

UNITRIN INC  
Form 10-Q  
November 02, 2009  
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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For Quarterly Period Ended September 30, 2009

OR

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-18298

## Unitrin, Inc.

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

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

**60601**  
(Zip Code)

**(312) 661-4600**

(Registrant's telephone number, including area code)

**Not Applicable**

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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

62,356,966 shares of common stock, \$0.10 par value, were outstanding as of October 30, 2009.

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**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Dollars in millions, except per share amounts)

(Unaudited)

|  | Nine Months Ended |                   | Three Months Ended |                   |
|--|-------------------|-------------------|--------------------|-------------------|
|  | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| <b>Revenues:</b>   |                   |                   |                    |                   |
| Earned Premiums  | \$ 1,855.0        | \$ 1,771.7        | \$ 616.2           | \$ 599.5          |
| Automobile Finance Revenues  | 142.4             | 185.6             | 42.1               | 60.1              |
| Net Investment Income  | 234.7             | 191.0             | 93.3               | 63.7              |
| Other Income   | 2.0               | 2.6               | 1.1                | 1.2               |
| Net Realized Gains on Sales of Investments   | 17.6              | 65.5              | 12.4               | 27.5              |
| <b>Other-than-temporary Impairment Losses:</b>   |                   |                   |                    |                   |
| Total Other-than-temporary Impairment Losses   | (49.9)            | (98.9)            | (14.6)             | (72.1)            |
| Portion of Losses Recognized in Other Comprehensive Income   | 0.7               |                   | 0.1                |                   |
| Net Impairment Losses Recognized in Earnings   | (49.2)            | (98.9)            | (14.5)             | (72.1)            |
| <b>Total Revenues</b>  | <b>2,202.5</b>    | <b>2,117.5</b>    | <b>750.6</b>       | <b>679.9</b>      |
| <b>Expenses:</b>   |                   |                   |                    |                   |
| Policyholders Benefits and Incurred Losses and Loss Adjustment Expenses                                  | 1,328.3           | 1,353.2           | 435.1              | 494.3             |
| Insurance Expenses   | 543.7             | 545.9             | 177.0              | 190.8             |
| Automobile Finance Expenses  | 111.6             | 171.3             | 29.2               | 47.8              |
| Interest Expense on Certificates of Deposits   | 34.6              | 44.9              | 10.1               | 14.2              |
| Goodwill   | 1.5               |                   |                    |                   |
| Interest and Other Expenses  | 47.5              | 46.3              | 15.5               | 14.6              |
| <b>Total Expenses</b>  | <b>2,067.2</b>    | <b>2,161.6</b>    | <b>666.9</b>       | <b>761.7</b>      |
| Income (Loss) from Continuing Operations before Income Taxes and Equity in Net Income (Loss) of Investee | 135.3             | (44.1)            | 83.7               | (81.8)            |
| Income Tax Benefit (Expense)   | (38.1)            | 27.9              | (21.7)             | 31.2              |
| Income (Loss) from Continuing Operations before Equity in Net Income (Loss) of Investee                  | 97.2              | (16.2)            | 62.0               | (50.6)            |
| Equity in Net Income (Loss) of Investee  | (1.1)             | 4.3               | (1.0)              | 1.0               |
| Income (Loss) from Continuing Operations   | 96.1              | (11.9)            | 61.0               | (49.6)            |
| <b>Discontinued Operations (See Notes 1 and 3):</b>  |                   |                   |                    |                   |
| Income (Loss) from Discontinued Operations before Income Taxes   | 3.7               | (5.1)             | 1.6                | 6.7               |
| Income Tax Expense   | (1.4)             | (2.0)             | (0.5)              | (2.3)             |
| Income (Loss) from Discontinued Operations   | 2.3               | (7.1)             | 1.1                | 4.4               |
| <b>Net Income (Loss)</b>   | <b>\$ 98.4</b>    | <b>\$ (19.0)</b>  | <b>\$ 62.1</b>     | <b>\$ (45.2)</b>  |

Basic Income (Loss) Per Share from Continuing Operations:

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|  |         |           |         |           |
|--|---------|-----------|---------|-----------|
| Restricted Common Stock  | \$ 1.10 | \$ (0.41) | \$ 0.43 | \$ (1.09) |
| Unrestricted Common Stock  | \$ 1.54 | \$ (0.19) | \$ 0.98 | \$ (0.79) |
| <b>Basic Net Income (Loss) Per Share:</b>                          |         |           |         |           |
| Restricted Common Stock  | \$ 1.14 | \$ (0.52) | \$ 0.45 | \$ (1.02) |
| Unrestricted Common Stock  | \$ 1.58 | \$ (0.30) | \$ 1.00 | \$ (0.72) |
| <b>Diluted Income (Loss) Per Share from Continuing Operations:</b> |         |           |         |           |
| Restricted Common Stock  | \$ 1.10 | \$ (0.41) | \$ 0.43 | \$ (1.09) |
| Unrestricted Common Stock  | \$ 1.54 | \$ (0.19) | \$ 0.98 | \$ (0.79) |
| <b>Diluted Net Income (Loss) Per Share:</b>                        |         |           |         |           |
| Restricted Common Stock  | \$ 1.14 | \$ (0.52) | \$ 0.45 | \$ (1.02) |
| Unrestricted Common Stock  | \$ 1.58 | \$ (0.30) | \$ 1.00 | \$ (0.72) |
| Dividends Paid Per Share   | \$ 0.87 | \$ 1.41   | \$ 0.20 | \$ 0.47   |

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

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Dollars in millions, except per share amounts)**

|   | <b>September 30,<br/>2009<br/>(Unaudited)</b> | <b>December 31,<br/>2008</b> |
|---|---|------------------------------|
| <b>Assets:</b>  |   |                              |
| <b>Investments:</b>   |   |                              |
| Fixed Maturities at Fair Value (Amortized Cost: 2009 - \$4,324.0; 2008 - \$4,174.4)   | \$ 4,552.0                                    | \$ 4,135.9                   |
| Equity Securities at Fair Value (Cost: 2009 - \$187.9; 2008 - \$255.4)  | 196.7   | 221.8                        |
| Investee (Intermec) at Cost Plus Cumulative Undistributed Comprehensive Earnings (Fair Value: 2009 - \$178.5; 2008 - \$168.1)   | 97.4  | 102.2                        |
| Short-term Investments at Cost which Approximates Fair Value  | 496.2   | 548.6                        |
| Other   | 755.9   | 714.9                        |
| <b>Total Investments</b>  | <b>6,098.2</b>                                | <b>5,723.4</b>               |
| Cash  | 101.9   | 184.2                        |
| Automobile Loan Receivables (Fair Value: 2009 - \$773.3; 2008 - \$1,099.6)  | 768.7   | 1,078.6                      |
| Other Receivables   | 676.7   | 686.5                        |
| Deferred Policy Acquisition Costs   | 528.1   | 489.2                        |
| Goodwill  | 331.8   | 334.6                        |
| Current and Deferred Income Taxes   | 121.2   | 201.4                        |
| Other Assets  | 131.2   | 120.9                        |
| <b>Total Assets</b>   | <b>\$ 8,757.8</b>                             | <b>\$ 8,818.8</b>            |
| <b>Liabilities and Shareholders' Equity:</b>  |   |                              |
| <b>Insurance Reserves:</b>  |   |                              |
| Life and Health   | \$ 3,014.4                                    | \$ 2,972.6                   |
| Property and Casualty   | 1,269.9                                       | 1,268.7                      |
| <b>Total Insurance Reserves</b>   | <b>4,284.3</b>                                | <b>4,241.3</b>               |
| Certificates of Deposits at Cost (Fair Value: 2009 - \$796.5; 2008 - \$1,148.7)   | 758.6   | 1,110.8                      |
| Unearned Premiums   | 761.8   | 733.5                        |
| Liabilities for Income Taxes  | 16.5  | 68.2                         |
| Notes Payable at Amortized Cost (Fair Value: 2009 - \$495.9; 2008 - \$433.9)  | 561.2   | 560.8                        |
| Accrued Expenses and Other Liabilities  | 482.2   | 455.6                        |
| <b>Total Liabilities</b>  | <b>6,864.6</b>                                | <b>7,170.2</b>               |
| <b>Shareholders' Equity:</b>  |   |                              |
| Common Stock, \$0.10 par value, 100 million Shares Authorized; 62,356,966 Shares Issued and Outstanding at September 30, 2009 and 62,314,503 Shares Issued and Outstanding at December 31, 2008 | 6.2   | 6.2                          |
| Paid-in Capital   | 765.3   | 764.7                        |
| Retained Earnings   | 1,033.0                                       | 985.8                        |

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|   |            |            |
|---|------------|------------|
| Accumulated Other Comprehensive Income (Loss) | 88.7       | (108.1)    |
| Total Shareholders' Equity                    | 1,893.2    | 1,648.6    |
| Total Liabilities and Shareholders' Equity    | \$ 8,757.8 | \$ 8,818.8 |

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

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Dollars in millions)****(Unaudited)**

|   | <b>Nine Months Ended</b> |                  |
|---|--------------------------|------------------|
|   | <b>Sept. 30,</b>         | <b>Sept. 30,</b> |
|   | <b>2009</b>              | <b>2008</b>      |
| <b>Operating Activities:</b>  |                          |                  |
| Net Income (Loss)   | \$ 98.4                  | \$ (19.0)        |
| Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:                |                          |                  |
| Increase in Deferred Policy Acquisition Costs   | (11.4)                   | (10.3)           |
| Equity in Net (Income) Loss of Investee before Taxes  | 1.6                      | (6.6)            |
| Equity in (Income) Losses of Limited Liability Investment Companies and Limited Partnerships            | (28.7)                   | 29.6             |
| Distribution of Accumulated Earnings of Limited Liability Investment Companies and Limited Partnerships |                          | 1.9              |
| Amortization of Investment Securities and Depreciation of Investment Real Estate                        | 11.6                     | 7.4              |
| Provision for Loan Losses   | 50.1                     | 99.4             |
| Depreciation of Property and Equipment  | 12.9                     | 14.1             |
| Decrease (Increase) in Other Receivables  | 50.6                     | (21.3)           |
| Increase (Decrease) in Insurance Reserves   | (65.9)                   | 68.1             |
| Decrease in Unearned Premiums   | (20.6)                   | (11.4)           |
| Change in Income Taxes  | (29.8)                   | (91.2)           |
| Increase in Accrued Expenses and Other Liabilities  | 7.0                      | 11.3             |
| Net Realized Gains on Sales of Investments  | (17.6)                   | (65.5)           |
| Net Impairment Losses Recognized in Earnings  | 49.2                     | 98.9             |
| Gain on Disposition of Business   |                          | (8.1)            |
| Other, Net  | 32.7                     | 17.1             |
| <b>Net Cash Provided by Operating Activities</b>  | <b>140.1</b>             | <b>114.4</b>     |
| <b>Investing Activities:</b>  |                          |                  |
| Sales and Maturities of Fixed Maturities  | 514.8                    | 917.7            |
| Purchases of Fixed Maturities   | (578.7)                  | (909.7)          |
| Sales of Equity Securities  | 95.0                     | 317.1            |
| Purchases of Equity Securities  | (1.6)                    | (163.9)          |
| Acquisition and Improvements of Investment Real Estate  | (5.6)                    | (21.1)           |
| Sales of Investment Real Estate   | 0.2                      | 3.2              |
| Return of Investment of Limited Liability Investment Companies and Limited Partnerships                 | 10.9                     | 4.6              |
| Acquisitions of Limited Liability Investment Companies and Limited Partnerships                         | (15.1)                   | (64.0)           |
| Disposition of Business, Net of Cash Disposed   | 0.2                      | 66.6             |
| Acquisition of Business, Net of Cash Acquired   | (190.0)                  | (95.4)           |
| Decrease in Short-term Investments  | 123.3                    | 83.1             |
| (Increase) Decrease in Automobile Loan Receivables  | 257.9                    | (24.5)           |
| Increase in Other Investments   | (9.1)                    | (3.6)            |
| Other, Net  | (20.9)                   | (20.8)           |
| <b>Net Cash Provided by Investing Activities</b>  | <b>181.3</b>             | <b>89.3</b>      |
| <b>Financing Activities:</b>  |                          |                  |
| Change in Certificates of Deposits  | (352.3)                  | (102.7)          |



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|  |                |                |
|--|----------------|----------------|
| Cash Dividends Paid  | (54.2)         | (89.1)         |
| Note Payable Proceeds  | 220.0          | 232.0          |
| Note Payable Payments  | (220.1)        | (232.0)        |
| Common Stock Repurchases   |                | (67.7)         |
| Cash Exercise of Stock Options   |                | 1.6            |
| Excess Tax Benefits from Share-based Awards                                | 0.1            | 0.2            |
| Other, Net   | 2.8            | 2.6            |
| <b>Net Cash Used by Financing Activities</b>                               | <b>(403.7)</b> | <b>(255.1)</b> |
| <br>   |                |                |
| Decrease in Cash   | (82.3)         | (51.4)         |
| Cash, Beginning of Year Including Cash Reported in Discontinued Operations | 184.2          | 104.5          |
| <br>   |                |                |
| Cash, End of Period  | \$ 101.9       | \$ 53.1        |

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

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**UNITRIN, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1 - Basis of Presentation**

The Condensed Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") and include the accounts of Unitrin, Inc. ("Unitrin") and its subsidiaries (individually and collectively referred to herein as the "Company") and are unaudited. All significant intercompany accounts and transactions have been eliminated. Certain financial information that is normally included in annual financial statements, including certain financial statement footnote disclosures, prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") is not required by the rules and regulations of the SEC and has been condensed or omitted. In the opinion of the Company's management, the Condensed Consolidated Financial Statements include all adjustments necessary for a fair presentation. The preparation of interim financial statements relies heavily on estimates. This factor and certain other factors, such as the seasonal nature of some portions of the insurance business, as well as market conditions, call for caution in drawing specific conclusions from interim results. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes included in the Company's Annual Report on Form 10-K, filed with the SEC for the year ended December 31, 2008 (the "2008 Annual Report").

***Discontinued Operations***

The Company accounts for its former Unitrin Business Insurance operations as discontinued operations (see Note 3, "Discontinued Operations," to the Condensed Consolidated Financial Statements).

***Accounting Changes***

On July 1, 2009, *FASB Accounting Standards Codification* ("ASC") became the sole source of authoritative GAAP recognized by the Financial Accounting Standards Board ("FASB") to be applied by nongovernmental entities for financial statements issued for interim and annual periods ending after September 15, 2009. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. Except applicable SEC rules and regulations and a limited number of grandfathered standards, all other sources of GAAP for nongovernmental entities were superseded by the issuance of ASC. ASC did not change GAAP, but rather combined the sources of GAAP and the framework for selecting among those sources into a single source. Accordingly, the adoption of ASC had no impact on the Company.

Prior to the adoption of ASC, the Company adopted various standards which have been codified into ASC. A discussion of these standards, along with a reference to the ASC topics into which they have been codified and the effect of adoption on the Company, follows.

In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141(R), *Business Combinations* (codified into ASC Topic 805, *Business Combinations*). The standard establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree and recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase. The standard also sets forth the disclosures required to be made in the financial statements to evaluate the nature and financial effects of the business combination. The standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. On January 1, 2009, the Company adopted the standard. Accordingly, the standard was applied by the Company to the acquisition of Direct Response Corporation and its subsidiaries ("Direct Response") (see Note 2, "Acquisition of Businesses," to the Condensed Consolidated Financial Statements).

In April 2009, the FASB issued FASB Staff Position ("FSP") SFAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (codified into ASC Topic 805, *Business Combinations*). The standard amends and clarifies SFAS No. 141(R) with respect to the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The Company applied the standard to its acquisition of Direct Response.

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**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 1 - Basis of Presentation (continued)**

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (codified into ASC Topic 810, *Consolidation*). The standard establishes accounting and reporting standards that require: that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of Operations; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. The standard also requires that any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value when a subsidiary is deconsolidated. The standard also sets forth the disclosure requirements to identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The standard applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The standard must be applied prospectively as of the beginning of the fiscal year in which it is initially adopted, except for the presentation and disclosure requirements. The presentation and disclosure requirements are applied retrospectively for all periods presented. On January 1, 2009, the Company adopted the standard. The Company does not have a noncontrolling interest in one or more subsidiaries. Accordingly, the initial application of the standard had no impact on the Company.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (codified into ASC Topic 815, *Derivatives and Hedging*). The standard establishes, among other things, the disclosure requirements for derivative instruments and for hedging activities. The standard amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (codified into ASC Topic 815, *Derivatives and Hedging*), with the intent to provide users of financial statements with enhanced understanding of how and why an entity uses derivative securities; how derivatives and hedges are being accounted for and how derivatives and hedges affect an entity's financial position, financial performance and cash flows. The standard is effective for financial statements issued for fiscal years beginning after November 15, 2008. On January 1, 2009, the Company adopted the standard. The initial application of the standard had no impact on the Company.

In April 2008, the FASB issued FSP SFAS 142-3, *Determination of the Useful Life of Intangible Assets* (codified into ASC Topic 350, *Intangibles-Goodwill and Other*). The standard amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. Prior to the issuance of the standard, an entity was precluded from using its own assumptions about renewal or extension of an arrangement where there was likely to be substantial cost or material modifications. The standard removed a prior requirement for an entity to consider whether an intangible asset can be renewed without substantial cost or material modification to the existing terms and conditions and requires an entity to consider its own experience in renewing similar arrangements. The standard also increases the disclosure requirements for a recognized intangible asset to enable a user of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent or ability to renew or extend the arrangement. The standard is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. On January 1, 2009, the Company adopted the standard. The guidance for determining the useful life of a recognized intangible asset is applied prospectively to intangible assets acquired after the effective date. Accordingly, the Company initially applied the standard to intangible assets acquired on or after January 1, 2009. The disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date.

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60* (codified into ASC Topic 944, *Financial Services - Insurance*). The standard clarifies how certain accounting standards for insurance enterprises apply to financial guarantee insurance contracts (GICs), including the recognition and measurement of premium revenue and claim liabilities and require expanded disclosures about GICs. The standard does not apply to a GIC that is accounted for as a derivative instrument. Except for certain disclosure regarding insurance enterprise requirements risk-management activities, the standard is effective



**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 1 - Basis of Presentation (continued)**

for financial statements issued for fiscal years beginning after December 15, 2008 and all interim periods within those fiscal years. On January 1, 2009, the Company adopted the standard. The Company does not issue GIC s. Accordingly, the initial application of the standard had no impact on the Company.

In June 2008, the FASB issued FSP Emerging Issues Task Force ( EITF ) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (codified into ASC Topic 260, *Earnings per Share*). The EITF concluded that all outstanding share-based payment awards that contain a right to receive non-forfeitable dividends participate in the undistributed earnings with common shareholders, and therefore, the issuing entity is required to apply the two-class method of computing basic and diluted earnings per share. The standard is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Upon adoption, all prior-period earnings per share data presented must be adjusted retrospectively to conform to the standard. On January 1, 2009, the Company adopted the standard. Basic Net Income per Share from Continuing Operations decreased by less than \$0.01 per unrestricted common share on an annual basis on the initial and retrospective application of the standard to prior periods.

In January 2009, the FASB issued FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20* (codified into ASC Topic 325, *Investments - Other*). The standard amends the impairment guidance to achieve a more consistent determination of whether an other-than-temporary impairment ( OTTI ) has occurred. The standard is effective for interim and annual reporting periods ending after December 15, 2008, and must be applied prospectively. The Company adopted the standard on January 1, 2009. The initial application of the standard had no impact on the Company.

In April 2009, the FASB issued FSP SFAS 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (codified into ASC Topic 320, *Investments - Debt and Equity Securities*). The standard amends the OTTI guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of OTTI on debt and equity securities in the financial statements. The standard does not amend existing recognition and measurement guidance related to OTTI of equity securities. The standard is effective for interim and annual reporting periods ending after June 15, 2009. The provisions of the standard are not permitted to be applied retrospectively to periods prior to the date of adoption, but rather must be applied prospectively. On April 1, 2009, the Company adopted the standard and applied it prospectively. Accordingly, the Company recognized the cumulative effect of adoption as an increase of \$2.9 million, net of tax of \$1.6 million, to the Company s Retained Earnings with an offsetting amount to the Company s Accumulated Other Comprehensive Loss at the date of adoption. The effect of adoption had no impact on Total Shareholders Equity.

The following individual line items in the Condensed Consolidated Balance Sheet at September 30, 2009 were affected by the change in accounting principle resulting from the adoption of the standard:

| (Dollars in Millions)                         | As Computed<br>Without<br>Change in<br>Accounting<br>Principle | As Reported<br>With<br>Change in<br>Accounting<br>Principle | Effect of<br>Change |
|---|--|---|---------------------|
| Impact on Shareholders Equity:                |  |   |                     |
| Retained Earnings                             | \$ 1,031.6   | \$ 1,033.0  | \$ 1.4              |
| Accumulated Other Comprehensive Income (Loss) | 90.1   | 88.7  | (1.4)               |



**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 1 - Basis of Presentation (continued)**

The following individual line items in the Condensed Consolidated Statement of Operations for the nine months ended September 30, 2009 were affected by the change in accounting principle resulting from the adoption of the standard:

| (Dollars in Millions, Except Per Share Amounts)   | As Computed<br>Without<br>Change in<br>Accounting<br>Principle | As Reported<br>With<br>Change in<br>Accounting<br>Principle | Effect of<br>Change |
|---|--|---|---------------------|
| <b>Revenues:</b>  |  |   |                     |
| Earned Premiums   | \$ 1,855.0   | \$ 1,855.0  | \$                  |
| Automobile Finance Revenues   | 142.4  | 142.4   |                     |
| Net Investment Income   | 234.5  | 234.7   | 0.2                 |
| Other Income  | 2.0  | 2.0   |                     |
| Net Realized Gains on Sales of Investments  | 20.7   | 17.6  | (3.1)               |
| Total Other-than-temporary Impairment Losses  | (49.9)   | (49.9)  |                     |
| Portion of Losses Recognized in Other Comprehensive Income  |  | 0.7   | 0.7                 |
| <b>Net Impairment Losses Recognized in Earnings</b>   | <b>(49.9)</b>  | <b>(49.2)</b>   | <b>0.7</b>          |
| <br>  |  |   |                     |
| Total Revenues  | 2,204.7  | 2,202.5   | (2.2)               |
| Total Expenses  | 2,067.2  | 2,067.2   |                     |
| <br>  |  |   |                     |
| Income from Continuing Operations before Income Taxes and Equity in Net Income (Loss) of Investee | 137.5  | 135.3   | (2.2)               |
| Income Tax Benefit (Expense)  | (38.8)   | (38.1)  | 0.7                 |
| <br>  |  |   |                     |
| Income from Continuing Operations before Equity in Net Income (Loss) of Investee                  | 98.7   | 97.2  | (1.5)               |
| Equity in Net Income (Loss) of Investee   | (1.1)  | (1.1)   |                     |
| <br>  |  |   |                     |
| Income from Continuing Operations   | 97.6   | 96.1  | (1.5)               |
| <br>  |  |   |                     |
| Income from Discontinued Operations   | 2.3  | 2.3   |                     |
| <br>  |  |   |                     |
| Net Income  | \$ 99.9  | \$ 98.4   | \$ (1.5)            |
| <br>  |  |   |                     |
| <b>Basic Income Per Share from Continuing Operations:</b>   |  |   |                     |
| Restricted Common Stock   | \$ 1.12  | \$ 1.10   | \$ (0.02)           |

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|  |    |      |    |      |           |
|--|----|------|----|------|-----------|
| Unrestricted Common Stock                            | \$ | 1.56 | \$ | 1.54 | \$ (0.02) |
| Basic Net Income Per Share:                          |    |      |    |      |           |
| Restricted Common Stock                              | \$ | 1.16 | \$ | 1.14 | \$ (0.02) |
| Unrestricted Common Stock                            | \$ | 1.60 | \$ | 1.58 | \$ (0.02) |
| Diluted Income Per Share from Continuing Operations: |    |      |    |      |           |
| Restricted Common Stock                              | \$ | 1.12 | \$ | 1.10 | \$ (0.02) |
| Unrestricted Common Stock                            | \$ | 1.56 | \$ | 1.54 | \$ (0.02) |
| Diluted Net Income Per Share:                        |    |      |    |      |           |
| Restricted Common Stock                              | \$ | 1.16 | \$ | 1.14 | \$ (0.02) |
| Unrestricted Common Stock                            | \$ | 1.60 | \$ | 1.58 | \$ (0.02) |



**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 1 - Basis of Presentation (continued)**

The following individual line items in the Condensed Consolidated Statement of Operations for the three months ended September 30, 2009 were affected by the change in accounting principle resulting from the adoption of the standard:

| (Dollars in Millions, Except Per Share Amounts)   | As Computed<br>Without<br>Change in<br>Accounting<br>Principle | As Reported<br>With<br>Change in<br>Accounting<br>Principle | Effect of<br>Change |
|---|--|---|---------------------|
| Revenues:   |  |   |                     |
| Earned Premiums   | \$ 616.2   | \$ 616.2  | \$                  |
| Automobile Finance Revenues   | 42.1   | 42.1  |                     |
| Net Investment Income   | 93.3   | 93.3  |                     |
| Other Income  | 1.1  | 1.1   |                     |
| Net Realized Gains on Sales of Investments  | 13.7   | 12.4  | (1.3)               |
| Total Other-than-temporary Impairment Losses  | (14.6)   | (14.6)  |                     |
| Portion of Losses Recognized in Other Comprehensive Income  |  | 0.1   | 0.1                 |
| Net Impairment Losses Recognized in Earnings  | (14.6)   | (14.5)  | 0.1                 |
| Total Revenues  | 751.8  | 750.6   | (1.2)               |
| Total Expenses  | 666.9  | 666.9   |                     |
| Income from Continuing Operations before Income Taxes and Equity in Net Income (Loss) of Investee | 84.9   | 83.7  | (1.2)               |
| Income Tax Benefit (Expense)  | (22.1)   | (21.7)  | 0.4                 |
| Income from Continuing Operations before Equity in Net Income (Loss) of Investee                  | 62.8   | 62.0  | (0.8)               |
| Equity in Net Income (Loss) of Investee   | (1.0)  | (1.0)   |                     |
| Income from Continuing Operations   | 61.8   | 61.0  | (0.8)               |
| Income from Discontinued Operations   | 1.1  | 1.1   |                     |
| Net Income  | \$ 62.9  | \$ 62.1   | \$ (0.8)            |
| Basic Income Per Share from Continuing Operations:  |  |   |                     |
| Restricted Common Stock   | \$ 0.44  | \$ 0.43   | \$ (0.01)           |

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|  |    |      |    |      |    |        |
|--|----|------|----|------|----|--------|
| Unrestricted Common Stock                            | \$ | 0.99 | \$ | 0.98 | \$ | (0.01) |
| Basic Net Income Per Share:                          |    |      |    |      |    |        |
| Restricted Common Stock                              | \$ | 0.46 | \$ | 0.45 | \$ | (0.01) |
| Unrestricted Common Stock                            | \$ | 1.01 | \$ | 1.00 | \$ | (0.01) |
| Diluted Income Per Share from Continuing Operations: |    |      |    |      |    |        |
| Restricted Common Stock                              | \$ | 0.44 | \$ | 0.43 | \$ | (0.01) |
| Unrestricted Common Stock                            | \$ | 0.99 | \$ | 0.98 | \$ | (0.01) |
| Diluted Net Income Per Share:                        |    |      |    |      |    |        |
| Restricted Common Stock                              | \$ | 0.46 | \$ | 0.45 | \$ | (0.01) |
| Unrestricted Common Stock                            | \$ | 1.01 | \$ | 1.00 | \$ | (0.01) |

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 1 - Basis of Presentation (continued)**

The following individual line items in the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2009 were affected by the change in accounting principle resulting from the adoption of the standard:

| <b>(Dollars in Millions)</b>                                     | <b>As Computed<br/>Without<br/>Change in<br/>Accounting<br/>Principle</b> | <b>As Reported<br/>With<br/>Change in<br/>Accounting<br/>Principle</b> | <b>Effect of<br/>Change</b> |
|--|---|--|-----------------------------|
| <b>Impact on Operating Activities:</b>                           |   |  |                             |
| Net Income   | \$ 99.9   | \$ 98.4  | \$ (1.5)                    |
| <b>Adjustments to Reconcile Net Income to Net Cash</b>           |   |  |                             |
| <b>Provided (Used) by Operating Activities:</b>                  |   |  |                             |
| <b>Amortization of Investment Securities and Depreciation of</b> |   |  |                             |
| Investment Real Estate   | 11.8  | 11.6   | (0.2)                       |
| Change in Income Taxes   | (29.1)  | (29.8)   | (0.7)                       |
| Net Realized Gains on Sales of Investments                       | (20.7)  | (17.6)   | 3.1                         |
| Net Impairment Losses Recognized in Earnings                     | 49.9  | 49.2   | (0.7)                       |

In April 2009, the FASB issued FSP SFAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (codified into ASC Topic 825, *Financial Instruments*). Under the standard, disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies are required as well as in annual financial statements. The standard is effective for interim reporting periods ending after June 15, 2009. On April 1, 2009, the Company adopted the standard and, accordingly, the interim disclosure requirements are applicable to these condensed consolidated financial statements.

In April 2009, the FASB issued FSP SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (codified into ASC Topic 820, *Fair Value Measurements and Disclosures*). The standard provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. The standard also includes guidance on identifying circumstances that indicate a transaction is not orderly. The standard must be applied prospectively and is effective for interim and annual reporting periods ending after June 15, 2009. On April 1, 2009, the Company adopted the standard and applied its provisions prospectively.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (codified into ASC Topic 855, *Subsequent Events*), which provides guidance on management's general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. The standard is effective for interim or annual financial periods ending after June 15, 2009. The standard does not apply to subsequent events or transactions that are within the scope of other applicable GAAP standards that provide different guidance on the accounting treatment for subsequent events or transactions. The initial application of the standard had no impact on the Company. The Company evaluates subsequent events through the date and time of the filing of the applicable periodic report with the SEC.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets*, a grandfathered standard under ASC. The standard provides guidance to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The standard must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, and for interim periods within that first annual reporting period. The standard must be applied to transfers occurring on or after the effective date. Additionally, the disclosure provisions of the standard

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should be applied to transfers that occurred both before and after the effective date of the standard. The Company does not anticipate that the adoption of the standard will have an impact on the Company.

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 1 - Basis of Presentation (continued)**

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, a grandfathered standard under ASC, to amend the consolidation guidance that applies to variable interest entities to require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. The standard requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. The standard is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, and for interim periods within that first annual reporting period. The Company does not anticipate that the adoption of the standard will have an impact on the Company.

The FASB issues Accounting Standards Updates (ASU) to amend the authoritative literature in ASC. There have been fourteen ASUs to date that amend the original text of ASC. Except for ASU 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, the ASUs issued to date either (i) provide supplemental guidance, (ii) are technical corrections, (iii) are not applicable to the Company or (iv) are not expected to have a significant impact on the Company.

In September 2009, the FASB issued ASU 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to provide guidance on measuring the fair value of investments in entities that calculate net asset value. The standard amends ASC Topic 820, *Fair Value Measurements and Disclosures*. The amendment permits, as a practical expedient, a reporting entity to measure the fair value of an investment, which is within the scope of the standard, on the basis of net asset value per share of the investment (or its equivalent). The amendment also requires disclosures by major category of investment about the attributes of investments, such as the nature of any restrictions on the investor's ability to redeem its investments at the measurement date, any unfunded commitments and the investment strategies of the investees. The guidance in the standard is effective for interim and annual periods ending after December 15, 2009, with early adoption permitted. The Company intends to adopt the standard effective October 1, 2009. The Company has not yet determined the impact of adoption on the Company.

