KEMPER Corp
Form 10-Q
November 02, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

Kemper Corporation
(Exact name of registrant as specified in its charter)

Delaware	95-4255452
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One East Wacker Drive, Chicago, Illinois	60601
(Address of principal executive offices)	(Zip Code)

(312) 661-4600
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or a smaller reporting company. See definition of “accelerated filer, large accelerated filer and smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
60,460,402 shares of common stock, $0.10 par value, were outstanding as of October 31, 2011.

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

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

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

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

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

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

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

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

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

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

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

Note 1 - Basis of Presentation

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

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

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

Adoption of New Accounting Standards and Accounting Standards Not Yet Adopted

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

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

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

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

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Note 2 - Discontinued Operations

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

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

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

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

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

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

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

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

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

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

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

Note 3 - Investments (continued)

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

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

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

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

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

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

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

Note 3 - Investments (continued)

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

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

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

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

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

Note 3 - Investments (continued)

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

(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	$1.3	$—	$—	$—	$1.3	$—
States and Political Subdivisions	—	—	12.3	(0.8)	12.3	(0.8)
Corporate Securities:						
Bonds and Notes	176.9	(5.5)	67.4	(4.8)	244.3	(10.3)
Redeemable Preferred Stocks	1.0	(0.3)	1.7	—	2.7	(0.3)
Mortgage and Asset-backed	—	—	2.9	(0.7)	2.9	(0.7)
Total Fixed Maturities	179.2	(5.8)	84.3	(6.3)	263.5	(12.1)
Equity Securities:						
Preferred Stocks:						
Finance, Insurance and Real Estate	52.4	(5.6)	2.1	(0.7)	54.5	(6.3)
Other Industries	3.2	(0.6)	2.8	(0.1)	6.0	(0.7)
Common Stocks:						
Manufacturing	11.2	(0.9)	—	—	11.2	(0.9)
Other Industries	15.7	(2.8)	—	—	15.7	(2.8)
Other Equity Interests:						
Exchange Traded Funds	50.5	(0.4)	—	—	50.5	(0.4)
Limited Liability Companies and Limited Partnerships	43.3	(5.0)	1.6	(0.3)	44.9	(5.3)
Total Equity Securities	176.3	(15.3)	6.5	(1.1)	182.8	(16.4)
Total	$355.5	$(21.1)	$90.8	$(7.4)	$446.3	$(28.5)

Unrealized losses on fixed maturities, which the Company has determined to be temporary at September 30, 2011, were $12.1 million, of which $6.3 million is related to fixed maturities that were in an unrealized loss position for 12 months or longer. Unrealized losses at September 30, 2011 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the heading "Less Than 12 Months" were insignificant. There were no unrealized losses at September 30, 2011 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the heading "12 Months or Longer." Included in the preceding table under the heading "12 Months or Longer" are unrealized losses of $0.1 million at September 30, 2011 related to securities for which the Company has previously recognized foreign currency losses in earnings. Investment-grade fixed maturity investments comprised $4.8 million and below-investment-grade fixed maturity investments comprised $7.3 million of the unrealized losses on investments in fixed maturities at September 30, 2011. Unrealized losses for below-investment-grade fixed maturities included unrealized losses totaling $0.1 million for one issuer that the Company previously recognized foreign currency impairment losses in earnings. For the other remaining below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was less than 5% of the amortized cost basis of the investment. At September 30, 2011, the Company did not have the intent to sell these investments and it was not more likely than not that the Company would be required to sell these investments before recovery of its amortized cost basis, which may be at maturity. The Company concluded that these impairments were temporary at September 30, 2011.

