than the overall loan portfolio and, accordingly, will comprise a greater percentage of the loan portfolio over time.

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Fireside Bank (continued)

The Reserve for Loan Losses as a percentage of Net Automobile Loan Receivables was 10.3% at March 31, 2011, compared to 11.5% at December 31, 2010. The Reserve for Loan Losses was $32.1 million at March 31, 2011, while Delinquent Loan Balances 30 Days or Greater totaled $8.8 million. The Reserve for Loan Losses was $43.7 million at December 31, 2010, while Delinquent Loan Balances 30 Days or Greater totaled $19.3 million.

Interest Expense on Certificates of Deposits decreased by $0.8 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to lower levels of deposits, partially offset by the payment of future interest in connection with redeeming certificates of deposits in advance of their respective scheduled maturity dates. Fireside Bank redeemed $85.2 million of deposits earlier than their scheduled maturity dates and paid the entire future interest of $3.6 million for these early redemptions in the first quarter of 2011. Fireside Bank also offered incentives, in lieu of future interest, to certain depositors to voluntarily redeem their certificates of deposits earlier than their scheduled maturity dates. Fireside Bank redeemed $12.4 million of certificates of deposits for the three months ended March 31, 2011 and paid incentives of $0.6 million in connection with such offers.

General and Administrative Expenses decreased by $4.9 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to changes in estimates for certain employment and legal matters and lower costs associated with administering and collecting a smaller loan portfolio.

Net Income in the Fireside Bank segment was $8.0 million and $3.0 million for the three months ended March 31, 2011 and 2010, respectively. Income tax expense for the three months ended March 31, 2011 included a tax benefit of $1.2 million for a decrease in the valuation allowance for deferred state income taxes, net of federal taxes. Income tax expense for the three months ended March 31, 2010 included a tax benefit of $0.2 million for a decrease in the valuation allowance for deferred state income taxes, net of federal taxes. The Fireside Bank segment s effective tax rate differs from the Federal statutory tax rate due primarily to state income taxes.

Investment Results

Investment Income

Net Investment Income for the three months ended March 31, 2011 and 2010 was:

(Dollars in Millions)	Three Months Ended March 31, 2011	March 31, 2010
Investment Income:		
Interest and Dividends on Fixed Maturities	$ 60.4	$ 63.0
Dividends on Equity Securities	7.1	4.3
Short-term Investments	0.1	0.1
Loans to Policyholders	4.4	4.1
Real Estate	6.4	6.6
Equity Method Limited Liability Investments	10.0	9.4
Total Investment Income	88.4	87.5
Investment Expenses:		
Real Estate	6.4	6.5
Other Investment Expenses	0.4	0.2
Total Investment Expenses	6.8	6.7
Net Investment Income	$ 81.6	$ 80.8

Net Investment Income was $81.6 million and $80.8 million for the three months ended March 31, 2011 and 2010, respectively. Net Investment Income increased by $0.8 million for the three months ended March 31, 2011, compared to the same period in 2010, due primarily to higher Dividends on Equity Securities and, to a lesser extent, higher net investment income from Equity Method Limited Liability Investments, partially offset by lower Interest and Dividends on Fixed Maturities. Dividends on Equity Securities increased by $2.8 million in 2011, compared to 2010, due primarily to higher levels of dividend paying common stocks. Investment income from Equity Method Limited Liability Investments increased by $0.6 million in 2011, compared to 2010, due primarily to increased investment returns.

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Investment Results (continued)

Interest and Dividends on Fixed Maturities decreased by $2.6 million in 2011, compared to 2010, due primarily to a lower level of fixed maturities.

Net Realized Gains on Sales of Investments

The components of Net Realized Gains on Sales of Investments for the three months ended March 31, 2011 and 2010 were:

	Three Months Ended	
(Dollars in Millions)	March 31, 2011	March 31, 2010
Fixed Maturities:		
Gains on Sales	$ 3.1	$ 2.5
Equity Securities:		
Gains on Sales	11.2	1.7
Real Estate:		
Gains on Sales	0.1	
Other Investments:		
Trading Securities Net Gains	0.1	0.3
Net Realized Gains on Sales of Investments	$ 14.5	$ 4.5
Gross Gains on Sales	$ 14.4	$ 4.2
Trading Securities Net Gains	0.1	0.3
Net Realized Gains on Sales of Investments	$ 14.5	$ 4.5

Net Impairment Losses Recognized in Earnings

The components of Net Impairment Losses Recognized in Earnings in the Condensed Consolidated Statements of Income for the three months ended March 31, 2011 and 2010 were:

	Three Months Ended	
(Dollars in Millions)	March 31, 2011	March 31, 2010
Fixed Maturities	$	$ (3.2)
Equity Securities	(0.4)	
Net Impairment Losses Recognized in Earnings	$ (0.4)	$ (3.2)

The Company regularly reviews its investment portfolio for factors that may indicate that a decline in the fair value of an investment is other-than-temporary. Losses arising from other-than-temporary declines in fair values are reported in the Condensed Consolidated Statements of Income in the period that the declines are determined to be other-than-temporary. Net Impairment Losses recognized in the Condensed Consolidated Statements of Income for the three months ended March 31, 2011 and 2010 include OTTI losses of $0.4 million and $3.2 million, respectively, from other-than-temporary declines in the fair values of investments. Net Impairment Losses Recognized in Earnings on Investments in Equity Securities includes losses of $0.4 million for the three months ended March 31, 2011 related to three issuers. Net Impairment Losses Recognized in Earnings on Investments in Fixed Maturities includes credit losses of $3.1 million for the three months ended March 31, 2010 due to the deterioration of the business prospects of a single issuer in the waste management business.