**Note 2 - Acquisition of Businesses**

On February 13, 2009, Unitrin's subsidiary, Trinity Universal Insurance Company (Trinity) completed its acquisition of Direct Response in a cash transaction for a total purchase price of \$201.6 million. The results of Direct Response are included in the Company's financial statements from the date of acquisition and are reported in the Company's Unitrin Direct segment. The allocation of the purchase price to the fair values of the assets acquired and liabilities assumed is presented below:

| <b>(Dollars in Millions)</b>  |          |
|---|----------|
| Investments   | \$ 211.3 |
| Cash  | 11.6     |
| Other Receivables   | 40.4     |
| Value of Insurance In force (Reported in Deferred Policy Acquisition Costs) | 26.2     |
| Value of Licenses Acquired  | 20.1     |
| Goodwill  | 1.5      |
| Current and Deferred Income Taxes   | 53.6     |
| Other Assets  | 2.5      |
| Property and Casualty Insurance Reserves                                    | (109.6)  |
| Unearned Premiums   | (48.8)   |
| Accrued Expenses and Other Liabilities                                      | (7.2)    |

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Total Purchase Price

\$ 201.6

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**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 2 - Acquisition of Businesses (continued)**

On April 1, 2008, the Company completed its acquisition of Primesco, Inc. and its wholly-owned subsidiaries, Mutual Savings Life Insurance Company ( Mutual Savings Life ) and Mutual Savings Fire Insurance Company ( Mutual Savings Fire ), (together Primesco ). At December 31, 2008, the Company had not yet completed the process of estimating the fair value of insurance in force acquired and Insurance Reserves. The Company completed this process and finalized the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed in the first quarter of 2009. Goodwill decreased by \$2.8 million due to the finalization of the allocation of the purchase price.

**Note 3 - Discontinued Operations**

On June 3, 2008, the Company completed the sale of its Unitrin Business Insurance operations to AmTrust Financial Services, Inc. The Company retained Property and Casualty Insurance Reserves for unpaid insured losses that occurred prior to June 1, 2008, the effective date of the sale. In accordance with GAAP, changes in the Company's estimate of such retained liabilities after the sale are reported as a separate component of the results of discontinued operations.

Summary financial information included in Income (Loss) from Discontinued Operations before Income Taxes for the nine and three months ended September 30, 2009 and 2008 is presented below:

| <b>(Dollars in Millions, Except Per Share Amounts)</b>                          | <b>Nine Months Ended</b> |                  | <b>Three Months Ended</b> |                  |
|---|--------------------------|------------------|---------------------------|------------------|
|   | <b>Sept. 30,</b>         | <b>Sept. 30,</b> | <b>Sept. 30,</b>          | <b>Sept. 30,</b> |
|   | <b>2009</b>              | <b>2008</b>      | <b>2009</b>               | <b>2008</b>      |
| Total Earned Premiums   | \$                       | \$ 70.8          | \$                        | \$               |
| Net Investment Income   |                          | 6.6              |                           |                  |
| <b>Total Revenues</b>   | <b>\$</b>                | <b>\$ 77.4</b>   | <b>\$</b>                 | <b>\$</b>        |
| Income (Loss) from Discontinued Operations before Income Taxes:                 |                          |                  |                           |                  |
| Results of Operations   | \$                       | \$ (19.9)        | \$                        | \$               |
| Gain on Disposition   |                          | 8.1              |                           |                  |
| Change in Estimate of Retained Liabilities Arising from Discontinued Operations | 3.7                      | 6.7              | 1.6                       | 6.7              |
| Income (Loss) from Discontinued Operations before Income Taxes                  | \$ 3.7                   | \$ (5.1)         | \$ 1.6                    | \$ 6.7           |
| Basic Income (Loss) Per Share from Discontinued Operations:                     |                          |                  |                           |                  |
| Restricted Common Stock   | \$ 0.04                  | \$ (0.11)        | \$ 0.02                   | \$ 0.07          |
| Unrestricted Common Stock   | \$ 0.04                  | \$ (0.11)        | \$ 0.02                   | \$ 0.07          |
| Diluted Income (Loss) Per Share from Discontinued Operations:                   |                          |                  |                           |                  |
| Restricted Common Stock   | \$ 0.04                  | \$ (0.11)        | \$ 0.02                   | \$ 0.07          |

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Unrestricted Common Stock

\$ 0.04

\$ (0.11)

\$ 0.02

\$ 0.07



**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 4 - Investments**

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at September 30, 2009 were:

| (Dollars in Millions)                                   | Amortized<br>Cost | Gross Unrealized<br>Gains | Losses           | Fair Value        |
|---|-------------------|---------------------------|------------------|-------------------|
| U.S. Government and Government Agencies and Authorities | \$ 750.8          | \$ 36.3                   | \$ (1.1)         | \$ 786.0          |
| States, Municipalities and Political Subdivisions       | 1,501.5           | 94.1                      | (1.6)            | 1,594.0           |
| Corporate Securities:                                   |                   |                           |                  |                   |
| Bonds and Notes   | 1,903.6           | 140.1                     | (36.2)           | 2,007.5           |
| Redeemable Preferred Stocks                             | 153.5             | 1.9                       | (4.7)            | 150.7             |
| Mortgage and Asset Backed                               | 14.6              | 0.6                       | (1.4)            | 13.8              |
| <b>Investments in Fixed Maturities</b>                  | <b>\$ 4,324.0</b> | <b>\$ 273.0</b>           | <b>\$ (45.0)</b> | <b>\$ 4,552.0</b> |

Included in the fair value of Mortgage and Asset Backed investments at September 30, 2009 are \$1.7 million of non-governmental residential mortgage-backed securities, \$3.5 million of commercial mortgage-backed securities, \$6.0 million of collateralized debt obligations and \$2.6 million of other asset-backed securities.

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at December 31, 2008 were:

| (Dollars in Millions)                                   | Amortized<br>Cost | Gross Unrealized<br>Gains | Losses            | Fair Value        |
|---|-------------------|---------------------------|-------------------|-------------------|
| U.S. Government and Government Agencies and Authorities | \$ 934.6          | \$ 44.9                   | \$ (0.4)          | \$ 979.1          |
| States, Municipalities and Political Subdivisions       | 1,295.6           | 34.2                      | (21.3)            | 1,308.5           |
| Corporate Securities:                                   |                   |                           |                   |                   |
| Bonds and Notes   | 1,750.2           | 46.9                      | (128.2)           | 1,668.9           |
| Redeemable Preferred Stocks                             | 179.2             | 0.3                       | (13.7)            | 165.8             |
| Mortgage and Asset Backed                               | 14.8              | 0.1                       | (1.3)             | 13.6              |
| <b>Investments in Fixed Maturities</b>                  | <b>\$ 4,174.4</b> | <b>\$ 126.4</b>           | <b>\$ (164.9)</b> | <b>\$ 4,135.9</b> |

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at September 30, 2009, by contractual maturity, were:

| (Dollars in Millions)                 | Amortized<br>Cost | Fair Value |
|---------------------------------------|-------------------|------------|
| Due in One Year or Less               | \$ 117.7          | \$ 119.1   |
| Due after One Year to Five Years      | 607.6             | 624.3      |
| Due after Five Years to Fifteen Years | 1,765.5           | 1,870.4    |
| Due after Fifteen Years               | 1,464.6           | 1,553.2    |

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|   |            |            |
|---|------------|------------|
| Asset-backed Securities Not Due at a Single Maturity Date | 368.6      | 385.0      |
| Investments in Fixed Maturities                           | \$ 4,324.0 | \$ 4,552.0 |

The expected maturities of the Company's Investments in Fixed Maturities may differ from the contractual maturities because debtors may have the right to call or prepay obligations with or without call or prepayment penalties. Investments in Asset-backed Securities Not Due at a Single Maturity Date at September 30, 2009 consisted of securities issued by the Government National Mortgage Association ( Ginnie Mae ) with a fair value of \$319.8 million, securities issued by the Federal National Mortgage Association ( Fannie Mae ) with a fair value of \$48.8 million, securities issued by the Federal Home Loan Mortgage Corporation ( Freddie Mac ) with a fair value of \$2.6 million and securities of other issuers with a fair value of \$13.8 million.

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 4 - Investments (continued)**

Gross unrealized gains and gross unrealized losses on the Company's Investments in Equity Securities at September 30, 2009 were:

| (Dollars in Millions)            | Amortized | Gross Unrealized |           | Fair Value |
|----------------------------------|-----------|------------------|-----------|------------|
|                                  | Cost      | Gains            | Losses    |            |
| Preferred Stocks                 | \$ 118.4  | \$ 3.6           | \$ (6.5)  | \$ 115.5   |
| Common Stocks                    | 32.8      | 12.0             | (1.3)     | 43.5       |
| Other Equity Interests           | 36.7      | 6.1              | (5.1)     | 37.7       |
| Investments in Equity Securities | \$ 187.9  | \$ 21.7          | \$ (12.9) | \$ 196.7   |

Gross unrealized gains and gross unrealized losses on the Company's Investments in Equity Securities at December 31, 2008 were:

| (Dollars in Millions)            | Amortized | Gross Unrealized |           | Fair Value |
|----------------------------------|-----------|------------------|-----------|------------|
|                                  | Cost      | Gains            | Losses    |            |
| Preferred Stocks                 | \$ 150.1  | \$ 2.1           | \$ (32.3) | \$ 119.9   |
| Common Stocks                    | 54.4      | 4.3              | (0.9)     | 57.8       |
| Other Equity Interests           | 50.9      | 0.4              | (7.2)     | 44.1       |
| Investments in Equity Securities | \$ 255.4  | \$ 6.8           | \$ (40.4) | \$ 221.8   |

An aging, based on the length of time securities have been in an unrealized loss position, of unrealized losses on the Company's Investments in Fixed Maturities and Equity Securities at September 30, 2009 is presented below:

| (Dollars in Millions)                                   | Less Than 12 Months |                   | 12 Months or Longer |                   | Total      |                   |
|---|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| Fixed Maturities:                                       |                     |                   |                     |                   |            |                   |
| U.S. Government and Government Agencies and Authorities | \$ 17.6             | \$ (0.2)          | \$ 57.2             | \$ (0.9)          | \$ 74.8    | \$ (1.1)          |
| States, Municipalities and Political Subdivisions       | 14.1                | (0.2)             | 27.9                | (1.4)             | 42.0       | (1.6)             |
| Corporate Securities:                                   |                     |                   |                     |                   |            |                   |
| Bonds and Notes   | 98.7                | (8.1)             | 293.4               | (28.1)            | 392.1      | (36.2)            |
| Redeemable Preferred Stocks                             | 11.8                | (0.6)             | 87.9                | (4.1)             | 99.7       | (4.7)             |
| Mortgage and Asset Backed                               | 0.6                 | (0.1)             | 6.3                 | (1.3)             | 6.9        | (1.4)             |
| Total Fixed Maturities                                  | 142.8               | (9.2)             | 472.7               | (35.8)            | 615.5      | (45.0)            |

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|                                |              |               |              |               |              |               |
|--------------------------------|--------------|---------------|--------------|---------------|--------------|---------------|
| Equity Securities:             |              |               |              |               |              |               |
| Preferred Stocks               | 8.9          | (0.6)         | 70.2         | (5.9)         | 79.1         | (6.5)         |
| Common Stocks                  | 3.6          | (0.4)         | 2.2          | (0.9)         | 5.8          | (1.3)         |
| Other Equity Interests         | 1.7          | (0.5)         | 2.8          | (4.6)         | 4.5          | (5.1)         |
| <b>Total Equity Securities</b> | <b>14.2</b>  | <b>(1.5)</b>  | <b>75.2</b>  | <b>(11.4)</b> | <b>89.4</b>  | <b>(12.9)</b> |
| <br>Total                      | <br>\$ 157.0 | <br>\$ (10.7) | <br>\$ 547.9 | <br>\$ (47.2) | <br>\$ 704.9 | <br>\$ (57.9) |

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 4 - Investments (continued)**

An aging, based on the length of time securities have been in an unrealized loss position, of unrealized losses on the Company's Investments in Fixed Maturities and Equity Securities at December 31, 2008 is presented below:

| (Dollars in Millions)   | Less Than 12 Months |                   | 12 Months or Longer |                   | Total             |                   |
|---|---------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses |
| <b>Fixed Maturities:</b>  |                     |                   |                     |                   |                   |                   |
| U.S. Government and Government Agencies and Authorities States, Municipalities and Political Subdivisions | \$ 57.2             | \$ (0.4)          | \$ 4.0              | \$ (11.2)         | \$ 61.2           | \$ (0.4)          |
| Corporate Securities:   |                     |                   |                     |                   |                   |                   |
| Bonds and Notes   | 762.0               | (104.8)           | 138.4               | (23.4)            | 900.4             | (128.2)           |
| Redeemable Preferred Stocks   | 132.4               | (13.7)            |                     |                   | 132.4             | (13.7)            |
| Mortgage and Asset Backed   | 4.5                 | (0.6)             | 7.3                 | (0.7)             | 11.8              | (1.3)             |
| <b>Total Fixed Maturities</b>   | <b>1,271.0</b>      | <b>(129.6)</b>    | <b>252.2</b>        | <b>(35.3)</b>     | <b>1,523.2</b>    | <b>(164.9)</b>    |
| <b>Equity Securities:</b>   |                     |                   |                     |                   |                   |                   |
| Preferred Stocks  | 87.3                | (30.8)            | 5.5                 | (1.5)             | 92.8              | (32.3)            |
| Common Stocks   | 4.1                 | (0.9)             |                     |                   | 4.1               | (0.9)             |
| Other Equity Interests  | 14.7                | (3.8)             | 3.9                 | (3.4)             | 18.6              | (7.2)             |
| <b>Total Equity Securities</b>  | <b>106.1</b>        | <b>(35.5)</b>     | <b>9.4</b>          | <b>(4.9)</b>      | <b>115.5</b>      | <b>(40.4)</b>     |
| <b>Total</b>  | <b>\$ 1,377.1</b>   | <b>\$ (165.1)</b> | <b>\$ 261.6</b>     | <b>\$ (40.2)</b>  | <b>\$ 1,638.7</b> | <b>\$ (205.3)</b> |

Unrealized losses on fixed maturities, which the Company has determined to be temporary at September 30, 2009, were \$45.0 million, of which \$35.8 million related to fixed maturities that have continued in an unrealized loss position for 12 months or longer. Included in the second preceding table under the headings "Less than 12 Months" and "12 Months or Longer" are unrealized losses of \$0.5 million and \$0.5 million, respectively, related to securities for which the Company has recognized credit losses in earnings. The vast majority of the remaining fixed maturities presented in the second preceding table are concentrated in states, municipalities and political subdivisions and investment-grade corporate bonds and notes which the Company does not expect the issuers to settle at a price less than the amortized cost basis of the security. At September 30, 2009 the Company did not have the intent to sell these investments and it was not more likely than not that the Company would be required to sell these investments before recovery of its amortized cost basis, which may be maturity. Accordingly, these investments are not considered to be other-than-temporarily impaired at September 30, 2009.

Unrealized losses on fixed maturities, which the Company determined to be temporary at December 31, 2008, were \$164.9 million, of which \$35.3 million related to fixed maturities that have continued in an unrealized loss position for 12 months or longer. These fixed maturities were concentrated in states, municipalities and political subdivisions and investment-grade corporate bonds and notes at December 31, 2008, which the Company expected to fully recover.

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The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other-than-temporary. The portion of the declines in the fair values of investments that are determined to be other-than-temporary are reported as losses in the Condensed Consolidated Statement of Operations in the period when such determination is made. Based on the Company's evaluations at September 30, 2009 and December 31, 2008 of the prospects of the issuers, including, but not limited to, the credit ratings of the issuers of the investments in the fixed maturities shown in the preceding two tables, and the Company's intention to not sell and its determination that it would not be required to sell before recovery of the amortized cost of such investments at September 30, 2009, or its ability and intent to hold to recovery at December 31, 2008, the Company concluded that the declines in the fair values of the Company's investments in fixed maturities presented in the preceding two tables were temporary at the respective evaluation dates.

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**UNITRIN, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**Note 4 - Investments (continued)**

The Company considers various factors when considering if a decline in the fair value of an equity security is other than temporary including, but not limited to:

The length of time and magnitude of the unrealized loss;

The volatility of the investment;

Analyst recommendations and 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.

The vast majority of the Company's equity securities at September 30, 2009 and December 31, 2008 presented in the preceding two tables are perpetual preferred stocks of financial institutions or investments in limited liability partnerships that primarily invest in distressed debt, mezzanine debt and secondary transactions. The Company considers the debt-like characteristics of perpetual preferred stocks along with issuer ratings when evaluating impairment. All such preferred stocks paid dividends at the stated dividend rate during the three month period preceding the evaluation date. The Company concluded that the declines in the fair values of the perpetual preferred stocks of these financial institutions presented in the preceding two tables were temporary in nature, largely driven by current market conditions, and since the Company intends to hold the securities until recovery, the impairments should not be recognized in the Condensed Consolidated Statement of Operations. By the nature of their underlying investments, the Company believes that its investments in these limited liability partnerships exhibit debt-like characteristics which, among other factors, the Company considers when evaluating these investments for impairment. Based on evaluations at September 30, 2009 and December 31, 2008 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 presented in the preceding two tables were temporary at the respective evaluation dates.

The carrying value, fair value and approximate voting percentage for the Company's investment in the common stock of Intermec, Inc. (Intermec), which is accounted for under the equity method of accounting and reported as Investment in Investee in the Company's Condensed Consolidated Balance Sheets, at September 30, 2009 and December 31, 2008 were:

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| (Dollars in Millions)         | Sept. 30,<br>2009 | Dec. 31,<br>2008 |
|-------------------------------|-------------------|------------------|
| Carrying Value                | \$ 97.4           | \$ 102.2         |
| Fair Value                    | \$ 178.5          | \$ 168.1         |
| Approximate Voting Percentage | 20.4%             | 20.5%            |

The carrying values of the Company's Other Investments at September 30, 2009 and December 31, 2008 were:

| (Dollars in Millions)   | Sept. 30,<br>2009 | Dec. 31,<br>2008 |
|---|-------------------|------------------|
| Loans to Policyholders  | \$ 219.1          | \$ 209.9         |
| Real Estate   | 256.2             | 257.7            |
| Limited Liability Investment Companies and Limited Partnerships | 275.3             | 242.3            |
| Other   | 5.3               | 5.0              |
| <b>Total</b>  | <b>\$ 755.9</b>   | <b>\$ 714.9</b>  |



**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 5 - Automobile Loan Receivables**

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

The components of Automobile Loan Receivables at September 30, 2009 and December 31, 2008 were:

| <b>(Dollars in Millions)</b>                       | <b>Sept. 30,<br/>2009</b> | <b>Dec. 31,<br/>2008</b> |
|--|---------------------------|--------------------------|
| Sales Contracts and Loans Receivable               | \$ 874.4                  | \$ 1,213.1               |
| Unearned Discounts and Deferred Fees               | (7.2)                     | (14.4)                   |
| <b>Net Automobile Loan Receivables Outstanding</b> | <b>867.2</b>              | <b>1,198.7</b>           |
| Reserve for Loan Losses                            | (98.5)                    | (120.1)                  |
| <b>Automobile Loan Receivables</b>                 | <b>\$ 768.7</b>           | <b>\$ 1,078.6</b>        |

The status of loan balances included in Net Automobile Loan Receivables Outstanding at September 30, 2009 and December 31, 2008 is presented below:

| <b>(Dollars in Millions)</b>                       | <b>Amount</b>             | <b>As a<br/>Percentage<br/>of Net<br/>Automobile<br/>Loan<br/>Receivables<br/>Outstanding</b> | <b>Amount</b>            | <b>As a<br/>Percentage<br/>of Net<br/>Automobile<br/>Loan<br/>Receivables<br/>Outstanding</b> |
|--|---------------------------|---|--------------------------|---|
|  | <b>September 30, 2009</b> |   | <b>December 31, 2008</b> |   |
| Current Loan Balances                              | \$ 549.6                  | 63.4%   | \$ 738.3                 | 61.6%   |
| Delinquent Loan Balances:                          |                           |   |                          |   |
| Less than 30 Days Delinquent                       | 230.8                     | 26.6%   | 312.6                    | 26.1%   |
| 30 Days to 59 Days Delinquent                      | 63.6                      | 7.3%  | 103.0                    | 8.6%  |
| 60 Days to 89 Days Delinquent                      | 17.5                      | 2.0%  | 32.8                     | 2.7%  |
| Delinquent 90 Days and Greater                     | 5.7                       | 0.7%  | 12.0                     | 1.0%  |
| <b>Net Automobile Loan Receivables Outstanding</b> | <b>867.2</b>              | <b>100.0%</b>   | <b>1,198.7</b>           | <b>100.0%</b>   |
| Reserve for Loan Losses                            | (98.5)                    |   | (120.1)                  |   |
| <b>Automobile Loan Receivables</b>                 | <b>\$ 768.7</b>           |   | <b>\$ 1,078.6</b>        |   |

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Activity in the Reserve for Loan Losses for the nine and three months ended September 30, 2009 and 2008 was:

| (Dollars in Millions)                         | Nine Months Ended |                   | Three Months Ended |                   |
|---|-------------------|-------------------|--------------------|-------------------|
|   | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| Reserve for Loan Losses - Beginning of Period | \$ 120.1          | \$ 148.4          | \$ 108.3           | \$ 152.2          |
| Provision for Loan Losses                     | 50.1              | 99.4              | 14.4               | 26.2              |
| Net Charge-off:                               |                   |                   |                    |                   |
| Automobile Loan Receivables Charged-off       | (99.1)            | (139.5)           | (32.2)             | (48.7)            |
| Automobile Loan Receivables Recovered         | 27.4              | 31.2              | 8.0                | 9.8               |
| Net Charge-off                                | (71.7)            | (108.3)           | (24.2)             | (38.9)            |
| Reserve for Loan Losses - End of Period       | \$ 98.5           | \$ 139.5          | \$ 98.5            | \$ 139.5          |

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 6 - Goodwill**

Goodwill at September 30, 2009 and December 31, 2008 by business segment was:

| (Dollars in Millions)             | Sept. 30,<br>2009 | Dec. 31,<br>2008 |
|-----------------------------------|-------------------|------------------|
| Kemper Segment                    | \$ 49.6           | \$ 49.6          |
| Unitrin Specialty Segment         | 42.8              | 42.8             |
| Life and Health Insurance Segment | 239.4             | 242.2            |
| <br>Total Goodwill                | <br>\$ 331.8      | <br>\$ 334.6     |

The Company tests goodwill for recoverability on an annual basis in the first quarter and, if circumstances or events indicate that the fair value of a reporting unit may have declined below its carrying value, such tests are performed at intervening interim periods. The quoted value of Unitrin's common stock was significantly below the book value per share of the Company at September 30, 2009. Accordingly, the Company tested goodwill for each of the reporting units included in the above table for recoverability at September 30, 2009. No goodwill was associated with and, accordingly, no testing was required for the Unitrin Direct and Fireside Bank segments at September 30, 2009. The Company used discounted projections of future cash flows to estimate fair value of all reporting units included in the table. For each reporting unit tested, the estimated fair value exceeded the carrying value of the reporting unit, and the Company concluded that the reported goodwill was recoverable at September 30, 2009.

Goodwill for the Life and Health Insurance segment at September 30, 2009 includes goodwill of \$14.8 million related to the Company's Reserve National Insurance Company ( Reserve National ) reporting unit. Reserve National specializes in limited benefit medical and Medicare supplement products. Accordingly, its ability to conduct its operations in the same manner as they are currently conducted could be impacted by various national healthcare proposals currently being discussed by the United States Congress. The Company cannot presently predict what effect, if any, such proposals might have on Reserve National's operations and the recoverability of its goodwill if any such proposals were to become law. Reserve National reported earned premiums of \$94.9 million and \$96.2 million for the nine months ended September 30, 2009 and 2008, respectively. Reserve National reported net income of \$2.3 million and \$4.5 million for the nine months ended September 30, 2009 and 2008, respectively.

Goodwill for the Life and Health Insurance segment decreased in 2009 by \$2.8 million due to the finalization of the allocation of the purchase price of the Primesco acquisition. See Note 2, Acquisition of Businesses, to the Condensed Consolidated Financial Statements for additional information pertaining to the acquisition of Primesco.

The Company tested the amount of goodwill arising from its February 13, 2009 acquisition of Direct Response, included in the Unitrin Direct segment, at June 30, 2009 and determined that the goodwill was not recoverable. Accordingly, the Company recognized a charge of \$1.5 million before tax and \$1.0 million after tax in the second quarter of 2009 to write off the goodwill related to the acquisition. See Note 2, Acquisition of Businesses, to the Condensed Consolidated Financial Statements for additional information pertaining to the acquisition of Direct Response. After the write-off, no other goodwill was associated with the Unitrin Direct segment.

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 7 - Property and Casualty Insurance Reserves**

Property and Casualty Insurance Reserve activity for the nine months ended September 30, 2009 and 2008 was:

| <b>(Dollars in Millions)</b>  | <b>Nine Months Ended</b>  |                           |
|---|---------------------------|---------------------------|
|   | <b>Sept. 30,<br/>2009</b> | <b>Sept. 30,<br/>2008</b> |
| Property and Casualty Insurance Reserves -                            |                           |                           |
| Gross of Reinsurance at Beginning of Year                             | \$ 1,268.7                | \$ 1,322.9                |
| Less Reinsurance Recoverables at Beginning of Year                    | 84.6                      | 84.8                      |
| Property and Casualty Insurance Reserves -                            |                           |                           |
| Net of Reinsurance at Beginning of Year                               | 1,184.1                   | 1,238.1                   |
| Property and Casualty Insurance Reserves Acquired, Net of Reinsurance | 94.7                      | 0.3                       |
| Incurred Losses and LAE Related to:                                   |                           |                           |
| Current Year:   |                           |                           |
| Continuing Operations   | 1,107.0                   | 1,118.2                   |
| Discontinued Operations   |                           | 59.0                      |
| Total Incurred Losses and LAE related to Current Year                 | 1,107.0                   | 1,177.2                   |
| Prior Years:  |                           |                           |
| Continuing Operations   | (57.9)                    | (38.6)                    |
| Discontinued Operations   | (2.6)                     | (3.8)                     |
| Total Incurred Losses and LAE related to Prior Years                  | (60.5)                    | (42.4)                    |
| Total Incurred Losses and LAE   | 1,046.5                   | 1,134.8                   |
| Paid Losses and LAE Related to:                                       |                           |                           |
| Current Year:   |                           |                           |
| Continuing Operations   | 689.4                     | 652.1                     |
| Discontinued Operations   |                           | 26.5                      |
| Total Paid Losses and LAE related to Current Year                     | 689.4                     | 678.6                     |
| Prior Years:  |                           |                           |
| Continuing Operations   | 407.5                     | 372.3                     |
| Discontinued Operations   | 37.9                      | 60.1                      |
| Total Paid Losses and LAE related to Prior Years                      | 445.4                     | 432.4                     |
| Total Paid Losses and LAE   | 1,134.8                   | 1,111.0                   |

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|   |            |            |
|---|------------|------------|
| Property and Casualty Insurance Reserves -    |            |            |
| Net of Reinsurance at End of Period           | 1,190.5    | 1,262.2    |
| Plus Reinsurance Recoverable at End of Period | 79.4       | 96.3       |
| Property and Casualty Insurance Reserves -    |            |            |
| Gross of Reinsurance at End of Period         | \$ 1,269.9 | \$ 1,358.5 |

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 7 - Property and Casualty Insurance Reserves (continued)**

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. Upon concluding, based on the data available, that an emerging loss trend will continue, the Company adjusts its property and casualty insurance reserves to recognize such a trend. Changes in such estimates are included in the Condensed Consolidated Statement of Operations in the period of change.

For the nine months ended September 30, 2009, the Company reduced its property and casualty insurance reserves by \$60.5 million to recognize favorable development of losses and loss adjustment expenses ( LAE ) from prior accident years. For the nine months ended September 30, 2009, personal lines insurance losses and LAE reserves developed favorably by \$53.7 million and commercial lines insurance losses and LAE reserves developed favorably by \$6.8 million. The personal lines insurance losses and LAE reserves developed favorably due primarily to the emergence of more favorable loss trends than expected for the 2007, 2006 and 2005 accident years due to improvements in the Company's claims handling procedures. For the nine months ended September 30, 2008, the Company reduced its property and casualty insurance reserves by \$42.4 million to recognize favorable development of losses and LAE from prior accident years. For the nine months ended September 30, 2008, personal lines insurance losses and LAE developed favorably by \$36.0 million and commercial lines insurance losses and LAE developed favorably by \$6.4 million. The personal lines insurance losses and LAE reserves developed favorably due primarily to the emergence of more favorable loss trends than expected for the 2006 and 2005 accident years, partially due to the improvements in the Company's claims handling procedures.

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

**Note 8 - Notes Payable**

Total debt outstanding at September 30, 2009 and December 31, 2008 was:

| <b>(Dollars in Millions)</b>             | <b>Sept. 30,<br/>2009</b> | <b>Dec.<br/>31,<br/>2008</b> |
|--|---------------------------|------------------------------|
| <b>Senior Notes at Amortized Cost:</b>   |                           |                              |
| 6.00% Senior Notes due May 15, 2017      | \$ 355.7                  | \$ 355.5                     |
| 4.875% Senior Notes due November 1, 2010 | 199.6                     | 199.4                        |
| Mortgage Note Payable at Amortized Cost  | 5.9                       | 5.9                          |
| <b>Total Debt Outstanding</b>            | <b>\$ 561.2</b>           | <b>\$ 560.8</b>              |

At September 30, 2009, the Company had a five-year, \$325 million, unsecured, revolving credit agreement, expiring June 30, 2010 (the 2010 Credit Agreement ), with a group of financial institutions. The Company had no outstanding advances under the 2010 Credit Agreement at both September 30, 2009 and December 31, 2008. Undrawn letters of credit issued pursuant to the 2010 Credit Agreement were \$13.1 million at both September 30, 2009 and December 31, 2008. Accordingly, the amount available for future borrowing was \$311.9 million at both September 30, 2009 and December 31, 2008, respectively.

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On October 30, 2009, the Company entered into a new three-year, \$245 million, unsecured, revolving credit agreement, expiring October 30, 2012 (the 2012 Credit Agreement ), with a group of financial institutions and terminated the 2010 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 ( United ) and Trinity. Proceeds from advances under the 2012 Credit Agreement may be used for general corporate purposes, including repayment of existing indebtedness.

