Unum Group
Form 10-Q
May 02, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2008

¨ **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 1-11294

Unum Group

(Exact name of registrant as specified in its charter)

Delaware	**62-1598430**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 Fountain Square

Chattanooga, Tennessee 37402

(Address of principal executive offices)

423.294.1011

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

(Check one): Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

346,350,504 shares of the registrant s common stock were outstanding as of April 30, 2008.

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Cautionary Statement Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor to encourage companies to provide prospective information, as long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those included in the forward-looking statements. Certain information contained in this discussion, or in any other written or oral statements made by us in communications with the financial community or contained in documents filed with the Securities and Exchange Commission (SEC), may be considered forward-looking. Forward-looking statements are those not based on historical information, but rather relate to future operations, strategies, financial results, or other developments and speak only as of the date made. These statements may be made directly in this document or may be made part of this document by reference to other documents filed by us with the SEC, which is known as incorporation by reference. You can find many of these statements by looking for words such as will, may, should, could, believes, expects, anticipates, estimates, intends, projects, goals, objectives, or similar expressions in this docu documents incorporated herein.

These forward-looking statements are subject to numerous assumptions, risks, and uncertainties, many of which are beyond our control. We caution readers that the following factors, in addition to other factors mentioned from time to time, may cause actual results to differ materially from those contemplated by the forward-looking statements:

General economic or business conditions, both domestic and foreign, may be less favorable than expected, which may affect premium levels, claims experience, the level of pension benefit costs and funding, the availability of capital, and investment results, including credit deterioration of investments.

Competitive pressures in the insurance industry may increase significantly through industry consolidation or otherwise.

Events or consequences relating to terrorism and acts of war, both domestic and foreign, may adversely affect our business and the Company s results of operations in a period and may also affect the availability and cost of reinsurance.

Legislative, regulatory, or tax changes, both domestic and foreign, may adversely affect the businesses in which we are engaged.

Rating agency actions, state insurance department market conduct examinations and other inquiries, other governmental investigations and actions, and negative media attention may adversely affect our business and the Company s results of operations in a period.

The level and results of litigation may not be favorable to the Company and may adversely affect our business and the Company s results of operations in a period.

Investment results, including, but not limited to, realized investment losses resulting from impairments, may differ from our assumptions and prior experience and may adversely affect our business and the Company s results of operations in a period.

Changes in the interest rate environment may adversely affect our reserve and policy assumptions and ultimately profit margins and reserve levels.

Sales growth may be less than planned, which could affect adversely revenue and profitability.

Effectiveness in supporting new product offerings and providing customer service may not meet expectations.

Actual experience in pricing, underwriting, and reserving may deviate from our assumptions.

Actual persistency may be lower than projected persistency, resulting in lower than expected revenue and higher than expected amortization of deferred acquisition costs.

Claim incidence and recovery rates may be influenced by, among other factors, the rate of unemployment and consumer confidence, the emergence of new diseases, epidemics, or pandemics, new trends and developments in medical treatments, the effectiveness of risk management programs, and the effects of the changes required by the regulatory settlement agreements.

Insurance reserve liabilities may fluctuate as a result of changes in numerous factors, and such fluctuations can have material positive or negative effects on net income.

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Retained risks in our reinsurance operations are influenced primarily by the credit risk of the reinsurers and potential contract disputes. Any material changes in the reinsurers credit risk or willingness to pay according to the terms of the contract may adversely affect our business and the results of operations in a period.

For further discussion of risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see Part I, Item 1A of our annual report on Form 10-K for the year ended December 31, 2007.

All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

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PART I

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

Unum Group and Subsidiaries

	March 31 2008	December 31 2007
	(in millions of dollars)	
	(Unaudited)	
Assets		
Investments		
Fixed Maturity Securities - at fair value (amortized cost: $34,760.6; $34,628.1)	$ 35,327.2	$ 35,814.7
Mortgage Loans	1,087.9	1,068.9
Real Estate	18.7	18.2
Policy Loans	2,622.1	2,617.7
Other Long-term Investments	196.9	213.9
Short-term Investments	1,395.3	1,486.8
Total Investments	40,648.1	41,220.2
Other Assets		
Cash and Bank Deposits	84.8	199.1
Accounts and Premiums Receivable	1,953.7	1,914.7
Reinsurance Recoverable	5,143.8	5,160.0
Accrued Investment Income	606.9	592.3
Deferred Acquisition Costs	2,397.5	2,381.9
Goodwill	204.3	204.3
Property and Equipment	396.9	393.7
Other Assets	614.5	615.5
Separate Account Assets	18.7	20.2
Total Assets	$ 52,069.2	$ 52,701.9

See notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS - Continued

Unum Group and Subsidiaries

	March 31 2008	December 31 2007
	(in millions of dollars)	
	(Unaudited)	
Liabilities and Stockholders Equity		
Liabilities		
Policy and Contract Benefits	$ 1,940.2	$ 1,979.7
Reserves for Future Policy and Contract Benefits	35,793.0	35,828.0
Unearned Premiums	543.7	523.1
Other Policyholders Funds	1,799.9	1,821.2
Income Tax Payable	172.8	148.6
Deferred Income Tax	169.7	251.7
Short-term Debt	175.0	175.0
Long-term Debt	2,497.7	2,515.2
Other Liabilities	1,320.1	1,399.3
Separate Account Liabilities	18.7	20.2
Total Liabilities	44,430.8	44,662.0
Commitments and Contingent Liabilities - Note 8		
Stockholders Equity		
Common Stock, $0.10 par		
Authorized: 725,000,000 shares		
Issued: 362,726,764 and 362,844,570 shares	36.3	36.3
Additional Paid-in Capital	2,522.8	2,516.9
Accumulated Other Comprehensive Income (Loss)		
Net Unrealized Gain on Securities	128.3	356.1
Net Gain on Cash Flow Hedges	215.5	182.5
Foreign Currency Translation Adjustment	122.5	123.4
Unrecognized Pension and Postretirement Benefit Costs	(196.6)	(198.5)
Retained Earnings	5,213.8	5,077.4
Treasury Stock - at cost: 16,433,578 and 1,951,095 shares	(404.2)	(54.2)
Total Stockholders Equity	7,638.4	8,039.9
Total Liabilities and Stockholders Equity	$ 52,069.2	$ 52,701.9