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Investment Results (continued)

Total Comprehensive Investment Gains (Losses)

Total Comprehensive Investment Gains (Losses) are comprised of Net Realized Gains on Sales of Investments and Net Impairment Losses Recognized in Earnings that are reported in the Condensed Consolidated Statements of Income and other investment gains and losses that are not reported in the Condensed Consolidated Statements of Income, but rather are reported in a consolidated statement of comprehensive income. The components of Total Comprehensive Investment Gains (Losses) for the three months ended March 31, 2011 and 2010 were:

(Dollars in Millions)	Three Months Ended March 31, 2011	March 31, 2010
Fixed Maturities:		
Recognized in Condensed Consolidated Statements of Income:		
Gains on Sales	$ 3.1	$ 2.5
Net Impairment Losses Recognized in Earnings		(3.2)
Total Recognized in Condensed Consolidated Statements of Income	3.1	(0.7)
Recognized in Other Comprehensive Gains (Losses)	(5.3)	32.0
Total Comprehensive Investment Gains (Losses) on Fixed Maturities	(2.2)	31.3
Equity Securities:		
Recognized in Condensed Consolidated Statements of Income:		
Gains on Sales	11.2	1.7
Net Impairment Losses Recognized in Earnings	(0.4)	
Total Recognized in Condensed Consolidated Statements of Income	10.8	1.7
Recognized in Other Comprehensive Gains (Losses)	(20.9)	10.5
Total Comprehensive Investment Gains (Losses) on Equity Securities	(10.1)	12.2
Real Estate:		
Recognized in Condensed Consolidated Statements of Income:		
Gains on Sales	0.1	
Other Investments:		
Recognized in Condensed Consolidated Statements of Income:		
Trading Securities Net Gains	0.1	0.3
Total Comprehensive Investment Gains (Losses)	$ (12.1)	$ 43.8
Recognized in Condensed Consolidated Statements of Income	$ 14.1	$ 1.3
Recognized in Other Comprehensive Income (Loss)	(26.2)	42.5
Total Comprehensive Investment Gains (Losses)	$ (12.1)	$ 43.8

Investment Quality and Concentrations

The Company s fixed maturity investment portfolio is comprised primarily of high-grade municipal, corporate and agency bonds. At March 31, 2011, nearly 94% of the Company s fixed maturity investment portfolio was rated investment grade, which is defined as a security having a rating of AAA, AA, A or BBB from Standard & Poors (S&P); a rating of Aaa, Aa, A or Baa from Moody s Investors Services (Moody s); a rating of AAA, AA, A or BBB from Fitch Ratings (Fitch) or a rating from the National Association of Insurance Commissioners (NAIC) of 1 or 2. The Company has not made significant investments in securities that are directly or indirectly related to sub-prime mortgage loans including, but not limited to, collateralized debt obligations and structured investment vehicles.

Investment Quality and Concentrations (continued)

The following table summarizes the credit quality of the Company s fixed maturity investment portfolio at March 31, 2011 and December 31, 2010:

NAIC Rating	S & P Equivalent Rating	March 31, 2011 Fair Value in Millions	March 31, 2011 Percentage of Total	December 31, 2010 Fair Value in Millions	December 31, 2010 Percentage of Total
1	AAA, AA, A	$ 3,478.3	77.4%	$ 3,493.7	78.1%
2	BBB	732.3	16.3%	733.1	16.4%
3	BB	114.4	2.5%	105.3	2.3%
4	B	56.9	1.3%	52.3	1.2%
5	CCC	93.4	2.1%	76.6	1.7%
6	In or Near Default	16.6	0.4%	14.3	0.3%
Total Investments in Fixed Maturities		$ 4,491.9	100.0%	$ 4,475.3	100.0%

Gross unrealized losses on the Company s investments in below-investment-grade fixed maturities were $2.8 million and $4.0 million at March 31, 2011 and December 31, 2010, respectively. At March 31, 2011, the Company had $415.4 million of bonds issued by states and political subdivisons that had been pre-refunded with U. S. Government and Government Agencies and Authorities obligations held in trust for the full payment of principal and interest. At March 31, 2011, the Company had $1,346.7 million of investments in bonds issued by states and political subdivsions, commonly referred to as municipal bonds, that had not been pre-refunded, of which $329.4 million were enhanced with insurance from monoline bond insurers. The Company s municipal bond investment credit-risk strategy is to focus on the underlying credit rating of the issuer and not to rely on the credit enhancement provided by the monoline bond insurer when making investment decisions. To that end, the underlying rating of over 92% of the Company s entire municipal bond portfolio that has not been pre-refunded is AA or higher, the majority of which are direct obligations of states.

The following table summarizes the fair value of the Company s Investments in governmental fixed maturities at March 31, 2011 and December 31, 2010:

(Dollars in Millions)	March 31, 2011	Percentage of Total Investments	Dec. 31, 2010	Percentage of Total Investments
U.S. Government and Government Agencies and Authorities (U.S. Govt)	$ 541.3	8.7%	$ 536.9	8.6%
Pre-refunded with U.S. Govt Held in Trust	415.4	6.7%	449.0	7.2%
States	789.4	12.6%	808.4	12.9%
Political Subdivisions	181.6	2.9%	163.7	2.6%
Revenue Bonds	375.7	6.0%	371.7	6.0%
Total Investments in Governmental Fixed Maturities	$ 2,303.4	36.9%	$ 2,329.7	37.3%

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Investment Quality and Concentrations (continued)

The Company s short-term investments consist of U.S. Treasury securities, overnight repurchase agreements and money market funds. The Company s short-term investments in U.S. Treasury securities consisted of $61.6 million of U.S. Treasury Bills with maturities, typically, of less than one week and $10.0 million of U.S. Treasury Bonds and Notes with a maturity of less than one year at the date of purchase. In addition to these investments, the Company had $163.3 million invested in overnight repurchase agreements primarily collateralized by securities issued by the U.S. government and $148.1 million invested in money market funds which primarily invest in U.S. Treasury securities. At the time of borrowing, the repurchase agreements generally require the borrower to provide collateral to the Company at least equal to the amount borrowed from the Company. The Company bears some investment risk in the event that a borrower defaults and the value of collateral falls below the amount borrowed. The Company does not have any investments in sovereign debt securities issued by foreign governments.