Note 3 - Investments (continued)

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

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

The vast majority of the Company’s preferred stocks in an unrealized loss position at September 30, 2011 are perpetual preferred stocks of financial institutions. The Company considers the debt-like characteristics of perpetual preferred stocks along with issuer ratings when evaluating impairment. All such preferred stocks paid dividends at the stated dividend rate during the twelve-month period preceding the evaluation date. The Company concluded that the declines in the fair values of these perpetual preferred stocks were temporary in nature, largely driven by market conditions, and since the Company intends to hold the securities until recovery, these investments were not considered to be other-than-temporarily impaired at September 30, 2011. The Company concluded that the unrealized losses on its investments in common stocks at September 30, 2011 were temporary based on the relative short length and magnitude of the losses and overall market volatility. The Company’s investments in other equity interests include investments in limited liability partnerships that primarily invest in distressed debt, mezzanine debt and secondary transactions. By the nature of their underlying investments, the Company believes that its investments in the limited liability partnerships also exhibit debt-like characteristics which, among other factors, the Company considers when evaluating these investments for impairment. Based on evaluations of the factors in the preceding paragraph, the Company concluded that the declines in the fair values of the Company’s investments in equity securities were temporary at September 30, 2011.

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Note 3 - Investments (continued)

An aging of unrealized losses on the Company's Investments in Fixed Maturities and Equity Securities at December 31, 2010 is presented below:

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

Unrealized losses on fixed maturities, which the Company determined to be temporary at December 31, 2010, were $32.2 million, of which $11.5 million is related to fixed maturities that were in an unrealized loss position for 12 months or longer. There were no unrealized losses at December 31, 2010 related to securities for which the Company has recognized credit losses in earnings in the preceding table under either the heading "Less Than 12 Months" or the heading "12 Months or Longer." Included in the preceding table under the heading "12 Months or Longer" are unrealized losses of $0.1 million at December 31, 2010 related to securities for which the Company has recognized foreign currency losses in earnings. Investment-grade fixed maturity investments comprised $28.1 million and below-investment-grade fixed maturity investments comprised $4.1 million of the unrealized losses on investments in fixed maturities at December 31, 2010. Unrealized losses for below-investment-grade fixed maturities included unrealized losses totaling $0.1 million for one issuer that the Company recognized foreign currency impairment losses in earnings for the year ended December 31, 2010. For the other remaining below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was less than 4% of the amortized cost basis of the investment. At December 31, 2010, the Company did not have the intent to sell these investments and it was not more likely than not that the Company would be required to sell these investments before recovery of its amortized cost basis, which may be at maturity. The Company concluded that these impairments were temporary at December 31, 2010.

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

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Note 3 - Investments (continued)

impaired at December 31, 2010. The Company concluded that the unrealized losses on its investments in common stocks at December 31, 2010 were temporary based on the relative short length and magnitude of the losses. The Company's investments in other equity interests include investments in limited liability partnerships that primarily invest in distressed debt, mezzanine debt and secondary transactions. By the nature of their underlying investments, the Company believes that its investments in the limited liability partnerships also exhibit debt-like characteristics which, among other factors, the Company considers when evaluating these investments for impairment. Based on evaluations of the factors described above that the Company considers when determining whether a decline in the fair value of an investment in equity securities is other than temporary, the Company concluded that the declines in the fair values of the Company's investments in equity securities were temporary at December 31, 2010.
The following table sets forth the pre-tax amount of other-than-temporary-impairment ("OTTI") credit losses, recognized in Retained Earnings for Investments in Fixed Maturities held by the Company as of the dates indicated, for which a portion of the OTTI loss has been recognized in Accumulated Other Comprehensive Income, and the corresponding changes in such amounts.

(Dollars in Millions)	Nine Months Ended Sep 30, 2011	Nine Months Ended Sep 30, 2010	Three Months Ended Sep 30, 2011	Three Months Ended Sep 30, 2010
Balance at Beginning of Period	$2.4	$3.7	$2.1	$5.4
Additions for Previously Unrecognized OTTI Credit Losses	—	3.1	—	—
Increases to Previously Recognized OTTI Credit Losses	—	2.6	—	—
Reductions to Previously Recognized OTTI Credit Losses	(0.5)	(1.6)	(0.2)	(0.1)
Reductions due to Intent to Sell Investments	—	(5.1)	—	(2.6)
Balance at End of Period	$1.9	$2.7	$1.9	$2.7

The carrying values of the Company's Other Investments at September 30, 2011 and December 31, 2010 were:

(Dollars in Millions)	Sep 30, 2011	Dec 31, 2010
Loans to Policyholders at Unpaid Principal	$248.6	$238.4
Real Estate at Depreciated Cost	241.8	249.9
Trading Securities at Fair Value	4.2	5.1
Other	0.6	0.8
Total	$495.2	$494.2