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended March 31 2008	2007
	(in millions of dollars, except share data)	
Revenue		
Premium Income	$ 1,950.5	$ 1,944.0
Net Investment Income	591.4	589.5
Net Realized Investment Loss	(68.5)	(3.7)
Other Income	67.2	70.8
Total Revenue	2,540.6	2,600.6
Benefits and Expenses		
Benefits and Change in Reserves for Future Benefits	1,656.9	1,729.3
Commissions	218.9	213.0
Interest and Debt Expense	43.9	45.9
Cost Related to Early Retirement of Debt		2.4
Deferral of Acquisition Costs	(145.6)	(138.1)
Amortization of Deferred Acquisition Costs	130.0	116.6
Compensation Expense	185.9	173.3
Other Expenses	205.9	198.3
Total Benefits and Expenses	2,295.9	2,340.7
Income from Continuing Operations Before Income Tax	244.7	259.9
Income Tax		
Current	57.0	39.2
Deferred	24.6	49.3
Total Income Tax	81.6	88.5
Income from Continuing Operations	163.1	171.4
Discontinued Operations - Note 3		
Income Before Income Tax		17.8
Income Tax		10.9
Income from Discontinued Operations		6.9
Net Income	$ 163.1	$ 178.3
Earnings Per Common Share		
Basic		
Income from Continuing Operations	$ 0.47	$ 0.50
Net Income	$ 0.47	$ 0.52
Assuming Dilution		
Income from Continuing Operations	$ 0.46	$ 0.49
Net Income	$ 0.46	$ 0.51

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended March 31	
	2008	2007
	(in millions of dollars)	
Common Stock		
Balance at Beginning of Year	$ 36.3	$ 34.4
Common Stock Activity		0.1
Balance at End of Period	36.3	34.5
Additional Paid-in Capital		
Balance at Beginning of Year	2,516.9	2,200.0
Common Stock Activity	5.9	(3.4)
Balance at End of Period	2,522.8	2,196.6
Accumulated Other Comprehensive Income		
Balance at Beginning of Year	463.5	612.8
Change During Period	(193.8)	(69.1)
Balance at End of Period	269.7	543.7
Retained Earnings		
Balance at Beginning of Year	5,077.4	4,925.8
Net Income	163.1	178.3
Dividends to Stockholders ($0.075 per common share)	(26.7)	(25.6)
Cumulative Effect of Accounting Principle Changes - Note 2		(422.5)
Balance at End of Period	5,213.8	4,656.0
Treasury Stock		
Balance at Beginning of Year	(54.2)	(54.2)
Purchases of Treasury Stock	(350.0)	
Balance at End of Period	(404.2)	(54.2)
Total Stockholders' Equity at End of Period	$ 7,638.4	$ 7,376.6

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended March 31 2008	2007
	(in millions of dollars)	
Cash Flows from Operating Activities		
Net Income	$ 163.1	$ 178.3
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities		
Change in Receivables	(3.9)	(0.6)
Change in Deferred Acquisition Costs	(15.6)	(21.5)
Change in Insurance Reserves and Liabilities	190.6	199.8
Change in Income Tax Liabilities	49.5	49.2
Change in Other Accrued Liabilities	(116.8)	(47.6)
Non-cash Adjustments to Net Investment Income	(81.2)	(105.4)
Net Realized Investment Loss	68.5	3.7
Depreciation	16.2	16.9
Other, Net	4.0	7.4
Net Cash Provided by Operating Activities	274.4	280.2
Cash Flows from Investing Activities		
Proceeds from Sales of Available-for-Sale Securities	478.8	738.8
Proceeds from Maturities of Available-for-Sale Securities	161.5	244.9
Proceeds from Sales and Maturities of Other Investments	99.6	61.9
Purchase of Available-for-Sale Securities	(748.2)	(1,126.0)
Purchase of Other Investments	(52.9)	(99.7)
Net Sales of Short-term Investments	91.5	28.0
Disposition of Business		98.8
Other, Net	(18.5)	(23.9)
Net Cash Provided (Used) by Investing Activities	11.8	(77.2)
Cash Flows from Financing Activities		
Maturities and Benefit Payments from Policyholder Accounts	(7.4)	(4.0)
Long-term Debt Repayments	(17.5)	(160.0)
Issuance of Common Stock	0.9	2.4
Dividends Paid to Stockholders	(26.7)	(25.6)
Purchases of Treasury Stock	(350.0)	
Other, Net	0.2	(1.7)
Net Cash Used by Financing Activities	(400.5)	(188.9)
Effect of Foreign Exchange Rate Changes on Cash		0.1
Net Increase (Decrease) in Cash and Bank Deposits	(114.3)	14.2
Cash and Bank Deposits at Beginning of Year	199.1	121.3

Cash and Bank Deposits at End of Period	$	84.8	$	135.5

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended March 31 2008	2007
	(in millions of dollars)	
Net Income	$ 163.1	$ 178.3
Other Comprehensive Loss		
Change in Net Unrealized Gain on Securities Before Reclassification Adjustment (net of tax benefit of $209.7; $23.4)	(403.8)	(49.0)
Reclassification Adjustment for Net Realized Investment Gain (net of tax expense (benefit) of $0.9; $(0.7))	1.6	(1.3)
Change in Net Gain on Cash Flow Hedges (net of tax expense (benefit) of $16.8; $(7.5))	33.0	(13.7)
Change in Adjustment to Reserves for Future Policy and Contract Benefits, Net of Reinsurance (net of tax expense of $84.7; $0.9)	174.4	5.8
Change in Foreign Currency Translation Adjustment (net of tax benefit of $0.2; $0.2)	(0.9)	5.7
Change in Unrecognized Pension and Postretirement Benefit Costs (net of tax expense (benefit) of $0.9; $(9.0))	1.9	(16.6)
Total Other Comprehensive Loss	(193.8)	(69.1)
Comprehensive Income (Loss)	$ (30.7)	$ 109.2

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Unum Group and Subsidiaries

March 31, 2008

Note 1 - Basis of Presentation

The accompanying consolidated financial statements of Unum Group and its subsidiaries (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, refer to the consolidated financial statements and footnotes included in our annual report on Form 10-K for the year ended December 31, 2007.