The following table summarizes the fair value of the Company s Investments in non-governmental fixed maturities by industry at March 31, 2011 and December 31, 2010:

(Dollars in Millions)	March 31, 2011	Percentage of Total Investments	Dec. 31, 2010	Percentage of Total Investments
Manufacturing	$ 1,028.9	16.5%	$ 1,023.6	16.4%
Finance, Insurance and Real Estate	581.0	9.3%	566.4	9.1%
Transportation, Communication and Utilities	228.2	3.7%	229.7	3.7%
Services	195.2	3.1%	186.3	3.0%
Mining	64.5	1.0%	52.0	0.8%
Wholesale Trade	37.8	0.6%	36.5	0.6%
Retail Trade	35.3	0.6%	33.5	0.5%
Agriculture, Forestry and Fishing	17.0	0.3%	17.0	0.3%
Other	0.6	0.0%	0.6	0.0%
Total Investments in Non-governmental Fixed Maturities	$ 2,188.5	35.1%	$ 2,145.6	34.4%

Sixty-two companies comprised over 75% of the Company s fixed maturity exposure to the Manufacturing industry at March 31, 2011, with the largest single exposure, Caterpillar, Inc., comprising 2.6%, or $26.2 million, of the Company s fixed maturity exposure to such industry. Twenty-eight companies comprised over 75% of the Company s exposure to the Finance, Insurance and Real Estate industry at March 31, 2011, with the largest single exposure, Wells Fargo Corporation, comprising 6.3%, or $36.6 million, of the Company s exposure to such industry.

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Investment Quality and Concentrations (continued)

The following table summarizes the fair value of the Company s ten largest investment exposures excluding U.S. Government and Government Agencies and Authorities and Pre-refunded with U.S. Government and Government Agencies and Authorities Held in Trust at March 31, 2011:

(Dollars in Millions)	Fair Value	Percentage of Total Investments
Intermec:		
Equity Securities - Common Stocks	$ 107.0	1.7%
Tennebaum Opportunities Fund V, LLC:		
Equity Method Limited Liability Investments	95.2	1.5%
State of Texas and Political Subdivisions Thereof:		
Fixed Maturities	83.4	1.4%
Special Value Opportunity Fund, LLC:		
Equity Method Limited Liability Investments	82.2	1.3%
State of Louisiana and Political Subdivisions Thereof:		
Fixed Maturities	71.7	1.2%
State of Ohio and Political Subdivisions Thereof:		
Fixed Maturities	64.6	1.0%
State of Washington and Political Subdivisions Thereof:		
Fixed Maturities	64.5	1.0%
State of Wisconsin and Political Subdivisions Thereof:		
Fixed Maturities	63.3	1.0%
Golman Sachs Vintage Fund IV, L.P.:		
Equity Method Limited Liability Investments	56.3	0.9%
State of Colorado and Political Subdivisions Thereof:		
Fixed Maturities	54.1	0.9%
Total	$ 742.3	11.9%

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Investments in Limited Liability Investment Companies and Limited Partnerships

The Company s investments in various limited liability investment companies and limited partnerships that primarily invest in distressed debt, mezzanine debt and secondary transactions. The Company s investments in these limited liability investment companies and limited partnerships are reported either as Equity Method Limited Liability Investments, or Other Equity Interests and included in Equity Securities depending on the accounting method used to report the investment. Additional information pertaining to these investments at March 31, 2011 and December 31, 2010 is presented below:

(Dollars in Millions)	Asset Class	Unfunded Commitment March 31, 2011	Carrying Value March 31, 2011	Carrying Value December 31, 2010	Stated Fund End Date
Reported as Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings:					
Tennenbaum Opportunities Fund V, LLC	Distressed Debt	$	$ 95.2	$ 91.4	10/10/2016
Special Value Opportunity Fund, LLC	Distressed Debt		82.2	86.8	7/13/2014
Goldman Sachs Vintage Fund IV, L.P.	Secondary Transactions	23.0	56.3	58.9	12/31/2016
Special Value Continuation Fund, LLC	Distressed Debt		25.7	26.8	6/30/2016
NY Life Investment Management Mezzanine Partners II, LP	Mezzanine Debt	2.4	20.6	20.5	7/31/2016
BNY Mezzanine Partners L.P.	Mezzanine Debt	2.0	13.6	14.1	4/17/2016
Ziegler Meditech Equity Partners, LP	Growth Equity	2.3	13.9	10.4	1/31/2016
BNY-Alcentra Mezzanine Partners III, L.P.	Mezzanine Debt	40.2	3.8	4.5	2021-2022
Other Funds		4.3	14.7	14.6	Various
Total for Equity Method Limited Liability Investments		74.2	326.0	328.0	
Reported as Other Equity Interests and Reported at Fair Value:					
Highbridge Principal Strategies Fund L.P.	Mezzanine Debt	11.7	13.4	11.4	1/23/2018
Goldman Sachs Vintage Fund V, L.P.	Secondary Transaction	11.6	9.5	8.7	12/31/2018
Goldman Sachs Mezzanine Partners V, L.P.	Mezzanine Debt	15.9	7.4	8.4	12/31/2021
Other Funds		28.9	44.3	46.7	Various
Total Reported as Other Equity Interests and Reported at Fair Value		68.1	74.6	75.2	
Total		$ 142.3	$ 400.6	$ 403.2	

Interest and Other Expenses

Interest and Other Expenses was $19.7 million and $16.4 million for the three months ended March 31, 2011 and 2010, respectively. Interest and Other Expenses increased by $3.3 million for the three months ended March 31, 2011 compared to the same period in 2010, due primarily to higher levels of debt outstanding and higher postretirement benefit costs.