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 8 - Notes Payable (continued)**

Interest Expense, including facility fees and accretion of discount, for the nine and three months ended September 30, 2009 and 2008 was:

| (Dollars in Millions)                              | Nine Months Ended |                   | Three Months Ended |                   |
|--|-------------------|-------------------|--------------------|-------------------|
|  | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| Notes Payable under 2010 Credit Agreement          | \$ 0.8            | \$ 1.4            | \$ 0.1             | \$ 0.5            |
| 6.00% Senior Notes due May 15, 2017                | 16.5              | 16.5              | 5.5                | 5.5               |
| 4.875% Senior Notes due November 1, 2010           | 7.5               | 7.5               | 2.5                | 2.5               |
| Mortgage Note Payable                              | 0.3               | 0.3               | 0.1                | 0.1               |
| Interest Expense before Capitalization of Interest | 25.1              | 25.7              | 8.2                | 8.6               |
| Capitalization of Interest                         | (0.2)             | (0.9)             |                    | (0.4)             |
| Total Interest Expense                             | \$ 24.9           | \$ 24.8           | \$ 8.2             | \$ 8.2            |

Interest Paid, including facility fees, for the nine and three months ended September 30, 2009 and 2008 was:

| (Dollars in Millions)                     | Nine Months Ended |                   | Three Months Ended |                   |
|---|-------------------|-------------------|--------------------|-------------------|
|   | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| Notes Payable under 2010 Credit Agreement | \$ 0.7            | \$ 1.4            | \$ 0.1             | \$ 0.7            |
| 6.00% Senior Notes due May 15, 2017       | 10.8              | 10.8              |                    |                   |
| 4.875% Senior Notes due November 1, 2010  | 4.9               | 4.9               |                    |                   |
| Mortgage Note Payable                     | 0.3               | 0.3               | 0.1                | 0.1               |
| Total Interest Paid                       | \$ 16.7           | \$ 17.4           | \$ 0.2             | \$ 0.8            |

**Note 9 - Income from Investments**

Net Investment Income for the nine and three months ended September 30, 2009 and 2008 was:

| (Dollars in Millions)                      | Nine Months Ended |                   | Three Months Ended |                   |
|--|-------------------|-------------------|--------------------|-------------------|
|  | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| Investment Income (Loss):                  |                   |                   |                    |                   |
| Interest and Dividends on Fixed Maturities | \$ 181.7          | \$ 175.6          | \$ 60.5            | \$ 58.3           |
| Dividends on Equity Securities             | 9.8               | 24.7              | 3.3                | 7.7               |



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|   |              |              |             |             |
|---|--------------|--------------|-------------|-------------|
| Short-term Investments                                    | 0.9          | 11.1         | 0.2         | 2.8         |
| Loans to Policyholders                                    | 11.5         | 10.8         | 4.0         | 3.7         |
| Real Estate   | 21.5         | 22.7         | 6.9         | 7.2         |
| Other   | 0.3          |              |             |             |
| Limited Liability Investment Companies and Partnerships   | 29.3         | (28.6)       | 24.8        | (9.9)       |
| <b>Total Investment Income</b>                            | <b>255.0</b> | <b>216.3</b> | <b>99.7</b> | <b>69.8</b> |
| Investment Expenses:                                      |              |              |             |             |
| Real Estate   | 20.0         | 17.7         | 6.2         | 5.9         |
| Other Investment Expenses                                 | 0.3          | 1.0          | 0.2         | 0.2         |
| <b>Total Investment Expenses</b>                          | <b>20.3</b>  | <b>18.7</b>  | <b>6.4</b>  | <b>6.1</b>  |
| Net Investment Income Including Discontinued Operations   | 234.7        | 197.6        | 93.3        | 63.7        |
| Net Investment Income Reported in Discontinued Operations |              | (6.6)        |             |             |
| Net Investment Income                                     | \$ 234.7     | \$ 191.0     | \$ 93.3     | \$ 63.7     |

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 9 - Income from Investments (continued)**

The components of Net Realized Gains on Sales of Investments for the nine and three months ended September 30, 2009 and 2008 were:

| (Dollars in Millions)                      | Nine Months Ended |                   | Three Months Ended |                   |
|--|-------------------|-------------------|--------------------|-------------------|
|  | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| Fixed Maturities:                          |                   |                   |                    |                   |
| Gains on Dispositions                      | \$ 7.3            | \$ 4.6            | \$ 3.9             | \$ 0.1            |
| Losses on Dispositions                     | (0.3)             | (5.2)             | (0.2)              | (4.0)             |
| Equity Securities:                         |                   |                   |                    |                   |
| Gains on Dispositions                      | 9.8               | 76.3              | 8.3                | 36.9              |
| Losses on Dispositions                     |                   | (10.4)            |                    | (4.8)             |
| Real Estate:                               |                   |                   |                    |                   |
| Gains on Dispositions                      |                   | 1.5               |                    |                   |
| Other Investments:                         |                   |                   |                    |                   |
| Losses on Dispositions                     | (0.1)             | (0.1)             | (0.1)              |                   |
| Trading Securities Net Gains (Losses)      | 0.9               | (1.2)             | 0.5                | (0.7)             |
| Net Realized Gains on Sales of Investments | \$ 17.6           | \$ 65.5           | \$ 12.4            | \$ 27.5           |

The components of Net Impairment Losses Recognized in Earnings in the Condensed Consolidated Statement of Operations for the nine and three months ended September 30, 2009 and 2008 were:

| (Dollars in Millions)                        | Nine Months Ended |                   | Three Months Ended |                   |
|--|-------------------|-------------------|--------------------|-------------------|
|  | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| Fixed Maturities                             | \$ (41.2)         | \$ (23.2)         | \$ (14.5)          | \$ (21.5)         |
| Equity Securities                            | (8.0)             | (75.7)            |                    | (50.6)            |
| Net Impairment Losses Recognized in Earnings | \$ (49.2)         | \$ (98.9)         | \$ (14.5)          | \$ (72.1)         |

See Note 1, Basis of Presentation, to the Condensed Consolidated Financial Statements for a discussion of a change in accounting principle adopted in the second quarter of 2009 which impacts the determination of the amount of OTTI losses on Investments in Fixed Maturities that are recognized in earnings on and subsequent to April 1, 2009.

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

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| <b>(Dollars in Millions)</b>                             | <b>April 1, 2009</b>  | <b>July 1, 2009</b>   |
|--|-----------------------|-----------------------|
|  | <b>to</b>             | <b>to</b>             |
|  | <b>Sept. 30, 2009</b> | <b>Sept. 30, 2009</b> |
| Beginning Balance  | \$ 39.8               | \$ 40.1               |
| Additions for Previously Unrecognized OTTI Credit Losses | 1.9                   | 0.2                   |
| Increases to Previously Recognized OTTI Credit Losses    | 0.4                   | 0.3                   |
| Reductions to Previously Recognized OTTI Credit Losses   | (0.4)                 | (0.4)                 |
| Reductions due to Intent to Sell Investments             | (35.6)                | (35.6)                |
| Reduction for Investments Sold During the Period         | (2.8)                 | (1.3)                 |
| Ending Balance   | \$ 3.3                | \$ 3.3                |

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 10 - Pension Benefits and Postretirement Benefits Other Than Pensions**

The components of Pension Expense for the nine and three months ended September 30, 2009 and 2008 were:

| <b>(Dollars in Millions)</b>                  | <b>Nine Months Ended</b>  |                           | <b>Three Months Ended</b> |                           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
|   | <b>Sept. 30,<br/>2009</b> | <b>Sept. 30,<br/>2008</b> | <b>Sept. 30,<br/>2009</b> | <b>Sept. 30,<br/>2008</b> |
| Service Cost Benefits Earned                  | \$ 7.4                    | \$ 9.4                    | \$ 2.4                    | \$ 3.2                    |
| Interest Cost on Projected Benefit Obligation | 16.0                      | 15.5                      | 5.3                       | 5.1                       |
| Expected Return on Plan Assets                | (18.2)                    | (18.9)                    | (6.1)                     | (6.3)                     |
| Net Amortization and Deferral                 | (0.1)                     |                           |                           |                           |
| <b>Total Pension Expense</b>                  | <b>\$ 5.1</b>             | <b>\$ 6.0</b>             | <b>\$ 1.6</b>             | <b>\$ 2.0</b>             |

The components of Postretirement Benefits Other than Pensions Expense for the nine and three months ended September 30, 2009 and 2008 were:

| <b>(Dollars in Millions)</b>                                     | <b>Nine Months Ended</b>  |                           | <b>Three Months Ended</b> |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | <b>Sept. 30,<br/>2009</b> | <b>Sept. 30,<br/>2008</b> | <b>Sept. 30,<br/>2009</b> | <b>Sept. 30,<br/>2008</b> |
| Service Cost on Benefits Earned                                  | \$ 0.1                    | \$ 0.1                    | \$                        | \$                        |
| Interest Cost on Projected Benefit Obligation                    | 1.5                       | 1.5                       | 0.5                       | 0.5                       |
| Net Amortization and Deferral                                    | (1.3)                     | (1.6)                     | (0.4)                     | (0.5)                     |
| <b>Total Postretirement Benefits Other than Pensions Expense</b> | <b>\$ 0.3</b>             | <b>\$</b>                 | <b>\$ 0.1</b>             | <b>\$</b>                 |

**Note 11 - Long-term Equity Compensation Plans**

As of September 30, 2009, the Company has three stock option plans, all of which have been approved by Unitrin's shareholders. Stock options to purchase Unitrin's common stock are granted at prices equal to the fair value of Unitrin's common stock on the date of grant. Employee options generally vest over a period of three and one-half years and expire ten years from the date of grant. Beginning in 2003, options granted to employees were coupled with tandem stock appreciation rights (SAR), settled in Unitrin common stock. Options granted to directors are exercisable one year from the date of grant and expire ten years from the date of grant. At September 30, 2009, options to purchase 4,629,460 shares of Unitrin's common stock were outstanding. Original options to purchase shares of Unitrin common stock were available for future grant under only two of the plans, the 1995 Non-employee Director Stock Option Plan and the 2002 Stock Option Plan, at September 30, 2009. Options to purchase 1,696,308 shares of Unitrin's common stock were available for future grants under such stock option plans at September 30, 2009.

Prior to February 3, 2009, all of the Company's stock option plans included provisions, subject to certain limitations, to automatically grant restorative, or reload stock options (Restorative Options), to replace shares of previously owned Unitrin common stock that an exercising option holder surrenders, either actually or constructively, to satisfy the exercise price and/or tax withholding obligations relating to the exercise. Restorative Options are subject to the same terms and conditions as the original options, including the expiration date, except that the exercise price is equal to the fair value of Unitrin common stock on the date of grant and cannot be exercised until six months after the date of grant. The

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grant of a Restorative Option does not result in an increase in the total number of shares and options held by an employee, but changes the mix of the two. Beginning February 3, 2009, the 1995 Non-employee Director Stock Option Plan and the 2002 Stock Option Plan were amended to eliminate the restorative feature in the plans prospectively. Accordingly, Restorative Options will no longer be included in original option awards made on or after February 3, 2009. At September 30, 2009, Restorative Options may still be granted under all the plans in connection with the exercise of original options granted before February 3, 2009, subject to the limitations on certain equity awards as described below.

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**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 11 - Long-term Equity Compensation Plans (continued)**

For original awards granted in 2006 through 2008 and Restorative Options granted thereunder, Restorative Options will be granted only if, on the date of exercise of the option giving rise to the Restorative Option, the market price of Unitrin common stock exceeds such option's exercise price by 15%. Further, no Restorative Options will be granted if the option giving rise to the Restorative Option is set to expire within twelve months.

In addition to the stock option plans, the Company has a restricted stock plan, which has been approved by Unitrin's shareholders. Under this plan, restricted stock and restricted stock units may be granted to all 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. As of September 30, 2009, 474,200 shares of restricted stock having a weighted-average grant-date fair value of \$36.02 per share have been awarded, of which 112,858 shares were forfeited and 49,018 were tendered to satisfy tax withholding obligations. As of September 30, 2009, there were 687,676 common shares available for future grants.

Prior to February 3, 2009, only awards of time-vested restricted stock had been granted under the restricted stock plan. On February 3, 2009, in addition to time-vested restricted stock granted to certain employees and officers, the Company awarded performance-based restricted stock to certain officers and employees under the restricted stock plan. The initial number of shares awarded to each participant represents the shares that would vest if the performance goals were achieved at the target performance level. The final payout of these awards will be determined based on Unitrin's total shareholder return over a three-year performance period relative to a peer group comprised of companies in the S&P Supercomposite Insurance Index (Peer Group). The three-year performance period began on January 1, 2009 and will end on December 31, 2011. If, at the end of the performance period, the Company's relative performance exceeds the target performance level, additional shares of performance-based restricted stock will be issued to the award recipient. If, at the end of the performance period, the Company's relative performance is below the target performance level, only a portion of the shares of performance-based restricted stock originally issued to the award recipient will vest. If, at the end of the performance period, the Company's relative performance is below a minimum performance level, none of the shares of performance-based restricted stock originally issued to the award recipient will vest.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each option on the date of grant. The expected terms of options are developed by considering the Company's historical share option exercise experience, demographic profiles, historical share retention practices of employees and assumptions about their propensity for early exercise in the future. Further, the Company aggregates individual awards into relatively homogenous groups that exhibit similar exercise behavior to obtain a more refined estimate of the expected term of options. Expected volatility is estimated using weekly historical volatility. The Company believes that historical volatility is currently the best estimate of expected volatility. The dividend yield assumed was the annualized yield on Unitrin common stock on the date of grant for original grants made in 2008, 2007 and 2006. In light of the current economic environment, the Company changed its dividend yield assumption prospectively for original options granted in 2009. For original option grants made in 2009, the dividend yield assumed is the average, annualized dividend yield computed over the twenty consecutive quarters preceding the date of grant. Each quarterly dividend yield is calculated by dividing the amount of declared dividend per share during each quarter by the closing price of Unitrin common stock at the end of such quarter. The quarterly yields are then annualized and averaged to arrive at the dividend yield assumed. In light of current economic conditions, the Company believes basing dividend yield over a longer historical period of time is likely to be more consistent with the actual yield during the expected life of the option rather than the current dividend yield. For Restorative Options, the annualized dividend yield on Unitrin common stock for the month prior to the grant of the Restorative Option is used for all restorative grants made in 2008 and 2007. No Restorative Options have been granted in 2009. The risk free interest rate is the yield on the grant date of U.S. Treasury zero coupon issues with a maturity comparable to the expected term of the option.

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 11 - Long-term Equity Compensation Plans (continued)**

The assumptions used in the Black-Scholes pricing model for options granted during the nine months ended September 30, 2009 and 2008 were as follows:

|                                       | Nine Months Ended |                   |
|---------------------------------------|-------------------|-------------------|
|                                       | Sept. 30,<br>2009 | Sept. 30,<br>2008 |
| <b>Range of Valuation Assumptions</b> |                   |                   |
| Expected Volatility                   | 33.08% - 40.30%   | 22.36% - 24.52%   |
| Risk Free Interest Rate               | 1.63% - 2.76%     | 2.18% - 3.39%     |
| Expected Dividend Yield               | 4.59% - 5.07%     | 3.86% - 5.49%     |
| <b>Weighted-Average Expected Life</b> |                   |                   |
| Employee Grants                       | 4 - 7.5 years     | 2.5 - 7.5 years   |
| Director Grants                       | 7 years           | 4 - 6.5 years     |

Option and SAR activity for the nine months ended September 30, 2009 is presented below:

|                                      | Shares Subject<br>to Options | Weighted-<br>Average<br>Exercise Price<br>Per Share | Weighted-<br>Average<br>Remaining<br>Contractual Life<br>(in Years) | Aggregate<br>Intrinsic Value<br>(\$ in<br>Millions) |
|--------------------------------------|------------------------------|---|---|---|
| Outstanding at Beginning of the Year | 5,125,249                    | \$ 46.17  |   |   |
| Granted                              | 304,125                      | 13.78   |   |   |
| Exercised                            |                              |   |   |   |
| Forfeited or Expired                 | (799,914)                    | 45.44   |   |   |
| Outstanding at September 30, 2009    | 4,629,460                    | \$ 44.17  | 4.68  | \$ 1.6  |
| Vested and Expected to Vest          | 4,606,363                    | \$ 44.22  | 4.67  | \$  |
| Exercisable at September 30, 2009    | 4,119,334                    | \$ 46.03  | 4.20  | \$ 0.4  |

The weighted-average grant-date fair values of options granted during the nine months ended September 30, 2009 and 2008 were \$3.07 per option and \$4.81 per option, respectively. No options were exercised during the nine months ended September 30, 2009. Total intrinsic value of stock options exercised was \$0.4 million for the nine months ended September 30, 2008. Cash received from option exercises was \$1.6 million for the nine months ended September 30, 2008. Total tax benefits realized for tax deductions from option exercises were \$0.2 million for the nine months ended September 30, 2008.





**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 11 - Long-term Equity Compensation Plans (continued)**

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 value of the performance-based restricted stock awards was determined using the Monte Carlo simulation method. The Monte Carlo simulation model produces a risk-neutral simulation of the daily returns on the common stock of Unitrin and each of the other companies included in the Peer Group. Returns generated by the simulation depend on the risk-free interest rate used and the volatilities of, and the correlation between, these stocks. The model simulates stock prices and dividend payouts to the end of the three-year performance period. Total shareholder returns are generated for each of these stocks based on the simulated prices and dividend payouts. The total shareholder returns are then ranked, and Unitrin's simulated ranking is converted to a payout percentage based on the terms of the performance-based restricted stock awards. The payout percentage is applied to the simulated stock price at the end of the performance period, reinvested dividends are added back, and the total is discounted to the valuation date at the risk-free rate. This process is repeated approximately ten thousand times, and the grant date fair value is equal to the average of the results from these trials. Activity related to nonvested restricted stock for the nine months ended September 30, 2009 is presented below:

|  | <b>Restricted<br/>Shares</b> | <b>Weighted-<br/>Average<br/>Grant-Date<br/>Fair Value<br/>Per Share</b> |
|--|------------------------------|--|
| Nonvested Balance at Beginning of the Year | 196,307                      | \$ 42.66   |
| Granted                                    | 128,800                      | 13.82  |
| Vested                                     | (52,021)                     | 36.37  |
| Forfeited                                  | (70,220)                     | 37.59  |
| Nonvested Balance at September 30, 2009    | 202,866                      | \$ 27.72   |

The total fair value of restricted stock that vested during the nine months ended September 30, 2009 was \$0.8 million and the tax benefits for tax deductions realized from the vesting of restricted stock was \$0.3 million. The total fair value of restricted stock that vested during the nine months ended September 30, 2008 was \$1.2 million and the tax benefits for tax deductions realized from the vesting of restricted stock was \$0.4 million.

For equity compensation awards with a graded vesting schedule, the Company recognizes compensation expense on a straight-line basis over the requisite service period for each separately vesting portion of the awards as if each award were, in substance, multiple awards. Compensation expense is recognized only for those awards expected to vest, with forfeitures estimated at the date of grant based on the Company's historical experience and future expectations. Share-based compensation expense for all of the Company's long-term equity-based compensation plans was \$2.5 million and \$6.4 million for the nine months ended September 30, 2009 and 2008, respectively. Total unamortized compensation expense related to nonvested awards of such plans at September 30, 2009 was \$3.2 million, which is expected to be recognized over a weighted-average period of 1.4 years.

**Note 12 - Restructuring Expenses**

On March 24, 2009, Fireside Bank suspended all new lending activity and ceased opening new certificate of deposit accounts as part of a plan to exit the automobile finance business. The exit plan envisions an orderly wind-down of Fireside Bank's operations over the next several years. Fireside Bank will continue to collect outstanding loan balances and make interest payments and redemptions on outstanding certificates of

deposits in the ordinary course of business.

As discussed in Note 2, Acquisition of Businesses, to the Condensed Consolidated Financial Statements, Unitrin's subsidiary, Trinity, completed its acquisition of Direct Response on February 13, 2009. The Company is in the process of combining Direct Response's back-office operations with the Company's existing Unitrin Direct operations.

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 12 - Restructuring Expenses (continued)**

Activity related to restructuring costs for the nine months ended September 30, 2009 are presented below.

| (Dollars in Millions)                  | Fireside<br>Bank | Unitrin<br>Direct | All Other<br>Segments | Total         |
|--|------------------|-------------------|-----------------------|---------------|
| Liability at Beginning of Year:        |                  |                   |                       |               |
| Employee Termination Costs             | \$ 0.1           | \$ 0.1            | \$                    | \$ 0.2        |
| Early Lease Termination Costs          | 1.0              | 0.3               |                       | 1.3           |
| Other Associated Costs                 |                  |                   |                       |               |
| <b>Liability at Beginning of Year</b>  | <b>1.1</b>       | <b>0.4</b>        |                       | <b>1.5</b>    |
| Expenses Incurred:                     |                  |                   |                       |               |
| Employee Termination Costs             | 7.1              | 5.7               | 1.7                   | 14.5          |
| Early Lease Termination Costs          | 1.1              | 1.4               |                       | 2.5           |
| Other Associated Costs                 | 2.1              |                   | 0.2                   | 2.3           |
| <b>Total Expenses Incurred</b>         | <b>10.3</b>      | <b>7.1</b>        | <b>1.9</b>            | <b>19.3</b>   |
| Payments of:                           |                  |                   |                       |               |
| Employee Termination Costs             | 4.9              | 3.0               | 1.3                   | 9.2           |
| Early Lease Termination Costs          | 1.9              | 0.8               |                       | 2.7           |
| Other Associated Costs                 | 1.9              |                   | 0.2                   | 2.1           |
| <b>Total Payments</b>                  | <b>8.7</b>       | <b>3.8</b>        | <b>1.5</b>            | <b>14.0</b>   |
| Liability at September 30, 2009:       |                  |                   |                       |               |
| Employee Termination Costs             | 2.3              | 2.8               | 0.4                   | 5.5           |
| Early Lease Termination Costs          | 0.2              | 0.9               |                       | 1.1           |
| Other Associated Costs                 | 0.2              |                   |                       | 0.2           |
| <b>Liability at September 30, 2009</b> | <b>\$ 2.7</b>    | <b>\$ 3.7</b>     | <b>\$ 0.4</b>         | <b>\$ 6.8</b> |

In addition to the amounts presented above, Fireside Bank expects to incur early lease termination costs ranging from \$3.7 million to \$8.2 million before tax and employee termination costs ranging from \$4.9 million to \$9.6 million before tax during the next several years in connection with the exit plan.

In addition to the amounts presented above, Unitrin Direct expects to incur early lease termination costs of \$0.1 million before tax during the fourth quarter of 2009 in connection with its plan to combine back-office operations.

**Note 13 - Income Taxes**

The current and deferred income tax assets at September 30, 2009 and December 31, 2008 were:

| <b>(Dollars in Millions)</b>               | <b>Sept. 30,<br/>2009</b> | <b>Dec. 31,<br/>2008</b> |
|--|---------------------------|--------------------------|
| Current Income Tax Assets                  | \$ 0.3                    | \$ 0.2                   |
| Deferred Income Tax Assets                 | 130.8                     | 204.8                    |
| Valuation Allowance for State Income Taxes | (9.9)                     | (3.6)                    |
| <br>Current and Deferred Income Tax Assets | <br>\$ 121.2              | <br>\$ 201.4             |

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 13 - Income Taxes (continued)**

The components of Liabilities for Income Taxes at September 30, 2009 and December 31, 2008 were:

| (Dollars in Millions)               | Sept. 30,<br>2009 | Dec. 31,<br>2008 |
|-------------------------------------|-------------------|------------------|
| Current Income Taxes                | \$ 4.5            | \$ 51.2          |
| Unrecognized Tax Benefits           | 12.0              | 17.0             |
| <b>Liabilities for Income Taxes</b> | <b>\$ 16.5</b>    | <b>\$ 68.2</b>   |

Deferred Income Tax Assets include federal net operating loss carryforwards of \$66.4 million and \$12.7 million at September 30, 2009 and December 31, 2008, respectively. The federal net operating loss at September 30, 2009 included a federal net operating loss acquired in connection with the acquisition of Direct Response. The federal net operating loss carryforwards are scheduled to expire in years 2010 through 2026. The Company expects to fully utilize these federal net operating loss carryforwards before they expire. Deferred Income Tax Assets include state net operating loss carryforwards of \$4.2 million and \$2.6 million at September 30, 2009 and December 31, 2008, respectively. The state net operating loss carryforwards, the majority of which are scheduled to expire in 2030, relate to Fireside Bank. Deferred tax asset valuation allowances of \$9.9 million and \$3.6 million were required at September 30, 2009 and December 31, 2008, respectively, related to state income taxes for Fireside Bank.

The statute of limitations related to Unitrin and its eligible subsidiaries' consolidated Federal income tax returns, Primesco's consolidated Federal income tax returns and Direct Response's consolidated Federal income tax returns is closed for all tax years up to and including 2005. The expiration of the statutes of limitations related to the various state income tax returns that Unitrin and its subsidiaries file varies by state. Unitrin's consolidated Federal income tax returns and Primesco's consolidated Federal income tax returns are not currently under examination. During the third quarter of 2009, the Internal Revenue Service began an audit of Direct Response's 2007 consolidated Federal income tax return. The Company does not expect any material modifications to the return as filed to result from the audit. During the first quarter of 2009, the California Franchise Tax Board completed its audit of Fireside Bank's 2004, 2005 and 2006 California tax returns and accepted the returns as filed.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| (Dollars in Millions)   | Liability for<br>Unrecognized<br>Tax<br>Benefits |
|---|--|
| Balance at December 31, 2008                                    | \$ 17.0  |
| Reductions for Tax Positions of Current Period                  | (1.3)  |
| Additions for Tax Positions of Prior Years                      | 25.5   |
| Reduction for Expiration of 2005 Federal Statute of Limitations | (29.2)   |
| <b>Balance at September 30, 2009</b>                            | <b>\$ 12.0</b>                                   |

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Included in the balance of unrecognized tax benefits at September 30, 2009 and December 31, 2008 are tax positions of \$7.7 million and \$10.6 million, respectively, for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred income tax accounting, other than for interest and penalties, the disallowance of the shorter deductibility period would not affect the effective income tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 13 - Income Taxes (continued)**

The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The liability for unrecognized tax benefits included accrued interest of \$4.0 million and \$6.0 million at September 30, 2009 and December 31, 2008, respectively. Tax expense for the nine months ended September 30, 2009 includes an interest benefit related to unrecognized tax benefits of \$2.0 million, which is comprised of an interest benefit of \$2.9 million resulting from the expiration of the 2005 Federal statute of limitations and \$0.9 million of interest expense related to tax positions of prior years. Tax expense for the nine months ended September 30, 2008 includes an interest benefit of \$1.2 million, which is comprised of an interest benefit of \$2.5 million resulting from the expiration of the 2004 Federal statute of limitations and \$1.3 million of interest expense related to tax positions of prior years.

Income taxes paid were \$68.6 million and \$67.3 million for the nine months ended September 30, 2009 and 2008, respectively.

**Note 14 - Income (Loss) Per Share from Continuing Operations**

The Company's awards of restricted common stock contain a right to receive non-forfeitable dividends and participate in the undistributed earnings with common shareholders. Accordingly, the Company is required to apply the two-class method of computing basic and diluted earnings per share. A reconciliation of the numerator and denominator used in the calculation of Basic Income Per Share from Continuing Operations and Diluted Income Per Share from Continuing Operations for the nine months ended September 30, 2009 is as follows:

|   | <b>Nine Months Ended Sept. 30, 2009</b> |  |                |
|---|---|--|----------------|
|   | <b>Restricted<br/>Common<br/>Stock</b>  | <b>Unrestricted<br/>Common<br/>Stock</b> | <b>Total</b>   |
| <b>(Dollars in Millions)</b>  |   |  |                |
| Income from Continuing Operations   | \$ 0.3                                  | \$ 95.8                                  | \$ 96.1        |
| Dilutive Effect on Income of:   |   |  |                |
| Investee's Equivalent Shares  |   |  |                |
| Unitrin Share-based Compensation Equivalent Shares  |   |  |                |
| <b>Diluted Income from Continuing Operations</b>  | <b>\$ 0.3</b>                           | <b>\$ 95.8</b>                           | <b>\$ 96.1</b> |
| <b>(Shares in Thousands)</b>  |   |  |                |
| Weighted-Average Common Shares Outstanding  | 269.2                                   | 62,125.5                                 |                |
| Unitrin Share-based Compensation Equivalent Shares  |   | 10.3                                     |                |
| <b>Weighted-Average Common Shares and Equivalent Shares Outstanding<br/>Assuming Dilution</b> | <b>269.2</b>                            | <b>62,135.8</b>                          |                |
| <b>(Per Share in Whole Dollars)</b>   |   |  |                |
| Basic Income Per Share from Continuing Operations   | \$ 1.10                                 | \$ 1.54                                  |                |

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|   |         |         |
|---|---------|---------|
| Diluted Income Per Share from Continuing Operations | \$ 1.10 | \$ 1.54 |
|---|---------|---------|

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



**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 14 - Income (Loss) Per Share from Continuing Operations (continued)**

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

|   | <b>Three Months Ended Sept. 30, 2009</b> |  |              |
|---|--|--|--------------|
|   | <b>Restricted<br/>Common<br/>Stock</b>   | <b>Unrestricted<br/>Common<br/>Stock</b> | <b>Total</b> |
| <b>(Dollars in Millions)</b>  |  |  |              |
| Income from Continuing Operations   | \$ 0.1                                   | \$ 60.9                                  | \$ 61.0      |
| Dilutive Effect on Income of:   |  |  |              |
| Investee s Equivalent Shares  |  |  |              |
| Unitrin Share-based Compensation Equivalent Shares                                    |  |  |              |
| Diluted Income from Continuing Operations   | \$ 0.1                                   | \$ 60.9                                  | \$ 61.0      |
| <b>(Shares in Thousands)</b>  |  |  |              |
| Weighted-Average Common Shares Outstanding  | 236.1                                    | 62,140.0                                 |              |
| Unitrin Share-based Compensation Equivalent Shares                                    |  | 30.8                                     |              |
| Weighted-Average Common Shares and Equivalent Shares Outstanding<br>Assuming Dilution | 236.1                                    | 62,170.8                                 |              |
| <b>(Per Share in Whole Dollars)</b>   |  |  |              |
| Basic Income Per Share from Continuing Operations                                     | \$ 0.43                                  | \$ 0.98                                  |              |
| Diluted Income Per Share from Continuing Operations                                   | \$ 0.43                                  | \$ 0.98                                  |              |

Options outstanding to purchase 4.4 million shares of Unitrin common stock were excluded from the computation of Unitrin Share-based Compensation Equivalent Shares and Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution for the three months ended September 30, 2009 because the exercise price exceeded the average market price.

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 14 - Income (Loss) Per Share from Continuing Operations (continued)**

A reconciliation of the numerator and denominator used in the calculation of Basic Loss Per Share from Continuing Operations and Diluted Loss Per Share from Continuing Operations for the nine months ended September 30, 2008 is as follows:

|   | Nine Months Ended Sept. 30, 2008 |                                 |           |
|---|----------------------------------|---------------------------------|-----------|
|   | Restricted<br>Common<br>Stock    | Unrestricted<br>Common<br>Stock | Total     |
| <b>(Dollars in Millions)</b>  |                                  |                                 |           |
| Loss from Continuing Operations   | \$ (0.1)                         | \$ (11.8)                       | \$ (11.9) |
| Dilutive Effect on Income of:   |                                  |                                 |           |
| Investee s Equivalent Shares  |                                  |                                 |           |
| Unitrin Share-based Compensation Equivalent Shares                                    |                                  |                                 |           |
| Diluted Loss from Continuing Operations   | \$ (0.1)                         | \$ (11.8)                       | \$ (11.9) |
| <b>(Shares in Thousands)</b>  |                                  |                                 |           |
| Weighted-Average Common Shares Outstanding  | 234.2                            | 62,867.9                        |           |
| Unitrin Share-based Compensation Equivalent Shares                                    |                                  |                                 |           |
| Weighted-Average Common Shares and Equivalent Shares Outstanding<br>Assuming Dilution | 234.2                            | 62,867.9                        |           |
| <b>(Per Share in Whole Dollars)</b>   |                                  |                                 |           |
| Basic Loss Per Share from Continuing Operations                                       | \$ (0.41)                        | \$ (0.19)                       |           |
| Diluted Loss Per Share from Continuing Operations                                     | \$ (0.41)                        | \$ (0.19)                       |           |

At September 30, 2008, options outstanding to purchase 5.1 million shares of Unitrin common stock were excluded from the computation of Unitrin Share-based Compensation Equivalent Shares and Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution for the nine months ended September 30, 2008 because the effect of inclusion would be anti-dilutive.