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Note 4 - Property and Casualty Insurance Reserves

Property and Casualty Insurance Reserve activity for the nine months ended September 30, 2011 and 2010 was:

(Dollars in Millions)	Nine Months Ended Sep 30, 2011	Sep 30, 2010
Property and Casualty Insurance Reserves - Gross of Reinsurance at Beginning of Year	$1,118.7	$1,211.3
Less Reinsurance Recoverables at Beginning of Year	78.1	77.4
Property and Casualty Insurance Reserves - Net of Reinsurance at Beginning of Year	1,040.6	1,133.9
Incurred Losses and LAE Related to:		
Current Year - Continuing Operations	1,038.4	983.7
Prior Years:		
Continuing Operations	(30.1)	(19.5)
Discontinued Operations	1.9	0.4
Total Incurred Losses and LAE Related to Prior Years	(28.2)	(19.1)
Total Incurred Losses and LAE	1,010.2	964.6
Paid Losses and LAE Related to:		
Current Year - Continuing Operations	636.7	579.0
Prior Years:		
Continuing Operations	399.9	425.3
Discontinued Operations	22.1	32.5
Total Paid Losses and LAE Related to Prior Years	422.0	457.8
Total Paid Losses and LAE	1,058.7	1,036.8
Property and Casualty Insurance Reserves - Net of Reinsurance at End of Period	992.1	1,061.7
Plus Reinsurance Recoverable at End of Period	71.5	69.7
Property and Casualty Insurance Reserves - Gross of Reinsurance at End of Period	$1,063.6	$1,131.4

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

For the nine months ended September 30, 2011, the Company reduced its property and casualty insurance reserves by $28.2 million to recognize favorable development of losses and loss adjustment expenses (“LAE”) from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by $27.6 million and commercial lines insurance losses and LAE reserves developed favorably by $0.6 million. The personal lines insurance losses and LAE reserves developed favorably due primarily to the emergence of more favorable loss trends than expected for the 2010, 2009 and 2008 accident years.

For the nine months ended September 30, 2010, the Company reduced its property and casualty insurance reserves by $19.1 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance losses and LAE reserves developed favorably by $19.2 million and commercial lines insurance losses and LAE reserves developed unfavorably by $0.1 million. The personal lines insurance losses and LAE reserves developed favorably due primarily to the emergence of more favorable loss trends than expected for the 2009, 2007 and 2006 accident years.

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

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Note 5 - Notes Payable
Total debt outstanding at September 30, 2011 and December 31, 2010 was:

(Dollars in Millions)	Sep 30, 2011	Dec 31, 2010
Notes Payable under Revolving Credit Agreement	$65.0	$—
Senior Notes at Amortized Cost:		
6.00% Senior Notes due May 15, 2017	356.7	356.3
6.00% Senior Notes due November 30, 2015	248.1	247.8
Mortgage Note Payable at Amortized Cost	5.6	5.7
Notes Payable at Amortized Cost	$675.4	$609.8

The amount available for future borrowings under the Company's revolving credit agreement was $180.0 million and $245.0 million at September 30, 2011 and December 31, 2010, respectively.
Interest Expense, including facility fees and accretion of discount, for the nine and three months ended September 30, 2011 and 2010 was:

(Dollars in Millions)	Nine Months Ended Sep 30, 2011	Nine Months Ended Sep 30, 2010	Three Months Ended Sep 30, 2011	Three Months Ended Sep 30, 2010
Notes Payable under Revolving Credit Agreement	$1.5	$1.3	$0.6	$0.4
Senior Notes Payable:				
6.00% Senior Notes due May 15, 2017	16.5	16.5	5.5	5.5
6.00% Senior Notes due November 30, 2015	11.5	—	3.8	—
4.875% Senior Notes due November 1, 2010	—	7.6	—	2.6
Mortgage Note Payable	0.3	0.3	0.1	0.1
Interest Expense before Capitalization of Interest	29.8	25.7	10.0	8.6
Capitalization of Interest	(1.8)	(1.3)	(0.7)	(0.5)
Total Interest Expense	$28.0	$24.4	$9.3	$8.1

Interest paid, including facility fees, for the nine and three months ended September 30, 2011 and 2010 was:

(Dollars in Millions)	Nine Months Ended Sep 30, 2011	Nine Months Ended Sep 30, 2010	Three Months Ended Sep 30, 2011	Three Months Ended Sep 30, 2010
Notes Payable under Revolving Credit Agreement	$0.5	$0.5	$0.3	$0.2
Senior Notes Payable:				
6.00% Senior Notes due May 15, 2017	10.8	10.8	—	—
6.00% Senior Notes due November 30, 2015	7.8	—	—	—
4.875% Senior Notes due November 1, 2010	—	4.9	—	—
Mortgage Note Payable	0.3	0.3	0.1	0.1
Total Interest Paid	$19.4	$16.5	$0.4	$0.3

Note 6 - Long-term Equity-based Compensation Plans
On May 4, 2011, Kemper's shareholders approved the 2011 Omnibus Equity Plan (“Omnibus Plan”). The Omnibus Plan replaced the Company's previous employee stock option plans, director stock option plan and restricted stock plan (collectively, the “Prior Plans”). Awards previously granted under the Prior Plans remain outstanding in accordance with their original terms. Beginning May 4, 2011, equity-based compensation awards may only be granted under the Omnibus Plan. A maximum number of 10,000,000 shares of Kemper common stock may be issued under the Omnibus Plan (the "Share Authorization"). As of September 30, 2011, there were 9,907,950 common shares available

for future grants under the Omnibus Plan, of which

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Note 6 - Long-term Equity-based Compensation Plans (continued)
528,225 shares related to performance-based restricted stock awards outstanding under the Prior Plans, were reserved for future grants.
The design of the Omnibus Plan provides for fungible use of shares to determine the number of shares available for future grants, with a fungible conversion factor of three to one, such that the Share Authorization will be reduced at two different rates, depending on the type of award granted. Each share of Kemper common stock issuable upon the exercise of stock options or stock appreciation rights will reduce the number of shares available for future grant under the Share Authorization by one share, while each share of Kemper common stock issued pursuant to "full value awards" will reduce the number of shares available for future grant under the Share Authorization by three shares. "Full value awards" are awards, other than stock options or stock appreciation rights, that are settled by the issuance of shares of Kemper common stock and include restricted stock, restricted stock units, performance shares, performance units, if settled with stock, and other stock-based awards.
Share-based compensation expense for all of the Company's long-term equity-based compensation plans was $4.4 million and $3.5 million for the nine months ended September 30, 2011 and 2010, respectively. Total unamortized compensation expense related to nonvested awards of such plans at September 30, 2011 was $6.3 million, which is expected to be recognized over a weighted-average period of 1.5 years.
The Company uses the Black-Scholes option pricing model to estimate the fair value of each option on the date of grant. The assumptions used in the Black-Scholes pricing model for options granted during the nine months ended September 30, 2011 and 2010 were as follows:

	Nine Months Ended			
	Sep 30, 2011		Sep 30, 2010	
Range of Valuation Assumptions				
Expected Volatility	41.26	%-55.16%	40.55	%-50.51%
Risk-free Interest Rate	1.30	-2.87	1.91	-3.20
Expected Dividend Yield	3.15	-3.38	3.25	-3.39
Weighted-Average Expected Life (in Years)				
Employee Grants	3.5	-7	4	-7
Director Grants	6		6	

Option and stock appreciation right activity for the nine months ended September 30, 2011 is presented below:

	Shares Subject to Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value ($ in Millions)
Outstanding at Beginning of the Year	4,004,546	$42.34		
Granted	313,750	28.10		
Exercised	(12,000)	19.43		
Forfeited or Expired	(498,494)	46.45		
Outstanding at End of Period	3,807,802	$40.70	4.34	$2.4
Vested and Expected to Vest at End of Period	3,778,505	$40.82	4.31	$2.4
Exercisable at End of Period	3,312,613	$43.07	3.66	$1.8

The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2011 and 2010 were $9.11 per option and $7.70 per option, respectively. Total intrinsic value of stock options exercised was

$0.1 million for the nine months ended September 30, 2011. Cash received from option exercises and the total tax benefits realized for tax deductions from option exercises were insignificant for both the nine months ended September 30, 2011 and 2010.