In March 2007, we closed the sale of our wholly-owned subsidiary GENEX Services, Inc. (GENEX). The financial results of GENEX are reported as discontinued operations in the consolidated financial statements. Except where noted, the information presented in the notes to the consolidated financial statements excludes GENEX. See Note 3 for further discussion.

Freestanding derivatives with positive fair values are reported on our consolidated balance sheets at fair value as assets within other long-term investments, and those with negative fair values are carried as liabilities within other liabilities. Embedded derivatives, excluding those associated with modified coinsurance arrangements, are reported on the consolidated balance sheets at fair value with the host contract. The embedded derivatives associated with modified coinsurance contracts are reported at fair value as either other long-term investments or other liabilities in the consolidated balance sheets. We previously reported our freestanding derivatives and our embedded derivatives related to reinsurance contracts on a net basis within fixed maturity securities. We have increased fixed maturity securities, other long-term investments, and other liabilities $160.0 million, $109.2 million, and $269.2 million, respectively, at December 31, 2007 to conform to the current year presentation.

In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2008, are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

Note 2 - Accounting Pronouncements

Accounting Pronouncements Adopted:

Effective January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The adoption of SFAS 157 did not have a material effect on our financial position or results of operations.

Effective January 1, 2007, we adopted the provisions of Statement of Position 05-1 (SOP 05-1), *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts*. SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in Statement of Financial Accounting Standards No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments.* An internal replacement is defined as a modification in product benefits, features, or coverages that occurs by the exchange or replacement of an existing insurance policy for a new policy. The cumulative effect of applying the provisions of SOP 05-1 decreased our 2007 opening balance of retained earnings $445.2 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 2 - Accounting Pronouncements - Continued

Effective January 1, 2007, we adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (SFAS 109)*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS 109. Unlike SFAS 109, FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The cumulative effect of applying the provisions of FIN 48 increased our 2007 opening balance of retained earnings $22.7 million.

Effective January 1, 2007, we adopted the provisions of Statement of Financial Accounting Standards No. 155 (SFAS 155), *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 (SFAS 133) and 140*. SFAS 155: (a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; (b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133; (c) establishes a requirement to evaluate beneficial interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; (d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and, (e) eliminates restrictions on a qualifying special-purpose entity s ability to hold passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. The adoption of SFAS 155 did not have a material effect on our financial position or results of operations.

Accounting Pronouncement Outstanding:

Statement of Financial Accounting Standards No. 161 (SFAS 161), *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*, was issued in March 2008. SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. We will adopt the provisions of SFAS 161 effective January 1, 2009. The adoption of SFAS 161 will not have a material effect on our financial position or results of operations.

Note 3 - Discontinued Operations

As discussed in Note 1, the sale of GENEX closed effective March 1, 2007, and we recognized an after-tax gain of $6.2 million on the sale, which is included in income from discontinued operations in our statements of income.

Selected results for GENEX for the three months ended March 31, 2007 are as follows (in millions of dollars, except share data):

Total Revenue	$ 47.2
Income Per Common Share	
Basic	$ 0.02
Assuming Dilution	$ 0.02

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 4 - Fair Value Measurements

Effective January 1, 2008, we adopted the provisions of SFAS 157, which are intended to increase consistency and comparability among fair value estimates used in financial reporting. SFAS 157 does not require any new fair value measurements. SFAS 157 clarifies a number of considerations with respect to fair value measurement objectives for financial reporting and expands disclosure about the use of fair value measurements, with particular emphasis on the inputs used to measure fair value. The disclosures required by SFAS 157 are intended to provide users of the financial statements the ability to assess the reliability of an entity s fair value measurements. The adoption of SFAS 157 did not materially change the approach or methods we utilize for determining fair value measurements or the fair values derived under those methods.

Definition of Fair Value

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and, therefore, represents an exit price, not an entry price. The exit price objective applies regardless of a reporting entity s intent and/or ability to sell the asset or transfer the liability at the measurement date.

The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted have less observability and are measured at fair value using valuation techniques that require more judgment. Pricing observability is generally impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, and overall market conditions.

Valuation Techniques

Valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types:

1. The *market approach* uses prices and other relevant information from market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach often use market multiples derived from a set of comparables or matrix pricing. Market multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering both quantitative and qualitative factors specific to the measurement. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities but comparing the securities to benchmark or comparable securities.

2. The *income approach* converts future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. Income approach techniques rely on current market expectations of future amounts. Examples of income approach valuation techniques include present value techniques, option-pricing models that incorporate present value techniques, and the multi-period excess earnings method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 4 - Fair Value Measurements - Continued

3. The *cost approach* is based upon the amount that currently would be required to replace the service capacity of an asset, or the current replacement cost. That is, from the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available. In some cases, a single valuation technique will be appropriate (for example, when valuing an asset or liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate. If we use multiple valuation techniques to measure fair value, we evaluate and weigh the results, as appropriate, considering the reasonableness of the range indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

The selection of the valuation method(s) to apply considers the definition of an exit price and considers the nature of the asset or liability being valued. For assets and liabilities accounted for at fair value, we generally use the market approach, and to a lesser extent, the income approach. During the quarter ended March 31, 2008, we have applied valuation techniques on a consistent basis to similar assets and liabilities and consistent with those techniques used at year end 2007.

Inputs to Valuation Techniques

Inputs refer broadly to the assumptions that market participants use in pricing assets or liabilities, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable.

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources.