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 14 - Income (Loss) Per Share from Continuing Operations (continued)**

A reconciliation of the numerator and denominator used in the calculation of Basic Loss Per Share from Continuing Operations and Diluted Income Per Share from Continuing Operations for the three months ended September 30, 2008 is as follows:

|  | <b>Three Months Ended Sept. 30, 2008</b> |  |              |
|--|--|--|--------------|
|  | <b>Restricted<br/>Common<br/>Stock</b>   | <b>Unrestricted<br/>Common<br/>Stock</b> | <b>Total</b> |
| <b>(Dollars in Millions)</b>   |  |  |              |
| Loss from Continuing Operations  | \$ (0.3)                                 | \$ (49.3)                                | \$ (49.6)    |
| Dilutive Effect on Income of:  |  |  |              |
| Investee s Equivalent Shares   |  |  |              |
| Unitrin Share-based Compensation Equivalent Shares                                 |  |  |              |
| Diluted Loss from Continuing Operations  | \$ (0.3)                                 | \$ (49.3)                                | \$ (49.6)    |
| <b>(Shares in Thousands)</b>   |  |  |              |
| Weighted-Average Common Shares Outstanding   | 223.6                                    | 62,447.4                                 |              |
| Unitrin Share-based Compensation Equivalent Shares                                 |  |  |              |
| Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution | 223.6                                    | 62,447.4                                 |              |
| <b>(Per Share in Whole Dollars)</b>  |  |  |              |
| Basic Loss Per Share from Continuing Operations                                    | \$ (1.09)                                | \$ (0.79)                                |              |
| Diluted Loss Per Share from Continuing Operations                                  | \$ (1.09)                                | \$ (0.79)                                |              |

At September 30, 2008, options outstanding to purchase 5.2 million shares of Unitrin common stock were excluded from the computation of Unitrin Share-based Compensation Equivalent Shares and Weighted-Average Common Shares and Equivalent Shares Outstanding Assuming Dilution for the three months ended September 30, 2008 because the effect of inclusion would be anti-dilutive.

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 15 - Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)**

Other Comprehensive Income (Loss) for the nine and three months ended September 30, 2009 and 2008, was:

| <b>(Dollars in Millions)</b>   | <b>Nine Months Ended</b>  |                           | <b>Three Months Ended</b> |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | <b>Sept. 30,<br/>2009</b> | <b>Sept. 30,<br/>2008</b> | <b>Sept. 30,<br/>2009</b> | <b>Sept. 30,<br/>2008</b> |
| <b>Other Comprehensive Income (Loss) Before Income Taxes:</b>  |                           |                           |                           |                           |
| Unrealized Holding Gains (Losses) Arising During the Period Before Reclassification Adjustment               | \$ 279.2                  | \$ (542.1)                | \$ 225.4                  | \$ (300.0)                |
| Reclassification Adjustment for Amounts Included in Net Income (Loss)  | 32.5                      | 32.7                      | 2.5                       | 44.0                      |
| Unrealized Holding Gains (Losses)  | 311.7                     | (509.4)                   | 227.9                     | (256.0)                   |
| <b>Foreign Currency Translation Adjustments Arising During the Period Before Reclassification Adjustment</b> |                           |                           |                           |                           |
| Reclassification Adjustment for Amounts Included in Net Income (Loss)  | 1.8                       | (0.9)                     | 0.2                       | (0.9)                     |
| Foreign Currency Translation Adjustments   | (0.1)                     |                           |                           |                           |
| Foreign Currency Translation Adjustments   | 1.7                       | (0.9)                     | 0.2                       | (0.9)                     |
| Equity in Other Comprehensive Income (Loss) of Investee  | (3.2)                     | 5.4                       | 6.2                       | 0.1                       |
| Amortization of Unrecognized Postretirement Benefit Costs  | (1.4)                     | (1.6)                     | (0.5)                     | (0.5)                     |
| Other Comprehensive Income (Loss) Before Income Taxes  | 308.8                     | (506.5)                   | 233.8                     | (257.3)                   |
| <b>Income Tax Benefit (Expense):</b>   |                           |                           |                           |                           |
| Unrealized Holding Gains and Losses Arising During the Period Before Reclassification Adjustment             | (98.7)                    | 190.8                     | (79.7)                    | 105.5                     |
| Reclassification Adjustment for Amounts Included in Net Income (Loss)  | (11.4)                    | (11.5)                    | (0.9)                     | (15.4)                    |
| Unrealized Holding Gains and Losses  | (110.1)                   | 179.3                     | (80.6)                    | 90.1                      |
| <b>Foreign Currency Translation Adjustments Arising During the Period Before Reclassification Adjustment</b> |                           |                           |                           |                           |
| Reclassification Adjustment for Amounts Included in Net Income (Loss)  | (0.6)                     | 0.3                       | (0.1)                     | 0.3                       |
| Foreign Currency Translation Adjustments   | (0.6)                     | 0.3                       | (0.1)                     | 0.3                       |
| Equity in Other Comprehensive Income (Loss) of Investee  | 1.1                       | (1.9)                     | (2.2)                     |                           |
| Amortization of Unrecognized Postretirement Benefit Costs  | 0.5                       | 0.6                       | 0.2                       | 0.2                       |
| Income Tax Benefit (Expense)   | (109.1)                   | 178.3                     | (82.7)                    | 90.6                      |

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|                                   |          |            |          |            |
|-----------------------------------|----------|------------|----------|------------|
| Other Comprehensive Income (Loss) | \$ 199.7 | \$ (328.2) | \$ 151.1 | \$ (166.7) |
|-----------------------------------|----------|------------|----------|------------|

Total Comprehensive Income was \$298.1 million and \$213.2 million for the nine and three months ended September 30, 2009, respectively.  
Total Comprehensive Loss was \$347.2 million and \$211.9 million for the nine and three months ended September 30, 2008, respectively.

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 15 - Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss) (continued)**

The components of Accumulated Other Comprehensive Income (Loss) at September 30, 2009 and December 31, 2008 were:

| (Dollars in Millions)   | Sept. 30,<br>2009 | Dec. 31,<br>2008  |
|---|-------------------|-------------------|
| Unrealized Gains (Losses) on Investments, Net of Income Taxes:                  |                   |                   |
| Available for Sale Fixed Maturities with Portion of OTTI Recognized in Earnings | \$ (0.4)          | \$                |
| Other Unrealized Gains (Losses) on Investments                                  | 153.6             | (45.5)            |
| Equity in Accumulated Other Comprehensive Loss of Investee, Net of Income Taxes | (2.6)             | (0.5)             |
| Foreign Currency Translation Adjustments, Net of Income Taxes                   | (0.2)             | (1.3)             |
| Net Unrecognized Postretirement Benefit Costs, Net of Income Taxes              | (61.7)            | (60.8)            |
| <b>Total Accumulated Other Comprehensive Income (Loss)</b>                      | <b>\$ 88.7</b>    | <b>\$ (108.1)</b> |

**Note 16 - Business Segments**

The Company is engaged, through its subsidiaries, in the property and casualty insurance, life and health insurance and automobile finance businesses. The Company conducts its continuing operations through five operating segments: Kemper, Unitrin Specialty, Unitrin Direct, Life and Health Insurance and Fireside Bank.

*NOTE: The Company uses the registered trademark, Kemper, under license, for personal lines insurance only, from Lumbermens Mutual Casualty Company ( Lumbermens ), which is not affiliated with the Company. Lumbermens continues to use the name, Kemper Insurance Companies, in connection with its operations, which are distinct from, and not to be confused with, Unitrin s Kemper business segment.*

The Kemper segment provides preferred and standard risk personal automobile and homeowners insurance through networks of independent agents. The Unitrin Specialty segment provides automobile insurance to individuals and businesses in the non-standard and specialty markets through networks of independent agents. The non-standard automobile insurance market consists of individuals and companies that have difficulty obtaining standard or preferred risk insurance, usually because of their driving records. Unitrin Direct markets personal automobile insurance through direct mail, radio and the Internet through web insurance portals, click-thrus and its own website. In addition, the Unitrin Direct segment specializes in the sale of personal automobile and homeowners insurance through employer-sponsored voluntary benefit programs. The Life and Health Insurance segment provides individual life, accident, health and hospitalization insurance. The Company s Life and Health Insurance employee-agents also market property insurance products under common management. The Fireside Bank segment made sub-prime automobile loans primarily for the purchase of pre-owned automobiles and offered certificates of deposits. On March 24, 2009, Fireside Bank suspended all new lending activity and ceased opening new certificate of deposit accounts as part of a plan to exit the automobile finance business.

It is the Company s management practice to allocate certain corporate expenses to its insurance operations. In accordance with GAAP, the Company is not permitted to allocate certain corporate expenses to discontinued operations. Accordingly, such amounts that the Company is not permitted to allocate to discontinued operations are reported in Other Expense, Net. The Company does not allocate Net Realized Gains on Sales of Investments and Net Impairment Losses Recognized in Earnings to its operating segments.



**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 16 - Business Segments (continued)**

Segment Revenues for the nine and three months ended September 30, 2009 and 2008 were:

| <b>(Dollars in Millions)</b>             | <b>Nine Months Ended</b> |                  | <b>Three Months Ended</b> |                  |
|--|--------------------------|------------------|---------------------------|------------------|
|  | <b>Sept. 30,</b>         | <b>Sept. 30,</b> | <b>Sept. 30,</b>          | <b>Sept. 30,</b> |
|  | <b>2009</b>              | <b>2008</b>      | <b>2009</b>               | <b>2008</b>      |
| <b>Revenues:</b>                         |                          |                  |                           |                  |
| <b>Kemper:</b>                           |                          |                  |                           |                  |
| Earned Premiums                          | \$ 700.9                 | \$ 694.2         | \$ 234.7                  | \$ 235.2         |
| Net Investment Income                    | 28.7                     | 22.4             | 13.9                      | 6.7              |
| Other Income                             | 0.3                      | 0.4              | 0.1                       | 0.2              |
| <b>Total Kemper</b>                      | <b>729.9</b>             | <b>717.0</b>     | <b>248.7</b>              | <b>242.1</b>     |
| <b>Unitrin Specialty:</b>                |                          |                  |                           |                  |
| Earned Premiums                          | 398.9                    | 362.8            | 131.6                     | 125.6            |
| Net Investment Income                    | 14.2                     | 10.1             | 6.8                       | 3.1              |
| Other Income                             | 0.2                      | 0.1              | 0.1                       |                  |
| <b>Total Unitrin Specialty</b>           | <b>413.3</b>             | <b>373.0</b>     | <b>138.5</b>              | <b>128.7</b>     |
| <b>Unitrin Direct:</b>                   |                          |                  |                           |                  |
| Earned Premiums                          | 264.7                    | 219.6            | 88.1                      | 73.7             |
| Net Investment Income                    | 12.6                     | 5.4              | 6.2                       | 1.7              |
| Other Income                             | 0.7                      | 0.3              | 0.6                       | 0.1              |
| <b>Total Unitrin Direct</b>              | <b>278.0</b>             | <b>225.3</b>     | <b>94.9</b>               | <b>75.5</b>      |
| <b>Life and Health Insurance:</b>        |                          |                  |                           |                  |
| Earned Premiums                          | 490.5                    | 495.1            | 161.8                     | 165.0            |
| Net Investment Income                    | 167.4                    | 135.1            | 60.9                      | 45.1             |
| Other Income                             | 0.7                      | 0.9              | 0.2                       | 0.2              |
| <b>Total Life and Health Insurance</b>   | <b>658.6</b>             | <b>631.1</b>     | <b>222.9</b>              | <b>210.3</b>     |
| <b>Fireside Bank:</b>                    |                          |                  |                           |                  |
| Interest, Loan Fees and Earned Discounts | 139.4                    | 181.7            | 41.2                      | 59.0             |
| Other Automobile Finance Revenues        | 3.0                      | 3.9              | 0.9                       | 1.1              |



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|  |                   |                   |                 |                 |
|--|-------------------|-------------------|-----------------|-----------------|
| Automobile Finance Revenues                  | 142.4             | 185.6             | 42.1            | 60.1            |
| Net Investment Income                        | 2.3               | 3.5               | 0.6             | 0.7             |
| <b>Total Fireside Bank</b>                   | <b>144.7</b>      | <b>189.1</b>      | <b>42.7</b>     | <b>60.8</b>     |
| <br>   |                   |                   |                 |                 |
| Total Segment Revenues                       | 2,224.5           | 2,135.5           | 747.7           | 717.4           |
| Unallocated Dividend Income                  | 1.1               | 10.1              | 0.4             | 3.3             |
| Net Realized Gains on Sales of Investments   | 17.6              | 65.5              | 12.4            | 27.5            |
| Net Impairment Losses Recognized in Earnings | (49.2)            | (98.9)            | (14.5)          | (72.1)          |
| Other  | 8.5               | 5.3               | 4.6             | 3.8             |
| <b>Total Revenues</b>                        | <b>\$ 2,202.5</b> | <b>\$ 2,117.5</b> | <b>\$ 750.6</b> | <b>\$ 679.9</b> |

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 16 - Business Segments (continued)**

Segment Operating Profit (Loss) for the nine and three months ended September 30, 2009 and 2008 was:

| <b>(Dollars in Millions)</b>  | <b>Nine Months Ended</b> |                  | <b>Three Months Ended</b> |                  |
|---|--------------------------|------------------|---------------------------|------------------|
|   | <b>Sept. 30,</b>         | <b>Sept. 30,</b> | <b>Sept. 30,</b>          | <b>Sept. 30,</b> |
|   | <b>2009</b>              | <b>2008</b>      | <b>2009</b>               | <b>2008</b>      |
| <b>Segment Operating Profit (Loss):</b>   |                          |                  |                           |                  |
| Kemper  | \$ 61.1                  | \$ (12.6)        | \$ 26.4                   | \$ (23.6)        |
| Unitrin Specialty   | 21.3                     | 14.5             | 10.5                      | 4.3              |
| Unitrin Direct  | (18.4)                   | (36.6)           | 0.6                       | (13.9)           |
| Life and Health Insurance   | 118.9                    | 60.0             | 47.8                      | (1.7)            |
| Fireside Bank   | (1.5)                    | (27.2)           | 3.4                       | (1.3)            |
| <b>Total Segment Operating Profit (Loss)</b>  | <b>181.4</b>             | <b>(1.9)</b>     | <b>88.7</b>               | <b>(36.2)</b>    |
| Unallocated Dividend Income   | 1.1                      | 10.1             | 0.4                       | 3.3              |
| Net Realized Gains on Sales of Investments  | 17.6                     | 65.5             | 12.4                      | 27.5             |
| Net Impairment Losses Recognized in Earnings  | (49.2)                   | (98.9)           | (14.5)                    | (72.1)           |
| Other Expense, Net  | (15.6)                   | (18.9)           | (3.3)                     | (4.3)            |
| <br>Income (Loss) from Continuing Operations before Income Taxes and Equity<br>in Net Income (Loss) of Investee | <br>\$ 135.3             | <br>\$ (44.1)    | <br>\$ 83.7               | <br>\$ (81.8)    |

Segment Net Income (Loss) for the nine and three months ended September 30, 2009 and 2008 was:

| <b>(Dollars in Millions)</b>                 | <b>Nine Months Ended</b> |                  | <b>Three Months Ended</b> |                  |
|--|--------------------------|------------------|---------------------------|------------------|
|  | <b>Sept. 30,</b>         | <b>Sept. 30,</b> | <b>Sept. 30,</b>          | <b>Sept. 30,</b> |
|  | <b>2009</b>              | <b>2008</b>      | <b>2009</b>               | <b>2008</b>      |
| <b>Segment Net Income (Loss):</b>            |                          |                  |                           |                  |
| Kemper                                       | \$ 45.7                  | \$ (1.8)         | \$ 19.2                   | \$ (13.3)        |
| Unitrin Specialty                            | 16.8                     | 12.3             | 7.8                       | 3.7              |
| Unitrin Direct                               | (9.7)                    | (22.2)           | 1.3                       | (8.5)            |
| Life and Health Insurance                    | 77.7                     | 38.1             | 31.7                      | (1.1)            |
| Fireside Bank                                | (7.3)                    | (20.5)           | 2.4                       | (5.3)            |
| <b>Total Segment Net Income (Loss)</b>       | <b>123.2</b>             | <b>5.9</b>       | <b>62.4</b>               | <b>(24.5)</b>    |
| Net Income (Loss) From:                      |                          |                  |                           |                  |
| Unallocated Dividend Income                  | 1.0                      | 8.8              | 0.4                       | 2.9              |
| Net Realized Gains on Sales of Investments   | 11.5                     | 42.6             | 8.1                       | 17.9             |
| Net Impairment Losses Recognized in Earnings | (32.0)                   | (64.3)           | (9.4)                     | (46.9)           |
| Other Expense, Net                           | (6.5)                    | (9.2)            | 0.5                       |                  |

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|  |         |           |         |           |
|--|---------|-----------|---------|-----------|
| Income (Loss) from Continuing Operations before Equity in Net Income |         |           |         |           |
| (Loss) of Investee   | 97.2    | (16.2)    | 62.0    | (50.6)    |
| Equity in Net Income (Loss) of Investee                              | (1.1)   | 4.3       | (1.0)   | 1.0       |
| Income (Loss) from Continuing Operations                             | \$ 96.1 | \$ (11.9) | \$ 61.0 | \$ (49.6) |

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 16 - Business Segments (continued)**

Earned Premiums by product line for the nine and three months ended September 30, 2009 and 2008 were:

| (Dollars in Millions)  | Nine Months Ended |                   | Three Months Ended |                   |
|------------------------|-------------------|-------------------|--------------------|-------------------|
|                        | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| Life                   | \$ 301.1          | \$ 299.0          | \$ 100.0           | \$ 101.4          |
| Accident and Health    | 118.9             | 119.7             | 40.1               | 40.5              |
| Property and Casualty: |                   |                   |                    |                   |
| Personal Lines:        |                   |                   |                    |                   |
| Automobile             | 1,055.4           | 955.8             | 351.1              | 327.6             |
| Homeowners             | 225.5             | 219.7             | 76.2               | 74.5              |
| Other Personal         | 110.8             | 115.1             | 35.4               | 36.4              |
| Total Personal Lines   | 1,391.7           | 1,290.6           | 462.7              | 438.5             |
| Commercial Automobile  | 43.3              | 62.4              | 13.4               | 19.1              |
| Total Earned Premiums  | \$ 1,855.0        | \$ 1,771.7        | \$ 616.2           | \$ 599.5          |

**Note 17 - Catastrophe Reinsurance**

Catastrophes and storms are inherent risks of the property and casualty insurance business. These catastrophic events and natural disasters include hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds and winter storms. Such events result in insured losses that are, and will continue to be, a material factor in the results of operations and financial position of the Company's property and casualty insurance companies. Further, because the level of these insured losses occurring in any one year cannot accurately be predicted, these losses may contribute to material year-to-year fluctuations in the results of the operations and financial position of these companies. Specific types of catastrophic events are more likely to occur at certain times within the year than others. This factor adds an element of seasonality to property and casualty insurance claims. The Company has adopted the industry-wide catastrophe classifications of storms and other events promulgated by Insurance Services Office, Inc. ( ISO ) to track and report losses related to catastrophes. ISO classifies a disaster as a catastrophe when the event causes \$25.0 million or more in direct losses to property and affects a significant number of policyholders and insurers. ISO-classified catastrophes are assigned a unique serial number recognized throughout the insurance industry. The discussions that follow utilize ISO's definition of catastrophes.

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 17 - Catastrophe Reinsurance (continued)**

The Company manages its exposure to catastrophes and other natural disasters through a combination of geographical diversification and reinsurance. To limit its exposures to catastrophic events, the Company maintains various catastrophe reinsurance programs for its property and casualty insurance businesses. Reinsurance coverage for catastrophic events occurring during the period January 1, 2009 to December 31, 2009 is provided in various layers as presented below:

| (Dollars in Millions)  | Catastrophe Losses and LAE |         | Percentage of Coverage |
|--|----------------------------|---------|------------------------|
|  | In Excess of               | Up to   |                        |
| <b>Kemper Segment</b>  |                            |         |                        |
| Retained   | \$                         | \$ 50.0 | 0.0%                   |
| 1st Layer of Coverage  | 50.0                       | 100.0   | 55.4%                  |
| 2nd Layer of Coverage  | 100.0                      | 200.0   | 95.0%                  |
| 3rd Layer of Coverage  | 200.0                      | 350.0   | 86.6%                  |
| <b>Unitrin Direct and Unitrin Specialty Segments</b>           |                            |         |                        |
| Retained   | \$                         | \$ 2.0  | 0.0%                   |
| 1st Layer of Coverage  | 2.0                        | 15.0    | 95.7%                  |
| <b>Life and Health Segment - Property Insurance Operations</b> |                            |         |                        |
| Retained   | \$                         | \$ 8.0  | 0.0%                   |
| 1st Layer of Coverage  | 8.0                        | 15.0    | 97.0%                  |
| 2nd Layer of Coverage  | 15.0                       | 40.0    | 100.0%                 |

Reinsurance coverage for catastrophic events occurring during the period January 1, 2008 to December 31, 2008 is provided in various layers as presented below:

| (Dollars in Millions)  | Catastrophe Losses and LAE |         | Percentage of Coverage |
|--|----------------------------|---------|------------------------|
|  | In Excess of               | Up to   |                        |
| <b>Kemper Segment</b>  |                            |         |                        |
| Retained   | \$                         | \$ 40.0 | 0.0%                   |
| 1st Layer of Coverage  | 40.0                       | 70.0    | 61.5%                  |
| 2nd Layer of Coverage  | 70.0                       | 150.0   | 93.0%                  |
| 3rd Layer of Coverage  | 150.0                      | 250.0   | 92.0%                  |
| <b>Unitrin Direct and Unitrin Specialty Segments</b>           |                            |         |                        |
| Retained   | \$                         | \$ 2.0  | 0.0%                   |
| 1st Layer of Coverage  | 2.0                        | 15.0    | 100.0%                 |
| <b>Life and Health Segment - Property Insurance Operations</b> |                            |         |                        |
| Retained   | \$                         | \$ 6.0  | 0.0%                   |
| 1st Layer of Coverage  | 6.0                        | 20.0    | 82.5%                  |
| 2nd Layer of Coverage  | 20.0                       | 50.0    | 100.0%                 |

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|                       |      |      |        |
|-----------------------|------|------|--------|
| 3rd Layer of Coverage | 50.0 | 80.0 | 100.0% |
|-----------------------|------|------|--------|

In the event that the Company's incurred catastrophe losses and LAE covered by any of its catastrophe reinsurance programs exceed the retention for a particular layer, each of the programs above requires one reinstatement of such coverage. In such an instance, the Company is required to pay a reinstatement premium to the reinsurers to reinstate the full amount of reinsurance available under such layer. The reinstatement premium is a percentage of the original premium based on the ratio of the losses exceeding the Company's retention to the reinsurers' coverage limit. The catastrophe reinsurance program for the Life and Health Insurance segment also includes reinsurance coverage from the Florida Hurricane Catastrophe Fund (FHCF) for hurricane losses in Florida at retentions lower than those described above. The catastrophe reinsurance program presented above for 2008 for the Life and Health Insurance segment excludes Mutual Savings Fire. Mutual Savings Fire participated in a separate reinsurance program in 2008 which provided reinsurance coverage of 95% of reinsured catastrophe losses of \$3.5 million above a retention of \$0.5 million.

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 17 - Catastrophe Reinsurance (continued)**

Catastrophe reinsurance premiums for the Company's catastrophe reinsurance programs and the FHC reduced earned premiums for the nine and three months ended September 30, 2009 and 2008 by the following:

| (Dollars in Millions)                         | Nine Months Ended |                | Three Months Ended |                |
|---|-------------------|----------------|--------------------|----------------|
|   | Sept. 30, 2009    | Sept. 30, 2008 | Sept. 30, 2009     | Sept. 30, 2008 |
| Kemper  | \$ 16.8           | \$ 14.6        | \$ 5.6             | \$ 5.0         |
| Unitrin Specialty                             | 0.2               | 0.4            | 0.1                | 0.1            |
| Unitrin Direct                                | 0.5               | 0.1            | 0.2                |                |
| Life and Health Insurance                     | 3.4               | 8.6            | 1.2                | 5.5            |
| <b>Total Catastrophe Reinsurance Premiums</b> | <b>\$ 20.9</b>    | <b>\$ 23.7</b> | <b>\$ 7.1</b>      | <b>\$ 10.6</b> |

The Life and Health Insurance segment amounts presented above for both the nine and three months ended September 30, 2008 include reinsurance reinstatement premiums of \$4.1 million to reinstate coverage following Hurricanes Dolly, Gustav and Ike.

Total catastrophe losses and LAE (including development), net of reinsurance recoveries, reported in continuing operations were \$49.9 million and \$13.9 million for the nine and three months ended September 30, 2009, respectively, compared to \$146.4 million and \$83.1 million for the same periods in 2008. Catastrophe loss reserves developed favorably by \$9.4 million and \$1.7 million for the nine and three months ended September 30, 2009, respectively. Catastrophe loss reserves developed adversely by \$3.5 million and \$6.3 million for the nine and three months ended September 30, 2008, respectively. No major hurricanes that significantly impacted the Company made landfall in the United States during the first nine months of 2009, whereas three major hurricanes that significantly impacted the Company (Dolly, Gustav and Ike) made landfall in the United States in the third quarter of 2008. A summary of the Company's estimated losses and LAE, net of reinsurance recoveries of \$40.2 million, from Hurricanes Dolly, Gustav and Ike reported in the Company's Condensed Consolidated Statements of Operations for both the nine and three months ended September 30, 2008 by business segment were:

| (Dollars in Millions)                         | Dolly         | Gustav         | Ike            | Total          |
|---|---------------|----------------|----------------|----------------|
| Kemper  | \$ 0.7        | \$ 12.1        | \$ 32.9        | \$ 45.7        |
| Unitrin Specialty                             |               | 0.5            | 1.1            | 1.6            |
| Unitrin Direct                                |               | 0.1            | 0.4            | 0.5            |
| Life and Health Insurance                     | 6.9           | 6.8            | 9.0            | 22.7           |
| <b>Total Loss and LAE, Net of Reinsurance</b> | <b>\$ 7.6</b> | <b>\$ 19.5</b> | <b>\$ 43.4</b> | <b>\$ 70.5</b> |

The estimated losses presented above by the Life and Health Insurance segment are net of reinsurance recoveries of \$3.3 million, \$3.3 million and \$33.6 million related to Hurricanes Dolly, Gustav and Ike, respectively. In addition to the losses presented above, Insurance Expenses for both the nine and three months ended September 30, 2008 includes an expense of \$3.9 million related to the Kemper segment's estimate of its share of assessments from the Texas Windstorm Insurance Association ( TWIA ). Insurance Expenses for the nine and three months ended September 30, 2009 includes a reduction of expense of \$2.8 million due to a decrease in the Company's estimate of its share of assessments from

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TWIA. The Company's estimates for Hurricanes Dolly, Gustav and Ike include estimates for both direct losses and LAE and indirect losses from residual market assessments, such as TWIA. The process of estimating and establishing reserves for catastrophe losses is inherently uncertain and the actual ultimate cost of a claim, net of actual reinsurance recoveries, may vary materially from the estimated amount reserved. The Company's estimates of direct catastrophe losses are generally based on inspections by claims adjusters and historical loss development experience for areas that have not been inspected or for claims that have not yet been reported. The Company's estimates of direct catastrophe losses are based on the coverages provided by its insurance policies. The Company's homeowners and dwelling insurance policies do not provide coverage for losses caused by floods, but generally provide coverage for physical damage caused by wind or wind driven rain. Accordingly, the Company's estimates of direct losses for homeowners and dwellings insurance do not include losses caused by flood. Depending on the policy, automobile insurance may provide coverage for losses caused by flood. Estimates of the number and severity of claims ultimately reported are influenced by many variables including, but not limited to, repair or reconstruction costs and determination of



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**UNITRIN, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**Note 17 - Catastrophe Reinsurance (continued)**

cause of loss that are difficult to quantify and will influence the final amount of claim settlements. All these factors, coupled with the impact of the availability of labor and material on costs, require significant judgment in the reserve setting process. A change in any one or more of these factors is likely to result in an ultimate net claim cost different from the estimated reserve. The Company's estimates of indirect losses from residual market assessments are based on a variety of factors including, but not limited to, actual or estimated assessments provided by or received from the assessing entity, insurance industry estimates of losses, and estimates of the Company's market share in the assessable states. Actual assessments may differ materially from these estimated amounts.

**Note 18 - Fair Value Measurements**

In accordance with GAAP, the Company is required to provide enhanced disclosures about assets and liabilities that are measured and reported at fair value on a recurring basis. The Company classifies its Investments in Fixed Maturities and Investments in 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.

The Company uses a hierarchical framework which prioritizes and ranks the market price observability used in fair value measurements. Market price observability is affected by a number of factors, including the type of asset or liability and the characteristics specific to the asset or liability being measured. Assets and liabilities with readily available, active, quoted market prices or for which fair value can be measured from actively quoted prices generally are deemed to have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. The Company classifies the inputs used to measure fair value into one of three levels as follows:

Level 1 - Quoted prices in an active market for identical assets or liabilities;

Level 2 - Observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 - Assets and liabilities whose significant value drivers are unobservable.

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company's market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those instances, the fair value measurement is required to be classified using the lowest level of input that is significant to the fair value measurement. Such determination requires significant management judgment. In accordance with GAAP, the Company is not permitted to adjust quoted market prices in an active market, even if the Company owns a large investment, the sale of which could reasonably impact the quoted price.