Income Taxes

The Company s effective income tax rate from continuing operations differs from the Federal statutory income tax rate due primarily to the effects of tax-exempt investment income and dividends received deductions, and the net effects of state income taxes. Tax-exempt investment income and dividends received deductions were $13.0 million and $14.1 million for the three months ended March 31, 2011 and 2010,

respectively. State income tax expense, net of federal benefit, was $0.5 million for the three months ended March 31, 2011. State income tax expense for the three months ended March 31, 2011 included a benefit of $1.2 million, net of federal taxes, for a decrease in the deferred tax asset valuation allowance related to Fireside Bank. State income tax expense, net of federal benefit, was $0.6 million for the three months ended March 31, 2010. State income tax expense for the three months ended March 31, 2010 included a benefit of $0.2 million, net of federal taxes, for a decrease in the deferred tax asset valuation allowance related to Fireside Bank.

Liquidity and Capital Resources

Unitrin has a three-year, $245 million, unsecured, revolving credit agreement, expiring October 30, 2012, with a group of financial institutions (the 2012 Credit Agreement). The 2012 Credit Agreement provides for fixed and floating rate advances for periods up to six months at various interest rates. The 2012 Credit Agreement contains various financial covenants, including limits on total debt to total capitalization, consolidated net worth and minimum risk-based capital ratios for Unitrin s largest insurance subsidiaries, United Insurance Company of America and Trinity. Proceeds from advances under the 2012 Credit Agreement may be used for general corporate purposes, including repayment of existing indebtedness. There were no outstanding borrowings under the 2012 Credit Agreement at either March 31, 2011 or December 31, 2010.

Various state insurance laws restrict the ability of Unitrin s insurance subsidiaries to pay dividends without regulatory approval. Such insurance laws generally restrict the amount of dividends paid in an annual period to the greater of statutory net income from the previous year or 10% of statutory capital and surplus. Unitrin s direct insurance subsidiaries paid dividends consisting of $45.5 million in cash to Unitrin during the first quarter of 2011. Unitrin estimates that its direct insurance subsidiaries would be able to pay $139 million in dividends to Unitrin during the remainder of 2011. Such dividends will not require prior regulatory approval.

Unitrin s subsidiary, Fireside Bank, is chartered as an industrial bank and is regulated by the Federal Deposit Insurance Corporation (FDIC) and the California Department of Financial Institutions (CDFI). Fireside Bank has agreed not to pay dividends without the prior approval of the FDIC and the CDFI. At March 31, 2011, Fireside Bank had an $20 million undrawn line of credit with Unitrin. In April 2011, the line of credit was increased to $30 million. In April 2011, Fireside Bank used its cash and investments, cash flow from operations and $30 million of proceeds from its line of credit with Unitrin to redeem all remaining certificates of deposits, plus future interest of $6.9 million, that were outstanding at March 31, 2011. Fireside Bank has begun the process of surrendering its industrial bank charter. Upon completion of this process, Fireside Bank will cease to be regulated by the FDIC and CDFI, and accordingly, will be able to pay dividends and return capital to Unitrin without prior regulatory approval. Based on Fireside Bank s estimated liquidity, it estimates that it will be able to fully repay the $30 million drawn under the line of credit by the end of the second quarter of 2011. Fireside Bank expects to return at least $265 million of capital to Unitrin.

On February 2, 2011, the Board of Directors approved a new repurchase program under which Unitrin is authorized to repurchase up to $300 million worth of its common stock. During the first quarter of 2011, Unitrin repurchased approximately 0.7 million shares of its common stock at an aggregate cost of $21.7 million in open market transactions.

Unitrin paid a quarterly dividend to shareholders of $0.24 per common share in the first quarter of 2011. Dividends paid were $14.7 million for the three months ended March 31, 2011.

Unitrin directly held cash and investments totaling $84.2 million at March 31, 2011, compared to $60.5 million at December 31, 2010. Sources available for the repayment of indebtedness, repurchases of common stock, future shareholder dividend payments, and the payment of interest on Unitrin s senior notes include cash and investments directly held by Unitrin, receipt of dividends from Unitrin s subsidiaries and borrowings under the 2012 Credit Agreement.

The primary sources of funds for Unitrin s insurance subsidiaries are premiums, investment income and proceeds from the sales and maturity of investments. The primary uses of funds are the payment of policyholder benefits under life insurance contracts, claims under property and casualty insurance contracts and accident and health insurance contracts, the payment of commissions and general expenses and the purchase of investments. Generally, there is a time lag between when premiums are collected and when policyholder benefits and insurance claims are paid. Accordingly, during periods of growth, insurance companies typically experience positive operating cash flows and are able to invest a portion of their operating cash flows to fund future policyholder benefits and claims. During periods in which premium revenues decline, insurance companies may experience negative cash flows from operations and may need to sell investments to fund payments to policyholders and claimants. In addition, if the Company s property and casualty insurance subsidiaries experience several significant catastrophic events over a relatively short period of time, investments may have to be sold in advance of their maturity dates to fund payments, which could either result in investment gains or losses. Management believes that its property and casualty insurance subsidiaries maintain adequate

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Liquidity and Capital Resources (continued)

levels of liquidity in the event that they experience several future catastrophic events over a relatively short period of time. The primary sources of funds for Fireside Bank are the repayments of automobile loans, interest on automobile loans, investment income and proceeds from the sales and maturity of investments. The primary uses of funds for Fireside Bank are the repayment of customer deposits, interest paid to depositors, general expenses and purchase of investments.