Recipients of restricted stock are entitled to full dividend and voting rights on the same basis as all other outstanding shares of Kemper common stock, and all awards are subject to forfeiture until certain restrictions have lapsed. The grant-date fair values of time-based restricted stock awards are determined using the closing price of Kemper common stock on the date of grant. The

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

grant-date fair values of the performance-based restricted stock awards are determined using the Monte Carlo simulation method.
Activity related to nonvested restricted stock for the nine months ended September 30, 2011 is presented below:

	Restricted Shares	Weighted-Average Grant-Date Fair Value Per Share
Nonvested Balance at Beginning of the Year	218,156	$23.72
Granted	135,425	32.61
Vested	(50,821)	30.18
Forfeited	(907)	25.60
Nonvested Balance at End of Period	301,853	$26.62

Restricted stock granted during the nine months ended September 30, 2011 includes 69,950 shares of time-vested restricted stock and 65,475 shares of performance-based restricted stock. The nonvested balance of restricted stock at September 30, 2011 was comprised of 125,778 shares of time-vested restricted stock and 176,075 shares of performance-based restricted stock. The number of additional shares that would be granted if the Company were to meet or exceed the maximum performance levels related to the outstanding performance-based shares was 176,075 shares (as "full value awards," the equivalent of 528,225 shares under the Share Authorization) at September 30, 2011. The total fair value of restricted stock that vested during the nine months ended September 30, 2011 was $1.4 million and the tax benefits for tax deductions realized from the vesting on such restricted stock was $0.5 million. The total fair value of restricted stock that vested during the nine months ended September 30, 2010 was $2.2 million and the tax benefits for tax deductions realized from the vesting on such restricted stock was $0.8 million.

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Note 7 - Income from Continuing Operations Per Unrestricted Share
The Company’s awards of restricted stock contain a right to receive non-forfeitable dividends and participate in the undistributed earnings with common shareholders. Accordingly, the Company is required to apply the two-class method of computing basic and diluted earnings per share. A reconciliation of the numerator and denominator used in the calculation of Basic Income from Continuing Operations Per Unrestricted Share and Diluted Income from Continuing Operations Per Unrestricted Share for the nine and three months ended September 30, 2011 and 2010 is as follows:

	Nine Months Ended		Three Months Ended	
	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
(Dollars in Millions)				
Income from Continuing Operations	$44.8	$113.4	$3.8	$32.3
Less Income from Continuing Operations Attributed to Restricted Shares	0.2	0.6	—	0.2
Income from Continuing Operations Attributed to Unrestricted Shares	44.6	112.8	3.8	32.1
Dilutive Effect on Income of Kemper Share-based Compensation Equivalent Shares	—	—	—	—
Diluted Income from Continuing Operations Attributed to Unrestricted Shares	$44.6	$112.8	$3.8	$32.1
(Shares in Thousands)				
Weighted-Average Unrestricted Shares Outstanding	60,312.6	61,865.9	60,141.4	61,457.8
Kemper Share-based Compensation Equivalent Shares	106.2	88.5	88.0	85.4
Weighted-Average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution	60,418.8	61,954.4	60,229.4	61,543.2
(Per Unrestricted Share in Whole Dollars)				
Basic Income from Continuing Operations Per Unrestricted Share	$0.74	$1.83	$0.06	$0.52
Diluted Income from Continuing Operations Per Unrestricted Share	$0.74	$1.82	$0.06	$0.52

Options outstanding to purchase 3.4 million and 3.3 million shares of Kemper common stock were excluded from the computation of Kemper Share-based Compensation Equivalent Shares and Weighted-Average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution for the nine and three months ended September 30, 2011, respectively, because their exercise prices exceeded the average market price. Options outstanding to purchase 4.3 million and 4.1 million shares of Kemper common stock were excluded from the computation of Kemper Share-based Compensation Equivalent Shares and Weighted-Average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution for the nine and three months ended September 30, 2010, respectively, because their exercise prices exceeded the average market price.