Unobservable inputs are inputs that reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Observable inputs which we utilize to determine the fair values of our investments and derivative financial instruments include indicative broker prices and prices obtained from external pricing services. We review these prices to ensure they include references to a variety of observable inputs and to verify the validity of a security s price. These inputs, along with our knowledge of the financial conditions and industry in which the issuer operates, will be considered in determining whether the quoted or indicated price, as well as the change in price from quarter to quarter, are valid. On selected securities where there is not an indicated price, some of these inputs may be used to determine a price using a pricing matrix, or we may use a comparable security. The parameters and inputs used to validate a price on a security may be adjusted for assumptions about risk and current market conditions on a quarter to quarter basis, as certain features may be more significant drivers of valuation at the time of pricing. Changes to inputs in valuations are not changes to valuation methodologies; rather, the inputs are modified to reflect direct or indirect impacts on asset classes from changes in market conditions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 4 - Fair Value Measurements - Continued

Inputs that may be used include the following:

- Benchmark yields (Treasury and swap curves)
- Transactional data for new issuance and secondary trades
- Broker/dealer quotes and pricing
- Security cash flows and structures
- Recent issuance/supply
- Sector and issuer level spreads
- Credit ratings/maturity/weighted average life/seasoning/capital structure
- Security optionality
- Corporate actions
- Underlying collateral
- Prepayment speeds/loan performance/delinquencies
- Public covenants

Comparative bond analysis

Derivative spreads

Third-party pricing sources

The overall valuation process for determining fair values may include adjustments to valuations obtained from our pricing sources. These adjustments may be made when, in our judgment, certain features of the financial instrument, such as its complexity or the market in which the financial instrument is traded (such as counterparty, credit, concentration, or liquidity), require that an adjustment be made to the value originally obtained from our pricing sources. Additionally, an adjustment from the price derived from a model typically reflects our judgment that other participants in the market for the financial instrument being measured at fair value would also consider such an adjustment in pricing that same financial instrument.

Certain of our investments do not have readily determinable market prices and/or observable inputs. For these securities, we use internally prepared valuations combining matrix pricing with vendor purchased software programs, including valuations based on estimates of future profitability, to estimate the fair value. Additionally, we may obtain prices from independent third-party brokers to aid in establishing valuations for certain of these securities. Key assumptions used by us to determine fair value for these securities include risk-free interest rates, risk premiums, performance of underlying collateral (if any), and other factors involving significant assumptions which may or may not reflect those of an active market.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 4 - Fair Value Measurements - Continued

The categorization of fair value measurements, by input level, for our fixed maturity securities, equity securities, and derivative financial instruments is as follows:

	March 31, 2008 (in millions of dollars)			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets				
Fixed Maturity Securities	$ 4,144.6	$ 30,775.0	$ 407.6	$ 35,327.2
Other Long-term Investments				
Equity Securities		0.4	1.6	2.0
Derivative Financial Instruments		100.2		100.2
Liabilities				
Other Liabilities				
Derivative Financial Instruments	$	$ 163.1	$ 132.9	$ 296.0

Changes in assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period are as follows:

	Fixed Maturity Securities	**Equity Securities**	**Net Derivative Financial Instruments**	**Total**
		(in millions of dollars)		
Balance at January 1, 2008	$ 421.0	$ 1.5	$ (68.8)	$ 353.7
Total Realized and Unrealized Gains (Losses)				
Included in Earnings			(64.1)	(64.1)
Included in Other Comprehensive Income	(3.3)	0.1		(3.2)
Net Purchases and Sales	(10.1)			(10.1)
Net Transfer In (Out) of Level 3				
Balance at March 31, 2008	$ 407.6	$ 1.6	$ (132.9)	$ 276.3

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 4 - Fair Value Measurements - Continued

Realized and unrealized investment gains and losses presented in the preceding table represent gains and losses only for the time during which the applicable financial instruments were classified as Level 3. The amount of loss for the three months ended March 31, 2008 which is included in earnings and is attributable to the change in unrealized gains or losses relating to assets or liabilities valued using significant unobservable inputs and still held at March 31, 2008 was $64.1 million and relates entirely to the change in fair value of embedded derivatives associated with modified coinsurance arrangements. Changes in the fair values of certain embedded derivatives are reported as realized investment gains and losses, as required under the provisions of Statement of Financial Accounting Standards No. 133 Implementation Issue B36 (DIG Issue B36), *Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposure That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor Under Those Instruments*.

Realized investment gains and losses are reported as a component of revenue in the consolidated statements of income. Unrealized investment gains and losses are reported in other comprehensive income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 5 - Segment Information

Premium income by major line of business within each of our segments is presented as follows:

	Three Months Ended March 31 2008	2007
	(in millions of dollars)	
Unum US		
Group Disability		
Group Long-term Disability	$ 459.4	$ 471.4
Group Short-term Disability	109.0	118.7
Group Life and Accidental Death & Dismemberment		
Group Life	261.4	280.8
Accidental Death & Dismemberment	31.0	32.4
Supplemental and Voluntary		
Individual Disability - Recently Issued	118.2	113.7
Long-term Care	141.3	128.7
Voluntary Benefits	110.1	99.2
	1,230.4	1,244.9
Unum UK		
Group Long-term Disability	185.0	174.6
Group Life	45.5	38.7
Individual Disability	10.1	9.0
	240.6	222.3
Colonial Life		
Accident, Sickness, and Disability	149.5	139.7
Life	38.5	35.6
Cancer and Critical Illness	52.4	48.1
	240.4	223.4
Individual Disability - Closed Block	238.4	252.3
Other	0.7	1.1
Total	$ 1,950.5	$ 1,944.0

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 5 - Segment Information - Continued

Selected operating statement data by segment is presented as follows:

	Unum US	Unum UK	Colonial Life	Individual Disability - Closed Block	Other	Corporate	Total
			(in millions of dollars)				
Three Months Ended March 31, 2008							
Total Premium Income	$ 1,230.4	$ 240.6	$ 240.4	$ 238.4	$ 0.7	$	$ 1,950.5
Net Investment Income	279.1	45.3	25.9	190.7	25.9	24.5	591.4
Other Income	32.6	0.2	0.1	24.1	8.0	2.2	67.2
Operating Revenue	$ 1,542.1	$ 286.1	$ 266.4	$ 453.2	$ 34.6	$ 26.7	$ 2,609.1
Operating Income (Loss)	$ 162.7	$ 87.1	$ 67.4	$ 13.7	$ 3.9	$ (21.6)	$ 313.2
Three Months Ended March 31, 2007							
Total Premium Income	$ 1,244.9	$ 222.3	$ 223.4	$ 252.3	$ 1.1	$	$ 1,944.0
Net Investment Income	276.9	45.8	24.4	204.6	28.1	9.7	589.5
Other Income	34.7	1.7	0.3	25.3	8.2	0.6	70.8
Operating Revenue	$ 1,556.5	$ 269.8	$ 248.1	$ 482.2	$ 37.4	$ 10.3	$ 2,604.3
Operating Income (Loss)	$ 142.4	$ 75.1	$ 59.6	$ 22.5	$ 3.6	$ (39.6)	$ 263.6