Net Cash Provided by Operating Activities increased by $47.7 million for the three months ended March 31, 2011, compared to the same period in 2010.

Net Cash Used by Financing Activities increased by $80.3 million for the three months ended March 31, 2011, compared to the same period in 2010. The Company has funded its Automobile Loan Receivables through the issuance of Certificates of Deposits. Net cash used by Repayments of Certificates of Deposits was $149.1 million for the three months ended March 31, 2011, compared to net cash used of $88.4 million for the same period in 2010. Unitrin used $18.3 million of cash during the first quarter of 2011 to repurchase shares of its common stock. Unitrin did not repurchase shares of its common stock during the same period in 2010. Unitrin used $14.7 million of cash to pay dividends for the three months ended March 31, 2011, compared to $13.7 million of cash used to pay dividends in the same period of 2010. The quarterly dividend rate was $0.24 per common share in the first quarter of 2011, compared $0.22 per common share in the same period of 2010.

Cash available for investment activities in total is dependent on cash flow from Operating Activities and Financing Activities and the level of cash the Company elects to maintain. Net Cash Provided by Investing Activities decreased by $24.3 million for the three months ended March 31, 2011, compared to the same period of 2010. Purchases of Fixed Maturities exceeded Sales of Fixed Maturities by $21.1 million for the three months ended March 31, 2011, compared to $25.4 million in the same period of 2010. Sales of Equity Securities exceeded Purchases of Equity Securities by $28.5 million for the three months ended March 31, 2011. Purchases of Equity Securities exceeded Sales of Equity Securities by $1.2 million for the three months ended March 31, 2010. Net cash used by acquisitions of short-term investments was $12.9 million for the three months ended March 31, 2011, compared to net cash of $35.2 million provided by dispositions of short-term investments in the same period of 2010. The receipts from automobile loan receivables provided $73.6 million of cash for the three months ended March 31, 2011, compared to $103.5 million of cash provided in the same period of 2010.

Critical Accounting Estimates

Unitrin s subsidiaries conduct their businesses in three industries: property and casualty insurance, life and health insurance and automobile finance. Accordingly, the Company is subject to several industry-specific accounting principles under GAAP. The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The process of estimation is inherently uncertain. Accordingly, actual results could ultimately differ materially from the estimated amounts reported in a company s financial statements. Different assumptions are likely to result in different estimates of reported amounts.

The Company s critical accounting policies most sensitive to estimates include the valuation of investments, the valuation of reserves for property and casualty insurance incurred losses and LAE, the valuation of the reserve for loan losses, the assessment of recoverability of goodwill, the valuation of pension benefit obligations and the valuation of postretirement benefit obligations other than pensions. The Company s critical accounting policies are described in the MD&A included in the 2010 Annual Report. There has been no material change, subsequent to December 31, 2010, to the information previously disclosed in the 2010 Annual Report with respect to these critical accounting estimates and the Company s critical accounting policies.

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Recently Issued Accounting Pronouncements

The Company did not adopt any new accounting standards in 2011. The Company has not yet adopted ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contract*. ASU 2010-26 is discussed in Note 1, Basis of Presentation to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q under the heading Adoption of New Accounting Standards and Accounting Standards Not Yet Adopted.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Pursuant to the rules and regulations of the SEC, the Company is required to provide the following disclosures about Market Risk.

Quantitative Information About Market Risk

The Company s Condensed Consolidated Balance Sheets include five types of financial instruments subject to material market risk disclosures required by the SEC:

1) Investments in Fixed Maturities;

2) Investments in Equity Securities;

3) Automobile Loan Receivables;

4) Certificates of Deposits; and

5) Notes Payable.

Investments in Fixed Maturities, Automobile Loan Receivables, Certificates of Deposits and Notes Payable are subject to material interest rate risk. The Company s Investments in Equity Securities include common and preferred stocks and, accordingly, are subject to material equity price risk and interest rate risk, respectively.

For purposes of this disclosure, market risk sensitive financial instruments are divided into two categories: financial instruments acquired for trading purposes and financial instruments acquired for purposes other than trading. The Company s market risk sensitive financial instruments are generally classified as held for purposes other than trading. The Company has no significant holdings of financial instruments acquired for trading purposes. The Company has no significant holdings of derivatives.

The Company measures its sensitivity to market risk by evaluating the change in its financial assets and liabilities relative to fluctuations in interest rates and equity prices. The evaluation is made using instantaneous changes in interest rates and equity prices on a static balance sheet to determine the effect such changes would have on the Company s market value at risk and the resulting pre-tax effect on Shareholders Equity. The changes chosen represent the Company s view of adverse changes which are reasonably possible over a one-year period. The selection of the changes chosen should not be construed as the Company s prediction of future market events, but rather an illustration of the impact of such events.

For the interest rate sensitivity analysis presented below, the Company assumed an adverse and instantaneous increase of 100 basis points in the yield curve at both March 31, 2011 and December 31, 2010 for Investments in Fixed Maturities. Such 100 basis point increase in the yield curve may not necessarily result in a corresponding 100 basis point increase in the interest rate for all investments in fixed maturities. For example, a 100 basis point increase in the yield curve for risk-free, taxable investments in fixed maturities may not result in a 100 basis point increase for tax-exempt investments in fixed maturities. For Investments in Fixed Maturities, the Company also anticipated changes in cash flows due to changes in the likelihood that investments would be called or pre-paid prior to their contractual maturity. All other variables were held constant. For preferred stock equity securities and Automobile Loan Receivables, the Company assumed an adverse and instantaneous increase of 100 basis points in market interest rates from their levels at both March 31, 2011 and December 31, 2010. All other variables were held constant. For Certificates of Deposits and Notes Payable, the Company assumed an adverse and instantaneous decrease of 100 basis points in market interest rates from their levels at both March 31, 2011 and December 31, 2010. All other variables were held constant. The Company measured equity price sensitivity assuming an adverse and instantaneous 30% decrease in the Standard and Poor s Stock Index (the S&P 500) from its levels at March 31, 2011 and December 31, 2010, respectively, with all other variables held constant. The Company s investments in common stock equity securities were correlated with the S&P 500 using the portfolio s weighted-average beta of 0.95 and 0.96 at March 31, 2011 and