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 18 - Fair Value Measurements (continued)**

The valuation of assets measured at fair value in the Company's Condensed Consolidated Balance Sheet at September 30, 2009 is summarized below:

|  | Fair Value Measurements   |   |  | Fair Value<br>Sept. 30,<br>2009 |
|--|---|---|--|---------------------------------|
|  | Quoted Prices<br>in Active Markets<br>for Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                                 |
| <b>(Dollars in Millions)</b>   |   |   |  |                                 |
| Available for Sale Securities:   |   |   |  |                                 |
| Fixed Maturities:  |   |   |  |                                 |
| U.S. Government and Government Agencies and Authorities<br>States, Municipalities and Political Subdivisions | \$ 252.0  | \$ 534.0<br>1,594.0                                       | \$   | \$ 786.0<br>1,594.0             |
| Corporate Securities:  |   |   |  |                                 |
| Bonds and Notes  |   | 1,904.8   | 102.7  | 2,007.5                         |
| Redeemable Preferred Stocks  |   | 82.1  | 68.6   | 150.7                           |
| Mortgage and Asset Backed  |   | 8.8   | 5.0  | 13.8                            |
| <b>Total Investments in Fixed Maturities</b>   | <b>252.0</b>  | <b>4,123.7</b>  | <b>176.3</b>                                       | <b>4,552.0</b>                  |
| Equity Securities:   |   |   |  |                                 |
| Preferred Stocks   |   | 108.6   | 6.9  | 115.5                           |
| Common Stocks  | 30.5  | 1.4   | 11.6   | 43.5                            |
| Other Equity Interests   |   |   | 37.7   | 37.7                            |
| <b>Total Equity Securities</b>   | <b>30.5</b>   | <b>110.0</b>  | <b>56.2</b>  | <b>196.7</b>                    |
| <b>Total Available for Sale Securities</b>   | <b>282.5</b>  | <b>4,233.7</b>  | <b>232.5</b>                                       | <b>4,748.7</b>                  |
| Trading Securities:  |   |   |  |                                 |
| Other Investments  | 4.4   |   |  | 4.4                             |
| <b>Total</b>   | <b>\$ 286.9</b>   | <b>\$ 4,233.7</b>   | <b>\$ 232.5</b>                                    | <b>\$ 4,753.1</b>               |

The valuation of assets measured at fair value in the Company's Condensed Consolidated Balance Sheet at December 31, 2008 is summarized below:

**(Dollars in Millions)**

**Fair Value Measurements**

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|  | Quoted Prices<br>in Active Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Fair Value<br>Dec. 31,<br>2008 |
|--|--|---|--|--------------------------------|
| <b>Available for Sale Securities:</b>      |  |   |  |                                |
| Fixed Maturities                           | \$ 254.0   | \$ 3,677.1  | \$ 204.8   | \$ 4,135.9                     |
| Equity Securities                          | 47.8   | 114.6   | 59.4   | 221.8                          |
| <b>Total Available for Sale Securities</b> | <b>301.8</b>   | <b>3,791.7</b>  | <b>264.2</b>                                       | <b>4,357.7</b>                 |
| <b>Trading Securities:</b>                 |  |   |  |                                |
| Other Investments                          | 3.8  |   |  | 3.8                            |
| <b>Total</b>                               | <b>\$ 305.6</b>  | <b>\$ 3,791.7</b>   | <b>\$ 264.2</b>                                    | <b>\$ 4,361.5</b>              |

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 18 - Fair Value Measurements (continued)**

Additional information pertaining to the Company's investments in Fixed Maturities and Equity Securities classified as Level 3 at December 31, 2008 is presented below:

| <b>(Dollars in Millions)</b>                            | <b>Fair Value<br/>Dec. 31,<br/>2008</b> |
|---|---|
| <b>Fixed Maturities:</b>                                |   |
| Corporate Bonds and Notes Due at a Single Maturity Date | \$ 134.2                                |
| Redeemable Preferred Stocks                             | 70.6                                    |
| <br>Total Fixed Maturities Classified as Level 3        | <br>204.8                               |
| <br><b>Equity Securities:</b>                           |   |
| Common Stocks   | 10.4                                    |
| Preferred Stocks  | 4.9                                     |
| Other Equity Interests                                  | 44.1                                    |
| <br>Total Equity Securities Classified as Level 3       | <br>59.4                                |
| <br>Total Investments Classified as Level 3             | <br>\$ 264.2                            |

The Company's investments in available for sale securities reported as Fixed Maturities and classified as Level 1 in the three preceding tables primarily consist of U.S. Treasury Bonds and Notes. The Company's investments in available for sale securities reported as Equity Securities and classified as Level 1 in the three preceding tables primarily consist of investments in publicly-traded common stocks. The Company's investments in available for sale securities reported as Fixed Maturities and classified as Level 2 in the three preceding tables primarily consist of investments in corporate bonds and redeemable preferred stocks, state and municipal bonds, and bonds and mortgage-backed securities of U.S. government agencies. The Company's investments in available for sale securities reported as Equity Securities and classified as Level 2 in the three 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

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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 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, and 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, will rely on the original purchase price as representative of the fair value.

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 18 - Fair Value Measurements (continued)**

Summary information pertaining to the changes in the fair value of the Company's investments classified as Level 3 for the nine and three months ended September 30, 2009 and 2008 is presented below:

| (Dollars in Millions)                         | Nine Months Ended |                | Three Months Ended |                |
|---|-------------------|----------------|--------------------|----------------|
|   | Sept. 30, 2009    | Sept. 30, 2008 | Sept. 30, 2009     | Sept. 30, 2008 |
| Balance at Beginning of Period                | \$ 264.2          | \$ 218.9       | \$ 246.8           | \$ 272.5       |
| Total Gains (Losses):                         |                   |                |                    |                |
| Included in Statement of Operations           | (32.8)            | (12.3)         | (12.3)             | (12.2)         |
| Included in Other Comprehensive Income (Loss) | 17.8              | (8.9)          | 2.3                | (5.7)          |
| Purchases, Sales and Settlements, Net         | (17.5)            | 113.6          | (3.4)              | 67.8           |
| Transfers in and/or out of Level 3            | 0.8               | 1.9            | (0.9)              | (9.2)          |
| Balance at End of Period                      | \$ 232.5          | \$ 313.2       | \$ 232.5           | \$ 313.2       |

Additional information by security type pertaining to the changes in the fair value of the Company's investments classified as Level 3 for the nine months ended September 30, 2009 is presented below:

| (Dollars in Millions)                         | Fixed Maturities          |                             |                           | Equity Securities           |                        |
|---|---------------------------|-----------------------------|---------------------------|-----------------------------|------------------------|
|   | Corporate Bonds and Notes | Redeemable Preferred Stocks | Mortgage and Asset Backed | Preferred and Common Stocks | Other Equity Interests |
| Balance at Beginning of Period                | \$ 128.6                  | \$ 70.6                     | \$ 5.6                    | \$ 15.3                     | \$ 44.1                |
| Total Gains (Losses):                         |                           |                             |                           |                             |                        |
| Included in Statement of Operations           | (24.4)                    | (5.7)                       |                           | (2.2)                       | (0.5)                  |
| Included in Other Comprehensive Income (Loss) | 2.0                       | 2.7                         | (0.2)                     | 5.4                         | 7.9                    |
| Purchases, Sales and Settlements, Net         | (3.5)                     | 1.0                         | (1.2)                     |                             | (13.8)                 |
| Transfers in and/or out of Level 3            |                           |                             | 0.8                       |                             |                        |
| Balance at End of Period                      | \$ 102.7                  | \$ 68.6                     | \$ 5.0                    | \$ 18.5                     | \$ 37.7                |

Additional 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 September 30, 2009 is presented below:

| (Dollars in Millions) | Fixed Maturities | Equity Securities |
|-----------------------|------------------|-------------------|
|-----------------------|------------------|-------------------|

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|   | <b>Corporate<br/>Bonds<br/>and Notes</b> | <b>Redeemable<br/>Preferred<br/>Stocks</b> | <b>Mortgage<br/>and Asset<br/>Backed</b> | <b>Preferred<br/>and Common<br/>Stocks</b> | <b>Other<br/>Equity<br/>Interests</b> |
|---|--|--|--|--|---------------------------------------|
| Balance at Beginning of Period                | \$ 114.5                                 | \$ 68.7                                    | \$ 6.1                                   | \$ 17.2                                    | \$ 40.3                               |
| Total Gains (Losses):                         |  |  |  |  |                                       |
| Included in Statement of Operations           | (7.8)                                    | (5.7)                                      |  | 0.5  | 0.7                                   |
| Included in Other Comprehensive Income (Loss) | (5.3)                                    | 5.2  |  | 1.7  | 0.7                                   |
| Purchases, Sales and Settlements, Net         | 1.3                                      | 0.4  | (1.1)                                    |  | (4.0)                                 |
| Transfers in and/or out of Level 3            |  |  |  | (0.9)                                      |                                       |
| Balance at End of Period                      | \$ 102.7                                 | \$ 68.6                                    | \$ 5.0                                   | \$ 18.5                                    | \$ 37.7                               |

**Table of Contents****UNITRIN, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 19 - 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. Unitrin's subsidiary, Trinity, and FS&C were parties to an agreement under which FS&C provided investment management services to Trinity during 2008. During October 2008, FS&C sold all of the investments it managed for Trinity, and FS&C ceased providing investment management services to Trinity. In addition, FS&C provides investment management services with respect to certain funds of the Company's pension plans. Such agreement is terminable by either party at any time upon 30 days advance written notice.

Under these investment advisory arrangements, FS&C is entitled to a fee calculated and payable quarterly based on the fair value of the assets under management. At September 30, 2009, the Company's pension plans had \$79.0 million in investments managed by FS&C. For the nine and three months ended September 30, 2009, the Company's pension plans paid \$0.2 million and \$0.1 million, respectively, to FS&C. For the nine and three months ended September 30, 2008, Trinity and the Company's pension plans paid \$0.6 million and \$0.2 million, respectively, in the aggregate to FS&C.

With respect to the Company's defined contribution plans, one of the investment choices afforded to participants 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. As of September 30, 2009, participants in the Company's defined contribution plans had allocated \$16.3 million for investment in the Dreyfus Appreciation Fund, representing 6.7% of the total amount invested by participants in the Company's defined contribution plans.

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

Eric J. Draut, Unitrin's Chief Financial Officer and a member of Unitrin's Board of Directors, is a director of Intermec, the Company's investee.

As described in Note 20, Relationships with Mutual Insurance Companies, to the Condensed Consolidated Financial Statements, the Company also has certain relationships with mutual insurance companies. Such companies are owned by the policyholders of such companies.

**Note 20 - Relationships with Mutual Insurance Companies**

Trinity and Capitol County Mutual Fire Insurance Company (Capitol), and Trinity and Capitol's wholly-owned subsidiary, Old Reliable Casualty Company (ORCC), are parties to quota share reinsurance agreements whereby Trinity assumes 100% of the business written by Capitol and ORCC. Capitol is a mutual insurance company and, accordingly, is owned by its policyholders. Five employees of the Company serve as directors of Capitol's five-member board of directors. Nine employees of the Company also serve as directors of ORCC's nine-member board of directors.

The Reliable Life Insurance Company (Reliable), a wholly-owned subsidiary of Unitrin, provides certain administrative services to Capitol and ORCC. In addition, agents appointed by Reliable and employed by Unitrin's subsidiary, United, are also appointed by Capitol and ORCC to sell property insurance products. United also provides claims administration services to ORCC. The Company also provides certain investment services to Capitol and ORCC.



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**UNITRIN, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**Note 21 - Contingencies**

In the ordinary course of their businesses, Unitrin and its subsidiaries are involved in a number of legal proceedings including lawsuits and regulatory examinations and inquiries. Some of these proceedings include 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 environment 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, among them two statewide putative class actions, in Florida, Louisiana and Texas arising out of property damage caused by catastrophes and storms, including major hurricanes that have occurred over the last several years. In these matters, the plaintiffs seek compensatory and punitive damages, and equitable relief. The Company believes its relevant subsidiaries have meritorious defenses to these proceedings, which they are vigorously defending. However, it is anticipated that an unquantifiable number of such lawsuits will continue to be filed, at least until the applicable statutes of limitation expire, though some courts continue to demonstrate reluctance to enforce these statutes.

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

The legal and regulatory environment within which Unitrin and its subsidiaries conduct their business is 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.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Summary of Results**

The Company reported Net Income of \$98.4 million (\$1.58 per unrestricted common share) and \$62.1 million (\$1.00 per unrestricted common share) for the nine and three months ended September 30, 2009, respectively, compared to Net Loss of \$19.0 million (\$0.30 per unrestricted common share) and \$45.2 million (\$0.72 per unrestricted common share) for the same periods in 2008. The Company reported Income from Continuing Operations of \$96.1 million (\$1.54 per unrestricted common share) and \$61.0 million (\$0.98 per unrestricted common share) for the nine and three months ended September 30, 2009, compared to Loss from Continuing Operations of \$11.9 million (\$0.19 per unrestricted common share) and \$49.6 million (\$0.79 per unrestricted common share) for the same periods in 2008. As discussed throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ), Income from Continuing Operations increased by \$108.0 million for the nine months ended September 30, 2009, compared to the same period in 2008, due primarily to higher Segment Net Income and lower Net Impairment Losses Recognized in Earnings, partially offset by lower Net Realized Gains on Sales of Investments and lower unallocated dividend income due to lower levels of investments in Northrop Grumman Corporation ( Northrop ). Income from Continuing Operations increased by \$110.6 million for the three months ended September 30, 2009, compared to the same period in 2008, due primarily to higher Segment Net Income, lower Net Impairment Losses Recognized in Earnings, partially offset by lower Net Realized Gains on Sales of Investments. Segment Net Income increased by \$117.3 million and \$86.9 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due to improved results in all segments, most notably the Kemper and Life and Health Insurance segments. Income from Continuing Operations for the nine and three months ended September 30, 2009 included restructuring charges of \$19.3 million before tax and \$3.1 million before tax, respectively. Loss from Continuing Operations for the nine months ended September 30, 2008 included restructuring charges of \$5.0 million before tax. Restructuring charges included in Loss from Continuing Operations for the three months ended September 30, 2008 were insignificant. See Note 12, Restructuring Expenses, to the Condensed Consolidated Financial Statements and the individual segment MD&A for more information regarding restructuring charges. Income from Continuing Operations for the nine months ended September 30, 2009 also included an income tax provision of \$6.3 million to increase the valuation allowance for deferred state income taxes, net of federal benefit, related to the Fireside Bank segment. Loss from Continuing Operations for the nine months and three months ended September 30, 2008 also included an income tax provision of \$4.4 million to establish a valuation allowance for deferred state income taxes, net of federal benefit, related to the Fireside Bank segment. Catastrophe losses from continuing operations were \$49.9 million before tax and \$13.9 million before tax for the nine and three months ended September 30, 2009, respectively, compared to \$146.4 million before tax and \$83.1 million before tax for same periods in 2008. See Note 17, Catastrophe Reinsurance to the Condensed Consolidated Financial Statements, Catastrophes in the MD&A and the individual segment MD&A for more information regarding catastrophe losses. The Company reported Income from Discontinued Operations of \$2.3 million and \$1.1 million for the nine and three months ended September 30, 2009, respectively, compared to Loss from Discontinued Operations of \$7.1 million and Income from Discontinued Operations of \$4.4 million for the same periods in 2008. There were no catastrophe losses from discontinued operations for either the nine or three months ended September 30, 2009. Catastrophe losses from discontinued operations were \$7.8 million before tax for the nine months ended September 30, 2008.

Total Revenues were \$2,202.5 million and \$2,117.5 million for the nine months ended September 30, 2009 and 2008, respectively, an increase of \$85.0 million. Total Revenues increased for the nine months ended September 30, 2009 due primarily to higher Earned Premiums, lower Net Impairment Losses Recognized in Earnings and higher Net Investment Income, partially offset by lower Net Realized Gains on Sales of Investments and lower Automobile Finance Revenues. Total Revenues were \$750.6 million and \$679.9 million for the three months ended September 30, 2009 and 2008, respectively, an increase of \$70.7 million. Total Revenues increased for the three months ended September 30, 2009 due primarily to lower Net Impairment Losses Recognized in Earnings, higher Net Investment Income and higher Earned Premiums, partially offset by lower Automobile Finance Revenues and lower Net Realized Gains on Sales of Investments.

Earned Premiums were \$1,855.0 million and \$1,771.7 million for the nine months ended September 30, 2009 and 2008, respectively, an increase of \$83.3 million. Earned premiums increased for the nine months ended September 30, 2009 in the Unitrin Direct, Unitrin Specialty and Kemper segments, partially offset by lower earned premiums in the Life and Health Insurance segment. Earned Premiums were \$616.2 million and \$599.5 million for the three months ended September 30, 2009 and 2008, respectively, an increase of \$16.7 million. Earned premiums increased for the three months ended September 30, 2009 in the Unitrin Direct and Unitrin Specialty segments, partially offset by lower earned premiums in the Life and Health Insurance and Kemper segments.

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**Table of Contents**

***Summary of Results (continued)***

Automobile Finance Revenues decreased by \$43.2 million and \$18.0 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due to the Company's decision to exit the automobile finance business.

Net Investment Income increased by \$43.7 million and \$29.6 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008. See "Investment Results" of the MD&A for a discussion of Net Investment Income.

Net Realized Gains on Sales of Investments were \$17.6 million and \$12.4 million for the nine and three months ended September 30, 2009, respectively, compared to \$65.5 million and \$27.5 million for the same periods in 2008. Realized investment gains from sales of a portion of the Company's investment in Northrop common stock were \$3.8 million for both the nine and three months ended September 30, 2009, compared to \$47.5 million and \$35.4 million for the same periods in 2008. Net Impairment Losses Recognized in Earnings were \$49.2 million and \$14.5 million for the nine and three months ended September 30, 2009, respectively, compared to \$98.9 million and \$72.1 million in the same periods in 2008, resulting from other than temporary declines in the fair values of investments. The Company cannot anticipate when or if similar net investment gains or losses may occur in the future.

***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, and the valuation of pension benefit obligations. The Company's critical accounting policies with respect to 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, and the valuation of pension benefit obligations are described in the MD&A included in the 2008 Annual Report. There has been no material change, subsequent to December 31, 2008, to information previously disclosed in the 2008 Annual Report with respect to the Company's critical accounting policies.

***Catastrophes***

Catastrophes and storms are inherent risks of the property and casualty insurance business. These catastrophic events and natural disasters include hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds and winter storms. Such events result in insured losses that are, and will continue to be, a material factor in the results of operations and financial position of the Company's property and casualty insurance companies. Further, because the level of these insured losses occurring in any one year cannot accurately be predicted, these losses may contribute to material year-to-year fluctuations in the results of the operations and financial position of these companies. Specific types of catastrophic events are more likely to occur at certain times within the year than others. This factor adds an element of seasonality to property and casualty insurance claims.

**Table of Contents****Catastrophes (continued)**

The Company manages its exposure to catastrophes and other natural disasters through a combination of geographical diversification and reinsurance. To limit its exposures to catastrophic events, the Company maintains various catastrophe reinsurance programs for its property and casualty insurance businesses. Coverage for each catastrophe reinsurance program is provided in various layers (See Note 17, Catastrophe Reinsurance, to the Condensed Consolidated Financial Statements for further discussion of these programs). Catastrophe reinsurance premiums for the Company's catastrophe reinsurance programs and the FHCF reduced earned premiums for the nine and three months ended September 30, 2009 and 2008 by the following:

| (Dollars in Millions)                         | Nine Months Ended |                | Three Months Ended |                |
|---|-------------------|----------------|--------------------|----------------|
|   | Sept. 30, 2009    | Sept. 30, 2008 | Sept. 30, 2009     | Sept. 30, 2008 |
| Kemper  | \$ 16.8           | \$ 14.6        | \$ 5.6             | \$ 5.0         |
| Unitrin Specialty                             | 0.2               | 0.4            | 0.1                | 0.1            |
| Unitrin Direct                                | 0.5               | 0.1            | 0.2                |                |
| Life and Health Insurance                     | 3.4               | 8.6            | 1.2                | 5.5            |
| <b>Total Catastrophe Reinsurance Premiums</b> | <b>\$ 20.9</b>    | <b>\$ 23.7</b> | <b>\$ 7.1</b>      | <b>\$ 10.6</b> |

The Life and Health Insurance segment amounts presented above for both the nine and three months ended September 30, 2008 include reinsurance reinstatement premiums of \$4.1 million to reinstate coverage following Hurricanes Dolly, Gustav and Ike.

Total catastrophe losses and LAE (including development), net of reinsurance recoveries, by business segment for the nine and three months ended September 30, 2009 and 2008 are presented below:

| (Dollars in Millions)                                | Nine Months Ended |                | Three Months Ended |                |
|--|-------------------|----------------|--------------------|----------------|
|  | Sept. 30, 2009    | Sept. 30, 2008 | Sept. 30, 2009     | Sept. 30, 2008 |
| Kemper   | \$ 29.3           | \$ 101.2       | \$ 6.5             | \$ 49.9        |
| Unitrin Specialty                                    | 3.6               | 3.0            | 2.0                | 1.7            |
| Unitrin Direct                                       | 2.9               | 2.7            | 0.8                | 1.1            |
| Career Agency Property Program                       | 14.1              | 39.5           | 4.6                | 30.4           |
| <b>Total Catastrophes from Continuing Operations</b> | <b>49.9</b>       | <b>146.4</b>   | <b>13.9</b>        | <b>83.1</b>    |

Catastrophe loss reserves developed favorably by \$9.4 million and \$1.7 million for the nine and three months ended September 30, 2009, respectively. Catastrophe loss reserves developed adversely by \$3.5 million and \$6.3 million for the nine and three months ended September 30, 2008, respectively. No major hurricanes that significantly impacted the Company made landfall in the United States during the first nine months of 2009, whereas three major hurricanes that significantly impacted the Company (Dolly, Gustav and Ike) made landfall in the United States in the third quarter of 2008. A summary of the Company's estimated losses and LAE, net of reinsurance recoveries of \$40.2 million, from Hurricanes Dolly, Gustav and Ike reported in the Company's Condensed Consolidated Statements of Operations for both the nine and three months ended September 30, 2008 by business segment were:

| (Dollars in Millions)     | Dolly  | Gustav  | Ike     | Total   |
|---------------------------|--------|---------|---------|---------|
| Kemper                    | \$ 0.7 | \$ 12.1 | \$ 32.9 | \$ 45.7 |
| Unitrin Specialty         |        | 0.5     | 1.1     | 1.6     |
| Unitrin Direct            |        | 0.1     | 0.4     | 0.5     |
| Life and Health Insurance | 6.9    | 6.8     | 9.0     | 22.7    |

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|  |        |         |         |         |
|--|--------|---------|---------|---------|
| Total Loss and LAE, Net of Reinsurance | \$ 7.6 | \$ 19.5 | \$ 43.4 | \$ 70.5 |
|--|--------|---------|---------|---------|

The estimated losses presented above by the Life and Health Insurance segment are net of reinsurance recoveries of \$3.3 million, \$3.3 million and \$33.6 million related to Hurricanes Dolly, Gustav and Ike, respectively. In addition to the losses presented above, Insurance Expenses for both the nine and three months ended September 30, 2008 includes an expense of \$3.9 million related to the Kemper segment's estimate of its share of assessments from TWIA. Insurance Expenses for the nine and three months ended September 30, 2009 includes a reduction of expense of \$2.8 million due to a decrease in the Company's estimate of its share of assessments from TWIA.

**Table of Contents****Kemper**

Selected financial information for the Kemper segment follows:

| (Dollars in Millions)          | Nine Months Ended |                   | Three Months Ended |                   |
|--------------------------------|-------------------|-------------------|--------------------|-------------------|
|                                | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| <b>Earned Premiums:</b>        |                   |                   |                    |                   |
| Automobile                     | \$ 441.1          | \$ 440.7          | \$ 147.0           | \$ 149.1          |
| Homeowners                     | 219.9             | 215.0             | 74.2               | 72.9              |
| Other Personal                 | 39.9              | 38.5              | 13.5               | 13.2              |
| <b>Total Earned Premiums</b>   | <b>700.9</b>      | <b>694.2</b>      | <b>234.7</b>       | <b>235.2</b>      |
| Net Investment Income          | 28.7              | 22.4              | 13.9               | 6.7               |
| Other Income                   | 0.3               | 0.4               | 0.1                | 0.2               |
| <b>Total Revenues</b>          | <b>729.9</b>      | <b>717.0</b>      | <b>248.7</b>       | <b>242.1</b>      |
| <b>Incurred Losses and LAE</b> |                   |                   |                    |                   |
| Insurance Expenses             | 198.3             | 199.8             | 63.5               | 70.3              |
| <b>Operating Profit (Loss)</b> | <b>61.1</b>       | <b>(12.6)</b>     | <b>26.4</b>        | <b>(23.6)</b>     |
| Income Tax Benefit (Expense)   | (15.4)            | 10.8              | (7.2)              | 10.3              |
| <b>Net Income (Loss)</b>       | <b>\$ 45.7</b>    | <b>\$ (1.8)</b>   | <b>\$ 19.2</b>     | <b>\$ (13.3)</b>  |

**Ratios Based On Earned Premiums**

|  | Nine Months Ended |                   | Three Months Ended |                   |
|--|-------------------|-------------------|--------------------|-------------------|
|  | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| Incurred Loss and LAE Ratio (excluding Catastrophes) | 62.9%             | 61.7%             | 64.9%              | 61.9%             |
| Incurred Catastrophe Loss and LAE Ratio              | 4.2%              | 14.6%             | 2.8%               | 21.2%             |
| <b>Total Incurred Loss and LAE Ratio</b>             | <b>67.1%</b>      | <b>76.3%</b>      | <b>67.7%</b>       | <b>83.1%</b>      |
| Incurred Expense Ratio                               | 28.3%             | 28.8%             | 27.1%              | 29.9%             |
| <b>Combined Ratio</b>                                | <b>95.4%</b>      | <b>105.1%</b>     | <b>94.8%</b>       | <b>113.0%</b>     |

**Insurance Reserves**

| (Dollars in Millions)      | Sept. 30,<br>2009 | Dec.<br>31,<br>2008 |
|----------------------------|-------------------|---------------------|
| <b>Insurance Reserves:</b> |                   |                     |
| Personal Automobile        | \$ 309.7          | \$ 336.3            |
| Homeowners                 | 94.4              | 103.0               |
| Other Personal             | 37.2              | 36.8                |

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|                           |          |          |
|---------------------------|----------|----------|
| Insurance Reserves        | \$ 441.3 | \$ 476.1 |
| Insurance Reserves:       |          |          |
| Loss Reserves:            |          |          |
| Case                      | \$ 271.0 | \$ 273.3 |
| Incurred but Not Reported | 93.3     | 125.9    |
| Total Loss Reserves       | 364.3    | 399.2    |
| LAE Reserves              | 77.0     | 76.9     |
| Insurance Reserves        | \$ 441.3 | \$ 476.1 |

**Table of Contents****Kemper (continued)**

| (Dollars in Millions)   | Nine Months Ended |                   | Three Months Ended |                   |
|---|-------------------|-------------------|--------------------|-------------------|
|   | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| Favorable Loss and LAE Reserve Development, Net (excluding Catastrophes)                    | \$ 37.3           | \$ 43.7           | \$ 11.0            | \$ 10.0           |
| Favorable Catastrophe Loss and LAE Reserve Development, Net                                 | 17.5              | 5.3               | 5.9                | 0.4               |
| <b>Total Favorable Loss and LAE Reserve Development, Net</b>                                | <b>\$ 54.8</b>    | <b>\$ 49.0</b>    | <b>\$ 16.9</b>     | <b>\$ 10.4</b>    |
| Loss and LAE Reserve Development as a Percentage of Insurance Reserves at Beginning of Year | 11.5%             | 9.8%              | 3.5%               | 2.1%              |

Earned Premiums in the Kemper segment increased by \$6.7 million for the nine months ended September 30, 2009, compared to the same period in 2008, due primarily to higher volume, partially offset by an increase in the cost of reinsurance. Earned Premiums in the Kemper segment decreased by \$0.5 million for the three months ended September 30, 2009, compared to the same period in 2008, due primarily to an increase in the cost of reinsurance. Earned premiums on homeowners insurance increased by \$4.9 million for the nine months ended September 30, 2009, compared to the same period in 2008, due primarily to higher average premium rates and higher volume, partially offset by an increase in the cost of reinsurance. Earned premiums on homeowners insurance increased by \$1.3 million for the three months ended September 30, 2009, compared to the same period in 2008, due primarily to higher average premium rates, partially offset by an increase in the cost of reinsurance. Earned premiums on automobile insurance increased by \$0.4 million for the nine months ended September 30, 2009, compared to the same period in 2008, due primarily to higher volume, partially offset by lower average premium rates. Earned premiums on automobile insurance decreased by \$2.1 million for the three months ended September 30, 2009, compared to the same period in 2008, due primarily to lower average premium rates and lower volume. Earned premiums on other personal insurance increased by \$1.4 million and \$0.3 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due primarily to higher volume.

Net Investment Income increased by \$6.3 million for the nine months ended September 30, 2009, compared to the same period in 2008, due primarily to higher net investment income from certain investments in limited liability investment companies and limited partnerships which the Company accounts for under the equity method of accounting, partially offset by a lower level of investments. Net Investment Income increased by \$7.2 million for the three months ended September 30, 2009, compared to the same period in 2008, due primarily to higher net investment income from certain investments in limited liability investment companies and limited partnerships. The Kemper segment reported net investment income of \$2.9 million and \$5.2 million from these investments for the nine and three months ended September 30, 2009, respectively, compared to net investment losses of \$5.7 million and \$2.2 million, respectively, for the same periods in 2008.

Operating Profit in the Kemper segment increased by \$73.7 million for the nine months ended September 30, 2009, compared to the same period in 2008, due primarily to lower incurred catastrophe losses and LAE (excluding loss and LAE reserve development) and, to a lesser extent, higher net investment income and higher favorable loss and LAE reserve development (which recognizes changes in estimates of prior year loss and LAE reserves in the current period). Operating Profit in the Kemper segment increased by \$50.0 million for the three months ended September 30, 2009, compared to the same period in 2008, due primarily to lower incurred catastrophe losses and LAE (excluding loss and LAE reserve development) and, to a lesser extent, higher net investment income, higher favorable loss and LAE reserve development and lower insurance expenses.

Homeowners insurance incurred losses and LAE were \$151.2 million for the nine months ended September 30, 2009, compared to \$213.1 million for the same period in 2008. Homeowners insurance incurred losses and LAE decreased due primarily to lower catastrophe losses and LAE. Catastrophe losses and LAE (excluding loss and LAE reserve development) on homeowners insurance were \$37.8 million for the nine months ended September 30, 2009, compared to \$93.0 million for the same period in 2008. Catastrophe loss and LAE reserve development on homeowners insurance had a favorable effect of \$16.7 million for the nine months ended September 30, 2009, compared to a favorable effect of \$4.7 million for the same period in 2008. Catastrophe loss and LAE reserve development for the nine months ended September 30, 2009 included favorable development of \$8.1 million on Hurricanes Ike and Gustav, both of which occurred in 2008, and \$2.8 million of higher subrogation recoveries from certain California wildfires, which occurred in 2007 (the 2007 Wildfires ).





**Table of Contents*****Kemper (continued)***

Homeowners insurance incurred losses and LAE were \$51.2 million for the three months ended September 30, 2009, compared to \$91.4 million for the same period in 2008. Homeowners insurance incurred losses and LAE decreased due primarily to lower catastrophe losses and LAE. Catastrophe losses and LAE (excluding loss and LAE reserve development) on homeowners insurance were \$10.0 million for the three months ended September 30, 2009, compared to \$46.8 million for the same period in 2008. Catastrophe loss and LAE reserve development on homeowners insurance had a favorable effect of \$5.7 million for the three months ended September 30, 2009, compared to a favorable effect of \$0.3 million for the same period in 2008. Catastrophe loss and LAE reserve development for the three months ended September 30, 2009 included \$2.8 million of higher subrogation recoveries from the 2007 Wildfires and favorable development of \$0.7 million on Hurricanes Ike and Gustav.

Automobile insurance incurred losses and LAE were \$297.9 million for the nine months ended September 30, 2009, compared to \$291.5 million for the same period in 2008. Automobile insurance incurred losses and LAE increased due primarily to lower favorable loss and LAE reserve development, partially offset by lower catastrophe losses and LAE (excluding loss and LAE reserve development). Loss and LAE reserve development on automobile insurance had a favorable effect of \$28.3 million for the nine months ended September 30, 2009, compared to a favorable effect of \$37.9 million for the same period in 2008. Catastrophe losses and LAE (excluding loss and LAE reserve development) on automobile insurance were \$6.9 million for the nine months ended September 30, 2009, compared to \$9.3 million for the same period in 2008.