A reconciliation of total operating revenue and operating income by segment to revenue and net income as reported in the consolidated statements of income follows:

	Three Months Ended March 31	
	2008	2007
	(in millions of dollars)	
Operating Revenue by Segment	$ 2,609.1	$ 2,604.3
Net Realized Investment Loss	(68.5)	(3.7)
Revenue	$ 2,540.6	$ 2,600.6
Operating Income by Segment	$ 313.2	$ 263.6
Net Realized Investment Loss	(68.5)	(3.7)
Income Tax	81.6	88.5

Income from Discontinued Operations				6.9
Net Income	$	163.1	$	178.3

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 5 - Segment Information - Continued

Assets by segment are as follows:

	March 31 2008	December 31 2007
	(in millions of dollars)	
Unum US	$ 21,142.0	$ 21,134.1
Unum UK	4,039.4	4,016.5
Colonial Life	2,553.2	2,518.5
Individual Disability - Closed Block	14,906.8	15,244.4
Other	7,851.9	7,900.0
Corporate	1,575.9	1,888.4
Total	$ 52,069.2	$ 52,701.9

Note 6 - Pensions and Other Postretirement Benefits

The components of net periodic benefit cost related to the Company sponsored defined benefit pension and postretirement plans for our employees for the three months ended March 31 are as follows:

	Pension Benefits					
	U.S. Plans		Non U.S. Plans		Postretirement Benefits	
	2008	2007	2008	2007	2008	2007
	(in millions of dollars)					
Service Cost	$ 7.2	$ 8.3	$ 2.1	$ 2.3	$ 0.8	$ 0.9
Interest Cost	14.5	13.5	2.9	2.5	2.9	2.7
Expected Return on Plan Assets	(14.9)	(14.6)	(3.2)	(3.1)	(0.2)	(0.2)
Amortization of:						
Net Actuarial Loss	3.5	4.6	0.7	0.7		
Prior Service Credit	(0.6)	(0.8)			(0.8)	(0.9)
Curtailment		0.2				
Net Periodic Benefit Cost	$ 9.7	$ 11.2	$ 2.5	$ 2.4	$ 2.7	$ 2.5

As a result of the sale of GENEX, we froze the pension plan benefits for the employees of GENEX during the first quarter of 2007, which resulted in the recognition of a curtailment loss of $0.2 million. The curtailment loss was comprised of a $0.6 million increase in our pension liability related to a termination benefit and a $0.4 million recognition of unamortized prior service credits. As of the date of the curtailment, we remeasured our U.S. pension plan obligation. As a result of the remeasurement, our pension plan liability increased $35.6 million. The net effect of the curtailment and remeasurement was an increase in our pension plan liability of $29.0 million, a decrease in deferred income tax of $10.1 million, a decrease in income from discontinued operations of $0.2 million, and a decrease in accumulated other comprehensive income of $18.7 million.

We have no regulatory contribution requirements for our U.S. qualified defined benefit plan in 2008; however, we elected to make voluntary contributions of $55.0 million during the first quarter of 2008. For our U.K. operation, which maintains a separate defined benefit plan, we made required contributions totaling $2.6 million for the first quarter of 2008.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 7 - Stockholders Equity and Earnings Per Common Share

Net income per common share is determined as follows:

	Three Months Ended March 31			
	2008		2007	
	(in millions of dollars, except share data)			
Numerator				
Net Income	$	163.1	$	178.3
Denominator (000s)				
Weighted Average Common Shares - Basic		350,719.6		341,208.0
Dilution for the Purchase Contract Element of the Adjustable Conversion-Rate Equity Security Units				3,787.1
Dilution for Assumed Exercises of Stock Options and Nonvested Stock Awards		746.2		1,385.2
Weighted Average Common Shares - Assuming Dilution		351,465.8		346,380.3
Net Income Per Common Share				
Basic	$	0.47	$	0.52
Assuming Dilution	$	0.46	$	0.51

We use the treasury stock method to account for the effect of the purchase contract element of the adjustable conversion-rate equity security units (units), outstanding stock options, and nonvested stock awards on the computation of dilutive earnings per share. Under this method, these potential common shares will each have a dilutive effect, as individually measured, when the average market price of Unum Group s common stock during the period exceeds the threshold appreciation price of the purchase contract element of the units, the exercise price of the stock options, or the grant price of the nonvested stock awards.

The purchase contract element of the units had a threshold appreciation price of $16.95 per share, the outstanding stock options have exercise prices ranging from $12.23 to $58.56, and the nonvested stock awards have grant prices ranging from $19.18 to $27.18.

In computing earnings per share assuming dilution, only potential common shares that are dilutive (those that reduce earnings per share) are included. Potential common shares not included in the computation of dilutive earnings per share because their impact would be antidilutive, based on current market prices, approximated 8.1 million and 6.7 million shares of common stock for the three month periods ended March 31, 2008 and 2007, respectively.

Unum Group has 25,000,000 shares of preferred stock authorized with a par value of $0.10 per share. No preferred stock has been issued to date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 7 - Stockholders Equity and Earnings Per Common Share - Continued

During 2007 our board of directors authorized the repurchase of up to $700.0 million of Unum Group s common stock. During January 2008, we repurchased approximately 14.0 million shares for $350.0 million, using an accelerated share repurchase agreement. These shares are reflected as treasury stock in our consolidated balance sheet. As part of this transaction, we simultaneously entered into a forward contract indexed to the price of our common stock, which subjects the transaction to a future price adjustment. Upon settlement of the contract, the price adjustment will be calculated based on the volume weighted average price of our common stock during the term of the agreement, less a discount. Any price adjustment payable to us will be settled in shares of our common stock. Any price adjustment we are required to pay will be settled, at our option, in either cash or common stock. A 30 percent partial acceleration of the agreement, 4.2 million shares, occurred on March 26, 2008 and settled on March 28, 2008, with the price adjustment resulting in the delivery to us of approximately 0.5 million additional shares of our common stock. We expect the price adjustment on the remaining 9.8 million shares to settle on or before the completion of the agreement in May 2008.