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Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)

December 31, 2010, respectively. The portfolio s weighted-average beta was calculated using each security s beta for the five-year periods ended March 31, 2011 and December 31, 2010, respectively, and weighted on the fair value of such securities at March 31, 2011 and December 31, 2010, respectively. For equity securities without observable market inputs the Company assumed a beta of 1.00 at March 31, 2011 and December 31, 2010. Beta measures a stock s relative volatility in relation to the rest of the stock market, with the S&P 500 having a beta coefficient of 1.00.

The estimated adverse effects on the fair values of the Company s financial instruments using these assumptions were:

		Pro Forma Increase (Decrease)		
(Dollars in Millions)	Fair Value	Interest Rate Risk	Equity Price Risk	Total Market Risk
March 31, 2011				
Assets				
Investments in Fixed Maturities	$ 4,491.9	$ (322.4)	$	$ (322.4)
Investments in Equity Securities	511.7	(6.0)	(112.6)	(118.6)
Automobile Loan Receivables	279.1	(2.4)		(2.4)
Liabilities				
Certificates of Deposits	$ 180.1	$ 0.2	$	$ 0.2
Notes Payable	646.0	31.4		31.4
December 31, 2010				
Assets				
Investments in Fixed Maturities	$ 4,475.3	$ (316.9)	$	$ (316.9)
Investments in Equity Securities	550.4	(6.9)	(125.4)	(132.3)
Automobile Loan Receivables	340.0	(3.1)		(3.1)
Liabilities				
Certificates of Deposits	$ 336.6	$ 0.4	$	$ 0.4
Notes Payable	628.0	31.6		31.6

The market risk sensitivity analysis assumes that the composition of the Company s interest rate sensitive assets and liabilities, including, but not limited to, credit quality, and the equity price sensitive assets existing at the beginning of the period remains constant over the period being measured. It also assumes that a particular change in interest rates is uniform across the yield curve regardless of the time to maturity. Interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Also, any future correlation, either in the near term or the long term, between the Company s common stock equity securities portfolio and the S&P 500 may differ from the historical correlation as represented by the weighted-average historical beta of the common stock equity securities portfolio. Accordingly, the market risk sensitivity analysis may not be indicative of, is not intended to provide, and does not provide, a precise forecast of the effect of changes in market rates on the Company s income or shareholders equity. Further, the computations do not contemplate any actions the Company may undertake in response to changes in interest rates or equity prices.

To the extent that any adverse 100 basis point change occurs in increments over a period of time instead of instantaneously, the adverse impact on fair values would be partially mitigated because some of the underlying financial instruments would have matured. For example, proceeds from any maturing assets could be reinvested and any new liabilities would be incurred at the then current interest rates.

Qualitative Information About Market Risk

Market risk is a broad term related to economic losses due to adverse changes in the fair value of a financial instrument and is inherent to all financial instruments. SEC disclosure rules focus on only one element of market risk - price risk. Price risk relates to changes in the level of prices due to changes in interest rates, equity prices, foreign exchange rates

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Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)

or other factors that relate to market volatility of the rate, index, or price underlying the financial instrument. The Company s primary market risk exposures are to changes in interest rates and equity prices.

The Company manages its interest rate exposures with respect to Investments in Fixed Maturities by investing primarily in investment-grade securities of moderate effective duration. The interest rate risks with respect to the fair value of Automobile Loan Receivables should be partially offset by the impact of interest rate movements on Certificates of Deposits which were issued to fund these receivables.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Company s management, with the participation of Unitrin s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Based on such evaluation, Unitrin s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company s disclosure controls and procedures are effective in ensuring that information required to be disclosed by Unitrin in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the SEC s rules and forms, and accumulated and communicated to the Company s management, including Unitrin s Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal controls.

There have not been any changes in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Caution Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including MD&A, Quantitative and Qualitative Disclosures About Market Risk, Risk Factors and the accompanying unaudited Condensed Consolidated Financial Statements (including the notes thereto) may contain or incorporate by reference information that includes or is based on forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements give expectations or forecasts of future events. The reader can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as believe(s), goal(s), target(s), estimate(s), anticipate(s), forecast(s), project(s), plan(s), intend(s), expect(s), might, may and other words and terms in connection with a discussion of future operating, financial performance or financial condition. Forward-looking statements, in particular, include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results.

Any or all forward-looking statements may turn out to be wrong, and, accordingly, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this Quarterly Report on Form 10-Q. These statements are based on current expectations and the current economic environment. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance; actual results could differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining the Company s actual future results and financial condition. The reader should consider the following list of general factors that could affect the Company s future results and financial condition, as well as those discussed under Item 1A., Risk Factors, in the 2010 Annual Report.

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Caution Regarding Forward-Looking Statements (continued)

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

The incidence, frequency, and severity of catastrophes occurring in any particular reporting period or geographic concentration, including natural disasters, pandemics and terrorist attacks or other man-made events;

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

Changes in facts and circumstances affecting assumptions used in determining loss and LAE reserves;

The impact of inflation on insurance claims, including, but not limited to, the effects attributed to scarcity of resources available to rebuild damaged structures, including labor and materials and the amount of salvage value recovered for damaged property;

Changes in the pricing or availability of reinsurance or the financial condition of reinsurers and amounts recoverable therefrom;

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

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

Changes in industry trends and significant industry developments;

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

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

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

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

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

Governmental actions, including, but not limited to, implementation of the provisions of the Patient Protection and Affordable Care Act, the Health Care and Education Reconciliation Act of 2010 and the Dodd-Frank Act, new laws or regulations or court decisions interpreting existing laws and regulations or policy provisions;

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

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

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

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

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

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

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

Increased costs and risks related to data security;

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

Other risks and uncertainties described from time to time in Unitrin s filings with the SEC.