Automobile insurance incurred losses and LAE were \$101.1 million for the three months ended September 30, 2009, compared to \$94.5 million for the same period in 2008. Automobile insurance incurred losses and LAE increased due primarily to higher non-catastrophe loss and LAE (excluding loss and LAE reserve development) and, to a lesser extent, higher catastrophe losses and LAE (excluding loss and LAE reserve development) and lower favorable loss and LAE reserve development. Non-catastrophe loss and LAE (excluding loss and LAE reserve development) increased by \$4.6 million due primarily to higher frequency of losses and, to a lesser extent, higher average, estimated severity of losses. Catastrophe losses and LAE (excluding loss and LAE reserve development) on automobile insurance were \$1.8 million for the three months ended September 30, 2009, compared to \$0.7 million for the same period in 2008. Loss and LAE reserve development on automobile insurance had a favorable effect of \$7.7 million for the three months ended September 30, 2009, compared to a favorable effect of \$8.6 million for the same period in 2008.

See MD&A, Critical Accounting Estimates, in the 2008 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 \$1.5 million and \$6.8 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008. Insurance Expenses for the nine and three months ended September 30, 2009 included a reduction in expense of \$2.8 million due to a change in the Kemper segment's estimated TWIA assessment for Hurricane Ike. Insurance Expenses for the nine and three months ended September 30, 2008 included expense of \$3.9 million related to the Kemper segment's estimated TWIA assessment for Hurricane Ike. Insurance Expenses for the nine and three months ended September 30, 2009 included a charge of \$2.7 million to write off the Kemper segment's equity in the North Carolina Beach Plan (the NC Beach Plan) underwriting pool due to a change in the law enacted in the third quarter of 2009. Excluding the impact of the TWIA assessments and NC Beach Plan write-off, Insurance Expenses for the nine months ended September 30, 2009 increased by \$2.5 million due primarily to an increase in commission expense, principally due to higher earned premiums, and restructuring costs, partially offset by expense saving initiatives. Restructuring costs were \$1.4 million for the nine months ended September 30, 2009. Excluding the impact of the TWIA assessments and NC Beach Plan write-off, Insurance Expenses for the three months ended September 30, 2009 decreased by \$2.8 million due primarily to the expense savings initiatives.

Net Income in the Kemper segment increased by \$47.5 million and \$32.5 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due primarily to the changes in 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 \$17.6 million and \$5.9 million for the nine and three months ended September 30, 2009, respectively, compared to \$18.9 million and \$6.0 million for the same periods in 2008.

**Table of Contents****Unitrin Specialty**

Selected financial information for the Unitrin Specialty segment follows:

| (Dollars in Millions)          | Nine Months Ended |                | Three Months Ended |                |
|--------------------------------|-------------------|----------------|--------------------|----------------|
|                                | Sept. 30, 2009    | Sept. 30, 2008 | Sept. 30, 2009     | Sept. 30, 2008 |
| <b>Earned Premiums:</b>        |                   |                |                    |                |
| Personal Automobile            | \$ 355.6          | \$ 300.4       | \$ 118.2           | \$ 106.5       |
| Commercial Automobile          | 43.3              | 62.4           | 13.4               | 19.1           |
| <b>Total Earned Premiums</b>   | <b>398.9</b>      | <b>362.8</b>   | <b>131.6</b>       | <b>125.6</b>   |
| Net Investment Income          | 14.2              | 10.1           | 6.8                | 3.1            |
| Other Income                   | 0.2               | 0.1            | 0.1                |                |
| <b>Total Revenues</b>          | <b>413.3</b>      | <b>373.0</b>   | <b>138.5</b>       | <b>128.7</b>   |
| <b>Incurred Losses and LAE</b> | <b>317.8</b>      | <b>287.8</b>   | <b>103.1</b>       | <b>100.1</b>   |
| Insurance Expenses             | 74.2              | 70.7           | 24.9               | 24.3           |
| <b>Operating Profit</b>        | <b>21.3</b>       | <b>14.5</b>    | <b>10.5</b>        | <b>4.3</b>     |
| Income Tax Expense             | (4.5)             | (2.2)          | (2.7)              | (0.6)          |
| <b>Net Income</b>              | <b>\$ 16.8</b>    | <b>\$ 12.3</b> | <b>\$ 7.8</b>      | <b>\$ 3.7</b>  |

**Ratios Based On Earned Premiums**

|  | Nine Months Ended |                | Three Months Ended |                |
|--|-------------------|----------------|--------------------|----------------|
|  | Sept. 30, 2009    | Sept. 30, 2008 | Sept. 30, 2009     | Sept. 30, 2008 |
| Incurred Loss and LAE Ratio (excluding Catastrophes) | 78.8%             | 78.5%          | 76.8%              | 78.3%          |
| Incurred Catastrophe Loss and LAE Ratio              | 0.9%              | 0.8%           | 1.5%               | 1.4%           |
| <b>Total Incurred Loss and LAE Ratio</b>             | <b>79.7%</b>      | <b>79.3%</b>   | <b>78.3%</b>       | <b>79.7%</b>   |
| Incurred Expense Ratio                               | 18.6%             | 19.5%          | 18.9%              | 19.3%          |
| <b>Combined Ratio</b>                                | <b>98.3%</b>      | <b>98.8%</b>   | <b>97.2%</b>       | <b>99.0%</b>   |

**Insurance Reserves**

| (Dollars in Millions)      | Sept. 30, 2009 | Dec. 31, 2008 |
|----------------------------|----------------|---------------|
| <b>Insurance Reserves:</b> |                |               |
| Personal Automobile        | \$ 185.6       | \$ 175.7      |
| Commercial Automobile      | 90.7           | 107.2         |
| Other                      | 8.5            | 10.2          |

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|                           |          |          |
|---------------------------|----------|----------|
| Insurance Reserves        | \$ 284.8 | \$ 293.1 |
| Insurance Reserves:       |          |          |
| Loss Reserves:            |          |          |
| Case                      | \$ 174.7 | \$ 179.6 |
| Incurred but Not Reported | 72.4     | 76.3     |
| Total Loss Reserves       | 247.1    | 255.9    |
| LAE Reserves              | 37.7     | 37.2     |
| Insurance Reserves        | \$ 284.8 | \$ 293.1 |

**Table of Contents***Unitrin Specialty (continued)*

| (Dollars in Millions)   | Nine Months Ended |                   | Three Months Ended |                   |
|---|-------------------|-------------------|--------------------|-------------------|
|   | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| Favorable (Adverse) Loss and LAE Reserve Development, Net (excluding Catastrophes)          | \$ 5.1            | \$ 3.5            | \$ 2.2             | \$ (0.1)          |
| Adverse Catastrophe Loss and LAE Reserve Development, Net                                   | (0.1)             |                   |                    |                   |
| <b>Total Favorable (Adverse) Loss and LAE Reserve Development, Net</b>                      | <b>\$ 5.0</b>     | <b>\$ 3.5</b>     | <b>\$ 2.2</b>      | <b>\$ (0.1)</b>   |
| Loss and LAE Reserve Development as a Percentage of Insurance Reserves at Beginning of Year | 1.7%              | 1.3%              | 0.8%               | 0.0%              |

Earned Premiums in the Unitrin Specialty segment increased by \$36.1 million and \$6.0 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due to higher earned premiums on personal automobile insurance, partially offset by lower earned premiums on commercial automobile insurance. Personal automobile insurance earned premiums increased by \$55.2 million and \$11.7 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due to higher volume, partially offset by lower average earned premium rates. Personal automobile insurance volume increased due primarily to a higher level of renewal policies resulting from the Unitrin Specialty segment's significant growth in 2008 in California. Unitrin Specialty's growth rate in personal automobile insurance volume has begun to slow and management expects that earned premiums will flatten in 2010 due to lower volume resulting from the rate increases that have been implemented, its decision to focus on states where it is more profitable, its withdrawal from three states which were unprofitable for the Unitrin Specialty segment and its decision to terminate its relationship with two multi-state agencies that had been acquired by a competing insurer. Commercial automobile insurance earned premiums decreased by \$19.1 million and \$5.7 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due to lower volume and, to a lesser extent, lower average earned premium rates. In the fourth quarter of 2008, Unitrin Specialty implemented, in certain key states, several initiatives targeted to stabilize commercial automobile premium volume, including the introduction of a new commercial insurance product for light commercial vehicles, a reduction in down payment requirements for certain commercial automobile insurance risks and the introduction of improved internet-enabled commercial lines rating technology. While these initiatives appear to have stabilized new business production in these states, commercial automobile insurance premium volume decreased for the nine and three months ended September 30, 2009, compared to the same periods in 2008, due primarily to a lower level of renewal policies. Unitrin Specialty is continuing to implement these initiatives in the remaining states where it writes commercial automobile insurance.

Net Investment Income in the Unitrin Specialty segment increased by \$4.1 million and \$3.7 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due primarily to higher net investment income from certain investments in limited liability investment companies and limited partnerships which the Company accounts for under the equity method of accounting. The Unitrin Specialty segment reported net investment income of \$1.4 million and \$2.5 million from these investments for the nine and three months ended September 30, 2009, respectively, compared to net investment losses of \$2.5 million and \$1.0 million for the same periods in 2008.

Operating Profit in the Unitrin Specialty segment increased by \$6.8 million for the nine months ended September 30, 2009, compared to the same period in 2008, due primarily to higher operating profit in both personal and commercial automobile insurance, partially offset by lower operating profit in other insurance, which is comprised of certain reinsurance pools in run-off. Operating Profit in the Unitrin Specialty segment increased by \$6.2 million for the three months ended September 30, 2009, compared to the same period in 2008, due primarily to higher operating profit in both personal and commercial automobile insurance.

Personal automobile operating profit increased by \$4.8 million for the nine months ended September 30, 2009, compared to the same period in 2008, due primarily to higher net investment income and lower insurance expenses as a percentage of personal automobile insurance earned premiums, partially offset by higher non-catastrophe incurred losses. Personal automobile insurance operating profit increased by \$3.7 million for the three months ended September 30, 2009, compared to the same period in 2008, due primarily to higher net investment income, higher favorable incurred loss and LAE reserve development and lower insurance expenses as a



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**Table of Contents***Unitrin Specialty (continued)*

percentage of personal automobile insurance earned premiums, partially offset by higher non-catastrophe storm losses and LAE (excluding development). Net investment income allocated to personal automobile insurance increased by \$4.4 million and \$3.1 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due to higher investment returns on investments in limited liability investment companies and limited partnerships which the Company accounts for under the equity method of accounting and a higher level of investments. Insurance expenses as a percentage of personal automobile insurance earned premiums decreased for the nine and three months ended September 30, 2009, compared to the same periods in 2008, due primarily to greater economies of scale. Non-catastrophe storm losses and LAE on personal automobile insurance increased \$2.2 million and \$1.3 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008. Loss and LAE reserve development on personal automobile insurance had a favorable effect of \$1.3 million for the three months ended September 30, 2009, compared to a favorable effect of \$0.4 million for the same period in 2008. See MD&A, Critical Accounting Estimates, of the 2008 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 \$3.7 million for the nine months ended September 30, 2009, compared to the same period in 2008, due primarily to higher favorable loss and LAE reserve development, partially offset by lower net investment income allocated to commercial automobile insurance. Commercial automobile insurance operating profit increased by \$2.5 million for the three months ended September 30, 2009, compared to the same period in 2008, due primarily to higher favorable loss and LAE reserve development, lower incurred losses and LAE (excluding development) as a percentage of commercial automobile insurance earned premiums and higher net investment income. Loss and LAE reserve development on commercial automobile insurance had a favorable effect of \$4.0 million and \$0.9 million for the nine and three months ended September 30, 2009, respectively, compared to a favorable effect of \$0.1 million and an adverse effect of \$0.5 million for the same periods in 2008. Net investment income allocated to commercial automobile insurance decreased by \$0.4 million for the nine months ended September 30, 2009, compared to the same period in 2008, due to a lower level of investments, partially offset by higher investment returns on investments in limited liability investment companies and limited partnerships which the Company accounts for under the equity method of accounting. Incurred losses and LAE (excluding development) as a percentage of commercial automobile insurance earned premiums increased for the three months ended September 30, 2009, compared to the same period in 2008, due primarily to higher frequency of losses. Net investment income allocated to commercial automobile insurance increased by \$0.6 million for the three months ended September 30, 2009, compared to the same period in 2008, due primarily to higher investment returns on investments in limited liability investment companies and limited partnerships which the Company accounts for under the equity method of accounting, partially offset by a lower level of investments allocated to commercial automobile insurance.

Operating profit in other insurance decreased by \$1.7 million for the nine months ended September 30, 2009, compared to the same period in 2008, due to the impact of lower favorable loss and LAE reserve development, partially offset by the impact of the change in the Unitrin Specialty segment's estimate of losses and LAE recoverable from certain reinsurers that had assumed business from these pools. Favorable loss and LAE reserve development on other insurance was \$0.2 million for the nine months ended September 30, 2009, compared to \$2.5 million for the same period in 2008.

Net Income in the Unitrin Specialty segment increased by \$4.5 million and \$4.1 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due primarily to the higher operating profit. The Unitrin Specialty segment'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 \$8.7 million and \$2.9 million for the nine and three months ended September 30, 2009, respectively, compared to \$8.5 million and \$2.8 million for the same periods in 2008.

**Table of Contents****Unitrin Direct**

Selected financial information for the Unitrin Direct segment follows:

| (Dollars in Millions)          | Nine Months Ended |                   | Three Months Ended |                   |
|--------------------------------|-------------------|-------------------|--------------------|-------------------|
|                                | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| <b>Earned Premiums:</b>        |                   |                   |                    |                   |
| Automobile                     | \$ 258.7          | \$ 214.7          | \$ 85.9            | \$ 72.0           |
| Homeowners                     | 5.6               | 4.7               | 2.0                | 1.6               |
| Other                          | 0.4               | 0.2               | 0.2                | 0.1               |
| <b>Total Earned Premiums</b>   | <b>264.7</b>      | <b>219.6</b>      | <b>88.1</b>        | <b>73.7</b>       |
| Net Investment Income          | 12.6              | 5.4               | 6.2                | 1.7               |
| Other Income                   | 0.7               | 0.3               | 0.6                | 0.1               |
| <b>Total Revenues</b>          | <b>278.0</b>      | <b>225.3</b>      | <b>94.9</b>        | <b>75.5</b>       |
| <b>Incurred Losses and LAE</b> | <b>211.4</b>      | <b>185.4</b>      | <b>68.8</b>        | <b>64.3</b>       |
| Insurance Expenses             | 85.0              | 76.5              | 25.5               | 25.1              |
| <b>Operating Profit (Loss)</b> | <b>(18.4)</b>     | <b>(36.6)</b>     | <b>0.6</b>         | <b>(13.9)</b>     |
| Income Tax Benefit             | 8.7               | 14.4              | 0.7                | 5.4               |
| <b>Net Income (Loss)</b>       | <b>\$ (9.7)</b>   | <b>\$ (22.2)</b>  | <b>\$ 1.3</b>      | <b>\$ (8.5)</b>   |

**Ratios Based On Earned Premiums**

|  | Nine Months Ended |                   | Three Months Ended |                   |
|--|-------------------|-------------------|--------------------|-------------------|
|  | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| Incurred Loss and LAE Ratio (excluding Catastrophes) | 78.8%             | 83.2%             | 77.2%              | 85.7%             |
| Incurred Catastrophe Loss and LAE Ratio              | 1.1%              | 1.2%              | 0.9%               | 1.5%              |
| <b>Total Incurred Loss and LAE Ratio</b>             | <b>79.9%</b>      | <b>84.4%</b>      | <b>78.1%</b>       | <b>87.2%</b>      |
| Incurred Expense Ratio                               | 32.1%             | 34.8%             | 28.9%              | 34.1%             |
| <b>Combined Ratio</b>                                | <b>112.0%</b>     | <b>119.2%</b>     | <b>107.0%</b>      | <b>121.3%</b>     |

**Insurance Reserves**

| (Dollars in Millions)      | Sept. 30,<br>2009 | Dec. 31,<br>2008 |
|----------------------------|-------------------|------------------|
| <b>Insurance Reserves:</b> |                   |                  |
| Personal Automobile        | \$ 252.2          | \$ 159.3         |
| Homeowners                 | 3.5               | 3.1              |
| Other                      | 2.5               | 0.7              |



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|                           |          |          |
|---------------------------|----------|----------|
| Insurance Reserves        | \$ 258.2 | \$ 163.1 |
| Insurance Reserves:       |          |          |
| Loss Reserves:            |          |          |
| Case                      | \$ 132.8 | \$ 97.9  |
| Incurred but Not Reported | 81.2     | 37.5     |
| Total Loss Reserves       | 214.0    | 135.4    |
| LAE Reserves              | 44.2     | 27.7     |
| Insurance Reserves        | \$ 258.2 | \$ 163.1 |

**Table of Contents****Unitrin Direct (continued)**

| (Dollars in Millions)  | Nine Months Ended |                   | Three Months Ended |                   |
|--|-------------------|-------------------|--------------------|-------------------|
|  | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| Favorable (Adverse) Loss and LAE Reserve Development, Net<br>(excluding Catastrophes)          | \$ 9.1            | \$ (2.6)          | \$ 1.6             | \$ (0.9)          |
| Adverse Catastrophe Loss and LAE Reserve Development, Net                                      | (0.2)             |                   |                    |                   |
| <b>Total Favorable (Adverse) Loss and LAE Reserve Development, Net</b>                         | <b>\$ 8.9</b>     | <b>\$ (2.6)</b>   | <b>\$ 1.6</b>      | <b>\$ (0.9)</b>   |
| Loss and LAE Reserve Development as a Percentage of Insurance<br>Reserves at Beginning of Year | 5.5%              | -1.8%             | 1.0%               | -0.6%             |

On February 13, 2009, the Company completed its acquisition of Direct Response in a cash transaction. Direct Response specializes in the sale of personal automobile insurance through direct mail and the Internet through web insurance portals and its own websites, Response.com and Teachers.com. The results for Direct Response are included in the Unitrin Direct business segment from the date of acquisition. Direct Response had earned premiums of \$83.9 million from the date of acquisition through September 30, 2009. For the three months ended September 30, 2009, Direct Response had earned premiums of \$33.1 million. Unitrin Direct is in the process of combining its existing back office operations with those of Direct Response to further improve Unitrin Direct's operating efficiencies over time.

Excluding the impact of the Direct Response acquisition, Earned Premiums in the Unitrin Direct segment decreased by \$38.8 million and \$18.7 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008. During the second half of 2008, the Unitrin Direct segment began to moderate its marketing spending while modifying its direct mail marketing program to target a better response rate and place greater emphasis on improving Losses and LAE as a percentage of Earned Premiums through improved premium rate adequacy and improved insurance risk selection. The Unitrin Direct segment has implemented and continues to implement rate increases in most states, with more significant rate increases to be implemented for the Direct Response book of business. The Unitrin Direct segment has temporarily suspended writing new business using Direct Response's distribution channels and insurance products until certain rate increases and product changes are implemented. The Unitrin Direct segment expects earned premiums to decline in 2010 due largely to its efforts to improve premium rate adequacy for Direct Response.

Net Investment Income increased by \$7.2 million and \$4.5 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due primarily to higher levels of investments allocated to the Unitrin Direct segment, due in part to the acquisition of Direct Response, and higher net investment income from certain investments in limited liability investment companies and limited partnerships which the Company accounts for under the equity method of accounting. The Unitrin Direct segment reported net investment income of \$1.8 million and \$2.3 million from investments in limited liability investment companies and limited partnerships for the nine and three months ended September 30, 2009, respectively, compared to net investment losses of \$1.4 million and \$0.6 million for the same periods in 2008.

The Unitrin Direct segment reported an Operating Loss of \$18.4 million for the nine months ended September 30, 2009, compared to an Operating Loss of \$36.6 million for the same period in 2008. Operating Loss for Direct Response was \$11.4 million from the date of acquisition through September 30, 2009, and included restructuring costs of \$6.5 million and a charge of \$1.5 million to write off goodwill. Excluding the Operating Loss from Direct Response, the Unitrin Direct segment's Operating Loss was \$7.0 million for the nine months ended September 30, 2009, compared to \$36.6 million for the same period in 2008. For the three months ended September 30, 2009, the Unitrin Direct segment reported Operating Profit of \$0.6 million, compared to an Operating Loss of \$13.9 million for the same period in 2008. Operating Profit for Direct Response was \$0.7 million for the three months ended September 30, 2009 and included restructuring costs of \$1.0 million. Excluding the Operating Profit from Direct Response, the Unitrin Direct segment's Operating Loss was \$0.1 million for the three months ended September 30, 2009, compared to an Operating Loss of \$13.9 million for the same period in 2008. Excluding the impact of the acquisition of Direct Response, operating results in the Unitrin Direct segment improved for the nine and three months ended September 30, 2009, compared to the same periods in 2008, due primarily to lower volume of unprofitable business, lower Incurred Losses and LAE, lower Insurance Expenses and the higher Net Investment Income.



**Table of Contents*****Unitrin Direct (continued)***

Incurred Losses and LAE as a percentage of earned premiums for the Unitrin Direct segment's book of business was significantly higher than that required to produce an underwriting profit for the nine and three months ended September 30, 2009 and 2008. 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. Incurred Losses and LAE (excluding loss reserve development and the impact of the Direct Response acquisition) as a percentage of earned premiums were 79.5% and 76.4% for the nine and three months ended September 30, 2009, respectively, compared to 83.2% and 86.0% for the same periods in 2008. Incurred Losses and LAE (excluding loss reserve development and the impact of the Direct Response acquisition) as a percentage of earned premiums improved in 2009 due primarily to the impact of the premium rate increases implemented in 2008 and 2009. Incurred Losses and LAE, excluding the impact of the Direct Response acquisition, decreased by \$50.6 million and \$23.9 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due primarily to the lower volume of earned premiums and, to a lesser extent, the lower percentage of incurred losses and LAE to earned premiums and the impact of higher favorable loss and LAE reserve development (which recognizes changes in estimates of prior year reserves in the current period) in 2009, compared to 2008. Favorable loss and LAE reserve development for the Unitrin Direct segment was \$8.9 million and \$1.6 million for the nine and three months ended September 30, 2009, respectively, compared to adverse development of \$2.6 million and \$0.9 million for the same periods in 2008. See MD&A, Critical Accounting Estimates, in the 2008 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. Catastrophe losses and LAE, excluding the impact of the Direct Response acquisition, for the Unitrin Direct segment were \$2.1 million and \$0.7 million for the nine and three months ended September 30, 2009, respectively, compared to \$2.6 million and \$1.0 million for the same periods in 2008.

Insurance Expenses were \$85.0 million and \$25.5 million for the nine and three months ended September 30, 2009, respectively, compared to \$76.5 million and \$25.1 million for the same periods in 2008. Insurance Expenses for Direct Response, including restructuring costs and the charge to write off goodwill, were \$24.3 million and \$7.2 million from the date of acquisition through September 30, 2009 and for the three months ended September 30, 2009, respectively. Insurance Expenses, excluding the impact of the Direct Response acquisition, decreased by \$15.8 million and \$6.8 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due primarily to lower marketing expense. Marketing spending, excluding the impact of the Direct Response acquisition, decreased by \$10.0 million and \$3.3 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008.

Unitrin Direct reported a Net Loss of \$9.7 million for the nine months ended September 30, 2009, compared to a Net Loss of \$22.2 million for the same period in 2008. Excluding a Net Loss of \$7.0 million from Direct Response from the date of the acquisition through September 30, 2009, the Unitrin Direct segment recorded a Net Loss of \$2.7 million for the nine months ended September 30, 2009, compared to a Net Loss of \$22.2 million for the nine months ended September 30, 2008. For the three months ended September 30, 2009, the Unitrin Direct segment recorded Net Income of \$1.3 million, compared to a Net Loss of \$8.5 million for the same period in 2008. Excluding Net Income of \$0.6 million from Direct Response, Unitrin Direct recorded Net Income of \$0.7 million for the three months ended September 30, 2009, compared to a Net Loss of \$8.5 million for the same period in 2008. Net results improved due primarily to the improvements in operating results. 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 \$7.3 million and \$2.6 million for the nine and three months ended September 30, 2009, respectively, compared to \$4.6 million and \$1.6 million for the same periods in 2008.

The Unitrin Direct segment has implemented and continues to implement several initiatives to improve its operating results. These initiatives have resulted in a decrease in new business. Typically, incurred losses and LAE as a percentage of earned premiums for personal automobile insurance are higher for new business than they are for renewal business. As the Unitrin Direct book of business matures and premium rate increases are implemented at renewal and earned over the terms of the policies, the Company expects losses and LAE as a percentage of Earned Premiums for the renewal book of business to decrease. Unitrin Direct anticipates its marketing spending will increase moderately in 2010, compared to 2009. The Unitrin Direct segment continues to adjust its operating scale by eliminating redundant back office operations and reducing staff. Unitrin Direct has closed certain office locations and reduced staff, including staff at Direct Response, by approximately 30% in 2009. Total restructuring costs incurred related to these

**Table of Contents****Unitrin Direct (continued)**

expense savings initiatives were \$7.1 million and \$1.2 million for the nine and three months ended September 30, 2009, respectively. The Unitrin Direct segment anticipates that these initiatives will significantly improve its operating results for the fourth quarter of 2009, compared to the same period in 2008. However, the Company does not anticipate that the Unitrin Direct segment will be profitable for the full year in 2009 and expects Unitrin Direct to be approximately break-even for the full year in 2010.

**Life and Health Insurance**

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

| (Dollars in Millions)                              | Nine Months Ended |                | Three Months Ended |                 |
|--|-------------------|----------------|--------------------|-----------------|
|  | Sept. 30, 2009    | Sept. 30, 2008 | Sept. 30, 2009     | Sept. 30, 2008  |
| <b>Earned Premiums:</b>                            |                   |                |                    |                 |
| Life   | \$ 301.1          | \$ 299.0       | \$ 100.0           | \$ 101.4        |
| Accident and Health                                | 118.9             | 119.7          | 40.1               | 40.5            |
| Property   | 70.5              | 76.4           | 21.7               | 23.1            |
| <b>Total Earned Premiums</b>                       | <b>490.5</b>      | <b>495.1</b>   | <b>161.8</b>       | <b>165.0</b>    |
| Net Investment Income                              | 167.4             | 135.1          | 60.9               | 45.1            |
| Other Income                                       | 0.7               | 0.9            | 0.2                | 0.2             |
| <b>Total Revenues</b>                              | <b>658.6</b>      | <b>631.1</b>   | <b>222.9</b>       | <b>210.3</b>    |
| Policyholders Benefits and Incurred Losses and LAE | 328.6             | 350.1          | 104.5              | 134.3           |
| Insurance Expenses                                 | 211.1             | 221.0          | 70.6               | 77.7            |
| <b>Operating Profit (Loss)</b>                     | <b>118.9</b>      | <b>60.0</b>    | <b>47.8</b>        | <b>(1.7)</b>    |
| Income Tax Benefit (Expense)                       | (41.2)            | (21.9)         | (16.1)             | 0.6             |
| <b>Net Income (Loss)</b>                           | <b>\$ 77.7</b>    | <b>\$ 38.1</b> | <b>\$ 31.7</b>     | <b>\$ (1.1)</b> |

**Insurance Reserves**

| (Dollars in Millions)                | Sept. 30, 2009    | Dec. 31, 2008     |
|--------------------------------------|-------------------|-------------------|
| <b>Insurance Reserves:</b>           |                   |                   |
| Future Policyholder Benefits         | \$ 2,950.2        | \$ 2,912.5        |
| <b>Incurred Losses and LAE:</b>      |                   |                   |
| Life                                 | 39.5              | 36.6              |
| Accident and Health                  | 24.7              | 23.6              |
| Property                             | 28.2              | 23.0              |
| <b>Total Incurred Losses and LAE</b> | <b>92.4</b>       | <b>83.2</b>       |
| <b>Insurance Reserves</b>            | <b>\$ 3,042.6</b> | <b>\$ 2,995.7</b> |



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**Table of Contents*****Life and Health Insurance (continued)***

Results for Primesco and its subsidiaries, acquired by the Company on April 1, 2008, are included in the Company's results of operations from the date of acquisition.

Earned Premiums in the Life and Health Insurance segment decreased by \$4.6 million for the nine months ended September 30, 2009, compared to the same period in 2008. Earned Premiums in the Life and Health Insurance segment for the nine months ended September 30, 2009 included earned premiums of \$12.6 million in the first quarter of 2009 (consisting of \$9.8 million from life insurance, \$1.9 million from accident and health insurance and \$0.9 million from property insurance) from the Primesco acquisition with no corresponding amount in the first quarter of 2008.

Excluding the impact of the Primesco acquisition, Earned Premiums in the Life and Health Insurance segment decreased by \$17.2 million and \$3.2 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008. Earned premiums on life insurance decreased by \$7.7 million and \$1.4 million for the nine and three months ended September 30, 2009, respectively, due primarily to lower volume, partially offset by higher average premium rates. Earned premiums on accident and health insurance decreased by \$2.7 million and \$0.4 million for the nine and three months ended September 30, 2009, respectively, as the volume of limited benefit medical and Medicare supplement products declined by \$6.8 million and \$2.3 million, respectively, while higher average premium rates for those same products increased earned premiums by \$4.1 million and \$1.9 million, respectively. Earned premiums on property insurance sold by the Life and Health Insurance segment's career agents decreased by \$6.8 million and \$1.4 million for the nine and three months ended September 30, 2009, respectively, due primarily to lower volume, due in part to the Life and Health Insurance segment's strategy to reduce its catastrophe exposure through the non-renewal of dwelling coverage in certain coastal areas and the continued run-off of dwelling coverage in all other markets, partially offset by lower catastrophe reinsurance premiums.

Catastrophe reinsurance premiums, which reduce the Life and Health Insurance segment's earned premiums on property insurance, decreased by \$5.2 million and \$4.3 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008. Catastrophe reinsurance premiums included reinsurance premiums of \$4.1 million for both the nine and three months ended September 30, 2008 to reinstate catastrophe reinsurance coverage following Hurricanes Dolly, Gustav and Ike. Excluding the impact of the reinsurance premium to reinstate catastrophe reinsurance coverage in 2008, catastrophe reinsurance premiums decreased by \$1.0 million for the nine months ended September 30, 2009 due primarily to lower premium volume resulting in part from reduced coastal exposures and a decrease in the Life and Health Insurance segment's upper limits of reinsurance coverage. The Life and Health Insurance segment purchased catastrophe reinsurance coverage of \$32.0 million in excess of a retention of \$8.0 million under its 2009 catastrophe reinsurance program, compared to reinsurance coverage of \$74.0 million in excess of a retention of \$6.0 million under its 2008 catastrophe reinsurance program.

The Life and Health Insurance segment's property insurance products provide fire and allied lines coverage for modest value dwellings and personal property. Dwelling coverage represented approximately 43% of the segment's property insurance premiums in 2008. In January 2006, the Life and Health Insurance segment halted new sales of dwelling coverage in coastal areas. In the third quarter of 2007, the Life and Health Insurance segment non-renewed dwelling coverage in certain coastal areas of the Gulf and southeastern United States. In the fourth quarter of 2008, the Life and Health Insurance segment halted new sales of dwelling coverage in all markets. In the first quarter of 2009, the Life and Health Insurance segment began non-renewing dwelling coverage in additional coastal areas of Texas and Louisiana located farther inland from the areas in which dwelling coverage was non-renewed in 2007 and began non-renewing dwelling coverage in certain coastal areas of South Carolina. The non-renewals were substantially completed in the second quarter of 2009. The Life and Health Insurance segment believes that these actions have substantially reduced its exposure to catastrophe risks and will continue to reduce its exposure to catastrophe risks over time.