Note 8 - Commitments and Contingent Liabilities

We are a defendant in a number of litigation matters. In some of these matters, no specified amount is sought. In others, very large or indeterminate amounts, including punitive and treble damages, are asserted. There is a wide variation of pleading practice permitted in the United States courts with respect to requests for monetary damages, including some courts in which no specified amount is required and others which allow the plaintiff to state only that the amount sought is sufficient to invoke the jurisdiction of that court. Further, some jurisdictions permit plaintiffs to allege damages well in excess of reasonably possible verdicts. Based on our extensive experience and that of others in the industry with respect to litigating or resolving claims through settlement over an extended period of time, we believe that the monetary damages asserted in a lawsuit or claim bear little relation to the merits of the case, or the likely disposition value. Therefore, the specific monetary relief sought is not stated.

The lawsuits described below are for the most part in very preliminary stages, and the outcome of the matters is uncertain. An estimated loss is accrued when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Unless indicated otherwise, reserves have not been established for these matters.

Claims Handling Matters

Multidistrict Litigation

On September 2, 2003, the Judicial Panel on the Multidistrict Litigation entered an order transferring more than twenty putative class actions and derivative suits, described below, filed in various courts against the Company, several of its subsidiaries, and some of our officers, to the U.S. District Court for the Eastern District of Tennessee for coordinated or consolidated pretrial proceedings. The defendants strongly deny the allegations in each of these actions and will vigorously defend the substantive and procedural aspects of the litigations, except as noted below with respect to settlement discussions.

Shareholder Derivative Actions

On November 22, 2002, the first of five purported shareholder derivative actions was filed in the Tennessee Chancery Court. Between December 27, 2002 and March 11, 2003, four additional purported derivative actions were filed in state and federal courts in Tennessee. The defendants removed each of the actions that were filed in Tennessee state court to the U.S. District Court for the Eastern District of Tennessee.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 8 - Commitments and Contingent Liabilities - Continued

Each of these actions purports to be brought on behalf of the Company against certain current and past members of our Board of Directors and certain executive officers alleging breaches of fiduciary duties and other violations of claims paying law by defendants. Plaintiffs allege, among other things, that the individual defendants breached their duties of good faith and loyalty by establishing or permitting to be established an unlawful policy of denying legitimate disability claims and improper financial reporting, and that certain defendants engaged in insider trading.

The district court consolidated these actions under the caption In re UnumProvident Corporation Derivative Actions. The plaintiffs then filed a single consolidated amended complaint. We deny the allegations of the complaint and will vigorously contest them.

Federal Securities Law Class Actions

On February 12, 2003, the first of six virtually identical putative securities class actions was filed in the U.S. District Court for the Eastern District of Tennessee, later consolidated under the caption In re UnumProvident Corp. Securities Litigation.

The Lead Plaintiff filed a consolidated amended complaint alleging claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 on behalf of a putative class of purchasers of Unum Group stock between March 30, 2000 and April 24, 2003. The amended complaint alleges, among other things, that we issued misleading financial statements, improperly accounted for certain impaired investments, failed to properly estimate our disability claim reserves, and pursued certain improper claims handling practices.

On July 30, 2007, we entered into a Stipulation of Settlement with the plaintiffs to resolve the litigation. Under the terms of the settlement, which is subject to, among other things, approval by the court, we have agreed to pay $40.0 million to settle all claims that were or could have been asserted by the class in the action. After the receipt of insurance proceeds, the net cost to us was $11.6 million before tax and was included in our second quarter of 2007 operating results.

Policyholder Class Actions

On July 15, 2002, Rombeiro v. Unum Life Insurance Company of America, et al., was filed in the Superior Court of California and subsequently was removed to federal court, alleging that the plaintiff was wrongfully denied disability benefits under a group long-term disability plan. On January 21, 2003, an Amended Complaint was filed on behalf of a putative class of individuals that were denied or terminated from benefits under group long-term disability plans, seeking injunctive and declaratory relief and payment of benefits. On April 30, 2003, the court granted in part and denied in part the defendants motion to dismiss the complaint. On May 14, 2003, the plaintiff filed a Second Amended Complaint seeking similar relief.

Between November 2002 and November 2003, six additional similar putative class actions were filed in (or later removed to) federal district courts in Illinois, Massachusetts, New York, Pennsylvania, and Tennessee. The complaints alleged that the putative class members claims were evaluated improperly and allege that the Company and its insurance subsidiaries breached certain fiduciary duties owed to the class members under the Employee Retirement Income Security Act (ERISA), Racketeer Influenced Corrupt Organizations Act (RICO), and/or various state laws. The complaints sought various forms of equitable relief and money damages, including punitive damages.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 8 - Commitments and Contingent Liabilities - Continued

These actions all were transferred to the Eastern District of Tennessee multidistrict litigation. On December 22, 2003, the Tennessee Federal District Court entered an order consolidating all of the above actions for all pretrial purposes under the caption In re UnumProvident Corp. ERISA Benefit Denial Actions and appointed a lead plaintiff. A consolidated amended complaint was filed on February 20, 2004.

Court ordered mediation has concluded with the settlement of all individual claims brought by seven of the fifteen named plaintiffs. An eighth plaintiff has subsequently resolved her claims through the process established under the regulatory settlement agreements.

On September 4, 2007, the District Court certified a (b)(2) class consisting of all plan participants and beneficiaries insured under ERISA governed long-term disability insurance policies/plans issued by Unum Group and the insuring subsidiaries of Unum Group throughout the United States who have had a long-term disability claim denied, terminated, or suspended on or after June 30, 1999 by Unum Group or one or more of its insuring subsidiaries after being subjected to any of the practices alleged in the complaint. The class as certified seeks, among other forms of relief, an opportunity to have denied or terminated claims re-assessed by so-called independent reviewers. The District Court has yet to rule on pending motions by the Company for judgment on the pleading, or for summary judgment. The Sixth Circuit Court of Appeals has since granted the Company s petition for leave to appeal the class certification order on an interlocutory basis.