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Note 8 - Other Comprehensive Income and Accumulated Other Comprehensive Income
Other Comprehensive Income for the nine and three months ended September 30, 2011 and 2010 was:

(Dollars in Millions)	Nine Months Ended Sep 30, 2011	Nine Months Ended Sep 30, 2010	Three Months Ended Sep 30, 2011	Three Months Ended Sep 30, 2010
Other Comprehensive Income (Loss) Before Income Taxes:				
Unrealized Holding Gains (Losses) Arising During the Period Before Reclassification Adjustment	$192.0	$343.1	$138.0	$176.4
Reclassification Adjustment for Amounts Included in Net Income	(27.2)	0.3	3.5	1.2
Unrealized Holding Gains (Losses)	164.8	343.4	141.5	177.6
Foreign Currency Translation Adjustments Arising During the Period Before Reclassification Adjustment	0.6	(1.4)	—	0.7
Reclassification Adjustment for Amounts Included in Net Income	—	2.1	—	—
Foreign Currency Translation Adjustments	0.6	0.7	—	0.7
Equity in Other Comprehensive Income of Investee	—	2.9	—	7.9
Amortization of Unrecognized Postretirement Benefit Costs	6.5	0.8	2.1	0.2
Other Comprehensive Income (Loss) Before Income Taxes	171.9	347.8	143.6	186.4
Income Tax Benefit (Expense):				
Unrealized Holding Gains and Losses Arising During the Period Before Reclassification Adjustment	(68.4)	(121.3)	(49.2)	(62.2)
Reclassification Adjustment for Amounts Included in Net Income	9.6	(0.1)	(1.2)	(0.5)
Unrealized Holding Gains and Losses	(58.8)	(121.4)	(50.4)	(62.7)
Foreign Currency Translation Adjustments Arising During the Period Before Reclassification Adjustment	(0.2)	0.5	—	(0.3)
Reclassification Adjustment for Amounts Included in Net Income	—	(0.8)	—	—
Foreign Currency Translation Adjustment	(0.2)	(0.3)	—	(0.3)
Equity in Other Comprehensive Income of Investee	—	(1.0)	—	(2.7)
Amortization of Unrecognized Postretirement Benefit Costs	(2.2)	(0.3)	(0.6)	(0.1)
Income Tax Benefit (Expense)	(61.2)	(123.0)	(51.0)	(65.8)
Other Comprehensive Income	$110.7	$224.8	$92.6	$120.6

Total Comprehensive Income was $169.0 million and $97.3 million for the nine and three months ended September 30, 2011, respectively. Total Comprehensive Income was $346.5 million and $156.3 million for the nine and three months ended September 30, 2010, respectively.

The components of Accumulated Other Comprehensive Income at September 30, 2011 and December 31, 2010 were:

(Dollars in Millions)	Sep 30, 2011	Dec 31, 2010
Unrealized Gains on Investments, Net of Income Taxes:		
Available for Sale Fixed Maturities with Portion of OTTI Recognized in Earnings	$0.6	$0.8
Other Unrealized Gains on Investments	323.0	216.8

Foreign Currency Translation Adjustments, Net of Income Taxes	(0.2)	(0.6)
Net Unrecognized Postretirement Benefit Costs, Net of Income Taxes	(55.3)	(59.6)
Accumulated Other Comprehensive Income	$268.1	$157.4

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Note 9 - Income Taxes

Current and Deferred Income Tax Assets at September 30, 2011 and December 31, 2010 were:

(Dollars in Millions)	Sep 30, 2011	Dec 31, 2010
Current Income Tax Assets	$37.4	$39.3
Deferred Income Tax Assets	7.5	9.4
Valuation Allowance for State Income Taxes	(6.2)	(9.1)
Current and Deferred Income Tax Assets	$38.7	$39.6

The components of Liabilities for Income Taxes at September 30, 2011 and December 31, 2010 were:

(Dollars in Millions)	Sep 30, 2011	Dec 31, 2010
Deferred Income Tax Liabilities	$63.1	$7.3
Unrecognized Tax Benefits	6.1	7.8
Liabilities for Income Taxes	$69.2	$15.1

In January 2011, the Company received a refund resulting from its 2009 net operating and capital loss carryback claim. The U.S. Joint Committee on Taxation's ("JCT") approval is required by law for all refunds in excess of $2 million. During the third quarter of 2011, the Company extended the statute of limitations related to its 2007 tax year until September 30, 2012 to allow the JCT to complete its review and formally approve the refund. The Company does not anticipate a material modification to the claim as a result of this review.