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Caution Regarding Forward-Looking Statements (continued)

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

PART II - OTHER INFORMATION

Items not listed here have been omitted because they are inapplicable or the answer is negative.

Item 1. Legal Proceedings

Information concerning pending legal proceedings is incorporated herein by reference to Note 14, Contingencies, to the Condensed Consolidated Financial Statements (Unaudited) in Part I of this Form 10-Q.

Item 1A. Risk Factors

There have been no significant changes in the risk factors included in Item 1A. of Part II of the 2010 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (Dollars in Millions)
January 1 - January 31, 2011		N/A		$ 300.0
February 1 - February 28, 2011	229,815	$ 28.96	229,815	$ 293.3
March 1 - March 31, 2011	506,343	$ 29.70	506,343	$ 278.3

(1) On February 2, 2011, Unitrin s Board of Directors authorized the repurchase of up to $300 million of Unitrin s common stock. The repurchase program does not have an expiration date.

The preceding table does not include shares withheld or surrendered, either actually or constructively, to satisfy the exercise price and/or tax withholding obligations relating to the exercise of stock options or stock appreciation rights under Unitrin s stock option plans or shares withheld to satisfy tax withholding obligations on the vesting of awards under Unitrin s restricted stock plan. During the quarter ended March 31, 2011, 2,170 shares were withheld or surrendered, either actually or constructively, to satisfy the exercise price and/or tax withholding obligations relating to the exercise of stock options or stock appreciation rights under Unitrin s three stock option plans. No restricted stock vested during the quarter ended March 31, 2011.

Item 5. Other Information

On May 4, 2011, the Board of Directors approved a new form of stock option award agreement for the automatic grants of initial and annual awards to Unitrin s non-employee directors under the Unitrin, Inc. 2011 Omnibus Equity Plan approved by Unitrin s shareholders at the 2011 Annual Meeting on May 4, 2011. The new form of agreement, filed as an exhibit to this Quarterly Report on Form 10-Q, is substantially the same as the prior form of agreement under the Unitrin, Inc. 1995 Non-Employee Director Stock Option Plan, except that it includes tandem stock appreciation rights and references to provisions of the new 2011 plan instead of the 1995 plan. In addition, the Board of Directors amended the Company s Amended and Restated Bylaws, effective May 4, 2011, to revise Article III, Section 11 to change the minimum number of

directors on board Committees from two to one.

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Item 6. Exhibits

3.1	Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 to Unitrin s Annual Report on Form 10-K filed February 4, 2008).
3.2	Amended and Restated Bylaws.
4.1	Rights Agreement between Unitrin, Inc. and Computershare Trust Company, N.A. as successor Rights Agent, including the Form of Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, the Form of Rights Certificate and the Summary of Rights to Purchase Preferred Stock, dated as of August 4, 2004 and amended May 4, 2006 and October 9, 2006. (Incorporated herein by reference to Exhibit 4.1 to Unitrin s Quarterly Report on Form 10-Q filed August 3, 2009).
4.2	Indenture dated as of June 26, 2002, by and between Unitrin, Inc. and The Bank of New York Trust Company, N.A., as successor trustee to BNY Midwest Trust Company, as Trustee (Incorporated herein by reference to Exhibit 4.1 to Unitrin s Current Report on Form 8-K filed May 14, 2007).
4.3	Officer s Certificate, including form of Senior Note with respect to Unitrin s 6.00% Senior Notes due May 15, 2017 (Incorporated herein by reference to Exhibit 4.2 to Unitrin s Current Report on Form 8-K filed May 14, 2007).
4.4	Officers Certificate, including the form of Senior Note with respect to Unitrin s 6.00% Senior Notes due November 30, 2015 (Incorporated herein by reference to Exhibit 4.2 to Unitrin s Current Report on Form 8-K filed November 24, 2010).
10.1	Unitrin, Inc. 1995 Non-Employee Director Stock Option Plan, as amended and restated effective February 3, 2009 (Incorporated herein by reference to Exhibit 10.2 to Unitrin s Annual Report on Form 10-K filed February 4, 2009).
10.2	Unitrin, Inc. 1997 Stock Option Plan, as amended and restated effective February 1, 2006.
10.3	Unitrin, Inc. 2002 Stock Option Plan, as amended and restated effective February 3, 2009 (Incorporated herein by reference to Exhibit 10.4 to Unitrin s Annual Report on Form 10-K filed February 4, 2009).
10.4	2005 Restricted Stock and Restricted Stock Unit Plan, as amended and restated effective February 3, 2009 (Incorporated herein by reference to Exhibit 10.5 to Unitrin s Annual Report on Form 10-K filed February 4, 2009).
10.5	Unitrin, Inc. 2011 Omnibus Equity Plan (Incorporated by reference to Appendix B to Unitrin s Proxy Statement for the 2011 Annual Meeting of Shareholders filed March 28, 2011).
10.6	Form of Stock Option Agreement under the Unitrin, Inc. 1995 Non-Employee Director Stock Option Plan, as of February 1, 2006.
10.7	Form of Stock Option Agreement under the Unitrin, Inc. 1995 Non-Employee Director Stock Option Plan, as of February 3, 2009 (Incorporated herein by reference to Exhibit 10.7 to Unitrin s Annual Report on Form 10-K filed February 4, 2009).
10.8	Form of Stock Option and SAR Agreement under the Unitrin, Inc. 1997 Stock Option Plan, as of February 1, 2006.
10.9	Form of Stock Option and SAR Agreement under the Unitrin, Inc. 2002 Stock Option Plan, as of February 1, 2006.
10.10	Form of Stock Option Agreement (including stock appreciation rights) under the Unitrin, Inc. 2002 Stock Option Plan, as of February 1, 2011 (Incorporated herein by reference to Exhibit 10.9 to Unitrin s Annual Report on Form 10-K filed February 3, 2011).