On April 30, 2003, a separate putative class action, Taylor v. UnumProvident Corporation, et al., was filed in the Tennessee Circuit Court and subsequently removed to federal court. The complaint alleges claims against Unum Group and certain subsidiaries on behalf of a putative class of long-term disability insurance policyholders who did not obtain their coverage through employer sponsored plans and who had a claim denied, terminated, or suspended by a Unum Group subsidiary after January 1, 1995, seeking equitable and monetary relief. Plaintiff alleges that the defendants violated various state laws by engaging in unfair claim practices and improperly denying claims.

The court subsequently granted in part our motion for summary judgment in Taylor, dismissing plaintiff s request for equitable relief on her breach of contract claim and dismissing any claim plaintiff may make for punitive damages under the Tennessee Consumer Protection Act. The former claim is the principal claim upon which class certification is sought. The court reserved ruling on the remainder of the pending motion for summary judgment. The court also has under advisement the plaintiff s motion for class certification.

Plan Beneficiary Class Actions

During the first quarter of 2007, we executed a settlement agreement resolving the plan beneficiary class action, or 401(k) Retirement Plan case, entitled Gee v. UnumProvident Corporation, et al. The settlement agreement, the net cost of which is immaterial, was approved by the court in December 2007, and the court s judgment approving the settlement has now become final. The order and final judgment dismissing this case with prejudice was entered on January 25, 2008.

Examinations and Investigations

During 2004 and 2005, certain of our insurance subsidiaries entered into settlement agreements with various regulators related to disability claims handling practices. The agreements provided for changes in certain of our claims handling procedures and a claim reassessment process available to certain claimants whose claims were denied or closed during specified periods. The agreements were to remain in place until the later of January 1, 2007,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 8 - Commitments and Contingent Liabilities - Continued

or the completion of an examination of claims handling practices and an examination of the reassessment process, both of which were to be conducted by the lead state regulators. The settlement agreements also provided for a contingent fine of up to $145.0 million on our U.S. insurance subsidiaries, in the aggregate, in the event that we failed to satisfactorily meet the performance standards in the settlement agreements relating to the examinations referred to above. The parties to the agreements subsequently agreed to extend the reassessment process until December 31, 2007.

We have now completed the claims reassessment process, as required by the regulatory settlement agreements. The lead regulators conducted a final examination and presented their findings to our board of directors and management on April 14, 2008. The report of the multistate market conduct examination for the Maine Bureau of Insurance, Massachusetts Division of Insurance, New York State Insurance Department, Tennessee Department of Commerce and Insurance, and other participating jurisdictions as well as the report of the California Department of Insurance market conduct examination both provided that we satisfactorily complied with each of the agreements mandates and that no fines will be assessed.

Other Claim Litigation

We and our insurance company subsidiaries, as part of our normal operations in managing disability claims, are engaged in claim litigation where disputes arise as a result of a denial or termination of benefits. Most typically these lawsuits are filed on behalf of a single claimant or policyholder, and in some of these individual actions punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims. For our general claim litigation, we maintain reserves based on experience to satisfy judgments and settlements in the normal course. We expect that the ultimate liability, if any, with respect to general claim litigation, after consideration of the reserves maintained, will not be material to our consolidated financial condition. Nevertheless, given the inherent unpredictability of litigation, it is possible that an adverse outcome in certain claim litigation involving punitive damages could, from time to time, have a material adverse effect on our consolidated results of operations in a period, depending on the results of operations for the particular period. We are unable to estimate a range of reasonably possible punitive losses.

From time to time class action allegations are pursued where the claimant or policyholder purports to represent a larger number of individuals who are similarly situated. Since each insurance claim is evaluated based on its own merits, there is rarely a single act or series of actions, which can properly be addressed by a class action. Nevertheless, we monitor these cases closely and defend ourselves appropriately where these allegations are made.

Broker Compensation, Quoting Process, and Related Matters

Examinations and Investigations

Since October 2004, we and/or our insurance subsidiaries have received subpoenas or information requests from a Federal Grand Jury in San Diego, the District Attorney for the County of San Diego, and the U.S. Department of Labor, as well as insurance departments and/or other state regulatory or investigatory agencies of at least seven additional states including Connecticut, Florida, Maine, Massachusetts, North Carolina, South Carolina, and Tennessee. The subpoenas and/or information requests relate to, among other things, compliance with ERISA relating to our interactions with insurance brokers and to regulations concerning insurance information provided by us to plan administrators of ERISA plans, as well as compliance with state and federal laws with respect to quoting processes, producer compensation, solicitation activities, policies sold to state or municipal entities, and information regarding compensation arrangements with brokers.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 8 - Commitments and Contingent Liabilities - Continued

On April 25, 2008, we agreed to pay $250,000 to settle the San Diego District Attorney s investigation of our broker compensation practices. The settlement does not require any changes to our current business practices in this area which were improved during 2006, when we implemented a simpler compensation program and expanded our disclosure of broker compensation programs. We have cooperated fully with all investigations and will continue to do so. However, due to a prolonged period of inactivity, we consider the remaining state investigations dormant.

Broker-Related Litigation

We and certain of our subsidiaries, along with many other insurance brokers and insurers, have been named as defendants in a series of putative class actions that have been transferred to the U.S. District Court for the District of New Jersey for coordinated or consolidated pretrial proceedings as part of multidistrict litigation (MDL) No. 1663, In re Insurance Brokerage Antitrust Litigation. The plaintiffs in MDL No. 1663 filed a consolidated amended complaint in August 2005, which alleges, among other things, that the defendants violated federal and state antitrust laws, RICO, ERISA, and various state common law requirements by engaging in alleged bid rigging and customer allocation and by paying undisclosed compensation to insurance brokers to steer business to defendant insurers. Defendants filed a motion to dismiss the complaint on November 29, 2005. On April 5, 2007, defendants motion to dismiss was granted without prejudice as to all counts except the ERISA counts. Plaintiffs were granted a last opportunity to file an amended complaint, and they did so on May 22, 2007. On June 21, 2007, defendants filed a motion to dismiss and for summary judgment on all counts. On August 31, 2007 and September 28, 2007, plaintiffs federal antitrust and RICO claims were dismissed with prejudice. Defendants motion for summary judgment on the ERISA counts was granted on January 14, 2008. All pending state law claims were dismissed without prejudice. Plaintiffs have filed a notice of appeal.