During the third quarter of 2011, the Florida Department of Revenue completed its audit of the 2007-2009 income tax returns of Kemper's subsidiary, United Insurance Company of America ("United"), and accepted the returns as filed.

Tax expense for the nine months ended September 30, 2011 included interest expense of $0.2 million related to unrecognized tax benefits related to tax positions of prior years. Tax expense for the nine months ended September 30, 2010 included an interest benefit of $2.3 million related to unrecognized tax benefits, which was comprised of an interest benefit of $2.8 million resulting from the expiration of the 2006 federal statute of limitations and $0.5 million of interest expense related to tax positions of prior years.

Income taxes paid, net of income tax refunds of $24.9 million, were $18.2 million for the nine months ended September 30, 2011. Income taxes paid were $49.9 million for the nine months ended September 30, 2010.

Note 10 - Pension Benefits and Postretirement Benefits Other Than Pensions

The components of Pension Expense for the nine and three months ended September 30, 2011 and 2010 were:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
Service Cost on Benefits Earned	$7.7	$6.8	$2.6	$2.3
Interest Cost on Projected Benefit Obligation	17.2	16.8	5.7	5.6
Expected Return on Plan Assets	(18.3)	(17.8)	(6.1)	(6.0)
Net Amortization and Deferral	7.0	1.7	2.3	0.6
Total Pension Expense	$13.6	$7.5	$4.5	$2.5

On September 14, 2011, the Company made a voluntary contribution of $83.7 million to its defined benefit pension plan. The contribution consisted of $32.2 million in cash and 7,309,764 shares of Intermec common stock with a fair value of $51.5 million on the date of contribution. The Company recognized a realized loss of $7.0 million on the contribution of Intermec common stock. On May 23, 2011, the Company requested a waiver from the U.S.

Department of Labor ("DOL") related to the prohibited transaction rules under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and the Internal Revenue Code for the one-time in-kind contribution of the shares of Intermec common stock. On September 26, 2011, the DOL published an Employee Benefits Security Administration notice in the Federal Register indicating that they are

Note 10 - Pension Benefits and Postretirement Benefits Other Than Pensions (continued)
considering granting relief, retroactive to September 1, 2011, from the prohibited transaction rules. The Company expects that the DOL will grant the relief in the fourth quarter of 2011.

The components of Postretirement Benefits Other than Pensions Expense for the nine and three months ended September 30, 2011 and 2010 were:

(Dollars in Millions)	Nine Months Ended		Three Months Ended	
	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
Service Cost on Benefits Earned	$0.1	$0.1	$—	$—
Interest Cost on Projected Benefit Obligation	1.4	1.5	0.5	0.5
Net Amortization and Deferral	(0.5)	(0.8)	(0.2)	(0.3)
Total Postretirement Benefits Other than Pensions Expense	$1.0	$0.8	$0.3	$0.2

Note 11 - Business Segments
The Company is engaged, through its subsidiaries, in the property and casualty insurance and life and health insurance. The Company conducts its operations through four operating segments: Kemper Preferred, Unitrin Specialty, Unitrin Direct and Life and Health Insurance.
The Kemper Preferred segment provides preferred and standard risk personal automobile insurance, homeowners insurance and other personal insurance through independent agents. The Unitrin Specialty segment provides automobile insurance to individuals and businesses in the non-standard and specialty market through 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 adverse driving records or claim or credit histories. Unitrin Direct markets personal automobile, homeowners and renters insurance through direct mail and the Internet through web insurance portals, click-thrus and its own website and through employer-sponsored voluntary benefit programs and other affinity relationships. The Life and Health Insurance segment provides individual life, accident, health and property insurance.