**Table of Contents*****Life and Health Insurance (continued)***

Net Investment Income increased by \$32.3 million for the nine months ended September 30, 2009, compared to the same period in 2008, due primarily to higher net investment income from investments in limited liability investment companies and limited partnerships which the Company accounts for under the equity method of accounting and \$5.4 million of net investment income from Primesco in the first quarter of 2009 with no corresponding amount in the same period in 2008, partially offset by lower net investment income from investments in fixed maturities and short-term investments. Net Investment Income increased by \$15.8 million for the three months ended September 30, 2009, compared to the same period in 2008, due primarily to higher net investment income from investments in limited liability investment companies and limited partnerships which the Company accounts for under the equity method of accounting, partially offset by lower net investment income from investments in fixed maturities and short-term investments. The Life and Health Insurance segment reported net investment income of \$22.1 million and \$12.9 million from its investments in limited liability investment companies and limited partnerships for the nine and three months ended September 30, 2009, respectively, compared to net investment losses of \$16.2 million and \$5.1 million for the same periods in 2008.

Operating Profit in the Life and Health Insurance segment increased by \$58.9 million for the nine months ended September 30, 2009, compared to the same period in 2008, due primarily to the higher net investment income and lower catastrophe losses and LAE, net of reinsurance, on property insurance sold by the Life and Health Insurance segment's career agents, lower insurance expenses as a percentage of earned premiums, partially offset by higher policyholders' benefits and incurred losses as a percentage of earned premiums on life, accident and health insurance. Operating Profit in the Life and Health Insurance segment increased by \$49.5 million for the three months ended September 30, 2009, compared to the same period in 2008, due primarily to lower catastrophe losses and LAE, net of reinsurance, on property insurance, higher net investment income, lower insurance expenses as a percentage of earned premiums and lower policyholders' benefits as a percentage of earned premiums on life insurance.

Policyholders' Benefits and Incurred Losses and LAE decreased by \$21.5 million for the nine months ended September 30, 2009, compared to the same period in 2008, due primarily to lower catastrophe losses and LAE, net of reinsurance, on property insurance, partially offset by the inclusion in the first quarter of 2009 of Policyholders' Benefits and Incurred Losses and LAE resulting from the acquisition of Primesco. Catastrophe losses and LAE, net of reinsurance, (including development) were \$14.1 million for the nine months ended September 30, 2009, compared to \$39.5 million for the same period in 2008. No hurricanes occurred during the first nine months of 2009 that impacted the Life and Health Insurance segment. Catastrophe losses and LAE, net of reinsurance, for the nine months ended September 30, 2008 included losses of \$22.7 million from three hurricanes (Dolly, Gustav and Ike) that occurred in the third quarter of 2008. Adverse loss reserve development on property insurance was \$10.8 million (including adverse development of \$7.9 million on catastrophes) for the nine months ended September 30, 2009, compared to adverse development of \$11.3 million (including adverse development of \$9.1 million on catastrophes) in the same period in 2008. The Life and Health Insurance segment has a number of pending legal matters related to catastrophes and storms, including Hurricanes Dolly, Rita, Katrina and Ike, and could continue to report either favorable or unfavorable catastrophe reserve development in future periods depending on the resolution of these matters.

Policyholders' Benefits and Incurred Losses and LAE decreased by \$29.8 million for the three months ended September 30, 2009, compared to the same period in 2008, due primarily to lower catastrophe losses and LAE, net of reinsurance on property insurance and lower mortality on life insurance. Catastrophe losses and LAE, net of reinsurance, (including development) were \$4.6 million for the three months ended September 30, 2009, compared to \$30.4 million for the same period in 2008. No hurricanes occurred during the third quarter of 2009 that impacted the Life and Health Insurance segment. Catastrophe losses and LAE, net of reinsurance, for the three months ended September 30, 2008 included losses of \$22.7 million from three hurricanes (Dolly, Gustav and Ike) that occurred in the third quarter of 2008. Adverse loss reserve development on property insurance was \$4.1 million for the three months ended September 30, 2009 and was primarily associated with Hurricanes Dolly and Ike, compared to adverse development of \$7.6 million (including adverse development of \$7.1 million on catastrophes, of which \$6.8 million was associated with Hurricane Rita) in the same period in 2008. Catastrophe reserve development for the three months ended September 30, 2009 and 2008 was due primarily to various legal matters related to the catastrophe and storm events referred to above.

Insurance Expenses decreased by \$9.9 million for the nine months ended September 30, 2009, compared to the same period in 2008, due primarily to lower commission expense and lower expense related to home and field office operations, partially offset by the inclusion of insurance expense from Primesco in the first quarter of 2009 with no corresponding amount in the first quarter of 2008. Insurance Expenses decreased by \$7.1 million for the three months ended September 30, 2009, compared to the same period in 2008,



**Table of Contents****Life and Health Insurance (continued)**

due primarily to lower commission expense and lower expense related to home office operations. Since the 2008 acquisition of Primesco, the Life and Health Insurance segment has incurred certain redundant expenses associated with maintaining Primesco's home office and has focused on eliminating these redundant expenses by consolidating the Primesco home office operations into the Career Agency Companies home office. The consolidation of the two home offices was substantially completed during the first quarter of 2009 and has resulted in lower home office expenses as a percentage of earned premiums from the additional scale provided by the acquisition. Because the redundant home office expenses, which were incurred throughout 2008, were substantially eliminated by the end of the first quarter of 2009, the Life and Health Insurance segment anticipates that its home office expenses will continue to decrease during the fourth quarter of 2009, compared to the same period in 2008. For a period of time following major hurricanes such as Ike and Gustav in 2008, certain employees, whose compensation is typically classified as Insurance Expenses, temporarily assist the Life and Health Insurance segment's claim function and a proportionate amount of their compensation is then classified as LAE instead of as Insurance Expenses. Other insurance expenses decreased in the nine months ended September 30, 2009 in part due to a greater proportion of such compensation classified as LAE in the first quarter of 2009, compared to the same period in 2008.

Net Income in the Life and Health Insurance segment was \$77.7 million for the nine months ended September 30, 2009, compared to \$38.1 million for the same period in 2008. Net Income in the Life and Health Insurance segment was \$31.7 million for the three months ended September 30, 2009, compared to a Net Loss of \$1.1 million, for the same period in 2008.

**Fireside Bank**

Selected financial information for the Fireside Bank segment follows:

| (Dollars in Millions)  | Nine Months Ended |                  | Three Months Ended |                 |
|--|-------------------|------------------|--------------------|-----------------|
|  | Sept. 30, 2009    | Sept. 30, 2008   | Sept. 30, 2009     | Sept. 30, 2008  |
| Interest, Loan Fees and Earned Discount                            | \$ 139.4          | \$ 181.7         | \$ 41.2            | \$ 59.0         |
| Other Automobile Finance Revenues                                  | 3.0               | 3.9              | 0.9                | 1.1             |
| <b>Total Automobile Finance Revenues</b>                           | <b>142.4</b>      | <b>185.6</b>     | <b>42.1</b>        | <b>60.1</b>     |
| Net Investment Income  | 2.3               | 3.5              | 0.6                | 0.7             |
| <b>Total Revenues</b>  | <b>144.7</b>      | <b>189.1</b>     | <b>42.7</b>        | <b>60.8</b>     |
| Provision for Loan Losses  | 50.1              | 99.4             | 14.4               | 26.2            |
| Interest Expense on Certificates of Deposits                       | 34.6              | 45.0             | 10.1               | 14.3            |
| General and Administrative Expenses                                | 61.5              | 71.9             | 14.8               | 21.6            |
| <b>Operating Profit (Loss)</b>                                     | <b>(1.5)</b>      | <b>(27.2)</b>    | <b>3.4</b>         | <b>(1.3)</b>    |
| Income Tax Benefit (Expense)                                       | (5.8)             | 6.7              | (1.0)              | (4.0)           |
| <b>Net Income (Loss)</b>   | <b>\$ (7.3)</b>   | <b>\$ (20.5)</b> | <b>\$ 2.4</b>      | <b>\$ (5.3)</b> |
| Automobile Loan Originations                                       | \$ 77.0           | \$ 475.6         | \$                 | \$ 110.7        |
| <b>Weighted-Average Interest Yield on Certificates of Deposits</b> | <b>4.9%</b>       | <b>4.8%</b>      |                    |                 |

**Automobile Loan Receivables**

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| <b>(Dollars in Millions)</b>                | <b>Sept. 30,<br/>2009</b> | <b>Dec. 31,<br/>2008</b> |
|---|---------------------------|--------------------------|
| Sales Contracts and Loans Receivable        | \$ 874.4                  | \$ 1,213.1               |
| Unearned Discounts and Deferred Fees        | (7.2)                     | (14.4)                   |
| Net Automobile Loan Receivables Outstanding | 867.2                     | 1,198.7                  |
| Reserve for Loan Losses                     | (98.5)                    | (120.1)                  |
| Automobile Loan Receivables                 | \$ 768.7                  | \$ 1,078.6               |

**Table of Contents***Fireside Bank (continued)***Automobile Loan Receivables**

| (Dollars in Millions)   | Amount          | As a          | Amount            | As a          |
|---|-----------------|---------------|-------------------|---------------|
|   |                 | Percentage    |                   | Percentage    |
|   | Sept. 30, 2009  | of Net        | December 31, 2008 | of Net        |
|   |                 | Automobile    |                   | Automobile    |
|   |                 | Loan          |                   | Loan          |
|   |                 | Receivables   |                   | Receivables   |
|   |                 | Outstanding   |                   | Outstanding   |
| Current Loan Balances   | \$ 549.6        | 63.4%         | \$ 738.3          | 61.6%         |
| Delinquent Loan Balances:   |                 |               |                   |               |
| Less than 30 Days Delinquent  | 230.8           | 26.6%         | 312.6             | 26.1%         |
| 30 Days to 59 Days Delinquent   | 63.6            | 7.3%          | 103.0             | 8.6%          |
| 60 Days to 89 Days Delinquent   | 17.5            | 2.0%          | 32.8              | 2.7%          |
| Delinquent 90 Days and Greater  | 5.7             | 0.7%          | 12.0              | 1.0%          |
| <b>Net Automobile Loan Receivables Outstanding</b>                              | <b>867.2</b>    | <b>100.0%</b> | <b>1,198.7</b>    | <b>100.0%</b> |
| Reserve for Loan Losses   | (98.5)          |               | (120.1)           |               |
| <b>Automobile Loan Receivables</b>  | <b>\$ 768.7</b> |               | <b>\$ 1,078.6</b> |               |
| Ratio of Reserve for Loan Losses to Net Automobile Loan Receivables Outstanding | 11.4%           |               | 10.0%             |               |

**Reserve For Loan Losses**

| (Dollars in Millions)                          | Nine Months Ended |                 | Three Months Ended |                 |
|--|-------------------|-----------------|--------------------|-----------------|
|  | Sept. 30, 2009    | Sept. 30, 2008  | Sept. 30, 2009     | Sept. 30, 2008  |
| Reserve for Loan Losses - Beginning of Period  | \$ 120.1          | \$ 148.4        | \$ 108.3           | \$ 152.2        |
| Provision for Loan Losses                      | 50.1              | 99.4            | 14.4               | 26.2            |
| Net Charge-off:                                |                   |                 |                    |                 |
| Automobile Loan Receivables Charged-off        | (99.1)            | (139.5)         | (32.2)             | (48.7)          |
| Automobile Loan Receivables Recovered          | 27.4              | 31.2            | 8.0                | 9.8             |
| Net Charge-off                                 | (71.7)            | (108.3)         | (24.2)             | (38.9)          |
| <b>Reserve for Loan Losses - End of Period</b> | <b>\$ 98.5</b>    | <b>\$ 139.5</b> | <b>\$ 98.5</b>     | <b>\$ 139.5</b> |

**Capital**

(Dollars in Millions)

Sept. 30, 2009      Dec. 31, 2008

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|         |          |          |
|---------|----------|----------|
| Capital | \$ 231.5 | \$ 239.6 |
|---------|----------|----------|

On March 24, 2009, Unitrin announced that Fireside Bank would be suspending all new lending activity as part of a plan to exit the automobile finance business. The exit plan envisions an orderly wind-down of Fireside Bank's operations over the next several years. Fireside Bank will continue to collect outstanding loan balances and make interest payments and redemptions on outstanding certificates of deposits in the ordinary course of business. Following the announcement, Fireside Bank ceased accepting new loan applications. Fireside Bank also has ceased opening new certificate of deposit accounts. Fireside Bank closed all of its branch offices during 2009. Fireside Bank's remaining operations are conducted from its home office housing a collection call center in California and from a collection call center in Arizona. In addition to restructuring costs of \$6.1 million after tax incurred in the first nine months of 2009, Fireside Bank expects to incur early lease termination costs ranging from \$2.4 million to \$5.3 million after tax and employee termination costs ranging from \$3.2 million to \$6.3 million after tax during the next several years in connection with the exit plan.

**Table of Contents*****Fireside Bank (continued)***

While in its early stages, the exit plan thus far has favorably exceeded the Company's expectations. Net Automobile Loan Receivables Outstanding has declined steadily to \$867.2 million at September 30, 2009 from \$1,125.2 million at March 31, 2009, while Certificates of Deposits declined to \$758.6 million at September 30, 2009 from \$1,054.4 million at March 31, 2009. Fireside Bank's cash and investments totaled \$177.4 million, or 23.4% of Certificates of Deposits at September 30, 2009, compared to \$204.7 million, or 19.4% of Certificates of Deposits at March 31, 2009. The Company expects that the Fireside Bank segment will record approximately break-even results for the fourth quarter of 2009. Fireside Bank's ratio of Tier 1 capital to total average assets increased from 15.6% at March 31, 2009 to 19.3% at September 30, 2009. The Company expects that Fireside Bank's ratio of Tier 1 capital to total average assets will continue to increase in the fourth quarter of 2009.

Interest, Loan Fees and Earned Discounts in the Fireside Bank segment decreased by \$42.3 million and \$17.8 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due primarily to lower levels of Sales Contracts and Loans Receivable. Sales Contracts and Loans Receivable were \$874.4 million at September 30, 2009, compared to \$1,298.0 million at September 30, 2008. 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.

The Fireside Bank segment reported an Operating Loss of \$1.5 million and Operating Profit of \$3.4 million for the nine and three months ended September 30, 2009, respectively, compared to Operating Losses of \$27.2 million and \$1.3 million, respectively, for the same periods in 2008. Operating results improved due primarily to lower Provision for Loan Losses, Interest Expense on Certificates of Deposits, and General and Administrative Expenses, partially offset by lower Interest, Loan Fees and Earned Discounts.

The Provision for Loan Losses decreased by \$49.3 million and \$11.8 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due primarily to the reduced level of Automobile Loan Originations, partially offset by the impact of higher additions to the Reserve for Loan Losses for automobile loans originated in prior years. The Reserve for Loan Losses is maintained at a level that considers such factors as actual and expected loss experience, regulatory environment and economic conditions to provide for estimated loan losses. Any change in these factors will result in either an addition or reduction to the Provision for Loan Losses in future quarters. Net Charge-off decreased by \$36.6 million and \$14.7 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due to the lower level of Net Automobile Loan Receivables Outstanding, improved collection results and improvements in the quality of Fireside Bank's loan portfolio. The improved collection results were partially the result of Fireside Bank's maintaining a higher ratio of collectors to the number of delinquent customer accounts than in prior periods. Approximately 65% of Net Automobile Loan Receivables are concentrated in the state of California, where the unemployment rate has been higher than the national average during the current recession.

Fireside Bank's loan portfolio delinquency typically follows 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 continued to follow that same pattern for the first three quarters of 2009. The Company believes that loan portfolio delinquency will likely follow a similar pattern for the remainder of 2009. At the same time, Fireside Bank also expects 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.

Interest Expense on Certificates of Deposits decreased by \$10.4 million and \$4.2 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due primarily to lower levels of deposits.

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**Table of Contents*****Fireside Bank (continued)***

General and Administrative Expenses decreased by \$10.4 million and \$6.8 million for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008. Fireside Bank incurred \$10.3 million and \$1.5 million of pre-tax restructuring charges for the nine and three months ended September 30, 2009, respectively, related to its plan to exit the automobile finance business. Fireside Bank incurred \$5.0 million of pre-tax restructuring charges for first nine months ended September 30, 2008, related to the consolidation of its branch operations from 26 California branches at December 31, 2007 to eight California branches at September 30, 2008 and the centralization of its collection operations into the two call centers.

The Fireside Bank segment reported a Net Loss of \$7.3 million and Net Income of \$2.4 million for the nine and three months ended September 30, 2009, respectively, compared to a Net Loss of \$20.5 million and a Net Loss of \$5.3 million for the same periods in 2008. Income tax expense for the nine months ended September 30, 2009 included tax expense of \$6.3 million for an increase in the valuation allowance for deferred state income taxes, net of federal benefit, due to the decision to exit the automobile finance business. Income tax expense for the three months ended September 30, 2009 included a tax benefit of \$0.5 million for a decrease in the valuation allowance for deferred state income taxes, net of federal income taxes due to the improving results of the exit plan. Income tax expense for the nine and three months ended September 30, 2008 included tax expense of \$4.4 million to establish a valuation allowance for deferred state income taxes, net of federal benefit. The Fireside Bank segment's effective tax rate differs from the Federal statutory tax rate due primarily to state income taxes.

***Investment Results***

Net Investment Income increased by \$43.7 million and \$29.6 million for the nine months and three months ended September 30, 2009, respectively, compared to the same periods in 2008, due primarily to higher investment income from investments in limited liability investment companies and limited partnerships which the Company accounts for under the equity method of accounting, partially offset by lower dividend income from investments in equity securities and lower investment income from short-term investments. Net investment income from limited liability investment companies and limited partnerships which the Company accounts for under the equity method of accounting was \$29.3 million and \$24.8 million for the nine and three months ended September 30, 2009, respectively, compared to net investment losses of \$28.6 million and \$9.9 million, respectively, for the same periods in 2008. Net investment income from limited liability investment companies and limited partnerships which the Company accounts for under the equity method of accounting increased due primarily to increased investment returns. Dividend income from investments in equity securities decreased due primarily to sales of the vast majority of the Company's investments in Northrop common stock and other publicly-traded common stocks during 2008. Net Investment Income from short-term investments decreased due primarily to substantially lower yields and, to a lesser extent, a lower level of short-term investments.

**Table of Contents****Investment Results (continued)**

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 Statement of Operations and unrealized investment gains and losses that are not reported in the Condensed Consolidated Statement of Operations, but rather are reported in the Consolidated Statement of Comprehensive Income (Loss). The components of Total Comprehensive Investment Gains (Losses) for the nine and three months ended September 30, 2009 and 2008 were:

| (Dollars in Millions)  | Nine Months Ended |                   | Three Months Ended |                   |
|--|-------------------|-------------------|--------------------|-------------------|
|  | Sept. 30,<br>2009 | Sept. 30,<br>2008 | Sept. 30,<br>2009  | Sept. 30,<br>2008 |
| <b>Fixed Maturities:</b>   |                   |                   |                    |                   |
| Recognized in Statement of Operations:                             |                   |                   |                    |                   |
| Gains on Sales   | \$ 7.3            | \$ 4.6            | \$ 3.9             | \$ 0.1            |
| Losses on Sales  | (0.3)             | (5.2)             | (0.2)              | (4.0)             |
| Net Impairment Losses Recognized in Earnings                       | (41.2)            | (23.2)            | (14.5)             | (21.5)            |
| Total Recognized in Statement of Operations                        | (34.2)            | (23.8)            | (10.8)             | (25.4)            |
| Recognized in Other Comprehensive Gains (Losses)                   | 270.9             | (217.6)           | 209.6              | (137.6)           |
| Total Comprehensive Investment Gains (Losses) on Fixed Maturities  | 236.7             | (241.4)           | 198.8              | (163.0)           |
| <b>Equity Securities:</b>  |                   |                   |                    |                   |
| Recognized in Statement of Operations:                             |                   |                   |                    |                   |
| Gains on Sales   | 9.8               | 76.3              | 8.3                | 36.9              |
| Losses on Sales  |                   | (10.4)            |                    | (4.8)             |
| Net Impairment Losses Recognized in Earnings                       | (8.0)             | (75.7)            |                    | (50.6)            |
| Total Recognized in Statement of Operations                        | 1.8               | (9.8)             | 8.3                | (18.5)            |
| Recognized in Other Comprehensive Gains (Losses)                   | 42.5              | (292.7)           | 18.5               | (119.3)           |
| Total Comprehensive Investment Gains (Losses) on Equity Securities | 44.3              | (302.5)           | 26.8               | (137.8)           |
| <b>Other Investments:</b>  |                   |                   |                    |                   |
| Recognized in Statement of Operations:                             |                   |                   |                    |                   |
| Gains on Sales   |                   | 1.5               |                    |                   |
| Losses on Sales  | (0.1)             | (0.1)             | (0.1)              |                   |
| Trading Securities Net Gains (Losses)                              | 0.9               | (1.2)             | 0.5                | (0.7)             |
| Total Recognized in Statement of Operations                        | 0.8               | 0.2               | 0.4                | (0.7)             |
| Total Comprehensive Investment Gains (Losses)                      | \$ 281.8          | \$ (543.7)        | \$ 226.0           | \$ (301.5)        |
| Recognized in Statement of Operations                              | \$ (31.6)         | \$ (33.4)         | \$ (2.1)           | \$ (44.6)         |
| Recognized in Other Comprehensive Income (Loss)                    | 313.4             | (510.3)           | 228.1              | (256.9)           |
| Total Comprehensive Investment Gains (Losses)                      | \$ 281.8          | \$ (543.7)        | \$ 226.0           | \$ (301.5)        |

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Total Comprehensive Investment Gains for the nine and three months ended September 30, 2009 included unrealized gains of \$311.7 million and \$227.9 million before tax, respectively, and gains from foreign currency translation adjustments on investments of \$1.7 million and \$0.2 million before tax, respectively. Total Comprehensive Investment Gains for the nine and three months ended September 30, 2008 included unrealized losses of \$509.4 million and \$256.0 million before tax, respectively, and losses from foreign currency translation adjustments on investments of \$0.9 million and \$0.9 million before tax, respectively.



**Table of Contents****Investment Quality and Concentrations**

The Company's fixed maturity investment portfolio is comprised primarily of high grade bonds due at a single maturity date. At September 30, 2009, nearly 95% 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 & Poor's (S & P); a rating of Aaa, Aa, A or Baa from Moody's; 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 related to sub-prime residential mortgage loans or commercial mortgage loans including, but not limited to, collateralized debt obligations and structured investment vehicles.

The following table summarizes the credit quality of the fixed maturity investment portfolio at September 30, 2009 and December 31, 2008:

| NAIC Rating                                  | Standard & Poor's Equivalent Rating | September 30, 2009           |                        | December 31, 2008            |                        |
|--|-------------------------------------|------------------------------|------------------------|------------------------------|------------------------|
|  |                                     | Fair Value<br>in<br>Millions | Percentage<br>of Total | Fair Value<br>in<br>Millions | Percentage<br>of Total |
| 1  | AAA, AA, A                          | \$ 3,671.0                   | 80.6%                  | \$ 3,464.5                   | 83.7%                  |
| 2  | BBB                                 | 648.0                        | 14.2%                  | 449.5                        | 10.9%                  |
| 3  | BB                                  | 129.7                        | 2.9%                   | 89.3                         | 2.2%                   |
| 4  | B                                   | 25.7                         | 0.6%                   | 42.9                         | 1.0%                   |
| 5  | CCC                                 | 61.2                         | 1.3%                   | 76.9                         | 1.9%                   |
| 6  | In or Near Default                  | 16.4                         | 0.4%                   | 12.8                         | 0.3%                   |
| <b>Total Investments in Fixed Maturities</b> |                                     | <b>\$ 4,552.0</b>            | <b>100.0%</b>          | <b>\$ 4,135.9</b>            | <b>100.0%</b>          |

Gross unrealized losses on the Company's investments in below-investment-grade fixed maturities were \$16.4 million and \$33.4 million at September 30, 2009 and December 31, 2008, respectively. At September 30, 2009, the Company had \$1,594.0 million of investments in obligations of states, municipalities and political subdivisions, of which \$572.8 million were enhanced with insurance from monoline bond insurers. The Company's municipal bond investment strategy has always been to focus on the underlying credit rating of the issuer and not to rely upon the credit enhancement provided by the monoline bond insurer when making investment decisions. To that end, the average underlying rating of the Company's investments in obligations of states, municipalities and political subdivisions, is AA, the majority of which consists of direct obligations of a state.

The following table summarizes the credit enhanced ratings and underlying ratings of the Company's investments in obligations of states, municipalities and political subdivisions, which are included in the preceding table of the credit quality of the Company's entire portfolio of investments in fixed maturities, at September 30, 2009:

|   | Credit Enhanced Rating    |                        | Underlying Rating         |                        |
|---|---------------------------|------------------------|---------------------------|------------------------|
|   | Fair Value<br>in Millions | Percentage<br>of Total | Fair Value<br>in Millions | Percentage<br>of Total |
| AAA   | \$ 291.6                  | 18.3%                  | \$ 287.3                  | 18.0%                  |
| AA  | 1,161.5                   | 72.9%                  | 1,133.6                   | 71.2%                  |
| A   | 108.0                     | 6.8%                   | 140.2                     | 8.8%                   |
| BBB   | 30.9                      | 1.9%                   | 30.9                      | 1.9%                   |
| Below Investment Grade or Unrated   | 2.0                       | 0.1%                   | 2.0                       | 0.1%                   |
| <b>Total Investments in States, Municipalities and Political Subdivisions</b> | <b>\$ 1,594.0</b>         | <b>100.0%</b>          | <b>\$ 1,594.0</b>         | <b>100.0%</b>          |

**Table of Contents*****Investment Quality and Concentrations (continued)***

The following table summarizes the fair value of the Company's investments in Fixed Maturities by industry at September 30, 2009 and December 31, 2008:

| <b>(Dollars in Millions)</b>                            | <b>Sept. 30,<br/>2009</b> | <b>Dec. 31,<br/>2008</b> |
|---|---------------------------|--------------------------|
| States, Municipalities and Political Subdivisions       | \$ 1,594.0                | \$ 1,308.5               |
| Manufacturing   | 997.7                     | 877.2                    |
| U.S. Government and Government Agencies and Authorities | 786.0                     | 979.1                    |
| Banking, Finance, Insurance and Real Estate             | 608.5                     | 546.6                    |
| Transportation, Communication and Utilities             | 251.1                     | 193.0                    |
| Services  | 174.4                     | 119.6                    |
| Mining  | 57.3                      | 44.3                     |
| Wholesale Trade   | 33.8                      | 30.5                     |
| Retail Trade  | 33.7                      | 25.4                     |
| Other   | 15.5                      | 11.7                     |
| <b>Total Investments in Fixed Maturities</b>            | <b>\$ 4,552.0</b>         | <b>\$ 4,135.9</b>        |

Fifty-six companies comprised over 75% of the Company's fixed maturity exposure to the Manufacturing industry at September 30, 2009, with the two largest exposures, United Technologies Corporation and Caterpillar Inc., each comprising 2.5%, or \$25.0 million, of the Company's fixed maturity exposure to such industry. Twenty-four companies comprised over 75% of the Company's exposure to the Banking, Finance, Insurance and Real Estate industry at September 30, 2009, with the largest single exposure, Special Value Opportunity Fund auction rate preferred stocks, comprising 10.6%, or \$64.4 million, of the Company's fixed maturity exposure to such industry.

The Company also has exposure to the Banking, Finance, Insurance and Real Estate industries by virtue of its investments in perpetual preferred stocks of issuers in these industries. The fair value of such investments was \$91.0 million at September 30, 2009.

**Table of Contents****Investment Quality and Concentrations (continued)**

The following table summarizes the fair value of the Company's ten largest investment exposures at September 30, 2009:

| <b>(Dollars in Millions)</b>                                    |                   |
|---|-------------------|
| <b>U.S. Treasury Bonds, Notes and Bills:</b>                    |                   |
| Fixed Maturities  | \$ 257.0          |
| Short Term  | 126.2             |
| <b>Total U.S. Treasuries</b>                                    | <b>383.2</b>      |
| <b>Ginnie Mae:</b>  |                   |
| Fixed Maturities  | 319.8             |
| <b>Tennebaum Capital Partners Sponsored Entities:</b>           |                   |
| Fixed Maturities  | 64.4              |
| Limited Liability Investment Companies and Limited Partnerships | 181.4             |
| <b>Total Tennebaum Capital Partners Sponsored Entities</b>      | <b>245.8</b>      |
| <b>Intermec:</b>  |                   |
| Investment in Investee  | 178.5             |
| <b>Fannie Mae:</b>  |                   |
| Fixed Maturities  | 110.3             |
| Short Term  | 0.2               |
| <b>Total Fannie Mae</b>   | <b>110.5</b>      |
| <b>State of Louisiana and Political Subdivisions Thereof:</b>   |                   |
| Fixed Maturities  | 89.5              |
| <b>State of Texas and Political Subdivisions Thereof:</b>       |                   |
| Fixed Maturities  | 86.1              |
| <b>State of Wisconsin and Political Subdivisions Thereof:</b>   |                   |
| Fixed Maturities  | 83.1              |
| <b>State of Washington and Political Subdivisions Thereof:</b>  |                   |
| Fixed Maturities  | 77.2              |
| <b>State of Georgia and Political Subdivisions Thereof:</b>     |                   |
| Fixed Maturities  | 71.0              |
| <b>Total</b>  | <b>\$ 1,644.7</b> |

At September 30, 2009, the Company's fixed maturity investments in U.S. Treasury securities consisted of various maturities principally ranging from less than one year to 21 years with an effective duration of less than five years. The Company's short-term investments in U.S. Treasury securities consisted of \$94.6 million of U.S. Treasury Bills typically with maturities of less than one week and \$31.6 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 \$173.7 million invested in overnight repurchase agreements, primarily collateralized by securities issued by the U.S. government, and \$171.0 million invested in money market funds which principally invest in U.S. Treasury securities. At the time of borrowing, the repurchase agreements generally require the borrower to provide to the Company collateral at least equal to the amount borrowed. The Company bears some investment risk in the event that a borrower defaults and the value of collateral falls below the amount borrowed.