We are a defendant in an action styled, Palm Tree Computers Systems, Inc. v. ACE USA, et al., which was filed in the Florida state Circuit Court on February 16, 2005. The complaint contains allegations similar to those made in the multidistrict litigation referred to above. The case was removed to federal court and, on October 20, 2005, the case was transferred to the District of New Jersey multidistrict litigation. Plaintiffs motion to remand the case to the state court in Florida was dismissed without prejudice along with other pending motions in the MDL.

Miscellaneous Matters

In September 2003, United States of America ex. rel. Patrick J. Loughren v. UnumProvident Corporation and GENEX Services, Inc. was filed in the United States District Court for the District of Massachusetts. This is a qui tam action to recover damages and civil penalties on behalf of the United States of America alleging violations of the False Claims Act by us and our former GENEX subsidiary. In accordance with the False Claims Act, the action was originally filed under seal to provide the government the opportunity to investigate the allegations and prosecute the action if they believed that the case had merit and warranted their attention. The government declined to prosecute the case and the case became a matter of public record on December 23, 2004. The complaint alleges that we defrauded the government by inducing and or assisting disability claimants to apply for disability benefits from the Social Security Administration (SSA) when we allegedly knew that the claimants were not disabled under SSA criteria. A motion to dismiss the complaint was unsuccessful. We intend to vigorously defend the action.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Unum Group and Subsidiaries

March 31, 2008

Note 8 - Commitments and Contingent Liabilities - Continued

In May 2007, Roy Mogel, Todd D. Lindsay and Joseph R. Thorley individually and on behalf of those similarly situated v. Unum Life Insurance Company, was filed in the United States District Court for the District of Massachusetts. This is a putative class action alleging that we breached fiduciary duties owed to certain beneficiaries under group life insurance policies when we paid certain life insurance proceeds by establishing interest-bearing Retained Asset Accounts rather than checks. On February 4, 2008, the court granted the Company s motion to dismiss all claims. Plaintiffs have appealed that decision to the 1st Circuit Court of Appeals.

Summary

Various lawsuits against us, in addition to those discussed above, have arisen in the normal course of business. Further, state insurance regulatory authorities and other federal and state authorities regularly make inquiries and conduct investigations concerning our compliance with applicable insurance and other laws and regulations.

Given the complexity and scope of our litigation and regulatory matters, it is not possible to predict the ultimate outcome of all pending investigations or legal proceedings or provide reasonable estimates of potential losses, except where noted in connection with specific matters. It is possible that our results of operations or cash flows in a particular period could be materially affected by an ultimate unfavorable outcome of pending litigation or regulatory matters depending, in part, on our results of operations or cash flows for the particular period. We believe, however, that the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on our financial position.

Note 9 - Other

During the first three months of 2008, we made principal payments of $15.0 million and $2.5 million on our senior secured non-recourse variable rate notes which were issued by Northwind Holdings, LLC and Tailwind Holdings, LLC, respectively.

There were no material changes in unrecognized tax benefits during the first quarter of 2008, and we do not expect a significant change in our existing liability for unrecognized tax benefits during the next 12 months.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Unum Group and Subsidiaries

We have reviewed the consolidated balance sheet of Unum Group and subsidiaries as of March 31, 2008, and the related consolidated statements of income and comprehensive income (loss) for the three-month periods ended March 31, 2008 and 2007, and the consolidated statements of stockholders equity and cash flows for the three-month periods ended March 31, 2008 and 2007. These financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Unum Group and subsidiaries as of December 31, 2007, and the related consolidated statements of income, stockholders equity, cash flows, and comprehensive income (loss) for the year then ended not presented herein, and in our report dated February 21, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2007, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Chattanooga, Tennessee

April 30, 2008

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Unum Group, a Delaware general business corporation, and its insurance and non-insurance companies, which collectively with Unum Group we refer to as the Company, operate in the United States, the United Kingdom, and, to a limited extent, in certain other countries around the world. The principal operating subsidiaries in the United States are Unum Life Insurance Company of America (Unum America), Provident Life and Accident Insurance Company (Provident), The Paul Revere Life Insurance Company (Paul Revere Life), and Colonial Life & Accident Insurance Company, and in the United Kingdom, Unum Limited. We are the largest provider of group and individual disability insurance products in the United States and the United Kingdom. We also provide a complementary portfolio of other insurance products, including long-term care insurance, life insurance, employer- and employee-paid group benefits, and other related services.

We have three major business segments: Unum US, Unum UK, and Colonial Life. Our other segments are the Individual Disability Closed Block segment, the Other segment, and the Corporate segment. These segments are discussed more fully under Segment Results included herein in Item 2.

As one of the leading providers of employee benefits, we offer a broad portfolio of products and services to meet the diverse needs of the marketplace. We try to achieve a competitive advantage by offering group, individual, and voluntary benefits products that can be offered as stand alone products or that can be combined with other coverages to provide comprehensive product solutions for customers. We offer businesses of all sizes competitive benefit plans that help them attract and retain a stronger workforce and protect the incomes and lifestyles of employees and their families. Through a variety of technological tools and trained professionals, we offer services which are designed to meet the evolving needs of our customers. We strive to be responsive and timely, and we are committed to service excellence.

We believe that we are a well positioned and competitive force in our sector. However, due to the nature of our business, we are sensitive to economic and financial market movements, including consumer confidence, employment levels, and interest rates.

This discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto in Part I, Item 1 contained in this Form 10-Q and with the discussion, analysis, and consolidated financial statements and notes thereto in Part I, Items 1 and 1A, and Part II, Items 6, 7, 7A, and 8 of our annual report on Form 10-K for the year ended December 31, 2007.

Executive Summary

During 2008, we intend to continue our focus on a number of key areas. Objectives for 2008 include:

- Consistent execution of our operating plans. We will continue our emphasis on disciplined, profitable growth.

- Continued innovation throughout our businesses. Within Unum US, we plan to more broadly launch *Simply Unum* in the small to mid sized employer marketplace. We also plan to capitalize on the introduction of a number of health related products for Colonial Life, as well as the launch of a pilot voluntary benefits program in our Unum UK business.

- Leveraging of our leadership positions and marketplace reputation. We will seek to build on the momentum of 2007 with increased brand and product awareness.