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

Note 11 - Business Segments (continued)

Segment Revenues for the nine and three months ended September 30, 2011 and 2010 were:

(Dollars in Millions)	Nine Months Ended Sep 30, 2011	Nine Months Ended Sep 30, 2010	Three Months Ended Sep 30, 2011	Three Months Ended Sep 30, 2010
Revenues:				
Kemper Preferred:				
Earned Premiums	$642.8	$667.1	$216.5	$221.8
Net Investment Income	38.1	38.6	8.4	12.3
Other Income	0.2	0.3	0.1	0.1
Total Kemper Preferred	681.1	706.0	225.0	234.2
Unitrin Specialty:				
Earned Premiums	336.7	359.9	111.0	117.0
Net Investment Income	16.4	18.5	3.3	5.7
Other Income	0.4	0.5	0.2	0.2
Total Unitrin Specialty	353.5	378.9	114.5	122.9
Unitrin Direct:				
Earned Premiums	171.8	217.6	54.4	68.6
Net Investment Income	13.9	16.0	2.9	4.8
Other Income	0.1	0.1	0.1	—
Total Unitrin Direct	185.8	233.7	57.4	73.4
Life and Health Insurance:				
Earned Premiums	485.8	483.2	161.1	160.8
Net Investment Income	148.3	158.4	42.9	53.8
Other Income	0.1	0.1	—	0.1
Total Life and Health Insurance	634.2	641.7	204.0	214.7
Total Segment Revenues	1,854.6	1,960.3	600.9	645.2
Net Realized Gains (Losses) on Sales of Investments	27.8	14.6	(4.2)	7.2
Net Impairment Losses Recognized in Earnings	(6.7)	(12.7)	(5.0)	(4.6)
Other	6.0	9.5	1.1	2.8
Total Revenues	$1,881.7	$1,971.7	$592.8	$650.6

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

Note 11 - Business Segments (continued)

Segment Operating Profit (Loss) for the nine and three months ended September 30, 2011 and 2010 was:

(Dollars in Millions)	Nine Months Ended Sep 30, 2011	Nine Months Ended Sep 30, 2010	Three Months Ended Sep 30, 2011	Three Months Ended Sep 30, 2010
Segment Operating Profit (Loss):				
Kemper Preferred	$(55.7)	$54.0	$(15.7)	$17.1
Unitrin Specialty	17.8	23.0	6.7	8.0
Unitrin Direct	(19.3)	(1.7)	(3.7)	(1.5)
Life and Health Insurance	117.8	100.9	34.3	26.9
Total Segment Operating Profit	60.6	176.2	21.6	50.5
Unallocated Operating Loss	(31.8)	(18.0)	(13.2)	(6.2)
Total Operating Profit	28.8	158.2	8.4	44.3
Net Realized Gains (Losses) on Sales of Investments	27.8	14.6	(4.2)	7.2
Net Impairment Losses Recognized in Earnings	(6.7)	(12.7)	(5.0)	(4.6)
Income (Loss) from Continuing Operations before Income Taxes and Equity in Net Loss of Investee	$49.9	$160.1	$(0.8)	$46.9

Segment Net Operating Income (Loss) for the nine and three months ended September 30, 2011 and 2010 was:

(Dollars in Millions)	Nine Months Ended Sep 30, 2011	Nine Months Ended Sep 30, 2010	Three Months Ended Sep 30, 2011	Three Months Ended Sep 30, 2010
Segment Net Operating Income (Loss):				
Kemper Preferred	$(29.7)	$41.6	$(8.0)	$13.5
Unitrin Specialty	14.4	18.0	5.3	6.2
Unitrin Direct	(10.1)	0.8	(1.6)	0.3
Life and Health Insurance	76.0	60.3	22.4	12.4
Total Segment Net Operating Income	50.6	120.7	18.1	32.4
Unallocated Net Operating Loss	(19.5)	(8.5)	(8.3)	(1.8)
Net Operating Income	31.1	112.2	9.8	30.6
Unallocated Net Income (Loss) From:				
Net Realized Gains (Losses) on Sales of Investments	18.0	9.5	(2.7)	4.7
Net Impairment Losses Recognized in Earnings	(4.3)	(8.3)	(3.3)	(3.0)
Income from Continuing Operations	$44.8	$113.4	$3.8	$32.3

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

Note 11 - Business Segments (continued)

Earned Premiums by product line for the nine and three months ended September 30, 2011 and 2010 were:

	Nine Months Ended		Three Months Ended	
(Dollars in Millions)	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
Life	$297.1	$298.3	$98.0	$98.8
Accident and Health	124.6	120.5	41.9	40.5
Property and Casualty:				
Personal Lines:				
Automobile				