**Table of Contents*****Investment Quality and Concentrations (continued)***

The Company has exposure to the residential mortgage industry primarily by virtue of its investments in Ginnie Mae, Fannie Mae, the Federal Home Loan Banks ( FHLB ), U.S. Department of Housing and Urban Development ( HUD ) and Freddie Mac. The fair value of the Company's investments in fixed maturities issued by Ginnie Mae, Fannie Mae, FHLB, HUD and Freddie Mac were \$319.8 million, \$110.3 million, \$64.4 million, \$17.2 million and \$4.7 million, respectively, at September 30, 2009. Fannie Mae, FHLB and Freddie Mac are each U.S. government sponsored and federally chartered entities, which are privately capitalized, whereas Ginnie Mae is a U.S. government-owned corporation. Securities issued by Ginnie Mae and HUD are backed by the full faith and credit of the U.S. government. On September 7, 2008, Fannie Mae and Freddie Mac were placed in conservatorship. Approximately 71% of the Company's investments in the fixed maturities of Fannie Mae, FHLB and Freddie Mac are in general obligations issued by Fannie Mae, FHLB and Freddie Mac, with the balance invested in various mortgage-backed securities ( MBS ). While each general obligation is fixed in its maturity, 87% of the Company's investments in these general obligations are callable by the issuer prior to their maturity. In contrast, principal payments of MBS securities vary with the underlying mortgages associated with them. The Company has no exposures to interest-only or principal-only investment strips. The Company's investments in Ginnie Mae securities consist of various mortgage pools and pass-through certificates. Ginnie Mae guarantees the payment of principal and interest on these securities, which vary with the underlying mortgages. In addition to the Company's investments in Fannie Mae, Ginnie Mae, FHLB, HUD and Freddie Mac securities, the Company had investments in other U.S. government sponsored or owned corporations totaling \$12.6 million at September 30, 2009. At September 30, 2009, the Company also owned \$5.2 million of MBS issued by private companies, of which \$1.7 million may be considered sub-prime.

The Company had \$313.0 million invested in various limited liability investment companies and limited partnerships at September 30, 2009, of which \$37.7 million was included in the Company's Investments in Equity Securities and \$275.3 million was included in Other Investments. As limited liability investment companies and limited partnerships, these entities are required to follow certain specialized industry accounting rules which require that unrealized gains and losses be included in the results of their operations. The Company is required to account for some of its investments in these entities, namely those entities in which the Company's interest is not deemed minor, under the equity method of accounting. This specialized accounting, along with the requirement to account for some of these investments under the equity method of accounting, adds a degree of volatility to the Company's net investment income. The Company had ownership interests totaling \$181.4 million in such entities sponsored by Tennenbaum Capital Partners, LLC ( TCP ) included in Other Investments at September 30, 2009. The Company's Investments in Fixed Maturities included an investment of \$64.4 million in two redeemable, auction rate preferred stocks, rated AA by S&P and issued by one of the TCP-sponsored entities at September 30, 2009. The Company owns no other auction rate preferred stocks. TCP is a private investment firm that specializes in investing in companies undergoing change due to industry trends, economic cycles or specific company circumstances. As such, the TCP-sponsored entities in which the Company invests employ a long-term investment strategy focused on opportunities investments that may include holdings in illiquid securities such as distressed debt or leveraged loans. From time to time, the Company may also invest directly in some of the companies in which the TCP-sponsored entities invest. Such direct investments had a fair value of \$15.6 million at September 30, 2009. The Company has no commitments to make future investments in TCP-sponsored entities at September 30, 2009.

The Company's Investments in Fixed Maturities included investments in the obligations of 47 states, and municipalities and political subdivisions thereof, with a fair value of \$1,594.0 million at September 30, 2009, of which \$1,492.0 million are callable prior to their maturity at or above par. Certain states provide premium tax incentives to insurance companies that invest in their states. The Company has large investment concentrations in Louisiana and Georgia securities as a result of premium tax incentives.

The Company has significant exposure to changes in the fair value of one public company, Intermec, by virtue of its investment in the common stock of this company. Intermec has described itself as a leader in global supply chain solutions and in the design, development, manufacture and integration of wired and wireless automated data collection, mobile computing systems, bar code printers, label media and RFID (radio frequency identification). Intermec's products and services are used by customers in many industries to improve productivity, quality and responsiveness of business operations, from supply chain management and enterprise resource planning to field sales and service. Intermec's products and services are sold globally to a diverse set of customers in markets such as manufacturing, warehousing, direct store delivery, retail, consumer goods, field services, government, security, healthcare, transportation and logistics. Based on the outstanding shares of common stock reported in Intermec's quarterly report on Form 10-Q for the quarter ended June 28, 2009, the Company owned 20.4% of Intermec's common stock at September 30, 2009.

**Table of Contents****Investment Quality and Concentrations (continued)**

Accordingly, the Company accounts for its investment in Intermec under the equity method of accounting. The Company reports its investment in Intermec at cost plus accumulated undistributed comprehensive earnings, rather than at fair value, in the Condensed Consolidated Balance Sheets. The fair value of the Company's investment in Intermec exceeded this carrying value by \$81.1 million at September 30, 2009.

**Securities Lending, Credit Default Swaps, Hedging Activities**

The Company does not directly participate, as either a lender or borrower of securities, in any securities lending program. The Company does not participate directly in credit default swaps. The Company does not engage directly in hedging activities including, but not limited to, activities involving interest rate swaps, forward foreign currency contracts, commodities contracts, exchange traded and over-the-counter options or warrants. As discussed below, the Company has limited exposure to such programs and activities by virtue of its investments in Highbridge Capital LP (Highbridge).

Highbridge is a limited partnership that specializes in arbitrage and absolute return investment strategies in the global equity and corporate debt securities markets and indirectly invests in funds that purchase and sell equities, futures, swaps, forward currency contracts, exchange traded and over-the-counter options, warrants, and both convertible and non-convertible corporate bonds. On October 23, 2008, the Company submitted a full redemption notice to the Highbridge general partner. On November 21, 2008, the general partner notified the Company that the general partner was imposing a restriction on the redemption of certain assets representing 70% of the Company's investment in Highbridge and that such assets would not be currently redeemed, but rather would be redeemed over several periods. The Company's investment in Highbridge, which is reported in Equity Securities in the Condensed Consolidated Balance Sheet, was \$17.7 million at December 31, 2008. During the nine months ended September 30, 2009, the Company received redemption proceeds from the Highbridge general partner totaling \$13.6 million, of which \$5.4 million were proceeds representing the Company's share of the unrestricted assets of Highbridge and \$8.2 million were proceeds representing the Company's share of the restricted assets of Highbridge. The Company reported a realized gain on the redemptions of \$0.6 million for the nine months ended September 30, 2009. The Company's unrealized holding gain in Highbridge arising during the nine months ended September 30, 2009 was \$0.8 million. The Company's remaining investment in Highbridge was \$5.5 million at September 30, 2009 and consisted solely of restricted assets.

**Distressed and Mezzanine Debt and Secondary Transactions Investments**

The Company owns 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, which are accounted for under the equity method of accounting and reported in Other Investments at September 30, 2009 and December 31, 2008, are summarized below:

| (Dollars in Millions)                                   | Asset Class            | Unfunded   | Carrying Value |          | Stated     |
|---|------------------------|------------|----------------|----------|------------|
|   |                        | Commitment | Sept. 30,      | Dec. 31, | Fund       |
|   |                        | Sept. 30,  | Sept. 30,      | Dec. 31, | Maturity   |
|   |                        | 2009       | 2009           | 2008     | Date       |
| Special Value Opportunity Fund, LLC                     | Distressed Debt        | \$         | \$ 81.0        | \$ 69.9  | 7/13/2014  |
| Tennenbaum Opportunities Fund V, LLC                    | Distressed Debt        |            | 78.1           | 43.3     | 10/10/2016 |
| Goldman Sachs Vintage Fund IV, L.P.                     | Secondary Transactions | 28.8       | 38.2           | 53.4     | 12/31/2016 |
| Special Value Continuation Fund, LLC                    | Distressed Debt        |            | 22.3           | 19.1     | 6/30/2016  |
| NY Life Investment Management Mezzanine Partners II, LP | Mezzanine Debt         | 6.5        | 17.6           | 18.9     | 7/31/2016  |
| BNY Mezzanine Partners L.P.                             | Mezzanine Debt         | 3.7        | 13.6           | 12.7     | 4/17/2016  |
| Other Funds   |                        | 9.8        | 24.5           | 25.0     | 2015-2016  |
| Total   |                        | \$ 48.8    | \$ 275.3       | \$ 242.3 |            |

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In addition, the Company has unfunded commitments of \$67.3 million for investments in limited liability investment companies and limited partnerships that are not accounted for under the equity method of accounting.

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**Table of Contents*****Interest and Other Expenses***

Interest and Other Expenses was \$47.5 million and \$15.5 million for the nine and three months ended September 30, 2009, respectively, compared to \$46.3 million and \$14.6 million for the same periods in 2008. Interest and Other Expenses increased for the nine and three months ended September 30, 2009, compared to the same periods in 2008, due primarily to higher interest cost on projected benefit obligations of postretirement benefit plans, net of expected return on plan assets.

***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 \$41.7 million and \$14.1 million for the nine and three months ended September 30, 2009, respectively, compared to \$43.5 million and \$15.7 million for the same periods in 2008. Tax-exempt investment income and dividends received deductions decreased for the nine and three months ended September 30, 2009, compared to the same periods in 2008, due primarily to lower dividend income from the Company's investment in Northrop common stock, partially offset by an increase in tax-exempt investment income. State income tax expense, net of federal benefit, was \$6.9 million for the nine months ended September 30, 2009, and state income tax benefit, net of federal expense, was \$0.3 million for the three months ended September 30, 2009. The \$6.9 million of state income tax expense, net of federal benefit, for the nine months ended September 30, 2009 includes state income tax expense of \$6.3 million for an increase in the deferred tax asset valuation allowance related to state income taxes for Fireside Bank. State income tax expense, net of federal benefit, was \$3.0 million and \$4.4 million for the nine and three months ended September 30, 2008, respectively. The \$3.0 million of state income tax expense, net of federal benefit, for the nine months ended September 30, 2008 includes state income tax expense of \$4.4 million to establish a deferred tax asset valuation allowance related to state income taxes for Fireside Bank.

***Liquidity and Capital Resources***

The Company had no outstanding advances under the 2010 Credit Agreement at December 31, 2008. During the first quarter of 2009, the Company borrowed a net amount of \$105.0 million under the 2010 Credit Agreement. Proceeds from the borrowings were used to fund a \$25.0 million contribution to Unitrin's subsidiary, United, and to make certain income tax payments and for general corporate purposes.

During the second quarter of 2009 Unitrin's subsidiary, Primesco, sold its subsidiary, Mutual Savings Life, to United. Primesco then paid a \$64.3 million dividend to Unitrin. Also during the second quarter of 2009, Unitrin's subsidiaries United, Reliable and Union National Life Insurance Company ( Union National ), transferred certain postretirement employee benefit liabilities and cash totaling \$41.2 million to Unitrin. Following these intercompany transactions, Unitrin repaid in full the advances outstanding under the 2010 Credit Agreement. There were no advances outstanding under the 2010 Credit Agreement at June 30, 2009.

During the second quarter of 2009, United entered into a series of agreements with Reliable and Union National whereby, effective May 1, 2009, Reliable and Union National co-insure 100% of their existing and new business into United. In connection with these co-insurance transactions, Reliable and Union National received regulatory approval to pay extraordinary dividends to Unitrin in such amounts as to reduce each company's statutory capital and surplus to \$10 million, effectively the minimum statutory level. Reliable and Union National paid the extraordinary dividends, totaling \$117.5 million, to Unitrin during the third quarter of 2009.

Unitrin did not borrow under the 2010 Credit Agreement during the third quarter of 2009. Accordingly, there were no advances outstanding under the 2010 Credit Agreement at September 30, 2009. Undrawn letters of credit issued pursuant to the 2010 Credit Agreement were \$13.1 million at both September 30, 2009 and December 31, 2008. The amount available for future borrowing was \$311.9 million at September 30, 2009. Unitrin directly held cash and investments totaling \$113.2 million at September 30, 2009.



**Table of Contents****Liquidity and Capital Resources (continued)**

During the third quarter of 2009, management entered into negotiations for a new revolving credit agreement to replace the 2010 Credit Agreement, which was scheduled to expire on June 30, 2010. On October 30, 2009, the Company entered into the 2012 Credit Agreement, a new three-year, \$245 million, unsecured, revolving credit agreement, expiring October 30, 2012, with a group of financial institutions, and the 2010 Credit Agreement was terminated. There were no borrowings under the 2010 Credit Agreement at its termination. 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 and Trinity. Management estimates that it could borrow the full amount under the 2012 Credit Agreement and still meet the financial covenants contained therein. Proceeds from advances under the 2012 Credit Agreement may be used for general corporate purposes, including repayment of existing indebtedness.

The 2012 Credit Agreement was undrawn on October 30, 2009. Management expects that Unitrin would be able to pay dividends to its shareholders at the current quarterly rate of \$0.20 per share, meet its debt service obligations and continue to remain undrawn under the 2012 Credit Agreement for the remainder of 2009.

The lenders participating in the 2012 Credit Agreement and their aggregate commitments are presented below:

| <b>Lender</b>                                 | <b>Commitment<br/>in Millions</b> |
|---|-----------------------------------|
| Wells Fargo Bank, National Association        | \$ 75.0                           |
| JPMorgan Chase Bank, N.A.                     | 65.0                              |
| The Northern Trust Company                    | 30.0                              |
| Fifth Third Bank, an Ohio Banking Corporation | 30.0                              |
| The Bank of New York Mellon                   | 20.0                              |
| U.S. Bank National Association                | 15.0                              |
| Goldman Sachs Bank USA                        | 10.0                              |
| <br>Total Commitment                          | <br>\$ 245.0                      |

Unitrin had \$200 million of its 4.875% senior notes, due November 1, 2010 (the 4.875% Notes) and \$360 million of its 6.00% senior notes, due May 15, 2017 (the 6.00% Senior Notes) outstanding at September 30, 2009. To provide an additional source of liquidity to Fireside Bank during the orderly wind-down of its operations, Unitrin and Fireside Bank entered into a line of credit agreement on April 20, 2009, whereby Unitrin agreed to advance up to \$20 million to Fireside Bank. Fireside Bank has not drawn on the line of credit agreement with Unitrin. Other than the renegotiation of its credit agreement discussed above, Unitrin does not anticipate making significant changes to its capital structure during the fourth quarter of 2009.

Sources available for future shareholder dividend payments, capital contributions to subsidiaries, advances under the letter of credit to Fireside Bank and the payment of interest on Unitrin's senior notes include the receipt of dividends from Unitrin's subsidiaries and borrowings under the 2012 Credit Agreement. 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 non-insurance subsidiaries paid cash dividends of \$66.0 million to Unitrin in the first nine months of 2009, including the \$64.3 million dividend paid from Primesco to Unitrin described above. Unitrin's direct life insurance subsidiaries paid dividends to Unitrin totaling \$118.4 million, of which regulatory approval for \$117.5 million, as discussed above, was required and received, during the first nine months of 2009. Unitrin does not expect to receive dividends from its direct life insurance subsidiaries for the remainder of 2009. United could, however, pay dividends totaling up to \$19.0 million to Unitrin without regulatory approval during the fourth quarter of 2009.

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**Table of Contents*****Liquidity and Capital Resources (continued)***

On February 13, 2009, Unitrin's subsidiary, Trinity, completed its acquisition of Direct Response in a cash transaction for a total purchase price of \$201.6 million. The acquisition was funded using Trinity's internal resources. While Unitrin estimates that its property and casualty insurance subsidiary, Trinity, would be able to pay \$82.8 million in dividends to Unitrin during the fourth quarter of 2009 without regulatory approval, the Company currently does not expect Trinity to pay a dividend to Unitrin in the fourth quarter of 2009, due in part to the acquisition of Direct Response. Fireside Bank has agreed not to pay dividends without the prior approval of the Federal Deposit Insurance Corporation and the California Department of Financial Institutions. The Company does not expect Fireside Bank to pay a dividend in the fourth quarter of 2009.

Quantitative measures established by bank regulations to ensure capital adequacy require Fireside Bank to maintain minimum amounts of capital. Bank regulations define capital calculations for Tier 1 capital, total risk-weighted assets and total risk-based capital. To be well-capitalized a financial institution must have traditionally maintained a ratio of total capital to total risk-weighted assets of 10% or greater, a ratio of Tier 1 capital to total risk-weighted assets of 6% or greater and a ratio of Tier 1 capital to total average assets of 5% or greater. Fireside Bank had ratios of total capital to total risk-weighted assets of 28.0% at September 30, 2009; a ratio of Tier 1 capital to total risk-weighted assets of 25.0% at September 30, 2009; and a ratio of Tier 1 capital to total average assets of 19.3% at September, 2009. Higher levels of capital, while undefined, are generally more prudent for Fireside Bank's sub-prime automobile loan business than would be required for lower risk businesses. Fireside Bank has agreed with its regulators to maintain a ratio of Tier 1 capital to total average assets of 15% or greater. On March 24, 2009, Unitrin announced that Fireside Bank would be suspending all new lending activity as part of a plan to exit the automobile finance business. The exit plan envisions an orderly wind-down of Fireside Bank's operations over the next several years. Fireside Bank will continue to collect outstanding loan balances and make interest payments and redemptions on outstanding certificates of deposit in the ordinary course of business. Following the announcement, Fireside Bank ceased accepting new loan applications, but processed loan applications that had been submitted prior to the announcement. Fireside Bank also has ceased opening new certificate of deposit accounts. Unitrin currently expects to recover its investment in Fireside Bank over the next several years.

The primary sources of funds for Unitrin's insurance subsidiaries are premiums and investment income. 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 flow 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 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 and investment income. The primary uses of funds for Fireside Bank are the repayment of customer deposits, interest paid to depositors and general expenses.

Net Cash Provided by Operating Activities increased by \$25.7 million for the nine months ended September 30, 2009, compared to the same period in 2008, due primarily to higher operating results.

Net Cash Used by Financing Activities increased by \$148.6 million for the nine months ended September 30, 2009, compared to the same period in 2008. The Company has funded its Automobile Loan Receivables through the issuance of Certificates of Deposits. Net cash used by Certificates of Deposits withdrawals, net of Certificates of Deposits issued, was \$352.3 million for the nine months ended September 30, 2009, compared to net cash used of \$102.7 million for the same period in 2008. The Company did not repurchase shares of its common stock during the first nine months of 2009, compared to using \$67.7 million of cash during the first nine months of 2008 to repurchase shares of its common stock. The Company used \$54.2 million of cash to pay dividends during the first nine months of 2009, compared to \$89.1 million of cash used to pay dividends during the same period in 2008.

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**Table of Contents*****Liquidity and Capital Resources (continued)***

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 at the end of the year. Net Cash Provided by Investing Activities increased by \$92.0 million for the nine months ended September 30, 2009, compared to the same period in 2008. Automobile Loan Originations used \$77.0 million of cash in the first nine months of 2009, compared to using \$475.6 million of cash in the same period in 2008. The repayment of automobile loan receivables provided \$334.9 million in the first nine months of 2009, compared to providing \$451.1 million of cash in the same period in 2008. Purchases of Fixed Maturities exceeded Sales and Maturities of Fixed Maturities by \$63.9 million for the first nine months of 2009, while Sales and Maturities of Fixed Maturities exceeded Purchases of Fixed Maturities by \$8.0 million in the same period in 2008. Net cash provided by dispositions of short-term investments was \$123.3 million for the nine months ended September 30, 2009, compared to net cash provided by dispositions of short-term investments of \$83.1 million for the same period in 2008. Cash used to acquire investments in limited liability investment companies and limited partnerships decreased by \$48.9 million in the first nine months of 2009, compared to the same period in 2008. Cash received from dispositions of equity securities, net of cash paid to acquire equity securities was \$93.4 million in the first nine months of 2009, compared to \$153.2 million in the same period in 2008. The Company used \$190.0 million of cash to acquire Direct Response in 2009, compared to \$95.4 million used to purchase Primesco in 2008. The Company received proceeds of \$66.6 million related to the disposition of its Unitrin Business Insurance operations during the first nine months of 2008.

***Recently Issued Accounting Pronouncements***

On July 1, 2009, ASC became the sole source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities for financial statements issued for interim and annual periods ending after September 15, 2009. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. Except applicable SEC rules and regulations and a limited number of grandfathered standards, all other sources of GAAP for nongovernmental entities were superseded by the issuance of ASC. ASC did not change GAAP, but rather combined the sources of GAAP and the framework for selecting among those sources into a single source. Accordingly, the adoption of ASC had no impact on the Company. Prior to adoption of ASC, the Company adopted various pronouncements which have been codified into ASC. The FASB issues ASU s to amend the authoritative literature in ASC. There have been fourteen ASU s to date that amend the original text of ASC.

The accounting pronouncements issued recently that are most critical to the Company are discussed in Note 1, *Basis of Presentation*, to the Condensed Consolidated Financial Statements under the heading *Accounting Changes* and include the following original pronouncements:

SFAS No. 141(R), *Business Combinations* (codified into ASC Topic 805, *Business Combinations*);

SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (codified into ASC Topic 810, *Consolidation*);

SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (codified into ASC Topic 815, *Derivatives and Hedging*);

SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60* (codified into ASC Topic 944, *Financial Services - Insurance*);

SFAS No. 165, *Subsequent Events* (codified into ASC Topic 855, *Subsequent Events*);

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SFAS No. 166, *Accounting for Transfers of Financial Assets* an amendment of FASB Statement No. 140 (a grandfathered standard under ASC);

SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (a grandfathered standard under ASC);

FSP SFAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (codified into ASC Topic 825, *Financial Instruments*);

FSP SFAS 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (codified into ASC Topic 320, *Investments Debt and Equity Securities*);

FSP SFAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (codified into ASC Topic 805, *Business Combinations*);

FSP SFAS 142-3, *Determination of the Useful Life of Intangible Assets* (codified into ASC Topic 350, *Intangibles-Goodwill and Other*);

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***Recently Issued Accounting Pronouncements (continued)***

FSP SFAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (codified into ASC Topic 820, *Fair Value Measurements and Disclosures*);

FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20* (codified into ASC Topic 325, *Investments - Other*);

FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (codified into ASC Topic 260, *Earnings per Share*); and.

ASU 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*.

**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.

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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 September 30, 2009 and December 31, 2008 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 September 30, 2009 and December 31, 2008. 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 September 30, 2009 and December 31, 2008. All other variables were held constant. The Company measured equity price sensitivity assuming an adverse and instantaneous 30%

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)***Quantitative Information About Market Risk (continued)*

decrease in the Standard and Poor's Stock Index (the S&P 500) from its levels at September 30, 2009 and December 31, 2008, 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 1.03 and 1.05 at September 30, 2009 and December 31, 2008, respectively. The portfolio's weighted-average beta was calculated using each security's beta for the five-year periods ended September 30, 2009 and December 31, 2008, respectively, and weighted on the fair value of such securities at September 30, 2009 and December 31, 2008, respectively. 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 value of the Company's financial instruments using these assumptions were:

| (Dollars in Millions)            | Fair Value | Pro Forma Increase (Decrease) |                   |                   |
|----------------------------------|------------|-------------------------------|-------------------|-------------------|
|                                  |            | Interest Rate Risk            | Equity Price Risk | Total Market Risk |
| <b>September 30, 2009</b>        |            |                               |                   |                   |
| <b>Assets</b>                    |            |                               |                   |                   |
| Investments in Fixed Maturities  | \$ 4,552.0 | \$ (311.6)                    | \$                | \$ (311.6)        |
| Investments in Equity Securities | 196.7      | (5.1)                         | (27.2)            | (32.3)            |
| Automobile Loan Receivables      | 773.3      | (7.4)                         |                   | (7.4)             |
| <b>Liabilities</b>               |            |                               |                   |                   |
| Certificates of Deposits         | \$ 796.5   | \$ 12.5                       | \$                | \$ 12.5           |
| Notes Payable                    | 495.9      | 19.9                          |                   | 19.9              |
| <b>December 31, 2008</b>         |            |                               |                   |                   |
| <b>Assets</b>                    |            |                               |                   |                   |
| Investments in Fixed Maturities  | \$ 4,135.9 | \$ (277.1)                    | \$                | \$ (277.1)        |
| Investments in Equity Securities | 221.8      | (5.7)                         | (33.8)            | (39.5)            |
| Automobile Loan Receivables      | 1,099.6    | (13.5)                        |                   | (13.5)            |
| <b>Liabilities</b>               |            |                               |                   |                   |
| Certificates of Deposits         | \$ 1,148.7 | \$ 19.3                       | \$                | \$ 19.3           |
| Notes Payable                    | 433.9      | 18.7                          |                   | 18.7              |

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.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)*****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 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.

***Caution Regarding Forward-Looking Statements***

This Quarterly Report on Form 10-Q, including MD&A, Quantitative and Qualitative Disclosures About Market Risk 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 of similar connection with a discussion of future operating or financial performance. Forward-looking statements, in particular, include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results.

Any or all forward-looking statements may turn out to be wrong, and, accordingly, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining the Company's actual future results. These statements are based on current expectations and the current economic environment. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance; actual results could differ materially from those expressed or implied in the forward-looking statements.

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

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

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

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

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

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



Changes in the pricing or availability of reinsurance;

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

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***Caution Regarding Forward-Looking Statements (continued)***

Changes in industry trends and significant industry developments;

Regulatory approval of insurance rates, policy forms, license applications and similar matters;

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

Governmental actions, including, but not limited to, national health care reform, new laws or regulations or court decisions interpreting existing laws and regulations or policy provisions;

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

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

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

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

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

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

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

The 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;

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

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Increased costs and risks related to data security;

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

Other risks and uncertainties described from time to time in the Company's filings with the Securities and Exchange Commission (SEC).

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

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**Item 4. Controls and Procedures**

*(a) Evaluation of disclosure controls and procedures.*

The Company's management, with the participation of the Company'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 Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this report. Based on such evaluation, the Company'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 the Company 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 the Company'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.

**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 21, Contingencies to the Condensed Consolidated Financial Statements (Unaudited) in Part I of this Form 10-Q.

**Item 1A. Risk Factors**

There were no significant changes in the risk factors included in Item 1A. of Part II of the 2008 Annual Report except for a change to the risk factor entitled Fireside Bank's automobile loan receivable portfolio is subject to default risk, which was restated in its entirety in Item 1A of Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 and the addition of a risk factor entitled Reserve National's business model may be vulnerable to federal health care reform initiatives, which was also included in Item 1A of Part II of such Quarterly Report on Form 10-Q.

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

The Company's stock repurchase program was first announced on August 8, 1990 and has been subsequently expanded several times, most recently in November 2006, when the Board of Directors expanded the Company's authority to repurchase the Company's common stock by an aggregate number of 6,000,000 shares (in addition to approximately 750,000 shares remaining under its prior authorization). A total of 1,378,454 shares remain available for repurchase under the repurchase program which does not have an expiration date.

The Company did not repurchase any shares in the third quarter of 2009.

During the quarter ended September 30, 2009, no 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 the Company's three stock option plans. During the quarter ended September 30, 2009, 16,117 shares were withheld to satisfy tax withholding obligations on the vesting of awards under the Company's restricted stock plan.

**Table of Contents****Item 6. Exhibits**

- 3.1 Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 to the Company's 2007 Annual Report on Form 10-K filed February 4, 2008.)
- 3.2 Amended and Restated Bylaws (Incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed February 12, 2008.)
- 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 the Company'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 the Company's Current Report on Form 8-K filed May 14, 2007.)
- 4.3 Officer's Certificate, including form of Senior Note with respect to the Company's 6.00% Senior Notes due May 15, 2017 (Incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed May 14, 2007.)
- 4.4 Officer's Certificate, including form of Senior Note with respect to the Company's 4.875% Senior Notes due November 1, 2010 (Incorporated herein by reference to Exhibit 4.4 to the Company's Quarterly Report on Form 10-Q filed November 3, 2008.)
- 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 the Company'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 (Incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed February 6, 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 the Company'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 the Company's Annual Report on Form 10-K filed February 4, 2009.)
- 10.5 Form of Stock Option Agreement under the Unitrin, Inc. 1995 Non-Employee Director Stock Option Plan, as of February 1, 2006 (Incorporated herein by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed February 6, 2006.)
- 10.6 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 the Company's Annual Report on Form 10-K filed February 4, 2009.)
- 10.7 Form of Stock Option Agreement (including stock appreciation rights) under the Unitrin, Inc. 1997 Stock Option Plan, as of February 1, 2006 (Incorporated herein by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed February 6, 2006.)
- 10.8 Form of Stock Option Agreement (including stock appreciation rights) under the Unitrin, Inc. 2002 Stock Option Plan, as of February 1, 2006 (Incorporated herein by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K filed February 6, 2006.)
- 10.9 Form of Stock Option Agreement (including stock appreciation rights) under the Unitrin, Inc. 2002 Stock Option Plan, as of February 3, 2009 (Incorporated herein by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K filed February 4, 2009.)
- 10.10 Form of Time-Vested Restricted Stock Award Agreement under the 2005 Restricted Stock and Restricted Stock Unit Plan, as of February 3, 2009 (Incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed February 4, 2009.)

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**Item 6. Exhibits (continued)**

- 10.11 Form of Performance-Based Restricted Stock Award Agreement under the 2005 Restricted Stock and Restricted Stock Unit Plan, as of February 3, 2009 (Incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed February 9, 2009.)
- 10.12 Unitrin, Inc. Pension Equalization Plan, as amended and restated effective January 1, 2009 (Incorporated herein by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K filed February 4, 2009.)
- 10.13 Unitrin, Inc. Defined Contribution Supplemental Retirement Plan, effective January 1, 2008 (Incorporated herein by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K filed February 4, 2009.)
- 10.14 Unitrin, Inc. Non-Qualified Deferred Compensation Plan, as amended and restated effective January 1, 2009 (Incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K filed February 4, 2009.)
- 10.15 Unitrin is a party to individual severance agreements (the form of which is incorporated herein by reference to Exhibit 10.11 to the Company's Current Report on Form 8-K filed December 12, 2008), with the following executive officers:
- Richard C. Vie (Chairman)
- Donald G. Southwell (President and Chief Executive Officer)
- John M. Boschelli (Vice President and Chief Investment Officer)
- Eric J. Draut (Executive Vice President and Chief Financial 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)
- Frank J. Sodaro (Vice President - Planning and Analysis)
- Each of the foregoing agreements is identical except that the severance compensation multiple is 3.0 for Messrs. Vie and Southwell and 2.0 for the other executive officers.
- 10.16 Unitrin, Inc. Severance Plan, as amended and restated effective January 1, 2009 (Incorporated herein by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K filed February 4, 2009.)
- 10.17 Unitrin, Inc. 2009 Performance Incentive Plan, effective February 3, 2009 (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 9, 2009.)
- 10.18 Form of Annual Incentive Award Instrument under the Unitrin, Inc. 2009 Performance Incentive Plan, as of February 3, 2009 (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A filed February 10, 2009.)
- 10.19 Form of Multi-Year Incentive Award Agreement under the Unitrin, Inc. 2009 Performance Incentive Plan, as of February 3, 2009 (Incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K/A filed February 10, 2009.)
- 10.20 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 the Company's Current Report on Form 8-K filed March 27, 2009) with each of its directors.
- 10.21 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.

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**Item 6. Exhibits (continued)**

- 10.22 Credit Agreement, dated as of June 24, 2005, by and among Unitrin, Inc., the lenders party thereto, JPMorgan Chase Bank, N.A., individually and as administrative agent, letter of credit issuer and swing line lender, Wells Fargo Bank, National Association, individually and as syndication agent, and Wachovia Bank, N.A., individually and as documentation agent (Incorporated herein by reference to Exhibit 10.1 to Unitrin's Current Report on Form 8-K filed June 27, 2005.)
- 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.)

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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: November 2, 2009

/s/ DONALD G. SOUTHWELL  
**Donald G. Southwell**  
**President and**  
**Chief Executive Officer**

Date: November 2, 2009

/s/ ERIC J. DRAUT  
**Eric J. Draut**  
**Executive Vice President and**  
**Chief Financial Officer**

Date: November 2, 2009

/s/ RICHARD ROESKE  
**Richard Roeske**  
**Vice President and Chief Accounting Officer**  
  
**(Principal Accounting Officer)**