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Item 6. Exhibits (continued)

10.11	Form of Time-Vested Restricted Stock Award Agreement under the 2005 Restricted Stock and Restricted Stock Unit Plan, as of February 1, 2011 (Incorporated herein by reference to Exhibit 10.10 to Unitrin s Annual Report on Form 10-K filed February 3, 2011).
10.12	Form of Performance-Based Restricted Stock Award Agreement under the 2005 Restricted Stock and Restricted Stock Unit Plan, as of February 1, 2011 (Incorporated herein by reference to Exhibit 10.11 to Unitrin s Annual Report on Form 10-K filed February 3, 2011).
10.13	Form of Stock Option and SAR Agreement for Non-employee Directors under the Unitrin, Inc. 2011 Omnibus Equity Plan, as of May 4, 2011.
10.14	Unitrin, Inc. Pension Equalization Plan, as amended and restated effective January 1, 2009 (Incorporated herein by reference to Exhibit 10.12 to Unitrin s Annual Report on Form 10-K filed February 4, 2009).
10.15	Unitrin, Inc. Defined Contribution Supplemental Retirement Plan, effective January 1, 2008 (Incorporated herein by reference to Exhibit 10.13 to Unitrin s Annual Report on Form 10-K filed February 4, 2009).
10.16	Unitrin, Inc. Non-Qualified Deferred Compensation Plan, as amended and restated effective January 1, 2009 (Incorporated herein by reference to Exhibit 10.14 to Unitrin s Annual Report on Form 10-K filed February 4, 2009) and Amendment No. 1 thereto, dated December 22, 2010 (Incorporated by reference to Exhibit 10.14 to Unitrin s Annual Report on Form 10-K filed February 3, 2011).
10.17	Unitrin is a party to individual severance agreements (the form of which is incorporated herein by reference to Exhibit 10.1 to Unitrin s Current Report on Form 8-K filed February 22, 2011), with the following executive officers: Donald G. Southwell (Chairman, President and Chief Executive Officer) John M. Boschelli (Vice President and Chief Investment Officer) Lisa M. King (Vice President Human Resources) Edward J. Konar (Vice President) Christopher L. Moses (Vice President and Treasurer) Scott Renwick (Senior Vice President, General Counsel and Secretary) Richard Roeske (Vice President and Chief Accounting Officer) Dennis J. Sandelski (Vice President Tax) Frank J. Sodaro (Vice President Planning and Analysis) Dennis R. Vigneau (Senior Vice President and Chief Financial Officer) Each of the foregoing agreements is identical except that the severance compensation multiple is 3.0 for Mr. Southwell and 2.0 for the other executive officers.
10.18	Unitrin, Inc. Severance Plan, as amended and restated effective January 1, 2009 (Incorporated herein by reference to Exhibit 10.16 to Unitrin s Annual Report on Form 10-K filed February 4, 2009).
10.19	Unitrin, Inc. 2009 Performance Incentive Plan, effective February 3, 2009 (Incorporated herein by reference to Exhibit 10.1 to Unitrin s Current Report on Form 8-K filed February 9, 2009).
10.20	Form of Annual Incentive Award Agreement under the Unitrin, Inc. 2009 Performance Incentive Plan, as of February 1, 2011 (Incorporated herein by reference to Exhibit 10.19 to Unitrin s Annual Report on Form 10-K filed February 3, 2011).
10.21	Form of Multi-Year Incentive Award Agreement under the Unitrin, Inc. 2009 Performance Incentive Plan, as of February 1, 2011 (Incorporated herein by reference to Exhibit 10.19 to Unitrin s Annual Report on Form 10-K filed February 3, 2011).
10.22	Unitrin is a party to individual Indemnification and Expense Advancement Agreements (the form of which is incorporated herein by reference to Exhibit 99.01 to Unitrin s Current Report on Form 8-K filed March 27, 2009) with each of its directors.

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Item 6. Exhibits (continued)

10.23	Credit Agreement, dated as of October 30, 2009, by and among Unitrin, Inc., the lenders party thereto, Wells Fargo Bank, National Association, as administrative agent, swing line lender and issuing lender, and JPMorgan Chase Bank, N.A., as syndication agent. (Incorporated by reference to Exhibit 10.21 to Unitrin s Quarterly report on Form 10-Q filed November 2, 2009).
31.1	Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a).
31.2	Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a).
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-K).
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-K).
101.1	XBRL Instance
101.2	XBRL Taxonomy Extension Schema Document
101.3	XBRL Taxonomy Extension Calculation Linkbase Document
101.4	XBRL Taxonomy Extension Label Linkbase Document
101.5	XBRL Taxonomy Extension Presentation Linkbase Document

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Unitrin, Inc.
Date: May 4, 2011	/s/ Donald G. Southwell Donald G. Southwell Chairman, President and Chief Executive Officer
	(Principal Executive Officer)
Date: May 4, 2011	/s/ Dennis R. Vigneau Dennis R. Vigneau Senior Vice President and Chief Financial Officer
	(Principal Financial Officer)
Date: May 4, 2011	/s/ Richard Roeske Richard Roeske Vice President, Chief Accounting Officer
	(Principal Accounting Officer)